Valmet

FINANCIAL STATEMENTS 2020

and information for investors

CONTENTS

REPORT OF THE BOARD OF DIRECTORS JANUARY–DECEMBER 2020

Governance

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

Corporate Governance Statement and Remuneration Report

Valmet has published a separate Corporate Governance Statement and a Remuneration Report for 2020, which comply with the recommendations of the Finnish Corporate Governance Code for listed companies. The statements also cover other central areas of corporate governance. The statements have been published on Valmet's website, separately from the Board of Directors' Report, at www.valmet.com/governance.

Annual General Meeting

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

The Board of Directors

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

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

President and CEO

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

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

Valmet's results in 2020

Figures in brackets, unless otherwise stated, refer to the comparison period, i.e. the same period of the previous year.

Key figures[1]

EUR million	2020	2019	2018
Orders received	**3,653**	3,986	3,722
Order backlog[2]	**3,257**	3,333	2,829
Net sales	**3,740**	3,547	3,325
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	**365**	316	257
% of net sales	**9.8%**	8.9%	7.7%
Earnings before interest, taxes and amortization (EBITA)	**355**	315	241
% of net sales	**9.5%**	8.9%	7.2%
Operating profit (EBIT)	**319**	281	211
% of net sales	**8.5%**	7.9%	6.4%
Profit before taxes	**307**	269	205
Profit for the period	**231**	202	152
Earnings per share, EUR	**1.54**	1.35	1.01
Earnings per share, diluted, EUR	**1.54**	1.35	1.01
Equity per share[2], EUR	**7.60**	6.95	6.31
Dividend per share, EUR	**0.90**[3]	0.80	0.65
Cash flow provided by operating activities	**532**	295	284
Cash flow after investments	**-60**	58	208
Return on equity (ROE)	**21%**	20%	16%
Return on capital employed (ROCE) before taxes	**22%**	23%	19%
Equity to assets ratio[2]	**39%**	41%	43%
Gearing[2]	**13%**	-9%	-23%

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

[1] The calculation of key figures is presented in the section 'Formulas for calculation of indicators'.

[2] At the end of period.

[3] Board of Directors' proposal.

Orders received decreased 8 percent to EUR 3,653 million in 2020

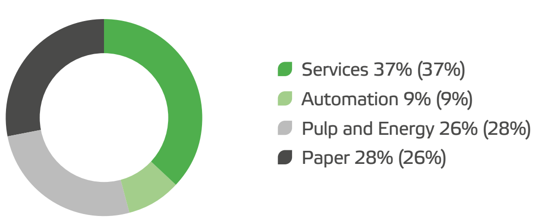
Orders received, EUR million	2020	2019	Change
Services	**1,356**	1,459	-7%
Automation	**334**	359	-7%
Pulp and Energy	**934**	1,125	-17%
Paper	**1,029**	1,043	-1%
Total	**3,653**	**3,986**	-8%

Orders received, comparable foreign exchange rates, EUR million[1]	2020	2019	Change
Services	**1,395**	1,459	-4%
Automation	**345**	359	-4%
Pulp and Energy	**975**	1,125	-13%
Paper	**1,039**	1,043	0%
Total	**3,754**	**3,986**	-6%

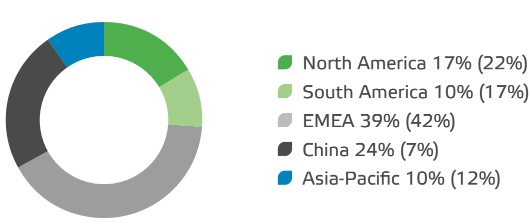
[1] Indicative only. January to December 2020 orders received in euro calculated by applying January to December 2019 average exchange rates to the functional currency orders received values reported by entities.

Orders received, EUR million	2020	2019	Change
North America	**621**	880	-29%
South America	**378**	670	-44%
EMEA	**1,420**	1,690	-16%
China	**885**	267	>100%
Asia-Pacific	**349**	479	-27%
Total	**3,653**	3,986	-8%

Orders received by business line, %



Orders received by area, %



Orders received decreased 8 percent to EUR 3,653 million (EUR 3,986 million) in 2020. The Services and Automation business lines together accounted for 46 percent (46%) of Valmet's orders received. Orders received remained at the previous year's level in the Paper business line, and decreased in the Pulp and Energy, Services, and Automation business lines.

Orders received increased in China and decreased in South America, North America, Asia-Pacific and EMEA (Europe, Middle East and Africa). Measured by orders received, the top three countries were China, the USA and Finland, which together accounted for 50 percent of orders received. The emerging markets accounted for 49 percent (41%) of orders received.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 101 million in 2020.

In 2020, Valmet received among others an order for key pulp mill technology and automation to Brazil, typically valued at around EUR 200–250 million, an order for a coated board making line to China, typically valued at around EUR 150–200 million, an order for a fine paper making line to China, typically valued at around EUR 80–100 million, and an order for a biomass-fired boiler plant to Finland with a value of approximately EUR 70 million.

Order backlog amounted to EUR 3.3 billion

	As at Dec 31,		
Order backlog, EUR million	2020	2019	Change
Total	**3,257**	3,333	-2%

Order backlog amounted to EUR 3,257 million at the end of the reporting period, and was at the same level as at the end of 2019. Approximately 25 percent of the order backlog relates to stable business (Services and Automation business lines, approximately 25% at the end of December 2019). Approximately 75 percent of the order backlog is currently expected to be realized as net sales during 2021 (at the end of 2019, approximately 70% was expected to be realized as net sales during 2020).

Net sales amounted to EUR 3,740 million in 2020

Net sales, EUR million	2020	2019	Change
Services	**1,327**	1,374	-3%
Automation	**335**	341	-2%
Pulp and Energy	**1,003**	919	9%
Paper	**1,076**	913	18%
Total	**3,740**	3,547	5%

Net sales, comparable foreign exchange rates, EUR million[1]	2020	2019	Change
Services	**1,357**	1,374	-1%
Automation	**343**	341	1%
Pulp and Energy	**1,044**	919	14%
Paper	**1,096**	913	20%
Total	**3,840**	3,547	8%

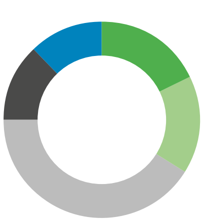
[1] Indicative only. January to December 2020 net sales in euro calculated by applying January to December 2019 average exchange rates to the functional currency net sales values reported by entities.

Net sales, EUR million	2020	2019	Change
North America	**676**	774	-13%
South America	**595**	368	62%
EMEA	**1,540**	1,566	-2%
China	**489**	465	5%
Asia-Pacific	**440**	375	17%
Total	**3,740**	3,547	5%

Net sales by business line, %

- Services 35% (39%)
- Automation 9% (10%)
- Pulp and Energy 27% (26%)
- Paper 29% (26%)

Net sales by area, %



- North America 18% (22%)
- South America 16% (10%)
- EMEA 41% (44%)
- China 13% (13%)
- Asia-Pacific 12% (11%)

Net sales amounted to EUR 3,740 million (EUR 3,547 million) in 2020. The Services and Automation business lines together accounted for 44 percent (48%) of Valmet's net sales. Net sales increased in the Paper, and Pulp and Energy business lines, and remained at the previous year's level in the Automation and Services business lines.

Net sales increased in South America, Asia-Pacific and China, remained at the previous year's level in EMEA, and decreased in North America. Measured by net sales, the top three countries were the USA, China and Brazil, which together accounted for 38 percent of net sales. Emerging markets accounted for 46 percent (41%) of net sales.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 100 million in 2020.

Comparable EBITA and operating profit increased

In 2020, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 365 million, i.e. 9.8 percent of net sales (EUR 316 million and 8.9%). Comparable EBITA increased due to higher net sales and lower SG&A expenses.

Operating profit (EBIT) in 2020 was EUR 319 million, i.e. 8.5 percent of net sales (EUR 281 million and 7.9%). Items affecting comparability amounted to EUR -10 million (EUR -1 million).

Valmet's investment in Neles was not included in Comparable EBITA and it had no material impact on EBIT in 2020.

Net financial income and expenses

Net financial income and expenses in 2020 were EUR -11 million (EUR -11 million).

Profit before taxes and earnings per share increased

Profit before taxes in 2020 was EUR 307 million (EUR 269 million). The profit attributable to owners of the parent was EUR 231 million (EUR 201 million), corresponding to earnings per share (EPS) of EUR 1.54 (EUR 1.35). Valmet's investment in Neles had no material impact on the financial result in 2020.

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

In 2020, the return on capital employed (ROCE) before taxes was 22 percent (23%) and return on equity (ROE) 21 percent (20%).

Business lines

Services: Orders received EUR 1,356 million in 2020

Services business line	2020	2019	Change
Orders received (EUR million)	**1,356**	1,459	-7%
Net sales (EUR million)	**1,327**	1,374	-3%
Personnel (end of period)	**6,027**	6,461	-7%

In 2020, orders received by the Services business line decreased 7 percent to EUR 1,356 million (EUR 1,459 million). Services accounted for 37 percent (37%) of all orders received. Orders received increased in China, remained at the previous year's level in South America, and decreased in Asia-Pacific, North America and EMEA. Orders received remained at the previous year's level in Performance Parts and decreased in Mill Improvements, Fabrics, Energy and Environmental, and Rolls. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 39 million.

Net sales for the Services business line amounted to EUR 1,327 million (EUR 1,374 million) in 2020, corresponding to 35 percent (39%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 30 million.

COVID-19-related travel restrictions and lower capacity utilization in graphical paper mills had a negative impact on Services' orders received and net sales.

Automation: Orders received EUR 334 million in 2020

Automation business line	2020	2019	Change
Orders received (EUR million)	**334**	359	-7%
Net sales (EUR million)	**335**	341	-2%
Personnel (end of period)	**1,917**	1,908	0%

In 2020, orders received by the Automation business line decreased 7 percent to EUR 334 million (EUR 359 million). Automation accounted for 9 percent (9%) of Valmet's orders received. Orders received increased in South America and China, and decreased in North America, Asia-Pacific and EMEA. Despite COVID-19, automation services order intake remained at the previous year's level, while capital order intake decreased. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 11 million.

Net sales for the Automation business line amounted to EUR 335 million (EUR 341 million) in 2020, corresponding to 9 percent (10%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 8 million.

Pulp and Energy: Orders received EUR 934 million in 2020

Pulp and Energy business line	2020	2019	Change
Orders received (EUR million)	**934**	1,125	-17%
Net sales (EUR million)	**1,003**	919	9%
Personnel (end of period)	**1,814**	1,788	1%

In 2020, orders received by the Pulp and Energy business line decreased 17 percent to EUR 934 million (EUR 1,125 million). Pulp and Energy accounted for 26 percent of all orders received (28%). Orders received increased in China and decreased in all other areas. Orders received decreased in both Pulp and Energy. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 41 million.

Net sales for the Pulp and Energy business line amounted to EUR 1,003 million (EUR 919 million) in 2020, corresponding to 27 percent (26%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 41 million.

The Pulp and Energy business line has managed challenges caused by COVID-19 well, and therefore the pandemic did not cause major impacts on its operations in 2020.

Paper: Orders received EUR 1,029 million in 2020

Paper business line	2020	2019	Change
Orders received (EUR million)	**1,029**	1,043	-1%
Net sales (EUR million)	**1,076**	913	18%
Personnel (end of period)	**3,731**	2,908	28%

In 2020, orders received by the Paper business line remained at the previous year's level and amounted to EUR 1,029 million (EUR 1,043 million). Paper accounted for 28 percent (26%) of all orders received. Orders received increased in China and decreased in all other areas. Orders received increased in Tissue and decreased in Board and Paper. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 10 million.

Net sales for the Paper business line amounted to EUR 1,076 million (EUR 913 million) in 2020, corresponding to 29 percent (26%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 20 million.

The acquired PMP Group became a part of the Paper business line and is included in Valmet's financial reporting from the fourth quarter 2020 onwards.

The Paper business line has managed challenges caused by COVID-19 well, and therefore the pandemic did not cause major impacts on its operations in 2020.

Cash flow and financing

Cash flow provided by operating activities amounted to EUR 532 million (EUR 295 million) in 2020. Net working capital totaled EUR -588 million (EUR -426 million) at the end of the reporting period. Change in net working capital in the statement of cash flows was EUR 160 million (EUR -40 million) in 2020. Payment schedules of large capital projects have a significant impact on net working capital development.

Cash flow after investments totaled EUR -60 million (EUR 58 million) in 2020. The acquisition of PMP Group had a cash flow impact of EUR -48 million. Investments in Neles shares had a cash flow impact of EUR -456 million in 2020. During the comparison period 2019, Valmet completed the acquisitions of GL&V and J&L Fiber Services Inc. with a cash flow impact of EUR -163 million.

At the end of 2020, gearing was 13 percent (-9%) and equity to assets ratio was 39 percent (41%). Interest-bearing liabilities amounted to EUR 497 million (EUR 268 million), and net interest-bearing liabilities totaled EUR 149 million (EUR -90 million) at the end of the reporting period.

The average maturity of Valmet's non-current debt was 2.3 years, and average interest rate was 1.1 percent at the end of December. Lease liabilities 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 274 million (EUR 316 million) and interest-bearing current financial assets totaling EUR 73 million (EUR 42 million). The outstanding Nordic Investment Bank loan was repaid and replaced with a new 10-year EUR 50 million loan in January 2020. In April–June, Valmet signed term-loan agreements with a total value of EUR 500 million, of which EUR 279 million was outstanding at the end of the reporting period. In December, Valmet signed an eight-year loan agreement of EUR 100 million with the European Investment Bank, which was undrawn at the end of the reporting period. Valmet's liquidity was additionally secured by a committed revolving credit facility worth of EUR 200 million, which matures in 2024, and an uncommitted commercial paper program worth of EUR 200 million. Both of these facilities were undrawn at the end of the reporting period.

In compliance with the resolution of the Annual General Meeting 2020, Valmet paid dividends of EUR 120 million, corresponding to EUR 0.80 per share.

Capital expenditure

Gross capital expenditure (excluding business combinations and leased assets) totaled EUR 89 million (EUR 79 million) in 2020, of which maintenance investments were EUR 36 million (EUR 34 million).

Acquisitions and disposals

Acquisitions

On September 11, 2020, Valmet announced that it has entered into an agreement to acquire PMP Group in Poland. The acquisition was completed on October 1, 2020. PMP Group supplies process technologies and services for tissue, board and paper machines globally, focusing on small and medium-sized tissue machines and board and paper machine rebuilds. The enterprise value of the acquisition was approximately EUR 64 million on a cash and debt free basis, and preliminary consideration transferred after ordinary post-closing adjustments was EUR 70 million. The acquisition also includes a conditional and capped earn-out component, with an estimated fair value of EUR 4 million as at acquisition date. The net sales of the company were approximately EUR 70 million in the fiscal year 2019, and PMP employs about 650 people in Poland, China, USA and Italy. PMP is included in Valmet's financial reporting from the fourth quarter 2020 onwards. The acquired business became a part of Valmet's Paper business line.

Disposals

Valmet made no disposals in 2020.

Investments in associated companies

Valmet acquired a minority share in Neles Corporation during July–September 2020. As at December 31, 2020 Valmet held 29.5 percent of Neles' shares and voting rights. Neles is a globally leading diversified valve, valve automation and service company with net sales in 2019 amounting to EUR 660 million and an adjusted EBITA margin of 14.6 percent. Valmet partly financed the share acquisition with a new loan facility.

Valmet announced on September 29, 2020 that it had approached the Board of Directors of Neles with a proposal to start discussions on a potential statutory merger between the two companies. On October 12, 2020, Valmet announced that it sustains its goal to merge Valmet and Neles despite Neles' Board of Directors' negative response to Valmet's proposal, which Neles had announced on the same day.

Research and development

Valmet's research and development (R&D) expenses in 2020 amounted to EUR 75 million, i.e. 2.0% percent of net sales (EUR 71 million and 2.0%). Research and development work is carried out predominantly in Finland and Sweden, within the business lines' R&D organizations and pilot facilities. In addition, research and development takes place within a network of customers, suppliers, research institutes and universities. In the end of 2020, R&D employed 457 people (452 people).

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

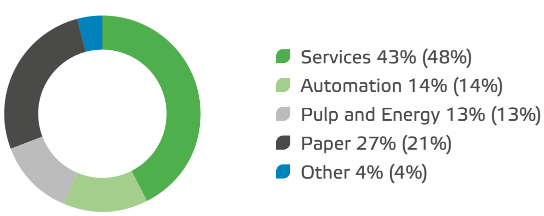
Valmet develops competitive, leading production and automation technologies and services. To enhance raw material, water and energy efficiency in its customers' production processes, Valmet combines digitalization, process technology, automation and services. Valmet also develops solutions for replacing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

Number of personnel

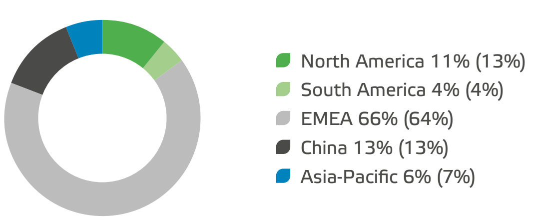
	As at Dec 31,		
Personnel by business line	**2020**	**2019**	**Change**
Services	**6,027**	6,461	-7%
Automation	**1,917**	1,908	0%
Pulp and Energy	**1,814**	1,788	1%
Paper	**3,731**	2,908	28%
Other	**557**	533	5%
Total	**14,046**	13,598	3%

	As at Dec 31,		
Personnel by area	**2020**	**2019**	**Change**
North America	**1,542**	1,700	-9%
South America	**542**	548	-1%
EMEA	**9,202**	8,654	6%
China	**1,872**	1,797	4%
Asia-Pacific	**888**	899	-1%
Total	**14,046**	13,598	3%

Personnel by business line, %



Personnel by area, %



During 2020, Valmet employed an average of 13,615 (13,235) people. The number of personnel at the end of December was 14,046 (13,598). Personnel expenses totaled EUR 891 million (EUR 897 million) in 2020, of which wages, salaries and remuneration amounted to EUR 713 million (EUR 708 million).

Impacts of the COVID-19 pandemic on Valmet

The COVID-19 pandemic impacted Valmet's operations during 2020. Travel restrictions and lower capacity utilization in graphical paper mills had a negative impact on orders received and net sales of the Services business line. Many customers restricted access to their sites, which led to disturbances especially in field services and mill improvement projects. Also the Automation business line was impacted by access restrictions to some customer sites.

The Pulp and Energy, and Paper business lines have managed challenges caused by COVID-19 well, and therefore COVID-19 did not cause major impacts on the capital business. The organization has performed well under the new circumstances and found new ways to operate, which can be utilized to improve Valmet's processes also after the pandemic. For example, the increased use of Industrial Internet and remote connections resulted in lower travel expenses in 2020.

On April 21, 2020, Valmet announced that due to financial and production related reasons, especially because of the decreasing workload and in order to prepare for the potential widening of the business impacts from the COVID-19 pandemic, the company was to start co-determination negotiations on April 21, 2020, for temporary lay-offs. The employees under negotiations were the Services business line employees in Finland and EMEA area organization in Finland. At the time of the announcement, it was estimated that the need for lay-offs concerns around 200 employees.

On April 24, 2020, Valmet announced that the co-determination negotiations had been completed, and as a result 72 employees in the Services business line in Finland and 105 employees in the EMEA area organization in Finland were to be temporarily laid-off due to low workload. The lay-offs concerned all employee groups. The lay-offs were implemented until the end of October and the scope and length of a lay-off varied up to 90 days at maximum.

On November 24, 2020, Valmet announced that due to financial and production related reasons, especially because of the decreasing workload, the company starts co-determination negotiations for temporary lay-offs in Finland on November 24, 2020. The employees under negotiations are Services business line's employees in Finland and the employees of the EMEA area organization in Finland. The lay-offs are going to be temporary and they are estimated to last up to 90 days at maximum. At the time of the announcement, it was estimated that the need for temporary lay-offs concerns around 360 employees.

On December 2, 2020, Valmet announced that the co-determination negotiations have been completed, and as a result at this stage altogether 372 employees, 227 in the Services business line and 145 employees in the EMEA area organization in Finland will be temporarily laid-off due to low workload. The lay-offs concern all employee groups. The lay-offs can be implemented until the end of April, 2021 and the scope and length of a lay-off can vary up to 90 days at maximum per person.

Changes in Valmet's Executive team

Valmet announced on November 19, 2020, that Mr. Jukka Tiitinen (M.Sc., Engineering) has been appointed Area President of Valmet's North America Area as of April 1, 2021. Jukka Tiitinen is currently employed at Valmet as Area President, Asia Pacific. He will continue as a member of Valmet's Executive Team reporting to President and CEO Pasi Laine. Mr. David King, the current Area President, North America, has decided to retire after a long, successful career at Valmet as of March 31, 2021.

Structural changes

Valmet announced on January 21, 2020, that it is planning changes in the Fabrics Business Unit, which is part of the Services Business Line, in order to secure the unit's profitability and future competitiveness. The most important action in the preliminary plan was to move the dryer fabric and wide filter fabric production from Tampere in Finland to Valmet's unit in Portugal. Valmet started co-determination negotiations in Fabrics' operations in Tampere on January 21, 2020.

Valmet announced on March 17, 2020, that the co-determination negotiations have been completed. Valmet will relocate the dryer fabric and wide filter fabric production from Finland to Portugal. As a consequence of the relocation and re-organizing of the work, the need for workforce reduction in Tampere will be 78 persons mainly during 2021. For those affected by the reductions, Valmet will provide support measures like support for studies and re-employment.

Valmet announced on May 26, 2020, that it continues measures to improve the long-term competitiveness of its stable business especially related to Mill Improvements and Rolls and Workshop Services business mainly in EMEA. The aim is to improve the profitability and competitiveness of the respective businesses by optimizing the local presence globally and streamlining the way to operate. The measures may include permanent lay-offs and the restructuring of selected operations. In total the estimated amount of headcount reductions is up to 200 positions. Valmet's stable business employs altogether approximately 8,300 persons globally.

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 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.

On February 5, 2020, Valmet announced the Board of Directors' decision to raise Valmet's financial targets for Comparable EBITA margin and return on capital employed. Valmet's new target for Comparable EBITA margin is 10–12 percent (previously 8–10%). The new target for Comparable return on capital employed (ROCE) before taxes is at least 20 percent (previously 15–20%). Valmet's other financial targets remained unchanged.

Valmet's financial targets are the following:

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: 10–12%
• Comparable return on capital employed (pre-tax), ROCE: at least 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's Way to Serve' services concept – a shift towards more unified and customer-oriented services.

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

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

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

Disclosure of non-financial information

Valmet reports its non-financial information according to Finnish Accounting Act, based on the non-financial reporting directive (NFRD). In addition, Valmet has aligned its climate-related financial risks and opportunities reporting with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Business model and value creation

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

Valmet is mitigating the impacts of climate change, adapting to global warming, and driving the transition of the pulp and paper industry towards a low-carbon economy by enabling energy and resource-efficient low-carbon pulp, paper and energy production. The successful management of climate-related risks and opportunities is a key element in the delivery of our strategy.

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

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

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

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

Materiality assessment

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

Valmet has a systematic company-wide risk management process for regularly assessing the probability and impact of risks and opportunities, in which sustainability, including climate-related matters are integrated. Valmet has several group-wide policies in place to mitigate these risks.

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

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

Material topics

Environmental and climate-related matters

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

Social and employment-related matters

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

Respect for human rights

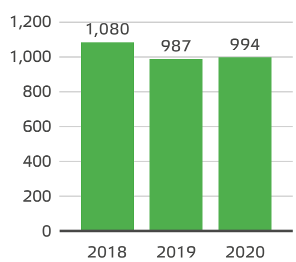
As a global technology and services supplier, Valmet operates in a highly multicultural environment. Valmet recognizes its responsibility to respect human rights and requires its business partners to do the same. Valmet is committed to international frameworks related to human rights, such as the UN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

Anti-corruption and bribery

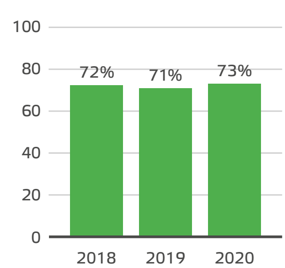
Valmet has several policies in place which guide its and its partners' operations regarding corruption, bribery and competition compliance. Valmet arranges regular training on its Code of Conduct, anti-corruption principles and competition compliance guidelines to enforce the principles set by the policies.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

Non-financial indicators

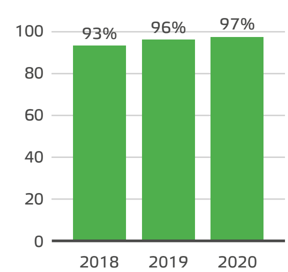
Orders received from new products and services, EUR million



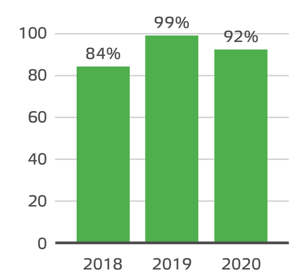
Employees covered by collective bargaining agreements, %



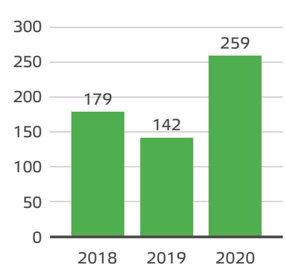
Workforce represented in formal management-worker health and safety committees, %



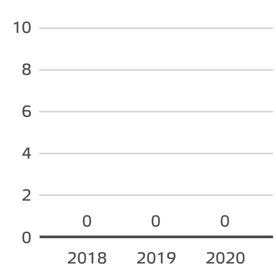
New suppliers screened over sustainability, %



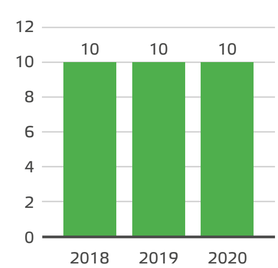
Sponsorships and donations, EUR thousand



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



Number of corporate internal audits performed



Number of environmental compliance cases

No significant environmental incidents resulted from major permit violations, claims, compensations or media coverage related to environmental incidents in 2020.

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

Number of employees by employment contract and gender

	Female		Male		Total	
	2020	2019	2020	2019	2020	2019
Permanent	**2,523**	2,387	**10,229**	9,944	**12,752**	12,331
Temporary	**385**	394	**909**	873	**1,294**	1,267
Total	**2,908**	2,781	**11,138**	10,817	**14,046**	13,598

Number of permanent employees by employment type and gender

	Female		Male		Total	
	2020	2019	2020	2019	2020	2019
Full-time	**2,424**	2,278	**10,114**	9,837	**12,538**	12,115
Part-time	**99**	109	**115**	107	**214**	216
Total	**2,523**	2,387	**10,229**	9,944	**12,752**	12,331

Workforce by region and gender

	Female		Male		Total	
	2020	2019	2020	2019	2020	2019
North America	**228**	233	**1,314**	1,467	**1,542**	1,700
South America	**100**	103	**442**	445	**542**	548
EMEA	**2,040**	1,919	**7,162**	6,735	**9,202**	8,654
China	**436**	418	**1,436**	1,379	**1,872**	1,797
Asia-Pacific	**104**	108	**784**	791	**888**	899
Total	**2,908**	2,781	**11,138**	10,817	**14,046**	13,598

Workforce by region and employee contract

	Regular 2020	Fixed term 2020	Total 2020
North America	**1,541**	**1**	**1,542**
South America	**533**	**9**	**542**
EMEA	**8,581**	**621**	**9,202**
China	**1,220**	**652**	**1,872**
Asia-Pacific	**877**	**11**	**888**
Total	**12,752**	**1,294**	**14,046**

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

	2020	2019
LTIF[1]	**1.5**	2.1
TRIF[2]	**3.1**	4.3
Fatalities	**1**	0
Absentee rate	**2.5%**	2.6%

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

[2] LTIF + medical treatment and restricted work cases.

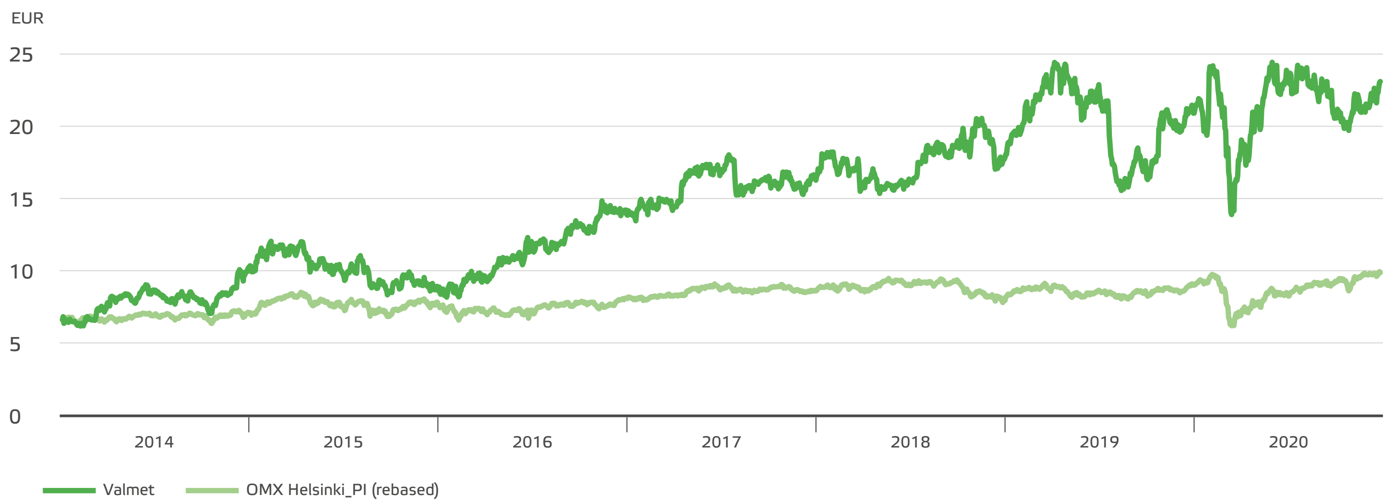
Valmet's management approach for non-financial impacts

	ENVIRONMENTAL AND CLIMATE-RELATED MATTERS	SOCIAL AND EMPLOYMENT-RELATED MATTERS
Policies and standards	**International frameworks covering all topics:**	• United Nations Universal Declaration of Human Rights • UN Guiding Principles on Business and Human Rights • UN Sustainable Development Goals • UN Global Compact
	• Health, Safety and Environment Policy: Defines Valmet's approach and demonstrates commitment to managing health, safety and environmental issues at Valmet • Sustainable Supply Chain Policy: Describes Valmet's requirements for sustainable operating principles for suppliers concerning environmental and climate-related issues • Instructions on environmental principles: Support the implementation of Valmet's HSE policy • Instructions on sustainable and responsible research, product development and design: Support the implementation of Valmet's HSE policy • Valmet's Code of Conduct: States Valmet's commitment and approach, e.g. to offering customers more sustainable solutions	• Valmet's Human Rights Statement: States Valmet's commitment to and respect for human rights • Health, Safety and Environment Policy: Defines Valmet's approach and demonstrates commitment to managing health, safety and environmental issues at Valmet • Sustainable Supply Chain Policy: Describes requirements for ethical standards and sustainable business practices for suppliers • Human Resources Policy: Framework for the management of the human resources function, which is committed to developing an engaged and performance-driven community and to continuously driving the global development of Valmet employees' capabilities • Minimum Safety Standards: Defines minimum requirements for safety at work for specific high-risk activities
Due diligence processes	• The HSE incident reporting and management system is used to follow and prevent HSE-related incidents and hazards • Compliance with HSE-related laws and regulations is ensured by complying with Valmet's related processes • Valmet executes internal and external audits globally to evaluate compliance with internal, legal and other HSE requirements and correct non-conformities	• The HSE incident reporting and management system is used to monitor and prevent HSE-related incidents and hazards • Compliance with laws and regulations is ensured by complying with Valmet's related processes • Valmet executes internal and external audits globally to evaluate compliance with internal, legal and other HSE requirements and correct non-conformities
Risks and risk management	Risks: • Risks related to Valmet's suppliers can cause significant reputational or business risks • Non-compliance with environmental regulation may result in fines, creating reputational and business risks • Stricter climate-related regulation and initiatives may change the availability and use of biomass, and increase the cost of raw materials and energy, result in new taxes and tariffs, and change our stakeholder's attitudes, which could impact Valmet's and its customers' operations and business environments • Climate-related physical risks; extreme weather events and variability in weather patterns, water shortage and scarcity of raw materials may cause production interruptions throughout the Valmet value chain Risk management: • ISO 14001 environmental management systems in all operations • Risk management of environmental and climate-related matters is integrated in all activities, to ensure proactive risk identification and mitigation	Risks: • Valmet's own personnel's and partners' health and safety risks are connected to work-related illnesses, injuries and occupational well-being • Varying competence levels and a slowing down of the resourcing process • Risks related to Valmet's suppliers can cause significant reputational or business risks Risk management: • OHSAS 18001 health and safety management systems in all operations • HSE incident management system • Development of global training portfolio and ensuring necessary competence is in place across regions • Global process for supplier sustainability • Safety committees covering all personnel
Outcomes of policies and due diligence processes	• New products and services that meet environmental requirements and help customers produce sustainable products, which require less water, energy, and raw materials, enable the use of renewable resources, and produce less waste and emissions • Supplier audits conducted globally improving suppliers' sustainability approach • Environmental targets 2030 including targets for energy efficiency, water consumption and waste management	• Healthy and safe working places for our own employees and partners • Operations free from life-changing incidents, reduction in overall incident frequencies • Development of training programs to enhance skills

RESPECT FOR HUMAN RIGHTS	ANTI-CORRUPTION AND BRIBERY
• Declaration on Fundamental Principles and Rights at Work of the International Labour Organization (ILO) • OECD's Guidelines for Multinational Enterprises • ISO 45001 Occupational health and safety management system • ISO 14001 Environmental management system • ISO 9001 Quality management system	
• Valmet's Human Rights Statement and Code of Conduct: States Valmet's commitment and respect to human rights • Sustainable Supply Chain Policy: Describes Valmet's human rights requirements for our suppliers • Equal Opportunity and Diversity Policy: Defines Valmet's approach to promoting equal opportunities for all employees	• Anti-Corruption Policy and Code of Conduct: Defines Valmet's zero tolerance approach to bribery and corruption in more detail • Compliance reporting guideline: Defines how Valmet employees can voice their concerns about potential violations of the Code of Conduct, Anti-Corruption Policy and other corporate policies • Approval guideline for Agency agreements: Describes Valmet's due diligence process and requirements (including anti-bribery questionnaire) for agent approval • Sustainable Supply Chain Policy: Describes Valmet's requirements for suppliers (including business ethics and legal compliance principles)
• The human rights due diligence framework is in place and executed through long-term monitored and reported action plans, and it is based on UN Guiding Principles for Business and Human Rights.	• Risk management evaluation and audits help Valmet find the best ways to manage risks and train the unit's personnel to use existing tools and procedures to manage risk
Risks: • Potential violations of human and labor rights and unethical business practices can impact Valmet's reputation and thus financial position Risk management: • Valmet's comprehensive human rights due diligence framework helps to identify and mitigate potential negative human rights impacts and risks	Risks: • Unethical business practices can impact Valmet's reputation and thus financial position Risk management: • Internal risk management audits and global process for supplier sustainability • Valmet's Anti-Corruption Policy works as a tool to set the tone for preventive misconduct and mitigate potential risks
• Reporting system in place for violations of Code of Conduct • Human rights training to increase awareness of potential negative impacts, including face-to-face training and e-learning course • Human rights impact assessment carried out and improvement actions completed in three locations, in accordance with Valmet's human rights due diligence framework	• Valmet executes supplier sustainability audits globally • Business ethics are an integrated part of Valmet's audit checklist • Reporting system in place for violations of Code of Conduct, including anti-corruption and bribery • Anti-corruption and bribery training, including e-learning course

Shares and shareholders

Development of Valmet's share price since listing, January 2, 2014–December 31, 2020



Share capital and share data[1]

	2020	2019	2018
Share capital, December 31, EUR million	**100**	100	100
Number of shares, December 31:			
Number of outstanding shares	**149,490,976**	149,618,523	149,617,820
Treasury shares held by the Parent Company	**373,643**	246,096	246,799
Total number of shares	**149,864,619**	149,864,619	149,864,619
Average number of outstanding shares	**149,499,114**	149,604,375	149,649,501
Average number of diluted outstanding shares	**149,499,114**	149,604,375	149,649,501
Trading volume on Nasdaq Helsinki Ltd.[2]	**162,711,000**	152,595,590	102,204,539
% of total shares for public trading	**109**	102	68
Earnings per share, EUR	**1.54**	1.35	1.01
Earnings per share, diluted, EUR	**1.54**	1.35	1.01
Dividend per share, EUR	**0.90[3]**	0.80	0.65
Dividend, EUR million	**135[3]**	120	97
Dividend payout ratio	**58%[3]**	59%	64%
Effective dividend yield	**3.9%[3]**	3.7%	3.6%
Price to earnings ratio (P/E)	**15.1**	15.9	17.8
Equity per share, EUR	**7.90**	6.95	6.31
Highest share price, EUR	**25.20**	25.14	20.94
Lowest share price, EUR	**13.33**	15.55	15.50
Volume-weighted average share price, EUR	**21.15**	20.46	17.77
Share price, December 31, EUR	**23.36**	21.36	17.95
Market capitalization, December 31, EUR million	**3,501**	3,201	2,690

[1] The formulas for calculation of the figures are presented in the section 'Formulas for Calculation of Indicators'.
[2] In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Cboe CXE, Cboe BXE and Turquoise. A total of approximately 106 million Valmet shares were traded on alternative marketplaces in 2020, which equals to approximately 39 percent of the share's total trade volume (Bloomberg).
[3] Board of Directors' proposal.

Largest shareholders on December 31, 2020

		Shares	% of share capital
1	Solidium Oy	16,695,287	11.14%
2	Ilmarinen Mutual Pension Insurance Company	4,390,000	2.93%
3	Elo Mutual Pension Insurance Company	2,823,044	1.88%
4	OP Funds	2,760,472	1.84%
5	Varma Mutual Pension Insurance Company	2,087,465	1.39%
6	The State Pension Fund	1,794,910	1.20%
7	Nordea Funds	1,030,011	0.69%
8	Danske Invest funds	850,000	0.57%
9	Sigrid Jusélius Foundation	526,865	0.35%
10	Evli Finnish Small Cap Fund	521,000	0.35%
11	The Finnish Cultural Foundation	520,123	0.35%
12	Mandatum Life Insurance Company Limited	502,441	0.34%
13	Investment fund Aktia Capital	500,000	0.33%
14	Evli Europe Fund	494,530	0.33%
15	Veritas Pension Insurance Company Ltd.	460,000	0.31%

Source: Euroclear Finland.

Holdings of the Board of Directors in Valmet Oyj on December 31, 2020

		Shares
Mäkinen, Mikael	Chairman of the Board	3,642
Cantell, Aaro	Vice Chairman of the Board	6,608
Kemppainen, Pekka	Member of the Board	2,944
Maurer, Monika	Member of the Board	2,944
Söderström, Eriikka	Member of the Board	4,074
Tyni, Tarja	Member of the Board	5,870
Ziviani, Rogério	Member of the Board	10,057
Total		**36,139**
% of outstanding shares		**0.02%**

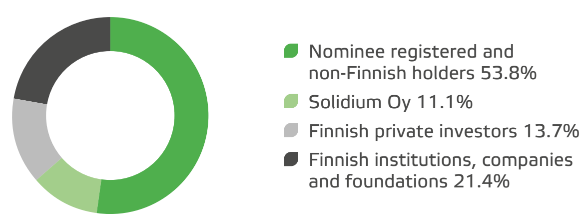
Holdings of the Executive Team in Valmet Oyj on December 31, 2020

		Shares
Laine, Pasi	President and CEO	149,380
Karlstedt, Bertel	Business Line President, Pulp and Energy	35,329
King, David	Area President, North America	29,741
Macharey, Julia	SVP, Human Resources and Operational Development	30,442
Niemi, Aki	Business Line President, Services	55,269
Riekkola, Sami	Business Line President, Automation	9,483
Saarinen, Kari	CFO	44,778
Salonsaari-Posti, Anu	SVP, Marketing, Communications, Sustainability and Corporate Relations	25,141
Simola, Vesa	Area President, EMEA	44,192
Tacla, Celso	Area President, South America	81,992
Tiitinen, Jukka	Area President, Asia Pacific	84,461
Vähäpesola, Jari	Business Line President, Paper	52,559
Zhu, Xiangdong	Area President, China	22,087
Total		**664,854**
% of outstanding shares		**0.44%**

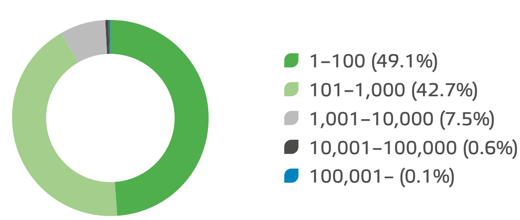
Number of shareholders

The number of registered shareholders at the end of December 2020 was 54,178 (45,965).

Distribution of shareholding by sector on December 31, 2020, %



Distribution of shareholders by number of shares held, %



Flagging notifications

During the review period, Valmet did not receive flagging notifications referred to in the Securities Market Act.

Trading of shares

Trading of Valmet shares on Nasdaq Helsinki	January 1– December 31, 2020	January 1– December 31, 2019
Number of shares traded	**162,711,000**	152,595,590
Total value, EUR million	**3,442**	3,104
High, EUR	**25.20**	25.14
Low, EUR	**13.33**	15.55
Volume-weighted average price, EUR	**21.15**	20.46
Closing price on the final day of trading, EUR	**23.36**	21.36

The closing price of Valmet's share on the final day of trading for the reporting period, December 30, 2020, was EUR 23.36, i.e. 9 percent higher than the closing price on the last day of trading in 2019 (EUR 21.36 on December 30, 2019).

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 106 million Valmet shares were traded on alternative marketplaces in 2020, which equals to approximately 39 percent of the share's total trade volume (Bloomberg).

Board authorizations regarding share repurchase and share issue

Valmet Oyj's Annual General Meeting on June 16, 2020, 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 5,000,000 shares, which corresponds to approximately 3.3 percent of all the shares in the Company. The Company's own shares may be repurchased otherwise than in proportion to the shareholdings of the shareholders (directed repurchase). The Company's own shares may be repurchased using the unrestricted equity of the Company at a price formed on a regulated market on the stock exchange main list maintained by Nasdaq Helsinki Ltd on the date of the repurchase.

The 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, however so that a maximum of 500,000 shares may be repurchased to be used in an incentive scheme, which corresponds to approximately 0.3 percent of all the shares in the Company.

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 also 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.

Based on this authorization, a maximum number of 15,000,000 shares may be issued, which corresponds to approximately 10.0 percent of all the shares in Valmet Oyj.

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

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, however so that the Board of Directors may issue a maximum of 500,000 shares to be used in incentive schemes, which corresponds to approximately 0.3 percent of all the shares in the Company.

The authorizations shall remain in force until the close of the next Annual General Meeting, and they cancel the authorizations granted in the Annual General Meeting of March 21, 2019.

In its meeting on December 17, 2020, the Board of Directors of Valmet decided to use the authorization granted by the Annual General Meeting held on June 16, 2020, to repurchase 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 Plans and the Restricted Pool incentive. The share acquisitions will begin at the earliest on February 8, 2021 and will end at the latest on March 5, 2021. The maximum number of shares to be acquired is 100,000. The shares will be acquired at market price in public trading on Nasdaq Helsinki Ltd.

As at December 31, 2020, Valmet's Board of Directors had not used the other authorizations given by the Annual General meeting on June 16, 2020.

Share-based incentive plans

Valmet's share-based incentive plans are part of the remuneration program for Valmet's key personnel. The aim of the plans is to align the interests of the shareholders and the key employees in order to increase the value of Valmet in the long run, to steer the key employees towards achieving the Company's selected strategic targets, to commit the key employees to the Company, and to offer them a competitive reward plan based on holding the Company's shares. 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 decided on the performance criteria and targets in the beginning of each performance period. The LTI Plan is directed to approximately 130 participants (including Executive Team members, key employees and management talents).

Performance period	2018	2019	2020
Incentive based on	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business
Reward payment	In spring 2019	In spring 2020	In spring 2021
Total gross number of shares earned	350,029	272,762	As at December 31, 2020, a total of 156,148 shares were allotted to participants.

In its meeting on December 19, 2019, the Board of Directors of Valmet decided to use the authorization granted by the Annual General Meeting held on March 21, 2019, 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 Shares Pool incentive plans. The share acquisitions began on February 10, 2020 and ended on February 24, 2020. The total number of acquired shares was 270,000. The shares were acquired at market price in public trading on Nasdaq Helsinki Ltd.

In its meeting on December 19, 2019, Valmet's Board of Directors also decided to use the authorization to issue shares. In a directed share issue on March 16, 2020, a total of 152,122 Valmet's treasury shares were conveyed without consideration to the participants of the long-term share-based incentive plan for the performance period 2019, in accordance with the terms and conditions of the plan.

Long-term incentive plan 2021–2023

In its meeting on December 17, 2020, the Board of Directors of Valmet Oyj decided on new share-based long-term incentive plans, a Performance Share Plan and a Deferred Share Plan, for Valmet's key employees.

Performance Share Plan

The Performance Share Plan is directed to the Executive Team members. It includes a three-year performance period parallel to a one-year performance period. Valmet's Board of Directors decides on the predefined performance measures and targets in the beginning of each performance period.

Performance period	2021	2021–2023
Incentive based on	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business	Predefined strategic target for a three-year performance period
Reward payment	In spring 2022	In spring 2024

Deferred Share Plan

The Deferred Share Plan is directed to other key employees and management talents. It includes a one-year performance period, the year 2021. The predefined performance measures and targets are decided by Valmet's Board of Directors and will be the same as in the Executive Team's Performance Share Plan. The Deferred Share Plan is directed to a maximum of 130 participants, of which approximately 80 are key employees in management positions, and approximately 50 are management talents.

Performance period	2021
Incentive based on	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business
Reward payment	In spring 2022

The rewards to be paid for performance periods 2021–2023 on the basis of the Performance Share Plan and the Deferred Share Plan will correspond to a maximum total of 460,000 shares.

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

At the end of the reporting period, the Company held 373,643 treasury shares related to the share-based incentive programs.

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

Resolutions of Valmet Oyj's Annual General Meeting

The Annual General Meeting 2020 was held in Helsinki on June 16, 2020. The Annual General Meeting adopted the Financial Statements for 2019 and discharged the members of the Board of Directors and the President and CEO from liability for the 2019 financial year. The Annual General Meeting approved the Board of Directors' proposals concerning authorizing the Board to decide on repurchasing the Company's own shares and to decide on the issuance of shares and the issuance of special rights entitling to shares. The Annual General Meeting also approved the remuneration policy for governing bodies.

The Annual General Meeting 2020 confirmed the number of Board members as seven and reappointed 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 2021.

PricewaterhouseCoopers Oy was elected 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 June 16, 2020, concerning the resolutions of the Annual General Meeting and the organizing meeting of the Board of Directors. The stock exchange release and meeting materials can be viewed on Valmet's website at www.valmet.com/agm

In compliance with the resolution of the Annual General Meeting, on June 25, 2020, Valmet paid out dividends of EUR 0.80 per share.

Annual General Meeting 2020 was cancelled and postponed to June 16, 2020

On March 17,2020, following the development of the coronavirus situation and the announcement by the Finnish Government on March 16, 2020, the Board of Directors of Valmet decided to cancel the Annual General Meeting from March 19, 2020. On April 23, 2020, Valmet published a notice convening the Annual General Meeting, which took place on June 16, 2020. The resolutions of the meeting are presented above.

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

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

Risks and business uncertainties

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

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

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

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

If global economic growth weakens, it might have adverse effects on new projects under negotiation or on projects in the order backlog. Some projects may be postponed, suspended, or canceled. In the case of long-term delivery projects, initial customer advance payments are typically 10–30 percent of the value of the project, and customers make progress payments as 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 have critical effects, especially on 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 can be 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 competition 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 2.3 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 and estimates that it is well-positioned to keep capital expenditure at the level of total depreciation.

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

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

As at December 31, 2020, Valmet had EUR 711 million (EUR 687 million) of goodwill on its statement of financial position. Valmet assesses the carrying value of its goodwill for impairment annually, or more frequently if facts and circumstances indicate that carrying value may not be recoverable. Valmet has not identified any indications of impairment during the reporting period. The principles used for impairment testing are presented in the Financial Statements.

The COVID-19 pandemic

Depending on the success in suppressing the COVID-19 pandemic and in case the outbreak will be further prolonged, there could be further adverse impact on Valmet's operations, customer investment activity, project deliveries, supply chain and availability of financing for both Valmet and its customers. Valmet currently has a solid order backlog, strong balance sheet and liquidity coupled with a flexible organization, and a structured way to operate in changing circumstances. This will aid Valmet in mitigating the global challenges caused by COVID-19.

Events after the reporting period

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

Guidance for 2021

Valmet estimates that net sales in 2021 will remain at the previous year's level in comparison with 2020 (EUR 3,740 million) and Comparable EBITA in 2021 will remain at the previous year's level in comparison with 2020 (EUR 365 million).

Short-term outlook

General economic outlook according to IMF

Although recent vaccine approvals have raised hopes of a turnaround in the pandemic later this year, renewed waves and new variants of the virus pose concerns for the outlook. Amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022. The 2021 forecast is revised up 0.3 percentage point relative to the previous forecast, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies. The strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers, and structural characteristics entering the crisis. (International Monetary Fund, January 26, 2021)

Short-term market outlook

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

Board of Director's proposal for the distribution of profit

Valmet Oyj's distributable funds on December 31, 2020 totaled EUR 1,225,703,224.57 of which the net profit for 2020 was EUR 186,455,188.79 (according to Finnish Generally Accepted Accounting Standards).

The Board of Directors proposes that a dividend of EUR 0.90 per share be paid based on the statement of financial position to be adopted for the financial year which ended December 31, 2020, and that the remaining part of the profit be retained and carried further in the Company's unrestricted equity.

The dividend will be paid to shareholders who on the dividend record date March 25, 2021, are registered in the Company's shareholders' register held by Euroclear Finland Ltd. The dividend will be paid on April 7, 2021. All the shares in the Company are entitled to a dividend except for treasury shares held by the Company on the dividend record date.

In Espoo on February 4, 2021
Valmet's Board of Directors

FINANCIAL INDICATORS

	As at and for the twelve months ended Dec 31				
EUR million	**2020**	**2019**	**2018[1]**	**2017[2]**	**2016**
Net sales	**3,740**	3,547	3,325	3,058	2,926
Net sales change, %	**5%**	7%	9%	5%	0%
Operating profit	**319**	281	211	170	147
% of net sales	**8.5%**	7.9%	6.4%	5.6%	5.0%
Profit before taxes	**307**	269	205	158	136
% of net sales	**8.2%**	7.6%	6.2%	5.2%	4.6%
Profit for the period	**231**	202	152	121	82
% of net sales	**6.2%**	5.7%	4.6%	4.0%	2.8%
Profit attributable to owners of the parent	**231**	201	151	121	83
Amortization	**-36**	-34	-30	-31	-35
Depreciation, property, plant and equipment (excl. leased assets)	**-47**	-48	-46	-49	-51
Depreciation, leased assets	**-24**	-23	—	—	—
Depreciation and amortization	**-106**	-105	-76	-81	-87
% of net sales	**-2.8%**	-3.0%	-2.3%	-2.6%	-3.0%
Comparable EBITA	**365**	316	257	218	196
% of net sales	**9.8%**	8.9%	7.7%	7.1%	6.7%
EBITA	**355**	315	241	202	183
% of net sales	**9.5%**	8.9%	7.2%	6.6%	6.2%
Financial income and expenses, net	**-11**	-11	-6	-13	-12
% of net sales	**-0.3%**	-0.3%	-0.2%	-0.4%	-0.4%
Interest expenses	**-10**	-9	-7	-8	-9
% of net sales	**-0.3%**	-0.3%	-0.2%	-0.2%	-0.3%
Gross capital expenditure (excl. business combinations and leased assets)	**-89**	-79	-79	-66	-60
% of net sales	**-2.4%**	-2.2%	-2.4%	-2.2%	-2.1%
Additions to leased assets	**-27**	-27	—	—	—
Business combinations, net of cash acquired and loans repaid	**-48**	-163	-2	—	—
Investments in associated companies	**-456**	—	—	—	—
Cash flow provided by operating activities	**532**	295	284	291	246
Cash flow after investments	**-60**	58	208	228	188
Research and development expenses, net	**-75**	-71	-66	-64	-64
% of net sales	**-2.0%**	-2.0%	-2.0%	-2.1%	-2.2%
Total assets	**3,959**	3,452	2,988	2,908	2,958
Equity attributable to owners of the parent	**1,137**	1,040	944	913	881
Total equity	**1,142**	1,046	949	918	886
Interest-bearing liabilities	**497**	268	201	219	310
Net interest-bearing liabilities	**149**	-90	-219	-100	52
Net working capital (NWC)	**-588**	-426	-474	-387	-294
Return on equity (ROE), %[3]	**21%**	20%	16%	13%	9%
Comparable return on capital employed (ROCE) before taxes, %[3]	**22%**	23%	20%	16%	13%
Return on capital employed (ROCE) before taxes, %[3]	**22%**	23%	19%	14%	12%
Equity to assets ratio, %	**39%**	41%	43%	42%	37%
Gearing, %	**13%**	-9%	-23%	-11%	6%
Orders received	**3,653**	3,986	3,722	3,272	3,139
Order backlog at end of year	**3,257**	3,333	2,829	2,458	2,283
Average number of personnel	**13,615**	13,235	12,461	12,208	12,261
Personnel at end of year	**14,046**	13,598	12,528	12,268	12,012

[1] Valmet implemented IFRS 16 – Leases as of January 1, 2019 by applying the simplified transition method and therefore 2018 figures are not restated.
[2] 2017 financials have been presented on restated basis due to the retrospective implementation of IFRS 15 – Revenue from contracts with customers as of January 1, 2018.
[3] In the calculation of 2017 figures, non-restated data points from 2016 have been used.

FORMULAS FOR CALCULATION OF INDICATORS

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

EBITA:

Operating profit + amortization

Comparable EBITA:

Operating profit + amortization +/- items affecting comparability

Earnings per share:

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

Earnings per share, diluted:

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

Equity per share:

$$\frac{\text{Equity attributable to owners of the parent}}{\text{Number of outstanding shares at end of period}}$$

Return on equity (ROE), %:

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

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

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

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

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

Equity to assets ratio, %:

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

Gearing, %:

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

Net interest-bearing liabilities:

Non-current interest-bearing debt + non-current lease liabilities + current interest-bearing debt + current lease liabilities - cash and cash equivalents - other interest-bearing assets

Dividend per share:

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

Dividend payout ratio, %:

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

Effective dividend yield, %:

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

Price / earnings ratio:

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

CONSOLIDATED STATEMENT OF INCOME

		Year ended Dec 31,	
EUR million	**Note**	**2020**	**2019**
Net sales	2, 3	**3,740**	3,547
Cost of goods sold	4, 5, 7, 14	**-2,844**	-2,688
Gross profit		**896**	859
Selling, general and administrative expenses	4, 5, 14, 19	**-571**	-588
Other operating income	20	**17**	32
Other operating expenses	20	**-25**	-22
Share in profits and losses of associated companies, operative investments	23	**2**	—
Operating profit		**319**	281
Financial income	11	**4**	4
Financial expenses	11	**-15**	-15
Share in profits and losses of associated companies, financial investments	23	**-2**	-1
Profit before taxes		**307**	269
Current tax expense		**-75**	-64
Deferred taxes		**—**	-3
Income taxes, total	17	**-75**	-67
Profit for the period		**231**	202
Attributable to:			
Owners of the parent		**231**	201
Non-controlling interests		**—**	1
Profit for the period		**231**	202
Earnings per share attributable to owners of the parent:			
Earnings per share, EUR		**1.54**	1.35
Diluted earnings per share, EUR		**1.54**	1.35

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Note	Year ended Dec 31, 2020	2019
Profit for the period		**231**	202
Items that may be reclassified to profit or loss:			
Cash flow hedges	8, 10, 18	**25**	8
Currency translation on subsidiary net investments	18	**-24**	2
Share of other comprehensive income of associated companies accounted for using equity method	23	**-2**	—
Income tax relating to items that may be reclassified	17	**-5**	-2
Total items that may be reclassified to profit or loss		**-6**	8
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plans	16	**-5**	-13
Income tax relating to items that will not be reclassified	17	**1**	3
Total items that will not be reclassified to profit or loss		**-5**	-10
Other comprehensive income for the period		**-11**	-2
Total comprehensive income for the period		**221**	200
Attributable to:			
Owners of the parent		**221**	200
Non-controlling interests		**—**	1
Total comprehensive income for the period		**221**	200

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

EUR million	Note	As at Dec 31, 2020	2019
Non-current assets			
Intangible assets			
Goodwill		**711**	687
Other intangible assets		**272**	253
Total intangible assets	4	**983**	941
Property, plant and equipment			
Land and water areas		**25**	25
Buildings and structures		**124**	115
Machinery and equipment		**178**	174
Leased assets		**66**	65
Assets under construction		**48**	51
Total property, plant and equipment	4, 5	**441**	429
Other non-current assets			
Investments in associated companies	23	**468**	13
Non-current financial assets	8, 9, 10	**23**	8
Deferred tax assets	17	**61**	73
Non-current income tax receivables		**27**	30
Other non-current assets		**14**	17
Total other non-current assets		**592**	141
Total non-current assets		**2,016**	1,511
Current assets			
Inventories			
Materials and supplies		**89**	84
Work in progress		**355**	328
Finished products		**110**	101
Total inventories	7	**553**	514
Receivables and other current assets			
Trade receivables	8	**602**	656
Amounts due from customers under revenue contracts	3	**229**	262
Other current financial assets	8, 9, 10	**124**	59
Income tax receivables		**28**	27
Other receivables		**133**	108
Cash and cash equivalents	8	**274**	316
Total receivables and other current assets		**1,389**	1,428
Total current assets		**1,943**	1,942
Total assets		**3,959**	3,452

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Equity and liabilities

EUR million	Note	As at Dec 31, 2020	2019
Equity			
Share capital		**100**	100
Reserve for invested unrestricted equity		**423**	421
Cumulative translation adjustments		**-40**	-16
Hedge and other reserves		**21**	1
Retained earnings		**633**	534
Equity attributable to owners of the parent	18	**1,137**	1,040
Non-controlling interests		**6**	6
Total equity		**1,142**	1,046
Liabilities			
Non-current liabilities			
Non-current debt	8	**417**	159
Non-current lease liabilities	5, 8	**40**	39
Post-employment benefits	16	**201**	190
Non-current provisions	12	**47**	31
Other non-current liabilities	8, 10	**18**	8
Deferred tax liabilities	17	**65**	66
Total non-current liabilities		**789**	492
Current liabilities			
Current portion of non-current debt	8	**18**	48
Current lease liabilities	5, 8	**22**	22
Trade payables	8	**372**	354
Current provisions	12	**164**	142
Amounts due to customers under revenue contracts	3	**1,002**	913
Other current financial liabilities	8, 10	**29**	14
Income tax liabilities		**65**	66
Other current liabilities	13	**357**	356
Total current liabilities		**2,029**	1,915
Total liabilities		**2,817**	2,407
Total equity and liabilities		**3,959**	3,452

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended Dec 31,	
EUR million	**Note**	**2020**	**2019**
Cash flows from operating activities			
Profit for the period		**231**	202
Adjustments			
Depreciation and amortization	4, 5	**106**	105
Financial income and expenses	11	**11**	11
Income taxes	17	**75**	67
Other non-cash items		**27**	8
Change in net working capital	6	**160**	-40
Interest paid		**-8**	-8
Interest received		**4**	4
Income taxes paid		**-75**	-55
Net cash provided by (+) / used in (-) operating activities		**532**	295
Cash flows from investing activities			
Capital expenditures on fixed assets	4	**-89**	-79
Proceeds from sale of fixed assets		**1**	6
Business combinations, net of cash acquired and loans repaid	21	**-48**	-163
Investments in associated companies	23	**-456**	—
Net cash provided by (+) / used in (-) investing activities		**-592**	-237
Cash flows from financing activities			
Redemption of own shares		**-6**	-4
Dividends paid	18	**-120**	-97
Proceeds from non-current debt		**329**	45
Repayments of non-current debt		**-101**	-40
Repayments of lease liabilities		**-26**	-25
Financial investments		**-48**	1
Net cash provided by (+) / used in (-) financing activities		**28**	-120
Net increase (+) / decrease (-) in cash and cash equivalents		**-32**	-62
Effect of changes in exchange rates on cash and cash equivalents		**-10**	2
Cash and cash equivalents at beginning of year	8	**316**	376
Cash and cash equivalents at end of year		**274**	316

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, 2020	**100**	**421**	**-16**	**1**	**534**	**1,040**	**6**	**1,046**
Profit for the period	—	—	—	—	231	**231**	—	**231**
Other comprehensive income for the period								
Cash flow hedges								
Fair value gains / losses, net of tax	—	—	—	17	—	**17**	—	**17**
Transferred to profit or loss, net of tax	—	—	—	3	—	**3**	—	**3**
Currency translation on subsidiary net investments	—	—	-24	—	—	**-24**	—	**-24**
Share of other comprehensive income of associated companies accounted for using equity method	—	—	—	—	-2	**-2**	—	**-2**
Remeasurement of defined benefit plans, net of tax	—	—	—	—	-5	**-5**	—	**-5**
Other comprehensive income for the period, total	—	—	-24	20	-7	**-10**	—	**-11**
Total comprehensive income for the period	—	—	-24	20	224	**221**	—	**221**
Transactions with owners in their capacity as owners								
Dividends	—	—	—	—	-120	**-120**	—	**-120**
Purchase of treasury shares	—	—	—	—	-6	**-6**	—	**-6**
Share-based payments, net of tax	—	2	—	—	—	**2**	—	**2**
Balance at December 31, 2020	**100**	**423**	**-40**	**21**	**633**	**1,137**	**6**	**1,142**
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	—	—	—	—	201	201	1	202
Other comprehensive income for the period								
Cash flow hedges								
Fair value gains / losses, net of tax	—	—	—	3	—	3	—	3
Transferred to profit or loss, net of tax	—	—	—	4	—	4	—	4
Currency translation on subsidiary net investments	—	—	2	—	—	2	—	2
Remeasurement of defined benefit plans, net of tax	—	—	—	—	-10	-10	—	-10
Other comprehensive income for the period, total	—	—	2	7	-10	-2	—	-2
Total comprehensive income for the period	—	—	2	7	192	200	1	200
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	—	—	-3	2	—	2
Balance at December 31, 2019	**100**	**421**	**-16**	**1**	**534**	**1,040**	**6**	**1,046**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 | Basis of preparation

General information

Valmet Oyj (the "Company" or the "parent company"), a public limited liability company, and its subsidiaries (together "Valmet," "Valmet Group" or the "Group") 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 the Nasdaq Helsinki Ltd as of January 2, 2014. The copies of the consolidated financial statements are available at www.valmet.com or the parent company's head office, Keilasatama 5, 02150 Espoo, Finland. The consolidated financial statements were authorized for issue by Valmet's Board of Directors on February 4, 2021, after which, in accordance with Finnish Limited Liability Company Act, the financial statements are either approved, amended or rejected in the Annual General Meeting. The consolidated financial statements have been prepared in accordance with the basis of presentation set out below and accounting policies described in connection with each note.

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial statements figures are presented mainly in millions of euros subject to rounding, which may cause some rounding inaccuracies in aggregate column and row totals.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts.

Basis of presentation

Subsidiaries

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

The Group reassesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Intercompany transactions, balances and unrealized gains and losses arising from transactions between Group companies are eliminated.

Associated companies

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

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

Foreign currency translation

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

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

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

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of transaction. Non-monetary items that are measured at fair value are translated into functional currency using the exchange rate of the transaction date.

Foreign exchange gains and losses resulting from the settlement of such balances and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, are recognized in Consolidated statement of income. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in Consolidated statement of income within Financial income and expenses. All other foreign exchange gains and losses are presented in Other operating income and expenses, or in Net sales or Cost of goods sold.

Key exchange rates:

		Average rates		Year-end rates	
		2020	**2019**	**2020**	**2019**
USD	(US dollar)	**1.1452**	1.1214	**1.2271**	1.1234
SEK	(Swedish krona)	**10.4789**	10.5572	**10.0343**	10.4468
CNY	(Chinese yuan)	**7.8916**	7.7353	**8.0225**	7.8205

Critical accounting estimates and judgments

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

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

- Revenue recognition Note 3
- Intangible assets and property, plant and equipment Note 4
- Leases Note 5
- Inventories Note 7
- Financial assets and liabilities Note 8
- Derivative financial instruments Note 10
- Provisions Note 12
- Post-employment benefit obligations Note 16
- Income taxes Note 17

2 | Reporting segments and geographic information

Accounting policies

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 as a single reportable segment with the key operative decisions being made by the CODM at the Valmet Group level.

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

Reconciliation between Comparable EBITA, EBITA and operating profit:

	Year ended Dec 31,	
EUR million	**2020**	**2019**
Comparable EBITA	**365**	316
Items affecting comparability in cost of sales		
Expenses related to capacity adjustments	**-6**	-3
Expensing of fair value adjustments recognized in business combinations	**-1**	-2
Other items affecting comparability[1]	**-1**	-8
Items affecting comparability in selling, general and administrative expenses		
Expenses related to capacity adjustments	**-5**	–
Expenses related to acquisitions	**-1**	-1
Other items affecting comparability	**–**	–
Items affecting comparability in other operating income and expenses		
Expenses related to capacity adjustments	**–**	–
Other items affecting comparability[1]	**2**	13
Items affecting comparability in share in profits and losses of associated companies, operative investments		
Other items affecting comparability	**3**	–
EBITA	**355**	315
Amortization included in cost of sales		
Other intangibles	**-1**	-1
Amortization included in selling, general and administrative expenses		
Intangibles recognized in business combinations	**-19**	-21
Other intangibles	**-13**	-12
Amortization included in share in profits and losses of associated companies, operative investments		
Other intangibles	**-2**	–
Operating profit	**319**	281

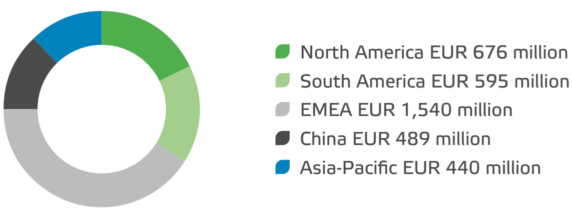
[1] Includes insurance compensation and expenses relating to fire at Valmet's mill in Ovar, Portugal in 2019, income and expenses arising from settlements of lawsuits, and indirect taxes.

Entity-wide information

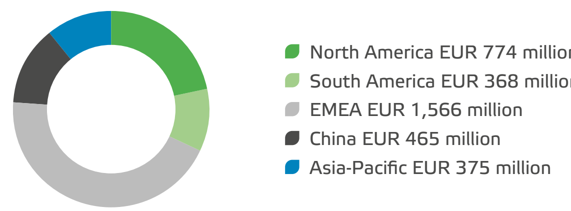
Valmet has operations globally in over 35 countries. Measured by net sales, the top three countries in 2020 were the USA, China and Brazil which together accounted for 38 percent of total net sales. In 2019, the top three countries were the USA, China, and Finland, which together accounted for 39 percent of total net sales.

Net sales from Finland (the country of domicile) amounted EUR 362 million in 2020 (EUR 298 million).

Net sales by destination 2020, EUR 3,740 million



Net sales by destination 2019, EUR 3,547 million



Non-current assets by location:

EUR million	Finland	North America	South America	EMEA excluding Finland	China	Asia-Pacific	Non-allocated	Total
2020	**243**	**141**	**17**	**152**	**81**	**23**	**1,260**	**1,918**
2019	233	154	21	122	83	27	771	1,412

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

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

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
2020	**4**	**2**	**72**	**9**	**2**	**89**
2019	5	4	55	13	2	79

Major customers

Valmet enters into large long-term capital projects which however individually rarely contribute more than 10 percent of annual revenue. In 2020 and 2019 there were no single customer with revenue exceeding 10 percent of net sales.

3 | Revenue recognition

Accounting policies

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

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

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

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

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

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

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

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

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

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

Valmet's contracts often involve elements of variable consideration, such as penalties, liquidated damages or performance bonus arrangements. Variable consideration is estimated by using either the expected value or the most likely amount -method, depending on the type of variable element and related contractual terms and conditions. Amount of variable consideration is included in transaction price only to the extent that it is highly probable that a significant reversal of revenue does not occur later. Transaction prices are reassessed at each reporting date. Variable elements are generally allocated proportionately to all performance obligations in the contract, or when terms of the variable payments relate to satisfying a specific performance obligation and allocated amount depicts the amount of consideration to which Valmet expects to be entitled in exchange for transferring related goods or services, variable consideration is allocated to that specific performance obligation, and not all performance obligations in the contract.

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

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

Critical accounting estimates and judgments

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

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

Disaggregation of 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 and short-term service contracts. The nature of long-term contracts, and therefore also the revenue recognition method, is similar to capital projects although with average contract values being lower. Revenue for short-term service contracts 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:

	Year ended Dec 31,	
EUR million	**2020**	**2019**
Services	**1,327**	1,374
Automation	**335**	341
Pulp and Energy	**1,003**	919
Paper	**1,076**	913
Total	**3,740**	3,547

Timing of revenue recognition:

	Year ended Dec 31,	
EUR million	**2020**	**2019**
Performance obligations satisfied at a point in time	**1,586**	1,576
Performance obligations satisfied over time	**2,154**	1,971
Total	**3,740**	3,547

Contract balances

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 entering 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 customers 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	2020	2019
Balance at beginning of the period	**263**	169
Translation differences	**1**	2
Acquired in business combinations	**—**	7
Revenue recognized in the period	**628**	875
Transfers to trade receivables	**-664**	-790
Balance at end of the period	**229**	263

Amounts due to customers under revenue contracts:

EUR million	2020	2019
Balance at beginning of the period	**913**	771
Translation differences	**-30**	-5
Acquired in business combinations	**39**	13
Revenue recognized in the period	**-2,008**	-1,541
Consideration invoiced and/or received	**2,088**	1,675
Balance at end of the period	**1,002**	913

	As at Dec 31,	
EUR million	2020	2019
Amounts due to customers under revenue contracts for which revenue is recognized		
Point in time	**308**	262
Over time	**694**	651
Carrying value at end of the period	**1,002**	913

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 at December 31, 2020, Valmet had no costs to obtain or fulfil contracts capitalized under IFRS 15.

The aggregate amount of transaction price allocated to unsatisfied or partially satisfied performance obligations as at December 31, 2020 was EUR 3,257 million (EUR 3,333 million).

4 | Intangible assets and property, plant and equipment

Accounting policies

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

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

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

Depreciation and amortization

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

Patents and licenses	5–10 years
Software	3–5 years
Technology	3–15 years
Customer relationships	3–15 years
Other intangibles	3–15 years

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

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

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

Impairment

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

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

Critical accounting estimates and judgments

Impairment testing

Preparation of impairment analysis requires use of numerous estimates. The valuation is inherently judgmental and highly susceptible to change from period to period, because it requires management to make assumptions about future supply and demand related to its individual business units, future sales prices and achievable cost levels. The value of the benefits and savings expected from the efficiency improvement programs are inherently subjective. All outsized improvements are excluded from future cash inflows and outflows. The value in use of a cash generating unit is determined by discounting estimated future cash flows with a discount rate approximating the weighted average cost of capital (WACC).

The WACC is based on comparable peer industry betas and capital structure.

Triggering events for impairment reviews at Valmet include the following:

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

Intangible assets:

EUR million	Goodwill	Patents and licenses	Capitalized software	Other intangible assets	Total
2020					
Acquisition cost at beginning of the period	687	42	128	489	**1,346**
Translation differences	-10	—	-1	-4	**-14**
Capital expenditure	—	—	—	29	**29**
Acquired in business combinations	34	—	—	27	**61**
Retirements	—	-2	-2	-1	**-5**
Reclassifications	—	3	21	-23	**1**
Other changes and disposals	—	1	-1	—	**1**
Acquisition cost at end of the period	711	44	145	518	**1,418**
Accumulated amortization at beginning of the period	—	-28	-79	-298	**-405**
Translation differences	—	—	1	-1	**—**
Amortization charges for the period	—	-4	-10	-20	**-33**
Impairment losses	—	—	—	—	**-1**
Retirements	—	2	2	1	**5**
Other changes and disposals	—	-1	1	—	**-1**
Accumulated amortization at end of the period	—	-31	-86	-318	**-435**
Carrying value at end of the period	**711**	**13**	**59**	**199**	**983**

EUR million	Goodwill	Patents and licenses	Capitalized software	Other intangible assets	Total
2019					
Acquisition cost at beginning of the period	617	36	101	443	1,196
Translation differences	1	—	—	-1	1
Capital expenditure	—	—	—	22	23
Acquired in business combinations	69	—	—	75	144
Retirements	—	-1	—	—	-1
Reclassifications	—	6	27	-40	-6
Other changes and disposals[1]	—	—	—	-10	-10
Acquisition cost at end of the period	687	42	128	489	1,346
Accumulated amortization at beginning of the period	—	-25	-70	-283	-378
Translation differences	—	—	—	1	—
Amortization charges for the period	—	-3	-9	-21	-34
Impairment losses	—	—	—	—	—
Retirements	—	1	—	—	1
Other changes and disposals[1]	—	—	—	6	6
Accumulated amortization at end of the period	—	-28	-79	-298	-405
Carrying value at end of the period	687	14	49	191	941

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

Property, plant and equipment (excluding leased assets):

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Total
2020					
Acquisition cost at beginning of the period	25	381	900	51	**1,357**
Translation differences	-1	-6	-12	—	**-19**
Capital expenditure	1	1	5	53	**60**
Acquired in business combinations	—	5	3	—	**8**
Disposals	—	—	-3	—	**-4**
Retirements	—	-3	-14	—	**-17**
Reclassifications	—	17	38	-55	**-1**
Other changes	—	—	—	—	**—**
Acquisition cost at end of the period	25	395	916	48	**1,385**
Accumulated depreciation at beginning of the period	—	-267	-726	—	**-993**
Translation differences	—	3	8	—	**10**
Depreciation charges for the period	—	-12	-35	—	**-47**
Impairment losses	—	—	—	—	**—**
Disposals	—	—	3	—	**3**
Retirements	—	3	14	—	**17**
Other changes	—	1	—	—	**1**
Accumulated depreciation at end of the period	—	-271	-738	—	**-1,009**
Carrying value at end of the period	**25**	**124**	**178**	**48**	**375**

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Total
2019					
Acquisition cost at beginning of the period	24	373	873	36	1,306
Translation differences	—	1	3	—	4
Capital expenditure	—	—	5	51	57
Acquired in business combinations	1	2	6	1	10
Disposals	—	-2	-9	—	-12
Retirements	—	—	-12	—	-12
Reclassifications	—	8	34	-38	4
Other changes	—	—	1	—	1
Acquisition cost at end of the period	25	381	900	51	1,357
Accumulated depreciation at beginning of the period	—	-256	-703	—	-958
Translation differences	—	—	-2	—	-2
Depreciation charges for the period	—	-12	-36	—	-48
Impairment losses	—	—	-1	—	-2
Disposals	—	2	8	—	10
Retirements	—	—	12	—	12
Other changes	—	-1	-3	—	-4
Accumulated depreciation at end of the period	—	-267	-726	—	-993
Carrying value at end of the period	25	115	174	51	365

Depreciation and amortization 2020, EUR 104 million

Depreciation and amortization 2019, EUR 105 million

Depreciation and amortization by function are as follows:

	Year ended Dec 31,	
EUR million	**2020**	**2019**
Cost of goods sold	**-44**	-47
Selling, general and administrative expenses		
Marketing and selling	**-6**	-7
Research and development	**-3**	-4
Administrative	**-51**	-47
Total	**-104**	-105

Goodwill impairment testing

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

In 2020 and 2019 Valmet has identified three CGUs. The first CGU comprises of Valmet's Paper business line and the paper business related part of Valmet's service business. The second CGU comprises of Valmet's Pulp and Energy business line and the pulp and energy related part of Valmet's service business. The third CGU consists of Valmet's Automation business line.

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

The following table sets out the allocation of goodwill as at December 31, 2020 and 2019 and the key assumptions applied in the value in use calculations (in both financial years, testing was performed as at September 30).

Allocation of goodwill:

	As at Dec 31,	
EUR million	**2020**	**2019**
Paper business line and the paper business related part of Valmet's service business	**228**	180
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**317**	341
Automation business line	**166**	166
Total	**711**	687

Key assumptions applied:

	2020	**2019**
Long-term growth rate, (%)		
Paper business line and the paper business related part of Valmet's service business	**1.7%**	1.7%
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**1.2%**	1.3%
Automation business line	**1.0%**	1.0%
Pre-tax discount rate, (%)		
Paper business line and the paper business related part of Valmet's service business	**10.0%**	9.9%
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**10.0%**	9.6%
Automation business line	**9.6%**	9.3%

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

As a result of the annual impairment tests, no impairment loss was recognized on goodwill in 2020, or in 2019.

Sensitivity analysis

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

5 | Leases

Accounting policies

Valmet assesses at the inception of a contract whether it is or contains a lease. A contract is considered to contain a lease if it conveys a right to use an either explicitly or implicitly identified asset for a period of time in exchange for consideration. In lease contracts where Valmet is the lessee, a right-of-use asset and a lease liability is recognized at lease commencement date to reflect Valmet's right to use the underlying asset and the unpaid future lease payments respectively.

Lease liability is initially measured at an amount equal to the present value of the future lease payments that are not yet paid at the commencement date. Lease payments are discounted using either the interest rate implicit in the lease or, if the interest rate implicit in the lease cannot be readily determined, Valmet's incremental borrowing rate. As interest rate implicit in the contract is not commonly readily available, incremental borrowing rates reflecting entity-specific factors and lease term are used to calculate the present value of the lease liability. Incremental borrowing rates are estimated based on market prices adjusted with calculated margins representing the entity-specific factors such as credit and country risk.

In subsequent periods the lease liability is measured using the effective interest rate method, and the carrying amount of lease liability is increased with the interest on the lease liability, reduced with the amount of lease payments made, and adjusted to reflect any reassessments or lease modifications made. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset. Variable lease payments not based on index or rate are not included in the liability but are expensed as incurred.

A right-of-use asset is initially measured at cost comprising of the amount of the initial measurement of the lease liability and any lease payments made at or before the commencement date, any initial direct costs incurred by Valmet, and restoration costs, less any lease incentives received. Subsequently, the right-of-use asset is depreciated on a straight-line basis over the shorter of lease term or the useful life of the asset.

Valmet applies exemptions provided by IFRS 16 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 leases of low-value assets. The payments for these leases are recognized as an expense on a straight-line basis over the lease term. Further, Valmet separates non-lease components 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 lease contracts which carry a short notice period only, or which have an initial fixed term but carry extension or termination options. Estimating the likely lease term for these contracts and assessing if the options will be exercised requires significant judgement. When assessing the lease term for these contracts, management considers the relevant facts and circumstances. The likely lease term is typically assessed following the three-year financial forecasts established by management. In case there are specific circumstances in place, such as beneficial market rates, significant leasehold improvements, or other significant direct or indirect costs associated with exiting the lease, lease term can be above three years.

Considering other than real estate leases, the need for assets leased under open-ended contracts is commonly short-term in nature, and as such open-ended contracts where the notice period is 12 months or less are accounted for as short-term leases.

Valmet's leasing activities

Majority of Valmet's lease arrangements concern real estate, vehicles, and machinery and equipment located primarily on Valmet's premises. The length of these lease arrangements is typically 3 to 5 years and contracts may include options to extend the lease.

The below tables present the right-of-use assets recognized in the Consolidated statement of financial position and the movements during the period and the future minimum lease payments as at December 31, 2020.

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Leased assets total
2020				
Carrying value at beginning of the period	8	41	16	**65**
Translation differences	—	-1	—	**-2**
Additions	—	19	7	**27**
Acquired in business combinations	1	—	1	**2**
Depreciation	—	-15	-8	**-24**
Other changes	—	-2	-1	**-3**
Carrying value at end of the period	**8**	**42**	**15**	**66**

EUR million	Land and water areas[1]	Buildings and structures	Machinery and equipment	Leased assets total
2019				
Carrying value at transition[2]	9	34	12	55
Translation differences	—	—	—	—
Additions	—	16	10	27
Acquired in business combinations	—	6	1	7
Depreciation	—	-15	-8	-23
Other changes	—	-1	—	-1
Carrying value at end of the period	8	41	16	65

[1] Includes reclassification of leased land areas in the amount of EUR 8 million from intangible assets at transition.
[2] Valmet adopted IFRS 16 – Leases as of January 1, 2019.

	As at Dec 31,	
EUR million	**2020**	**2019**
Not later than 1 year	**22**	23
Later than 1 year and not later than 2 years	**16**	17
Later than 2 years and not later than 3 years	**10**	11
Later than 3 years and not later than 4 years	**6**	6
Later than 4 years and not later than 5 years	**4**	3
Later than 5 years	**10**	9
Total	**67**	68

Lease payments related to short-term leases and leases of low-value assets, as well as variable lease payments that are not based on index or rate, are not included in the lease liability but are recognized as an expense as incurred in either Cost of goods sold or Selling, general and administrative expenses. The below table presents lease payments for such leases. Interest expense related to leases included in Financial expenses is presented in Note 11.

EUR million	2020	2019
Expenses related to short-term leases	**-4**	-4
Expenses related to leases of low-value assets	**-5**	-5
Expenses related to variable lease payments not included in lease liabilities	**-1**	-1
Total	**-10**	-9

6 | Net working capital

Valmet's net working capital is typically negative due to advance payments received from customers related to long-term capital projects.

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.

	As at Dec 31,		Impact
EUR million	**2020**	**2019**	**2020**
Assets included in net working capital			
Non-current trade receivables	**1**	–	**-1**
Other non-current assets	**14**	17	**3**
Inventories	**553**	514	**-40**
Trade receivables	**602**	656	**54**
Amounts due from customers under revenue contracts	**229**	262	**34**
Derivative financial instruments (assets)	**68**	21	**-47**
Other receivables	**133**	108	**-25**
Liabilities included in net working capital			
Post-employment benefits	**-201**	-190	**12**
Provisions	**-211**	-173	**39**
Other non-current non-interest-bearing liabilities	**-3**	-3	**–**
Trade payables	**-372**	-354	**18**
Amounts due to customers under revenue contracts	**-1,002**	-913	**89**
Derivative financial instruments (liabilities)	**-44**	-19	**25**
Other current liabilities	**-355**	-355	**–**
Total net working capital	**-588**	-426	**161**
Effect of changes in foreign exchange rates			**7**
Remeasurement of defined benefit plans			**-3**
Change in allowance for doubtful receivables and inventory obsolescence provision			**-5**
Acquired in business combinations			**-1**
Change in net working capital in the Consolidated statement of cash flows			**160**

7 | Inventories

Accounting policies

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the normal course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Materials and supplies and finished products are valued on a first in, first out (FIFO) basis or on a weighted average cost basis. Work in progress includes costs related to ongoing capital and service projects, for which revenue is recognized at a point in time. Work in progress typically includes costs for direct labor and material and allocated overhead costs.

Critical accounting estimates and judgments

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

Specification of changes in inventory obsolescence provision:

EUR million	2020	2019
Balance at beginning of the period	**29**	28
Translation differences	**-1**	–
Additions charged to profit or loss	**6**	8
Acquired in business combinations	**1**	2
Used reserve	**-2**	-1
Reversal of reserve	**-2**	-7
Balance at end of the period	**30**	**29**

The cost of inventories recognized as expense was EUR 2,745 million and EUR 2,578 million for the years ended December 31, 2020 and 2019, respectively.

8 | Financial assets and liabilities

Accounting policies

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

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

Financial assets and liabilities are recognized when Valmet becomes party to the contractual provisions of the instrument. Both financial assets and liabilities are presented as non-current when their maturity exceeds 12 months.

Financial assets at amortized cost

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

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

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

Financial assets at fair value through other comprehensive income

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

Valmet also applies fair value through other comprehensive income option to a certain equity investment in a publicly traded company, due to strategic nature of the ownership. Change in fair value of the related shares is also recognized in the fair value reserve of Equity. Should the investment be divested in the future, any cumulative gain or loss remains in Equity, and is not recycled through OCI to Consolidated statement of income. Any dividend income arising from this equity investment is recognized in Consolidated statement of income. Fair value of the equity investment classified at fair value through other comprehensive income as at December 31, 2020 was EUR 1 million (EUR 1 million).

Financial assets and liabilities at fair value through profit or loss

Majority of the Group's financial assets and liabilities measured at fair value through profit or loss are derivative financial instruments, for which the related accounting policies are presented in Note 10. Valmet's other equity holdings, excluding one strategic equity investment, include various industrial participations, shares in real estate holdings and other shares which are measured at fair value through profit or loss. For these other equity ownerships, if reliable market value does not exist, historical cost is considered best available estimate of fair value. Valmet has not voluntarily assigned any financial assets or liabilities to be measured at fair value in addition to items designated to this category mandatorily in accordance with IFRS 9.

Financial liabilities at amortized cost

Valmet's financial liabilities measured at amortized cost consist of loans from financial institutions, lease liabilities and trade payables. Loans from financial institutions are initially recognized at fair value, net of transaction costs incurred. Subsequently these liabilities are measured at amortized cost by using the effective interest rate method. Loans from financial institutions are classified as current liabilities unless Valmet has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Accounting policies for leases are presented in Note 5.

Fair value estimation

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

Level 1

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

Level 2

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

Level 3

A financial instrument is categorized into Level 3 if the calculation of the fair value cannot be based on observable market data. There were no changes in Level 3 instruments for the 12 months ended December 31, 2020.

Critical accounting estimates and judgments

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

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

Classification of financial assets and liabilities as at December 31:

EUR million	At amortized cost	At fair value through other comprehensive income	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value	Fair value level
2020							
Non-current financial assets							
Equity investments	—	1	2	—	3	3	1, 3
Loan receivables	1	—	—	—	1	1	2
Derivative financial instruments	—	—	—	18	18	18	2
Total	**1**	**1**	**3**	**18**	**23**	**23**	
Current financial assets							
Interest-bearing financial assets	—	73	—	—	73	73	2
Non-interest-bearing financial assets	3	—	—	—	4	4	2
Trade receivables	602	—	—	—	602	602	2
Derivative financial instruments	—	—	5	45	50	50	2
Cash and cash equivalents	274	—	—	—	274	274	2
Total	**879**	**74**	**5**	**45**	**1,003**	**1,003**	

EUR million	At amortized cost	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value	Fair value level
2020						
Non-current financial liabilities						
Loans from financial institutions	417	—	—	417	418	2
Lease liabilities	40	—	—	40	40	2
Derivative financial instruments[1]	—	—	15	15	15	2
Total	**457**	**—**	**15**	**472**	**472**	
Current financial liabilities						
Loans from financial institutions	18	—	—	18	18	2
Lease liabilities	22	—	—	22	22	2
Trade payables	372	—	—	372	372	2
Derivative financial instruments	—	4	25	29	29	2
Total	**412**	**4**	**25**	**441**	**441**	

[1] Included in Other non-current liabilities in the Consolidated statement of financial position.

EUR million	At amortized cost	At fair value through other comprehensive income	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value	Fair value level
2019							
Non-current financial assets							
Equity investments	–	1	2	–	3	3	1, 3
Loan receivables	–	–	–	–	1	1	2
Derivative financial instruments	–	–	–	4	4	4	2
Total	–	1	3	4	8	8	
Current financial assets							
Interest-bearing financial assets	–	42	–	–	42	42	2
Non-interest-bearing financial assets	4	–	–	–	4	4	2
Trade receivables	656	–	–	–	656	656	2
Derivative financial instruments	–	–	3	14	17	17	2
Cash and cash equivalents	316	–	–	–	316	316	2
Total	976	42	3	14	1,035	1,035	

EUR million	At amortized cost	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value	Fair value level
2019						
Non-current financial liabilities						
Loans from financial institutions	159	–	–	159	160	2
Lease liabilities	39	–	–	39	39	2
Derivative financial instruments[1]	–	–	5	5	5	2
Total	198	–	5	202	203	
Current financial liabilities						
Loans from financial institutions	48	–	–	48	48	2
Lease liabilities	22	–	–	22	22	2
Trade payables	354	–	–	354	354	2
Derivative financial instruments	–	5	9	14	14	2
Total	424	5	9	439	439	

[1] Included in Other non-current liabilities in the Consolidated statement of financial position.

Non-current equity investments comprise EUR 1 million listed shares (EUR 1 million) and various industrial participations, shares in real-estate holdings and other shares amounting to EUR 2 million as at December 31, 2020 (EUR 2 million). Current interest-bearing financial assets managed centrally by the Group treasury amount to EUR 73 million (EUR 42 million).

Valmet manages its cash by investing in financial assets with varying maturities. Interest-bearing financial assets with maturities at the date of acquisition exceeding three months are classified as Other current financial assets and assets with maturities of three months or less are classified as Cash and cash equivalents in the Consolidated statement of financial position. Cash and cash equivalents comprise of cash at bank and in hand of EUR 213 million (EUR 289 million), investments to commercial papers of EUR 0 million (EUR 4 million) and other short-term financial assets with maturities of three months or less of EUR 61 million (EUR 23 million) mainly comprising of banker's acceptance drafts and bank deposits. For more information on derivative financial instruments, see Note 10.

Analysis of trade receivables by age:

	As at Dec 31,	
EUR million	**2020**	**2019**
Trade receivables, not due	**446**	473
Trade receivables 1–30 days overdue	**92**	93
Trade receivables 31–60 days overdue	**25**	29
Trade receivables 61–90 days overdue	**19**	12
Trade receivables 91–180 days overdue	**10**	21
Trade receivables more than 180 days overdue	**10**	28
Total	**602**	656

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

EUR million	**2020**	**2019**
Balance at beginning of the period	**18**	18
Translation differences	**-1**	—
Additions charged to profit or loss	**6**	4
Acquired in business combinations	**—**	1
Used reserve	**-4**	-2
Reversals	**-2**	-3
Balance at end of the period	**18**	18

Net debt reconciliation:

EUR million	As at Dec 31, 2020	2019
Cash and cash equivalents	**274**	316
Current interest-bearing financial assets	**73**	42
Loans from financial institutions	**436**	207
Lease liabilities	**61**	61
Net debt	**-150**	89

2020

	Liabilities from financing activities		Other assets		
EUR million	**Loans from financial institutions**	**Lease liabilities**	**Cash and cash equivalents**	**Current interest-bearing financial assets**	**Total**
Balance at beginning of the period	207	61	316	42	**89**
Translation differences	–	-2	-10	-12	**-20**
Cash flows	228	-26	-32	44	**-191**
New leases	–	30	–	–	**-30**
Acquired in business combinations	1	2	–	–	**-2**
Other changes	–	-4	–	–	**4**
Net debt at end the of period	**436**	**61**	**274**	**73**	**-150**

2019

	Liabilities from financing activities		Other assets		
EUR million	**Loans from financial institutions**	**Lease liabilities**	**Cash and cash equivalents**	**Current interest-bearing financial assets**	**Total**
Balance at beginning of the period/at transition[1]	201	53	376	3	124
Translation differences	–	–	2	–	2
Cash flows	5	-25	-62	39	-3
New leases	–	30	–	–	-30
Acquired in business combinations	–	7	–	–	-7
Other changes	–	-4	–	–	4
Net debt at end of the period	207	61	316	42	89

[1] Valmet adopted IFRS 16 – Leases as of January 1, 2019.

9 | Interest-bearing financial instruments

	As at Dec 31,	
EUR million	2020	2019
Non-current financial assets		
Interest-bearing	–	–
Non-interest-bearing	22	8
Total	23	8
Other current financial assets		
Interest-bearing	73	42
Non-interest-bearing	50	18
Total	124	59

The table does not include cash and cash equivalents and banker's acceptance drafts.

Valmet's interest-bearing liabilities consist of debt and lease liabilities, and debt portfolio includes only loans from financial institutions. Accrued interest is presented in Note 13.

10 | Derivative financial instruments

Accounting policies

Derivative financial instruments

Derivative financial instruments are used to hedge the Group's exposure to foreign exchange rate, interest rate and commodity price risks arising from operational, investment and financing activities in accordance with Valmet's treasury policy, which is discussed further in Note 22.

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

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

Application of hedge accounting

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

For derivatives that have been designated to a cash flow hedge accounting relationship, the effective portion of change in fair value is recognized through other comprehensive income (OCI) in the hedge reserve under Equity and reclassified to profit or loss concurrently with the underlying hedged transaction. The gains or losses relating to the ineffective portion of derivatives hedging operative items (e.g. foreign currency denominated sales and purchase transactions) are reported in profit or loss. Both the ineffective portion and the reclassification from Equity are reported either in Net sales and Cost of goods sold or under Other operating income and expenses on a case-by-case basis. Net loss from foreign exchange related to operative items was EUR -1 million in 2020 (EUR -1 million). Respectively, the ineffective portions of derivatives hedging non-operative items (e.g. interest-bearing financial assets and liabilities, and other items related to Group's funding) are reported under Financial income and expenses in profit or loss. Ineffectiveness arising from application of hedge accounting during the reporting period was insignificant. Should a hedged transaction no longer be expected to occur, any cumulative gain or loss previously recognized under Equity is reclassified through OCI to profit or loss.

When hedging for changes in foreign currency denominated firm commitments or highly probable forecasted sale and purchase transactions, currency component of forward exchange contracts has been designated as hedging instrument in hedge accounting relationships in every case. In addition, based on a case-by-case designation, the interest component of forward exchange contracts can also be designated as hedging instrument in hedge accounting relationships. In cases where interest component is not designated as part of Valmet's hedge accounting relationships, it is recognized in profit or loss.

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

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

Derivatives at fair value through profit or loss

Certain forward exchange contracts and commodity derivatives do not qualify for hedge accounting and change in fair value is recorded through profit or loss. Gains or losses arising from derivatives hedging operative items are recognized case-by-case either in Net sales and Cost of goods sold or in Other operating income and expenses. When the forward exchange contracts hedge exchange rate risk arising from foreign currency denominated non-operative items, gains and losses are recognized in Financial income and expenses in profit or loss.

Critical accounting estimates and judgments

Financial instruments

In accordance with the disclosure requirements on financial instruments, the management is obliged to make certain assumptions of the related future cash inflows and outflows associated with different financial assets and liabilities. Management assumes that the fair values of derivatives, especially fair values of forward exchange contracts, materially reflect the present values of future cash inflows or outflows to be realized from such instruments.

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

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

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

EUR million	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
2020				
Forward exchange contracts[1]				
Under hedge accounting	1,965	62	-35	28
Not designated for hedge accounting	826	5	-4	1
Total	2,792	67	-39	28
Electricity forward contracts[2]				
Under hedge accounting	165	–	-1	–
Nickel commodity swaps[3]				
Not designated for hedge accounting	24	–	–	–
Interest rate swaps[1]				
Under hedge accounting	75	1	-4	-4
Total		**68**	**-44**	**24**
Netting fair values of derivative financial instruments subject to ISDAs[4]		-40	40	–
Total, net		**28**	**-4**	**24**
2019				
Forward exchange contracts[1]				
Under hedge accounting	2,184	17	-11	6
Not designated for hedge accounting	725	3	-5	-2
Total	2,909	21	-17	4
Electricity forward contracts[2]				
Under hedge accounting	175	–	–	–
Nickel commodity swaps[3]				
Not designated for hedge accounting	54	–	–	–
Interest rate swaps[1]				
Under hedge accounting	30	–	-2	-2
Total		21	-19	2
Netting fair values of derivative financial instruments subject to ISDAs[4]		-17	17	–
Total, net		4	-2	2

[1] Notional amount in EUR million.
[2] Notional amount in GWh.
[3] Notional amount in metric tons.
[4] Group's derivatives are carried out under International Swaps and Derivatives Association's Master Agreements (ISDA). In case of an event of default under these Agreements the non-defaulting party may request early termination and set-off of all outstanding transactions. These agreements do not meet the criteria for offsetting in the statement of financial position.

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

	2021	2022	2023	2024	2025 and later
2020					
Notional amounts					
Forward exchange contracts[1]	**2,349**	**394**	**48**	**–**	**–**
Electricity forward contracts[2]	**93**	**55**	**18**	**–**	**–**
Nickel commodity swaps[3]	**24**	**–**	**–**	**–**	**–**
Interest rate swaps[1]	**–**	**–**	**–**	**–**	**75**
Fair values, EUR million					
Forward exchange contracts	**21**	**3**	**4**	**–**	**–**
Electricity forward contracts	**–**	**–**	**–**	**–**	**–**
Nickel commodity swaps	**–**	**–**	**–**	**–**	**–**
Interest rate swaps	**–**	**–**	**–**	**–**	**-3**

	2020	2021	2022	2023	2024 and later
2019					
Notional amounts					
Forward exchange contracts[1]	2,442	382	85	–	–
Electricity forward contracts[2]	101	48	26	–	–
Nickel commodity swaps[3]	54	–	–	–	–
Interest rate swaps[1]	–	–	–	–	30
Fair values, EUR million					
Forward exchange contracts	3	2	–	–	–
Electricity forward contracts	–	–	–	–	–
Nickel commodity swaps	–	–	–	–	–
Interest rate swaps	–	–	–	–	-2

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

11 | Financial income and expenses

	Year ended Dec 31,	
EUR million	**2020**	**2019**
Interest income on financial assets (excl. derivatives)	**4**	4
Financial income total	**4**	4
Interest expenses on financial liabilities measured at amortized cost (excl. leases)	**-4**	-3
Interest expenses on lease liabilities	**-2**	-2
Net interest from defined benefit plans	**-3**	-4
Net loss from foreign exchange	**-1**	-1
Interest component from forward contracts	**-1**	-3
Other financial expenses	**-3**	-2
Financial expenses total	**-15**	-15
Financial income and expenses, net	**-11**	-11

Exchange rate differences included in financial income and expenses:

	Year ended Dec 31,	
EUR million	**2020**	**2019**
Exchange rate differences from interest-bearing financial assets and liabilities, and other items related to Group's funding	**-9**	1
Exchange rate differences from derivative financial instruments	**7**	-2
Net loss from foreign exchange	**-1**	-1

Interest expenses on financial liabilities at amortized cost (excl. leases) includes interest expenses on interest-bearing loans and interest rate swaps.

12 | Provisions

Accounting policies

A provision is recognized when Valmet has a present legal or constructive obligation as a result of a past event, payment is probable, and Valmet is able to estimate the amount of the obligation reliably. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate or reversed if they are no longer needed. Long-term provisions are discounted to their present value based on the expected timing of cash outflows when the effect of the time value of money is significant.

Warranty provisions

The Group typically issues contractual product warranties under which it generally guarantees the mechanical functioning of equipment delivered during the agreed warranty periods, ranging from 12 to 24 months. The main principle in measuring the warranty provision is to book a certain percentage, based on past experience, of total revenue of a deliverable as a provision for expected warranty work. For sales involving new technology and long-term delivery contracts, additional warranty provision may be established on a case-by-case basis to take into account the potentially increased risk. The actual warranty costs of each project are booked against the warranty provision and thus the remaining warranty provision of each project can be followed.

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

Restructuring provisions

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

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

Provisions for onerous contracts

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

Other provisions

Other provisions include provisions related to environment, personnel, legal and tax related processes. These provisions are recognized when general provision recognition criteria are met.

Critical accounting estimates and judgments

The amount recognized as a provision is the best estimate of the expenditure required to settle the obligation at the reporting day, taking into account related risks and uncertainties, management judgment supplemented by experience with similar transactions and future events when there is sufficient evidence that they will occur and affect the amount of payment.

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

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

Valmet recognizes a provision for losses associated with environmental remediation obligations when such losses are probable and a reliable estimate of amounts can be made. Following initial recognition, the amount of provision is adjusted later if further information is obtained or circumstances change.

Specification of changes in provisions:

	2020				
EUR million	**Warranty provisions**	**Restructuring provisions**	**Provisions for onerous contracts**	**Other provisions**	**Total**
Balance at beginning of the period	143	7	11	12	**173**
Translation differences	-2	–	–	-1	**-3**
Additions charged to profit or loss	113	5	14	3	**136**
Acquired in business combinations	1	–	–	–	**1**
Used reserve	-54	-7	-2	–	**-63**
Reversal of reserve	-30	-1	-1	–	**-32**
Balance at end of the period	**172**	**4**	**22**	**13**	**211**
Non-current	38	1	–	9	**47**
Current	134	4	22	4	**164**

Provisions for expected contract losses relate primarily to long-term capital projects. The Group did not have material environmental or product liabilities as at December 31, 2020 or December 31, 2019.

13 | Other current liabilities

	As at Dec 31,	
EUR million	**2020**	**2019**
Accrued personnel costs	**143**	135
Accrued project costs	**94**	101
Accrued interest	**2**	1
Other payables	**118**	119
Other current liabilities total	**357**	356

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

14 | Personnel expenses and number of personnel

Personnel expenses:

	Year ended Dec 31,	
EUR million	**2020**	**2019**
Salaries and wages	**-708**	-703
Pension costs, defined contribution plans	**-60**	-67
Pension costs, defined benefit plans[1]	**-9**	-9
Other post-employment benefits	**-6**	-5
Share-based payments[2]	**-4**	-5
Other indirect employee costs	**-102**	-108
Total	**-891**	-897

[1] For more information, see Note 16.
[2] For more information, see Note 15.

Number of personnel:

	2020	**2019**
Personnel at end of the period	**14,046**	13,598
Average number of personnel during the period	**13,615**	13,235

15 | Share-based payments

Accounting policies

Valmet's share-based incentive plans are part of the remuneration and retention program for Valmet's key personnel. In majority of jurisdictions where key employees participating in the Group's long-term incentive (LTI) plans reside, Valmet has an obligation to withhold an amount for the key employee's tax obligations associated with the share-based payment rewards, and transfer that amount directly to the tax authorities on the key employee's behalf. Thus, the arrangements carry net settlement feature and both equity and cash settled portions of the plans are accounted for against equity.

Non-market vesting conditions, such as Comparable EBITA as a percentage of net sales, and orders received growth in the stable business, are used for calculating the number of shares related to Group's LTI plans that are expected to vest. These estimates are revised at the end of each reporting period and impact of the revision to previous estimate is recognized through profit or loss with corresponding adjustment to equity.

The compensation expense for the shares is recognized as an employee benefit expense evenly during the required service period whereas the compensation expense resulting from the cash portion is recognized as an employee benefit expense on accrual basis between grant and payment date. Valuation of the related expenses is based on number of shares expected to vest, remaining vesting period at the reporting date and Valmet's closing share price as at the grant date.

Granted share amounts of the share-based incentive plans:

	Plan 2018–2020
2020	
At beginning of the period	276,648
Maximum number of shares to be granted	416,554
Changes due to achievement criteria	-261,218
Actual number of shares granted	-275,836
Shares returned by plan participants	9,669
Shares transferred to treasury shares	-9,669
At end of the period	156,148

Long-term incentive plan for 2015–2017

The Board of Directors of Valmet Oyj approved in December 2014 a share-based incentive plan for Valmet's key employees. The plan included three performance periods, which were the calendar years 2015, 2016 and 2017. The Board of Directors decided on the performance criteria and targets in the beginning of each performance period. The plan has been directed to approximately 80 key employees.

The rewards from the plan were paid partly in Company shares and partly in cash. The cash portion was dedicated to cover taxes and tax-related payments arising from the reward to the key employee. The reward of the plan from one performance period could not exceed 120 percent of the key employee's annual base salary. As a rule, no reward was paid, if the key employee's employment or service ended before the reward payment. The shares paid as reward may not be transferred during the restriction period, which will end two years after the end of each performance period (Transfer Restriction). Should a key employee's employment or service end during the restriction period, as a rule, he or she must gratuitously return the shares given as reward to Valmet. As part of the share-based incentive program, members of Valmet Executive Team had the possibility to receive a matching share reward for each performance period, provided that the Executive Team member owned or acquired Valmet shares up to a number determined by the Board of Directors by the end of each performance period. Reward receipt was tied to continued employment or service of the Valmet Executive Team member upon reward payment.

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

Long-term incentive plan for 2018–2020

The Board of Directors of Valmet Oyj decided in December 2017 on a new long-term share-based incentive plan for Valmet's key employees. The plan includes three performance periods, which are the calendar years 2018, 2019 and 2020. Valmet's Board of Directors shall decide on the performance criteria and targets in the beginning of each performance period. The plan is directed to a total of approximately 130 participants, of which 90 are key employees in management positions (including Executive Team members), and 40 are management talents, which is a new target group in Valmet's share-based incentive plan.

For all plan participants the maximum reward is capped at grant to a fixed number of shares. For the President and CEO, the reward is capped at grant to a maximum number of shares calculated based on 130 percent of his annual base salary. For reward calculation purposes, other members of the Executive Team form a group and maximum reward calculation for each individual member is based on average annual base salary of that group. The fixed maximum number of shares is calculated in the beginning of the performance period based on 110 percent of the average annual base salary of all other members of the Executive Team.

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

Long-term incentive plan for 2021–2023

The Board of Directors of Valmet Oyj decided in December 2020 on new share-based long-term incentive plans, a Performance Share Plan and a Deferred Share Plan for Valmet's key employees. The Performance Share Plan is directed to Valmet's Executive Team, currently 13 participants, and the Deferred Share Plan is directed to a maximum of 130 participants, of which approximately 80 are key employees in management positions, and approximately 50 are management talents.

The Performance Share Plan includes a three-year performance period parallel to a one-year performance period. Valmet's Board of Directors decides on the predefined performance measures and targets in the beginning of each performance period. The potential reward for the three-year performance period 2021–2023 is based on reaching predefined strategic targets. The potential reward for the one-year performance period 2021 is based on Valmet's Comparable EBITA margin and orders received growth (%) of the stable business, that is, the Services and Automation business lines.

The Deferred Share Plan includes a one-year performance period, the year 2021. The predefined performance measures and targets are decided by Valmet's Board of Directors and will be the same as in the Executive Team's Performance Share Plan, that is Valmet's Comparable EBITA margin and Orders Received growth (%) of the stable business.

The rewarded shares based on the one-year performance period from both the Performance Share Plan and the Deferred Share Plan may not be transferred during a two-year restriction period. Should a key employee's employment or service end during the restriction period, he or she must, as a rule, gratuitously return the shares given as reward to the Company. As a rule, no reward is paid if the key employee's employment or service at Valmet ends before the reward payment. The earning under the Performance Share Plan is limited by a pay cap determined by the Board of Directors in order to avoid unexpectedly high pay-outs resulting from share price volatility.

The Board has the right to cancel the reward or recollect paid rewards that are subject to the Transfer Restriction, fully or partly, if the LTI plan participant has acted against the law or against the ethical guidance of the Company or otherwise unethically. Additionally, the Board has the right to recollect paid rewards after the plan has ended if the LTI plan participant has caused a misstatement of the information based on which the reward was paid.

The below table summarizes the key attributes of the long-term incentive plans that existed during the current or previous period:

Performance period	**2017**	**2018**	**2019**	**2020**	**2021–2023**
Incentive based on	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business and a predefined strategic target for a three-year performance period
Reward payment	In spring 2018	In spring 2019	In spring 2020	In spring 2021	In spring 2022 and in spring 2024
Total gross number of shares earned (including the matching share rewards)	390,820 shares	350,029 shares	272,762 shares	As at December 31, 2020 a total of 156,148 shares were allotted to participants	The rewards to be paid will correspond to a maximum total of approximately 460,000 Valmet shares
Valmet's closing share price as at the grant date	EUR 14.39	EUR 18.33	EUR 19.83	EUR 19.59	
Vesting period	February 2017 to December 2019	February 2018 to December 2020	February 2019 to December 2021	February 2020 to December 2022	February 2021 to March 2024

Restricted shares pool

As part of total remuneration, for example for retention purposes, the Board of Directors decided on an additional incentive element in December 2018, the restricted shares pool, from which shares can be granted to selected key employees. Restricted share pools are intended to be annually commencing, and the annual restricted shares pool is subject to separate approval by the Board of Directors. In 2020, no allocation was made from the restricted shares pool. In 2021, a maximum of 69,000 Company shares can be allocated to possible participants in the restricted shares pool. As a rule, the restriction period for these shares is three years. Plan nominations as well as detailed terms of allocation will be proposed by the President and CEO to the Chairman of the Board of Directors for approval. A precondition for the payment of the share reward based on the restricted shares pool is that a threshold Valmet Comparable EBITA is exceeded and that the employment relationship of the individual participant with Valmet continues until the payment date of the reward.

Share ownership recommendation

To recognize and highlight the importance and value of having the members of Valmet's Executive Team own and hold Company shares, the Board of Directors has approved in December 2017 a share ownership recommendation for Valmet's Executive Team members. All members of Valmet's Executive Team are recommended to own and hold Company shares equaling to their gross annual base salary (100 percent ownership recommendation).

Costs recognized for the share ownership plans

The compensation expense for the shares is recognized as an employee benefit expense evenly during the required service period with corresponding entry in equity. The compensation expense resulting from the cash portion is recognized as an employee benefit expense on accrual basis between grant and payment date with a corresponding entry made to equity. Valuation of the related expenses is based on number of shares expected to vest, remaining vesting period at the reporting date and Valmet's closing share price as at the grant date.

Costs arising from share-based payments plans:

	Year ended Dec 31,	
EUR thousand	**2020**	**2019**
Plan 2015–2017	**—**	-834
Plan 2018–2020	**-4,342**	-4,578
Total	**-4,342**	-5,412

16 | Post-employment benefit obligations

Accounting policies

Pensions and coverage of pension liabilities

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

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

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

Critical accounting estimates and judgments

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

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

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

Amounts recognized in the Consolidated statement of financial position are as follows:

	As at Dec 31,					
	2020			2019		
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Present value of funded obligation	200	—	**200**	203	—	203
Fair value of plan assets	-170	—	**-170**	-166	—	-166
Net surplus (-) / deficit (+) of funded plans	30	—	**30**	37	—	37
Present value of unfunded obligation	—	170	**170**	—	152	152
Asset (-) / liability (+)	**30**	**170**	**201**	37	152	189
Amounts in the Consolidated statement of financial position						
Liabilities	31	170	**201**	38	152	190
Assets	—	—	**—**	1	—	1
Net liability	**30**	**170**	**201**	37	152	189

Amounts recognized in the Consolidated statement of income are as follows:

	Year ended Dec 31,					
	2020			2019		
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Employer's current service cost	2	7	**9**	3	6	9
Net interest on net surplus / deficit	1	2	**3**	1	3	4
Total expenses	**3**	**9**	**13**	4	9	13

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

	2020			2019		
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Present value of obligation at beginning of the period	203	152	**354**	179	121	300
Other adjustments	-2	3	**1**	—	10	10
Acquired in business combinations	—	1	**1**	1	—	—
Employer's current service cost	2	7	**9**	3	6	9
Interest expense	5	2	**8**	6	3	9
Actuarial gain (-) / loss (+) due to change in financial assumptions	18	6	**23**	19	15	34
Actuarial gain (-) / loss (+) due to change in demographic assumptions	-2	—	**-2**	—	—	—
Actuarial gain (-) / loss (+) due to experience	—	—	**—**	—	2	2
Benefits paid from the arrangements	-8	—	**-8**	-8	—	-8
Benefits paid directly by employer	-1	-4	**-5**	—	-4	-4
Translation differences	-15	4	**-10**	4	-1	3
Present value of defined benefit obligation at end of the period	**200**	**170**	**371**	203	152	354
- of which related to active members			**158**			147
- of which related to deferred members			**67**			68
- of which related to pensioner members			**143**			139

Changes in the fair value of the plan assets during the period are as follows:

	2020			2019		
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Fair value of plan assets at beginning of the period	166	—	**166**	136	—	136
Interest income on assets	4	—	**4**	5	—	5
Return on plan assets excluding interest income	15	—	**15**	24	—	24
Employer contributions	5	—	**5**	5	—	5
Benefits paid from the arrangements	-8	—	**-8**	-8	—	-8
Translation differences	-12	—	**-12**	3	—	3
Fair value of plan assets at end of the period	**170**	**—**	**170**	166	—	166

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

	Year ended Dec 31,					
	2020			2019		
EUR million	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Experience gain (-) / loss (+) on assets	-15	—	**-15**	-24	—	-24
Actuarial gain (-) / loss (+) on liabilities due to change in financial assumptions	18	6	**23**	19	15	34
Actuarial gain (-) / loss (+) on liabilities due to change in demographic assumptions	-2	—	**-2**	—	—	—
Actuarial gain (-) / loss (+) on liabilities due to experience	—	—	**—**	—	2	2
Total gain (-) / loss (+)	**—**	**6**	**5**	-5	18	13

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

	2020			2019		
As at Dec 31	**Quoted**	**Unquoted**	**Total**	**Quoted**	**Unquoted**	**Total**
Equities	31%	—	**31%**	30%	—	30%
Bonds	50%	—	**50%**	48%	—	48%
Other	1%	18%	**19%**	2%	20%	21%
Total	**82%**	**18%**	**100%**	80%	20%	100%

At December 31, 2020 there were no plan assets invested in affiliated companies or property occupied by affiliated companies.

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

	2020			2019		
As at Dec 31	**Funded**	**Unfunded**	**All plans**	**Funded**	**Unfunded**	**All plans**
Discount rate	2.0%	1.2%	**1.6%**	2.7%	1.6%	2.2%
Salary increase	2.7%	2.3%	**2.5%**	2.7%	2.6%	2.7%
Pension increase	1.4%	1.5%	**1.4%**	1.5%	1.8%	1.6%
Medical cost trend rates	—	5.3%	**5.3%**	—	5.6%	5.6%

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

	Life expectancy at age 65 for a male participant currently aged 65		Life expectancy at age 65 for a male participant currently aged 45	
Expressed in years	**2020**	**2019**	**2020**	**2019**
Sweden	**22**	22	**23**	23
Canada	**21**	21	**23**	23
USA	**20**	21	**22**	22
Finland	**21**	21	**24**	24

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

Sensitivity analysis on present value of the defined benefit obligation:

	As at Dec 31,					
	2020			2019		
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Discount rate						
Increase of 0.25%	-6	-8	**-14**	-6	-7	-13
Decrease of 0.25%	7	9	**15**	6	8	14
Salary increase rate						
Increase of 0.25%	1	5	**6**	1	5	5
Decrease of 0.25%	-1	-5	**-6**	-1	-5	-5
Pension increase rate						
Increase of 0.25%	1	5	**6**	1	—	1
Decrease of 0.25%	-1	-5	**-6**	-1	—	-1
Medical cost trend						
Increase of 1%	—	—	**—**	—	—	—
Decrease of 1%	—	—	**—**	—	—	—
Life expectancy						
Increase of one year	6	7	**13**	7	6	13
Decrease of one year	-6	-7	**-13**	-7	-6	-13

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

Weighted average duration of the defined benefit obligation:

	2020			2019		
Expressed in years	Funded	Unfunded	All plans	Funded	Unfunded	All plans
As at December 31	13	21	**17**	12	21	16

Valmet sponsors both defined contribution and defined benefit arrangements. Valmet operates various defined benefit pension and other long-term employee benefit arrangements pursuant to local conditions, practices and collective bargaining agreements in the countries in which it operates. The majority of Valmet's defined benefit liabilities relate to arrangements that are funded through payments to either insurance companies or to independently administered funds based on periodic actuarial calculations. Other arrangements are unfunded with benefits being paid directly by Valmet as they fall due. All arrangements are subject to local tax and legal restrictions in their respective jurisdictions. Valmet's defined benefit arrangements in the USA, Canada and Sweden together represent 86 percent of Valmet's defined benefit obligation and 82 percent of its pension assets. These arrangements provide income in retirement, which is substantially based on salary and service at or near retirement.

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

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

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

The expected contributions to defined benefit type arrangements in 2021 are EUR 0.4 million in respect of Finnish plans and EUR 9 million in respect of foreign plans. Valmet paid contributions of EUR 60 million (EUR 67 million) to defined contribution arrangements during 2020.

17 | Income taxes

Accounting policies

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

Deferred taxes are calculated on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxes have been calculated using the statutory tax rates or the tax rates enacted or substantively enacted as at reporting date. Deferred tax assets are only recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The most significant temporary differences arise from differences in revenue recognition methods applied for tax purposes, depreciation differences relating to property, plant and equipment, treatment of costs arising from defined benefit pension plans, provisions deductible at a later date, fair value measurement of assets and liabilities in connection with business combinations and unused tax losses. Deferred taxes are not recognized on items that do not affect accounting or tax profit. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Critical accounting estimates and judgments

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

Liabilities and assets are recognized with respect to income tax amounts management is expecting to pay and recover, respectively. Management has chosen not to discount non-current tax balances. Valmet entities are subject to tax audits on an ongoing basis. Complex and constantly changing regulations in multiple jurisdictions where Valmet operates create uncertainties relating to tax obligations towards authorities. Changes in the tax authorities' interpretations could have unfavorable impact on Valmet's financials.

The differences between income tax expense computed at the Finnish statutory rate (20 percent in 2020 and 2019) and income tax expense recognized in profit or loss are as follows:

	Year ended Dec 31,	
EUR million	**2020**	**2019**
Profit before taxes	**307**	269
Taxes calculated according to tax rate in Finland	**-62**	-54
Impact of changes in tax rates	**-1**	—
Income tax for prior years	**1**	-2
Effect of different tax rates in foreign subsidiaries	**-7**	-4
Utilization of tax losses carried forward	**—**	—
Non-recoverable foreign taxes	**-3**	-4
Effect of tax-free income and non-deductible expenses	**-2**	-1
Other	**-3**	-2
Income tax expense	**-75**	-67
Effective tax rate, (%)	**24.6%**	25.0%
Effective tax rate, (%) excluding income tax for prior years	**25.0%**	24.3%

Tax effects of components in other comprehensive income:

	Year ended Dec 31,					
	2020			2019		
EUR million	**Before taxes**	**Tax**	**After taxes**	**Before taxes**	**Tax**	**After taxes**
Hedge and other reserves	25	-5	**20**	8	-2	7
Remeasurement of defined benefit plans	-5	1	**-5**	-13	3	-10
Currency translation on subsidiary net investments	-24	—	**-24**	2	—	2
Share of other comprehensive income of associated companies accounted for using equity method	-2	—	**-2**	—	—	—
Total comprehensive income for the period	**-6**	**-4**	**-11**	-3	1	-2
Deferred tax	—	-4	—	—	1	—
Total	**—**	**-4**	**—**	—	1	—

Reconciliation of deferred tax balances:

EUR million	Balance at beginning of the period	Translation differences	Change in accounting principles[2]	Charged to income statement	Charged to other comprehensive income	Acquired in business combination	Balance at end of the period
2020							
Deferred tax assets							
Tax losses carried forward	8	-1	—	-2	—	—	**4**
Fixed assets	9	—	—	—	—	—	**10**
Inventory	2	1	—	—	—	—	**3**
Provisions	26	-2	—	3	—	—	**27**
Accruals	2	-2	—	2	—	—	**1**
Employee benefits	24	—	—	-1	1	—	**25**
Other	13	-3	—	-3	-6	1	**2**
Total deferred tax assets	85	-8	—	-2	-5	1	**72**
Offset against deferred tax liabilities[1]	-12	—	—	2	—	—	**-10**
Net deferred tax assets	**73**	**-8**	**—**	**—**	**-5**	**1**	**61**
Deferred tax liabilities							
Purchase price allocations	76	-6	—	-3	—	5	**72**
Fixed assets	2	1	—	2	—	—	**4**
Other	1	—	—	—	-1	1	**—**
Total deferred tax liabilities	79	-6	—	-1	-1	6	**76**
Offset against deferred tax assets[1]	-12	—	—	2	—	—	**-10**
Net deferred tax liabilities	**66**	**-6**	**—**	**—**	**-1**	**6**	**65**
2019							
Deferred tax assets							
Tax losses carried forward	8	—	—	-1	—	—	8
Fixed assets	11	—	—	-1	—	-1	9
Inventory	5	-1	—	-2	—	—	2
Provisions	23	1	—	-1	—	3	26
Accruals	6	-3	—	-1	—	—	2
Employee benefits	21	1	—	—	2	—	24
Other	12	1	1	—	-2	1	13
Total deferred tax assets	86	—	1	-6	—	5	85
Offset against deferred tax liabilities[1]	-17	—	—	4	—	—	-12
Net deferred tax assets	69	—	1	-1	—	5	73
Deferred tax liabilities							
Purchase price allocations	64	—	—	-1	—	13	76
Fixed assets	—	1	—	1	—	—	2
Other	2	2	—	-2	-2	—	1
Total deferred tax liabilities	67	4	—	-2	-2	13	79
Offset against deferred tax assets[1]	-17	—	—	4	—	—	-12
Net deferred tax liabilities	50	4	—	2	-2	13	66

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

[2] Impact arising from implementation of IFRS 16 in 2019.

A deferred tax liability on undistributed profits of Valmet's legal entities located in countries where distribution generates tax consequences is recognized when it is likely that earnings will be distributed in the near future. For the years ended December 31, 2020 and 2019, earnings of EUR 34 million and EUR 23 million, respectively, would have been subject to recognition of a deferred tax liability, had Valmet regarded a distribution in the near future as likely. A deferred tax asset is recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. There were no material tax loss carryforwards for which a deferred tax asset had not been recognized. Valmet has tax loss carryforwards of EUR 4 million that will expire within the following five years.

18 | Equity

Share capital and number of shares

	2020	2019
Share capital at end of the period, EUR	**100,000,000**	100,000,000
Number of shares at end of the period	**149,864,619**	149,864,619
Treasury shares at end of the period	**373,643**	246,096
Shares outstanding at end of the period	**149,490,976**	149,618,523
Average number of shares outstanding during the financial year	**149,499,114**	149,604,375

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

Treasury shares

As at December 31, 2020, Valmet Oyj held 373,643 (246,096) of its own shares. These shares have been acquired through purchase on the Helsinki Stock Exchange (Nasdaq Helsinki Ltd). The total amount paid to acquire Valmet's own shares during the reporting period, including transaction costs, was EUR 6 million (EUR 4 million) and it has been deducted from Retained earnings in Equity. Own shares have been acquired for the purposes of Valmet's long-term incentive plans.

Dividends

The Board of Directors proposes that a dividend of EUR 0.90 per share will be paid out based on the Consolidated statement of financial position to be adopted for the financial year ended December 31, 2020, and that the remaining part of the Retained earnings will be carried forward in Valmet Oyj's unrestricted equity. These financial statements do not reflect this dividend payable of EUR 135 million.

In compliance with the resolution of the Annual General Meeting on June 16, 2020, Valmet paid out dividends of EUR 120 million for 2019, corresponding to EUR 0.80 per share.

Reserve for invested unrestricted equity

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

Hedge and other reserves

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

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

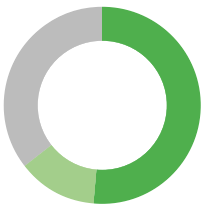
Legal reserve consists of restricted equity, which has been transferred from distributable funds under the Articles of Association, local company law or by a decision of the shareholders.

Cumulative translation adjustments

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

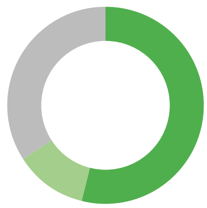
19 | Selling, general and administrative expenses

Selling, general and administrative expenses 2020, EUR 571 million



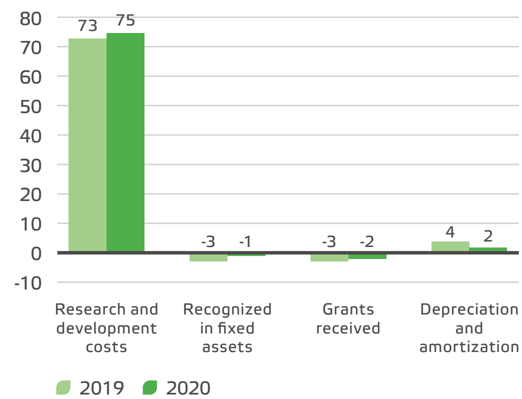
- Marketing and selling expenses EUR 295 million
- Research and development expenses, net EUR 75 million
- Administrative expenses EUR 202 million

Selling, general and administrative expenses 2019, EUR 588 million



- Marketing and selling expenses EUR 318 million
- Research and development expenses, net EUR 71 million
- Administrative expenses EUR 199 million

Research and development expenses, EUR million



20 | Other operating income and expenses

EUR million	Year ended Dec 31, 2020	2019
Gain on sale of fixed assets	–	4
Reversal of allowance for doubtful receivables and contract assets	8	7
Insurance compensations	2	15
Other income	6	6
Other operating income, total	**17**	32
Impairment of fixed assets	-1	-2
Net loss from foreign exchange	-2	-1
Interest component from forward contracts	-4	-4
Non-recoverable foreign taxes	-3	-3
Allowance for doubtful receivables and contract assets	-11	-7
Other expenses	-4	-6
Other operating expenses, total	**-25**	-22
Other operating income and expenses, net	**-8**	10

Exchange rate differences included in Other operating income and expenses:

EUR million	Year ended Dec 31, 2020	2019
Exchange rate differences from trade receivables and payables	-8	25
Exchange rate differences from derivative financial instruments	6	-26
Net loss from foreign exchange	**-2**	-1

21 | Business combinations

Acquisition of PMP Group

The acquisition of PMP Group in Poland, announced on September 11, 2020, was completed on October 1, 2020. Control of the acquiree was obtained through the purchase of 100 percent equity interest in PMP Group companies. The enterprise value of the acquisition was approximately EUR 64 million on a cash and debt free basis, and preliminary consideration transferred after ordinary post-closing adjustments was EUR 70 million. The acquisition also includes a conditional and capped earn-out component, with an estimated fair value of EUR 4 million as at acquisition date.

PMP Group supplies process technologies and services for tissue, board and paper machines globally, focusing on small and medium sized tissue machines and board and paper machine rebuilds. PMP's technology and services portfolio will be a very good complement to Valmet's current paper technology and services for wide and fast machines and rebuilds.

Net sales of PMP Group were approximately EUR 70 million in the fiscal year 2019. The company employs about 650 people, the majority of whom are located in Poland and the rest in China, the USA and Italy.

Fair values of assets acquired, liabilities assumed, and goodwill recognized at the date of acquisition, together with net cash flow impact is summarized in the following tables. The net assets acquired are denominated in Polish złoty.

Goodwill arising from the business combination is attributable to the assembled workforce and synergies expected to be derived from the combined businesses. Majority of the goodwill arising from the acquisition is not expected to be tax-deductible.

The acquired business has been consolidated into the Group financials from the acquisition date onwards. The assumed accounting for the acquisition of PMP Group, including estimated purchase consideration, is based on provisional amounts and the associated purchase accounting is not final.

Fair values of assets acquired and liabilities assumed and goodwill at the date of acquisition:

EUR million	As at October 1, 2020[1]
Non-current assets	
Goodwill	35
Other intangible assets	27
Property, plant and equipment	8
Leased assets	2
Deferred tax asset	1
Total non-current assets	73
Current assets	
Inventories	30
Trade receivables	20
Other current assets	6
Cash and cash equivalents	22
Total current assets	78
Non-current liabilities	
Non-current lease liabilities	2
Other non-current liabilities	3
Deferred tax liabilities	6
Total non-current liabilities	11
Current liabilities	
Current debt	12
Trade payables	11
Amounts due to customers under revenue contracts	39
Other current liabilities	5
Total current liabilities	67
Net assets acquired	74

[1] EUR values have been translated using foreign exchange rates prevailing at the date of the acquisition.

Cash flows associated with the acquisition:

EUR million	As at October 1, 2020
Consideration transferred	-70
Cash and cash equivalents acquired	22
Net cash outflow	**-48**

From the date of acquisition, the acquired business has contributed EUR 27 million of revenue and EUR 1 million of profit to the Group, including EUR 1 million amortization of intangibles and inventory fair-value step-up recognized at acquisition.

If the acquisition had occurred on January 1, 2020, management estimates that the combined statement of income would show net sales of EUR 3,802 million and profit for the period amounting to EUR 229 million. These pro forma amounts include income tax expenses as well as the fair value adjustments, determined as at December 31, 2020, for the January–September period for the acquiree.

Acquisition related costs of EUR 1 million have been charged to Selling, general and administrative expenses and Other operating expenses in the Consolidated statement of income in January–December 2020.

22 | Financial risk management

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

Lease liabilities recognized in Consolidated statement of financial position are part of Valmet's interest-bearing liabilities. To present information focused on Group's long-term funding and related financial risks, figures presented in this note regarding liquidity and refinancing risk, capital structure and interest rate risk management, exclude the impact of lease liabilities. More information regarding leases is presented in Note 5.

Sensitivity analysis

Sensitivity analysis presented in connection with various financial risks is based on the risk exposures at the end of the reporting period.

Sensitivities are calculated by assuming a change in one of the risk factors of a financial instrument, such as interest or currency rate. Sensitivity calculations are based on the changes in the relevant risk variable that are reasonably possible. The reasonably possible changes are assumed to be a variation of 1 percentage point (100 basis points) in interest rates, and a 10 percent change in foreign exchange rates and in commodity prices.

Liquidity and refinancing risk management

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

At end of the reporting period Cash and cash equivalents amounted to EUR 274 million (EUR 316 million) and current interest-bearing financial assets managed centrally by Treasury to EUR 73 million (EUR 42 million). Due to the global nature of operations, some of the Valmet subsidiaries are located in countries in which currency is subject to limited exchangeability or capital controls. Given Valmet's total liquidity position, balances in such countries are immaterial.

In 2020, the outstanding Nordic Investment Bank loan was repaid and replaced with a new 10-year EUR 50 million loan. Additionally, Valmet signed term-loan agreements with total value of EUR 500 million, of which EUR 279 million was outstanding as at December 31, 2020. Valmet also signed an 8-year loan agreement of EUR 100 million with the European Investment Bank, which was undrawn at the end of the reporting period.

Valmet's liquidity was additionally secured by a committed revolving credit facility worth EUR 200 million, which matures in 2024, committed overdraft limits of EUR 14 million and an uncommitted commercial paper program worth EUR 200 million. All the above-mentioned facilities were undrawn at the end of the reporting period.

Net working capital management is an integral part of the liquidity risk management. Treasury monitors and forecasts net working capital fluctuations in close co-operation with the subsidiaries. Net working capital decreased to EUR -588 million (EUR -426 million) as at December 31, 2020, due to e.g. milestone payments for large capital projects.

Group's refinancing risk is managed by balancing the proportion of current and non-current interest-bearing debt and average maturity of non-current interest-bearing debt including committed undrawn credit facility. The average maturity of non-current interest-bearing debt, including current portion, and committed undrawn credit facility as at December 31, 2020, was 2.3 years (3.1 years). The amount of current interest-bearing debt, including current portion of non-current interest-bearing debt, was 4 percent (23%) of total debt portfolio. As at December 31, 2020, Valmet's interest-bearing liabilities consist of debt and lease liabilities, and debt portfolio includes only loans from financial institutions.

The tables below present undiscounted cash flows on the repayments and interests on Valmet's financial liabilities (excl. lease liabilities and derivatives) by the remaining maturities from the balance sheet date to the contractual maturity date. The remaining maturities of lease liabilities are presented in Note 5, and correspondingly remaining maturities of derivatives in Note 10.

EUR million	2021	2022	2023	2024	2025 and later
Loans from financial institutions					
Repayments	18	322	26	26	44
Interests	5	4	–	–	–
Trade payables and other current financial liabilities	401	–	–	–	–
Total	**424**	**326**	**26**	**26**	**44**

The information presented in above table excludes the impact of lease liabilities and derivatives.

EUR million	2020	2021	2022	2023	2024 and later
Loans from financial institutions					
Repayments	48	39	64	29	27
Interests	2	1	1	–	–
Trade payables and other current financial liabilities	368	–	–	–	–
Total	418	40	65	29	27

The information presented in above table excludes the impact of lease liabilities and derivatives.

Capital structure management

The capital structure management seeks to safeguard the ongoing business operations, to ensure flexible access to capital markets and to secure adequate funding at a competitive rate. Capital structure management at Valmet comprises both equity and interest-bearing debt. As at December 31, 2020, total equity was EUR 1,142 million (EUR 1,046 million) and the amount of interest-bearing debt was EUR 436 million (EUR 207 million).

Valmet has not disclosed any long-term financial ratio target for its capital structure. However, the objective of Valmet is to maintain strong capital structure in order to secure customers', investors', creditors' and market confidence. The capital structure is assessed regularly by the Board of Directors and managed operationally by Treasury. Loan facility agreements include customary covenants and Valmet is in clear compliance with the covenants at the end of the reporting period. Valmet has no credit rating at December 31, 2020.

	As at Dec 31,	
EUR million	2020	2019
Interest-bearing debt	**436**	207
Cash and cash equivalents	**274**	316
Interest-bearing financial assets	**74**	42
Interest-bearing net debt	**88**	-151
Total equity	**1,142**	1,046

The information presented in above table excludes the impact of lease liabilities.

Interest rate risk management

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

The fixed rate interest proportion was 20 percent (31%), the duration was 1.1 years (1.4 years) and the EUR denominated debt was 100 percent (100%) of the total debt portfolio at the end of 2020. The basis for the interest rate risk sensitivity analysis is an aggregate Group level interest rate exposure, composed of interest-bearing financial assets, interest-bearing liabilities (excl. leases) and interest rate swaps, which are used to hedge the underlying exposures. The sensitivity analysis does not include interest component of foreign exchange derivatives since the impact of a one percentage point change in interest rates is not significant, assuming similar change in all currency pairs at the same time. For all interest-bearing debt, assets and interest rate derivatives to be fixed during the next 12 months a change of one percentage point upwards or downwards in interest rates with all other variables held constant would have following effect, net of taxes:

EUR million	2020	2019
Profit for the period	**-/+ 0.8**	+/- 0.7
Equity	**+/- 3.1**	+/- 1.3

The information presented in above table excludes the impact of lease liabilities.

Valmet has used the interest rate derivatives to hedge the interest rate risk of debt portfolio. All interest rate swaps have been designated to cash flow hedge accounting relationships. The nominal and fair values of the outstanding interest rate derivative contracts are presented in Note 10.

Foreign exchange rate risk management

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

Transaction exposure

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

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

	As at Dec 31, 2020				
EUR million	**EUR**	**SEK**	**USD**	**CNY**	**Others**
Operational items	-18	-218	282	-141	96
of which trade receivables and other current assets	-7	-106	75	20	19
of which trade payables and other current liabilities	-67	96	-12	-24	7
Financial items	243	-226	37	-61	7
Hedges	-207	430	-316	194	-101
under hedge accounting	30	165	-241	148	-101
not qualifying for hedge accounting	-237	265	-75	47	—
Total exposure	**18**	**-14**	**2**	**-8**	**2**

	As at Dec 31, 2019				
EUR million	**EUR**	**SEK**	**USD**	**CNY**	**Others**
Operational items	-26	-239	309	-198	154
of which trade receivables and other current assets	-2	-107	66	36	7
of which trade payables and other current liabilities	-63	90	-8	-36	18
Financial items	22	-104	87	3	-8
Hedges	-4	337	-378	202	-157
under hedge accounting	9	172	-246	225	-160
not qualifying for hedge accounting	-13	165	-131	-24	2
Total exposure	-8	-6	18	8	-12

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

	As at Dec 31, 2020				
EUR million	**SEK**	**USD**	**CNY**	**Others**	**Total**
EUR +/-10% change	**+/- 1.1**	**-/+ 0.2**	**+/- 0.6**	**-/+ 0.2**	**+/- 1.5**

	As at Dec 31, 2019				
EUR million	**SEK**	**USD**	**CNY**	**Others**	**Total**
EUR +/-10% change	+/- 0.5	-/+ 1.5	-/+ 0.6	+/- 1.0	-/+ 0.7

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

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

EUR million	**2020**	**2019**
Profit for the period	**-/+ 5.5**	-/+ 4.4
Equity	**+/- 2.4**	+/- 0.7

Changes in fair value of derivative contracts that qualify for cash flow hedge accounting are recorded in equity. The effect in profit or loss is the change in fair value for all other financial instruments exposed to foreign exchange risk.

The nominal and fair values of the outstanding forward exchange contracts are presented in Note 10.

Translation or equity exposure

Foreign exchange translation exposure arises when goodwill or fair value step ups, or equity of a subsidiary, is denominated in currency other than the functional currency of the parent company. As at December 31, 2020, the total non-EUR denominated goodwill and fair value step ups, and equity of the subsidiaries, was EUR 548 million (EUR 408 million). The major translation exposures were in 2020 EUR 153 million in USD and EUR 116 million in CNY, and respectively in 2019 EUR 130 million in USD and EUR 97 million in CNY. Valmet is currently not hedging any equity exposure.

Commodity risk management

Valmet is exposed to risk in variations of the prices of raw materials and of supplies including energy. Subsidiaries have identified their commodity price hedging needs and hedges have been executed through Treasury using approved counterparties and instruments. For commodity risks separate overall hedging limits are defined and approved. Hedging is done on a rolling basis with a declining hedging level over time. Electricity exposure in the Nordic subsidiaries has been hedged with electricity forwards and fixed price physical contracts. Hedging is focused on the estimated energy consumption for the next two-year period with some contracts extended to approximately five years. The execution of electricity hedging has been outsourced to an external broker. As at December 31, 2020, Valmet had outstanding electricity forwards amounting to 165 GWh (175 GWh) and 184 GWh (175 GWh) under fixed price purchase agreements.

To reduce its exposure to the volatility caused by the surcharge for certain metal alloys (Alloy Adjustment Factor) comprised in the price of stainless steel charged by its suppliers, Valmet may enter into average-price swap agreements for nickel. The Alloy Adjustment Factor is based on monthly average-prices of its components of which nickel is the most significant. As at December 31, 2020, Valmet had 24 metric tons outstanding average-price swap agreements for nickel (54 metric tons).

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

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

EUR million	**2020**	**2019**
Electricity - effect in equity	**+/- 0.3**	+/- 0.4
Nickel - effect in profit for the period	**+/- 0.0**	+/- 0.1

Cash flow hedge accounting has been applied to electricity forward contracts and the change in fair value is recognized in Equity. Hedge accounting is not applied to nickel agreements and the change in the fair value is recorded through Consolidated statement of income.

Credit and counterparty risk management

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

The maximum credit risk equals the carrying value of trade and other receivables, together with contract assets related to contracts for which revenue is recognized over time. The credit risk quality is evaluated both on the basis of aging of the trade receivables and also on the basis of customer specific analysis. The aging structure of trade receivables is presented in Note 8. Counterparty risk arises also from financial transactions agreed upon with banks, financial institutions and corporations. The risk is managed by careful selection of banks and other counterparties and by applying counterparty specific limits and netting agreements such as ISDA (Master agreement of International Swaps and Derivatives Association), see Note 10. All financial institutions Valmet associates with have investment grade status. When measuring the financial credit risk exposure, all open exposures such as cash at bank accounts, investments, deposits and other financial transactions, for example derivative contracts, are included. The compliance with financial counterparty limits is regularly monitored by the management.

23 | Investments in associated companies

Valmet Group has the following associated companies:

Company name	Place of incorporation and principal place of business	Share of ownership Dec 31, 2020	Share of ownership Dec 31, 2019	Measurement
Neles Corporation	Finland	**29.54%**	–	Equity method
Allimand S.A.	France	**35.8%**	35.8%	Equity method
Nanjing SAC Valmet Automation Co., Ltd.	China	**21.95%**	21.95%	Equity method
Valpro gerenciamento de obras Ltda	Brazil	**51.0%**	51.0%	Equity method

Valmet acquired 29.5 percent of the shares and voting rights in Neles Corporation during July–September 2020. Neles is a global provider of flow control solutions and services. Neles started trading as an independent company on July 1, 2020, following the partial demerger of Metso Corporation, but the business has a long track record with a history of more than 60 years of innovation.

Valmet's and Neles' financial statements are coterminous, but as Neles publishes its interim reports at or near the same time as Valmet, Valmet's share of Neles' results are accounted for with a lag of one quarter. Valmet's financial statements 2020 include Valmet's share of Neles' third-quarter 2020 results, amounting to EUR 3 million.

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

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

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

Summarized financial information for Neles Corporation and Nanjing SAC Valmet Automation Co., Ltd. is set out below. The summarized financial information below represents amounts shown in Neles Corporation's and Nanjing SAC Valmet Automation Co., Ltd.'s most recent financial statements. The current and non-current assets and liabilities, revenues and results of Allimand S.A. and Valpro gerenciamento de obras Ltda are not individually material and are presented together in Other column.

	Neles[1]		SAC		Other	
EUR million	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Balance sheet						
Non-current assets	**215**	–	**13**	12	**14**	10
Current assets	**409**	–	**87**	71	**49**	67
Non-current liabilities	**212**	–	**–**	–	**14**	7
Current liabilities	**159**	–	**47**	37	**49**	65
Net assets	**253**	–	**52**	46	**1**	4
Valmet's share of net assets	**75**	–	**11**	10	**–**	2
Income statement						
Revenue	**144**	–	**71**	50	**41**	50
Profit or loss	**14**	–	**9**	1	**-8**	-4
Other comprehensive income	**5**	–	**–**	–	**–**	–

[1] Neles' balance sheet and income statement figures reflect Neles' financials for the three-month period ending September 2020.

Valmet had no material transactions with its associated companies in 2020 or 2019, or material receivables or liabilities as at December 31, 2020, or December 31, 2019.

Reconciliation to carrying values in Valmet Group:

	Neles		SAC		Other	
EUR million	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Net assets at beginning of the period[1]	**253**	–	**46**	46	**4**	8
Translation differences	**–**	–	**-1**	–	**–**	–
Profit for the period	**14**	–	**9**	1	**-8**	-4
Unrecognized share of losses	**–**	–	**–**	–	**4**	–
Other comprehensive income for the period	**-9**	–	**–**	–	**–**	–
Other changes in net assets	**-5**	–	**–**	–	**–**	–
Dividends paid	**–**	–	**-2**	-1	**–**	–
Net assets at end of the period	**253**	–	**52**	46	**1**	4
Valmet's share of net assets	**75**	–	**11**	10	**–**	2
Notional goodwill and fair value adjustments	**380**	–	**1**	1	**–**	–
Carrying value at end of the period	**455**	–	**13**	11	**–**	2
Market value of listed shares	**482**	–				

[1] Neles as at July 1, 2020.

Changes in investments in associated companies during the period:

	Year ended Dec 31,	
EUR million	**2020**	**2019**
Historical cost		
Historical cost at beginning of the period	**8**	8
Additions	**456**	–
Impairments	**-1**	–
Historical cost at end of the period	**464**	8
Equity adjustments		
Equity adjustments at beginning of the period	**4**	6
Profit for the period	**4**	-1
Other comprehensive income for the period	**-2**	–
Dividends received	**–**	–
Expensing of fair value adjustments	**-3**	–
Equity adjustments at end of the period	**4**	4
Carrying value at end of the period	**468**	13

24 | Audit fees

In 2020, the Annual General Meeting of Valmet Oyj elected Authorised Public Accountants PricewaterhouseCoopers Oy as Valmet Oyj's auditor. The below table presents fees for audit and other services provided by PricewaterhouseCoopers Oy and its affiliates (PwC) to Valmet Group.

	Year ended Dec 31,	
EUR million	**2020**	**2019**
Audit	**-1.7**	-1.7
Tax consulting	**-0.1**	-0.2
Other services	**-0.1**	-0.2
Total	**-1.9**	-2.2

In 2020, PricewaterhouseCoopers Oy has provided non-audit services to entities of Valmet Group in total of EUR 0.1 million (EUR 0.2 million) with the services consisting of auditors' statements, tax and other services.

25 | Contingencies and commitments

Valmet Oyj, with its subsidiaries, and financial institutions have guaranteed commitments arising from the ordinary course of business of Valmet Group up to a maximum of EUR 1,032 million and EUR 998 million as at December 31, 2020, and 2019, respectively.

As at December 31, 2020, Valmet entities are subject to tax audits in several jurisdictions. Liabilities and assets are recognized with respect to income tax amounts management is expecting to pay and recover, respectively. No liability is recognized when it is considered probable that items reported to tax authorities can be sustained on examination. Complex and constantly changing regulations in multiple jurisdictions where Valmet operates create uncertainties relating to tax obligations towards authorities. Changes in the tax authorities' interpretations could have an unfavorable impact on Valmet's financials.

26 | Related party information

Valmet's related parties include Valmet Group companies (see Note 27 and associated companies and joint ventures (see Note 23) as well as the members of Valmet's Board of Directors and Executive Team.

Remuneration of Chief Executive Officer and other Executive Team members

The table below presents the expenses related to management compensation that have been recognized in profit or loss. More information about share-based payments is presented in Note 15.

EUR thousand	Salaries and other short-term benefits	Performance bonuses	Share-based payments	Post-retirement benefits	Total
2020					
President and CEO	-680	-540	-455	-315	**-1,991**
Other Executive Team members	-3,082	-953	-1,600	-1,210	**-6,845**
Total	**-3,762**	**-1,493**	**-2,055**	**-1,525**	**-8,836**
2019					
President and CEO	-680	-492	-510	-293	-1,976
Other Executive Team members	-3,125	-1,233	-1,842	-1,253	-7,452
Total	-3,805	-1,725	-2,353	-1,546	-9,428

The President and CEO is entitled to retire when reaching 63 years of age. All other Executive Team members belong to the pension systems of their country of residence and have a statutory retirement age. The President and CEO and members of the Executive Team belong to supplementary defined contribution pension plans.

Contributions to the plans are 15–20 percent of the employee's annual salary. Expenses are included in the post-retirement benefits together with statutory pension benefits presented in the table above. The final benefit received by the employee depends on the return on the plan's investments.

Remuneration paid to members of the Board of Directors

EUR thousand	2020
Mikael Mäkinen, Chairman	**-137**
Aaro Cantell, Vice Chairman	**-87**
Pekka Kemppainen, Member	**-77**
Monika Maurer, Member	**-87**
Eriikka Söderström, Member	**-83**
Tarja Tyni, Member	**-77**
Rogério Ziviani, Member	**-102**
Eija Lahti-Jäntti, Personnel Representative since September 1, 2020	**-4**
Riina Vilander, Personnel Representative until September 1, 2020	**-7**
Total	**-661**

As at December 31, 2020, the aggregate shareholding of the Board of Directors, the President and CEO and other Executive Team members was 700,993 shares (628,493 shares as at December 31, 2019).

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

27 | Subsidiaries

Company name	Country of incorporation and place of business	Primary nature of business	Parent holding, %	Group ownership interest, %
Valmet Pty Ltd	Australia	Sales	–	100.0
Valmet GesmbH	Austria	Sales	–	100.0
Valmet Celulose Papel e Energia Ltda	Brazil	Manufacturing	–	100.0
Valmet Fabrics Tecidos Técnicos Ltda	Brazil	Manufacturing	–	100.0
GL&V Brasil Equipamentos, Comércio e Serviços Ltda	Brazil	Sales	–	100.0
Valmet Ltd.	Canada	Sales	–	100.0
Valmet S.A.	Chile	Sales	–	100.0
Valmet (China) Co., Ltd.	China	Manufacturing	–	100.0
Valmet Automation (Shanghai) Co., Ltd.	China	Manufacturing	–	100.0
Valmet Fabrics (China) Co., Ltd.	China	Manufacturing	–	100.0
Valmet Paper (Shanghai) Co., Ltd.	China	Manufacturing	–	100.0
Valmet Paper Technology (China) Co., Ltd.	China	Manufacturing	–	100.0
Valmet Paper Technology (Guangzhou) Co., Ltd.	China	Manufacturing	–	100.0
Valmet Paper Technology (Xi'an) Co., Ltd.	China	Manufacturing	–	75.0
Valmet Technologies Co., Ltd.	China	Sales	–	100.0
Valmet Paper Machinery (Changzhou) Co. Ltd.	China	Manufacturing	–	100.0
Valmet d.o.o.	Croatia	Manufacturing	–	100.0
Valmet s.r.o.	Czech Republic	Manufacturing	–	100.0
Valmet Technologies Oü	Estonia	Sales	–	100.0
Valmet Automation Oy	Finland	Manufacturing	100.0	100.0
Valmet Kauttua Oy	Finland	Manufacturing	–	100.0
Valmet Technologies Oy	Finland	Manufacturing	100.0	100.0
Valmet Automation SAS	France	Sales	–	100.0
Valmet SAS	France	Manufacturing	–	100.0
Valmet Deutschland GmbH	Germany	Holding	–	100.0
Valmet GmbH	Germany	Sales	–	100.0
Valmet Plattling GmbH	Germany	Sales	–	100.0
Valmet Technologies and Services Private Limited	India	Manufacturing	–	100.0
Valmet Technologies Private Limited	India	Manufacturing	–	100.0
PT Valmet	Indonesia	Sales	–	100.0
PT Valmet Automation Indonesia	Indonesia	Sales	–	100.0
PT Valmet Technology Center	Indonesia	Manufacturing	–	100.0
Valmet Como S.r.l[1]	Italy	Manufacturing	–	100.0
Valmet S.p.A.	Italy	Manufacturing	–	100.0
Valmet Technologies S.R.L.	Italy	Manufacturing	–	100.0
Valmet K.K.	Japan	Sales	–	100.0
GL&V Luxemburg S.à.r.l.	Luxembourg	Holding	–	100.0
Valmet Technologies Sdn. Bhd.	Malaysia	Sales	–	100.0
Valmet Technologies S. de R.L. de C.V.	Mexico	Sales	–	100.0

[1] Under liquidation.

Company name	Country of incorporation and place of business	Primary nature of business	Parent holding, %	Group ownership interest, %
Valmet B.V.	Netherlands	Sales	–	100.0
Valmet AS	Norway	Sales	–	100.0
Valmet Automation Sp. z o.o.	Poland	Manufacturing	–	100.0
Valmet Technologies Sp. z o.o.[1]	Poland	Manufacturing	–	100.0
PMPoland S.A.	Poland	Manufacturing	–	100.0
Valmet Services Sp.z.o.o.	Poland	Manufacturing	–	100.0
PMPKonmet Sp.z.o.o.	Poland	Manufacturing	–	100.0
PMP Group Sp.z.o.o.	Poland	Sales	–	100.0
Inwestycja 2000 Sp.z.o.o.	Poland	Holding	–	100.0
Valmet Lda	Portugal	Manufacturing	–	100.0
Valmet Inc.	Republic of Korea	Sales	–	100.0
Valmet Automation JSC	Russia	Sales	–	100.0
Valmet Pte. Ltd.	Singapore	Sales	–	100.0
Valmet South Africa (Pty) Ltd	South Africa	Sales	–	100.0
Valmet Technologies, S.A.U.	Spain	Manufacturing	–	100.0
Valmet Technologies Zaragoza, S.L.	Spain	Manufacturing	–	81.0
Valmet AB	Sweden	Manufacturing	100.0	100.0
Valmet Automation Co., Ltd.[1]	Thailand	Sales	–	100.0
Valmet Co. Ltd.	Thailand	Sales	–	100.0
Valmet Selüloz Kagit ve Enerji Teknolojileri A.S.	Turkey	Sales	–	100.0
Valmet Process Technologies and Services LLC[2]	United Arab Emirates	Sales	–	49.0
Valmet Automation Limited	United Kingdom	Sales	–	100.0
Valmet Ltd	United Kingdom	Manufacturing	–	100.0
Valmet, Inc.	USA	Sales	74.3	100.0
PMP Americas Inc.	USA	Manufacturing	–	100.0
Valmet Technologies and Services Co., Ltd.	Vietnam	Sales	–	100.0

[1] Under liquidation.

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

28 | Events after the reporting period

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

29 | New accounting standards

New IFRS's adopted

Valmet Group has applied new standards, amendments and interpretations published by IASB that are effective for the first time for financial reporting periods commencing on January 1, 2020. These standards, amendments and interpretations did not have a material impact on the results or financial position of Valmet Group, or the presentation of financial statements.

New IFRS's not yet adopted

Valmet Group has not identified any new standards, amendments or interpretations published by IASB that apply for the first time to financial reporting periods commencing on or after January 1, 2021, that are expected to have a material impact on the results or financial position of Valmet Group, or the presentation of financial statements.

PARENT COMPANY STATEMENT OF INCOME, FAS

		Year ended Dec 31,	
EUR	**Note**	**2020**	**2019**
Other operating income	3	**13,132,554.68**	11,485,815.21
Personnel expenses	2	**-14,577,384.69**	-14,728,267.05
Depreciation and amortization		**-733,654.43**	-597,688.89
Other operating expenses	3, 4	**-12,136,035.97**	-13,914,678.20
Operating profit		**-14,314,520.41**	-17,754,818.93
Financial income and expenses, net	5	**47,962,090.30**	90,917,262.30
Profit before appropriations and taxes		**33,647,569.89**	73,162,443.37
Group contributions		**187,388,000.00**	149,958,000.00
Income taxes	6	**-34,580,381.10**	-27,041,995.92
Profit for the period		**186,455,188.79**	196,078,447.45

PARENT COMPANY STATEMENT OF FINANCIAL POSITION, FAS

Assets

		As at Dec 31,	
EUR	**Note**	**2020**	**2019**
Non-current assets			
Intangible assets	7	**2,295,669.74**	649,325.77
Property, plant and equipment	7	**4,832,999.80**	5,379,449.39
Equity investments	8	**1,863,129,329.34**	1,406,965,321.58
Non-current receivables	10, 11	**110,175,130.69**	104,006,014.65
Total non-current assets		**1,980,433,129.57**	1,517,000,111.39
Current assets			
Current receivables	10, 11	**373,399,955.41**	239,363,787.76
Cash and cash equivalents		**96,407,762.36**	161,342,716.19
Total current assets		**469,807,717.77**	400,706,503.95
Total assets		**2,450,240,847.34**	1,917,706,615.34

Equity and liabilities

		As at Dec 31,	
EUR	**Note**	**2020**	**2019**
Equity	12		
Share capital		**100,000,000.00**	100,000,000.00
Reserve for invested unrestricted equity		**428,348,225.02**	426,089,982.39
Hedge and other reserves		**-2,709,066.50**	-1,682,300.40
Retained earnings		**613,608,877.26**	543,592,872.14
Profit for the period		**186,455,188.79**	196,078,447.45
Total equity		**1,325,703,224.57**	1,264,079,001.58
Liabilities			
Non-current liabilities	11, 13	**449,824,926.84**	167,673,426.61
Current liabilities	11, 14	**674,712,695.93**	485,954,187.15
Total liabilities		**1,124,537,622.77**	653,627,613.76
Total equity and liabilities		**2,450,240,847.34**	1,917,706,615.34

PARENT COMPANY STATEMENT OF CASH FLOWS, FAS

	Year ended Dec 31,	
EUR thousand	**2020**	**2019**
Cash flows from operating activities		
Profit before appropriations and taxes	**33,648**	73,162
Adjustments		
Depreciation and amortization	**734**	598
Financial income and expenses, net	**-47,944**	-90,917
Other non-cash items	**6,418**	-6,000
Total adjustments	**-40,792**	-96,319
Change in working capital	**2,820**	7,992
Interest and other financial expenses paid	**-10,459**	-11,266
Dividends received	**51,428**	92,314
Interest and other financial income received	**8,984**	11,034
Income taxes paid	**-29,025**	-17,374
Net cash provided by (+) / used in (-) operating activities	**16,604**	59,543
Cash flows from investing activities		
Investments in tangible and intangible assets	**-1,618**	-1,265
Net increase (-) / decrease (+) in loan receivables from Group companies	**-18,984**	-11,344
Investments in associated companies	**-456,164**	—
Other investments	**—**	-4
Net cash provided by (+) / used in (-) investing activities	**-476,766**	-12,614
Cash flows from financing activities:		
Purchase of treasury shares	**-6,463**	-4,174
Issue of treasury shares to Group companies	**1,755**	3,440
Dividends paid	**-119,599**	-97,253
Group contribution received	**149,958**	84,822
Proceeds from non-current debt	**329,000**	45,000
Repayments of non-current debt	**-100,889**	-39,111
Net proceeds (+) / repayments (-) of debt from Group companies	**15,229**	-18,361
Net increase (+) / decrease (-) in Group pool accounts	**126,236**	-156,108
Financial investments	**—**	41,135
Net cash provided by (+) / used in (-) financing activities	**395,227**	-140,609
Net increase (+) / decrease (-) in cash and cash equivalents	**-64,935**	-93,680
Cash and cash equivalents at beginning of the period	**161,343**	255,022
Cash and cash equivalents at end of the period	**96,408**	161,343

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1 | Accounting principles

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

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts.

Non-current assets

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

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

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

Investments in subsidiaries and other companies are measured at lower of acquisition cost or fair value.

Financial instruments

Valmet's financial risk management is carried out centrally by the Group treasury (hereafter Treasury) under annually reviewed written policies approved by Valmet's Board of Directors. Treasury functions in co-operation with the operating units to minimize financial risks to both the parent company and the Group.

Forward exchange derivative contracts are used to hedge foreign exchange rate risk, and these instruments are measured at fair value. The change in the fair value of derivative instruments used to hedge operative items (e.g. foreign currency denominated sales and purchase transactions) is reported under Other operating income and expenses in profit or loss. The change in the fair value of derivatives used to hedge non-operative items (e.g. interest-bearing financial assets and liabilities, and other items related to funding) are reported under Financial income and expenses in profit or loss. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

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

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

Interest-bearing financial investments managed centrally by the Treasury are measured at fair value. The change in the fair value is recognized in fair value reserve within Equity in the Statement of financial position. The fair values of the interest-bearing financial assets are determined using prevailing market rates at the balance sheet date.

Pensions

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

Deferred taxes

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

Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the individual transaction. Foreign currency denominated monetary items recognized in the Statement of financial position have been translated into the functional currency at the exchange rates prevailing at the balance sheet date. Exchange rate gains and losses related to operative items are reported under Other operating income and expenses in the Statement of income, whereas exchange rate gains and losses related to non-operative items are reported under Financial income and expenses.

Receivables

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

Share-based incentive plan

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

2 | Personnel expenses

	Year ended Dec 31,	
EUR thousand	**2020**	**2019**
Salaries and wages	**-12,250**	-12,421
Pension costs	**-2,080**	-2,006
Other indirect employee costs	**-247**	-301
Total	**-14,577**	-14,728

Remuneration to management:

	Year ended Dec 31,	
EUR thousand	**2020**	**2019**
Chief Executive Officer	**-1,991**	-1,976
Members of the Board	**-661**	-593
Total	**-2,652**	-2,569

The Chief Executive Officer (CEO) is entitled to retire when reaching 63 years of age. The CEO belongs to a supplementary defined contribution plan. The contribution to the plan is 20 percent of his annual salary.

Expenses are included in the remuneration to management table above. Additional information on management remuneration is presented in Note 26 of the Consolidated financial statements.

Number of personnel:

	2020	**2019**
Personnel at end of the period	**114**	101
Average number of personnel during the period	**110**	102

3 | Other operating income and expenses

	Year ended Dec 31,	
EUR thousand	**2020**	**2019**
Services for Group companies	**13,133**	11,486
Other operating income, total	**13,133**	11,486
Consulting and other services	**-8,190**	-7,311
IT	**-875**	-1,627
Change in fair value of derivatives	**-96**	-621
Other	**-2,975**	-4,355
Other operating expenses, total	**-12,136**	-13,915

4 | Audit fees

	Year ended Dec 31,	
EUR thousand	**2020**	**2019**
Audit	**-407**	-525
Tax consulting	**-58**	—
Other services	**-72**	-168
Total	**-537**	-693

5 | Financial income and expenses

	Year ended Dec 31,					
	2020			2019		
EUR thousand	**Group companies**	**Others**	**Total**	**Group companies**	**Others**	**Total**
Dividends received	51,000	428	**51,428**	91,882	432	92,314
Interest income	5,905	117	**6,022**	7,489	91	7,580
Interest expenses	-612	-4,300	**-4,913**	-2,076	-2,501	-4,577
Net gain/loss from foreign exchange	-6,609	6,013	**-596**	3,429	-4,113	-684
Interest component from forward contracts	-1,276	-974	**-2,250**	194	-3,105	-2,911
Other financial expenses	—	-1,730	**-1,730**	—	-804	-804
Total	**48,408**	**-445**	**47,962**	100,918	-10,001	90,917

6 | Income taxes

	Year ended Dec 31,	
EUR thousand	**2020**	**2019**
Income tax for the financial period	**-34,059**	-27,012
Income tax for prior periods	**-494**	-5
Change in deferred taxes	**-28**	-26
Total	**-34,580**	-27,042

7 | Intangible assets and property, plant and equipment

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2020							
Acquisition cost at beginning of the period	968	809	9,146	591	557	11,104	**12,071**
Additions	1,772	—	62	—	—	62	**1,834**
Retirements	—	—	—	—	—	—	**—**
Acquisition cost at end of the period	2,739	809	9,208	592	557	11,166	**13,904**
Accumulated depreciation at beginning of the period	-318	—	-4,929	-591	-205	-5,725	**-6,042**
Depreciation charges for the period	-125	—	-583	—	-25	-608	**-734**
Retirements	—	—	—	—	—	—	**—**
Accumulated depreciation at end of the period	-443	—	-5,512	-592	-229	-6,333	**-6,776**
Carrying value at end of the period	**2,296**	**809**	**3,696**	**—**	**328**	**4,833**	**7,129**

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2019							
Acquisition cost at beginning of the period	331	809	8,518	592	557	10,477	10,808
Additions	636	—	628	—	—	628	1,265
Retirements	—	—	—	-1	—	-1	-1
Acquisition cost at end of the period	968	809	9,146	591	557	11,104	12,071
Accumulated depreciation at beginning of the period	-314	—	-4,386	-568	-180	-5,133	-5,445
Depreciation charges for the period	-4	—	-544	-25	-25	-593	-598
Retirements	—	—	—	1	—	1	1
Accumulated depreciation at end of the period	-318	—	-4,929	-591	-205	-5,725	-6,042
Carrying value at end of the period	649	809	4,218	—	352	5,379	6,029

8 | Investments

EUR thousand	Shares in Group companies	Other shares	Investments in associated companies	Investments total
2020				
Acquisition cost at beginning of the period	1,405,474	1,492	–	**1,406,965**
Additions[1]	–	–	456,164	**456,164**
Disposals	–	–	–	**–**
Acquisition cost at end of the period	1,405,474	1,492	456,164	**1,863,129**
Carrying value at end of the period	**1,405,474**	**1,492**	**456,164**	**1,863,129**

[1] Valmet acquired 29.5 percent of the shares and voting rights in Neles Corporation.

EUR thousand	Shares in Group companies	Other shares	Investments in associated companies	Investments total
2019				
Acquisition cost at beginning of the period	1,405,474	1,496	–	1,406,969
Disposals	–	-4	–	-4
Acquisition cost at end of the period	1,405,474	1,492	–	1,406,965
Carrying value at end of the period	1,405,474	1,492	–	1,406,965

9 | Subsidiaries

Company name	Domicile	Ownership %
Valmet Technologies Oy	Finland, Helsinki	100.0
Valmet AB	Sweden, Sundsvall	100.0
Valmet, Inc.	USA, Duluth	74.3
Valmet Automation Oy	Finland, Helsinki	100.0

10 | Specification of receivables

Non-current receivables:

	As at Dec 31,	
EUR thousand	**2020**	**2019**
Loan receivables from Group companies	**79,978**	96,322
Deferred tax assets	**1,102**	867
Derivatives from Group companies	**11,006**	2,639
Derivatives from others	**18,088**	4,179
Non-current receivables total	**110,175**	104,006

Current receivables:

	As at Dec 31, 2020			As at Dec 31, 2019		
EUR thousand	**Group companies**	**Others**	**Total**	**Group companies**	**Others**	**Total**
Trade receivables from	7,839	19	**7,857**	8,201	23	8,224
Loan receivables from	63,651	—	**63,651**	39,383	—	39,383
Group pool accounts	32,701	—	**32,701**	9,235	—	9,235
Prepaid expenses and accrued income from	218,433	50,578	**269,011**	164,150	18,290	182,440
Other receivables from	—	179	**179**	—	82	82
Current receivables total	**322,624**	**50,776**	**373,400**	220,968	18,396	239,364

Specification of prepaid expenses and accrued income:

	As at Dec 31,	
EUR thousand	**2020**	**2019**
Prepaid expenses and accrued income from Group companies		
Group contribution receivables	**187,388**	149,958
Accrued interest income	**1,467**	1,928
Derivatives	**28,740**	11,304
Other	**838**	960
Total	**218,433**	164,150
Other prepaid expenses and accrued income		
Derivatives	**48,792**	16,905
Other	**1,787**	1,385
Total	**50,578**	18,290

11 | Financial assets and liabilities recognized at fair value

Notional amounts and fair values as at December 31 are as follows:

EUR thousand	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net	Changes in fair value recognized in profit or loss	Changes in fair value recognized in hedge reserve
2020						
Forward exchange contracts						
With Group companies	**2,403,856**	**39,756**	**-70,772**	**-31,017**	**-35,150**	**—**
Others	**2,746,934**	**66,138**	**-38,476**	**27,662**	**41,970**	**—**
Interest rate swaps[1]						
Others	**75,000**	**589**	**-4,117**	**-3,528**	**-26**	**-3,386**
Electricity forward contracts[2]						
Others	**165**	**177**	**-680**	**-503**	**-774**	**—**
Nickel commodity swaps[3]						
With Group companies	**24**	**—**	**-4**	**-4**	**-41**	**—**
Others	**24**	**4**	**—**	**4**	**41**	**—**

EUR thousand	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net	Changes in fair value recognized in profit or loss	Changes in fair value recognized in hedge reserve
2019						
Forward exchange contracts						
With Group companies	2,663,451	13,905	-21,515	-7,610	15,790	—
Others	2,868,484	20,616	-16,139	4,477	-19,747	—
Interest rate swaps[1]						
Others	30,000	—	-2,219	-2,219	-6	-2,103
Electricity forward contracts[2]						
Others	175	464	-192	272	-1,985	—
Nickel commodity swaps[3]						
With Group companies	54	38	—	38	38	—
Others	54	—	-38	-38	-38	—

[1] All interest rate swaps have been designated to cash flow hedge accounting relationships.
[2] Notional amount in GWh.
[3] Notional amount in metric tons.

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

	2021	2022	2023	2024	2025 and later
2020					
Notional amounts					
Forward exchange contracts[1]	**4,253,780**	**797,929**	**98,924**	**157**	**—**
Electricity forward contracts[2]	**93**	**55**	**18**	**—**	**—**
Nickel commodity swaps[3]	**48**	**—**	**—**	**—**	**—**
Interest rate swaps[1]	**—**	**—**	**—**	**—**	**75,000**
Fair values, EUR thousand					
Forward exchange contracts	**-3,194**	**80**	**-215**	**-26**	**—**
Electricity forward contracts	**-319**	**-218**	**35**	**—**	**—**
Nickel commodity swaps	**—**	**—**	**—**	**—**	**—**
Interest rate swaps	**-142**	**—**	**—**	**—**	**-3,386**

	2020	2021	2022	2023	2024 and later
2019					
Notional amounts					
Forward exchange contracts[1]	4,550,557	803,350	177,828	200	—
Electricity forward contracts[2]	101	48	26	—	—
Nickel commodity swaps[3]	54	—	—	—	—
Interest rate swaps[1]	—	—	—	—	30,000
Fair values, EUR thousand					
Forward exchange contracts	-3,046	-111	23	1	—
Electricity forward contracts	160	117	-5	—	—
Nickel commodity swaps	—	—	—	—	—
Interest rate swaps	-116	—	—	—	-2,103

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

Classification of financial assets and liabilities as at December 31:

EUR thousand	At amortized cost	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value	Fair value level
2020						
Non-current financial assets						
Equity investments	1,405,474	457,656	—	1,863,129	1,863,129	3
Loan receivables	79,978	—	—	79,978	79,978	2
Derivative financial instruments	—	29,095	—	29,095	29,095	2
Total	**1,485,452**	**486,750**	**—**	**1,972,202**	**1,972,202**	
Current financial assets						
Loan receivables	63,651	—	—	63,651	63,651	2
Trade receivables	7,857	—	—	7,857	7,857	2
Derivative financial instruments	—	77,532	—	77,532	77,532	2
Cash and cash equivalents	96,408	—	—	96,408	96,408	2
Total	**167,916**	**77,532**	**—**	**245,448**	**245,448**	

EUR thousand	At amortized cost	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value	Fair value level
2020						
Non-current financial liabilities						
Loans from financial institutions	417,000	—	—	417,000	417,659	2
Derivative financial instruments	—	29,297	3,528	32,825	32,825	2
Total	**417,000**	**29,297**	**3,528**	**449,825**	**450,484**	
Current financial liabilities						
Loans from financial institutions	18,000	—	—	18,000	18,000	2
Trade payables	5,380	—	—	5,380	5,380	2
Derivative financial instruments	—	81,049	—	81,049	81,049	2
Total	**23,380**	**81,049**	**—**	**104,429**	**104,429**	

EUR thousand	At amortized cost	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value	Fair value level
2019						
Non-current financial assets						
Equity investments	1,405,474	1,492	–	1,406,966	1,406,966	3
Loan receivables	96,322	–	–	96,322	96,322	2
Derivative financial instruments	–	6,818	–	6,818	6,818	2
Total	1,501,796	8,310	–	1,510,105	1,510,105	
Current financial assets						
Loan receivables	39,383	–	–	39,383	39,383	2
Trade receivables	8,224	–	–	8,224	8,224	2
Derivative financial instruments	–	28,209	–	28,209	28,209	2
Cash and cash equivalents	161,343	–	–	161,343	161,343	2
Total	208,950	28,209	–	237,159	237,159	

EUR thousand	At amortized cost	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value	Fair value level
2019						
Non-current financial liabilities						
Loans from financial institutions	158,778	–	–	158,778	159,935	2
Derivative financial instruments	–	6,677	2,219	8,896	8,896	2
Total	158,778	6,677	2,219	167,673	168,831	
Current financial liabilities						
Loans from financial institutions	48,111	–	–	48,111	48,111	2
Trade payables	4,334	–	–	4,334	4,334	2
Derivative financial instruments	–	31,095	–	31,095	31,095	2
Total	52,445	31,095	–	83,540	83,540	

12 | Statement of changes in equity

	Year ended Dec 31,	
EUR thousand	**2020**	**2019**
Share capital at beginning of the period	**100,000**	100,000
Share capital at end of the period	**100,000**	100,000
Reserve for invested unrestricted equity at beginning of the period	**426,090**	421,486
Share-based payments	**2,258**	4,604
Reserve for invested unrestricted equity at end of the period	**428,348**	426,090
Hedge and other reserves at beginning of the period	**-1,682**	-1,134
Additions	**-1,027**	-548
Hedge and other reserves at end of the period	**-2,709**	-1,682
Retained earnings at beginning of the period	**739,671**	645,020
Dividends paid	**-119,599**	-97,253
Purchase of treasury shares	**-6,463**	-4,174
Retained earnings at end of the period	**613,609**	543,593
Profit for the period	**186,455**	196,078
Total equity at end of the period	**1,325,703**	1,264,079

Statement of distributable funds:

	As at Dec 31,	
EUR	**2020**	**2019**
Reserve for invested unrestricted equity	**428,348,225.02**	426,089,982.39
Hedge and other reserves	**-2,709,066.50**	-1,682,300.40
Retained earnings	**613,608,877.26**	543,592,872.14
Profit for the period	**186,455,188.79**	196,078,447.45
Total distributable funds	**1,225,703,224.57**	1,164,079,001.58

13 | Non-current liabilities

	As at Dec 31,	
EUR thousand	**2020**	**2019**
Loans from financial institutions	**417,000**	158,778
Derivatives from Group companies	**18,129**	4,296
Derivatives from others	**14,696**	4,600
Non-current liabilities total	**449,825**	167,673

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

EUR thousand	2021	2022	2023	2024	2025 and later
Loans from financial institutions	18,000	322,000	25,692	25,692	43,616
Trade payables and other financial liabilities	5,380	–	–	–	–
Total	**23,380**	**322,000**	**25,692**	**25,692**	**43,616**

EUR thousand	2020	2021	2022	2023	2024 and later
Loans from financial institutions	48,111	39,111	64,111	28,556	27,000
Trade payables and other financial liabilities	4,334	–	–	–	–
Total	52,445	39,111	64,111	28,556	27,000

The information presented in above maturity tables excludes the impact of derivatives.

14 | Current liabilities

	As at Dec 31, 2020			As at Dec 31, 2019		
EUR thousand	**Group companies**	**Others**	**Total**	**Group companies**	**Others**	**Total**
Current portion of non-current loans	—	18,000	**18,000**	—	48,111	48,111
Trade payables to	867	4,513	**5,380**	1,230	3,103	4,334
Accrued expenses and deferred income to	52,660	52,924	**105,584**	17,296	32,285	49,581
Other current interest-bearing debt to	57,998	—	**57,998**	45,793	—	45,793
Group pool accounts	487,365	—	**487,365**	337,662	—	337,662
Other liabilities and provisions to	—	385	**385**	—	474	474
Current liabilities total	**598,890**	**75,822**	**674,713**	401,981	83,973	485,954

Specification of accrued expenses and deferred income:

	As at Dec 31,	
EUR thousand	**2020**	**2019**
Accrued expenses and deferred income to Group companies		
Accrued interest expenses	**19**	37
Derivatives	**52,642**	17,219
Other	**—**	41
Total	**52,660**	17,296
Accrued expenses and deferred income to others		
Accrued interest expenses	**2,149**	1,169
Derivatives	**28,407**	13,877
Accrued salaries, wages and social costs	**3,245**	3,408
Accrued income taxes	**18,919**	13,392
Other	**203**	440
Total	**52,924**	32,285

15 | Other contingencies

Guarantees:

	As at Dec 31,	
EUR thousand	**2020**	**2019**
Guarantees on behalf of Group companies	**937,745**	930,909
Guarantees on own behalf	**–**	205
Total	**937,745**	931,114

Lease commitments:

	As at Dec 31,	
EUR thousand	**2020**	**2019**
Payments in the following year	**782**	756
Payments later	**139**	720
Total	**921**	1,476

LIST OF ACCOUNT BOOKS USED IN PARENT COMPANY

Voucher description	Voucher class	Voucher format
General journal and general ledger		In electronic format
Specifications of accounts receivable and payable		In electronic format
Fixed assets transactions	770, 774, 778, 782, 786	In electronic format
Bank transactions	425, 500–692, 699, 730, 950	In electronic format
Sales invoices	300, 310, 424, 491, 493, 497–499, 802, 930, 940	In electronic format
Purchase invoices	100, 110, 140, 160, 190, 290, 291, 293, 297–299, 801, 824, 830	In electronic format
Travel invoices	755	In electronic format
Salary transactions	750	In electronic format
Journal vouchers	700, 710, 715, 720, 740, 756, 900	In electronic format
Financial transactions	760, 765	In electronic format
Opening balance	791, 792	In electronic format

SIGNATURES OF BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Espoo, February 4, 2021

Mikael Mäkinen
Chairman of the Board

Aaro Cantell
Vice Chairman of the Board

Pekka Kemppainen
Member of the Board

Monika Maurer
Member of the Board

Eriikka Söderström
Member of the Board

Tarja Tyni
Member of the Board

Rogério Ziviani
Member of the Board

Pasi Laine
President and CEO

The Auditor's Note

Our auditor's report has been issued today.

Helsinki, February 4, 2021

PricewaterhouseCoopers Oy
Authorised Public Accountant Firm

Pasi Karppinen
Authorised Public Accountant

AUDITOR'S REPORT (TRANSLATION OF THE FINNISH ORIGINAL)

To the Annual General Meeting of Valmet Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

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

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

What we have audited

We have audited the financial statements of Valmet Oyj (business identity code 2553019-8) for the year ended 31 December 2020. The financial statements comprise:

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

Basis for Opinion

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

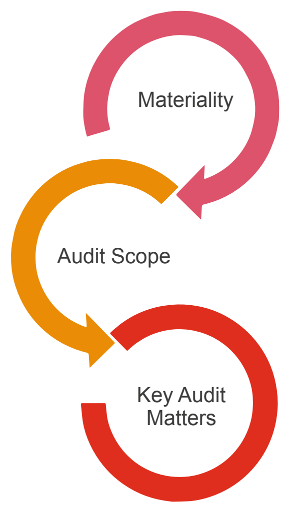
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements. To the best of our knowledge and belief, the non-audit services that we provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 24 to the Financial Statement.

Our Audit Approach

Overview



- Overall group materiality: € 14,5 million, which represents approximately 5% of profit before tax

- We conducted audit work in all major countries covering all key reporting units. The focus of our work was on the most significant reporting units in Finland, Sweden, USA, Brazil and China.

- Accounting for long-term capital projects and long-term service contracts
- Timing of revenue recognition for service contracts and automation business related contracts
- Goodwill valuation

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

Materiality

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

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

Overall group materiality	€ 14,5 million (previous year € 13 million)
How we determined it	Approximately 5% of profit before tax
Rationale for the materiality benchmark applied	Profit before tax is a generally accepted benchmark. We chose 5%, which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates. We conducted audit work in all key countries covering all key reporting units. The group audit scope was focused on the most significant reporting units in Finland, Sweden, USA, Brazil, and China, where we performed an audit of the complete financial information due to their size and their risk characteristics. Additionally, we performed audits of one or more financial statement line items or specified audit procedures at other reporting components based on our overall risk assessment and materiality. We also carried out specific audit procedures over group functions and areas of significant judgement, including taxation, goodwill and material litigation. For the remaining reporting units, we performed other procedures to confirm there were no significant risks of material misstatement in the group financial statements.

Key Audit Matters

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

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

Key audit matter in the audit of the group

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

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

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

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

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

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

How our audit addressed the key audit matter

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

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

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

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

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

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

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

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

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

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

How our audit addressed the key audit matter

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

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

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

Goodwill valuation

Refer to notes 4 and 21 to the consolidated financial statements for the related disclosures.

At 31 December 2020 the group's goodwill balance is valued at 711 million euro which includes 34 million euro goodwill from the business combination in 2020. Under IFRS the company is required to annually test goodwill for impairment. Goodwill valuation was important to our audit due to the size of the goodwill balance and because the assessment of the value in use of the group's Cash Generating Units is complex, involving judgement about the future results of the business by estimating future, EBITDAs and inflation rates and determining the discount rate for the calculations. We focused on the risk that goodwill may be overstated.

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

How our audit addressed the key audit matter

For the business combinations, we assessed the methodology adopted by management for calculating the purchase price, fair values of the acquired assets and liabilities, and the resulting goodwill. We also tested the key assumptions in the valuation models.

We evaluated management's future cash flow forecasts and the process by which they were drawn up, including comparing them to the latest Board approved budgets, and testing the underlying calculations. We evaluated and challenged the company's future cash flow forecasts in a discussion with management of the business involved, and the process by which they were drawn up, and tested the underlying value in use calculations. We compared the current year actual results to the figures for the financial year ended 31 December 2020 included in the prior year impairment models to consider whether any forecasts included assumptions that have proven to be optimistic.

We evaluated and challenged the discount rate used.

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

- the projected EBITDAs
- the discount rate

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Other Reporting Requirements

Appointment

We were first appointed as auditors by the annual general meeting on 26 March 2014. Our appointment represents a total period of uninterrupted engagement of 7 years.

Other Information

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

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

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

In our opinion

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

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

Helsinki 4 February 2021

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pasi Karppinen
Authorised Public Accountant (KHT)

BOARD OF DIRECTORS

Mikael Mäkinen
born 1956, Finnish citizen

Valmet Board Member and Chairman of the Board since 2019
Chairman of the Board's Remuneration and HR Committee
Independent of the company and independent of significant shareholders
M.Sc. (Eng.)
Board Member of Finnlines Oyj

Aaro Cantell
born 1964, Finnish citizen

Valmet Board Member since 2016, Vice Chairman of the Board since 2018
Member of the Board's Remuneration and HR Committee
Independent of the company. Not independent of significant shareholders due to board membership in Solidium Oy.
M.Sc. (Tech.)
Chairman of the Board of Normet Group Oy
Vice-Chairman of the Board in Solidium Oy

Pekka Kemppainen
born 1954, Finnish citizen

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

Monika Maurer
born 1956, German citizen

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

Eriikka Söderström
born 1968, Finnish citizen

Valmet Board Member since 2017
Chairman of the Board's Audit Committee
Independent of the company and independent of significant shareholders
M.Sc. (Econ.)
Chief Financial Officer in F-Secure Corporation
Board member of Bekaert

Tarja Tyni
born 1964, Finnish citizen

Valmet Board member since 2016
Member of the Board's Audit Committee
Independent of the company and independent of significant shareholders
LL.M.
Senior Vice President, Corporates and Private Wealth Management in Mandatum Life Insurance Company Limited
Chairman of the Board of Mandatum Life Investment Services Ltd

Rogério Ziviani
born 1956, Brazilian citizen

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

Personnel representative

Eija Lahti-Jäntti
born 1963, Finnish citizen

Personnel representative since September 1, 2020
MBA
Customer Service Coordinator
Employed by Valmet since 1988

Personnel representative will participate as an invited expert in meetings of the Board of Directors.

Riina Vilander was personnel representative until August 31, 2020.

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

EXECUTIVE TEAM

Pasi Laine
born 1963

President and CEO

M.Sc. (Eng.)

Finnish citizen

Aki Niemi
born 1969

Business Line President, Services

M.Sc. (Eng.)

Finnish citizen

Sami Riekkola
born 1974

Business Line President, Automation

M.Sc. (Eng.)

Finnish citizen

Bertel Karlstedt
born 1962

Business Line President, Pulp and Energy

M.Sc. (Eng.)

Finnish citizen

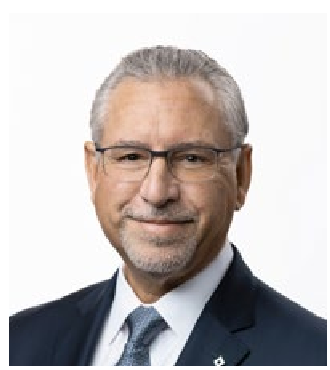
Jari Vähäpesola
born 1959

Business Line President, Paper

M.Sc. (Eng.)

Diploma in International Marketing Management

Finnish citizen



David King
born 1956

Area President, North America

B.Sc. (Eng.)

US citizen

Celso Tacla
born 1964

Area President, South America

MBA

Production Engineer

Chemical Engineer

Brazilian citizen

Vesa Simola
born 1967

Area President, EMEA

M.Sc. (Eng.)

Finnish citizen

Jukka Tiitinen
born 1965

Area President, Asia-Pacific

M.Sc. (Eng.)

Finnish and US citizen

Xiangdong Zhu
born 1967

Area President, China

B.Sc. (Eng.)

MBA

Chinese citizen

Kari Saarinen
born 1961

CFO

M.Sc. (Accounting and Finance)

Finnish citizen

Julia Macharey
born 1977

Senior Vice President, Human Resources and Operational Development

M.Sc. (Econ.)

B.A. (Intercultural Communication)

Finnish citizen

Anu Salonsaari-Posti
born 1968

Senior Vice President, Marketing, Communications, Sustainability and Corporate Relations

M.Sc. (Econ.)

MBA

Finnish citizen

Valmet announced on November 19, 2020, that Jukka Tiitinen, currently Area President, Asia Pacific, has been appointed Area President, North America as of April 1, 2021. David King, the current Area President, North America, has decided to retire as of March 31, 2021, after a long, successful career at Valmet.

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

INFORMATION FOR INVESTORS

WHY INVEST IN VALMET

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

BASIC INFORMATION ON VALMET SHARE

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

Valmet is a global leader in sustainability

Member of
Dow Jones Sustainability Indices
Powered by the S&P Global CSA

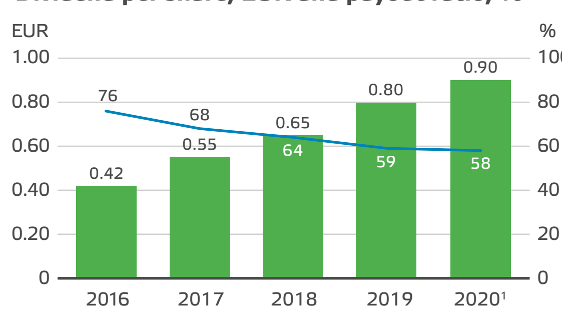
CDP DISCLOSER 2020

MSCI ESG RATINGS AAA
CCC B BB BBB A AA AAA

included in ETHIBEL SUSTAINABILITY INDEX EXCELLENCE Europe

SAM Sustainability Award Bronze Class 2020

Dividend per share, EUR and payout ratio, %



Dividend

Payout ratio, % of net profit

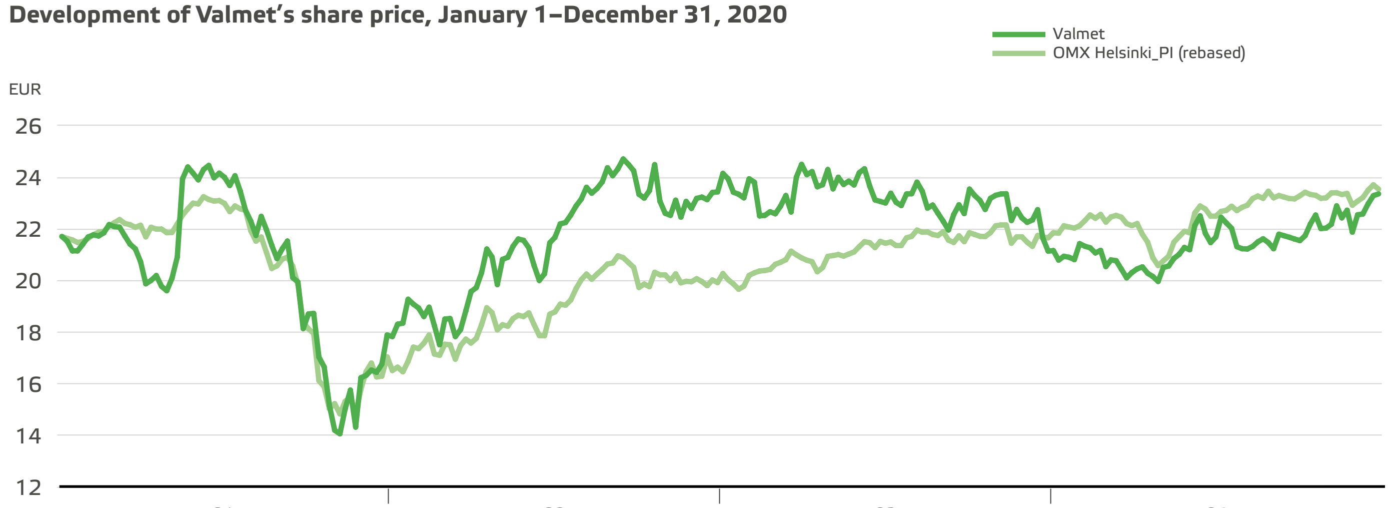
[1] Board of Directors' proposal.

Share capital and share data[1]

	2020	2019	2018
Share capital, December 31, EUR million	**100**	100	100
Number of shares, December 31:			
Number of outstanding shares	**149,490,976**	149,618,523	149,617,820
Treasury shares held by the Parent Company	**373,643**	246,096	246,799
Total number of shares	**149,864,619**	149,864,619	149,864,619
Average number of outstanding shares	**149,499,114**	149,604,375	149,649,501
Average number of diluted outstanding shares	**149,499,114**	149,604,375	149,649,501
Trading volume on Nasdaq Helsinki Ltd.[2]	**162,711,000**	152,595,590	102,204,539
% of total shares for public trading	**109**	102	68
Earnings per share, EUR	**1.54**	1.35	1.01
Earnings per share, diluted, EUR	**1.54**	1.35	1.01
Dividend per share, EUR	**0.90[3]**	0.80	0.65
Dividend, EUR million	**135[3]**	120	97
Dividend payout ratio	**58%[3]**	59%	64%
Effective dividend yield	**3.9%[3]**	3.7%	3.6%
Price to earnings ratio (P/E)	**15.1**	15.9	17.8
Equity per share, EUR	**7.90**	6.95	6.31
Highest share price, EUR	**25.20**	25.14	20.94
Lowest share price, EUR	**13.33**	15.55	15.50
Volume-weighted average share price, EUR	**21.15**	20.46	17.77
Share price, December 31, EUR	**23.36**	21.36	17.95
Market capitalization, December 31, EUR million	**3,501**	3,201	2,690

[1] The formulas for calculation of the figures are presented in the section 'Formulas for Calculation of Indicators'.
[2] In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Cboe CXE, Cboe BXE and Turquoise. A total of approximately 106 million Valmet shares were traded on alternative marketplaces in 2020, which equals to approximately 39 percent of the share's total trade volume (Bloomberg).
[3] Board of Directors' proposal.

Development of Valmet's share price, January 1–December 31, 2020



Q1

Feb 5 Financial Statements Review 2019
Feb 5 Valmet raises its financial targets
Mar 17 Valmet cancels the Annual General Meeting and postpones it to a later date

Major orders booked in Q1:
- Key pulp mill technology and automation to Brazil
- Coated board making line to China
- Complete steam boiler plant to Austria

Q2

Apr 16 Valmet withdraws its guidance for 2020 due to COVID-19
Apr 23 Interim Review January–March 2020
June 16 Annual General Meeting
June 17 Valmet acquires 14.9% ownership in Neles
June 25 Dividend payout

Major orders booked in Q2:
- Fine paper making line to China
- Biomass-fired boiler plant to Finland
- Hot water plant to Sweden

Q3

July 23 Half Year Financial Review, January–June 2020
Sep 29 Valmet proposes a statutory merger between Valmet and Neles to the Board of Directors of Neles

Major orders booked in Q3:
- Fine paper making line to China
- Container board making line to China
- Extensive paper machine grade conversion rebuild to Turkey

Q4

Oct 13 Valmet issues a guidance for 2020
Oct 27 Interim Review, January–September 2020

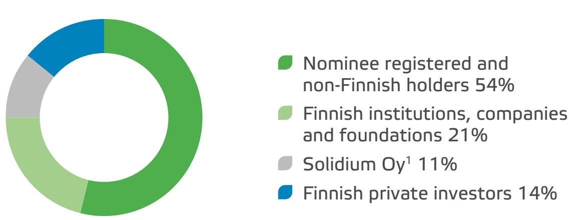
Major orders booked in Q4:
- Paper machine grade conversion rebuild to the United States
- Container board making line to China
- New flash drying and baling line and CTMP rebuild to Sweden

Development of Valmet's share price since listing, January 2, 2014–December 31, 2020

Shareholders

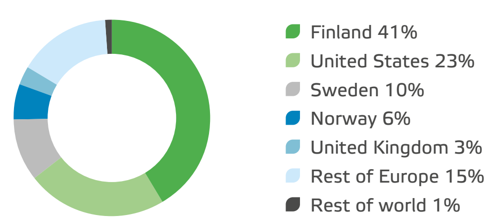
The number of registered shareholders at the end of December 2020 was 54,178 (45,965).

Distribution of shareholding by sector, %



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

Shares held by institutional investors per geography



Source: Modular Finance, indicative.

VALMET'S SHAREHOLDER STRUCTURE AT THE END OF 2020

Largest shareholders on December 31, 2020

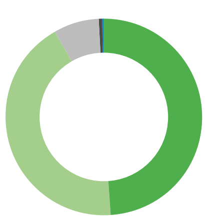
		Shares	% of share capital
1	Solidium Oy[1]	16,695,287	11.14%
2	Ilmarinen Mutual Pension Insurance Company	4,390,000	2.93%
3	Elo Mutual Pension Insurance Company	2,823,044	1.88%
4	OP Funds	2,760,472	1.84%
5	Varma Mutual Pension Insurance Company	2,087,465	1.39%
6	The State Pension Fund	1,794,910	1.20%
7	Nordea Funds	1,030,011	0.69%
8	Danske Invest funds	850,000	0.57%
9	Sigrid Jusélius Foundation	526,865	0.35%
10	Evli Finnish Small Cap Fund	521,000	0.35%
11	The Finnish Cultural Foundation	520,123	0.35%
12	Mandatum Life Insurance Company Limited	502,441	0.34%
13	Investment fund Aktia Capital	500,000	0.33%
14	Evli Europe Fund	494,530	0.33%
15	Veritas Pension Insurance Company Ltd.	460,000	0.31%

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

Flagging notifications in 2020

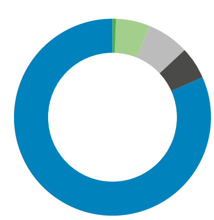
During the review period, Valmet did not receive flagging notifications referred to in the Securities Market Act. Valmet is not aware of any nominee registered shareholders with a holding of 5% or more in Valmet as at December 31, 2020.

Distribution of shareholders by number of shares held, %



- 1–100 (49.1%)
- 101–1,000 (42.7%)
- 1,001–10,000 (7.5%)
- 10,001–100,000 (0.6%)
- 100,001– (0.1%)

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



- 1–100 (0.8%)
- 101–1,000 (5.5%)
- 1,001–10,000 (6.8%)
- 10,001–100,000 (5.5%)
- 100,001– (81.4%)

Holdings of the Board of Directors in Valmet Oyj on December 31, 2020

		Shares
Mäkinen, Mikael	Chairman of the Board	3,642
Cantell, Aaro	Vice Chairman of the Board	6,608
Kemppainen, Pekka	Member of the Board	2,944
Maurer, Monika	Member of the Board	2,944
Söderström, Eriikka	Member of the Board	4,074
Tyni, Tarja	Member of the Board	5,870
Ziviani, Rogério	Member of the Board	10,057
Total		**36,139**
% of outstanding shares		**0.02%**

Holdings of the Executive Team in Valmet Oyj on December 31, 2020

		Shares
Laine, Pasi	President and CEO	149,380
Karlstedt, Bertel	Business Line President, Pulp and Energy	35,329
King, David	Area President, North America	29,741
Macharey, Julia	SVP, Human Resources and Operational Development	30,442
Niemi, Aki	Business Line President, Services	55,269
Riekkola, Sami	Business Line President, Automation	9,483
Saarinen, Kari	CFO	44,778
Salonsaari-Posti, Anu	SVP, Marketing, Communications, Sustainability and Corporate Relations	25,141
Simola, Vesa	Area President, EMEA	44,192
Tacla, Celso	Area President, South America	81,992
Tiitinen, Jukka	Area President, Asia-Pacific	84,461
Vähäpesola, Jari	Business Line President, Paper	52,559
Zhu, Xiangdong	Area President, China	22,087
Total		**664,854**
% of outstanding shares		**0.44%**

INVESTOR RELATIONS

Pulp & Energy Investor Day webinar for investors and analysts in November 2020.

INVESTOR RELATIONS IN 2020

MEETINGS AND EVENTS

~300

INVESTORS MET

~450

ROADSHOW DAYS

34

Mission and goal

The main task of Valmet's Investor Relations is to ensure that the markets have correct and sufficient information for determining the value of Valmet's share. Investor Relations is responsible for planning and executing financial and investor communications and takes care of all investor inquiries. In addition to Financial Statements, Interim Reviews, the investor website, stock exchange releases and press releases, Valmet's investor communication involves investor meetings, seminars, webcasts, news conferences of result publications, site visits and general meetings. Valmet also arranges Capital Markets Days for institutional investors and analysts.

Valmet's investor website and social media channels

Valmet's investor website provides a comprehensive set of information about Valmet's business environment, strategy, business lines and financial performance. In addition to financial reports, presentations, webcast recordings and interactive share and ownership monitors, the website features videos and the IR Director's blog for more topics tailored to investors' interests. In 2020, Valmet's investor website was awarded as the best in Finland in a contest arranged by the Finnish Foundation for Share Promotion and the Finnish Society of Financial Analysts.

Valmet's investor social media channels are @ValmetIR in Twitter, and @valmet_sijoituskohteena in Instagram for the Finnish speaking audience. The number of the social media followers developed favorably in 2020, more than doubling from last year to over 1,200 followers.

Silent period

Valmet observes a 21-day silent period prior to the publication of financial results. During this time, Valmet does not comment on the company's financial situation, markets or outlook, and Valmet's executives or employees do not meet with representatives of capital markets or financial media.

Investor relations in 2020

In 2020, Valmet held ca. 300 investor meetings and conference calls, which were participated by ca. 450 institutional investors. During the 1st quarter of 2020, Valmet met with investors in London, Paris, Frankfurt, Copenhagen, Oslo and Helsinki. After the COVID-10 pandemic breakout, investor meetings and events took place virtually.

In November, Valmet arranged an Investor Day focused on its Pulp and Energy business. The live webcast had participants across Europe. The recording of the webcast is available at Valmet's investor website together with an interview video of the presenters, in which the main topics of the event are covered briefly.

FREQUENTLY ASKED QUESTIONS

How big is Valmet's market share?
Valmet has a leading market position: it is globally either #1, #2 or #3 in all markets it serves. As a provider of board and paper making technology, Valmet's market share is ca. 40 percent, and in tissue ca. 35 percent. In these businesses, Valmet is the global market leader. As a supplier of pulp manufacturing technology, Valmet has a ca. 40 percent market share, and in energy ca. 20 percent. In automation, Valmet's market share is ca. 20 percent in the pulp and paper market, and ca. 10 percent in other process industries. In services, where the market is more fragmented, Valmet's market share is ca. 17 percent.

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

What are Valmet's long-term financial targets?
Valmet raised its financial targets on February 5, 2020. In stable business (Services and Automation business lines) Valmet targets net sales growth that is over two times the market growth. In capital business (Paper, and Pulp and Energy business lines), growth should exceed market growth. Valmet's profitability target is a comparable EBITA margin of 10–12 percent. The targeted comparable return on capital employed (pre-tax ROCE) is at least 20 percent. As for dividend, Valmet targets to pay out at least 50 percent of net profit.

Analyst coverage

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

Company	Analyst
Carnegie Investment Bank	Tom Skogman
Danske Bank	Antti Suttelin
DNB Markets	Tomi Railo
Evli Research	Joonas Ilvonen
Handelsbanken	Timo Heinonen
Inderes	Antti Viljakainen
Jyske Bank	Morten Holm Enggaard
Kepler Cheuvreux	Johan Eliason
Morgan Stanley	Robert J. Davies
Nordea Markets	Manu Rimpelä
OP Corporate Bank	Anssi Raussi
SEB	Antti Kansanen
UBS	Sven Weier

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

Financial calendar 2021

February 4, 2021	Financial Statements Review for 2020
March 10, 2021	Capital Markets Day
March 23, 2021	Annual General Meeting
April 1, 2021	Silent period begins
April 22, 2021	Interim Review for January–March 2021
July 1, 2021	Silent period begins
July 22, 2021	Half Year Financial Review for January–June 2021
October 5, 2021	Silent period begins
October 26, 2021	Interim Review for January–September 2021

The calendar is available on Valmet's investor website.

Valmet Investor Relations

Pekka Rouhiainen
Director, Investor Relations
Tel. +358 10 672 0020
pekka.rouhiainen@valmet.com

Tuuli Oja
Manager, Investor Relations
Tel. +358 10 672 0352
tuuli.oja@valmet.com

Karin Mattila
Investor Relations Coordinator
Tel. +358 10 672 0973
karin.mattila@valmet.com

PARHAAT SIJOITTAJASIVUT –KILPAILU | #1

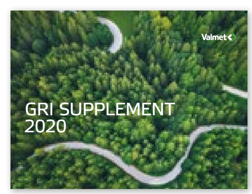
BEST PRACTICE AWARDS 2020 SHORTLISTED

IR magazine Nominee Europe Awards 2020

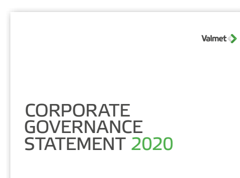
VALMET REPORTS 2020

ANNUAL REVIEW 2020
The report covers Valmet's market environment and the progress of its strategy, operations and sustainability in 2020.

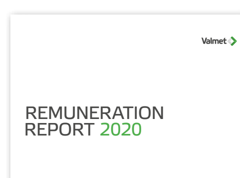
FINANCIAL STATEMENTS 2020 AND INFORMATION FOR INVESTORS
The report includes Valmet's Financial Statements for 2020 and information about its share, shareholders and management.



GRI SUPPLEMENT 2020
The report includes Valmet's sustainability reporting indicators and principles, and its alignment with the Global Reporting Initiative (GRI) Standards framework in 2020.



CORPORATE GOVERNANCE STATEMENT 2020
The report covers Valmet's governance principles and activities, Board of Directors and management in 2020.



REMUNERATION REPORT 2020
The report covers Valmet's remuneration principles and remuneration in 2020.

CONTACTS

VISITING ADDRESS
Valmet Oyj
Keilasatama 5
FI-02150 Espoo, Finland

POSTAL ADDRESS
Valmet Oyj
P.O. Box 11
FI-02151 Espoo, Finland

Tel. +358 (0)10 672 0000

firstname.lastname@valmet.com

WWW.VALMET.COM

MEDIA CONTACTS
media@valmet.com

INVESTOR RELATIONS
ir@valmet.com

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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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Miltton Oy

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Valmet Oyj
Keilasatama 5 / P.O. Box 11
FI-02150 ESPOO, FINLAND
www.valmet.com