Financial Statements Review

January 1 – December 31, 2020

Valmet

Valmet's Financial Statements Review January 1 – December 31, 2020

Net sales amounted to EUR 3,740 million and Comparable EBITA increased to EUR 365 million in 2020

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

October–December 2020: Orders received decreased and Comparable EBITA increased

- Orders received decreased 7 percent to EUR 940 million (EUR 1,009 million).
  - Orders received increased in the Paper business line, remained at the previous year's level in the Automation business line, and decreased in the Services, and Pulp and Energy business lines.
  - Orders received increased in China and Asia-Pacific, and decreased in South America, EMEA (Europe, Middle East and Africa) and North America.
- Net sales increased 6 percent to EUR 1,167 million (EUR 1,103 million).
  - Net sales increased in the Paper business line, remained at the previous year's level in the Services, and Automation business lines, and decreased in the Pulp and Energy business line.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 146 million (EUR 118 million), and the corresponding Comparable EBITA margin was 12.5 percent (10.7%).
  - Comparable EBITA increased due to higher net sales and lower selling, general and administration (SG&A) expenses.
- Earnings per share were EUR 0.67 (EUR 0.54).
- Items affecting comparability amounted to EUR 0 million (EUR 1 million).
- Cash flow provided by operating activities was EUR 114 million (EUR 182 million).

January–December 2020: Comparable EBITA increased

- Orders received decreased 8 percent to EUR 3,653 million (EUR 3,986 million).
  - 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.
- Net sales amounted to EUR 3,740 million (EUR 3,547 million).
  - 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.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 365 million (EUR 316 million), and the corresponding Comparable EBITA margin was 9.8 percent (8.9%).
  - Comparable EBITA increased due to higher net sales and lower SG&A expenses.
- Earnings per share were EUR 1.54 (EUR 1.35).
- Items affecting comparability amounted to EUR -10 million (EUR -1 million).
- Cash flow provided by operating activities was EUR 532 million (EUR 295 million).

Dividend proposal

The Board of Directors proposes for the Annual General Meeting that a dividend of EUR 0.90 per share be paid. The proposed dividend equals to 58 percent of the net result.

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 market outlook

Valmet estimates that the short-term market outlook in automation has improved to good (previously good/satisfactory), the short-term market outlook in tissue has improved to good (previously satisfactory), and the short-term market outlook in energy has decreased to weak (previously satisfactory). Valmet reiterates the good short-term market outlook for pulp, and board and paper, and the satisfactory/weak short-term market outlook for services.

President and CEO Pasi Laine: Comparable EBITA increased for the seventh consecutive year

"Valmet’s orders received amounted to EUR 3.65 billion in 2020. Orders received remained at the previous year’s level of over EUR 1 billion in Paper, and decreased in the Pulp and Energy and Services business lines. Automation orders received, including package sales to capital projects, remained at the previous year's level. While the COVID-19 related travel restrictions and lower capacity utilization in graphical paper mills had a negative impact on Services order intake, the pandemic did not cause major impacts on Valmet’s capital business. In 2020, the market activity was especially strong in China, where 2020 was a record year for Valmet.

Our net sales amounted to EUR 3.74 billion in 2020. Net sales increased in the capital business and remained at previous year’s level in the stable business. Comparable EBITA increased 16 percent to EUR 365 million. This represents 9.8 percent of net sales, close to our new target range of 10–12 percent. Our whole organization performed well during this exceptional year and found new ways to operate. Many new digital tools and solutions to do business and serve our customers were introduced, and they can be utilized to improve Valmet's and customers' processes also after the pandemic.

In recent years, Valmet has followed its acquisition strategy of making well-considered acquisitions with a clear industrial logic. In 2020, Valmet strengthened its board and tissue technology offering by acquiring PMP Group in Poland. The former PMP’s offering of small and medium-sized tissue machines and board and paper machine rebuilds complements Valmet’s offering for wide and fast machines and rebuilds. In June 2020, Valmet acquired a 14.9 percent ownership in Neles and gradually increased its ownership to 29.5 percent of the company. The potential merger of Valmet and Neles would create a Nordic-based global leader with a unique offering for global process industries and with excellent potential for long-term shareholder value creation.

Valmet's business is supported by favorable megatrends, we have a solid order backlog and have been able to improve our profitability every year since the demerger at the end of 2013. Valmet is starting the year 2021 from a good position."

Key figures[1]

EUR million	Q4/2020	Q4/2019	Change	2020	2019	Change
Orders received	**940**	1,009	-7%	**3,653**	3,986	-8%
Order backlog[2]	**3,257**	3,333	-2%	**3,257**	3,333	-2%
Net sales	**1,167**	1,103	6%	**3,740**	3,547	5%
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	**146**	118	24%	**365**	316	16%
% of net sales	**12.5%**	10.7%		**9.8%**	8.9%	
Earnings before interest, taxes and amortization (EBITA)	**147**	119	23%	**355**	315	13%
% of net sales	**12.6%**	10.8%		**9.5%**	8.9%	
Operating profit (EBIT)	**135**	110	23%	**319**	281	13%
% of net sales	**11.6%**	9.9%		**8.5%**	7.9%	
Profit before taxes	**133**	105	26%	**307**	269	14%
Profit for the period	**100**	81	24%	**231**	202	15%
Earnings per share, EUR	**0.67**	0.54	24%	**1.54**	1.35	15%
Earnings per share, diluted, EUR	**0.67**	0.54	24%	**1.54**	1.35	15%
Equity per share, EUR[2]	**7.60**	6.95	9%	**7.60**	6.95	9%
Cash flow provided by operating activities	**114**	182	-37%	**532**	295	81%
Cash flow after investments	**40**	161	-75%	**-60**	58	
Return on equity (ROE) (annualized)				**21%**	20%	
Return on capital employed (ROCE) before taxes (annualized)				**22%**	23%	
Equity to assets ratio[2]				**39%**	41%	
Gearing[2]				**13%**	-9%	

[1] *The calculation of key figures is presented on page 49.*
[2] *At end of period.*

Orders received, EUR million	Q4/2020	Q4/2019	Change	2020	2019	Change
Services	**342**	395	-13%	**1,356**	1,459	-7%
Automation	**96**	96	1%	**334**	359	-7%
Pulp and Energy	**291**	320	-9%	**934**	1,125	-17%
Paper	**211**	199	6%	**1,029**	1,043	-1%
Total	**940**	1,009	-7%	**3,653**	3,986	-8%

Order backlog, EUR million	As at Dec 31, 2020	As at Dec 31, 2019	Change	As at Sep 30, 2020
Total	**3,257**	3,333	-2%	3,311

Net sales, EUR million	Q4/2020	Q4/2019	Change	2020	2019	Change
Services	**402**	400	0%	**1,327**	1,374	-3%
Automation	**117**	120	-3%	**335**	341	-2%
Pulp and Energy	**286**	315	-9%	**1,003**	919	9%
Paper	**362**	267	36%	**1,076**	913	18%
Total	**1,167**	1,103	6%	**3,740**	3,547	5%

News conference and webcast for analysts, investors and media

Valmet will arrange a news conference in English as a live webcast at https://valmet.videosync.fi/2020-q4 on Thursday, February 4, 2021 at 2:00 p.m. Finnish time (EET). President and CEO Pasi Laine and CFO Kari Saarinen will be presenting the results.

Recording of the webcast will be available shortly after the event at the same address.

It is possible to take part in the news conference through a conference call. Conference call participants are requested to dial in at least five minutes prior to the start of the conference at

United Kingdom +44 3333000804
France +33 170750711
Germany +49 6913803430
Norway +47 23500243
Sweden +46 856642651
United States +1 6319131422

The participants will be asked to provide the following conference PIN: 86044798#. All questions should be presented in English.

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

Due to COVID-19 pandemic, the news conference cannot be attended in person.

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Orders received decreased 8 percent in 2020

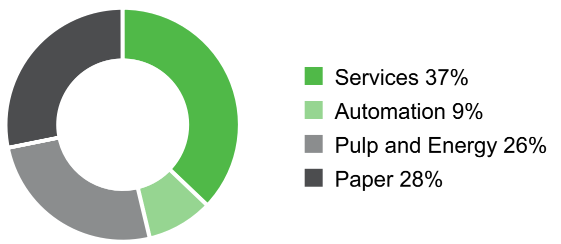
Orders received, EUR million	Q4/2020	Q4/2019	Change	2020	2019	Change
Services	**342**	395	-13%	**1,356**	1,459	-7%
Automation	**96**	96	1%	**334**	359	-7%
Pulp and Energy	**291**	320	-9%	**934**	1,125	-17%
Paper	**211**	199	6%	**1,029**	1,043	-1%
Total	**940**	1,009	-7%	**3,653**	3,986	-8%

Orders received, comparable foreign exchange rates, EUR million[1]	Q4/2020	Q4/2019	Change	2020	2019	Change
Services	**356**	395	-10%	**1,395**	1,459	-4%
Automation	**100**	96	5%	**345**	359	-4%
Pulp and Energy	**293**	320	-8%	**975**	1,125	-13%
Paper	**215**	199	8%	**1,039**	1,043	0%
Total	**964**	1,009	-4%	**3,754**	3,986	-6%

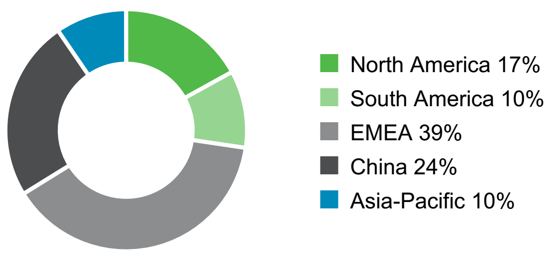
[1] *Indicative only. January–December 2020 orders received in euro calculated by applying January–December 2019 average exchange rates to the functional currency orders received values reported by entities.*

Orders received, EUR million	Q4/2020	Q4/2019	Change	2020	2019	Change
North America	**257**	322	-20%	**621**	880	-29%
South America	**20**	55	-64%	**378**	670	-44%
EMEA	**347**	492	-29%	**1,420**	1,690	-16%
China	**227**	57	>100%	**885**	267	>100%
Asia-Pacific	**89**	84	6%	**349**	479	-27%
Total	**940**	1,009	-7%	**3,653**	3,986	-8%

Orders received by business line, 2020



Orders received by area, 2020



October–December 2020: Orders received decreased 7 percent

Orders received decreased 7 percent to EUR 940 million (EUR 1,009 million) in October–December. The Services and Automation business lines together accounted for 47 percent (49%) of Valmet's orders received. Orders received increased in the Paper business line, remained at the previous year's level in the Automation business line, and decreased in the Services, and Pulp and Energy business lines.

Orders received increased in China and Asia-Pacific, and decreased in South America, EMEA and North America. Measured by orders received, the top three countries were the USA, China and Finland, which together accounted for 64 percent of total orders received. The emerging markets accounted for 39 percent (27%) 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 24 million in October–December.

During October–December, Valmet received among others an order for a new flash drying and baling line and CTMP rebuild to Sweden, typically valued at EUR 40–50 million, an order for a containerboard making line to China, an order for a paper machine grade conversion rebuild to the United States and an order for a boiler plant to Finland.

January–December 2020: Orders received remained at the previous year's level in the Paper business line and decreased in all the other business lines

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. Measured by orders received, the top three countries were China, the USA and Finland, which together accounted for 50 percent of total 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 year 2020.

In addition to the above-mentioned, in year 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 at the same level as at the end of 2019

Order backlog, EUR million	**As at December 31, 2020**	As at December 31, 2019	Change	As at September 30, 2020
Total	**3,257**	3,333	-2%	3,311

Order backlog at the end of the reporting period amounted to EUR 3,257 million, which is at the same level as at the end of September 2020 and at the end of December 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 December 2019, approximately 70% was expected to be realized as net sales during 2020).

Net sales amounted to EUR 3,740 million in 2020

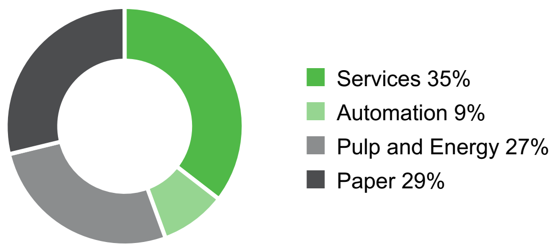
Net sales, EUR million	Q4/2020	Q4/2019	Change	2020	2019	Change
Services	**402**	400	0%	**1,327**	1,374	-3%
Automation	**117**	120	-3%	**335**	341	-2%
Pulp and Energy	**286**	315	-9%	**1,003**	919	9%
Paper	**362**	267	36%	**1,076**	913	18%
Total	**1,167**	1,103	6%	**3,740**	3,547	5%

Net sales, comparable foreign exchange rates, EUR million[1]	Q4/2020	Q4/2019	Change	2020	2019	Change
Services	**416**	400	4%	**1,357**	1,374	-1%
Automation	**121**	120	0%	**343**	341	1%
Pulp and Energy	**302**	315	-4%	**1,044**	919	14%
Paper	**373**	267	40%	**1,096**	913	20%
Total	**1,212**	1,103	10%	**3,840**	3,547	8%

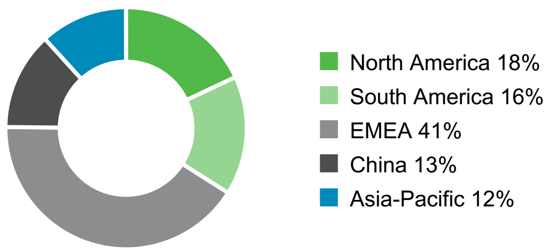
[1] *Indicative only. January–December 2020 net sales in euro calculated by applying January–December 2019 average exchange rates to the functional currency net sales values reported by entities.*

Net sales, EUR million	Q4/2020	Q4/2019	Change	2020	2019	Change
North America	**197**	207	-5%	**676**	774	-13%
South America	**159**	155	3%	**595**	368	62%
EMEA	**490**	490	0%	**1,540**	1,566	-2%
China	**195**	122	60%	**489**	465	5%
Asia-Pacific	**127**	129	-2%	**440**	375	17%
Total	**1,167**	1,103	6%	**3,740**	3,547	5%

Net sales by business line, 2020



Net sales by area, 2020



October–December 2020: Net sales increased 6 percent

Net sales increased 6 percent to EUR 1,167 million (EUR 1,103 million) in October–December. The Services and Automation business lines together accounted for 44 percent (47%) of Valmet's net sales. Net sales increased in the Paper business line, remained at the previous year's level in the Services, and Automation business lines, and decreased in the Pulp and Energy business line.

Net sales increased in China, and remained at the previous year's level in South America, EMEA, Asia-Pacific and North America. Measured by net sales, the top three countries were China, the USA and Brazil, which together accounted for 41 percent of total net sales. Emerging markets accounted for 46 percent (44%) 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 45 million in October–December.

January–December 2020: Net sales increased in the capital business and remained at the previous year's level in the stable business

Net sales amounted to EUR 3,740 million (EUR 3,547 million) in year 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 total 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 year 2020.

Comparable EBITA and operating profit

In October–December, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 146 million, i.e. 12.5 percent of net sales (EUR 118 million and 10.7%). Comparable EBITA increased due to higher net sales and lower selling, general and administration (SG&A) expenses.

In 2020, 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 October–December was EUR 135 million, i.e. 11.6 percent of net sales (EUR 110 million and 9.9%). Items affecting comparability amounted to EUR 0 million (EUR 1 million).

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 the fourth quarter or in 2020.

Net financial income and expenses

Net financial income and expenses in October–December were EUR -3 million (EUR -3 million). In 2020, net financial income and expenses were EUR -11 million (EUR -11 million).

Profit before taxes and earnings per share

Profit before taxes for October–December was EUR 133 million (EUR 105 million). The profit attributable to owners of the parent in October–December was EUR 100 million (EUR 81 million), corresponding to earnings per share (EPS) of EUR 0.67 (EUR 0.54).

In 2020, profit before taxes 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 the fourth quarter or 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 decreased and net sales remained at the previous year's level in Q4/2020

Services business line	**Q4/2020**	Q4/2019	Change	**2020**	2019	Change
Orders received (EUR million)	**342**	395	-13%	**1,356**	1,459	-7%
Net sales (EUR million)	**402**	400	0%	**1,327**	1,374	-3%
Personnel (end of period)				**6,027**	6,461	-7%

In October–December, orders received by the Services business line decreased 13 percent to EUR 342 million (EUR 395 million). Services accounted for 36 percent (39%) of all orders received. Orders received increased in China, remained at the previous year's level in South America and decreased in Asia-Pacific, EMEA and North America. Orders received remained at the previous year’s level in Rolls, and Fabrics and decreased in Energy and Environmental, Mill Improvements and Performance Parts. COVID-19 related travel restrictions and lower capacity utilization in graphical paper mills had a negative impact on Services' orders received. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 14 million.

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. COVID-19 related travel restrictions and lower capacity utilization in graphical paper mills had a negative impact on Services' orders received. 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 402 million (EUR 400 million) in October–December, corresponding to 34 percent (36%) 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 14 million.

In 2020, net sales for the Services business line amounted to EUR 1,327 million (EUR 1,374 million), corresponding to 35 percent (39%) of Valmet’s net sales. COVID-19 related travel restrictions and lower capacity utilization in graphical paper mills had a negative impact on Services' 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.

Automation: Orders received and net sales remained at the previous year's level in Q4/2020

Automation business line	**Q4/2020**	Q4/2019	Change	**2020**	2019	Change
Orders received (EUR million)	**96**	96	1%	**334**	359	-7%
Net sales (EUR million)	**117**	120	-3%	**335**	341	-2%
Personnel (end of period)				**1,917**	1,908	0%

In October–December, orders received by the Automation business line remained at the previous year's level and amounted to EUR 96 million (EUR 96 million). Automation accounted for 10 percent (9%) of all orders received. Orders received increased in China and South America, remained at the previous year's level in EMEA, and decreased in Asia-Pacific and North America. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 4 million.

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 117 million (EUR 120 million) in October–December, corresponding to 10 percent (11%) 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 4 million.

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

Pulp and Energy: Orders received and net sales decreased in Q4/2020

Pulp and Energy business line	**Q4/2020**	Q4/2019	Change	**2020**	2019	Change
Orders received (EUR million)	**291**	320	-9%	**934**	1,125	-17%
Net sales (EUR million)	**286**	315	-9%	**1,003**	919	9%
Personnel (end of period)				**1,814**	1,788	1%

In October–December, orders received by the Pulp and Energy business line decreased 9 percent to EUR 291 million (EUR 320 million). Pulp and Energy accounted for 31 percent (32%) of all orders received. Orders received increased in China and Asia-Pacific, remained at the previous year's level in South America and decreased in North America and EMEA. 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 2 million.

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 (28%) of all orders received. 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 286 million (EUR 315 million) in October–December, corresponding to 25 percent (29%) 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 16 million.

In 2020, net sales for the Pulp and Energy business line amounted to EUR 1,003 million (EUR 919 million), 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 and net sales increased in Q4/2020

Paper business line	**Q4/2020**	Q4/2019	Change	**2020**	2019	Change
Orders received (EUR million)	**211**	199	6%	**1,029**	1,043	-1%
Net sales (EUR million)	**362**	267	36%	**1,076**	913	18%
Personnel (end of period)				**3,731**	2,908	28%

In October–December, orders received by the Paper business line increased 6 percent to EUR 211 million (EUR 199 million) and accounted for 22 percent (20%) of all orders received. Orders received increased in China and Asia-Pacific, remained at the previous year's level in North America, and decreased in South America and EMEA. Orders received increased in Board and Paper, and decreased in Tissue. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 4 million.

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 362 million (EUR 267 million) in October–December, corresponding to 31 percent (24%) 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 11 million.

In 2020, net sales for the Paper business line amounted to EUR 1,076 million (EUR 913 million), 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 114 million (EUR 182 million) in October–December and 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 -46 million (EUR 45 million) in October–December and 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 40 million (EUR 161 million) in October–December, and EUR -60 million (EUR 58 million) in 2020. The acquisition of PMP Group had a cash flow impact of EUR -48 million in the fourth quarter. 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 December, 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 EUR 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 24 million (EUR 22 million) in October–December, of which maintenance investments were EUR 9 million (EUR 12 million).

In 2020, gross capital expenditure (excluding business combinations and leased assets) totaled EUR 89 million (EUR 79 million), 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.

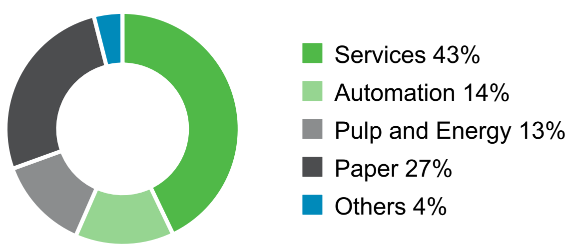
Valmet develops competitive, leading production and automation technologies and services. To enhance raw material, water and energy efficiency in its customers’ production processes, Valmet combines digitalization, process technology, automation and services. Valmet also develops solutions for replacing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

Number of personnel

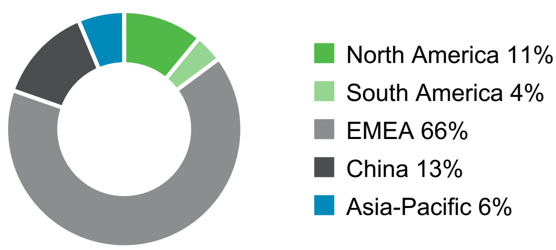
Personnel by business line	As at December 31, 2020	As at December 31, 2019	Change	As at September 30, 2020
Services	**6,027**	6,461	-7%	6,093
Automation	**1,917**	1,908	0%	1,908
Pulp and Energy	**1,814**	1,788	1%	1,820
Paper	**3,731**	2,908	28%	3,050
Other	**557**	533	5%	563
Total	**14,046**	13,598	3%	13,434

Personnel by area	As at December 31, 2020	As at December 31, 2019	Change	As at September 30, 2020
North America	**1,542**	1,700	-9%	1,522
South America	**542**	548	-1%	553
EMEA	**9,202**	8,654	6%	8,684
China	**1,872**	1,797	4%	1,788
Asia-Pacific	**888**	899	-1%	887
Total	**14,046**	13,598	3%	13,434

Personnel by business line as at December 31, 2020



Personnel by area as at December 31, 2020



During 2020, Valmet employed an average of 13,615 people (13,235). 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.

Progress in sustainability

In 2020, Valmet maintained its position among the world's sustainability leaders and was included in the Dow Jones Sustainability Indices (DJSI) and Ethibel Sustainability Index (ESI) Excellence Europe. Valmet also received an A- leadership rating in CDP's climate program ranking. During the year, Valmet continued to implement the actions defined in the current action plan, which is ongoing for 2019–2021. The progress was good, despite the exceptional operating environment due to the COVID-19 pandemic.

Valmet's Sustainability360° agenda covers the five most material sustainability focus areas: a sustainable supply chain; health, safety and environment; people and performance; sustainable solutions; and corporate citizenship. The agenda is aligned with the United Nations Sustainable Development Goals and is executed through three-year action plans.

Sustainability integrated into procurement and supply chain

Valmet has integrated sustainability in its procurement and supply chain processes, and the target is to continuously enhance the supply chain management and value chain's transparency. During the year, Valmet continued to support its suppliers to develop their operations to become more sustainable and to execute and further develop existing key processes to enhance sustainability in the supply chain.

Valmet directed its efforts to ensuring the supply chain functionality and cost effectiveness during the COVID-19 pandemic, implementing the key supplier sustainability program, piloting remote auditing and advancing supplier collaboration to reduce CO2 emissions in purchasing.

In 2020, Valmet conducted 34 supplier sustainability audits in eight countries with a certified third-party auditor. The target of 40 yearly audits was not reached because of the COVID-19 pandemic. However, in the geographical areas where the restrictions allowed to conduct on-site audits, Valmet made solid progress. Valmet also piloted remote supplier sustainability auditing with two service suppliers in the indirect purchasing category. Of all corrective actions agreed with suppliers in 2020, 37 percent had been completed and verified by the end of the year.

Working together continued to be a strength

Valmet continues to use the OurVoice employee survey to systematically develop engagement. The OurVoice survey runs every second year, allowing enough time to analyze results, define focus areas and take required actions. Completion of high-level actions was 90 percent for the 2019 survey. The next OurVoice survey is set for the fall of 2021.

Towards the end of the year, Valmet conducted its first ever pulse survey to understand how Valmet is faring during these unprecedented times. The survey themes were working together, keeping connected, managing well-being and staying engaged. The overall results were at a good level – with approximately 75 percent or more of respondents reacting favorably to nearly all the questions. Working together continued to be a strength, followed by the company's efforts to keep people safe and healthy. The response rate for the survey was 61 percent globally.

People development continued with an increased portion of training coming in the form of digital learning, especially in areas such as cyber security, working virtually, process management and HSE (health, safety and environment). Manager development continued with face-to-face deliveries of Forward for Managers 2 training program, which has reached 64 percent of Valmet managers even though the COVID-19 slowed down the pace due to social distancing and travel restrictions. Valmet also ran three global programs – Innovation Pathways, and two different editions of Excellence in Project Management, which support the development of Valmet's strategic capabilities.

Enhancing human rights globally

Valmet continued to work on its human rights compliance due diligence framework and achieved its target of three conducted local human rights impact assessments in 2020, one year ahead of the target time. The assessments have been executed in Thailand, Indonesia and China by an independent third party. The findings were mainly related to employee engagement, health, safety and environmental management, and sustainable supply chain management. At the end of 2020, 100 percent of the corrective actions had been completed and verified in both Indonesia and China.

In 2020, Valmet updated its Code of Conduct. The Code guides the behavior and decisions of Valmet's employees and its partners and creates a uniform foundation for all business transactions and work assignments. To support the implementation of the updated Code in everyone's daily work, Valmet produced a new e-learning course that is obligatory for all employees.

Valmet started to implement its new long-term social responsibility program in 2020 with Save the Children to support their Child Sensitive Social Protection project in Dungarpur, India. The objectives are to increase school attendance and retention, reduce child poverty, improve care for orphans and other vulnerable children, and reduce child labor and malnutrition.

Sustainable safety development

Valmet constantly invests in safety culture, effective processes, and collaboration with customers and partners as it aims to achieve the goal of zero harm to people and environment. In 2020, about 24,000 HSE observations were made, and more than 1,800 manager safety walks and conversations took place. To ensure sustainable safety development, Valmet continued to work with safety issues locally through safety programs, including coaching, training, communication and injury prevention activities. The efforts were successful, and Valmet made good progress, achieving 1.5 (2.2) in lost time incident frequency rate (LTIF) for own employees and LTIF 2.5 (5.7) for external workers.

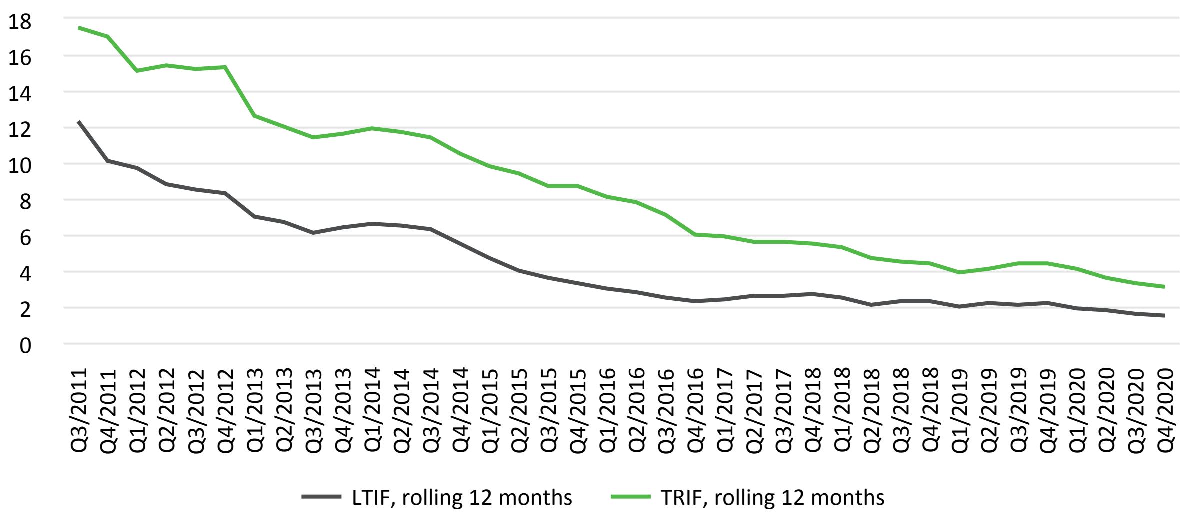
Despite Valmet's efforts and progress in safety, a fatal workplace injury occurred in Valmet's location in Ovar, Portugal at the beginning of the year. Valmet conducted a thorough incident investigation and corrective actions have now been implemented. In addition, Valmet held lessons learned sessions across the company to avoid similar events in the future.

To further develop Valmet's safety and continuous improvement culture, a new reporting portal was introduced during the year where employees, customers, suppliers and other stakeholders can register HSE and quality incidents, observations and improvement ideas in Valmet workplaces, including customer sites.

When the COVID-19 pandemic started, Valmet established a global framework with an incident management team structure and common guidelines, and ensured the implementation of precautionary measures and best practices to protect all as the situation evolved. Valmet also took actions to implement safety protocols throughout the company for customer sites, workplaces and business travel.

The implementation of Valmet's global Safety Dialogue training, launched in 2019, proceeded during the year. The aim is that every Valmet team member is committed to safety and understands their role as a manager and an employee to enforce a safety culture throughout the organization. 75 percent of Valmet's employees had participated in the training by the end of 2020.

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



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

Lawsuits and claims

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

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

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

Corporate Governance Statement and Remuneration Report

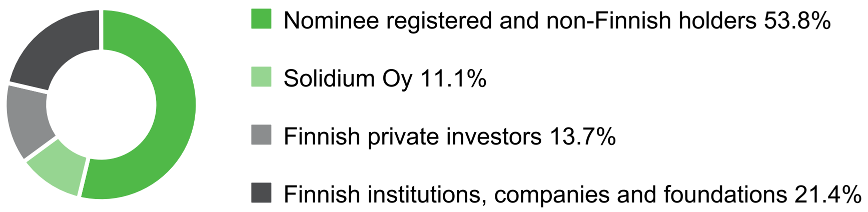
Valmet has published a separate Corporate Governance Statement and a Remuneration Report for 2019, which comply with the recommendations of the Finnish Corporate Governance Code for listed companies. These reports also cover other central areas of corporate governance, and they have been published on Valmet's website, separately from the Report of the Board of Directors, at www.valmet.com/governance.

Shares and shareholders

Share capital, number of shares and shareholders

	As at December 31, 2020	As at December 31, 2019
Share capital, EUR	**100,000,000**	100,000,000
Number of shares	**149,864,619**	149,864,619
Treasury shares	**373,643**	246,096
Shares outstanding	**149,490,976**	149,618,523
Market capitalization, EUR million	**3,501**	3,201
Number of shareholders	**54,178**	45,965

Shareholder structure as at December 31, 2020



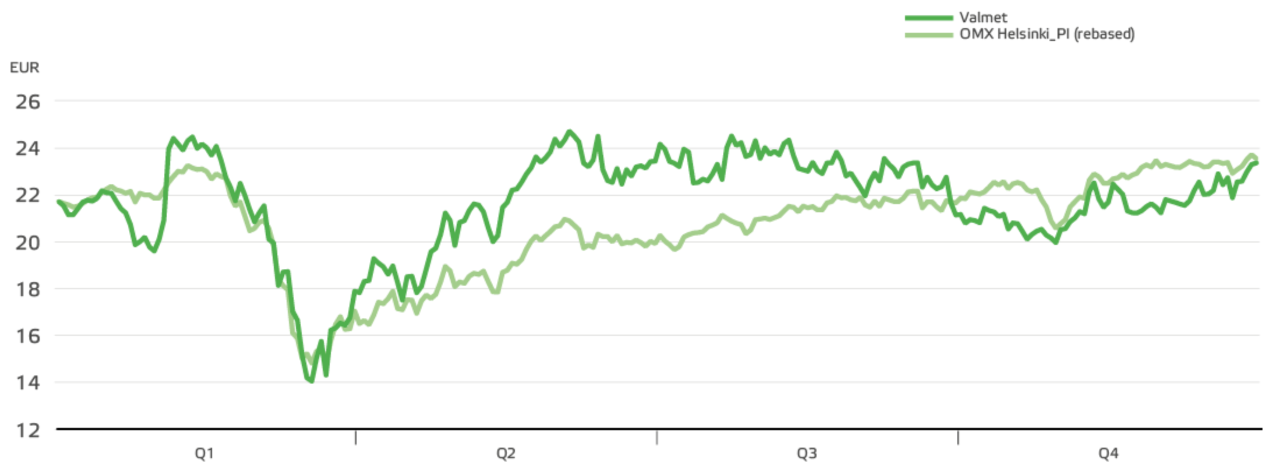
Trading of shares

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 31, 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).

Development of Valmet's share price, December 31, 2019 – December 31, 2020



Flagging notifications

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

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

Board authorizations regarding share repurchase and share issue

Valmet Oyj's Annual General Meeting on 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'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.

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 in automation has improved to good (previously good/satisfactory), the short-term market outlook in tissue has improved to good (previously satisfactory), and the short-term market outlook in energy has decreased to weak (previously satisfactory). Valmet reiterates the good short-term market outlook for pulp, and board and paper, and the satisfactory/weak short-term market outlook for services.

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

Consolidated statement of income

EUR million	Q4/2020	Q4/2019	2020	2019
Net sales	1,167	1,103	3,740	3,547
Cost of goods sold	-894	-840	-2,844	-2,688
Gross profit	274	263	896	859
Selling, general and administrative expenses	-144	-163	-571	-588
Other operating income and expenses, net	5	9	-8	10
Share in profits and losses of associated companies, operative investments	1	1	2	—
Operating profit	135	110	319	281
Financial income and expenses, net	-3	-3	-11	-11
Share in profits and losses of associated companies, financial investments	—	-1	-2	-1
Profit before taxes	133	105	307	269
Income taxes	-32	-24	-75	-67
Profit for the period	100	81	231	202
Attributable to:				
Owners of the parent	100	81	231	201
Non-controlling interests	—	—	—	1
Profit for the period	100	81	231	202
Earnings per share attributable to owners of the parent:				
Earnings per share, EUR	0.67	0.54	1.54	1.35
Diluted earnings per share, EUR	0.67	0.54	1.54	1.35

Consolidated statement of comprehensive income

EUR million	Q4/2020	Q4/2019	2020	2019
Profit for the period	**100**	81	**231**	202
Items that may be reclassified to profit or loss:				
Cash flow hedges	**14**	11	**25**	8
Currency translation on subsidiary net investments	**3**	-2	**-24**	2
Share of other comprehensive income of associated companies accounted for using equity method	**-2**	—	**-2**	—
Income tax relating to items that may be reclassified	**-3**	-2	**-5**	-2
Total items that may be reclassified to profit or loss	**12**	6	**-6**	8
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	**7**	44	**-5**	-13
Income tax relating to items that will not be reclassified	**-2**	-10	**1**	3
Total items that will not be reclassified to profit or loss	**5**	34	**-5**	-10
Other comprehensive income for the period	**16**	40	**-11**	-2
Total comprehensive income for the period	**117**	121	**221**	200
Attributable to:				
Owners of the parent	**117**	121	**221**	200
Non-controlling interests	**—**	—	**—**	1
Total comprehensive income for the period	**117**	121	**221**	200

Consolidated statement of financial position

Assets

EUR million	As at December 31, 2020	As at December 31, 2019
Non-current assets		
Intangible assets		
Goodwill	**711**	687
Other intangible assets	**272**	253
Total intangible assets	**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	**441**	429
Other non-current assets		
Investments in associated companies	**468**	13
Non-current financial assets	**23**	8
Deferred tax assets	**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	**553**	514
Receivables and other current assets		
Trade receivables	**602**	656
Amounts due from customers under revenue contracts	**229**	262
Other current financial assets	**124**	59
Income tax receivables	**28**	27
Other receivables	**133**	108
Cash and cash equivalents	**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	As at December 31, 2020	As at December 31, 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	**1,137**	1,040
Non-controlling interests	**6**	6
Total equity	**1,142**	1,046
Liabilities		
Non-current liabilities		
Non-current debt	**417**	159
Non-current lease liabilities	**40**	39
Post-employment benefits	**201**	190
Provisions	**47**	31
Other non-current liabilities	**18**	8
Deferred tax liabilities	**65**	66
Total non-current liabilities	**789**	492
Current liabilities		
Current portion of non-current debt	**18**	48
Current lease liabilities	**22**	22
Trade payables	**372**	354
Provisions	**164**	142
Amounts due to customers under revenue contracts	**1,002**	913
Other current financial liabilities	**29**	14
Income tax liabilities	**65**	66
Other current liabilities	**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

EUR million	Q4/2020	Q4/2019	2020	2019
Cash flows from operating activities				
Profit for the period	**100**	81	**231**	202
Adjustments				
Depreciation and amortization	**29**	27	**106**	105
Financial income and expenses	**3**	3	**11**	11
Income taxes	**32**	24	**75**	67
Other non-cash items	**10**	15	**27**	8
Change in net working capital	**-46**	45	**160**	-40
Net interests and dividends received	**1**	2	**-3**	-3
Income taxes paid	**-15**	-15	**-75**	-55
Net cash provided by (+) / used in (-) operating activities	**114**	182	**532**	295
Cash flows from investing activities				
Capital expenditure on fixed assets	**-24**	-22	**-89**	-79
Proceeds from sale of fixed assets	**—**	1	**1**	6
Business combinations, net of cash acquired and loans repaid	**-48**	—	**-48**	-163
Investments in associated companies	**-3**	—	**-456**	—
Net cash provided by (+) / used in (-) investing activities	**-74**	-21	**-592**	-237
Cash flows from financing activities				
Redemption of own shares	**—**	—	**-6**	-4
Dividends paid	**—**	—	**-120**	-97
Proceeds from non-current debt	**—**	—	**329**	45
Repayments of non-current debt	**—**	—	**-101**	-40
Repayments of lease liabilities	**-6**	-8	**-26**	-25
Change in current debt	**-20**	-50	**—**	—
Financial investments	**-1**	2	**-48**	1
Net cash provided by (+) / used in (-) financing activities	**-27**	-56	**28**	-120
Net increase (+) / decrease (-) in cash and cash equivalents	**13**	105	**-32**	-62
Effect of changes in exchange rates on cash and cash equivalents	**-3**	-2	**-10**	2
Cash and cash equivalents at beginning of period	**264**	213	**316**	376
Cash and cash equivalents at end of the period	**274**	316	**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	—	—	-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	—	—	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.*

Basis of preparation

General information

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

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

These condensed consolidated interim financial statements were approved for issue on February 4, 2021.

Basis of presentation

These condensed consolidated interim financial statements for the twelve months ended December 31, 2020, have been prepared in accordance with IAS 34 – Interim financial reporting and in conformity with IFRS as adopted by the European Union. The financial information presented in these condensed consolidated interim financial statements has not been audited. These condensed consolidated interim financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS.

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

Except for the above, the accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019.

In these condensed consolidated interim financial statements, the figures are presented in million euros subject to rounding, which may cause some rounding inaccuracies in aggregate column and row totals.

Key exchange rates

	Average rates		Period-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

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.

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 income and expenses in the Consolidated statement of income in January–December 2020.

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

Reporting segments and geographic information

The Group's Chief Operating Decision Maker (CODM) is the President and CEO of Valmet. Valmet's four business lines are highly integrated through complementing product and service offerings and joint customer projects. Thus, the operations and profitability of Valmet is reported 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, income and expenses incurred outside Valmet's normal course of business, such as impairment charges and gains or losses recorded as a result of settlement payments to/ from third parties (e.g. penalties incurred as a result of tax audits or settlements to closed law suits) as well as income and expenses arising from changes in legislation expected to affect Valmet temporarily only (e.g. customs or other tariffs imposed by authorities on Valmet's products).

EUR million	**Q4/2020**	Q4/2019	**2020**	2019
Net sales	**1,167**	1,103	**3,740**	3,547
Comparable EBITA	**146**	118	**365**	316
% of net sales	**12.5%**	10.7%	**9.8%**	8.9%
Operating profit	**135**	110	**319**	281
% of net sales	**11.6%**	9.9%	**8.5%**	7.9%
Amortization	**-11**	-9	**-36**	-34
Depreciation, property, plant and equipment (excl. leased assets)	**-12**	-12	**-47**	-48
Depreciation, leased assets	**-6**	-6	**-24**	-23
Gross capital expenditure (excl. business combinations and leased assets)	**-24**	-22	**-89**	-79
Additions to leased assets	**-3**	-9	**-27**	-27
Business combinations, net of cash acquired and loans repaid	**-48**	—	**-48**	-163
Investments in associated companies	**-3**	—	**-456**	—
Capital employed, end of period			**1,639**	1,314
Orders received	**940**	1,009	**3,653**	3,986
Order backlog, end of period			**3,257**	3,333

Reconciliation between Comparable EBITA, EBITA and Operating profit

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**	-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 for Finland (the country of domicile) amounted EUR 362 million in 2020 (EUR 298 million).

Net sales by destination:

2020: EUR 3,740 million

2019: EUR 3,547 million

Gross capital expenditure (excl. 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

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:

EUR million	Q4/2020	Q4/2019	2020	2019
Services	**402**	400	**1,327**	1,374
Automation	**117**	120	**335**	341
Pulp and Energy	**286**	315	**1,003**	919
Paper	**362**	267	**1,076**	913
Total	**1,167**	1,103	**3,740**	3,547

Timing of revenue recognition:

EUR million	Q4/2020	Q4/2019	2020	2019
Performance obligations satisfied at a point in time	**487**	501	**1,586**	1,576
Performance obligations satisfied over time	**681**	602	**2,154**	1,971
Total	**1,167**	1,103	**3,740**	3,547

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

EUR million	As at December 31, 2020	As at December 31, 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 fulfill 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).

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.

EUR million	As at December 31, 2020	As at December 31, 2019	2020 impact
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**

Intangible assets and property, plant and equipment

Intangible assets

EUR million	2020	2019[1]
Carrying value at beginning of the period	**941**	818
Translation differences	**-15**	1
Capital expenditure	**29**	23
Acquired in business combinations	**61**	144
Amortization charges for the period	**-33**	-34
Impairment losses	**-1**	—
Other changes and disposals	**1**	-11
Carrying value at end of the period	**983**	941

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

Property, plant and equipment (excl. leased assets)

EUR million	2020	2019
Carrying value at beginning of the period	**365**	348
Translation differences	**-9**	1
Capital expenditure	**60**	57
Acquired in business combinations	**8**	10
Depreciation charges for the period	**-47**	-48
Impairment losses	**—**	-2
Other changes and disposals	**-1**	-1
Carrying value at end of the period	**375**	365

Leases

EUR million	2020	2019
Carrying value at beginning of the period / at transition[1]	65	55
Translation differences	-2	—
Additions	27	27
Acquired in business combinations	2	7
Depreciation	-24	-23
Other changes	-3	-1
Carrying value at end of the period	**66**	65

[1] *Includes reclassification of leased land areas in the amount of EUR 8 million from intangible assets at transition in 2019.*

EUR million	As at December 31, 2020
Not later than 1 year	22
Later than 1 year and not later than 2 years	16
Later than 2 years and not later than 3 years	10
Later than 3 years and not later than 4 years	6
Later than 4 years and not later than 5 years	4
Later than 5 years	10
Total future lease payments	**67**

EUR million	Q4/2020	Q4/2019	2020	2019
Expenses related to short-term leases	-1	-1	-4	-4
Expenses related to leases of low-value assets	-2	-1	-5	-5
Expenses related to lease payments not included in lease liabilities	—	—	-1	-1
Total	**-3**	-3	**-10**	-9

Interest expenses on lease liabilities amounted to EUR 2 million in 2020 (EUR 2 million).

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.

Valmet’s and Neles’ financial statements are coterminous, but as Neles publishes its financial statements at or near the same time as Valmet, Valmet’s share of Neles’ results are accounted for with a lag of one quarter. Consequently, Valmet’s financial statements for the year ended December 31, 2020, include Valmet's share of Neles' third-quarter result. Valmet's investment in Neles did not have a material impact on Valmet's 2020 financial result.

Financial instruments

Derivative financial instruments

As at December 31, 2020	**Notional amount**	**Fair value, assets**	**Fair value, liabilities**	**Fair value, net**
Forward exchange contracts[1]	**2,792**	**67**	**-39**	**28**
Interest rate swaps[1]	**75**	**1**	**-4**	**-4**
Electricity forward contracts[2]	**165**	**—**	**-1**	**—**
Nickel forward contracts[3]	**24**	**—**	**—**	**—**

As at December 31, 2019	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts[1]	2,909	21	-17	4
Interest rate swaps[1]	30	—	-2	-2
Electricity forward contracts[2]	175	—	—	—
Nickel forward contracts[3]	54	—	—	—

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

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

Interest-bearing and non-interest-bearing financial instruments

EUR million	As at December 31, 2020	As at December 31, 2019
Non-current financial assets		
Interest-bearing	**—**	—
Non-interest-bearing	**22**	8
Total	**23**	8

EUR million	As at December 31, 2020	As at December 31, 2019
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.

Provisions

EUR million	2020	2019
Balance at beginning of the period	**173**	149
Translation differences	**-3**	—
Additions charged to profit or loss	**136**	100
Acquired in business combinations	**1**	12
Used reserve	**-63**	-54
Reversal of reserve	**-32**	-34
Balance at end of the period	**211**	173
Non-current	**47**	31
Current	**164**	142

Contingencies and commitments

EUR million	As at December 31, 2020	As at December 31, 2019
Guarantees on behalf of Valmet Group	**1,032**	998

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

Key ratios

	2020	2019
Earnings per share, EUR	**1.54**	1.35
Diluted earnings per share, EUR	**1.54**	1.35
Equity per share at end of period, EUR	**7.60**	6.95
Return on equity (ROE), % (annualized)	**21%**	20%
Return on capital employed (ROCE) before taxes, % (annualized)	**22%**	23%
Equity to assets ratio at end of period, %	**39%**	41%
Gearing at end of period, %	**13%**	-9%
Cash flow provided by operating activities, EUR million	**532**	295
Cash flow after investments, EUR million	**-60**	58
Gross capital expenditure (excl. business combinations and leased assets), EUR million	**-89**	-79
Additions to leased assets, EUR million	**-27**	-27
Business combinations, net of cash acquired and loans repaid, EUR million	**-48**	-163
Investments in associated companies	**-456**	—
Depreciation and amortization, EUR million	**-106**	-105
Amortization	**-36**	-34
Depreciation, property, plant and equipment (excl. leased assets)	**-47**	-48
Depreciation, leased assets	**-24**	-23
Number of outstanding shares at end of period	**149,490,976**	149,618,523
Average number of outstanding shares	**149,499,114**	149,604,375
Average number of diluted shares	**149,499,114**	149,604,375
Interest-bearing liabilities at end of period, EUR million	**497**	268
Net interest-bearing liabilities at end of period, EUR million	**149**	-90

Formulas for calculation of indicators

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

EBITA:
Operating profit + amortization

Comparable EBITA[1]:
Operating profit + amortization +/- items affecting comparability

Earnings per share:

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

Earnings per share, diluted:

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

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), % (annualized):

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

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

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

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

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

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

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

Quarterly information

EUR million	Q4/2020	Q3/2020	Q2/2020	Q1/2020	Q4/2019
Net sales	**1,167**	832	919	821	1,103
Comparable EBITA	**146**	91	76	52	118
% of net sales	**12.5%**	10.9%	8.3%	6.3%	10.7%
Operating profit	**135**	79	62	42	110
% of net sales	**11.6%**	9.5%	6.8%	5.1%	9.9%
Profit before taxes	**133**	75	60	40	105
% of net sales	**11.4%**	9.0%	6.5%	4.9%	9.5%
Profit for the period	**100**	57	44	30	81
% of net sales	**8.6%**	6.9%	4.8%	3.6%	7.3%
Earnings per share, EUR	**0.67**	0.38	0.29	0.20	0.54
Earnings per share, diluted, EUR	**0.67**	0.38	0.29	0.20	0.54
Amortization	**-11**	-8	-8	-9	-9
Depreciation, property, plant and equipment (excl. leased assets)	**-12**	-12	-12	-12	-12
Depreciation, leased assets	**-6**	-6	-6	-6	-6
Research and development expenses, net	**-22**	-15	-20	-17	-21
% of net sales	**-1.9%**	-1.9%	-2.2%	-2.1%	-1.9%
Items affecting comparability:					
in cost of goods sold	**-4**	—	-3	-1	-6
in selling, general and administrative expenses	**—**	-3	-3	—	1
in other operating income and expenses, net	**2**	—	—	—	7
in share in profits and losses of associated companies, operative investments	**3**	—	—	—	—
Total items affecting comparability	**—**	-3	-6	-1	1
Gross capital expenditure (excl. business combinations and leased assets)	**-24**	-21	-27	-17	-22
Additions to leased assets	**-3**	-4	-10	-9	-9
Business combinations, net of cash acquired and loans repaid	**-48**	—	—	—	—
Investments in associated companies	**-3**	-453	—	—	—
Capital employed, end of period	**1,639**	1,541	1,327	1,256	1,314
Orders received	**940**	700	826	1,187	1,009
Order backlog, end of period	**3,257**	3,311	3,492	3,557	3,333

Valmet's financial reporting in 2021

April 22, 2021 - Interim Review for January–March 2021
July 22, 2021 - Half Year Financial Review for January–June 2021
October 26, 2021 - Interim Review for January–September 2021

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