CONFIDENTIAL

Introduction to Valmet Enterprise Risk Management

Based on Valmet’s Risk Management Policy 2022

Asko Partti

VP, Corporate Risk Management

Content

Risk Management at Valmet

Risk Management Processes in Valmet

Risk Management Policy
- Updated annually
- Approved by BoD

Risk Map and Risk Assessment
- In Risk Map key risks identified
- Risks assessed annually

Risk Treatment and Residual Risk
- Treatment actions and accountability determined

Risk Management Evaluations
- Frime, Logistics and Risk Engineering audits

Intenal and Extenal Benchmarks
- Audit results and peformance evaluated against a peer group

Crisis Management Procedures
- Crisis Mgmt Team
- Incident Mgmt Team

Global Insurance Programs
- Liability, Marine Cargo, EAR, Property Damage, Business Interruption, Travel and Expat

Risk Management Network
- Risk Mgmt Team
- Controller network globally

Instructions, Awareness and Training
- Flow and Notes database
- Training sessions

Risk Management Processes

- *Our risk management process is set up to identify and manage risks in order to strengthen our business*

Insurance programs

We have prepared for property, business interruption, transport and liability risks through local and global insurance schemes.

Risk map

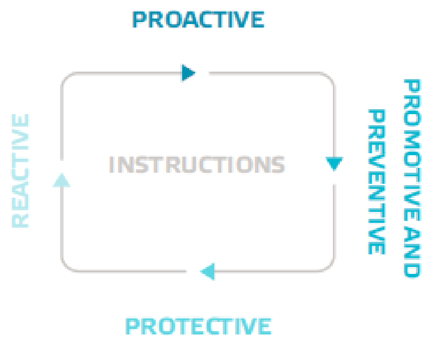
We categorize our risks on the risk map and define risk management tools, practices and responsible parties. We update the map at least once a year.

Risk assessments

We conduct an annual risk assessment to identify key risks. In the assessment, the significance of the risk and the need for measures are evaluated.

Crisis management

The primary goal of our crisis management is to secure the safety of people involved. We also aim to reduce the adverse financial and reputation impacts, rectify damages and restore operations to normal.



Remedies

The businesses' operative management and the Risk Management Team ensure that our businesses initiate measures based on the results of the risk assessment.

Other enforcement processes

Our internal control systems aim to ensure the reliability of our financial reporting. We systematically monitor factors that potentially affect our reputation.

Management systems

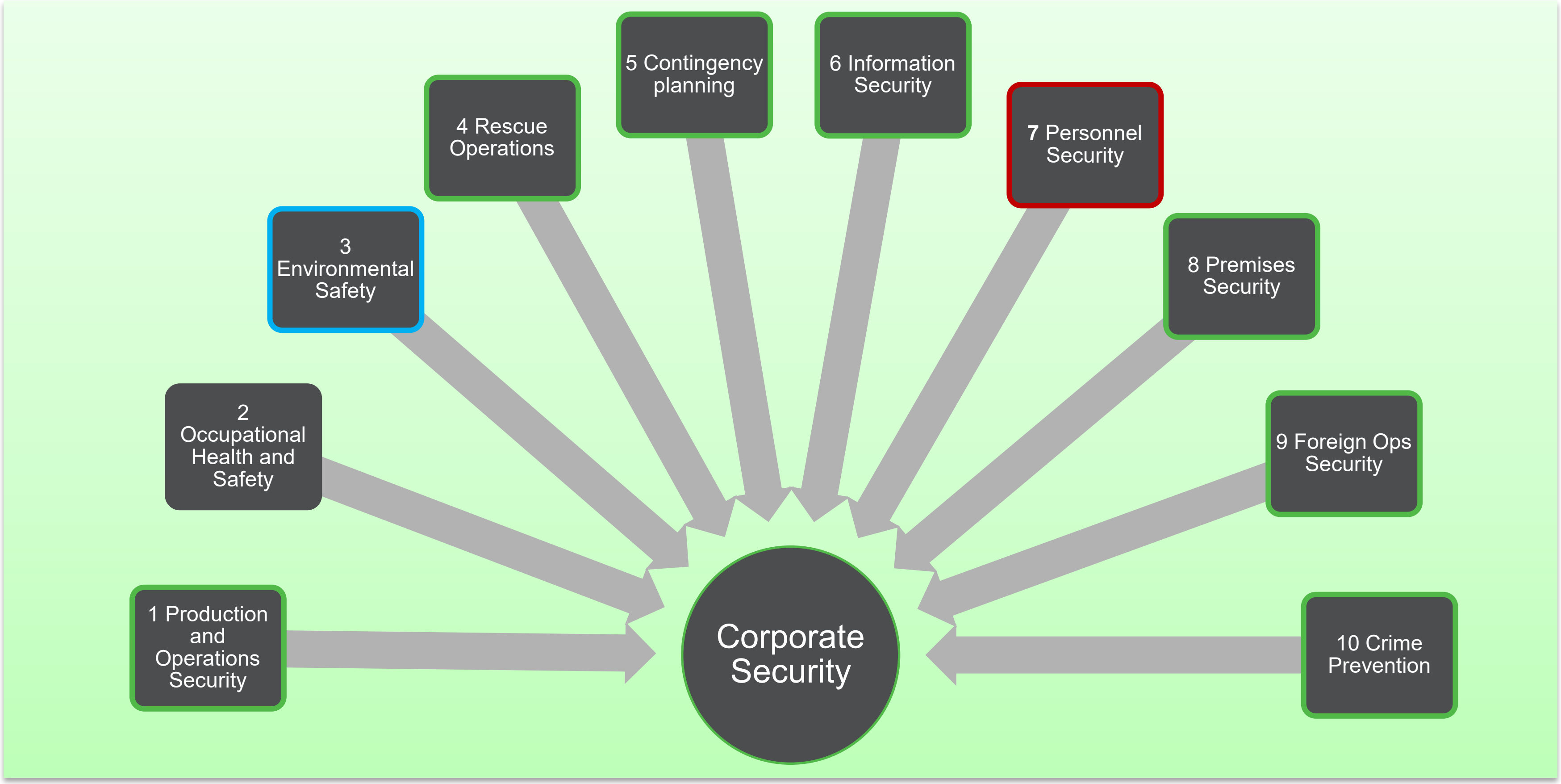
Our quality and environmental management systems are based on ISO 9001 and ISO 14001 and our occupational health and safety systems on OHSAS 18001 standards.

Risk management evaluations

Our businesses work with an external insurance broker to evaluate the functionality of risk management at our key units.

Corporate Security

Components & Owners



- The division of corporate security into ten components is based on the model created by the Finnish Corporate Security Advisory Body of the Confederation of Finnish Industries EK.
- Corporate Risk Management has overall responsibility for Corporate Security

Corporate Risk Management
Group Strategy/Health & Safety
Group Strategy/Sustainability & Technology
Group Human Resources

Goals of the Enterprise risk management

- ❑ Support:
  - ❑ the achievement of strategic targets and business objectives
  - ❑ the continuity of operations
  - ❑ strategic and operative decision-making and planning
  - ❑ compliance with legal and regulatory requirements and international norms
- ❑ Increase internal and external stakeholder confidence
- ❑ Improve:
  - ❑ governance and controls
  - ❑ agility to take advantage of, minimize, remove or mitigate risks
  - ❑ accident and loss prevention and incident management
  - ❑ organizational awareness, learning and resilience

Risk Organization: Roles and Network

Risk Management as a part of Valmet's governing bodies

Annual General Meeting

Nomination Board

External Audit

Board of Directors

Audit Committee

Remuneration and HR Committee

Internal Control

- Internal Audit
- Risk Management

Group President and CEO

Executive Team

Business Line Presidents

Risk management organization and responsibilities at Valmet

Board of Directors	• Overall responsibility
Audit Committee	• Review responsibility
CEO, Exec Team	• Business responsibility
Line Management, Risk Managers	• Implementation responsibility
Risk Management Team	• Implementation approval and follow-up responsibility
Corporate Risk Management	Development, planning, implementation support and control

CMT

IMT IMT IMT

Valmet's Risk Management Network Members

Head of Risk Management
- Asko Partti

Group Risk Manager
- Asko Partti

Risk Management Specialist
- NN

Corporate IT risks
- Janne Puustinen

Corporate Financial risks
- Reetta Antila

Corporate HSE risks
- Victoria Larsson

Services risks
- Bill Zervas

Paper risks
- Heikki Koivula

Pulp and Energy risks
- Niklas Nylund

Automation risks
- Chris van Laar

Risk Management Team
- Katri Hokkanen, CFO
- Rasmus Oksala
- Asko Partti

Enterprise Risk Management Network at Valmet

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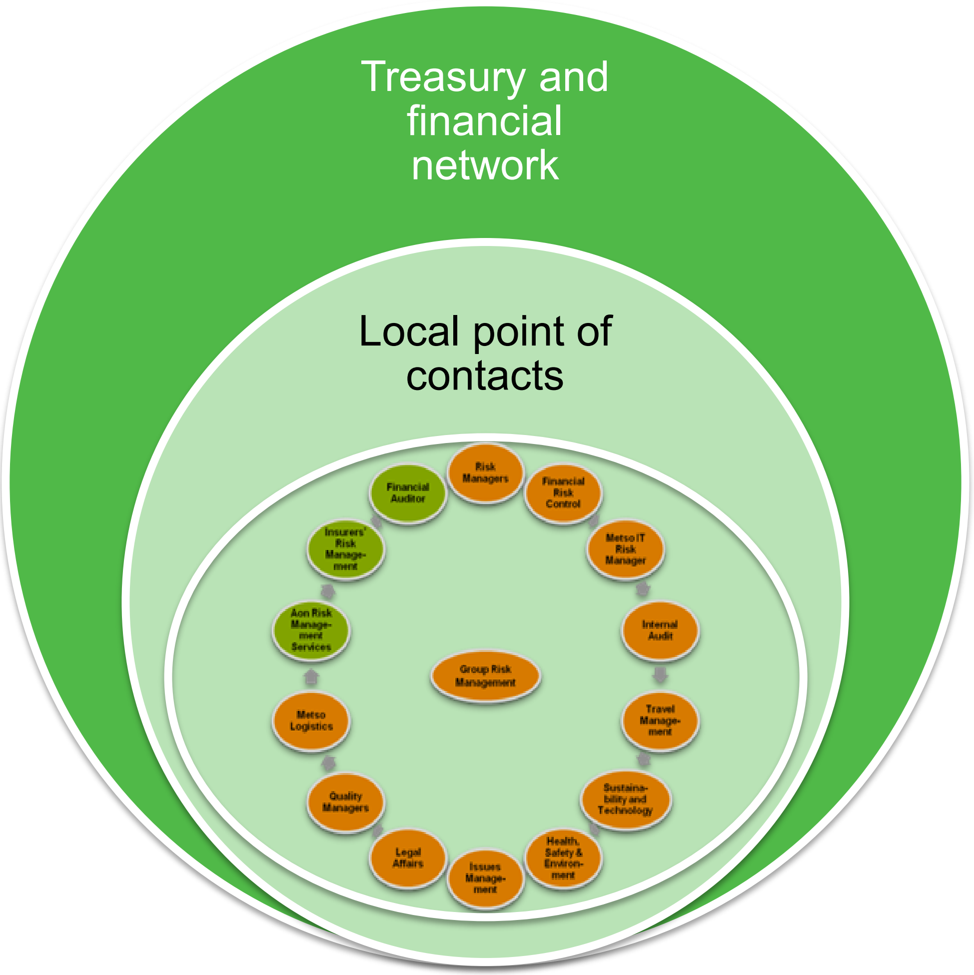
Enterprise risk management network at Valmet

Global network



Risk management processes and Scope of Activities

Risk management processes at Valmet

1. Risk Management Policy
2. Risk Management Program
3. Risk Map
4. Risk Assessment
5. Risk treatment and residual risk management
6. Risk Management Evaluation
7. Internal and external benchmarks
8. Crisis management practices
9. Global insurance programs
10. Process reviews and development

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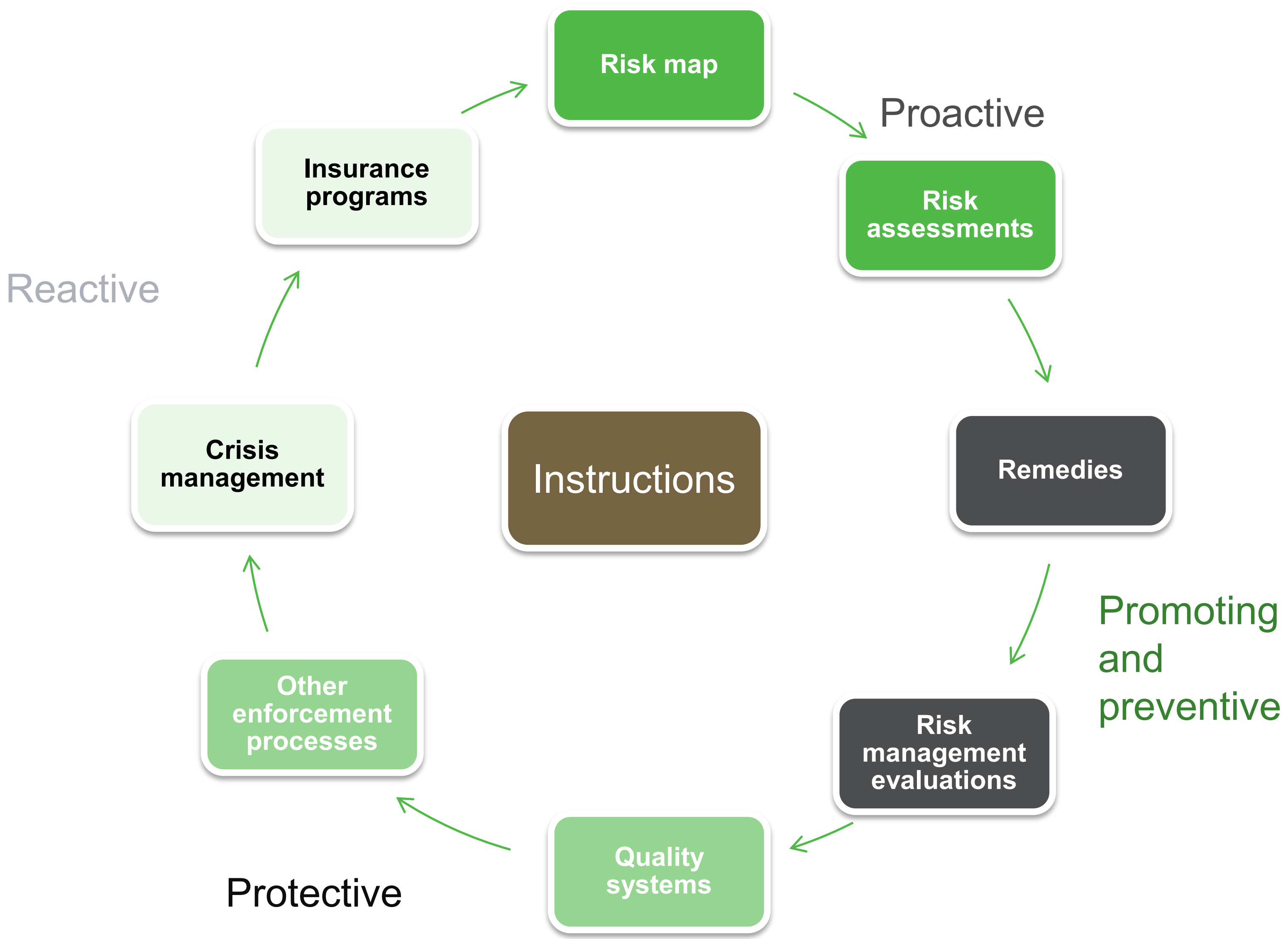
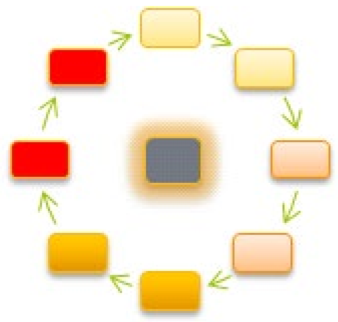
Risk management practises at Valmet

1. Risk Management network
2. Instructions
3. Training and auditing
4. Communication and consultation
5. Risk awareness

Scope of risk management activities at Valmet
Implementation



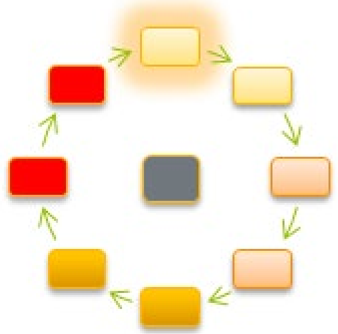
Risk management instructions



Corporate Governance
Strategic guidelines
Treasury Policy
Internal Audit Charter
Health, Safety and Environmental Policy
Information Security Principles
Enterprise Risk Management Policy
Risk Management Instructions

Corporate Security (Handbook)

Risk map

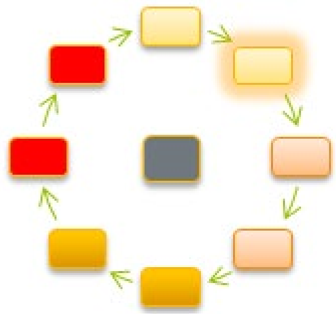


Risk classification

Main tools

Responsibilities

Risk Assessment



- Risk recognition
- Probability
- Impact
- Risk level
- Actions, responsibilities, schedule

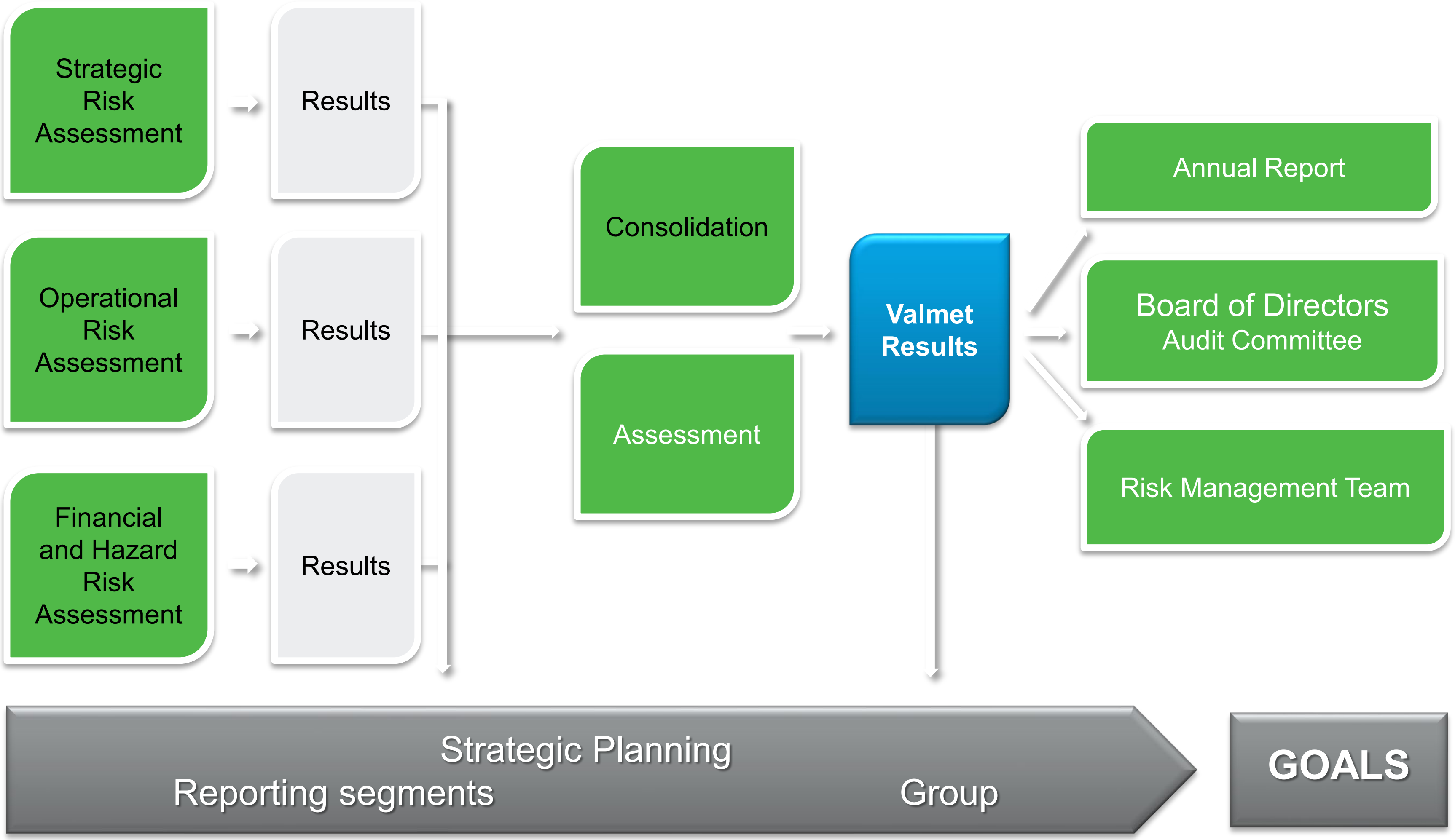
Risk Assessment - Common

Risk is calculated by *multiplying the probability by the impact*

P x C = R

1 – 5 x 1 – 5 = 1 - 25

Risk assessment process and utilization



Risk assessment principles

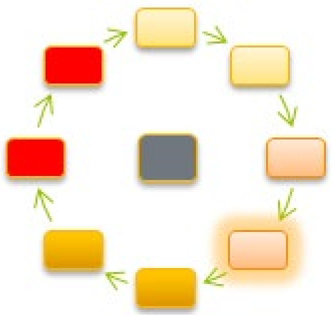
ESTIMATED IMPACT TO NET SALES = **C**

ESTIMATED OCCURANCE FREQUENCY PROBABILITY =**P**	IRRELEVANT 1 <1%	LOW 2 1 - 5%	MEDIUM 2 5 - 10%	HIGH 4 10 - 20%	EXTREME 5 >20%
IRRELEVANT **1** < IN 50 YEARS	1	2	3	4	5
LOW **2** IN 30 YEARS	2	4	6	8	10
MEDIUM **3** IN 10 YEARS	3	6	9	12	15
HIGH **4** IN 5 YEARS	4	8	12	16	20
EXTREME **5** > IN 1YEAR	5	10	15	20	25

RISK LEVEL = P x C = **R**

- No actions needed
- Follow-up
- Long term solutions
- Operational solutions
- Immediate actions

Remedies



Risk assessment results and/or Business Impact Analysis results

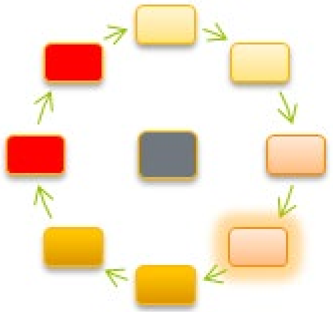
Corporate Policies, principles, instructions and tools

Implementation:

Utilization, removal, mitigation, restriction

Risk management evaluations

FRiME audits, Compliance audits, Valmet IT audits, Insurers’ audits, other



Key risks, risk assessment results, Business Interruption Analysis results

Actions taken

Evaluation

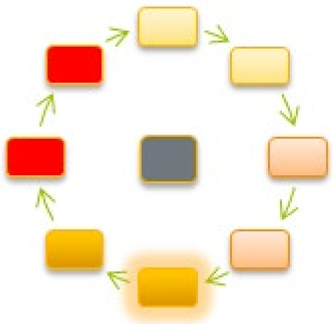
Benchmarking

Risk management evaluation (FRiME)

- Risk management evaluation means evaluation of the risk management level at Valmet's units globally.

  The purpose of the risk management evaluation is to help Valmet's units to identify potential risks, find the best ways to manage risks and to train the unit's personnel to use existing tools and procedures to manage risks. It is also important to unify and improve the practices and to share the information and best practices across the company.
- The level of risk management and actions taken are evaluated by Group Risk Management function using Valmet's insurance broker's "Flexible Risk Management Evaluation" -tool (called FRIME).
- The intention is to cover about 80% of Valmet's annual net sales and have a selection of units representing also a wide geographical and functional coverage. Based on the definition, the number of the key units is about 50. The evaluation is conducted annually in five of those fifty most significant units.
- The two-day evaluation consists of first day's part of operational and hazard risks management evaluation. Second day starts by introducing the results to the management of the unit/function. Strategic risk and financial risk management evaluation is conducted after the introduction.
- The tool consists ca. 185 questions relating to strategic, financial, operational and hazardous risks. The operational risks section includes questions related to compliance and crime as well as equal opportunity and freedom of association.
- More information about FRiME audits can be found in 1.3 Risk and Crisis management.

Quality systems
ISO9001, ISO14001, OHSAS18001

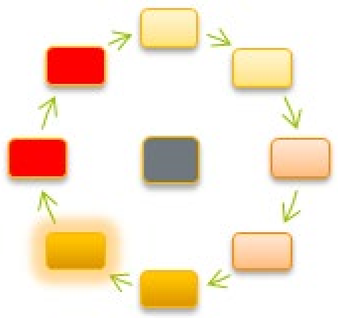


Risk management evaluation results

Prioritization

Integration of remedies into quality auditing

Other enforcement processes



Risk management evaluations' results

Opportunities, weaknesses, threats

Cooperation:

Strategic Planning, Financial Audit, Financial RM, Internal Audit, Compliance Program, Metso IT RM, OHS, Insurers, other

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Crisis management

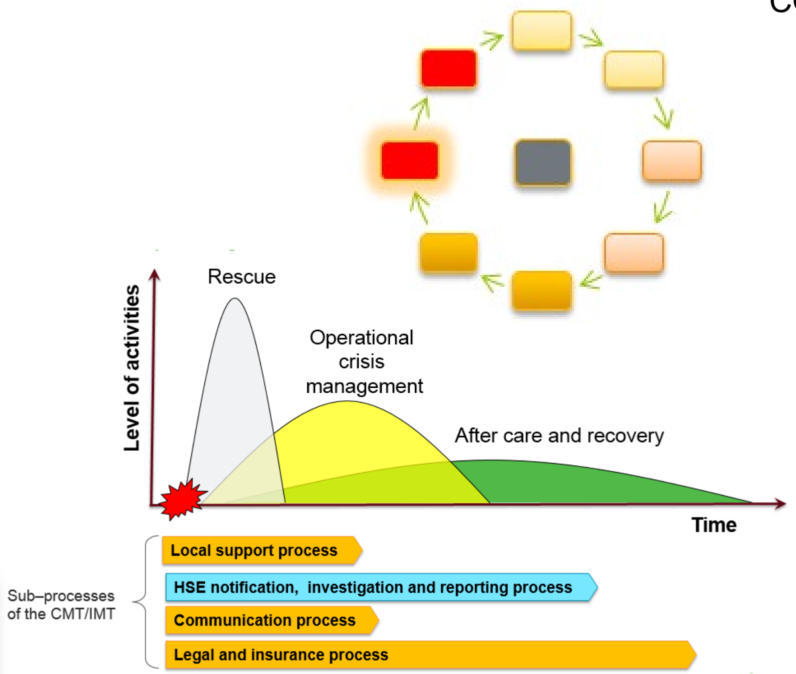
Priority of actions taken in crisis

Secure the personnel

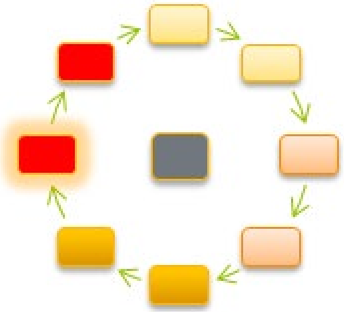
Decrease the severity of the damage

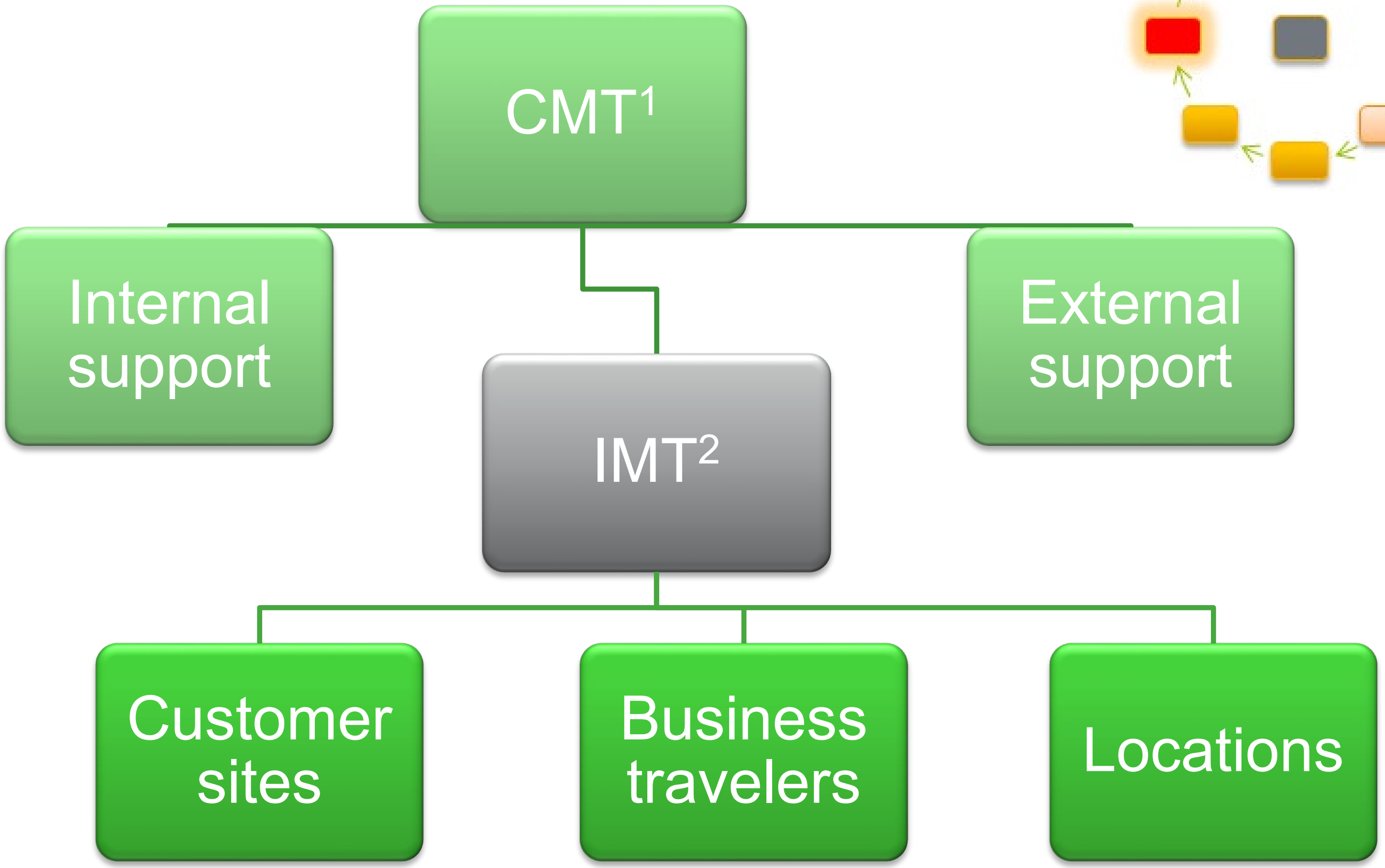
Find out the ways to continue the activities of the Company

Restore the facilities and the organisation



Crisis management organization





1) Crisis Management Team
2) Incident Management Team

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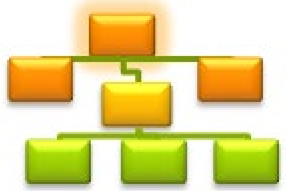
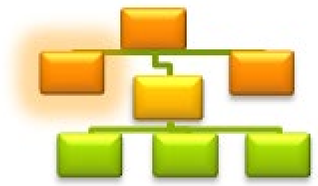
Crisis Management Team (CMT)



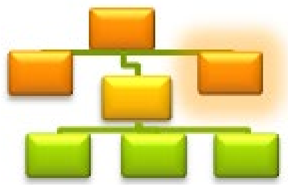
- ❑CFO (Chairman of the CMT)
- ❑SVP, General Counsel
- ❑SVP, Human Resources
- ❑VP, Group Risk Management (Vice.chairman)
- ❑SVP, Group Communications

Internal support



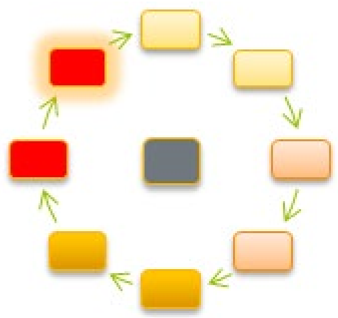
❑Occupational Health and Safety
❑Production
❑Environment
❑Information Technology
❑Other

External support



- ❑Security consultants
- ❑Travel agencies
- ❑Insurance companies
- ❑Foreign Ministries
- ❑Other authorities in question (Police, Frontier authorities, Customs etc.)

Global insurance programs



Property Damage, Business Interruption and EAR Insurance

Marine Cargo and Inland Transit Insurance

General and Product Liability Insurance

Director’s and Officer’s Liability Insurance

Other insurance Administration

Valmet

Risk Categories

Definition of Risk

- ❑Effect of uncertainty on objectives (ISO31000:2009E)

- ❑Risk is a combination of the probability of an event and its consequences (ISO/IEC Guide 73)

- ❑Risk is either an opportunity or threat or combination of both aspects

Definition of Risk and Risk categories & implications in Valmet

- Definition of Risk
- Effect of uncertainty on objectives (ISO31000:2009E)
- Risk is either an opportunity or threat or combination of both aspects
- Risk categories & implications

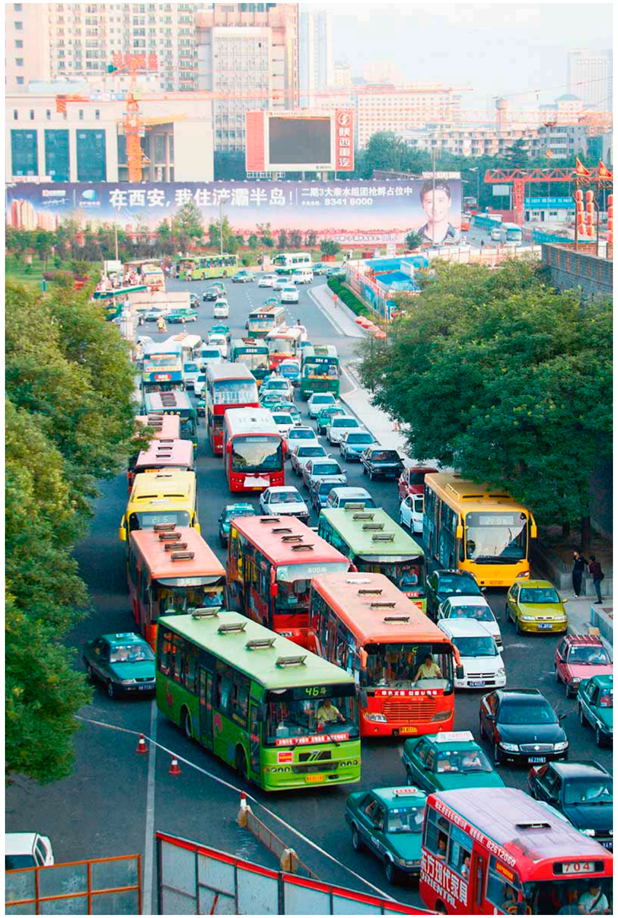
Strategic risks	• Input into strategic planning • Enforcement of strategy implementation • Background for corporate level critical threat evaluation
Financial risks	• Financial market impact on business operations • Development and implementation of corporate finance and funding strategy • Content and implementation of the Treasury Policy
Operational risks	• Support to meet the current business result objectives • Secure continuity of operations • Be part of internal control environment
Hazard risks	• Initiate preventive measures to avoid incidents • Support and enforce measures in Health, Safety and Environment related issues • Secure continuity of operations

Risk categories

Risk is either an opportunity or a threat or combination of both aspects

Strategic risks

1. Business development risks
2. Business environment risks
3. Market risks
4. Technology risks
5. Political, regulatory, legislative and cultural development
6. Global climate, environmental and other phenomena



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Financial risks

1. Liquidity
2. Interest rate risks
3. Currency risks
4. Credit and counterparty risks
5. Pension assets and liabilities risks

Operational risks

1. Organization and management related risks
2. Information security risks
3. Production, process and productivity risks
4. Business interruption risks
5. Profitability risks
6. Project activity risks
7. Contract and liability risks
8. Crisis situations
9. Compliance and crime related risks

Hazard risks

1. Occupational health and safety related risks
2. Personnel security risks
3. Environmental risks
4. Fire and other disasters
5. Natural events
6. Premises security risks

Valmet Risk Profile 2022

THREATS | OPPORTUNITIES

HIGH MEDIUM LOW LOW MEDIUM HIGH

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CATEGORY	EXAMPLES OF RISKS	RISK PROFILE	GUIDELINES AND PRINCIPLES	RESPONSIBILITY
STRATEGIC RISKS				
S1. Business development risks	Brand and values. New markets and business opportunities. Mergers and acquisitions. Competence, resources. Company's balance sheet related risks. Natural resources, raw material and energy supply. Life cycle of products and production facilities. Global outsourcing, partners. Tax strategies. Customer reputation. Supplier reputation. Ownership structure.		Valmet strategies and business plans, brand development and protection programs, corporate governance, compliance controls, Code of Conduct, mergers and acquisition process, patents and intellectual property rights, intellectual property policy, Valmet's values, principles of sponsorship, accounting principles, Risk Management Policy.	Business management, Group strategy, Human Resources function, Legal Affairs function, Finance function, Treasury function, Internal Audit, Communications function, Investor Relations function, Business Intelligence, Technology Management function.
S2. Business environment risks	Cycles in the global economy and customer industries. Depression and economic expansion.			
S3. Market risks	Changes in customers and customer demand. Customer mergers and acquisitions. Changes in customer product management, specific product requirements and environmental factors. Competition. Business intelligence and competitor analyses.			
S4. Technology risks	Technology vision, R&D capability and future competence requirements. Management of intellectual property rights.			
S5. Political, regulatory, legislative and cultural development	Global political development, political unrest, terrorism, wars. Cultural and religious factors. Financial and environmental legislation. Trade restrictions and sanctions, customs duties, embargoes etc.			
S6. Global climate, environmental and other phenomena	Changes within regional climate. Epidemics.			
FINANCIAL RISKS				
F1. Liquidity	Short-term liquidity, risks in availability and cost of financing. Credit ratings.		Corporate Treasury Policy, Internal controls.	Business management, Treasury function, Finance function, Business Control, Legal Affairs function.
F2. Interest rate risks	Changes in market interest rates and interest margins influencing financing costs, returns on financial investments and valuation of derivative contracts.			
F3. Currency risks	Exchange rate fluctuations affecting the prices of raw materials and production commodities purchased in non-domestic currencies. Exchange rate fluctuations affecting the prices of end-products for export and cost-competitiveness of the products. Equity of subsidiaries outside eurozone.			
F4. Credit and counterparty risks	Credit risks pertaining to trade activities. Counterparty liquidity and reliability.			
F5 Pension assets and liabilities risks	Pension assets and liabilities management related risks. Defined benefits and defined contributions.			
OPERATIONAL RISKS				
O1. Organization and management risks	Organizational efficiency, key persons, competence, resources and management. Recruiting. Rotation of personnel. Innovation capability.		Corporate governance, internal controls, Information security principles, production guidelines, business interruption risk analyses, Treasury Policy, project activity safety guidelines, Product safety guidelines, Safety manuals, contractual guidelines, Code of Conduct, guidelines on preventing misconduct, guidelines on compliance with antitrust legislation, Corporate Insurance Program, crisis management instructions.	Business management, HR function, Production Management, Treasury function, Finance function, Risk Management function, Internal Audit, IT function, Sales Management function, Legal Affairs function.
O2. Information security risks	Data management. Confidentiality, integrity, availability, authenticity, non-repudiation and accountability of data and information.			
O3. Production, process and productivity risks	Production, sales, marketing, inventory, innovation, delivery and process risks. Environmental risk management, customer relationship work, efficiency and follow-up issues.			
O4. Business interruption risks	Production chain management. Supply chain management, outsourcing, dependencies and logistics risks. Resilience and agility.			
O5. Profitability risks	Profitability assessment and quotation calculation risks.			
O6. Project activity risks	Risks related to delivery schedules and payment terms, project teams and suppliers.			
O7. Contract and liability risks	Quality, contract and payment terms. Product technology risks and product safety risks. Product liability risks.			
O8. Crisis situations	Crisis management capability; operational capacity, emergency services and effective cooperation.			
O9. Compliance and crime-related risks	Fraud, misconduct and crimes.			
HAZARD RISKS				
H1. Health, safety and environmental risks	Work-related illness, accidents and occupational well-being related risks.		Health, safety and environmental guidelines, HSE Monitor, certification principles, Travel safety guidelines, rescue plans, premises security guidelines, crisis management organization, Corporate Insurance Program	Business Management, HR function, and Health, Safety and Environmental organization, Risk Management organization, Crisis and Incident teams, and Real Estate organizations.
H2. Personnel security risks	Kidnapping, theft, violence and murder.			
H3. Environmental risks	Leaks, spills and explosions.			
H4. Fire and other disasters	Fire, explosion and traffic/cargo accidents.			
H5. Natural events	Storms, droughts, wildfires, floods, earthquakes, mudslides, tsunamis, volcanic eruptions, etc.			
H6. Premises security risks	Break-ins, theft, arson and vandalism.			

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Risks and business uncertainties

Forewords

- 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.
- If such threats materialized, they could have material adverse effects on Valmet's business, financial situation, and operating result or on the value of assets, shares and other securities.

Risk Assessment Process

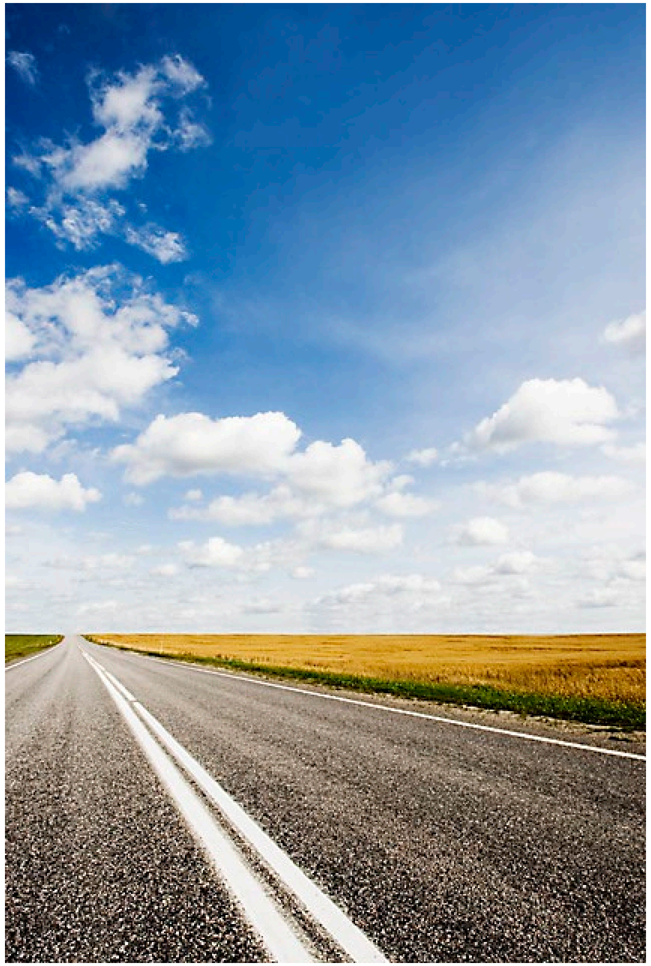
- Basis on Risk Management Policy and ISO 31000 standard
- 19 workshops in 2022, participants from all BL's and selected functions
- Annual process to assess identified key risks
- Valmet's risk appetite is defined in the annual Risk Assessment process in which threats and opportunities are evaluated against Valmet's targets and objectives.
- In assessing risks, Valmet takes into consideration the probability of the risks and their estimated impact on net sales and financial results.
- In the assessment the significance of the risk and the need for measures are evaluated

Risk Assessment Process

- As a key principle, risk management promotes opportunities. Furthermore, it aspires to minimize the adverse impacts of strategic, financial and operational risks and to remove or mitigate the hazard risks.

Summary

- Risk is identified as an effect of uncertainty on Valmet's objectives.
  - Risk is either an opportunity for benefit or a threat to success (or a combination of both aspects).
- Valmet's risk management
  - is established on the ISO 31000 standard
  - promotes opportunities
  - aspires to minimize the adverse impacts of strategic, financial and operational risks
  - aspires to remove or mitigate hazard risks.
- The scope of the risk management activities also includes
  - corporate security issues
  - crisis management
  - insurance administration.



Valmet

Valmet Risk Assessment

- Based on Valmet Risk Management Policy
- CONFIDENTIAL
- Asko Partti

Risk Assessment

- Based on Risk Management Policy and ISO 31000 standard
- 19 workshops in 2022, participants from all BL’s and selected functions
- Annual process to assess identified key risks
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- In assessing risks, Valmet takes into consideration the probability of the risks and their estimated impact on net sales and financial results.
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Risk Assessment

Risk recognition

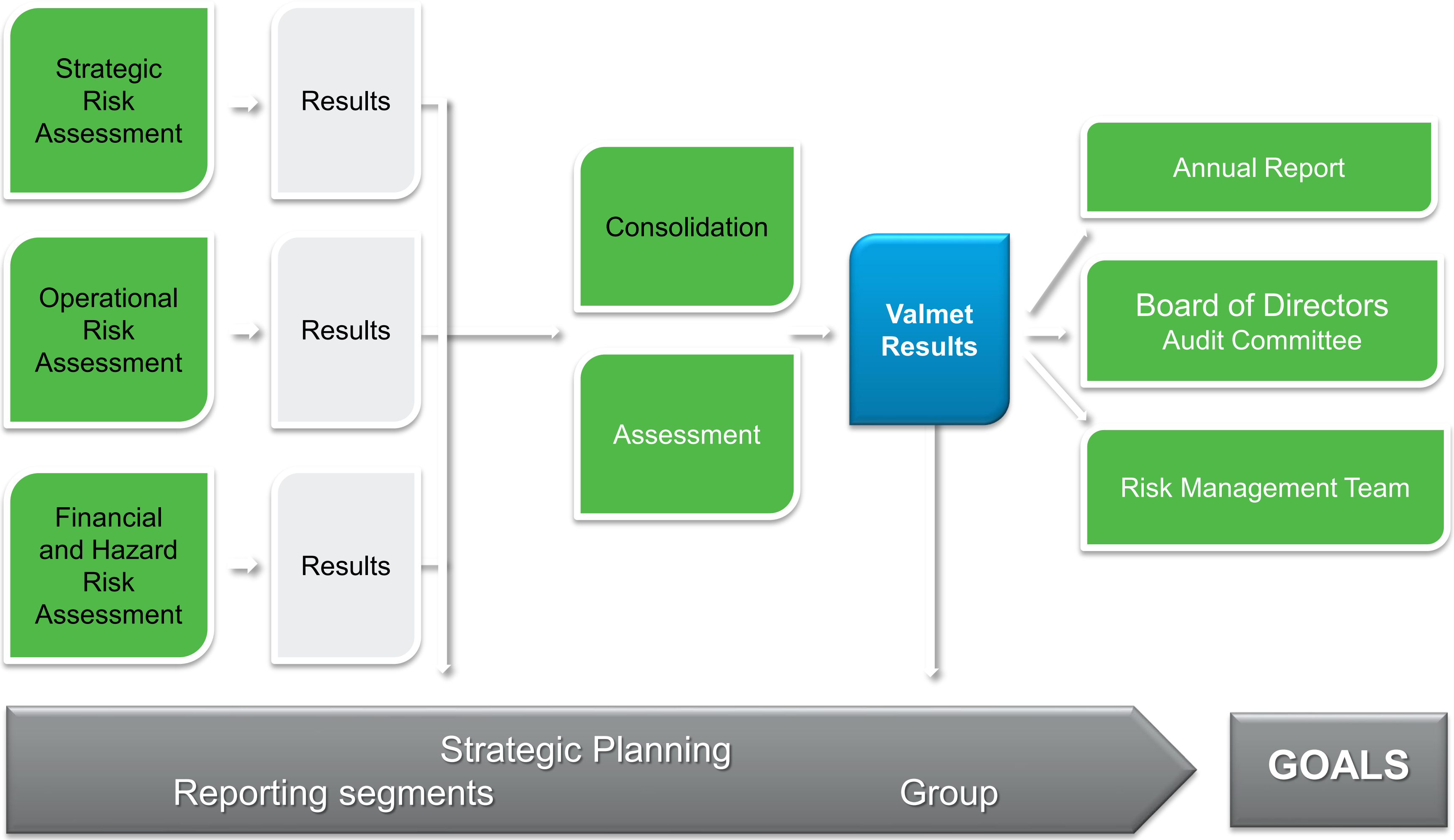
Probability

Impact

Risk level

Actions, responsibilities, schedule, follow-up

Risk assessment process and utilization



Risk Assessment - Common

Risk is calculated by *multiplying the probability by the impact*

P x C = R

1 – 5 x 1 – 5 = 1 - 25

Assessing the Probability (P)

1 Irrelevant (once in about 50 years ore more seldom)

2 Low (once in about 30 years)

3 Medium (once in about 10 years)

4 High (once in about 5 years)

5 Extreme (once a year or more often)

Assessing the Impact C to the Net Sales

-/+1 IRRELEVANT (impact less than 1%)

-/+2 LOW (impact from 1% to 5%)

-/+3 MEDIUM (impact from 5% to 10%)

-/+4 HIGH (impact from 10% to 20%)

-/+5 EXTREME (impact more than 20% to the calculatory net sales value)

Risk level

1 - 2 IRRELEVANT risk,

- No risk management actions are needed.

3 - 4 LOW risk

- No extra decreasing or controlling actions are needed.
- Cost-benefit analysis should be used to find out best practices.

Risk level

5 - 9 MEDIUM risk

- It is necessary to decrease or control the risk exposure by using long term solutions.
- The follow-up measures are needed to manage the risk.

Risk level

10 – 20 HIGH risk

- Risk exposure must be controlled by using operational measures like business planning, compliance-, rescue-, recovery, contingency- and similar planning.
- If the risk is connected to an ongoing operation/work, the risk exposure should be reduced or controlled before continuing the work.

Risk level

20 - 25 EXTREME risk.

- The operation shall not be started or continued before the risk exposure has been decreased or controlled.
- If the risk exposure can't be decreased (negative) or controlled (positive) even with remarkable resources, the operation must be prohibited/cancelled (negative) or re-planned (positive).

Risk assessment principles

ESTIMATED OCCURANCE FREQUENCY / PROBABILITY = **P** \ ESTIMATED IMPACT TO NET SALES = **C**	**IRRELEVANT** 1 <1%	**LOW** 2 1 - 5%	**MEDIUM** 2 5 - 10%	**HIGH** 4 10 - 20%	**EXTREME** 5 >20%
IRRELEVANT **1** < IN 50 YEARS	**1**	**2**	**3**	**4**	**5**
LOW **2** IN 30 YEARS	**2**	**4**	**6**	**8**	**10**
MEDIUM **3** IN 10 YEARS	**3**	**6**	**9**	**12**	**15**
HIGH **4** IN 5 YEARS	**4**	**8**	**12**	**16**	**20**
EXTREME **5** > IN 1YEAR	**5**	**10**	**15**	**20**	**25**

RISK LEVEL = P x C = **R**

- No actions needed
- Follow-up
- Long term solutions
- Operational solutions
- Immediate actions

Risk Assessment Results

Based on Valmet Risk Management Policy
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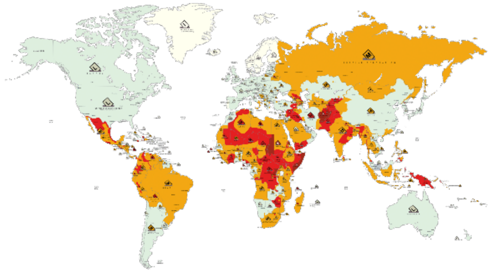
16.06.2022
Asko Partti

Summary

Key findings for 2023



- 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.
- If global economic growth weakens, it might have adverse effects on new projects under negotiation or on projects in the order backlog.
- Financial and political 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.
- The high proportion of business derived from stable business and the geographical diversification will reduce the possible negative effects that market uncertainties may have.
- Through acquisitions or mergers Valmet may become exposed to risks associated with new markets and business environments.
- Key risks related to projects are cost accounting, scheduling and materials management risks.
- Capital business risks are managed by improving and continuously developing project management processes and the related tools.
- Changes and uncertainty in the future regulation and legislation may critically affect business opportunities especially in the energy business.

Emerging Risks and Must-Wins

Must-Wins	Threats 2023
Customer excellence	1 • Global and key market area economic cycles 2 • Customer industry cycles 8 • Company's brand and reputation
Leader in technology and innovation	10 • Products' technology cost structure and competitiveness
Excellence in processes	3 • Project operations risks 4 • Services business profitability risks 5 • IT systems impact to business performance and continuity 6 • Energy, raw material and supply chain management 7 • Quality risks 8 • Information security risks 9 • Global regulatory development
Winning team	

Emerging Opportunities and Must-Wins

Must-Wins	Opportunities 2023
Customer excellence	2 • Global and key market area economic cycles 3 • Customer industry cycles 7 • Demand for products and continuity of customer relationship
Leader in technology and innovation	4 • Products' technology cost structure and competitiveness 7 • Maintaining technology leadership through innovating new breakthrough products
Excellence in processes	1 • Company's mergers and acquisitions target availability and utilization 5 • Company's global sourcing capability and key material and services sourcing 6 • Services business profitability 9 • Global regulatory development 10 • Energy, raw material and supply chain management
Winning team	8 • Management competence and capability

Summary of key findings

Risk = opportunity and/or threat

- New risks in the top 10 list
  - Information security risks
- Opportunities
  - Company’s mergers and acquisitions target availability and utilization
  - Global and key market area economic cycles
  - Customer industry cycles
  - Products’ technology cost structure and competitiveness
  - Company’s global sourcing capability and key material and services sourcing
- Threats
  - Global and key market area economic cycles
  - Project operations related risks
  - Customer industry cycles
  - Services business profitability
  - Global regulatory development

Risks and business uncertainties

Risks and business uncertainties 1/3

- 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.

Risks and business uncertainties 2/3

- 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.

Risks and business uncertainties 3/3

- Changes and uncertainty in future regulation and legislation can also have critical effects, especially on the energy business.
- Large fluctuations in energy prices can affect the global economy. These fluctuations can also affect Valmet and its customers, especially in the energy business.
- Changes in labor costs and the prices of raw materials and components can affect Valmet's profitability. Wage inflation is continuing, but Valmet's goal is to offset this at least partly through increased productivity and strict price discipline. It is possible, however, that tough competition in some product categories will make it difficult to pass on cost increases to product prices. On the other hand, some of Valmet's customers are raw material producers and their ability to operate and invest may be enhanced by strengthening commodity prices and hampered by declining commodity prices.
- To ensure a high level of quality in both production and services, it is important to sustain a high level of competence and talent availability. This includes, for example, maintaining efficient recruitment programs, utilization of existing talent and sharing knowledge globally.
- Through acquisitions, Valmet may become exposed to risks associated with new markets and business environments. The actual acquisition process also includes risks. Other risks associated with acquisitions include, but are not limited to, integration of the acquired business, increased financial risk exposure, retention of key personnel and achieving the targets set for the acquired business.

Management of project business risks important

- An important part of Valmet's business consists of project business. Pulp business projects in particular can be large, thus project-specific risk management is crucial. Key risks related to projects are project cost estimation, scheduling, project risk management, quality and performance risks, and materials management risks. Risk analysis shall, as a minimum, take place for all significant project quotations. The work concerning threat and opportunity assessment continues during the execution phase of the project. Risk management is based on careful planning and continuous, systematic monitoring and evaluation. Project risks are managed by improving and continuously developing project management processes and the related systems.
- There may be changes in the competitive situation of Valmet's individual businesses, such as the emergence of new, cost-effective competition in the markets. Valmet can safeguard its market position by developing its products and services, and through good customer service and local presence.

Availability of financing crucial

- Securing the continuity of Valmet's operations requires sufficient available funding under all circumstances. Valmet estimates that its liquid cash assets and committed credit limits are sufficient to secure its immediate liquidity and to ensure the flexibility of financing. The average maturity of Valmet's non-current debt, excluding lease liabilities, is 3.3 years. Loan facilities include customary covenants, and Valmet is in clear compliance with the covenants at the balance sheet date.
- Net working capital and capital expenditure levels have a key impact on the adequacy of Valmet's financing. Setting aside investments into the renewal of the ERP system, Valmet does not expect any significant increase in annual capital expenditure and estimates that it is well-positioned to keep capital expenditure at the level of total depreciation.
- Of the financial risks that affect Valmet's profit, currency exchange rate risks are among the most substantial. Exchange rate changes can affect Valmet's business, although the wide geographical scope of the Company's operations reduces the impact of any individual currency. Economic insecurity typically increases exchange rate fluctuations. Valmet hedges its currency exposures linked to firm delivery and purchase agreements.
- Changes in legislation and the way authorities interpret regulation, for example regarding taxation, can also have an impact on Valmet's financials.

Pandemics and infectious diseases

- In case an outbreak and a prolonged pandemics, 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 pandemics remain as a heightened risk to Valmet's operations also after COVID-19.
- Pandemics might have impact on the supply chain and business, by increasing the likelihood of interruptions. For example, the rate for security of supply slightly declined in 2021 but improved in 2022.
- Valmet's operations are scattered all around the world – annually we have around 200 scheduled project completions, i.e. customer start-ups with our global customer base, coupled with the fact that also our global suppliers are operating in several countries.
- The diversity of our supply chain, delivery operations and customer base mitigate the overall impacts of risks to Valmet, should there be any disruptions in some isolated country or case.
- Valmet currently has a large order backlog, strong balance sheet and liquidity coupled with a flexible organization, and a structured way to operate in changing circumstances.
- This will aid Valmet in mitigating the global challenges caused by pandemics. Valmet also has a Global Incident Management Team (IMT), a regional and local IMTs to manage Valmet's response to pandemics.

Mitigating the impacts of Covid-19 pandemic

- The coronavirus pandemic, a dynamic, rapidly evolving global crisis that shaped 2020 impacted Valmet's way of operations in various ways. Protecting health and safety of employees, partners and customers, as well as the communities in which we operate was in the center of day-to-day activities. Also, collaboration with stakeholders to reduce risks to people and our businesses was extremely important.
- Valmet established both a global Incident Management Team (IMT) and a local China IMT to manage Valmet's response to the coronavirus epidemic right in the beginning of the coronavirus outbreak in January 2020. Additionally, management's Global Incident Team (HQ Team), regional and local IMTs were established in March 2020 when the pandemic continued to spread further.
- The roles of each IMT were accurately described. The global IMT focused on monitoring the development of the global pandemic situation, sharing updated information to the personnel and preparing global guidelines. The management's HQ Team monitored the global situation, ensured efficient flow of information globally, approved proposals by the global IMT for company-wide operating guidelines and supported the decision-making of local organizations. Regional and local IMTs focused on securing business continuity, creating continuity plans for critical business functions, observing instructions of local authorities, deploying regional instructions and communicating with personnel.
- IMTs worked very hard over the course of the year in co-operation with employees, customers, and health authorities in the ever-changing pandemic situations to ensure safety at workplace and continuity of business operations . Despite challenging Covid-19 conditions, Valmet had relatively few confirmed Covid-19 infections throughout the year, especially at Valmet's own locations.
- "We have been able to operate and adapt in an agile way globally, both implementing and updating numerous instructions with growing scientific and medical information and sharing best practices. Clear and timely internal communication has been one key to success. Good instructions help but managing the Covid-19 year was very much about people in all kinds of roles from Project Managers to site employees and their commitment to follow the safety measures and taking care of each other," says **Asko Partti**, Vice President of Risk Management and Head of global IMT.
- Valmet's internal Pulse survey showed at the end of the year that engagement and staying connected were on a good level among our Valmeteers. It showed that we as a company were finding ways to manage the changes happening around us.

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War in Ukraine – impacts and mitigating actions

- The conflict between Russia and Ukraine that started in 2014 concerning certain parts of eastern Ukraine expanded in February 2022 to Russia's military attack on Ukraine, which caused significant risks and uncertainties to the markets affecting the entire global economic environment and financial markets. World trade, the availability of materials and logistics chains are changing permanently. Companies need to radically change their operating models to operate in this new world.
- Approximately 2 percent of Valmet's total net sales came from its Russian operations in 2021. In the spring of 2022, Valmet had a total of approximately 140 employees in Russia, working primarily in sales, engineering, maintenance, and financial administration. Valmet does not have production in Russia.
- Valmet has evaluated the long-term impact of the situation in Ukraine, reviewed key contractual obligations, project schedules, and identified risks for projects that are delivered to Russia. Based on the review, Valmet has identified projects that no longer meet the criteria of a customer contract for revenue recognition purposes, and has consequently made a reversal of approximately 70 MEUR to its order backlog as at March 31, 2022. Other than the reversal made to Valmet's order backlog, the Russian government's invasion of Ukraine did not have a material impact on the results or financial position of Valmet, or its financial reporting for the first quarter of 2022.
- Valmet does not enter new sales projects in Russia. We are terminating our legal units in Russia taking into account the local legislation and the safety of our employees. We carefully comply with all sanctions and export regulations and are discussing with our customers on the impact of these on our contract obligations. It is possible to source specific components also from some alternative suppliers and no new purchases from Russia will be made. Russia represented around 2% of Valmet's net sales and 0.1% of procurement spend In 2021.
- Valmet will withdraw from Russia completely and will continue to implement the withdrawal in stages as the review of implementation options is fully completed.
- Valmet has established a special Incident Management Team (IMT) to manage the impacts of the war in Ukraine on the company. Additionally, our top management and many functions, like HSE, Legal, Sourcing, HR and IT, are also actively assessing the situation and making needed decisions. Valmet actively complies with all sanctions and export regulations impacting business with Russia and Belarus and monitors development carefully. Valmet continues in reviewing its operations in Russia and implementing its exit plan.
- If the war is further prolonged or geopolitical tensions increase further, there could be additional advers long-term impacts on Valmet's operations, customer investment activity, project deliveries, availability and prices of components, supply chain and availability of financing for both Valmet and its customers.

Climate related regulation and initiatives

- Climate-related risks in Valmet’s own operations relate to increased costs and administrative burden due to changes in regulations and policies in the areas of climate, energy and environment.
- Stricter climate-related regulation and initiatives may change the availability and use of biomass, and increase the cost of raw materials and energy, result in new taxes and tariffs, and change our stakeholder’s attitudes, which could impact Valmet’s and its customers’ operations and business environments. E.g. in 2021, Valmet identified European Green Deal and related initiatives, such as the Carbon Border Adjustment Mechanism, Fit for 55 -package, Taxonomy, emerging forest and biodiversity strategies, as a regulatory risk for Valmet's business, as it will influence how sustainable forest use and Valmet's technologies are seen in the market in long-term future.
- Potential business impacts of climate change to Valmet come mainly from international agreements as well as national and regional commitments to carbon neutrality. These drivers mobilize developments that also in the mid and short-term affect our operating environment. Potential business impacts of climate related regulation to Valmet relate to international agreements as well as initiatives and emerging legislation under the European Union will increase in the long term.
- Uncertainty related to biomass availability and EU level legislation that would limit our customers’ access to biomass and possibilities for new investments in the region would have a significant financial and strategic impact on Valmet. Changes and uncertainty in future regulation and legislation can also have critical effects, especially on the energy business.
- Valmet has a systematic, global approach to manage legislative and regulatory risks related to Valmet’s whole value chain. Valmet mitigates and controls the risk by being active in the policy advocacy work in order to secure informed decision-making. Mitigating actions include the management of the potential risks and opportunities via monitoring the political debate and decision-making processes on to be able to adapt to and take advantage of the changing environment. Valmet also participates discussions though its association networks and directly with decision-makers.
- Climate related risks and opportunities are also assessed annually on a group-level by Valmet´s Risk Management incl. actions, accountabilities, time frame and decisions to treat the residual risk.
- We monitor these on EU-level and globally continuously and systematically, and these are taken into consideration in our policy advocacy work and when making strategic or business decisions.
- In 2021-2022 Valmet conducted climate scenario analysis to further evaluate climate related regulatory risks and their financial implications.

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