Financial Statements

and information for investors **2021**

Contents

Report of the Board of Directors January–December 2021

Governance

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

Corporate Governance Statement and Remuneration Report

Valmet has published a separate Corporate Governance Statement and a Remuneration Report for 2021, which comply with the recommendations of the Finnish Corporate Governance Code for listed companies. The statements also cover other central areas of corporate governance. The statements have been published on Valmet's website, separately from the Board of Directors' Report, at www.valmet.com/governance.

Annual General Meeting

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

The Board of Directors

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

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

President and CEO

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

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

Important notice

On July 2, 2021, Valmet announced that the Boards of Directors of Valmet Oyj and Neles Corporation have signed a combination agreement and a merger plan to combine the two companies through a merger.

The merger of Valmet and Neles Corporation ("Neles") and the merger consideration securities have not been and will not be registered under the U.S. Securities Act of 1933 (the "U.S. Securities Act"), and may not be offered, sold or delivered within or into the United States, except pursuant to an applicable exemption of, or in a transaction not subject to, the U.S. Securities Act.

The information in this report is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of, or located in, any locality, state, country or other jurisdiction where such distribution or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction and it does not constitute an offer of or an invitation by or on behalf of, Valmet, or any other person, to purchase any securities.

Valmet's results in 2021

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

Key figures[1]

EUR million	2021	2020	2019
Orders received	**4,740**	3,653	3,986
Order backlog[2]	**4,096**	3,257	3,333
Net sales	**3,935**	3,740	3,547
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	**429**	365	316
% of net sales	**10.9%**	9.8%	8.9%
Earnings before interest, taxes and amortization (EBITA)	**448**	355	315
% of net sales	**11.4%**	9.5%	8.9%
Operating profit (EBIT)	**399**	319	281
% of net sales	**10.1%**	8.5%	7.9%
Profit before taxes	**395**	307	269
Profit for the period	**296**	231	202
Earnings per share, EUR	**1.98**	1.54	1.35
Earnings per share, diluted, EUR	**1.98**	1.54	1.35
Equity per share[2], EUR	**8.87**	7.60	6.95
Dividend per share, EUR	**1.20**[3]	0.90	0.80
Cash flow provided by operating activities	**482**	532	295
Cash flow after investments	**382**	-60	58
Return on equity (ROE)	**24%**	21%	20%
Return on capital employed (ROCE) before taxes	**24%**	22%	23%
Equity to assets ratio[2]	**42%**	39%	41%
Gearing[2]	**-7%**	13%	-9%

[1] The calculation of key figures is presented in the section 'Formulas for calculation of indicators'.
[2] At the end of period.
[3] Board of Directors' proposal.

Orders received increased 30 percent to EUR 4,740 million in 2021

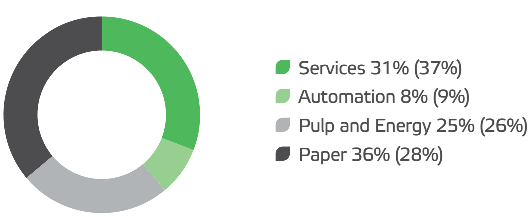
Orders received, EUR million	2021	2020	Change
Services	**1,488**	1,356	10%
Automation	**381**	334	14%
Pulp and Energy	**1,178**	934	26%
Paper	**1,694**	1,029	65%
Total	**4,740**	3,653	30%

Orders received, comparable foreign exchange rates, EUR million[1]	2021	2020	Change
Services	**1,495**	1,356	10%
Automation	**384**	334	15%
Pulp and Energy	**1,182**	934	27%
Paper	**1,694**	1,029	65%
Total	**4,756**	3,653	30%

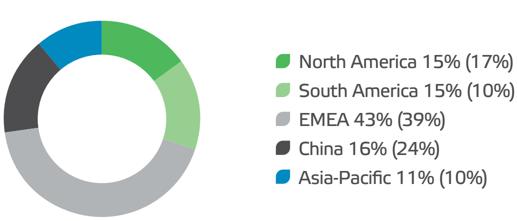
[1] Indicative only. January to December 2021 orders received in euro calculated by applying January to December 2020 average exchange rates to the functional currency orders received values reported by entities.

Orders received, EUR million	2021	2020	Change
North America	**725**	621	17%
South America	**696**	378	84%
EMEA	**2,022**	1,420	42%
China	**755**	885	-15%
Asia-Pacific	**544**	349	56%
Total	**4,740**	3,653	30%

Orders received by business line, %



Orders received by area, %



Orders received increased 30 percent to EUR 4,740 million (EUR 3,653 million) in 2021. The Services and Automation business lines together accounted for 39 percent (46%) of Valmet's orders received. Orders received increased in all business lines.

Orders received increased in South America, Asia-Pacific, EMEA (Europe, Middle East and Africa) and North America and decreased in China. Measured by orders received, the top three countries were China, Finland and Brazil, which together accounted for 42 percent of orders received. The emerging markets accounted for 52 percent (49%) of orders received.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 decreased orders received by approximately EUR 15 million in 2021.

In 2021, Valmet received among others an order for all main process islands and automation for a bioproduct mill in Finland, valued at about EUR 350–400 million, an order for a major pulp and board technology delivery to Brazil, typically valued at around EUR 320–360 million, an order for coated board and fine paper making lines to China, typically valued at around EUR 190–220 million, an order for coated board making and BCTMP production lines to Asia, typically valued at around EUR 200 million, an order for a major technology and automation delivery for a pulp mill's modernization project in Brazil, an order for key pulp technology to China, typically valued at around EUR 140 million, an order for a container board making line to Turkey, typically valued at around EUR 90–110 million, an order for an extensive recycled fiber line and paper machine grade conversion rebuild in Germany, typically valued at around EUR 90–100 million, an order for a biomass power boiler and a flue gas cleaning system to Japan, typically valued at around EUR 70 million, and tissue line orders from Turkey, China and Russia.

Order backlog amounted to EUR 4.1 billion

Order backlog, EUR million	As at Dec 31, 2021	2020	Change
Total	**4,096**	3,257	26%

Order backlog amounted to EUR 4,096 million at the end of the reporting period, and was 26 percent higher than at the end of 2020. Approximately 25 percent of the order backlog relates to stable business (Services and Automation business lines, approximately 25% at the end of December 2020). Approximately 70 percent of the order backlog is currently expected to be realized as net sales during 2022 (at the end of 2020, approximately 75% was expected to be realized as net sales during 2021).

Net sales amounted to EUR 3,935 million in 2021

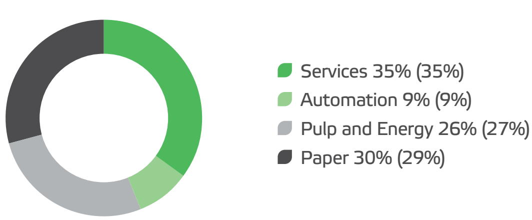
Net sales, EUR million	2021	2020	Change
Services	**1,366**	1,327	3%
Automation	**339**	335	1%
Pulp and Energy	**1,036**	1,003	3%
Paper	**1,195**	1,076	11%
Total	**3,935**	3,740	5%

Net sales, comparable foreign exchange rates, EUR million[1]	2021	2020	Change
Services	**1,373**	1,327	4%
Automation	**341**	335	2%
Pulp and Energy	**1,034**	1,003	3%
Paper	**1,192**	1,076	11%
Total	**3,940**	3,740	5%

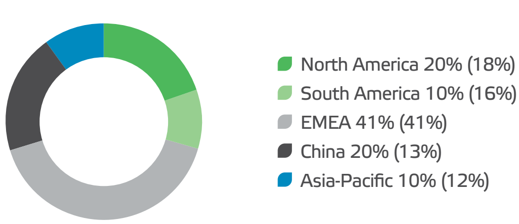
[1] Indicative only. January to December 2021 net sales in euro calculated by applying January to December 2020 average exchange rates to the functional currency net sales values reported by entities.

Net sales, EUR million	2021	2020	Change
North America	**780**	676	15%
South America	**384**	595	-35%
EMEA	**1,614**	1,540	5%
China	**780**	489	59%
Asia-Pacific	**377**	440	-14%
Total	**3,935**	3,740	5%

Net sales by business line, %



Net sales by area, %



Net sales amounted to EUR 3,935 million (EUR 3,740 million) in 2021. The Services and Automation business lines together accounted for 43 percent (44%) of Valmet's net sales. Net sales increased in the Paper business line, and remained at the previous year's level in the Pulp and Energy, Services and Automation business lines.

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

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 decreased net sales by approximately EUR 5 million in 2021.

Comparable EBITA and Operating profit increased

In 2021, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 429 million, i.e. 10.9 percent of net sales (EUR 365 million and 9.8%). Comparable EBITA increased due to higher gross profit.

Operating profit (EBIT) in 2021 was EUR 399 million, i.e. 10.1 percent of net sales (EUR 319 million and 8.5%). Items affecting comparability amounted to EUR 19 million (EUR -10 million).

Valmet's investment in Neles was not included in Comparable EBITA and it had no material impact on EBIT in 2021.

Net financial income and expenses

Net financial income and expenses in 2021 were EUR -3 million (EUR -11 million).

Profit before taxes and Earnings per share increased

Profit before taxes in 2021 was EUR 395 million (EUR 307 million). The profit attributable to owners of the parent was EUR 296 million (EUR 231 million), corresponding to earnings per share (EPS) of EUR 1.98 (EUR 1.54). Valmet's investment in Neles had no material impact on the financial result in 2021.

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

In 2021, the return on capital employed (ROCE) before taxes was 24 percent (22%) and return on equity (ROE) 24 percent (21%).

Business lines

Services: Orders received totaled EUR 1,488 million in 2021

Services business line	2021	2020	Change
Orders received (EUR million)	**1,488**	1,356	10%
Net sales (EUR million)	**1,366**	1,327	3%
Personnel (end of period)	**5,958**	6,027	-1%

In 2021, orders received by the Services business line increased 10 percent to EUR 1,488 million (EUR 1,356 million). Services accounted for 31 percent (37%) of all orders received. Orders received increased in all areas except for EMEA, where orders received remained at the previous year's level. Orders received increased in all businesses except for Rolls, where orders received remained at the previous year's level. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 decreased orders received by approximately EUR 8 million.

Net sales for the Services business line amounted to EUR 1,366 million (EUR 1,327 million) in 2021, corresponding to 35 percent (35%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 decreased net sales by approximately EUR 7 million.

COVID-19 related travel restrictions and lower capacity utilization in graphical paper mills impacted Services' business environment during 2021. Towards the end of the year, the Services business line was affected by reduced component availability and longer delivery times of certain components.

Automation: Orders received totaled EUR 381 million in 2021

Automation business line	2021	2020	Change
Orders received (EUR million)	**381**	334	14%
Net sales (EUR million)	**339**	335	1%
Personnel (end of period)	**1,986**	1,917	4%

In 2021, orders received by the Automation business line increased 14 percent to EUR 381 million (EUR 334 million). Automation accounted for 8 percent (9%) of Valmet's orders received. Orders received increased in all areas except for South America, where orders received remained at the previous year's level. Orders received increased in Pulp and Paper and remained at the previous year's level in Energy and Process. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 decreased orders received by approximately EUR 2 million.

Net sales for the Automation business line amounted to EUR 339 million (EUR 335 million) in 2021, corresponding to 9 percent (9%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 decreased net sales by approximately EUR 2 million.

COVID-19 caused access restrictions to some customer sites, which impacted Automation's business environment during 2021. Towards the end of the year, the Automation business line was affected by reduced component availability and longer delivery times of certain components.

Pulp and Energy: Orders received totaled EUR 1,178 million in 2021

Pulp and Energy business line	2021	2020	Change
Orders received (EUR million)	**1,178**	934	26%
Net sales (EUR million)	**1,036**	1,003	3%
Personnel (end of period)	**1,946**	1,814	7%

In 2021, orders received by the Pulp and Energy business line increased 26 percent to EUR 1,178 million (EUR 934 million). Pulp and Energy accounted for 25 percent of all orders received (26%). Orders received increased in all areas except for China, where orders received decreased. Orders received increased in Pulp and remained at the previous year's level in Energy. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 decreased orders received by approximately EUR 5 million.

Net sales for the Pulp and Energy business line amounted to EUR 1,036 million (EUR 1,003 million) in 2021, corresponding to 26 percent (27%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 increased net sales by approximately EUR 2 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 during 2021.

Paper: Orders received totaled EUR 1,694 million in 2021

Paper business line	2021	2020	Change
Orders received (EUR million)	**1,694**	1,029	65%
Net sales (EUR million)	**1,195**	1,076	11%
Personnel (end of period)	**3,708**	3,731	-1%

In 2021, orders received by the Paper business line increased 65 percent to EUR 1,694 million (EUR 1,029 million). Paper accounted for 36 percent (28%) of all orders received. Orders received increased in South America, Asia Pacific and EMEA, remained at the previous year's level in North America and decreased in China. Orders received increased in Stock Preparation and Recycled Fiber, as well as in Board and Paper, and decreased in Tissue. Small and Medium size Machines contributed EUR 78 million to orders received. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 decreased orders received by approximately EUR 1 million.

Net sales for the Paper business line amounted to EUR 1,195 million (EUR 1,076 million) in 2021, corresponding to 30 percent (29%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 increased net sales by approximately EUR 2 million.

The Paper business line has managed challenges caused by COVID-19 well, and therefore the pandemic did not cause major impacts on its operations during 2021.

Cash flow and financing

Cash flow provided by operating activities amounted to EUR 482 million (EUR 532 million) in 2021. Net working capital totaled EUR -673 million (EUR -595 million) at the end of the reporting period. Change in net working capital in the statement of cash flows was EUR 76 million (EUR 160 million) in 2021. Payment schedules of large capital projects have a significant impact on net working capital development.

Cash flow after investments totaled EUR 382 million (EUR -60 million) in 2021. In 2021, acquisitions had a cash flow impact of EUR -15 million. Investments in Neles shares had a cash flow impact of EUR -456 million in 2020 and the acquisition of PMP Group had a cash flow impact of EUR -48 million in 2020.

At the end of 2021, gearing was -7 percent (13%) and equity to assets ratio was 42 percent (39%). Interest-bearing liabilities amounted to EUR 477 million (EUR 497 million), and net interest-bearing liabilities totaled EUR -88 million (EUR 149 million) at the end of the reporting period.

The average maturity of Valmet's non-current debt was 4.2 years, and average interest rate was 0.9 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 517 million (EUR 274 million) and interest-bearing current financial assets totaling EUR 47 million (EUR 73 million).

Valmet announced on October 20, 2021, that it has signed a new EUR 300 million syndicated revolving credit facility agreement, which matures in 2024 with two 1-year extension options dependent on the approval of the banks concerned. The facility refinances the earlier EUR 200 million credit facility and its margin will be partly adjusted based on Valmet's progress in meeting its climate program targets. Valmet's liquidity was additionally secured by an uncommitted and unused commercial paper program worth of EUR 200 million.

In compliance with the resolution of the Annual General Meeting, on April 7, 2021, Valmet paid out dividends of EUR 135 million, corresponding to EUR 0.90 per share.

Financing of the merger with Neles

In order to support and finance the completion of the merger with Neles, on July 2, 2021, Valmet entered into re- and back-up financing agreements comprising of EUR 695 million term loan facilities.

On October 6, 2021, Valmet cancelled the EUR 345 million back-up term loan facility, as the amount of cash redemption demands made at the Extraordinary General Meeting of Neles on September 22, 2021, was minor.

On October 20, 2021, Valmet announced that it has closed the syndication regarding the EUR 350 million term loan facilities that were signed on July 2, 2021. The term loan facilities will be used to refinance part of the existing indebtedness of Valmet and Neles in connection with the merger.

The merger with Neles is still subject to obtaining of merger control and other regulatory approvals. Until the completion of the merger Valmet and Neles will carry out their respective businesses as separate and independent companies.

Capital expenditure

Gross capital expenditure (excluding business combinations and leased assets) totaled EUR 97 million (EUR 89 million) in 2021, of which maintenance investments were EUR 39 million (EUR 36 million).

Acquisitions and disposals

Acquisitions

On July 1, 2021, Valmet announced that it had completed the acquisition of EWK Umwelttechnik GmbH and ECP Group Oy following the agreements that were announced on June 10, 2021. EWK Umwelttechnik is a German company manufacturing and supplying air emission control systems and after-installation services. The company employs approximately 50 employees and had net sales of approximately EUR 22 million in 2020. ECP Group is a manufacturer and maintainer of electrostatic precipitators (ESP), focusing on power plants and pulp and paper industry, in Finland. Net sales of ECP Group were approximately EUR 6 million in 2020 and it employs around 20 employees.

EWK Umwelttechnik and ECP Group have been consolidated into the Group financials as of July 1, 2021. EWK Umwelttechnik is reported under the Pulp and Energy business line and ECP Group under the Services business line.

Disposals

Valmet made no disposals in 2021.

Merger with Neles

On July 2, 2021, Valmet announced that the Boards of Directors of Valmet Oyj and Neles Corporation have signed a combination agreement and a merger plan to combine the two companies through a merger. Both companies held an Extraordinary General Meeting on September 22, 2021, and both EGMs approved the merger. The completion of the merger was expected to occur on January 1, 2022, subject to all conditions for completion being fulfilled. On November 5, 2021, Valmet announced that due to the regulatory review processes taking longer than previously estimated, the completion of the merger was targeted to occur on or before April 1, 2022. As the completion has not yet taken place, the next possible date under the combination agreement for the completion to take place is April 1, 2022. The planned closing date may be delayed due to the regulatory processes ongoing. Should the closing be delayed from April 1, 2022, Valmet will issue a stock exchange release on the matter and the merger prospectus will be supplemented once there is more clarity on the timetable of the regulatory processes. Until the completion of the merger Valmet and Neles will carry out their respective businesses as separate and independent companies.

Research and development

Valmet's research and development (R&D) expenses in 2021 amounted to EUR 82 million, i.e. 2.1 percent of net sales (EUR 75 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 2021, R&D employed 471 people (457 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.

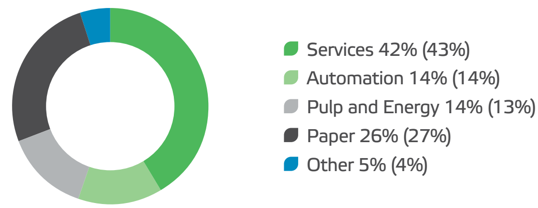
Valmet develops competitive, leading production and automation technologies and services. To enhance raw material, water and energy efficiency in its customers' production processes, Valmet combines digitalization, process technology, automation and services. Valmet also develops solutions for replacing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

Personnel

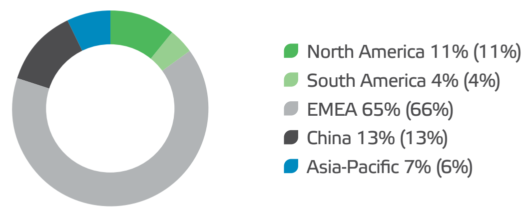
Personnel by business line	As at Dec 31, 2021	2020	Change
Services	**5,958**	6,027	-1%
Automation	**1,986**	1,917	4%
Pulp and Energy	**1,946**	1,814	7%
Paper	**3,708**	3,731	-1%
Other	**648**	557	16%
Total	**14,246**	14,046	1%

Personnel by area	As at Dec 31, 2021	2020	Change
North America	**1,500**	1,542	-3%
South America	**604**	542	11%
EMEA	**9,296**	9,202	1%
China	**1,911**	1,872	2%
Asia-Pacific	**935**	888	5%
Total	**14,246**	14,046	1%

Personnel by business line, %



Personnel by area, %



During 2021, Valmet employed an average of 14,163 (13,615) people. The number of personnel at the end of December was 14,246 (14,046). Personnel expenses totaled EUR 948 million (EUR 891 million) in 2021, of which wages, salaries and remuneration amounted to EUR 750 million (EUR 713 million).

Impacts of the COVID-19 pandemic on Valmet

The COVID-19 pandemic impacted Valmet's operations during 2021. COVID-19 related travel restrictions and lower capacity utilization in graphical paper mills impacted Services' business environment. 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 negatively impacted by access restrictions to some customer sites. Towards the end of the year, the Automation and Services business lines were affected by reduced component availability and longer delivery times of certain components.

The Pulp and Energy, and Paper business lines have managed challenges caused by COVID-19 well, and therefore the pandemic has not caused 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 and customers' processes also after the pandemic.

On November 24, 2020, Valmet announced that due to financial and production related reasons, especially because of the decreasing workload, the company was to start co-determination negotiations for temporary lay-offs in Finland on November 24, 2020. The employees under negotiations were Services business line's employees in Finland and the employees of the EMEA area organization in Finland. The lay-offs were estimated to last up to 90 days at maximum and to concern around 360 employees.

On December 2, 2020, Valmet announced that the co-determination negotiations have been completed, and as a result altogether 372 employees, 227 in the Services business line and 145 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 to be implemented until the end of April, 2021, and the scope and length of a lay-off varied 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., Eng.) has been appointed Area President of Valmet's North America Area as of April 1, 2021. Until then, he was employed at Valmet as Area President, Asia Pacific. Jukka Tiitinen continues as a member of Valmet's Executive Team reporting to President and CEO Pasi Laine. Mr. David King, the former Area President, North America, retired after a long, successful career at Valmet as of March 31, 2021.

Valmet announced on February 5, 2021, that Mr. Petri Paukkunen (B.Sc., Eng.) has been appointed Area President, Asia Pacific Area at Valmet as of April 1, 2021. Until then, he was employed as Vice President, Board and Paper Mills business unit in Valmet's Paper business line. Petri Paukkunen became a member of Valmet's Executive Team and reports to President and CEO Pasi Laine.

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.

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.

Valmet's financial targets are the following:

Financial targets

- Net sales for stable business to grow over two times the market growth
- Net sales for capital business to exceed market growth
- Comparable EBITA: 10–12%
- Comparable return on capital employed (pre-tax), ROCE: at least 20%
- Dividend payout at least 50% of net profit

Continued focus on improving profitability

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

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

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

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

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

Disclosure of non-financial information

Valmet reports its non-financial information in accordance with Finnish Accounting Act, EU Taxonomy Regulation, and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Business model and value creation

Valmet develops and supplies advanced technologies, automation solutions and services mainly for the pulp, paper and energy industries. Our strong technology offering includes pulp mills, tissue, board and paper production lines, and power plants for bioenergy production. Our services and automation offering improves production performance and increases the environmental efficiency and cost-effectiveness of Valmet's customers' production processes, while ensuring safe and reliable operations. Valmet's mission is to convert renewable resources into sustainable results.

Valmet's technologies and services enable customers to produce their products with less energy and water, and fewer emissions, chemicals and raw materials, and to further improve flexibility in fuel source selection to replace fossil fuels with renewable ones. Valmet sees the transition to a carbon neutral economy as an opportunity and believes technology plays a key role in mitigating climate change. Valmet is driving the transition of the pulp and paper industry to carbon neutrality.

In Valmet's own operations, more efficient processes, energy efficiency improvements and purchasing CO_2 free electricity and district heat enable the reduced use of natural resources and significantly lower CO_2 emissions. Valmet strives to develop the transparency and traceability of its entire value chain, from the sourcing of raw materials to the recycling of its products. Valmet mainly purchases raw materials (metals, minerals and polymers), metal-based components, energy and services.

Valmet's product and services portfolio consists of technologies that increase the value of its customers' end products. Valmet works closely with its customers throughout its key processes – from product development to the commercialization of new solutions. Valmet has the financial strength to invest in innovation development and growth.

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

Sustainability, including climate-related matters, is at the core of Valmet's business strategy, operations, and value creation. Valmet launched its climate program – Forward to a carbon neutral future – in March 2021. The climate program supports the Paris Climate Agreement's 1.5-degree pathway and the United Nations Sustainable Development Goals, and the CO_2 emission reduction targets have been approved by the Science Based Targets initiative. The program continues Valmet's comprehensive work for sustainability and is integrated into Valmet's Sustainability Agenda.

Materiality and management

Valmet's Sustainability Agenda covers the most material sustainability topics for Valmet. Valmet has focused on five sustainability areas across the value chain: Sustainable supply chain; Health, safety and environment; People and performance; Sustainable solutions and Corporate citizenship. Valmet's Sustainability Agenda, related targets, and all supporting policies are owned, driven and monitored by Valmet's Executive Team. Sustainability performance is reviewed annually by the Executive Team.

Valmet's climate program steering team has the ownership of the climate program and drives and follows the progress towards the targets providing status updates and guidance on implementation quarterly. The progress of Valmet's climate program is also reviewed biannually by the Executive Team.

All Valmet's corporate functions, business lines and areas are responsible for ensuring that Groupwide initiatives are implemented to meet Valmet's sustainability goals. Valmet has tied selected sustainability topics, such as health, safety and quality, as well as sustainable supply chain KPIs, to remuneration.

Valmet has a systematic company-wide risk management process for regularly assessing the probability and impact of risks and opportunities, in which sustainability, including climate-related matters, is integrated. Valmet has several Groupwide policies to mitigate these risks and promote opportunities. The basis of Valmet's operations is its Code of Conduct, which creates a uniform ethical foundation for all our business transactions and work assignments globally. It also describes our approach to sustainable business operations, people and society and environmental issues. Valmet strives for globally consistent and transparent management practices to ensure all its stakeholders can reliably assess the company's operations and development.

Valmet has a global supplier sustainability management process which is fully integrated into its procurement processes to assess potential risks related to human and labor rights, ethical business practices, environmental management and health and safety. All Valmet's suppliers are assessed for sustainability risks and required to commit to the minimum requirements set by the Sustainable Supply Chain Policy. Compliance is assessed through potential self-assessments and audits.

Valmet's global management system supports an efficient process-oriented way of working toward the satisfaction of customer and other stakeholder expectations. Valmet's global management system provides a common platform for quality and HSE management in all operations. Our main operations are certified in accordance with to the ISO 14001:2015 (environmental), ISO 45001:2018 (health and safety) and ISO 9001: 2015 (quality) management standards.

Material topics

Environmental and climate-related matters

Valmet has estimated that around 4 percent of its environmental impact arises from its supply chain, and around 1 percent from its own operations. Most of Valmet's value chain's environmental impact originates from the customer use of its technologies.

Valmet is actively developing its offering and it´s new products and services reduce CO_2 emissions, water, chemical and raw material consumption and waste, while increasing energy efficiency. Valmet monitors the market demand for environmentally efficient technologies and aims to maintain the orders received from new products and services above 25 percent of total orders received.

Valmet has also set climate-related targets across the value chain as part of its climate program. Today, Valmet already provides bioenergy self-sufficient chemical pulp mills and enable carbon neutral heat and power production with our current biomass-based energy solution offering. By 2030, Valmet's target is to enable carbon neutral pulp and paper production for all its customers by developing new process technologies and to improve the energy efficiency of our current offering by 20 percent. Valmet also targets a reduction of 20 percent in CO_2 emissions in its supply chain and 80 percent in its own operations by 2030. As part of its own operations' environmental efficiency program, Valmet has also defined targets for water consumption and waste to landfill.

Valmet has a stand-alone budget and action plan to improve environmental efficiency at its production facilities. The company also continuously develops the resource and energy efficiency of its technology and solutions, based on R&D action plans.

Social and employment-related matters

Valmet has more than 14,000 employees in over 30 countries around the world. Valmet values active dialogue and teamwork as an important part of its success and emphasizes respectful behavior and a safe, healthy and well-managed working environment in all locations. The company sets clear expectations for managers and employees through its manager and employee role descriptions, which focus on driving performance, building engagement, supporting development and living the company's values. As an employer, Valmet is committed to promoting equal opportunities for everyone and respecting its employees' right to freedom of association and collective bargaining.

Valmet strives to protect the health, safety and wellbeing of its own people and partners. We invest in a positive safety culture, collaborating with customers and partners and constantly improving our processes and practices towards our common goal of zero harm.

Valmet participates in public discussions of its operating environment and regulations. Valmet builds trust and reputation by operating both sustainably and profitably.

Respect for human rights

As a global technology and services supplier, Valmet operates in a very multicultural environment. Valmet recognizes its responsibility to respect human rights and requires its business partners to do the same.

Valmet is committed to international frameworks related to human rights, such as the UN Guiding Principles on Business and Human Rights. Valmet's commitment to respect human rights is laid out in its Human Rights Statement.

Valmet has created a due diligence framework to manage human rights in its own operations and supply chain. Valmet has integrated human rights into company policies and related processes to ensure human rights are respected and promoted in all our operations. Valmet also provides human rights training to its employees through an e-learning course that is globally available to all Valmeteers.

Anti-corruption and bribery

Valmet's Code of Conduct requires Valmet and its employees to act with honesty and integrity. It sets Valmet's commitment of zero tolerance to corruption and bribery. It also defines Valmet's expectation that all its business partners fully comply with applicable anti-bribery laws and regulations. Valmet's Code of Conduct is complemented by Valmet's Sustainable Supply Chain Policy, which also sets Valmet's requirements for its suppliers also regarding business ethics and legal compliance, including not participating in any form of corruption, bribery or money laundering. Valmet also has other internal policies and guidelines that explain the rules for Valmet's business and employees on prohibited conduct in relation to corruption and bribery.

Valmet has a Code of Conduct and Anti-bribery compliance e-learning course for employees. Valmet also arranges regular training for targeted groups on Code of Conduct, anti-corruption principles, and other ethics and compliance topics to enforce the principles set by the related policies.

EU taxonomy for sustainable finance

The European Union (EU) Taxonomy Regulation requires large companies subject to the Non-Financial Reporting Directive (NFRD) to disclose the extent to which their economic activities can have a substantial positive environmental impact. These activities are referred to as taxonomy eligible.

The current available criteria allow classification into economic activities with the greatest potential to make a substantial contribution to climate change mitigation or climate change adaptation.

Valmet has reviewed its offering against the Taxonomy activities to assess eligibility based on the eligible economic activities listed in Annexes I and II of the delegated regulation. The four financially most material economic activities were identified for Valmet:

- 3.1 Manufacture of renewable energy technologies
- 3.6 Manufacture of other low carbon technologies
- 8.2 Data-driven solutions for GHG emissions reductions (Climate Change Mitigation)
- 9.1 Close to market research, development and innovation (Climate Change Mitigation; equivalent to Activity 9.2 under Climate Change Adaptation), for operating expenditure only.

A link between these economic activities and financial reporting was built to report the key performance indicators (KPIs) for net sales, operating expenditure (OpEx) and capital expenditure (CapEx). For the net sales KPI, net sales from business line specific taxonomy-eligible activities were calculated. Financial reporting system limitations meant some estimates had to be made. The materiality of the economic activities was also considered.

To calculate business line specific taxonomy-eligible OpEx and CapEx, the business line's net sales eligibility percentage was used as a key because of the existing financial reporting system limitations. For all three KPIs, double counting was avoided by classifying external revenue streams into taxonomy-eligible economic activities only once.

Of Valmet's 2021 net sales, 51 percent was taxonomy eligible and 49 percent non-eligible. Of Valmet's 2021 OpEx, 29 percent was taxonomy eligible and 71 percent non-eligible. Of Valmet's 2021 CapEx, 30 percent was taxonomy eligible and 70 percent non-eligible.

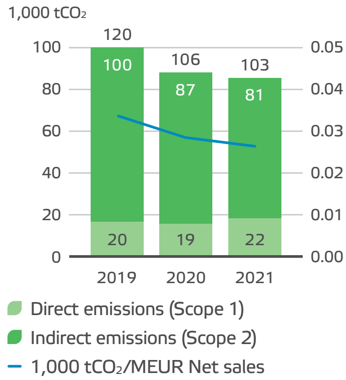
In the following table, Valmet's 2021 net sales are associated with the financially most material taxonomy-eligible economic activities for Valmet within the scope of the EU Taxonomy Regulation in force as of January 1, 2022. Valmet's economic activities can be seen as eligible under both Climate Change Mitigation and Climate Change Adaptation environmental objectives unless otherwise specified.

Valmet continues to develop taxonomy-related reporting and will report taxonomy-aligned activities in 2022 reporting.

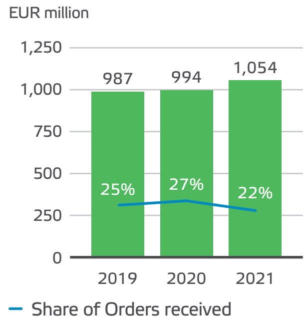
Activity	Net sales
Eligible	**51%**
3.1 Manufacture of renewable energy technologies	7%
3.6 Manufacture of other low carbon technologies	42%
8.2 Data-driven solutions for GHG emissions reductions (Climate Change Mitigation)	1%
Non-eligible	**49%**
Total	**100%**

Non-financial indicators

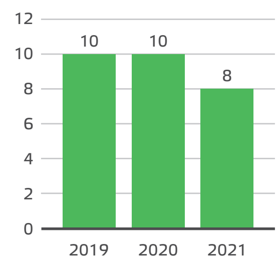
CO_2 emissions from energy consumption in own operations[1]



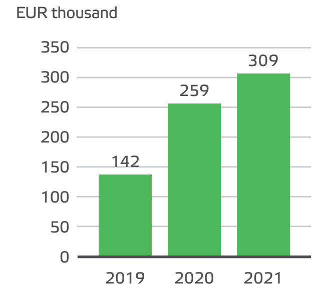
Orders received from new products and services[2]



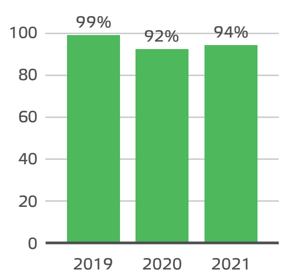
Number of internal audits performed



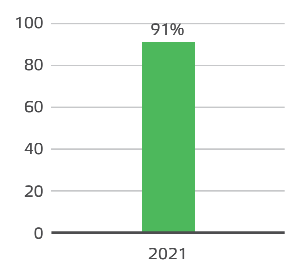
Sponsorships and donations



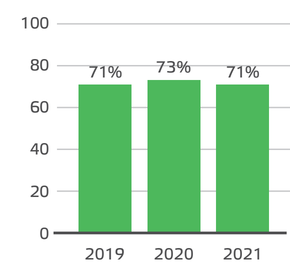
New suppliers screened over sustainability



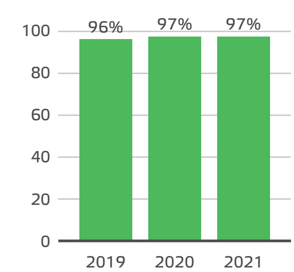
Employees completed Valmet's Code of Conduct training[3]



Employees covered by collective bargaining agreements



Workforce represented in formal management-worker health and safety committees



[1] Direct emissions (Scope 1) from used fuels and indirect emissions (Scope 2, market based) from purchased electricity, district heat and steam in own operations. 2019 baseline and 2020 data calculated to include emissions from operations acquired in 2020. Please check GRI Supplement 2021 for emission factors used.

[2] Valmet's new products and services reduce CO_2 emissions, water and raw material consumption and waste, while increasing energy efficiency. Valmet monitors the market demand for more environmentally efficient technologies by monitoring the share of orders received from new products and services. Valmet's target in 2021 was to have at least 25 % of orders received coming from new products and services.

[3] Historical data unavailable due to a system change. All active employees, including blue-collar workers, trained in the Code of Conduct. External workforce excluded. Data from the 2021 acquisitions is included in the reported figure.

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

Number of employees by employment contract and gender[1]

	Female		Male		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Permanent	**2,529**	2,523	**10,344**	10,229	**12,874**	12,752
Temporary	**414**	385	**958**	909	**1,372**	1,294
Total	**2,943**	2,908	**11,302**	11,138	**14,246**	14,046

Number of permanent employees by employment type and gender[1]

	Female		Male		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Full-time	**2,427**	2,424	**10,227**	10,114	**12,655**	12,538
Part-time	**102**	99	**117**	115	**219**	214
Total	**2,529**	2,523	**10,344**	10,229	**12,874**	12,752

Workforce by geography and gender[1]

	Female		Male		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
North America	**204**	228	**1,296**	1,314	**1,500**	1,542
South America	**118**	100	**486**	442	**604**	542
EMEA	**2,068**	2,040	**7,227**	7,162	**9,296**	9,202
China	**442**	436	**1,469**	1,436	**1,911**	1,872
Asia-Pacific	**111**	104	**824**	784	**935**	888
Total	**2,943**	2,908	**11,302**	11,138	**14,246**	14,046

Workforce by region and employee contract

	Regular 2021	Fixed term 2021	Total 2021
North America	**1,500**	**0**	**1,500**
South America	**593**	**11**	**604**
EMEA	**8,636**	**660**	**9,296**
China	**1,226**	**685**	**1,911**
Asia-Pacific	**919**	**16**	**935**
Total	**12,874**	**1,372**	**14,246**

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

	2021	2020
LTIF[2]	**1.4**	1.5
TRIF[3]	**3.1**	3.1
Fatalities	**0**	1
Absentee rate	**2.6%**	2.5%

[1] The gender category includes options: Female, Male, Not Declared. In 2021, the number of individuals in the "Not Declared" category was not large enough to be included in a separate column.
[2] LTIF reflects the number of injuries resulting in an absence of at least one workday per million hours worked.
[3] LTIF + medical treatment and restricted work cases.

Valmet's management approach for non-financial impacts

	ENVIRONMENTAL AND CLIMATE-RELATED MATTERS	SOCIAL AND EMPLOYMENT-RELATED MATTERS
Policies and standards	**International frameworks and Valmet's policies covering all topics:** • UN Global Compact • UN Sustainable Development Goals • United Nations Universal Declaration of Human Rights • UN Guiding Principles on Business and Human Rights • Declaration on Fundamental Principles and Rights at Work of the International Labour Organization (ILO) • OECD's Guidelines for Multinational Enterprises	
	• Health, Safety and Environment (HSE) Policy: Defines Valmet's approach to managing HSE performance in its own operations and in customer industries • Instructions on sustainable and responsible research, product development and design: Support the implementation of Valmet's HSE policy • Guidance on hazardous substances and restricted materials: Describes the management approach and provides instructions for how to comply with regulatory requirements regarding prohibition and reporting of materials found in Valmet's products	• Health, Safety and Environment (HSE) Policy: Defines Valmet's approach to managing HSE performance in its own operations and in customer industries • Human Resources Policy: Framework for the management of the human resources function, which is committed to developing an engaged and performance-driven community and continuously driving the global development of Valmet employees' capabilities • Equal Opportunity and Diversity Policy: Defines Valmet's approach to promoting equal opportunities for all employees • Minimum Safety Standards: Defines minimum requirements for safety at work for specific high-risk activities
Due diligence processes	• The HSE event reporting and management system is used to monitor and prevent HSE-related incidents and hazards • Compliance with HSE-related laws and regulations is ensured by complying with Valmet's related processes • Internal and external audits executed globally to evaluate compliance with internal, legal and other HSE requirements and correct non-conformities	• The HSE event reporting and management system is used to monitor and prevent HSE-related incidents and hazards • Compliance with laws and regulations is ensured by complying with Valmet's related processes • Internal and external audits executed globally to evaluate compliance with internal, legal and other HSE requirements, and to correct non-conformities
Risks and risk management	Risks: • Risks related to Valmet's suppliers may create significant reputational or business risks • Non-compliance with environmental regulations may result in fines, creating reputational and business risks • Climate-related regulation and initiatives may change the availability and use of biomass and increase the cost of raw materials and energy, result in new taxes and tariffs, and change our stakeholder's attitudes, which could impact Valmet's and its customers' operations and business environments • EU Taxonomy regulation may diminish investors interest and Valmet's access to capital and increase the cost of capital in the long term if Valmet's technologies and services are not considered environmentally sustainable • Environment- and climate-related physical risks; extreme weather events and variability in weather patterns, water shortages and scarcity of raw materials may cause production interruptions throughout Valmet's value chain Risk management: • ISO 14001:2015 environmental management systems in all operations • Risk management of environmental and climate-related matters is integrated in all activities, to ensure proactive risk identification and mitigation • Climate scenario analysis to support strategy and risk management • Global supplier sustainability management process, including risk assessments and audits	Risks: • Valmet's own employees' and partners' health and safety risks are related to the pandemic, work-related illnesses, injuries and work-life integration • Non-compliance with occupational health and safety regulations may result in fines, creating reputational and business risks • Retention and engagement of key employees and a slowing down of the resourcing process due to the hot labor market and talent shortage • Risks related to Valmet's suppliers may create significant reputational or business risks Risk management: • ISO 45001:2018 health and safety management systems in all operations • HSE event management system • HSE committees covering all personnel • Clear Covid-management principles in all locations, production facilities and on project sites • Development of global training portfolio and ensuring necessary competence is in place across regions • Development of engagement and retention through employee survey action execution • Debottlenecking of resourcing process • Global supplier sustainability management process, including risk assessments and audits
Outcomes of policies and due diligence processes	• New products and services that meet environmental requirements and help customers produce sustainable products which require less water and energy, and fewer raw materials, enable the use of renewable resources producing less waste and fewer emissions • Supplier sustainability audits and corrective actions in accordance with Valmet's global supplier sustainability risk management process • CO_2 reduction and other environmental targets for renewable energy, energy efficiency, water consumption and waste management	• Healthy and safe workplaces for Valmet's own employees and partners • Operations free of life-changing incidents, reduction in overall incident frequencies • Training programs developed to enhance skills • Supplier sustainability audits and corrective actions in accordance with Valmet's global supplier sustainability risk management process

RESPECT FOR HUMAN RIGHTS	ANTI-CORRUPTION AND BRIBERY
• Valmet's Code of Conduct • Valmet's Human Rights Statement • Valmet's Sustainable Supply Chain Policy • ISO 9001:2015 Quality management system • ISO 14001:2015 Environmental management system • OHSAS 18001 Occupational health and safety management system	
• Equal Opportunity and Diversity Policy: Defines Valmet's approach to promoting equal opportunities for all employees	• Anti-Corruption Policy: Defines Valmet's zero tolerance approach to bribery and corruption in more detail • Compliance reporting guideline: Defines how Valmet employees can voice their concerns about potential violations of the Code of Conduct, Anti-Corruption Policy and other misconduct • Approval guideline for Agency agreements and Agent approval process: Describes Valmet's due diligence process and requirements (including anti-bribery questionnaire) for agent approval
• Human rights due diligence framework executed through long-term action plans, and based on UN Guiding Principles for Business and Human Rights • External third-party supplier audits executed globally to evaluate compliance and correct non-conformities	• Risk management evaluation and audits help Valmet find the best ways to manage risks and train the unit's personnel to use existing tools and procedures to manage risk • External third-party supplier audits executed globally to evaluate compliance and correct non-conformities
Risks: • Potential violations of human rights may impact Valmet's reputation and thus financial position Risk management: • Valmet's human rights due diligence framework for identifying and mitigating potential negative human rights impacts and risks • Global supplier sustainability management process, including risk assessments and audits	Risks: • Unethical business practices may impact Valmet's reputation and thus financial position Risk management: • Internal risk management audits • Anti-Corruption Policy works as a tool to set the tone for preventive misconduct and mitigate potential risks • Global supplier sustainability management process, including risk assessments and audits
• Reporting system in place for violations of Code of Conduct • Continuous training on human rights to increase awareness of potential negative impacts • Location-level social impact assessment and improvement actions, in accordance with Valmet's human rights due diligence framework • Supplier sustainability audits and corrective actions in accordance with Valmet's global supplier sustainability risk management process	• Reporting system in place for violations of Code of Conduct, including anti-corruption and bribery and other misconduct • Anti-corruption and bribery training, including e-learning • Supplier sustainability audits and corrective actions in accordance with Valmet's global supplier sustainability risk management process

Shares and shareholders

Development of Valmet's share price since listing, January 2, 2014–December 31, 2021

Share capital and share data[1]

	2021	2020	2019
Share capital, December 31, EUR million	**100**	100	100
Number of shares, December 31:			
Number of outstanding shares	**149,471,196**	149,490,976	149,618,523
Treasury shares held by the Parent Company	**393,423**	373,643	246,096
Total number of shares	**149,864,619**	149,864,619	149,864,619
Average number of outstanding shares	**149,467,939**	149,499,114	149,604,375
Average number of diluted outstanding shares	**149,467,939**	149,499,114	149,604,375
Trading volume on Nasdaq Helsinki Ltd.[2]	**97,242,422**	162,711,000	152,595,590
% of total shares for public trading	**65**	109	102
Earnings per share, EUR	**1.98**	1.54	1.35
Earnings per share, diluted, EUR	**1.98**	1.54	1.35
Dividend per share, EUR	**1.20[3]**	0.90	0.80
Dividend, EUR million	**179[3]**	135	120
Dividend payout ratio	**61%[3]**	58%	59%
Effective dividend yield	**3.2%[3]**	3.9%	3.7%
Price to earnings ratio (P/E)	**19.1**	15.1	15.9
Equity per share, EUR	**8.87**	7.90	6.95
Highest share price, EUR	**38.53**	25.20	25.14
Lowest share price, EUR	**23.02**	13.33	15.55
Volume-weighted average share price, EUR	**32.58**	21.15	20.46
Share price, December 31, EUR	**37.72**	23.36	21.36
Market capitalization, December 31, EUR million	**5,653**	3,501	3,201

[1] The formulas for calculation of the figures are presented in the section 'Formulas for Calculation of Indicators´.

[2] In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Cboe CXE, Cboe BXE and Turquoise. A total of approximately 16 million Valmet shares were traded on these three alternative marketplaces in 2021. (Source: www.valmet.com/investors/valmet-share/trading-volumes/).

[3] Board of Directors' proposal.

Largest shareholders on December 31, 2021

		Shares	% of share capital
1	Solidium Oy	16,695,287	11.14%
2	Ilmarinen Mutual Pension Insurance Company	3,905,000	2.61%
3	Elo Mutual Pension Insurance Company	2,386,044	1.59%
4	Varma Mutual Pension Insurance Company	2,087,465	1.39%
5	OP Funds	1,446,040	0.97%
6	The State Pension Fund	1,250,000	0.83%
7	Nordea Funds	847,550	0.57%
8	Evli Europe Fund	630,920	0.42%
9	Evli Funds	600,543	0.40%
10	The Finnish Cultural Foundation	520,123	0.35%
11	Investment fund Aktia Capital	500,000	0.33%
12	Sigrid Jusélius Foundation	499,865	0.33%
13	Danske Invest funds	472,000	0.32%
14	The Social Insurance Institution of Finland, KELA	396,316	0.26%
15	Valmet Oyj	393,423	0.26%

Source: Euroclear Finland.

Holdings of the Board of Directors in Valmet Oyj on December 31, 2021

		Shares
Mäkinen, Mikael	Chairman of the Board	4,990
Cantell, Aaro	Vice Chairman of the Board	7,407
Kemppainen, Pekka	Member of the Board	3,583
Lindberg, Per	Member of the Board	639
Maurer, Monika	Member of the Board	3,583
Söderström, Eriikka	Member of the Board	4,713
Tyni, Tarja	Member of the Board	6,509
Ziviani, Rogério	Member of the Board	10,696
Total		**42,120**
% of outstanding shares		**0.03%**

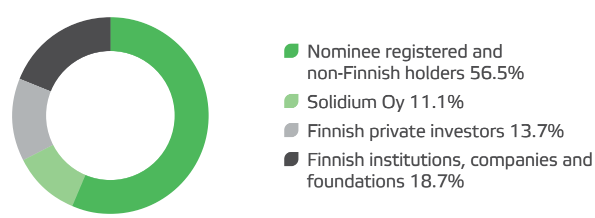
Holdings of the Executive Team in Valmet Oyj on December 31, 2021

		Shares
Laine, Pasi	President and CEO	157,581
Karlstedt, Bertel	Business Line President, Pulp and Energy	37,825
Macharey, Julia	SVP, Human Resources and Operational Development	32,709
Niemi, Aki	Business Line President, Services	57,754
Paukkunen, Petri	Area President, Asia Pacific	3,431
Riekkola, Sami	Business Line President, Automation	11,624
Saarinen, Kari	CFO	47,655
Salonsaari-Posti, Anu	SVP, Marketing, Communications, Sustainability and Corporate Relations	27,053
Simola, Vesa	Area President, EMEA	46,755
Tacla, Celso	Area President, South America	85,784
Tiitinen, Jukka	Area President, North America	87,704
Vähäpesola, Jari	Business Line President, Paper	55,305
Zhu, Xiangdong	Area President, China	24,606
Total		**675,786**
% of outstanding shares		**0.45%**

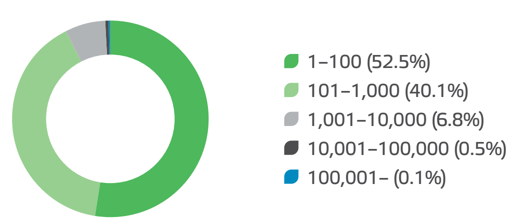
Number of shareholders

The number of registered shareholders at the end of year 2021 was 58,894 (54,178).

Distribution of shareholding by sector on December 31, 2021, %



Distribution of shareholders by number of shares held, %



Flagging notifications

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

Trading of shares

Trading of Valmet shares on Nasdaq Helsinki	January 1– December 31, 2021	January 1– December 31, 2020
Number of shares traded	**97,242,422**	162,711,000
Total value, EUR million	**3,166**	3,442
High, EUR	**38.53**	25.20
Low, EUR	**23.02**	13.33
Volume-weighted average price, EUR	**32.58**	21.15
Closing price on the final day of trading, EUR	**37.72**	23.36

The closing price of Valmet's share on the final day of trading for the reporting period, December 30, 2021, was EUR 37.72, i.e. 61 percent higher than the closing price on the last day of trading in 2020 (EUR 23.36 on December 30, 2020).

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 16 million Valmet shares were traded on these three alternative marketplaces in 2021 (Source: www.valmet.com/investors/valmet-share/trading-volumes/).

Board authorizations regarding share repurchase and share issue

Valmet Oyj's Annual General Meeting on March 23, 2021, 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 June 16, 2020.

Based on the authorization granted to the Board of Directors by the Annual General Meeting, Valmet's Board of Directors decided on September 8, 2021 on a directed share issue related to the reward payment of Valmet's long-term share-based incentive plan for the discretionary period 2020. In the share issue on September 13, 2021, a total of 272 Valmet's treasury shares were conveyed without consideration to the participants of the plan, in accordance with the terms and conditions of the plan.

In its meeting on December 20, 2021, Valmet's Board of Directors decided to use the authorization granted by the Annual General Meeting 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 7, 2022 and will end at the latest on February 25, 2022. The maximum number of shares to be acquired is 150,000. The shares will be acquired at market price in public trading on Nasdaq Helsinki Ltd.

As at December 31, 2021, Valmet's Board of Directors had not used any other authorizations given by the Annual General meeting on March 23, 2021.

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 included three performance periods, which were 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 plan was 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 (including the matching share rewards)	350,029 shares	271,428 shares	148,369 shares

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 began on February 10, 2021, and ended on February 12, 2021. The total number of shares acquired was 100,000. The shares were acquired at market price in public trading on Nasdaq Helsinki Ltd.

In the same meeting, Valmet's Board of Directors also decided on a directed share issue related to the reward payment of Valmet's long-term share-based incentive plan for the discretionary period 2020. In the share issue on March 15, 2021, a total of 82,375 Valmet's treasury shares were conveyed without consideration to the participants of the plan, in accordance with the terms and conditions of the plan.

Based on the authorization granted to the Board of Directors by the Annual General Meeting, Valmet's Board of Directors decided on September 8, 2021 on a directed share issue related to the reward payment of Valmet's long-term share-based incentive plan for the discretionary period 2020. In the share issue on September 13, 2021, a total of 272 Valmet's treasury shares were conveyed without consideration to the participants of the plan, in accordance with the terms and conditions of the plan.

Long-term incentive plans – Performance Share Plan and Deferred Share Plan

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.

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.

The Deferred Share Plan is directed to other key employees in management positions, and management talents. It includes a one-year performance period. The predefined performance measures and targets are decided by Valmet's Board of Directors and are aligned with the targets of the 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.

The Performance Share Plan includes a recommendation for the members of Valmet's Executive Team to own and hold an amount of Company shares equaling their gross annual base salary (100 percent ownership recommendation). Management shareholding can be found on Valmet's website at www.valmet.com/investors/shareholders/management-shareholding.

	Long-term incentive plans 2021–2023		Long-term incentive plans 2022–2024	
Plan name	Performance Share Plan and Deferred Share Plan	Performance Share Plan	Performance Share Plan and Deferred Share Plan	Performance Share Plan
Performance period	2021	2021–2023	2022	2022–2024
Incentive based on	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business	Predefined strategic target	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business	ESG Index, targets linked to implementing Valmet's Climate Program and Sustainability Agenda
Reward payment	In spring 2022	In spring 2024	In spring 2023	In spring 2025
Participants				
Performance Share Plan	13	13	13	13
Deferred Share Plan	110		130	
Total gross number of shares earned	As at December 31, 2021, a total of 359,928 shares were allotted to participants	As at December 31, 2021, a total of 53,668 shares were allotted to participants	The rewards to be paid will correspond to a maximum total of approximately 326,000 Valmet shares	

In its meeting on December 20, 2021, Valmet's Board of Directors decided to use the authorization granted by the Annual General Meeting 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 7, 2022 and will end at the latest on February 25, 2022. The maximum number of shares to be acquired is 150,000. The shares will be acquired at market price in public trading on Nasdaq Helsinki Ltd.

At the end of the reporting period, the Company held 393,423 treasury shares related to the share-based incentive programs.

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

Resolutions of Valmet Oyj's Annual General Meeting

The Annual General Meeting 2021 was held in Helsinki on March 23, 2021. The Annual General Meeting adopted the Financial Statements for 2020 and discharged the members of the Board of Directors and the President and CEO from liability for the 2020 financial year. In respect of the approval of the Remuneration Report 2020, the majority of votes objected to the approval of the Remuneration Report. The decision is advisory. Valmet will further analyze the voting recommendations and voting results in order to ensure that the remuneration report will better meet the shareholders' expectations. 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 decided to pay dividends of EUR 0.90 per share for the financial period ended on December 31, 2020.

The Annual General Meeting 2021 confirmed the number of Board members as eight 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 continue as members of the Board. Per Lindberg was elected as a new Board member. The term of office of the members of the Board of Directors expires at the close of the Annual General Meeting 2022.

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 March 23, 2021, 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/investors/governance/annual-general-meeting/2021/

In compliance with the resolution of the Annual General Meeting, on April 7, 2021, Valmet paid out dividends of EUR 135 million, corresponding to EUR 0.90 per share.

Extraordinary General Meeting

On August 9, 2021, Valmet published a notice convening an Extraordinary General Meeting. The EGM was held on September 22, 2021. The General Meeting approved the merger of Neles Corporation into Valmet through a statutory absorption merger under the Finnish Companies Act (624/2006, as amended) in accordance with the merger plan signed by the Boards of Directors of Valmet and Neles on July 2, 2021, and approved the Merger Plan. The Merger as a whole and the resolution of the General Meeting including the resolutions concerning the amendment of the Articles of Association of Valmet, issuance of new shares in Valmet as Merger Consideration, increase of share capital of Valmet, the number of members, composition and remuneration of the Board of Directors of Valmet and the temporary deviation from the Charter of Valmet's Shareholders' Nomination Board are conditional upon and will become effective upon the registration of the execution of the Merger.

The execution of the Merger is still subject to, inter alia, obtaining necessary merger control approvals by the relevant competition authorities. The next possible date under the combination agreement for the completion to take place is April 1, 2022.

Valmet published a stock exchange release on September 22, 2021, concerning the resolutions of the EGM. The stock exchange release and meeting materials can be viewed on Valmet's website at www.valmet.com/egm.

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 September 13, 2021, that the Supreme Administrative Court has partly accepted Valmet's appeal related to the reassessment decision received by Valmet Technologies Inc concerning tax years 2010–2012. The reassessment decision concerned compensation charged by Valmet Technologies Inc from its foreign subsidiaries and based on the decision, Valmet was imposed to pay additional taxes, late payment interest and penalties in total of EUR 19 million during the first quarter 2017. The Supreme Administrative Court ruled in its decision made on September 13, 2021, that the company shall receive a refund of about EUR 4 million for additional taxes, late payment interest and penalties.

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

Risks and business uncertainties

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

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

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

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

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

Changes and uncertainty in future regulation and legislation can also have critical effects, especially on the energy business.

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

Should global issues with component availability and logistics continue, it could have adverse effects on Valmet's 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 4.2 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 approximately 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, 2021, Valmet had EUR 730 million (EUR 711 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.

Epidemic outbreaks and potential other pandemics remain a risk to Valmet's operations also after COVID-19. Pandemics might have impact on the supply chain and business operations by increasing the likelihood of interruptions. Valmet's operations are dispersed all around the world, Valmet has a global customer base and our suppliers operate in several countries. This mitigates the overall impacts of risks to Valmet, should there be any disruptions in some isolated country or case.

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 support Valmet in mitigating the global challenges caused by COVID-19 and other pandemics. Valmet has also a Global Incident Management Team (IMT), and regional IMT structure established to manage Valmet's response to pandemics.

Events after the reporting period

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

Guidance for 2022

Valmet estimates that net sales in 2022 will increase in comparison with 2021 (EUR 3,935 million) and Comparable EBITA in 2022 will increase in comparison with 2021 (EUR 429 million).

Market outlook

General economic outlook according to IMF

The global economy enters 2022 in a weaker position than previously expected. As the new Omicron COVID-19 variant spreads, countries have reimposed mobility restrictions. Rising energy prices and supply disruptions have resulted in higher and more broad-based inflation than anticipated.

IMF expects global growth to moderate from 5.9 in 2021 to 4.4 percent in 2022 and to 3.8 percent in 2023. The forecast is conditional on adverse health outcomes declining to low levels in most countries by end-2022, assuming vaccination rates improve worldwide and therapies become more effective. Risks to the global baseline are tilted to the downside. (IMF World Economic Outlook, January 25, 2022)

Short-term market outlook

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

The short-term market outlook is given for the next six months from the end of the reported period. It is based on customer activity (50%) and Valmet's capacity utilization (50%), and the scale is 'weak–satisfactory–good'.

Board of Director's proposal for the distribution of profit

Valmet Oyj's distributable funds on December 31, 2021, totaled EUR 1,270,405,789.12 of which the net profit for 2021 was EUR 177,417,747.78 (according to Finnish Generally Accepted Accounting Standards).

The Board of Directors proposes that a dividend of EUR 1.20 per share be paid based on the statement of financial position to be adopted for the financial year which ended December 31, 2021, 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 24, 2022, are registered in the Company's shareholders' register held by Euroclear Finland Ltd. The dividend will be paid on March 31, 2022. 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 3, 2022
Valmet's Board of Directors

Financial indicators

EUR million	2021	2020	2019	2018[1]	2017[2]
	As at and for the twelve months ended Dec 31				
Net sales	**3,935**	3,740	3,547	3,325	3,058
Net sales change, %	**5%**	5%	7%	9%	5%
Comparable EBITA	**429**	365	316	257	218
% of net sales	**10.9%**	9.8%	8.9%	7.7%	7.1%
EBITA	**448**	355	315	241	202
% of net sales	**11.4%**	9.5%	8.9%	7.2%	6.6%
Operating profit	**399**	319	281	211	170
% of net sales	**10.1%**	8.5%	7.9%	6.4%	5.6%
Profit before taxes	**395**	307	269	205	158
% of net sales	**10.0%**	8.2%	7.6%	6.2%	5.2%
Profit for the period	**296**	231	202	152	121
% of net sales	**7.5%**	6.2%	5.7%	4.6%	4.0%
Profit attributable to owners of the parent	**296**	231	201	151	121
Amortization	**-49**	-36	-34	-30	-31
Depreciation, property, plant and equipment (excl. leased assets)	**-47**	-47	-48	-46	-49
Depreciation, leased assets	**-24**	-24	-23	—	—
Depreciation and amortization	**-120**	-106	-105	-76	-81
% of net sales	**-3.0%**	-2.8%	-3.0%	-2.3%	-2.6%
Cash flow provided by operating activities	**482**	532	295	284	291
Cash flow after investments	**382**	-60	58	208	228
Gross capital expenditure (excl. business combinations and leased assets)	**-97**	-89	-79	-79	-66
Business combinations, net of cash acquired and loans repaid	**-15**	-48	-163	-2	—
Additions to investments in associated companies	**—**	-456	—	—	—
Total assets	**4,420**	3,959	3,452	2,988	2,908
Equity attributable to owners of the parent	**1,326**	1,137	1,040	944	913
Total equity	**1,332**	1,142	1,046	949	918
Interest-bearing liabilities	**477**	497	268	201	219
Net interest-bearing liabilities	**-88**	149	-90	-219	-100
Net working capital (NWC)	**-673**	-595	-426	-474	-387
Return on equity (ROE), %[3]	**24%**	21%	20%	16%	13%
Comparable return on capital employed (ROCE) before taxes, %[3]	**23%**	22%	23%	20%	16%
Return on capital employed (ROCE) before taxes, %[3]	**24%**	22%	23%	19%	14%
Equity to assets ratio, %	**42%**	39%	41%	43%	42%
Gearing, %	**-7%**	13%	-9%	-23%	-11%
Orders received	**4,740**	3,653	3,986	3,722	3,272
Order backlog at end of year	**4,096**	3,257	3,333	2,829	2,458
Average number of personnel	**14,163**	13,615	13,235	12,461	12,208
Personnel at end of year	**14,246**	14,046	13,598	12,528	12,268

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

Formulas for calculation of indicators

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

EBITA:

Operating profit + amortization

Comparable EBITA:

Operating profit + amortization +/- items affecting comparability

Earnings per share:

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

Earnings per share, diluted:

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

Equity per share:

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

Return on equity (ROE), %:

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

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

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

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

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

Equity to assets ratio, %:

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

Gearing, %:

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

Net interest-bearing liabilities:

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

Dividend per share:

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

Dividend payout ratio, %:

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

Effective dividend yield, %:

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

Price / earnings ratio:

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

Consolidated statement of income

EUR million	Note	Year ended Dec 31, 2021	2020
Net sales	2, 3	**3,935**	3,740
Cost of goods sold	4, 5, 7, 13	**-2,943**	-2,844
Gross profit		**992**	896
Selling, general and administrative expenses	4, 5, 13, 18	**-597**	-571
Other operating income	19	**33**	17
Other operating expenses	19	**-33**	-25
Share in profits and losses of associated companies, operative investments	22	**3**	2
Operating profit		**399**	319
Financial income	10	**9**	4
Financial expenses	10	**-13**	-15
Share in profits and losses of associated companies, financial investments	22	**—**	-2
Profit before taxes		**395**	307
Current tax expense		**-103**	-75
Deferred taxes		**4**	—
Income taxes, total	16	**-99**	-75
Profit for the period		**296**	231
Attributable to:			
Owners of the parent		**296**	231
Non-controlling interests		**1**	—
Profit for the period		**296**	231
Earnings per share attributable to owners of the parent:			
Earnings per share, EUR		**1.98**	1.54
Diluted earnings per share, EUR		**1.98**	1.54

Consolidated statement of comprehensive income

EUR million	Note	Year ended Dec 31, 2021	2020
Profit for the period		**296**	231
Items that may be reclassified to profit or loss:			
Gains and losses on cash flow hedges	8, 9, 17	**-13**	25
Change in fair value reserve	8	**2**	—
Currency translation on subsidiary net investments	17	**25**	-24
Share of other comprehensive income of associated companies accounted for using equity method	22	**1**	-2
Income tax relating to items that may be reclassified	16	**2**	-5
Total items that may be reclassified to profit or loss		**17**	-6
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plans	15	**14**	-5
Share of other comprehensive income of associated companies accounted for using equity method	22	**-1**	—
Income tax relating to items that will not be reclassified	16	**-5**	1
Total items that will not be reclassified to profit or loss		**9**	-5
Other comprehensive income for the period		**26**	-11
Total comprehensive income for the period		**322**	221
Attributable to:			
Owners of the parent		**321**	221
Non-controlling interests		**1**	—
Total comprehensive income for the period		**322**	221

Consolidated statement of financial position

Assets

EUR million	Note	As at Dec 31, 2021	2020
Non-current assets			
Intangible assets			
Goodwill		**730**	711
Other intangible assets		**274**	272
Total intangible assets	4	**1,004**	983
Property, plant and equipment			
Land and water areas		**25**	25
Buildings and structures		**123**	124
Machinery and equipment		**183**	178
Leased assets		**65**	66
Assets under construction		**72**	48
Total property, plant and equipment	4, 5	**468**	441
Other non-current assets			
Investments in associated companies	22	**461**	468
Non-current financial assets	8, 9	**22**	30
Deferred tax assets	16	**66**	61
Non-current income tax receivables		**28**	27
Other non-current assets		**8**	7
Total other non-current assets		**585**	592
Total non-current assets		**2,057**	2,016
Current assets			
Inventories			
Materials and supplies		**94**	89
Work in progress		**425**	355
Finished products		**143**	110
Total inventories	7	**662**	553
Receivables and other current assets			
Trade receivables	8	**644**	602
Amounts due from customers under revenue contracts	3	**280**	229
Other current financial assets	8, 9	**80**	124
Income tax receivables		**28**	28
Other receivables		**150**	133
Cash and cash equivalents	8	**517**	274
Total receivables and other current assets		**1,700**	1,389
Total current assets		**2,363**	1,943
Total assets		**4,420**	3,959

Consolidated statement of financial position

Equity and liabilities

EUR million	Note	As at Dec 31, 2021	2020
Equity			
Share capital		**100**	100
Reserve for invested unrestricted equity		**426**	423
Cumulative translation adjustments		**-16**	-40
Hedge and other reserves		**13**	21
Retained earnings		**804**	633
Equity attributable to owners of the parent	17	**1,326**	1,137
Non-controlling interests		**6**	6
Total equity		**1,332**	1,142
Liabilities			
Non-current liabilities			
Non-current debt	8	**195**	417
Non-current lease liabilities	5, 8	**37**	40
Post-employment benefits	15	**189**	201
Non-current provisions	11	**25**	47
Other non-current liabilities	8, 9	**4**	18
Deferred tax liabilities	16	**69**	65
Total non-current liabilities		**520**	789
Current liabilities			
Current debt	8	**222**	18
Current lease liabilities	5, 8	**22**	22
Trade payables	8	**374**	372
Current provisions	11	**189**	164
Amounts due to customers under revenue contracts	3	**1,263**	1,002
Other current financial liabilities	8, 9	**24**	29
Income tax liabilities		**79**	65
Other current liabilities	12	**396**	357
Total current liabilities		**2,569**	2,029
Total liabilities		**3,088**	2,817
Total equity and liabilities		**4,420**	3,959

Consolidated statement of cash flows

EUR million	Note	Year ended Dec 31, 2021	2020
Cash flows from operating activities			
Profit for the period		**296**	231
Adjustments			
Depreciation and amortization	4, 5	**120**	106
Financial income and expenses	10	**3**	11
Income taxes	16	**99**	75
Other non-cash items		**-22**	27
Change in net working capital	6	**76**	160
Interest paid		**-8**	-8
Interest received		**8**	4
Income taxes paid		**-91**	-75
Net cash provided by (+) / used in (-) operating activities		**482**	532
Cash flows from investing activities			
Capital expenditures on fixed assets	4	**-97**	-89
Proceeds from sale of fixed assets		**2**	1
Business combinations, net of cash acquired and loans repaid	20	**-15**	-48
Investments in associated companies	22	**11**	-456
Net cash provided by (+) / used in (-) investing activities		**-99**	-592
Cash flows from financing activities			
Redemption of own shares		**-3**	-6
Dividends paid	17	**-135**	-120
Proceeds from non-current debt		**100**	329
Repayments of non-current debt		**-119**	-101
Repayments of lease liabilities		**-26**	-26
Financial investments		**27**	-48
Net cash provided by (+) / used in (-) financing activities		**-155**	28
Net increase (+) / decrease (-) in cash and cash equivalents		**227**	-32
Effect of changes in exchange rates on cash and cash equivalents		**16**	-10
Cash and cash equivalents at beginning of year	8	**274**	316
Cash and cash equivalents at end of year		**517**	274

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, 2021	**100**	**423**	**-40**	**21**	**633**	**1,137**	**6**	**1,142**
Profit for the period	—	—	—	—	296	**296**	1	**296**
Other comprehensive income for the period								
Gains and losses on cash flow hedges								
Fair value gains and losses, net of tax	—	—	—	-13	—	**-13**	—	**-13**
Transferred to profit or loss, net of tax	—	—	—	3	—	**3**	—	**3**
Change in fair value reserve, net of tax	—	—	—	1	—	**1**	—	**1**
Currency translation on subsidiary net investments	—	—	24	—	—	**24**	—	**25**
Share of other comprehensive income of associated companies accounted for using equity method	—	—	—	—	1	**1**	—	**1**
Remeasurement of defined benefit plans, net of tax	—	—	—	—	9	**9**	—	**9**
Other comprehensive income for the period, total	—	—	24	-9	10	**26**	—	**26**
Total comprehensive income for the period	—	—	24	-9	306	**321**	1	**322**
Transactions with owners in their capacity as owners								
Dividends	—	—	—	—	-135	**-135**	-1	**-135**
Purchase of treasury shares	—	—	—	—	-3	**-3**	—	**-3**
Share-based payments, net of tax	—	3	—	—	2	**5**	—	**5**
Balance at December 31, 2021	**100**	**426**	**-16**	**13**	**804**	**1,326**	**6**	**1,332**
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								
Gains and losses on cash flow hedges								
Fair value gains and losses, net of tax	—	—	—	17	—	17	—	17
Transferred to profit or loss, net of tax	—	—	—	3	—	3	—	3
Currency translation on subsidiary net investments	—	—	-24	—	—	-24	—	-24
Share of other comprehensive income of associated companies accounted for using equity method	—	—	—	—	-2	-2	—	-2
Remeasurement of defined benefit plans, net of tax	—	—	—	—	-5	-5	—	-5
Other comprehensive income for the period, total	—	—	-24	20	-7	-10	—	-11
Total comprehensive income for the period	—	—	-24	20	224	221	—	221
Transactions with owners in their capacity as owners								
Dividends	—	—	—	—	-120	-120	—	-120
Purchase of treasury shares	—	—	—	—	-6	-6	—	-6
Share-based payments, net of tax	—	2	—	—	—	2	—	2
Balance at December 31, 2020	**100**	**423**	**-40**	**21**	**633**	**1,137**	**6**	**1,142**

Notes to the consolidated financial statements

1 | Basis of preparation

General information

Valmet Oyj (the "Company" or the "parent company"), a public limited liability company, and its subsidiaries (together "Valmet," "Valmet Group" or the "Group") form a global developer and supplier of process technologies, automation and services for the pulp, paper and energy industries. Valmet Oyj is domiciled in Helsinki, and its registered address is Keilasatama 5, 02150 Espoo, Finland. The Company's shares are listed on the Nasdaq Helsinki Ltd as of January 2, 2014. The copies of the consolidated financial statements are available at www.valmet.com or the parent company's head office, Keilasatama 5, 02150 Espoo, Finland. The consolidated financial statements were authorized for issue by Valmet's Board of Directors on February 3, 2022, after which, in accordance with Finnish Limited Liability Company Act, the financial statements are either approved, amended or rejected in the Annual General Meeting. The consolidated financial statements have been prepared in accordance with the basis of presentation set out below and accounting policies described in connection with each note.

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

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

Basis of presentation

Subsidiaries

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

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

Associated companies

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

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

Foreign currency translation

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

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

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

Foreign currency transactions

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

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

Key exchange rates:

		Average rates		Year-end rates	
		2021	**2020**	**2021**	**2020**
USD	(US dollar)	**1.1851**	1.1452	**1.1326**	1.2271
SEK	(Swedish krona)	**10.1469**	10.4789	**10.2503**	10.0343
CNY	(Chinese yuan)	**7.6388**	7.8916	**7.1947**	8.0225

Critical accounting estimates and judgments

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

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

- Revenue recognition Note 3
- Intangible assets and property, plant and equipment Note 4
- Leases Note 5
- Inventories Note 7
- Financial assets and liabilities Note 8
- Derivative financial instruments Note 9
- Provisions Note 11
- Post-employment benefit obligations Note 15
- Income taxes Note 16

2 | Reporting segments and geographic information

Accounting policies

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

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

Reconciliation between Comparable EBITA, EBITA and Operating profit:

EUR million	Year ended Dec 31, 2021	2020
Comparable EBITA	**429**	365
Items affecting comparability in cost of sales		
Expenses related to capacity adjustments	**—**	-6
Expensing of fair value adjustments recognized in business combinations	**-2**	-1
Other items affecting comparability[1]	**1**	-1
Items affecting comparability in selling, general and administrative expenses		
Expenses related to capacity adjustments	**—**	-5
Expenses related to acquisitions	**-6**	-1
Other items affecting comparability	**—**	—
Items affecting comparability in other operating income and expenses		
Expenses related to capacity adjustments	**—**	—
Other items affecting comparability[1]	**10**	2
Items affecting comparability in share in profits and losses of associated companies, operative investments		
Other items affecting comparability	**16**	3
EBITA	**448**	355
Amortization included in cost of sales		
Other intangibles	**-1**	-1
Amortization included in selling, general and administrative expenses		
Intangibles recognized in business combinations	**-21**	-19
Other intangibles	**-14**	-13
Amortization included in share in profits and losses of associated companies, operative investments		
Other intangibles	**-13**	-2
Operating profit	**399**	319

[1] Includes income arising from real estate related transactions and post-acquisition period remeasurement of contingent consideration in 2021.

Entity-wide information

Valmet has operations globally in over 35 countries. Measured by net sales, the top three countries in 2021 were China, the USA and Finland which together accounted for 46 percent of total net sales. In 2020, the top three countries were the USA, China, and Brazil, which together accounted for 38 percent of total net sales.

Net sales from Finland (the country of domicile) amounted to EUR 434 million in 2021 (EUR 362 million).

Net sales by destination 2021, EUR 3,935 million

Net sales by destination 2020, EUR 3,740 million

Non-current assets by location:

EUR million	Finland	North America	South America	EMEA excluding Finland	China	Asia-Pacific	Non-allocated	Total
2021	**261**	**152**	**16**	**159**	**85**	**25**	**1,262**	**1,961**
2020	243	141	17	152	81	23	1,260	1,918

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

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

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
2021	**4**	**1**	**83**	**7**	**1**	**97**
2020	4	2	72	9	2	89

Major customers

Valmet enters into large long-term capital projects which however individually rarely contribute more than 10 percent of annual revenue. In 2021 and 2020 there were no single customer with revenue exceeding 10 percent of net sales.

3 | Revenue recognition

Accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

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

Critical accounting estimates and judgments

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

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

Disaggregation of revenue

Valmet's revenue is reported, and monitored by management, by business line and area. 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 is generated from large volume of short-term contracts with relatively low individual value, for which revenue is mainly recognized at a point in time. Automation business line's revenue consists of long-term contracts and short-term service contracts. The nature of long-term contracts, and therefore also the revenue recognition method, is similar to capital projects although with average contract values being lower. Revenue for short-term service contracts is recognized at a point in time. Nature of revenue in each area in any given reporting period is driven by volume and size of ongoing capital projects.

Net sales by business lines:

	Year ended Dec 31,	
EUR million	**2021**	**2020**
Services	**1,366**	1,327
Automation	**339**	335
Pulp and Energy	**1,036**	1,003
Paper	**1,195**	1,076
Total	**3,935**	3,740

Timing of revenue recognition:

	Year ended Dec 31,	
EUR million	**2021**	**2020**
Performance obligations satisfied at a point in time	**1,682**	1,586
Performance obligations satisfied over time	**2,253**	2,154
Total	**3,935**	3,740

Contract balances

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

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

Valmet receives payments from customers based on invoicing schedules as set out in the customer contracts. Changes in contract assets and liabilities are due to Valmet's performance under the customer 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.

The following tables show movements in amounts due from customers under revenue contracts and amounts due to customers under revenue contracts during 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	2021	2020
Balance at beginning of the period	**229**	263
Translation differences	**2**	1
Acquired in business combinations	**–**	–
Revenue recognized in the period	**787**	628
Transfers to trade receivables	**-738**	-664
Balance at end of the period	**280**	229

Amounts due to customers under revenue contracts:

EUR million	2021	2020
Balance at beginning of the period	**1,002**	913
Translation differences	**32**	-30
Acquired in business combinations	**5**	39
Revenue recognized in the period	**-2,230**	-2,008
Consideration invoiced and/or received	**2,454**	2,088
Balance at end of the period	**1,263**	1,002

EUR million	As at Dec 31, 2021	2020
Amounts due to customers under revenue contracts for which revenue is recognized		
Point in time	**349**	308
Over time	**913**	694
Carrying value at end of the period	**1,263**	1,002

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, 2021, Valmet had no costs to obtain or fulfil contracts capitalized under IFRS 15.

The aggregate amount of transaction price allocated to unsatisfied or partially satisfied performance obligations as at December 31, 2021, was EUR 4,096 million (EUR 3,257 million).

4 | Intangible assets and property, plant and equipment

Accounting policies

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

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

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

Depreciation and amortization

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

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

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

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

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

Impairment

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

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

Critical accounting estimates and judgments

Impairment testing

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

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

Triggering events for impairment reviews at Valmet include the following:

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

Intangible assets:

EUR million	Goodwill	Patents and licenses	Capitalized software	Other intangible assets	Total
2021					
Acquisition cost at beginning of the period	711	44	145	518	**1,418**
Translation differences	9	—	—	4	**14**
Capital expenditure	—	1	—	27	**29**
Acquired in business combinations	10	—	—	6	**16**
Retirements	—	-4	-4	-1	**-8**
Reclassifications	—	—	34	-34	**—**
Other changes and disposals	—	3	3	1	**7**
Acquisition cost at end of the period	730	46	178	521	**1,475**
Accumulated amortization at beginning of the period	—	-31	-86	-318	**-435**
Translation differences	—	—	—	—	**-1**
Amortization charges for the period	—	-2	-12	-21	**-36**
Impairment losses	—	—	—	—	**-1**
Retirements	—	3	4	1	**8**
Other changes and disposals	—	-3	-3	-1	**-7**
Accumulated amortization at end of the period	—	-33	-97	-340	**-471**
Carrying value at end of the period	**730**	**12**	**80**	**181**	**1,004**

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

Property, plant and equipment (excluding leased assets):

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Total
2021					
Acquisition cost at beginning of the period	25	395	916	48	**1,385**
Translation differences	—	9	19	1	**29**
Capital expenditure	—	—	8	60	**68**
Acquired in business combinations	—	—	—	—	**—**
Disposals	—	-1	-2	—	**-3**
Retirements	—	-17	-32	—	**-49**
Reclassifications	—	7	30	-37	**—**
Other changes	—	1	4	—	**5**
Acquisition cost at end of the period	25	395	942	72	**1,434**
Accumulated depreciation at beginning of the period	—	-271	-738	—	**-1,009**
Translation differences	—	-5	-14	—	**-19**
Depreciation charges for the period	—	-12	-36	—	**-47**
Disposals	—	—	2	—	**2**
Retirements	—	17	32	—	**48**
Other changes	—	-1	-4	—	**-5**
Accumulated depreciation at end of the period	—	-272	-759	—	**-1,030**
Carrying value at end of the period	**25**	**123**	**183**	**72**	**404**

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

Depreciation and amortization 2021, EUR 107 million

Depreciation and amortization 2020, EUR 104 million

Depreciation and amortization by function:

EUR million	Year ended Dec 31, 2021	2020
Cost of goods sold	**-44**	-44
Selling, general and administrative expenses		
Marketing and selling	**-5**	-6
Research and development	**-4**	-3
Administrative	**-54**	-51
Total	**-107**	-104

Table does not include amortization included in share in profits and losses of associated companies, operative investments.

Goodwill impairment testing

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

In 2021 and 2020 Valmet has identified three CGUs. The first CGU comprises of Valmet's Paper business line and the paper business related part of Valmet's service business. The second CGU comprises of Valmet's Pulp and Energy business line and the pulp and energy related part of Valmet's service business. The third CGU consists of Valmet's Automation business line.

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

The following table sets out the allocation of goodwill as at December 31, 2021, and 2020, and the key assumptions applied in the value in use calculations (in both financial years, testing was performed as at September 30).

Allocation of goodwill:

EUR million	As at Dec 31, 2021	2020
Paper business line and the paper business related part of Valmet's service business	**235**	228
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**329**	317
Automation business line	**166**	166
Total	**730**	711

Key assumptions applied:

	2021	2020
Long-term growth rate, (%)		
Paper business line and the paper business related part of Valmet's service business	**1.6%**	1.7%
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**1.2%**	1.2%
Automation business line	**1.0%**	1.0%
Pre-tax discount rate, (%)		
Paper business line and the paper business related part of Valmet's service business	**12.3%**	10.0%
Pulp and Energy business line and the pulp and energy related part of Valmet's service business	**11.8%**	10.0%
Automation business line	**9.2%**	9.6%

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

As a result of the annual impairment tests, no impairment loss was recognized on goodwill in 2021, or in 2020.

Sensitivity analysis

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

5 | Leases

Accounting policies

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

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

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

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

Valmet applies exemptions provided by IFRS 16 not to recognize a right-of-use asset and corresponding lease liability for leases with a contract term of 12 months or less, and for leases of low-value assets. The payments for these leases are recognized as an expense on a straight-line basis over the lease term. Further, Valmet separates non-lease components from lease components only for asset classes in which the amount of non-lease components is significant.

Critical accounting estimates and judgments

Valmet has a significant volume of open-ended real estate lease contracts which carry a short notice period only, or which have an initial fixed term but carry extension or termination options. Estimating the likely lease term for these contracts and assessing if the options will be exercised requires significant judgement. When assessing the lease term for these contracts, management considers the relevant facts and circumstances. The likely lease term is typically assessed following the three-year financial forecasts established by management. In case there are specific circumstances in place, such as beneficial market rates, significant leasehold improvements, or other significant direct or indirect costs associated with exiting the lease, lease term can be above three years.

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

Valmet's leasing activities

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

The below tables present the right-of-use assets recognized in the Consolidated statement of financial position and the movements during the period and the future minimum lease payments as at December 31, 2021.

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Leased assets total
2021				
Carrying value at beginning of the period	8	42	15	**66**
Translation differences	1	1	—	**2**
Additions	1	15	6	**22**
Acquired in business combinations	—	2	—	**2**
Depreciation	-1	-15	-8	**-24**
Other changes	-1	-2	-1	**-4**
Carrying value at end of the period	**9**	**42**	**13**	**65**

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

EUR million	As at Dec 31, 2021	2020
Not later than 1 year	**23**	22
Later than 1 year and not later than 2 years	**16**	16
Later than 2 years and not later than 3 years	**9**	10
Later than 3 years and not later than 4 years	**6**	6
Later than 4 years and not later than 5 years	**3**	4
Later than 5 years	**9**	10
Total	**65**	67

Lease payments related to short-term leases and leases of low-value assets, as well as variable lease payments that are not based on index or rate, are not included in the lease liability but are recognized as an expense as incurred in either Cost of goods sold or Selling, general and administrative expenses. The below table presents lease payments for such leases. Interest expense related to leases included in Financial expenses is presented in Note 10.

EUR million	Year ended Dec 31, 2021	2020
Expenses related to short-term leases	**-2**	-4
Expenses related to leases of low-value assets	**-5**	-5
Expenses related to variable lease payments not included in lease liabilities	**-2**	-1
Total	**-9**	-10

6 | Net working capital

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

Net working capital does not include non-operative items such as taxes, interest-bearing assets and liabilities, or other items related to funding of the Group's operations.

EUR million	As at Dec 31, 2021	2020	Impact 2021
Assets included in net working capital			
Non-current trade receivables	**1**	1	**–**
Other non-current assets	**8**	7	**-1**
Inventories	**662**	553	**-109**
Trade receivables	**644**	602	**-42**
Amounts due from customers under revenue contracts	**280**	229	**-51**
Derivative financial instruments (assets)	**43**	68	**25**
Other receivables	**150**	133	**-18**
Liabilities included in net working capital			
Post-employment benefits	**-189**	-201	**-12**
Provisions	**-214**	-211	**3**
Other non-current non-interest-bearing liabilities	**-2**	-3	**-1**
Trade payables	**-374**	-372	**2**
Amounts due to customers under revenue contracts	**-1,263**	-1,002	**261**
Derivative financial instruments (liabilities)	**-26**	-44	**-17**
Other current liabilities	**-394**	-355	**39**
Total net working capital	**-673**	-595	**78**
Effect of changes in foreign exchange rates			**-15**
Remeasurement of defined benefit plans			**14**
Change in allowance for doubtful receivables and inventory obsolescence provision			**-7**
Post-acquisition period remeasurement of contingent consideration			**3**
Acquired in business combinations			**3**
Change in net working capital in the Consolidated statement of cash flows			**76**

7 | Inventories

Accounting policies

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

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

Critical accounting estimates and judgments

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

Specification of changes in inventory obsolescence provision:

EUR million	2021	2020
Balance at beginning of the period	**30**	29
Translation differences	**1**	-1
Additions charged to profit or loss	**11**	6
Acquired in business combinations	**—**	1
Used reserve	**-1**	-2
Reversal of reserve	**-5**	-2
Balance at end of the period	**36**	**30**

The cost of inventories recognized as expense was EUR 2,837 million and EUR 2,745 million for the years ended December 31, 2021, and 2020, respectively.

8 | Financial assets and liabilities

Accounting policies

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

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

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

Financial assets at amortized cost

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

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

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

Financial assets at fair value through other comprehensive income

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

Valmet also applies fair value through other comprehensive income option to certain publicly traded equity investments. Change in fair value of the related shares is recognized in the fair value reserve of Equity. Should the investments be divested in the future, any cumulative gain or loss remains in Equity, and is not recycled through OCI to Consolidated statement of income. Fair value of the equity investments classified at fair value through other comprehensive income as at December 31, 2021, was EUR 9 million (EUR 8 million).

Financial assets and liabilities at fair value through profit or loss

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

Financial liabilities at amortized cost

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

Fair value estimation

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

Level 1

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

Level 2

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

Level 3

A financial instrument is categorized into Level 3 if the calculation of the fair value cannot be based on observable market data. Level 3 financial instruments include equity investments classified as financial assets at fair value through profit or loss. There were no changes in Level 3 instruments for the 12 months ended December 31, 2021.

Critical accounting estimates and judgments

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

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

Classification of financial assets and liabilities as at December 31:

EUR million	As at Dec 31, 2021	2020
Non-current financial assets		
Equity investments at fair value through other comprehensive income	9	8
Equity investments at fair value through profit or loss	2	2
Loan receivables at amortized cost	1	1
Loan receivables at fair value through profit or loss	—	—
Derivative financial instruments at fair value through profit or loss	—	—
Derivative financial instruments qualified for hedge accounting	10	18
Carrying value at end of the period	**22**	30
Current financial assets		
Interest-bearing financial assets at fair value through other comprehensive income	47	73
Non-interest-bearing financial assets at amortized cost	14	3
Non-interest-bearing financial assets at fair value through other comprehensive income	—	—
Trade receivables at amortized cost	644	602
Derivative financial instruments at fair value through profit or loss	10	5
Derivative financial instruments qualified for hedge accounting	23	45
Cash and cash equivalents at amortized cost	517	274
Carrying value at end of the period	**1,255**	1,003

EUR million	As at Dec 31, 2021	2020
Non-current financial liabilities		
Loans from financial institutions at amortized cost	195	417
Lease liabilities at amortized cost	37	40
Derivative financial instruments at fair value through profit or loss[1]	—	—
Derivative financial instruments qualified for hedge accounting[1]	3	15
Carrying value at end of the period	**235**	472
Current financial liabilities		
Loans from financial institutions at amortized cost	222	18
Lease liabilities at amortized cost	22	22
Trade payables at amortized cost	374	372
Derivative financial instruments at fair value through profit or loss	8	4
Derivative financial instruments qualified for hedge accounting	15	25
Carrying value at end of the period	**642**	441

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

Carrying values presented in the table above approximate fair values.

Non-current equity investments comprised EUR 9 million listed shares (EUR 8 million) and various industrial participations, shares in real-estate holdings and other shares amounting to EUR 2 million as at December 31, 2021 (EUR 2 million). Current interest-bearing financial assets managed centrally by the Group treasury amounted to EUR 47 million (EUR 73 million).

Valmet manages its cash by investing in financial assets with varying maturities. Interest-bearing financial assets with maturities at the date of acquisition exceeding three months are classified as Other current financial assets and assets with maturities of three months or less are classified as Cash and cash equivalents in the Consolidated statement of financial position. Cash and cash equivalents comprised of cash at bank and in hand of EUR 391 million (EUR 213 million), investments to commercial papers of EUR 30 million (EUR 0 million) and other short-term financial assets with maturities of three months or less of EUR 97 million (EUR 61 million) mainly comprising of banker's acceptance drafts and bank deposits. For more information on derivative financial instruments, see Note 9.

Analysis of trade receivables by age:

EUR million	As at Dec 31, 2021	2020
Trade receivables, not due	**489**	446
Trade receivables 1–30 days overdue	**76**	92
Trade receivables 31–60 days overdue	**17**	25
Trade receivables 61–90 days overdue	**7**	19
Trade receivables 91–180 days overdue	**31**	10
Trade receivables more than 180 days overdue	**23**	10
Total	**644**	602

Movement in allowance for trade receivables and contract assets:

EUR million	2021	2020
Balance at beginning of the period	**18**	18
Translation differences	**1**	-1
Additions charged to profit or loss	**5**	6
Acquired in business combinations	**—**	—
Used reserve	**-3**	-4
Reversals	**-2**	-2
Balance at end of the period	**19**	18

Net debt reconciliation:

EUR million	As at Dec 31, 2021	2020
Cash and cash equivalents	**517**	274
Current interest-bearing financial assets	**47**	73
Loans from financial institutions	**417**	436
Lease liabilities	**60**	61
Net debt	**88**	-150

2021	Liabilities from financing activities		Other assets		
EUR million	Loans from financial institutions	Lease liabilities	Cash and cash equivalents	Current interest-bearing financial assets	Total
Balance at beginning of the period	436	61	274	73	**-150**
Translation differences	—	1	16	1	**16**
Cash flows	-19	-26	227	-27	**245**
New leases	—	24	—	—	**-24**
Acquired in business combinations	1	2	—	—	**-3**
Other changes	—	-3	—	—	**3**
Net debt at end the of period	**417**	**60**	**517**	**47**	**88**

2020	Liabilities from financing activities		Other assets		
EUR million	Loans from financial institutions	Lease liabilities	Cash and cash equivalents	Current interest-bearing financial assets	Total
Balance at beginning of the period	207	61	316	42	89
Translation differences	—	-2	-10	-12	-20
Cash flows	228	-26	-32	44	-191
New leases	—	30	—	—	-30
Acquired in business combinations	1	2	—	—	-2
Other changes	—	-4	—	—	4
Net debt at end of the period	436	61	274	73	-150

9 | Derivative financial instruments

Accounting policies

Derivative financial instruments

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

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

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

Application of hedge accounting

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

For derivatives that have been designated to a cash flow hedge accounting relationship, the effective portion of change in fair value is recognized through other comprehensive income (OCI) in the hedge reserve under Equity and reclassified to profit or loss concurrently with the underlying hedged transaction. The gains or losses relating to the ineffective portion of derivatives hedging operative items (e.g. foreign currency denominated sales and purchase transactions) are reported in profit or loss. Both the ineffective portion and the reclassification from Equity are reported either in Net sales and Cost of goods sold or under Other operating income and expenses on a case-by-case basis. Net loss from foreign exchange related to operative items was EUR -13 million in 2021 (EUR -1 million). Respectively, the ineffective portions of derivatives hedging non-operative items (e.g. interest-bearing financial assets and liabilities, and other items related to Group's funding) are reported under Financial income and expenses in profit or loss. Ineffectiveness arising from application of hedge accounting during the reporting period was insignificant. Should a hedged transaction no longer be expected to occur, any cumulative gain or loss previously recognized under Equity is reclassified through OCI to profit or loss.

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

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

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

Derivatives at fair value through profit or loss

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

Critical accounting estimates and judgments

Financial instruments

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

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

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

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

EUR million	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
2021				
Forward exchange contracts[1]				
Under hedge accounting	2,108	28	-17	11
Not designated for hedge accounting	994	10	-9	1
Total	3,102	38	-25	13
Electricity forward contracts[2]				
Under hedge accounting	171	4	—	4
Nickel commodity swaps[3]				
Not designated for hedge accounting	42	—	—	—
Interest rate swaps[1]				
Under hedge accounting	75	1	-1	-1
Total		**43**	**-27**	**16**
Netting fair values of derivative financial instruments subject to ISDAs[4]		-23	23	—
Total, net		**19**	**-3**	**16**
2020				
Forward exchange contracts[1]				
Under hedge accounting	1,965	62	-35	28
Not designated for hedge accounting	826	5	-4	1
Total	2,792	67	-39	28
Electricity forward contracts[2]				
Under hedge accounting	165	—	-1	—
Nickel commodity swaps[3]				
Not designated for hedge accounting	24	—	—	—
Interest rate swaps[1]				
Under hedge accounting	75	1	-4	-4
Total		68	-44	24
Netting fair values of derivative financial instruments subject to ISDAs[4]		-40	40	—
Total, net		28	-4	24

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

Maturities of financial derivatives as at December 31:

	2022	2023	2024	2025	2026 and later
2021					
Notional amounts					
Forward exchange contracts[1]	**2,685**	**410**	**7**	**—**	**—**
Electricity forward contracts[2]	**101**	**70**	**—**	**—**	**—**
Nickel commodity swaps[3]	**42**	**—**	**—**	**—**	**—**
Interest rate swaps[1]	**—**	**—**	**—**	**30**	**45**
Fair values, EUR million					
Forward exchange contracts	**6**	**7**	**—**	**—**	**—**
Electricity forward contracts	**3**	**1**	**—**	**—**	**—**
Nickel commodity swaps	**—**	**—**	**—**	**—**	**—**
Interest rate swaps	**—**	**—**	**—**	**-1**	**1**

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

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

10 | Financial income and expenses

EUR million	Year ended Dec 31, 2021	2020
Interest income on financial assets (excl. derivatives)	**4**	4
Net gain from foreign exchange	**1**	–
Interest component from forward contracts	**4**	–
Financial income total	**9**	4
Interest expenses on financial liabilities measured at amortized cost (excl. leases)	**-5**	-4
Interest expenses on lease liabilities	**-2**	-2
Net interest from defined benefit plans	**-3**	-3
Net loss from foreign exchange	**–**	-1
Interest component from forward contracts	**–**	-1
Other financial expenses	**-4**	-3
Financial expenses total	**-13**	-15
Financial income and expenses, net	**-3**	-11

Exchange rate differences included in financial income and expenses:

EUR million	Year ended Dec 31, 2021	2020
Exchange rate differences from interest-bearing financial assets and liabilities, and other items related to Group's funding	**-9**	-9
Exchange rate differences from derivative financial instruments	**9**	7
Net gain or loss from foreign exchange	**1**	-1

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

11 | Provisions

Accounting policies

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

Warranty provisions

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

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

Restructuring provisions

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

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

Provisions for onerous contracts

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

Other provisions

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

Critical accounting estimates and judgments

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

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

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

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

Specification of changes in provisions:

	2021				
EUR million	Warranty provisions	Restructuring provisions	Provisions for onerous contracts	Other provisions	Total
Balance at beginning of the period	172	4	22	13	**211**
Translation differences	2	—	—	1	**2**
Additions charged to profit or loss	102	—	8	—	**111**
Acquired in business combinations	1	—	—	1	**2**
Used reserve	-55	-2	-5	-1	**-64**
Reversal of reserve	-34	—	-6	-8	**-48**
Balance at end of the period	**187**	**2**	**18**	**6**	**214**
Non-current	22	1	—	2	**25**
Current	165	1	18	4	**189**

Provisions for expected contract losses relate primarily to long-term capital projects. The Group did not have material environmental or product liabilities as at December 31, 2021, or December 31, 2020.

12 | Other current liabilities

EUR million	As at Dec 31, 2021	2020
Accrued personnel costs	**157**	143
Accrued project costs	**112**	94
Accrued interest	**2**	2
Other payables	**125**	118
Other current liabilities total	**396**	357

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

13 | Personnel expenses and number of personnel

Personnel expenses:

EUR million	Year ended Dec 31, 2021	2020
Salaries and wages	**-743**	-708
Pension costs, defined contribution plans	**-72**	-60
Pension costs, defined benefit plans[1]	**-10**	-9
Other post-employment benefits	**-7**	-6
Share-based payments[2]	**-7**	-4
Other indirect employee costs	**-108**	-102
Total	**-948**	-891

[1] For more information, see Note 15.
[2] For more information, see Note 14.

Number of personnel:

	2021	2020
Personnel at end of the period	**14,246**	14,046
Average number of personnel during the period	**14,163**	13,615

14 | Share-based payments

Accounting policies

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

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

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

Granted share amounts of the share-based incentive plans:

	Plan 2018–2020	Plan 2021–2023
2021		
At beginning of the period	156,148	–
Maximum number of shares to be granted	1,259	419,947
Changes due to achievement criteria	-7,930	-6,351
Actual number of shares granted	-149,477	–
Shares returned by plan participants	2,427	–
Shares transferred to treasury shares	-2,427	–
At end of the period	–	413,596

Long-term incentive plan for 2018–2020

The Board of Directors of Valmet Oyj decided in December 2017 on a new long-term share-based incentive plan for Valmet's key employees. The plan included three performance periods, which were 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 plan was directed to a total of approximately 130 participants, of which 90 were key employees in management positions (including Executive Team members), and 40 were management talents, which was a new target group in Valmet's share-based incentive plan.

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

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

Long-term incentive plans – Performance Share Plan and Deferred Share Plan

The Board of Directors of Valmet Oyj decided in December 2020 on new share-based long-term incentive plans, a Performance Share Plan and a Deferred Share Plan for Valmet's key employees. The Performance Share Plan is directed to Valmet's Executive Team and the Deferred Share Plan is directed to other key employees in management positions, and management talents.

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

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

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

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

Long-term incentive plan 2018–2020:

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 (including the matching share rewards)	350,029 shares	271,428 shares	148,369 shares
Valmet's closing share price as at the grant date	EUR 18.33	EUR 19.83	EUR 19.59
Vesting period	February 2018 to December 2020	February 2019 to December 2021	February 2020 to December 2022

Performance Share Plans and Deferred Share Plans:

	Long-term incentive plans 2021–2023		Long-term incentive plans 2022–2024	
Plan name	Performance Share Plan and Deferred Share Plan	Performance Share Plan	Performance Share Plan and Deferred Share Plan	Performance Share Plan
Performance period	2021	2021–2023	2022	2022–2024
Incentive based on	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business	Predefined strategic target	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business	ESG Index, targets linked to implementing Valmet's Climate Program and Sustainability Agenda
Reward payment	In spring 2022	In spring 2024	In spring 2023	In spring 2025
Participants				
Performance Share Plan	13	13	13	13
Deferred Share Plan	110		130	
Total gross number of shares earned	As at December 31, 2021 a total of 359,928 shares were allotted to participants	As at December 31, 2021 a total of 53,668 shares were allotted to participants	The rewards to be paid will correspond to a maximum total of approximately 326,000 Valmet shares	
Valmet's closing share price as at the grant date	26.51	26.51		
Vesting period	February 2021 to March 2024	February 2021 to March 2024	February 2022 to March 2025	February 2022 to March 2025

Restricted shares pool

As part of total remuneration, for example for retention purposes, the Board of Directors decided on an additional incentive element in December 2018, the restricted shares pool, from which shares can be granted to selected key employees. Restricted share pools are intended to be annually commencing, and the annual restricted shares pool is subject to separate approval by the Board of Directors. In 2021, no allocation was made from the restricted shares pool. In 2022, a maximum of 48,800 Company shares can be allocated to possible participants in the restricted shares pool. As a rule, the restriction period for these shares is three years. Plan nominations as well as detailed terms of allocation will be proposed by the President and CEO to the Chairman of the Board of Directors for approval. A precondition for the payment of the share reward based on the restricted shares pool is that a threshold Valmet Comparable EBITA is exceeded and that the employment relationship of the individual participant with Valmet continues until the payment date of the reward.

Share ownership recommendation

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

Costs recognized for the share ownership plans

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

Costs arising from share-based payments plans:

	Year ended Dec 31,	
EUR thousand	**2021**	**2020**
Plan 2018–2020	**-1,516**	-4,342
Plan 2021–2023	**-5,465**	–
Total	**-6,981**	-4,342

15 | Post-employment benefit obligations

Accounting policies

Pensions and coverage of pension liabilities

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

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

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

Critical accounting estimates and judgments

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

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

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

Amounts recognized in the Consolidated statement of financial position:

	As at Dec 31,					
	2021			2020		
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Present value of funded obligation	203	–	**203**	200	–	200
Fair value of plan assets	-188	–	**-188**	-170	–	-170
Net surplus (-) / deficit (+) of funded plans	16	–	**16**	30	–	30
Present value of unfunded obligation	–	172	**172**	–	170	170
Asset (-) / liability (+)	**16**	**172**	**188**	30	170	201
Amounts in the Consolidated statement of financial position						
Liabilities	17	172	**189**	31	170	201
Assets	1	–	**1**	–	–	–
Net liability	**16**	**172**	**188**	30	170	201

Amounts recognized in the Consolidated statement of income:

	Year ended Dec 31,					
		2021			2020	
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Employer's current service cost	2	8	**10**	2	7	9
Net interest on net surplus / deficit	1	2	**3**	1	2	3
Settlements	—	—	**-1**	—	—	—
Total expenses	**3**	**10**	**12**	3	9	13

Changes in the present value of the defined benefit obligation:

		2021			2020	
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Present value of obligation at beginning of the period	200	170	**371**	203	152	354
Other adjustments	—	—	**—**	-2	3	1
Acquired in business combinations	—	—	**—**	—	1	1
Employer's current service cost	2	8	**10**	2	7	9
Interest expense	4	2	**6**	5	2	8
Liabilities extinguished on settlements	-3	—	**-3**	—	—	—
Actuarial gain (-) / loss (+) due to change in financial assumptions	-7	-3	**-10**	18	6	23
Actuarial gain (-) / loss (+) due to change in demographic assumptions	—	-1	**—**	-2	—	-2
Actuarial gain (-) / loss (+) due to experience	2	3	**5**	—	—	—
Benefits paid from the arrangements	-8	—	**-8**	-8	—	-8
Benefits paid directly by employer	-1	-5	**-6**	-1	-4	-5
Translation differences	13	-2	**11**	-15	4	-10
Present value of defined benefit obligation at end of the period	**203**	**172**	**375**	200	170	371
- of which related to active members			**158**			158
- of which related to deferred members			**67**			67
- of which related to pensioner members			**149**			143

Changes in the fair value of the plan assets during the period:

		2021			2020	
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Fair value of plan assets at beginning of the period	170	—	**170**	166	—	166
Other adjustments to the fair value of assets	-3	—	**-3**	—	—	—
Interest income on assets	4	—	**4**	4	—	4
Return on plan assets excluding interest income	8	—	**8**	15	—	15
Employer contributions	5	—	**5**	5	—	5
Benefits paid from the arrangements	-8	—	**-8**	-8	—	-8
Translation differences	12	—	**12**	-12	—	-12
Fair value of plan assets at end of the period	**188**	**—**	**188**	170	—	170

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

	Year ended Dec 31,					
		2021			2020	
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Experience gain (-) / loss (+) on assets	-8	—	**-8**	-15	—	-15
Actuarial gain (-) / loss (+) on liabilities due to change in financial assumptions	-7	-3	**-10**	18	6	23
Actuarial gain (-) / loss (+) on liabilities due to change in demographic assumptions	—	-1	**—**	-2	—	-2
Actuarial gain (-) / loss (+) on liabilities due to experience	2	3	**5**	—	—	—
Translation differences	1	-1	**-1**	—	—	—
Total gain (-) / loss (+)	**-12**	**-2**	**-14**	—	6	5

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

		2021			2020	
As at Dec 31	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equities	26%	—	26%	31%	—	31%
Bonds	58%	—	58%	50%	—	50%
Other	1%	14%	16%	1%	18%	19%
Total	86%	14%	100%	82%	18%	100%

At December 31, 2021 there were no plan assets invested in affiliated companies or property occupied by affiliated companies.

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

		2021			2020	
As at Dec 31	Funded	Unfunded	All plans	Funded	Unfunded	All plans
Discount rate	2.4%	1.8%	**2.2%**	2.0%	1.2%	1.6%
Salary increase	2.8%	3.0%	**2.9%**	2.7%	2.3%	2.5%
Pension increase	2.3%	2.2%	**2.2%**	1.4%	1.5%	1.4%
Medical cost trend rates	—	5.0%	**5.0%**	—	5.3%	5.3%

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

	Life expectancy at age 65 for a male participant currently aged 65		Life expectancy at age 65 for a male participant currently aged 45	
Expressed in years	2021	2020	2021	2020
Sweden	**22**	22	**23**	23
Canada	**22**	21	**23**	23
USA	**21**	20	**22**	22
Finland	**21**	21	**24**	24

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

Sensitivity analysis on present value of the defined benefit obligation:

	As at Dec 31,					
	2021			2020		
EUR million	Funded	Unfunded	Total	Funded	Unfunded	Total
Discount rate						
Increase of 0.25%	-6	-8	**-14**	-6	-8	-14
Decrease of 0.25%	6	9	**15**	7	9	15
Salary increase rate						
Increase of 0.25%	1	5	**6**	1	5	6
Decrease of 0.25%	-1	-5	**-6**	-1	-5	-6
Pension increase rate						
Increase of 0.25%	1	5	**6**	1	5	6
Decrease of 0.25%	-1	-5	**-6**	-1	-5	-6
Medical cost trend						
Increase of 1%	—	—	**—**	—	—	—
Decrease of 1%	—	—	**—**	—	—	—
Life expectancy						
Increase of one year	6	8	**14**	6	7	13
Decrease of one year	-6	-7	**-13**	-6	-7	-13

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

Weighted average duration of the defined benefit obligation:

	2021			2020		
Expressed in years	Funded	Unfunded	All plans	Funded	Unfunded	All plans
As at December 31	13	20	**16**	13	21	17

Valmet sponsors both defined contribution and defined benefit arrangements. Valmet operates various defined benefit pension and other long-term employee benefit arrangements pursuant to local conditions, practices and collective bargaining agreements in the countries in which it operates. The majority of Valmet's defined benefit liabilities relate to arrangements that are funded through payments to either insurance companies or to independently administered funds based on periodic actuarial calculations. Other arrangements are unfunded with benefits being paid directly by Valmet as they fall due. All arrangements are subject to local tax and legal restrictions in their respective jurisdictions. Valmet's defined benefit arrangements in the USA, Canada and Sweden together represent 87 percent of Valmet's defined benefit obligation and 86 percent of its pension assets. These arrangements provide income in retirement, which is substantially based on salary and service at or near retirement.

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

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

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

The expected contributions to defined benefit type arrangements in 2022 are EUR 0.4 million in respect of Finnish plans and EUR 9 million in respect of foreign plans. Valmet paid contributions of EUR 72 million (EUR 60 million) to defined contribution arrangements during 2021.

16 | Income taxes

Accounting policies

Tax expenses in the profit or loss comprise current and deferred taxes. Taxes are recognized in profit or loss except when they are associated with items recognized in Consolidated statement of comprehensive income or directly in equity. Current taxes are calculated on the taxable income on the basis of the tax rates stipulated for each country as at the balance sheet date. Additionally, non-recoverable foreign taxes on financing transactions or transactions with shareholders, which are not based on taxable profits, are reported in Current tax expenses. Non-recoverable withholding taxes and foreign taxes on operative items are reported in Other operating income and expenses. These non-recoverable foreign taxes include for example taxes paid that are not creditable based on applicable Double Tax Treaty. Taxes are adjusted for taxes of prior financial periods, if applicable. Interest that is calculated based on unpaid tax amounts is reported under Financial expenses.

Management evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The tax provisions recognized in such situations are based on evaluations by management on the probability that the items subject to interpretation reported to tax authorities can be substantiated on examination.

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

Critical accounting estimates and judgments

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

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

The differences between income tax expense computed at the Finnish statutory rate (20 percent in 2021 and 2020) and income tax expense recognized in profit or loss are shown in the table below.

	Year ended Dec 31,	
EUR million	**2021**	**2020**
Profit before taxes	**395**	307
Taxes calculated according to tax rate in Finland	**-80**	-62
Impact of changes in tax rates	**-1**	-1
Income tax for prior years[1]	**-3**	1
Effect of different tax rates in foreign subsidiaries	**-13**	-7
Utilization of tax losses carried forward	**—**	—
Non-recoverable foreign taxes	**-2**	-3
Effect of tax-free income and non-deductible expenses	**—**	-2
Other	**—**	-3
Income tax expense	**-99**	-75
Effective tax rate, (%)	**25.1%**	24.6%
Effective tax rate, (%) excluding income tax for prior years	**24.4%**	25.0%

[1] Includes in 2021 refund of additional taxes, late payment interest and penalties related to the Finnish Supreme Administrative Court's decision, and subsequent reassessment of income tax receivables.

Tax effects of components in other comprehensive income:

	Year ended Dec 31,					
	2021			2020		
EUR million	**Before taxes**	**Tax**	**After taxes**	**Before taxes**	**Tax**	**After taxes**
Gains and losses on cash flow hedges	-13	3	**-10**	25	-5	20
Change in fair value reserve	2	—	**1**	—	—	—
Remeasurement of defined benefit plans	14	-5	**9**	-5	1	-5
Currency translation on subsidiary net investments	25	—	**25**	-24	—	-24
Share of other comprehensive income of associated companies accounted for using equity method	1	—	**1**	-2	—	-2
Total comprehensive income for the period	**29**	**-3**	**26**	-6	-4	-11
Deferred tax	—	-3	—	—	-4	—
Total	**—**	**-3**	**—**	—	-4	—

Reconciliation of deferred tax balances:

EUR million	Balance at beginning of the period	Translation differences	Charged to income statement	Charged to other comprehensive income	Acquired in business combination	Balance at end of the period
2021						
Deferred tax assets						
Tax losses carried forward	4	—	—	—	—	**4**
Fixed assets	10	—	-1	—	—	**9**
Inventory	3	—	—	—	—	**3**
Provisions	27	1	2	—	—	**30**
Accruals	1	1	—	—	—	**3**
Employee benefits	25	—	—	-4	—	**21**
Other	2	-1	2	3	—	**6**
Total deferred tax assets	72	1	3	-1	—	**76**
Offset against deferred tax liabilities[1]	-10	—	1	—	—	**-10**
Net deferred tax assets	**61**	**1**	**4**	**-1**	**—**	**66**
Deferred tax liabilities						
Purchase price allocations	72	2	-1	—	2	**74**
Fixed assets	4	—	-1	—	—	**4**
Other	—	-2	1	2	—	**1**
Total deferred tax liabilities	76	—	-1	2	2	**79**
Offset against deferred tax assets[1]	-10	—	1	—	—	**-10**
Net deferred tax liabilities	**65**	**—**	**—**	**2**	**2**	**69**
2020						
Deferred tax assets						
Tax losses carried forward	8	-1	-2	—	—	4
Fixed assets	9	—	—	—	—	10
Inventory	2	1	—	—	—	3
Provisions	26	-2	3	—	—	27
Accruals	2	-2	2	—	—	1
Employee benefits	24	—	-1	1	—	25
Other	13	-3	-3	-6	1	2
Total deferred tax assets	85	-8	-2	-5	1	72
Offset against deferred tax liabilities[1]	-12	—	2	—	—	-10
Net deferred tax assets	73	-8	—	-5	1	61
Deferred tax liabilities						
Purchase price allocations	76	-6	-3	—	5	72
Fixed assets	2	1	2	—	—	4
Other	1	—	—	-1	1	—
Total deferred tax liabilities	79	-6	-1	-1	6	76
Offset against deferred tax assets[1]	-12	—	2	—	—	-10
Net deferred tax liabilities	66	-6	—	-1	6	65

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

A deferred tax liability on undistributed profits of Valmet's legal entities located in countries where distribution generates tax consequences is recognized when it is likely that earnings will be distributed in the near future. For the years ended December 31, 2021, and 2020, earnings of EUR 38 million and EUR 34 million, respectively, would have been subject to recognition of a deferred tax liability, had Valmet regarded a distribution in the near future as likely. A deferred tax asset is recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. There were no material tax loss carryforwards for which a deferred tax asset had not been recognized. Valmet has tax loss carryforwards of EUR 7 million that will expire within the following five years.

17 | Equity

Share capital and number of shares

	2021	2020
Share capital at end of the period, EUR	**100,000,000**	100,000,000
Number of shares at end of the period	**149,864,619**	149,864,619
Treasury shares at end of the period	**393,423**	373,643
Shares outstanding at end of the period	**149,471,196**	149,490,976
Average number of shares outstanding during the financial year	**149,467,939**	149,499,114

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

Treasury shares

As at December 31, 2021, Valmet Oyj held 393,423 (373,643) of its own shares. These shares have been acquired through purchase on the Helsinki Stock Exchange (Nasdaq Helsinki Ltd). The total amount paid to acquire Valmet's own shares during the reporting period, including transaction costs, was EUR 3 million (EUR 6 million) and it has been deducted from Retained earnings in Equity. Own shares have been acquired for the purposes of Valmet's long-term incentive plans.

Dividends

The Board of Directors proposes that a dividend of EUR 1.20 per share will be paid out based on the Consolidated statement of financial position to be adopted for the financial year ended December 31, 2021, and that the remaining part of the Retained earnings will be carried forward in Valmet Oyj's unrestricted equity. These financial statements do not reflect this dividend payable of EUR 179 million.

In compliance with the resolution of the Annual General Meeting, on April 7, 2021, Valmet paid out dividends of EUR 135 million for 2020, corresponding to EUR 0.90 per share.

Reserve for invested unrestricted equity

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

Hedge and other reserves

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

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

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

Cumulative translation adjustments

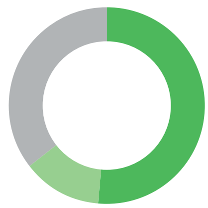
Cumulative translation adjustments consist of currency translation differences, which relate to translation of foreign operations from their functional currencies to Valmet Group's reporting currency euro.

18 | Selling, general and administrative expenses

Selling, general and administrative expenses 2021, EUR 597 million

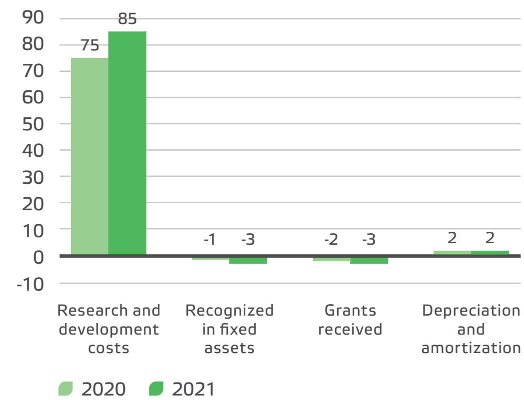
- Marketing and selling expenses EUR 297 million
- Research and development expenses, net EUR 82 million
- Administrative expenses EUR 218 million

Selling, general and administrative expenses 2020, EUR 571 million



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

Research and development expenses, EUR million



19 | Other operating income and expenses

EUR million	Year ended Dec 31, 2021	2020
Gain on sale of fixed assets	**1**	—
Reversal of allowance for doubtful receivables and contract assets	**9**	8
Interest component from forward contracts	**2**	—
Commodity derivatives	**1**	—
Insurance compensation	**—**	2
Post-acquisition period remeasurement of contingent consideration	**3**	—
Income related to tax and customs duty adjustments	**5**	2
Income arising from real estate related transactions	**5**	—
Other income	**7**	4
Other operating income, total	**33**	17
Impairment of fixed assets	**-1**	-1
Net loss from foreign exchange	**-12**	-2
Interest component from forward contracts	**—**	-4
Non-recoverable foreign taxes	**-2**	-3
Allowance for doubtful receivables and contract assets	**-12**	-11
Other expenses	**-6**	-4
Other operating expenses, total	**-33**	-25
Other operating income and expenses, net	**—**	-8

Exchange rate differences included in Other operating income and expenses:

EUR million	Year ended Dec 31, 2021	2020
Exchange rate differences from trade receivables and payables	**-18**	-8
Exchange rate differences from derivative financial instruments	**6**	6
Net loss from foreign exchange	**-12**	-2

20 | Business combinations

Acquisition of PMP Group

The acquisition of PMP Group in Poland, announced on September 11, 2020, was completed on October 1, 2020. The business combination accounting for the acquisition of PMP Group was finalized on June 30, 2021. During the six months ended June 30, 2021, there were no material changes made to the provisional amounts recognized as at December 31, 2020. The final goodwill recognized was EUR 35 million, translated using the foreign exchange rate prevailing at the date of the acquisition.

Acquisitions of EWK Umwelttechnik and ECP Group

On July 1, 2021, Valmet acquired 100 percent of the share capital of EWK Umwelttechnik GmbH. EWK Umwelttechnik is a German company manufacturing and supplying air emission control systems and after-installation services. The net sales of EWK Umwelttechnik were approximately EUR 22 million in 2020. The company employs approximately 50 employees mainly in Kaiserslautern, Germany. The acquired business has been consolidated into the Group financials from the acquisition date onwards.

On July 1, 2021, Valmet acquired 100 percent of the share capital of ECP Group Oy. ECP Group is a manufacturer and maintainer of electrostatic precipitators (ESP), focusing on power plants and pulp and paper industry, in Finland. The net sales of ECP Group were approximately EUR 6 million in 2020. The company, founded in 2002, is headquartered in Vantaa, Finland, and employs around 20 employees. The acquired business has been consolidated into the Group financials from the acquisition date onwards.

Both acquisitions complement Valmet's customer offering in environmental technologies and related services. The acquisitions of EWK Umwelttechnik and ECP Group did not, individually or in aggregate, have a material impact on the results or financial position of Valmet, or its financial reporting in 2021.

21 | Financial risk management

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

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

Sensitivity analysis

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

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

Liquidity and refinancing risk management

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

At end of the reporting period Cash and cash equivalents amounted to EUR 517 million (EUR 274 million) and current interest-bearing financial assets managed centrally by Treasury to EUR 47 million (EUR 73 million). Due to the global nature of operations, some of the Valmet subsidiaries are located in countries in which currency is subject to limited exchangeability or capital controls. Given Valmet's total liquidity position, balances in such countries are immaterial.

In 2021, the outstanding EUR 100 million term loan was repaid and replaced with an 8-year loan of the same amount with the European Investment Bank. In order to support and finance the completion of the merger with Neles, Valmet entered into re-financing agreements comprising of EUR 350 million term loan facilities which were undrawn at the end of the reporting period.

Valmet also signed a new EUR 300 million sustainability-linked syndicated revolving credit facility (RCF) agreement. The new RCF refinanced the previous EUR 200 million credit facility and is used for general corporate purposes. The facility has a tenor of 3 years with two 1-year extension options dependent on the approval of the banks concerned. The RCF was undrawn at the end of the reporting period.

Valmet's liquidity was additionally secured by committed overdraft limits of EUR 14 million and an uncommitted commercial paper program worth EUR 200 million. Both of the above-mentioned facilities were undrawn at the end of the reporting period.

Net working capital management is an integral part of the liquidity risk management. Treasury monitors and forecasts net working capital fluctuations in close co-operation with the subsidiaries. Net working capital decreased to EUR -673 million (EUR -595 million) as at December 31, 2021, due to e.g. milestone payments for large capital projects.

Group's refinancing risk is managed by balancing the proportion of current and non-current interest-bearing debt and average maturity of non-current interest-bearing debt including committed undrawn credit facility. The average maturity of non-current interest-bearing debt, including current portion, and committed undrawn credit facility as at December 31, 2021, was 4.2 years (2.3 years). The amount of current interest-bearing debt, including current portion of non-current interest-bearing debt, was 53 percent (4%) of total debt portfolio. As at December 31, 2021, Valmet's interest-bearing liabilities consist of debt and lease liabilities, and debt portfolio includes only loans from financial institutions.

The tables below present undiscounted cash flows on the repayments and interests on Valmet's financial liabilities (excl. lease liabilities and derivatives) by the remaining maturities from the balance sheet date to the contractual maturity date. The remaining maturities of lease liabilities are presented in Note 5, and correspondingly remaining maturities of derivatives in Note 9.

EUR million	2022	2023	2024	2025	2026 and later
Loans from financial institutions					
Repayments	222	40	40	31	84
Interests	3	–	–	–	–
Trade payables and other current financial liabilities	397	–	–	–	–
Total	**623**	**40**	**40**	**31**	**85**

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

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

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

Capital structure management

The capital structure management seeks to safeguard the ongoing business operations, to ensure flexible access to capital markets and to secure adequate funding at a competitive rate. Capital structure management at Valmet comprises both equity and interest-bearing debt. As at December 31, 2021, total equity was EUR 1,332 million (EUR 1,142 million) and the amount of interest-bearing debt was EUR 417 million (EUR 436 million).

Valmet has not disclosed any long-term financial ratio target for its capital structure. However, the objective of Valmet is to maintain strong capital structure in order to secure customers', investors', creditors' and market confidence. The capital structure is assessed regularly by the Board of Directors and managed operationally by Treasury. Loan facility agreements include customary covenants and Valmet is in clear compliance with the covenants at the end of the reporting period. Valmet had no credit rating at December 31, 2021.

EUR million	As at Dec 31, 2021	2020
Interest-bearing debt	**417**	436
Cash and cash equivalents	**517**	274
Interest-bearing financial assets	**47**	74
Interest-bearing net debt	**-147**	88
Total equity	**1,332**	1,142

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

Interest rate risk management

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

The fixed rate interest portion was 44 percent (20%), the duration was 3.5 years (1.1 years) and the EUR denominated debt was 100 percent (100%) of the total debt portfolio at the end of 2021. The basis for the interest rate risk sensitivity analysis is an aggregate Group level interest rate exposure, composed of interest-bearing financial assets, interest-bearing liabilities (excl. leases) and interest rate swaps, which are used to hedge the underlying exposures. The sensitivity analysis does not include interest component of foreign exchange derivatives since the impact of a one percentage point change in interest rates is not significant, assuming similar change in all currency pairs at the same time. For all interest-bearing debt, assets and interest rate derivatives to be fixed during the next 12 months a change of one percentage point upwards or downwards in interest rates with all other variables held constant would have following effect, net of taxes:

EUR million	2021	2020
Profit for the period	**+/- 0.9**	-/+ 0.8
Equity	**+/- 2.5**	+/- 3.1

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

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

Foreign exchange rate risk management

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

Transaction exposure

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

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

	As at Dec 31, 2021				
EUR million	EUR	SEK	USD	CNY	Others
Operational items	169	-334	293	-196	68
of which trade receivables and other current assets	1	-123	79	45	-3
of which trade payables and other current liabilities	-41	60	-11	-25	16
Financial items	345	-207	2	-160	19
Hedges	-492	517	-294	357	-89
under hedge accounting	-219	257	-212	224	-51
not qualifying for hedge accounting	-273	260	-82	134	-38
Total exposure	**22**	**-24**	**2**	**1**	**-1**

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

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

EUR million	As at Dec 31, 2021 SEK	USD	CNY	Others	Total
EUR +/-10% change	**+/- 1.9**	**-/+ 0.1**	**-/+ 0.1**	**+/- 0.1**	**+/- 1.8**

EUR million	As at Dec 31, 2020 SEK	USD	CNY	Others	Total
EUR +/-10% change	+/- 1.1	-/+ 0.2	+/- 0.6	-/+ 0.2	+/- 1.3

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

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

EUR million	2021	2020
Profit for the period	**+/- 2.5**	-/+ 5.5
Equity	**-/+ 17.4**	+/- 2.4

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

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

Translation or equity exposure

Foreign exchange translation exposure arises when goodwill or fair value step ups, or equity of a subsidiary, is denominated in currency other than the functional currency of the parent company. As at December 31, 2021, the total non-EUR denominated goodwill and fair value step ups, and equity of the subsidiaries, was EUR 658 million (EUR 548 million). The major translation exposures were in 2021 EUR 180 million in USD and EUR 150 million in CNY, and respectively in 2020 EUR 153 million in USD and EUR 116 million in CNY. Valmet is currently not hedging any equity exposure.

Commodity risk management

Valmet is exposed to risk in variations of the prices of raw materials and of supplies including energy. Subsidiaries have identified their commodity price hedging needs and hedges have been executed through Treasury using approved counterparties and instruments. For commodity risks separate overall hedging limits are defined and approved. Hedging is done on a rolling basis with a declining hedging level over time. Electricity exposure in the Nordic subsidiaries has been hedged with electricity forwards and fixed price physical contracts. Hedging is focused on the estimated energy consumption for the next two-year period with some contracts extended to approximately five years. The execution of electricity hedging has been outsourced to an external broker. As at December 31, 2021, Valmet had outstanding electricity forwards amounting to 171 GWh (165 GWh) and 158 GWh (184 GWh) under fixed price purchase agreements.

To reduce its exposure to the volatility caused by the surcharge for certain metal alloys (Alloy Adjustment Factor) comprised in the price of stainless steel charged by its suppliers, Valmet may enter into average-price swap agreements for nickel. The Alloy Adjustment Factor is based on monthly average-prices of its components of which nickel is the most significant. As at December 31, 2021, Valmet had 42 metric tons outstanding average-price swap agreements for nickel (24 metric tons).

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

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

EUR million	2021	2020
Electricity - effect in equity	**+/- 0.6**	+/- 0.3
Nickel - effect in profit for the period	**+/- 0.1**	+/- 0.0

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

Credit and counterparty risk management

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

The maximum credit risk equals the carrying value of trade and other receivables, together with contract assets related to contracts for which revenue is recognized over time. The credit risk quality is evaluated both on the basis of aging of the trade receivables and also on the basis of customer specific analysis. The aging structure of trade receivables is presented in Note 8. Management considers investments at fair value through other comprehensive income to have low credit risk as they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. Counterparty risk arises also from financial transactions agreed upon with banks, financial institutions and corporations. The risk is managed by careful selection of banks and other counterparties and by applying counterparty specific limits and netting agreements such as ISDA (Master agreement of International Swaps and Derivatives Association), see Note 9. All financial institutions Valmet associates with have investment grade status. When measuring the financial credit risk exposure, all open exposures such as cash at bank accounts, investments, deposits and other financial transactions, for example derivative contracts, are included. The compliance with financial counterparty limits is regularly monitored by the management.

22 | Investments in associated companies

Valmet Group has the following associated companies:

Company name	Place of incorporation and principal place of business	Share of ownership Dec 31, 2021	Share of ownership Dec 31, 2020	Measurement
Neles Corporation	Finland	**29.54%**	29.54%	Equity method
Nanjing SAC Valmet Automation Co., Ltd.	China	**21.95%**	21.95%	Equity method
Allimand S.A.	France	**35.8%**	35.8%	Equity method
Valpro gerenciamento de obras Ltda	Brazil	**51.0%**	51.0%	Equity method

Neles is a global flow control solutions and services provider to the oil and gas refining, pulp, paper and bioproducts industries, chemicals and other process industries. Neles started trading as an independent company on July 1, 2020, following the partial demerger of Metso Corporation, but the business has a long track record with a history of more than 60 years of innovation.

Valmet's and Neles' financial statements are coterminous, but as Neles publishes its interim reports at or near the same time as Valmet, Valmet's share of Neles' results are accounted for with a lag of one quarter. Valmet's financial statements 2021 include Valmet's share of Neles' results from October 2020 to September 2021, amounting to EUR 15 million.

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

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

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

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

	Neles[1]		SAC		Other	
EUR million	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Balance sheet						
Non-current assets	**216**	215	**16**	13	**9**	10
Current assets	**449**	409	**108**	87	**27**	49
Non-current liabilities	**213**	212	**—**	—	**10**	14
Current liabilities	**175**	159	**60**	47	**27**	49
Net assets	**277**	253	**64**	52	**-1**	-4
Valmet's share of net assets	**82**	75	**14**	11	**—**	-1
Income statement						
Revenue	**592**	144	**87**	71	**54**	41
Profit or loss	**50**	14	**9**	9	**3**	-8
Total comprehensive income	**56**	5	**—**	—	**—**	—

[1] In 2020, Neles' balance sheet and income statement figures reflect Neles' financials for the three-month period ending September 2020. In 2021, Neles' balance sheet and income statement figures reflect Neles' financials from October 2020 to September 2021.

Valmet had no material transactions with its associated companies in 2021 or 2020, or material receivables or liabilities as at December 31, 2021, or December 31, 2020.

Reconciliation to carrying values in Valmet Group:

	Neles		SAC		Other	
EUR million	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Net assets at beginning of the period[1]	**253**	253	**52**	46	**-4**	4
Translation differences	**—**	—	**6**	-1	**—**	—
Profit for the period	**50**	14	**9**	9	**3**	-8
Other comprehensive income for the period	**7**	-9	**—**	—	**—**	—
Other changes in net assets	**—**	-5	**—**	—	**—**	—
Dividends paid	**-33**	—	**-4**	-2	**—**	—
Net assets at end of the period	**277**	253	**64**	52	**-1**	-4
Valmet's share of net assets[2]	**82**	75	**14**	11	**—**	—
Notional goodwill and fair value adjustments	**365**	380	**—**	1	**—**	—
Carrying value at end of the period	**447**	455	**14**	13	**—**	—
Market value of listed shares	**608**	482				

[1] Neles as at September 30, 2020 in 2021 and as at July 1, 2020 in 2020.
[2] Unrecognized share of losses related to Other associated companies was EUR 1 million in 2020.

Changes in investments in associated companies during the period:

EUR million	Year ended Dec 31, 2021	2020
Historical cost		
Historical cost at beginning of the period	**464**	8
Additions	**—**	456
Impairments	**—**	-1
Historical cost at end of the period	**464**	464
Equity adjustments		
Equity adjustments at beginning of the period	**4**	4
Profit for the period	**17**	4
Other comprehensive income for the period	**2**	-2
Dividends received	**-11**	—
Expensing of fair value adjustments	**-14**	-3
Other adjustments	**-1**	—
Equity adjustments at end of the period	**-3**	4
Carrying value at end of the period	**461**	468

23 | Audit fees

In 2021, the Annual General Meeting of Valmet Oyj elected Authorised Public Accountants PricewaterhouseCoopers Oy as Valmet Oyj's auditor. The below table presents fees for audit and other services provided by PricewaterhouseCoopers Oy and its affiliates (PwC) to Valmet Group.

EUR million	Year ended Dec 31, 2021	2020
Audit	**-1.7**	-1.7
Services under the Finnish Auditing Act, chapter 1, section 1(1), point 2	**-0.5**	—
Tax consulting	**—**	-0.1
Other services	**-0.4**	-0.1
Total	**-2.6**	-1.9

In 2021, PricewaterhouseCoopers Oy has provided non-audit services to entities of Valmet Group in total of EUR 0.3 million (EUR 0.1 million) with the services consisting of tax and other services.

24 | Contingencies and commitments

Valmet Oyj, with its subsidiaries, and financial institutions have guaranteed commitments arising from the ordinary course of business of Valmet Group up to a maximum of EUR 1,406 million and EUR 1,032 million as at December 31, 2021, and 2020, respectively.

25 | Related party information

Valmet's related parties include Valmet Group companies (see Note 26) and associated companies and joint ventures (see Note 22) as well as the members of Valmet's Board of Directors and Executive Team.

Remuneration of Chief Executive Officer and other Executive Team members

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

EUR thousand	Salaries and other short-term benefits	Performance bonuses	Share-based payments	Post-retirement benefits	Total
2021					
President and CEO	-697	-637	-734	-334	**-2,402**
Other Executive Team members	-2,971	-1,282	-2,672	-1,297	**-8,224**
Total	**-3,669**	**-1,920**	**-3,406**	**-1,631**	**-10,626**
2020					
President and CEO	-680	-540	-455	-315	-1,991
Other Executive Team members	-3,082	-953	-1,600	-1,210	-6,845
Total	-3,762	-1,493	-2,055	-1,525	-8,836

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

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

Remuneration paid to members of the Board of Directors

EUR thousand	2021
Mikael Mäkinen, Chairman	**-141**
Aaro Cantell, Vice Chairman	**-89**
Pekka Kemppainen, Member	**-80**
Per Lindberg, Member since March 23, 2021	**-67**
Monika Maurer, Member	**-82**
Eriikka Söderström, Member	**-88**
Tarja Tyni, Member	**-81**
Rogério Ziviani, Member	**-74**
Juha Pöllänen, Personnel Representative since March 23, 2021	**-11**
Eija Lahti-Jäntti, Personnel Representative until March 23, 2021	**-2**
Total	**-715**

As at December 31, 2021, the aggregate shareholding of the Board of Directors, the President and CEO and other Executive Team members was 717,906 shares (700,993 shares as at December 31, 2020).

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

26 | Subsidiaries

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

[1] Under liquidation.

Company name	Country of incorporation and place of business	Primary nature of business	Parent holding, %	Group ownership interest, %
Valmet B.V.	Netherlands	Sales	–	100.0
Valmet AS	Norway	Sales	–	100.0
Valmet Automation Sp. z o.o.	Poland	Manufacturing	–	100.0
Valmet Jelenia Góra Sp. z o.o.	Poland	Holding	–	100.0
Valmet Services Sp. z o.o.	Poland	Manufacturing	–	100.0
Valmet Steel Structures Sp. z o.o.	Poland	Manufacturing	–	100.0
Valmet Technologies and Services S.A.	Poland	Manufacturing	–	100.0
Valmet Technologies Sp. z.o.o.[1]	Poland	Manufacturing	–	100.0
"Inwestycja 2000" Przedsiębiorstwo Produkcyjno-Handlowo-Usługowe Sp. z o.o.	Poland	Holding	–	100.0
Valmet Lda	Portugal	Manufacturing	–	100.0
Valmet Inc.	Republic of Korea	Sales	–	100.0
Valmet JSC	Russia	Sales	–	100.0
Valmet Pte. Ltd.	Singapore	Sales	–	100.0
Valmet South Africa (Pty) Ltd	South Africa	Sales	–	100.0
Valmet Technologies, S.A.U.	Spain	Manufacturing	–	100.0
Valmet Technologies Zaragoza, S.L.	Spain	Manufacturing	–	81.0
Valmet AB	Sweden	Manufacturing	100.0	100.0
Valmet Co., Ltd.	Thailand	Sales	–	100.0
Valmet Selüloz Kagit ve Enerji Teknolojileri A.S.	Turkey	Sales	–	100.0
Valmet Process Technologies and Services LLC[2]	United Arab Emirates	Sales	–	49.0
Valmet Automation Limited[1]	United Kingdom	Sales	–	100.0
Valmet Limited	United Kingdom	Manufacturing	–	100.0
Valmet, Inc.	USA	Sales	73.5	100.0
Valmet Co., Ltd.	Vietnam	Sales	–	100.0

[1] Under liquidation.

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

27 | Events after the reporting period

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

28 | New accounting standards

New IFRS's adopted

Valmet Group has applied new standards, amendments and interpretations published by IASB that are effective for the first time for financial reporting periods commencing on January 1, 2021. These standards, amendments and interpretations did not have a material impact on the results or financial position of Valmet Group, or the presentation of financial statements.

New IFRS's not yet adopted

Valmet Group has not identified any new standards, amendments or interpretations published by IASB that apply for the first time to financial reporting periods commencing on or after January 1, 2022, that are expected to have a material impact on the results or financial position of Valmet Group, or the presentation of financial statements.

Parent company statement of income, FAS

EUR	Note	Year ended Dec 31, 2021	2020
Other operating income	3	**18,869,751.29**	13,132,554.68
Personnel expenses	2	**-17,148,845.38**	-14,577,384.69
Depreciation and amortization	7	**-1,093,875.93**	-733,654.43
Other operating expenses	3, 4	**-17,702,751.76**	-12,136,035.97
Operating profit		**-17,075,721.78**	-14,314,520.41
Financial income and expenses, net	5	**54,786,799.42**	47,962,090.30
Profit before appropriations and taxes		**37,711,077.64**	33,647,569.89
Group contributions		**169,448,000.00**	187,388,000.00
Income taxes	6	**-29,741,329.86**	-34,580,381.10
Profit for the period		**177,417,747.78**	186,455,188.79

Parent company statement of financial position, FAS

Assets

EUR	Note	As at Dec 31, 2021	2020
Non-current assets			
Intangible assets	7	**1,811,785.60**	2,295,669.74
Property, plant and equipment	7	**4,490,916.25**	4,832,999.80
Equity investments	8	**1,863,129,329.34**	1,863,129,329.34
Non-current receivables	10, 11	**110,493,726.64**	110,175,130.69
Total non-current assets		**1,979,925,757.83**	1,980,433,129.57
Current assets			
Current receivables	10, 11	**372,569,506.15**	373,399,955.41
Cash and cash equivalents		**318,615,613.43**	96,407,762.36
Total current assets		**691,185,119.58**	469,807,717.77
Total assets		**2,671,110,877.41**	2,450,240,847.34

Equity and liabilities

EUR	Note	As at Dec 31, 2021	2020
Equity	12		
Share capital		**100,000,000.00**	100,000,000.00
Reserve for invested unrestricted equity		**430,864,381.31**	428,348,225.02
Hedge and other reserves		**-655,324.80**	-2,709,066.50
Retained earnings		**662,778,984.83**	613,608,877.26
Profit for the period		**177,417,747.78**	186,455,188.79
Total equity		**1,370,405,789.12**	1,325,703,224.57
Liabilities			
Non-current liabilities	11, 13	**206,278,837.88**	449,824,926.84
Current liabilities	11, 14	**1,094,426,250.41**	674,712,695.93
Total liabilities		**1,300,705,088.29**	1,124,537,622.77
Total equity and liabilities		**2,671,110,877.41**	2,450,240,847.34

Parent company statement of cash flows, FAS

EUR thousand	Year ended Dec 31, 2021	2020
Cash flows from operating activities		
Profit before appropriations and taxes	**37,711**	33,648
Adjustments		
Depreciation and amortization	**1,094**	734
Financial income and expenses, net	**-54,787**	-47,944
Other non-cash items	**-2,111**	6,418
Total adjustments	**-55,804**	-40,792
Change in working capital	**-13,298**	2,820
Interest and other financial expenses paid	**-14,294**	-10,459
Dividends received	**57,010**	51,428
Interest and other financial income received	**11,550**	8,984
Income taxes paid	**-45,424**	-29,025
Net cash provided by (+) / used in (-) operating activities	**-22,549**	16,604
Cash flows from investing activities		
Investments in tangible and intangible assets	**-268**	-1,618
Net increase (-) / decrease (+) in loan receivables from Group companies	**14,710**	-18,984
Investments in associated companies	**—**	-456,164
Net cash provided by (+) / used in (-) investing activities	**14,442**	-476,766
Cash flows from financing activities:		
Purchase of treasury shares	**-2,759**	-6,463
Issue of treasury shares to Group companies	**1,898**	1,755
Dividends paid	**-134,526**	-119,599
Group contribution received	**187,388**	149,958
Proceeds from non-current debt	**100,000**	329,000
Repayments of non-current debt	**-118,000**	-100,889
Net proceeds (+) / repayments (-) of debt from Group companies	**-33,376**	15,229
Net increase (+) / decrease (-) in Group pool accounts	**229,690**	126,236
Net cash provided by (+) / used in (-) financing activities	**230,315**	395,227
Net increase (+) / decrease (-) in cash and cash equivalents	**222,208**	-64,935
Cash and cash equivalents at beginning of the period	**96,408**	161,343
Cash and cash equivalents at end of the period	**318,616**	96,408

Notes to parent company financial statements

1 | Accounting principles

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

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

Non-current assets

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

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

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

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

Financial instruments

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

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

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

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

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

Pensions

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

Deferred taxes

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

Foreign currency transactions

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

Receivables

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

Share-based incentive plan

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

Leasing

Lease payments have been recognized as rental expenses in the Statement of income.

2 | Personnel expenses

EUR thousand	Year ended Dec 31, 2021	2020
Salaries and wages	**-14,162**	-12,250
Pension costs	**-2,722**	-2,080
Other indirect employee costs	**-265**	-247
Total	**-17,149**	-14,577

Remuneration to management:

EUR thousand	Year ended Dec 31, 2021	2020
President and CEO	**-2,402**	-1,991
Members of the Board	**-715**	-661
Total	**-3,117**	-2,652

The President and CEO is entitled to retire when reaching 63 years of age. The President and CEO belongs to a supplementary defined contribution plan. The contribution to the plan is 20 percent of his annual salary. Expenses are included in the remuneration to management table above. Additional information on management remuneration is presented in Note 25 of the Consolidated financial statements.

Number of personnel:

	2021	2020
Personnel at end of the period	**118**	114
Average number of personnel during the period	**116**	110

3 | Other operating income and expenses

EUR thousand	Year ended Dec 31, 2021	2020
Services for Group companies	**14,362**	13,133
Change in fair value of derivatives	**4,508**	–
Other operating income, total	**18,870**	13,133
Consulting and other services	**-12,872**	-8,190
IT	**-1,277**	-875
Change in fair value of derivatives	**–**	-96
Other	**-3,554**	-2,975
Other operating expenses, total	**-17,703**	-12,136

4 | Audit fees

EUR thousand	Year ended Dec 31, 2021	2020
Audit	**-423**	-407
Services under the Finnish Auditing Act, chapter 1, section 1(1), point 2	**-509**	—
Tax consulting	**-48**	-58
Other services	**-343**	-72
Total	**-1,322**	-537

5 | Financial income and expenses

	Year ended Dec 31, 2021			2020		
EUR thousand	Group companies	Others	Total	Group companies	Others	Total
Dividends received	**47,000**	**10,010**	**57,010**	51,000	428	51,428
Interest income	**5,340**	**131**	**5,472**	5,905	117	6,022
Interest expenses	**-371**	**-4,425**	**-4,796**	-612	-4,300	-4,913
Net gain/loss from foreign exchange	**-6,925**	**7,407**	**483**	-6,609	6,013	-596
Interest component from forward contracts	**-4,188**	**3,702**	**-486**	-1,276	-974	-2,250
Other financial expenses	**—**	**-2,895**	**-2,895**	—	-1,730	-1,730
Total	**40,856**	**13,931**	**54,787**	48,408	-445	47,962

6 | Income taxes

EUR thousand	Year ended Dec 31, 2021	2020
Income tax for the financial period	**-29,950**	-34,059
Income tax for prior periods	**181**	-494
Change in deferred taxes	**28**	-28
Total	**-29,741**	-34,580

7 | Intangible assets and property, plant and equipment

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2021							
Acquisition cost at beginning of the period	2,739	809	9,208	592	557	11,166	**13,904**
Additions	—	—	268	—	—	268	**268**
Acquisition cost at end of the period	2,739	809	9,476	592	557	11,434	**14,172**
Accumulated depreciation at beginning of the period	-443	—	-5,512	-592	-229	-6,333	**-6,776**
Depreciation charges for the period	-484	—	-585	—	-25	-610	**-1,094**
Accumulated depreciation at end of the period	-927	—	-6,097	-592	-254	-6,943	**-7,870**
Carrying value at end of the period	**1,812**	**809**	**3,379**	**—**	**303**	**4,491**	**6,303**

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

8 | Investments

EUR thousand	Shares in Group companies	Other shares	Investments in associated companies	Investments total
2021				
Acquisition cost at beginning of the period	1,405,474	1,492	456,164	**1,863,129**
Additions	–	–	–	**–**
Disposals	–	–	–	**–**
Acquisition cost at end of the period	1,405,474	1,492	456,164	**1,863,129**
Carrying value at end of the period	**1,405,474**	**1,492**	**456,164**	**1,863,129**

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

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

9 | Subsidiaries

Company name	Domicile	Ownership %
Valmet Technologies Oy	Finland, Helsinki	100.0
Valmet AB	Sweden, Sundsvall	100.0
Valmet, Inc.	USA, Duluth	73.5
Valmet Automation Oy	Finland, Helsinki	100.0

10 | Specification of receivables

Non-current receivables:

EUR thousand	As at Dec 31, 2021	2020
Loan receivables from Group companies	**98,803**	79,978
Deferred tax assets	**616**	1,102
Derivatives from Group companies	**1,519**	11,006
Derivatives from others	**9,555**	18,088
Non-current receivables total	**110,494**	110,175

Current receivables:

	As at Dec 31, 2021			As at Dec 31, 2020		
EUR thousand	Group companies	Others	Total	Group companies	Others	Total
Trade receivables from	9,606	—	**9,606**	7,839	19	7,857
Loan receivables from	38,269	—	**38,269**	63,651	—	63,651
Group pool accounts	94,029	—	**94,029**	32,701	—	32,701
Prepaid expenses and accrued income from	193,302	37,347	**230,649**	218,433	50,578	269,011
Other receivables from	—	16	**16**	—	179	179
Current receivables total	**335,207**	**37,363**	**372,570**	322,624	50,776	373,400

Specification of prepaid expenses and accrued income:

EUR thousand	As at Dec 31, 2021	2020
Prepaid expenses and accrued income from Group companies		
Group contribution receivables	**169,448**	187,388
Accrued interest income	**1,441**	1,467
Derivatives	**20,409**	28,740
Other	**2,004**	838
Total	**193,302**	218,433
Other prepaid expenses and accrued income		
Derivatives	**32,748**	48,792
Other	**4,599**	1,787
Total	**37,347**	50,578

11 | Financial assets and liabilities recognized at fair value

Notional amounts and fair values as at December 31:

EUR thousand	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net	Changes in fair value recognized in profit or loss	Changes in fair value recognized in hedge reserve
2021						
Forward exchange contracts						
With Group companies	**2,717,655**	**21,937**	**-36,153**	**-14,215**	**2,508**	**—**
Others	**3,051,457**	**37,982**	**-24,349**	**13,633**	**-5,994**	**—**
Interest rate swaps[1]						
Others	**75,000**	**567**	**-1,540**	**-972**	**-12**	**-819**
Electricity forward contracts[2]						
Others	**171**	**3,646**	**—**	**3,646**	**4,148**	**—**
Nickel commodity swaps[3]						
With Group companies	**42**	**—**	**-74**	**-74**	**-33**	**—**
Others	**42**	**74**	**—**	**74**	**33**	**—**

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

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

Maturities of financial derivatives as at December 31:

	2022	2023	2024	2025	2026 and later
2021					
Notional amounts					
Forward exchange contracts[1]	**4,918,852**	**836,253**	**14,007**	**—**	**—**
Electricity forward contracts[2]	**101**	**70**	**—**	**—**	**—**
Nickel commodity swaps[3]	**84**	**—**	**—**	**—**	**—**
Interest rate swaps[1]	**—**	**—**	**—**	**30,000**	**45,000**
Fair values, EUR thousand					
Forward exchange contracts	**-668**	**93**	**-7**	**—**	**—**
Electricity forward contracts	**3,118**	**529**	**—**	**—**	**—**
Nickel commodity swaps	**—**	**—**	**—**	**—**	**—**
Interest rate swaps	**-153**	**—**	**—**	**-1,387**	**567**

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

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

Classification of financial assets and liabilities as at December 31:

EUR thousand[1]	As at Dec 31, 2021	2020
Non-current financial assets		
Equity investments at amortized cost	1,405,474	1,405,474
Equity investments at fair value through profit or loss	457,656	457,656
Loan receivables at amortized cost	98,803	79,978
Derivative financial instruments at fair value through profit or loss	10,507	28,534
Derivative financial instruments qualified for hedge accounting	567	561
Carrying value at end of the period	**1,973,007**	1,972,202
Current financial assets		
Loan receivables at amortized cost	38,269	63,651
Trade receivables at amortized cost	9,606	7,857
Derivative financial instruments at fair value through profit or loss	53,157	77,532
Cash and cash equivalents at amortized cost	318,616	96,408
Carrying value at end of the period	**419,648**	245,448

EUR thousand[1]	As at Dec 31, 2021	2020
Non-current financial liabilities		
Loans from financial institutions at amortized cost	195,000	417,000
Derivative financial instruments at fair value through profit or loss	9,892	28,878
Derivative financial instruments qualified for hedge accounting	1,387	3,947
Carrying value at end of the period	**206,279**	449,825
Current financial liabilities		
Loans from financial institutions at amortized cost	222,000	18,000
Trade payables at amortized cost	5,052	5,380
Derivative financial instruments at fair value through profit or loss	50,703	81,049
Carrying value at end of the period	**277,756**	104,429

[1] Carrying values presented in the table approximate fair values.

12 | Statement of changes in equity

	Year ended Dec 31,	
EUR thousand	**2021**	**2020**
Share capital at beginning of the period	**100,000**	100,000
Share capital at end of the period	**100,000**	100,000
Reserve for invested unrestricted equity at beginning of the period	**428,348**	426,090
Share-based payments	**2,516**	2,258
Reserve for invested unrestricted equity at end of the period	**430,864**	428,348
Hedge and other reserves at beginning of the period	**-2,709**	-1,682
Additions	**2,054**	-1,027
Hedge and other reserves at end of the period	**-655**	-2,709
Retained earnings at beginning of the period	**800,064**	739,671
Dividends paid	**-134,526**	-119,599
Purchase of treasury shares	**-2,759**	-6,463
Retained earnings at end of the period	**662,779**	613,609
Profit for the period	**177,418**	186,455
Total equity at end of the period	**1,370,406**	1,325,703

Statement of distributable funds:

	As at Dec 31,	
EUR	**2021**	**2020**
Reserve for invested unrestricted equity	**430,864,381.31**	428,348,225.02
Hedge and other reserves	**-655,324.80**	-2,709,066.50
Retained earnings	**662,778,984.83**	613,608,877.26
Profit for the period	**177,417,747.78**	186,455,188.79
Total distributable funds	**1,270,405,789.12**	1,225,703,224.57

13 | Non-current liabilities

EUR thousand	As at Dec 31, 2021	2020
Loans from financial institutions	**195,000**	417,000
Derivatives from Group companies	**8,509**	18,129
Derivatives from others	**2,769**	14,696
Non-current liabilities total	**206,279**	449,825

Maturities of financial liabilities as at December 31:

EUR thousand	2022	2023	2024	2025	2026 and later
Loans from financial institutions	222,000	39,978	39,978	30,978	84,066
Trade payables and other financial liabilities	5,052	—	—	—	—
Total	**227,052**	**39,978**	**39,978**	**30,978**	**84,066**

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

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

14 | Current liabilities

EUR thousand	As at Dec 31, 2021 Group companies	Others	Total	As at Dec 31, 2020 Group companies	Others	Total
Current portion of non-current loans	—	222,000	**222,000**	—	18,000	18,000
Trade payables	1,205	3,847	**5,052**	867	4,513	5,380
Accrued expenses and deferred income	27,842	33,597	**61,439**	52,660	52,924	105,584
Other current interest-bearing debt	26,996	—	**26,996**	57,998	—	57,998
Group pool accounts	778,383	—	**778,383**	487,365	—	487,365
Other liabilities and provisions	—	556	**556**	—	385	385
Current liabilities total	**834,426**	**260,000**	**1,094,426**	598,890	75,822	674,713

Specification of accrued expenses and deferred income:

EUR thousand	As at Dec 31, 2021	2020
Accrued expenses and deferred income to Group companies		
Accrued interest expenses	**16**	19
Derivatives	**27,737**	52,642
Other	**89**	—
Total	**27,842**	52,660
Accrued expenses and deferred income to others		
Accrued interest expenses	**2,087**	2,149
Derivatives	**22,966**	28,407
Accrued salaries, wages and social costs	**4,300**	3,245
Accrued income taxes	**3,264**	18,919
Other	**980**	203
Total	**33,597**	52,924

15 | Other contingencies

Guarantees:

EUR thousand	As at Dec 31, 2021	2020
Guarantees on behalf of Group companies	**1,302,112**	937,745
Guarantees on own behalf	**201**	—
Total	**1,302,313**	937,745

Lease commitments:

EUR thousand	As at Dec 31, 2021	2020
Payments in the following year	**852**	782
Payments later	**749**	139
Total	**1,601**	921

List of account books used in parent company

Voucher description	Voucher class	Voucher format
General journal and general ledger		In electronic format
Specifications of accounts receivable and payable		In electronic format
Fixed assets transactions	770, 774, 778, 782, 783, 786	In electronic format
Bank transactions	425, 426, 500–692, 694, 699, 730, 950, 960, 970	In electronic format
Sales invoices	300, 305, 310, 320, 330, 350, 400, 410, 424, 491–499, 802, 930, 940	In electronic format
Purchase invoices	100, 110, 115, 120, 130, 140, 150, 160, 190, 191, 290, 291–294, 297–299, 737, 801, 824, 830, 910	In electronic format
Travel invoices	755	In electronic format
Salary transactions	750	In electronic format
Journal vouchers	700, 710, 715, 720, 725, 740, 756, 793, 900, 980, 985, 990	In electronic format
Financial transactions	760, 765, 768	In electronic format
Opening balance	791, 792	In electronic format

Signatures of Board of Directors' Report and Financial Statements

Espoo, February 3, 2022

Mikael Mäkinen
Chairman of the Board

Aaro Cantell
Vice Chairman of the Board

Pekka Kemppainen
Member of the Board

Per Lindberg
Member of the Board

Monika Maurer
Member of the Board

Eriikka Söderström
Member of the Board

Tarja Tyni
Member of the Board

Rogério Ziviani
Member of the Board

Pasi Laine
President and CEO

The Auditor's Note

Our auditor's report has been issued today.

Helsinki, February 3, 2022

PricewaterhouseCoopers Oy
Authorised Public Accountant Firm

Pasi Karppinen
Authorised Public Accountant

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Valmet Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

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

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

What we have audited

We have audited the financial statements of Valmet Oyj (business identity code 2553019-8) for the year ended 31 December 2021. The financial statements comprise:

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

Basis for Opinion

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

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

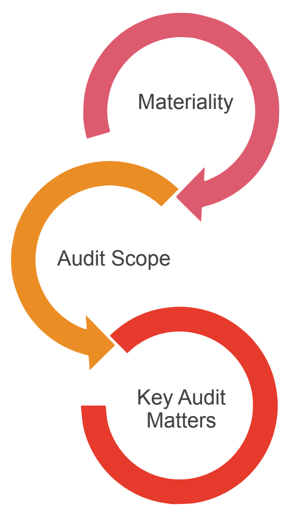
Independence

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

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

Our Audit Approach

Overview



- Overall group materiality: € 19.0 million, which represents approximately 5% of profit before tax
- We conducted audit work in all major countries covering all key reporting units. The focus of our work was on the most significant reporting units in Finland, Sweden, USA, Brazil and China.
- Accounting for long-term capital projects and long-term service contracts
- Timing of revenue recognition for service contracts and automation business related contracts
- Goodwill valuation

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

Materiality

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

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

Overall group materiality	€ 19.0 million (previous year € 14.5 million)
How we determined it	Approximately 5% of profit before tax
Rationale for the materiality benchmark applied	Profit before tax is a generally accepted benchmark. We chose 5%, which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

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

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

Key Audit Matters

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

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

Key audit matter in the audit of the group

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

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

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

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

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

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

How our audit addressed the key audit matter

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

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

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

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

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

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

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

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

The company has several revenue streams relating to service and automation contracts where revenue is recognised at a point in time.

We focused on this area because the significant portion of the group net sales arises from these contracts and there is a risk that revenue is recognised in the incorrect period.

How our audit addressed the key audit matter

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

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

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

Goodwill valuation

Refer to notes 4 and 20 to the consolidated financial statements for the related disclosures.

At 31 December 2021 the group's goodwill balance is valued at 730 million euro which includes 10 million euro goodwill from the business combinations in 2021.

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

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

How our audit addressed the key audit matter

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

We evaluated management's future cash flow forecasts and the process by which they were drawn up, including comparing them to the latest Board approved budgets, and testing the underlying calculations. We evaluated and challenged the company's future cash flow forecasts in a discussion with management of the business involved, and the process by which they were drawn up, and tested the underlying value in use calculations. We compared the current year actual results to the figures for the financial year ended 31 December 2021 included in the prior year impairment models to consider whether any forecasts included assumptions that have proven to be optimistic.

We evaluated and challenged the discount rate used.

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

- the projected EBITDAs
- the discount rate

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement

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

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

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

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

Other Reporting Requirements

Appointment

We were first appointed as auditors by the annual general meeting on 26 March 2014. Our appointment represents a total period of uninterrupted engagement of 8 years.

Other Information

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

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

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

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

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

Helsinki 3 February 2022

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pasi Karppinen
Authorised Public Accountant (KHT)

Board of Directors

Mikael Mäkinen
born 1956, Finnish citizen

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

Aaro Cantell
born 1964, Finnish citizen

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

Pekka Kemppainen
born 1954, Finnish citizen

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

Monika Maurer
born 1956, German citizen

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

Eriikka Söderström
born 1968, Finnish citizen

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

Tarja Tyni
born 1964, Finnish citizen

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

Rogério Ziviani
born 1956, Brazilian citizen

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

Per Lindberg
born 1959, Swedish citizen

Valmet Board member since March 23, 2021
Independent of the company and independent of significant shareholders
M.Sc. Mechanical Engineering
PhD, Industrial Management and Economics
Senior Advisor at Peymar Holding AB
Chairman of the Board in Permascand AB and Nordic Brass Gusum AB
Board Member of Boliden AB and Premium Svensk Lax AB

Personnel representative

Juha Pöllänen
born 1968, Finnish citizen

Personnel representative since March 23, 2021
Carpenter
Chief shop steward
Employed by Valmet since 1998
Personnel representative will participate as an invited expert in meetings of the Board of Directors.

Eija Lahti-Jäntti was personnel representative until March 22, 2021.

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

Executive Team

Pasi Laine
born 1963

President and CEO
M.Sc. (Eng.)
Finnish citizen

Aki Niemi
born 1969

Business Line President, Services
M.Sc. (Eng.)
Finnish citizen

Sami Riekkola
born 1974

Business Line President, Automation
M.Sc. (Eng.)
Finnish citizen

Bertel Karlstedt
born 1962

Business Line President, Pulp and Energy
M.Sc. (Eng.)
Finnish citizen

Jari Vähäpesola
born 1959

Business Line President, Paper
M.Sc. (Eng.)
Diploma in International Marketing Management
Finnish citizen

Jukka Tiitinen
born 1965

Area President, North America
M.Sc. (Eng.)
Finnish and US citizen

Celso Tacla
born 1964

Area President, South America
MBA
Production Engineer
Chemical Engineer
Brazilian citizen

Vesa Simola
born 1967

Area President, EMEA
M.Sc. (Eng.)
Finnish citizen

Petri Paukkunen
born 1966

Area President, Asia Pacific
B.Sc. (Eng.)
Finnish citizen

Xiangdong Zhu
born 1967

Area President, China
B.Sc. (Eng.)
MBA
Chinese citizen

Kari Saarinen
born 1961

CFO
M.Sc. (Accounting and Finance)
Finnish citizen

Julia Macharey
born 1977

Senior Vice President,
Human Resources and
Operational Development
M.Sc. (Econ.)
B.A. (Intercultural
Communication)
Finnish citizen

Anu Salonsaari-Posti
born 1968

Senior Vice President, Marketing,
Communications, Sustainability
and Corporate Relations
M.Sc. (Econ.)
MBA
Finnish citizen

David King retired from his position as Area President, North America on March 31, 2021. Jukka Tiitinen acted as Area President, Asia Pacific until March 31, 2021 and was appointed Area President, North America as of April 1, 2021. Valmet announced on February 5, 2021 that Petri Paukkunen has been appointed Area President, Asia Pacific as of April 1, 2021.

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

Information for investors

WHY INVEST IN VALMET

1. Strong position in the growing market of converting renewables
2. Widest technology and services offering combined with automation excellence
3. Services: The widest offering and strong geographical presence
4. Automation: Maximizing efficiency and safety of our customers
5. Paper: World-class technology for packaging and hygiene needs
6. Pulp and Energy: Strong business with high market share and flexible cost structure
7. Systematically building the future

BASIC INFORMATION ON VALMET SHARE

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

Valmet is a global leader in sustainability

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

MSCI ESG RATINGS AAA

Sustainability Award Bronze Class 2021 S&P Global

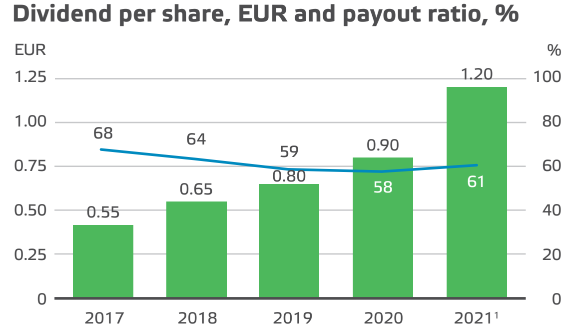
CDP DISCLOSER 2021

Included in ETHIBEL SUSTAINABILITY INDEX EXCELLENCE Europe

ISS QualityScore SOCIAL 1 Highest Rating By INSTITUTIONAL SHAREHOLDER SERVICES

PLATINUM Top 1% 2021 ecovadis Sustainability Rating

Dividend per share, EUR and payout ratio, %



Dividend
Payout ratio, % of net profit

¹ Proposal by the Board of Directors.

Share capital and share data[1]

	2021	2020	2019
Share capital, December 31, EUR million	**100**	100	100
Number of shares, December 31:			
Number of outstanding shares	**149,471,196**	149,490,976	149,618,523
Treasury shares held by the Parent Company	**393,423**	373,643	246,096
Total number of shares	**149,864,619**	149,864,619	149,864,619
Average number of outstanding shares	**149,467,939**	149,499,114	149,604,375
Average number of diluted outstanding shares	**149,467,939**	149,499,114	149,604,375
Trading volume on Nasdaq Helsinki Ltd.[2]	**97,242,422**	162,711,000	152,595,590
% of total shares for public trading	**65**	109	102
Earnings per share, EUR	**1.98**	1.54	1.35
Earnings per share, diluted, EUR	**1.98**	1.54	1.35
Dividend per share, EUR	**1.20[3]**	0.90	0.80
Dividend, EUR million	**179[3]**	135	120
Dividend payout ratio	**61%[3]**	58%	59%
Effective dividend yield	**3.2%[3]**	3.9%	3.7%
Price to earnings ratio (P/E)	**19.1**	15.1	15.9
Equity per share, December 31, EUR	**8.87**	7.90	6.95
Highest share price, EUR	**38.53**	25.20	25.14
Lowest share price, EUR	**23.02**	13.33	15.55
Volume-weighted average share price, EUR	**32.58**	21.15	20.46
Share price, December 31, EUR	**37.72**	23.36	21.36
Market capitalization, December 31, EUR million	**5,653**	3,501	3,201

[1] The formulas for calculation of the figures are presented in the section 'Formulas for Calculation of Indicators´.
[2] In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Cboe CXE, Cboe BXE and Turquoise. A total of approximately 16 million Valmet shares were traded on these three alternative marketplaces in 2021. (Source: www.valmet.com/investors/valmet-share/trading-volumes/).
[3] Board of Directors' proposal.

Development of Valmet's share price, January 1–December 31, 2021

Q1

Feb 4 Financial Statements Review 2020
Mar 10 Capital Markets Day
Mar 23 Annual General Meeting

Major orders booked in Q1:
- All main process islands and automation for bioproduct mill in Finland
- Coated board and fine paper making lines to China
- Multifuel boiler plant to Czech Republic

Q2

Apr 16 Valmet revises upwards its net sales and Comparable EBITA guidance for 2021
Apr 22 Interim Review January–March 2021
Apr 7 Dividend payout

Major orders booked in Q2:
- Pulp and board technology delivery to Brazil
- Two container board making lines to China
- Key pulp technology to China

Q3

July 2 Valmet announced signing a combination agreement with Neles Corporation
July 22 Half Year Financial Review, January–June 2021
Sep 22 Extraordinary General Meeting resolved to approve the merger of Valmet Oyj and Neles Corporation

Major orders booked in Q3:
- Coated board making line to Asia
- Container board making line to Turkey
- Biomass power boiler and a flue gas cleaning system to Japan

Q4

Oct 26 Interim Review, January–September 2021

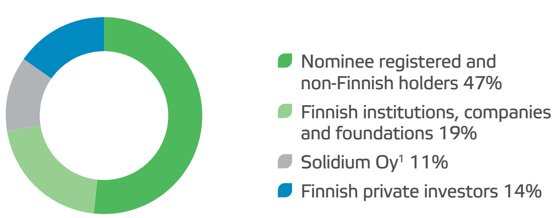
Major orders booked in Q4:
- Technology and automation delivery for pulp mill's modernization in Brazil
- Recycled fiber line and paper machine grade conversion rebuild to Germany
- Long-term Performance Agreement and a board machine rebuild in Sweden

Development of Valmet's share price since listing, January 2, 2014–December 31, 2021

Shareholders

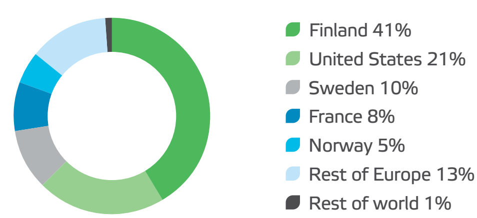
The number of registered shareholders at the end of December 2021 was 58,919 (49,242).

Distribution of shareholding by sector, %



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

Shares held by institutional investors per geography



Source: Modular Finance, indicative.

VALMET'S SHAREHOLDER STRUCTURE AT THE END OF 2021

Largest shareholders on December 31, 2021

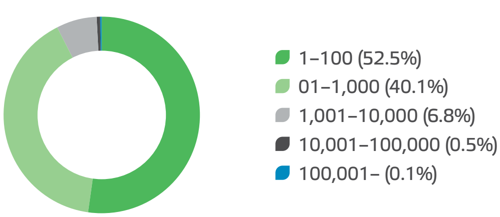
		Shares	% of share capital
1	Solidium Oy[1]	16,695,287	11.14%
2	Ilmarinen Mutual Pension Insurance Company	3,905,000	2.61%
3	Elo Mutual Pension Insurance Company	2,386,044	1.59%
4	Varma Mutual Pension Insurance Company	2,087,465	1.39%
5	OP Funds	1,446,040	0.97%
6	The State Pension Fund	1,250,000	0.83%
7	Nordea Funds	847,550	0.57%
8	Evli Europe Fund	630,920	0.42%
9	Evli Funds	600,543	0.40%
10	The Finnish Cultural Foundation	520,123	0.35%
11	Sijoitusrahasto Aktia Capital	500,000	0.33%
12	Sigrid Jusélius Foundation	499,865	0.33%
13	Danske Invest funds	472,000	0.32%
14	The Social Insurance Institution of Finland, KELA	396,316	0.26%
15	Valmet Oyj	393,423	0.26%

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

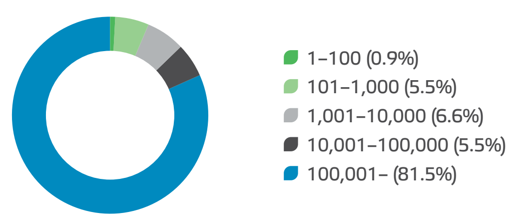
Flagging notifications in 2021

During the review period, Valmet did not receive flagging notifications referred to in the Securities Market Act. Valmet is not aware of any nominee registered shareholders with a holding of 5 percent or more in Valmet as at December 31, 2021.

Distribution of shareholders by number of shares held, %



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



Holdings of the Board of Directors in Valmet Oyj on December 31, 2021

		Shares
Mäkinen, Mikael	Chairman of the Board	4,990
Cantell, Aaro	Vice Chairman of the Board	7,407
Kemppainen, Pekka	Member of the Board	3,583
Lindberg Per	Member of the Board	639
Maurer, Monika	Member of the Board	3,583
Söderström, Eriikka	Member of the Board	4,713
Tyni, Tarja	Member of the Board	6,509
Ziviani, Rogério	Member of the Board	10,696
Total		**41,481**
% of outstanding shares		**0.03%**

Holdings of the Executive Team in Valmet Oyj on December 31, 2021

		Shares
Laine, Pasi	President and CEO	157,581
Karlstedt, Bertel	Business Line President, Pulp and Energy	37,825
Macharey, Julia	SVP, Human Resources and Operational Development	32,709
Niemi, Aki	Business Line President, Services	57,754
Paukkunen, Petri	Area President, Asia Pacific	3,431
Riekkola, Sami	Business Line President, Automation	11,624
Saarinen, Kari	CFO	47,655
Salonsaari-Posti, Anu	SVP, Marketing, Communications, Sustainability and Corporate Relations	27,053
Simola, Vesa	Area President, EMEA	46,755
Tacla, Celso	Area President, South America	85,784
Tiitinen, Jukka	Area President, North America	87,704
Vähäpesola, Jari	Business Line President, Paper	55,305
Zhu, Xiangdong	Area President, China	24,606
Total		**702,096**
% of outstanding shares		**0.45%**

Investor Relations

Valmet arranged Capital Markets Day on March 10, 2021 in a virtual format.

INVESTOR RELATIONS IN 2021

~260

MEETINGS AND CONFERENCE CALLS

~400

INVESTORS PARTICIPATED

32

ROADSHOW DAYS

Mission and goal

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

Valmet's investor website and social media channels

Valmet's investor website provides a comprehensive set of information about Valmet's business environment, strategy, business lines and financial performance. In addition to financial reports, presentations, webcast recordings and interactive share and ownership monitors, the website features videos and the Investor Relations blog for more topics tailored to investors' interests. Valmet's investor social media channels are @ValmetIR in Twitter and @valmet_sijoituskohteena in Instagram for the Finnish speaking audience. The number of social media followers continues to grow and we had over 1,600 followers on our accounts in 2021.

Silent period

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

Investor relations in 2021

In 2021, Valmet held ca. 260 investor meetings and conference calls, which were participated by ca. 400 institutional investors. Meetings were mainly arranged virtually due to COVID-19 pandemic, but few meetings were also arranged physically in Paris and in Stockholm.

In March, Valmet arranged Capital Markets Day virtually. Over 200 participant followed the live webcast across Europe. The recording of the event is available at Valmet's investor website.

FREQUENTLY ASKED QUESTIONS

How big is Valmet's market share?

Valmet has a leading market position: it is globally either #1, #2 or #3 in all markets it serves. As a provider of board and paper making technology, Valmet's market share is ca. 50 percent, and in tissue ca. 35 percent. In these businesses, Valmet is the global market leader. As a supplier of pulp manufacturing technology, Valmet has a ca. 45 percent market share, and in energy ca. 20 percent. In automation, Valmet's market share is ca. 25 percent in the pulp and paper market, and ca. 10 percent in other process industries. In services, where the market is more fragmented, Valmet's market share is ca. 17–18 percent.

What are the market drivers for Valmet's businesses?

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

What are Valmet's long-term financial targets?

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

Analyst coverage

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

Company	Analyst
Carnegie Investment Bank	Tom Skogman
Danske Bank	Panu Laitinmäki
DNB Markets	Tomi Railo
Handelsbanken	Timo Heinonen
Inderes	Antti Viljakainen
Jyske Bank	Morten Holm Enggaard
Kepler Cheuvreux	Johan Eliason
Morgan Stanley	Robert J. Davies
Nordea Markets	Manu Rimpelä
OP Corporate Bank	Henri Parkkinen
SEB	Antti Kansanen
UBS	Sven Weier

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

Financial calendar 2022

February 3, 2022	Financial Statements Review for 2021
March 22, 2022	Annual General Meeting
April 6, 2022	Silent period begins
April 27, 2022	Interim Review for January–March 2022
July 6, 2022	Silent period begins
July 27, 2022	Half Year Financial Review for January–June 2022
October 5, 2022	Silent period begins
October 26, 2022	Interim Review for January–September 2022

The calendar is available on Valmet's investor website.

Valmet Investor Relations

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

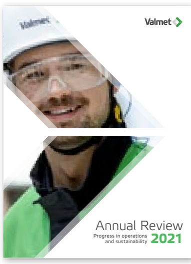
Tuuli Oja
Manager, Investor Relations
Tel. +358 10 672 0352
tuuli.oja@valmet.com

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

BEST ir society PRACTICE AWARDS 2021 WINNER

IR magazine Award winner Europe 2021

Valmet reports 2021



ANNUAL REVIEW 2021

The report covers Valmet's market environment and the progress of its strategy, operations and sustainability in 2021.

FINANCIAL STATEMENTS 2021 AND INFORMATION FOR INVESTORS

The report includes Valmet's Financial Statements for 2021 and information about its share, shareholders and management.

GRI SUPPLEMENT 2021

The report includes Valmet's sustainability reporting indicators and principles, and its alignment with the Global Reporting Initiative (GRI) Standards framework in 2021.

REMUNERATION REPORT 2021

The report covers Valmet's remuneration principles and remuneration in 2021.

CORPORATE GOVERNANCE STATEMENT 2021

The report covers Valmet's governance principles and activities, Board of Directors and management in 2021.

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