

Half Year Financial Review

January 1 – June 30, 2021



Valmet's Half Year Financial Review

January 1 – June 30, 2021

Orders received increased to EUR 1.2 billion and Comparable EBITA to EUR 95 million in the second quarter

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

April–June 2021: Comparable EBITA margin improved to 10.1 percent

- Orders received increased 49 percent to EUR 1,228 million (EUR 826 million).
 - Orders received increased in all business lines.
 - Orders received increased in South America, Asia-Pacific, China and North America, and decreased in EMEA (Europe, Middle East and Africa).
- Net sales remained at the previous year's level and amounted to EUR 943 million (EUR 919 million).
 - Net sales increased in the Paper, Automation, and Services business lines, and decreased in the Pulp and Energy business line.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 95 million (EUR 76 million), and the corresponding Comparable EBITA margin was 10.1 percent (8.3%).
 - Comparable EBITA increased due to higher gross profit margin.
- Earnings per share were EUR 0.43 (EUR 0.29).
- Items affecting comparability amounted to EUR 2 million (EUR -6 million).
- Cash flow provided by operating activities was EUR 180 million (EUR 151 million).

January–June 2021: Orders received and Comparable EBITA increased

- Orders received increased 26 percent to EUR 2,540 million (EUR 2,013 million).
 - Orders received increased in the Paper, Pulp and Energy, and Automation business lines, and remained at the previous year's level in the Services business line.
 - Orders received increased in EMEA, North America, China and South America and decreased in Asia-Pacific.
- Net sales remained at the previous year's level and amounted to EUR 1,801 million (EUR 1,740 million).
 - Net sales increased in the Paper business line, remained at the previous year's level in the Services business line, and decreased in the Automation, and Pulp and Energy business lines.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 175 million (EUR 128 million), and the corresponding Comparable EBITA margin was 9.7 percent (7.4%).
 - Comparable EBITA increased due to higher gross profit.
- Earnings per share were EUR 0.81 (EUR 0.49).
- Items affecting comparability amounted to EUR 11 million (EUR -7 million).
- Cash flow provided by operating activities was EUR 328 million (EUR 324 million).

Guidance for 2021

Valmet reiterates its guidance issued on April 16, 2021, in which Valmet estimates that net sales in 2021 will increase in comparison with 2020 (EUR 3,740 million) and Comparable EBITA in 2021 will increase in comparison with 2020 (EUR 365 million).

Short-term market outlook

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

President and CEO Pasi Laine: Order backlog increased to a new record

"Valmet's orders received increased to EUR 1,228 million in the second quarter of 2021. Orders received increased in all of Valmet's four business lines. In the Paper business line, the quarterly order intake reached a new record and amounted to EUR 440 million. Orders received in Pulp and Energy increased to EUR 326 million. In the stable business (Services and Automation business lines), orders received increased to EUR 487 million, when including Automation package sales to capital projects. This means that the stable business orders received were now at the same level as in the second quarter of 2019, before the COVID-19 pandemic. Our order backlog increased to a record high of EUR 4,019 million, which is EUR 762 million higher than at the end of 2020.

Net sales remained at the previous year's level and Comparable EBITA increased. The Comparable EBITA margin was 10.1 percent.

On July 2, Valmet announced the plan to combine Valmet and Neles through a merger. The combination is subject to, among other things, approval by the Extraordinary General Meetings of Valmet and Neles, as well as obtaining of merger control and other regulatory approvals."

Key figures¹

EUR million	Q2/2021	Q2/2020	Change	Q1-Q2/ 2021	Q1-Q2/ 2020	Change
Orders received	1,228	826	49%	2,540	2,013	26%
Order backlog ²	4,019	3,492	15%	4,019	3,492	15%
Net sales	943	919	3%	1,801	1,740	3%
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	95	76	24%	175	128	37%
% of net sales	10.1%	8.3%		9.7%	7.4%	
Earnings before interest, taxes and amortization (EBITA)	97	70	39%	186	121	54%
% of net sales	10.3%	7.6%		10.3%	6.9%	
Operating profit (EBIT)	85	62	36%	161	104	54%
% of net sales	9.0%	6.8%		8.9%	6.0%	
Profit before taxes	83	60	39%	158	100	59%
Profit for the period	64	44	44%	121	74	64%
Earnings per share, EUR	0.43	0.29	44%	0.81	0.49	64%
Earnings per share, diluted, EUR	0.43	0.29	44%	0.81	0.49	64%
Equity per share, EUR ²	7.61	6.43	18%	7.61	6.43	18%
Cash flow provided by operating activities	180	151	19%	328	324	1%
Cash flow after investments	168	124	35%	293	280	4%
Return on equity (ROE) (annualized)				21%	15%	
Return on capital employed (ROCE) before taxes (annualized)				20%	16%	
Equity to assets ratio ²				39%	38%	
Gearing ²				-1%	-23%	

¹ The calculation of key figures is presented on page 48.

² At end of period.

Orders received, EUR million	Q2/2021	Q2/2020	Change	Q1-Q2/ 2021	Q1-Q2/ 2020	Change
Services	372	328	13%	756	726	4%
Automation	91	81	12%	194	173	12%
Pulp and Energy	326	215	51%	787	591	33%
Paper	440	201	>100%	803	522	54%
Total	1,228	826	49%	2,540	2,013	26%

Order backlog, EUR million	As at Jun 30, 2021	As at Jun 30, 2020	Change	As at Mar 31, 2021
Total	4,019	3,492	15%	3,709

Net sales, EUR million	Q2/2021	Q2/2020	Change	Q1-Q2/ 2021	Q1-Q2/ 2020	Change
Services	338	322	5%	628	617	2%
Automation	81	77	6%	131	146	-10%
Pulp and Energy	238	265	-10%	469	506	-7%
Paper	285	255	12%	574	472	22%
Total	943	919	3%	1,801	1,740	3%

News conference and webcast for analysts, investors and media

Valmet will arrange a news conference in English as a live webcast at <https://valmet.videosync.fi/2021-q2-results> on Thursday, July 22, 2021, at 3:00 p.m. Finnish time (EEST). President and CEO Pasi Laine and CFO Kari Saarinen will be presenting the results.

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

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

Finland +358 981710310

United Kingdom +44 3333000804

France +33 170750711

Germany +49 6913803430

Norway +47 23500243

Sweden +46 856642651

United States +1 6319131422

The participants will be asked to provide the following conference PIN: 32260054#. All questions should be presented in English.

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

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

Important notice

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.

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Orders received increased in all business lines in Q2/2021

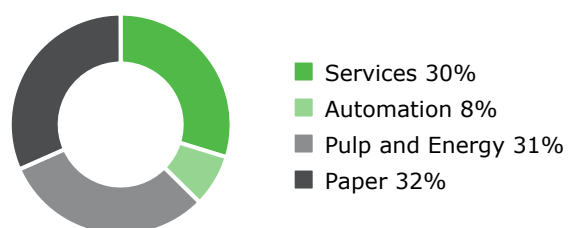
Orders received, EUR million	Q2/2021	Q2/2020	Change	Q1-Q2/2021	Q1-Q2/2020	Change
Services	372	328	13%	756	726	4%
Automation	91	81	12%	194	173	12%
Pulp and Energy	326	215	51%	787	591	33%
Paper	440	201	>100%	803	522	54%
Total	1,228	826	49%	2,540	2,013	26%

Orders received, comparable foreign exchange rates, EUR million ¹	Q2/2021	Q2/2020	Change	Q1-Q2/2021	Q1-Q2/2020	Change
Services	379	328	16%	777	726	7%
Automation	93	81	14%	197	173	14%
Pulp and Energy	327	215	52%	790	591	34%
Paper	458	201	>100%	823	522	58%
Total	1,257	826	52%	2,587	2,013	29%

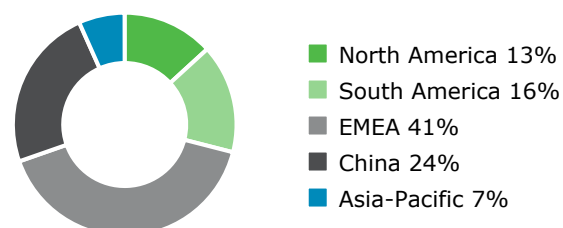
¹ Indicative only. January–June 2021 orders received in euro calculated by applying January–June 2020 average exchange rates to the functional currency orders received values reported by entities.

Orders received, EUR million	Q2/2021	Q2/2020	Change	Q1-Q2/2021	Q1-Q2/2020	Change
North America	142	112	27%	336	254	32%
South America	362	55	>100%	401	318	26%
EMEA	341	386	-12%	1,033	776	33%
China	282	218	29%	601	467	29%
Asia-Pacific	101	55	83%	170	197	-14%
Total	1,228	826	49%	2,540	2,013	26%

Orders received by business line, Q1–Q2/2021



Orders received by area, Q1–Q2/2021



April–June 2021: Orders received increased to EUR 1,228 million

Orders received increased 49 percent to EUR 1,228 million (EUR 826 million) in April–June. The Services and Automation business lines together accounted for 38 percent (50%) of Valmet's orders received. Orders received increased in all business lines.

Orders received increased in South America, Asia-Pacific, China and North America, and decreased in EMEA. Measured by orders received, the top three countries were Brazil, China and the USA, which together accounted for 61 percent of total orders received. The emerging markets accounted for 65 percent (47%) 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 29 million in April–June.

During April–June, Valmet received among others an order for a major pulp and board technology delivery to Brazil, typically valued at around EUR 320–360 million, an order for two container board making lines to China, an order for an evaporation plant to Sweden, typically valued at around EUR 30 million, an order for drying technology to a textile fiber factory in Finland, and tissue line orders to Russia and Turkey.

January–June 2021: Orders received remained at the previous year's level in the Services business line and increased in all the other business lines

Orders received increased 26 percent to EUR 2,540 million (EUR 2,013 million) in January–June. The Services and Automation business lines together accounted for 37 percent (45%) of Valmet's orders received. Orders received increased in the Paper, Pulp and Energy, and Automation business lines, and remained at the previous year's level in the Services business line.

Orders received increased in EMEA, North America, China and South America and decreased in Asia-Pacific. Measured by orders received, the top three countries were China, Finland and Brazil, which together accounted for 58 percent of total orders received. The emerging markets accounted for 53 percent (52%) 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 47 million during the first half of 2021.

In addition to the above-mentioned, during the first half of 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 coated board and fine paper making lines to China, typically valued at around EUR 190–220 million, an order for main equipment for a textile recycling plant in Sweden, valued at around EUR 25 million, a tissue line order from Turkey and an order for an extensive tissue line rebuild in Finland.

Order backlog reached a new record exceeding EUR 4 billion

Order backlog, EUR million	As at June 30, 2021	As at June 30, 2020	Change	As at March 31, 2021
Total	4,019	3,492	15%	3,709

Order backlog at the end of the reporting period amounted to EUR 4,019 million, which is 8 percent higher than at the end of March 2021 and 15 percent higher than at the end of June 2020. Approximately 25 percent of the order backlog relates to stable business (Services and Automation business lines, approximately 30% at the end of June 2020). Approximately 45 percent of the order backlog is currently expected to be realized as net sales during 2021 (at

the end of June 2020, approximately 45% was expected to be realized as net sales during 2020).

Net sales increased in Paper, Automation and Services business lines in Q2/2021

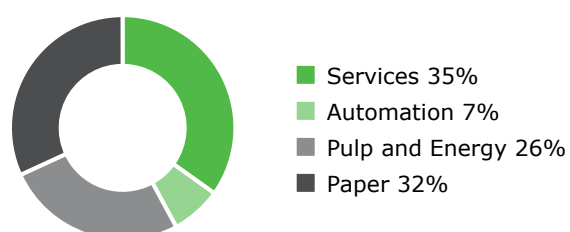
Net sales, EUR million	Q2/2021	Q2/2020	Change	Q1-Q2/2021	Q1-Q2/2020	Change
Services	338	322	5%	628	617	2%
Automation	81	77	6%	131	146	-10%
Pulp and Energy	238	265	-10%	469	506	-7%
Paper	285	255	12%	574	472	22%
Total	943	919	3%	1,801	1,740	3%

Net sales, comparable foreign exchange rates, EUR million ¹	Q2/2021	Q2/2020	Change	Q1-Q2/2021	Q1-Q2/2020	Change
Services	345	322	7%	644	617	4%
Automation	83	77	9%	135	146	-7%
Pulp and Energy	238	265	-10%	474	506	-6%
Paper	288	255	13%	583	472	23%
Total	955	919	4%	1,835	1,740	5%

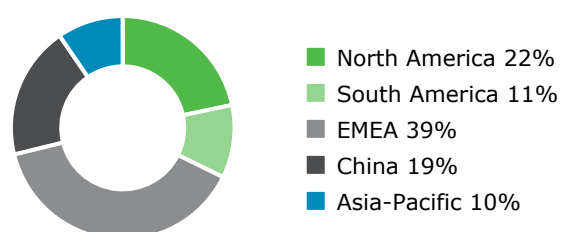
¹ Indicative only. January–June 2021 net sales in euro calculated by applying January–June 2020 average exchange rates to the functional currency net sales values reported by entities.

Net sales, EUR million	Q2/2021	Q2/2020	Change	Q1-Q2/2021	Q1-Q2/2020	Change
North America	200	173	16%	391	340	15%
South America	93	161	-42%	190	295	-36%
EMEA	369	383	-3%	701	717	-2%
China	188	97	94%	347	175	98%
Asia-Pacific	92	106	-13%	172	213	-19%
Total	943	919	3%	1,801	1,740	3%

Net sales by business line, Q1–Q2/2021



Net sales by area, Q1–Q2/2021



April–June 2021: Net sales amounted to EUR 943 million

Net sales remained at the previous year's level and amounted to EUR 943 million (EUR 919 million) in April–June. The Services and Automation business lines together accounted for 44

percent (43%) of Valmet's net sales. Net sales increased in the Paper, Automation, and Services business lines, and decreased in the Pulp and Energy business line.

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. The increase in China was mainly due to high market activity in the Paper business line. Measured by net sales, the top three countries were China, the USA and Finland, which together accounted for 46 percent of total net sales. Emerging markets accounted for 44 percent (45%) 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 12 million in April–June.

January–June 2021: Net sales remained at the previous year's level

Net sales amounted to EUR 1,801 million (EUR 1,740 million) during the first half of 2021. The Services and Automation business lines together accounted for 42 percent (44%) of Valmet's net sales. Net sales increased in the Paper business line, remained at the previous year's level in the Services business line, and decreased in the Automation, and Pulp and Energy 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. The increase in China was mainly due to high market activity in the Paper business line. Measured by net sales, the top three countries were China, the USA and Finland, which together accounted for 45 percent of total net sales. Emerging markets accounted for 45 percent (45%) 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 35 million during the first half of 2021.

Comparable EBITA and operating profit

In April–June, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 95 million, i.e. 10.1 percent of net sales (EUR 76 million and 8.3%). Comparable EBITA increased due to higher gross profit margin.

In the first half of the year, Comparable EBITA were EUR 175 million, i.e. 9.7 percent of net sales (EUR 128 million and 7.4%). Comparable EBITA increased due to higher gross profit.

On EBITA, Valmet's investment in Neles had a positive impact of EUR 3 million in April–June and EUR 7 million in the first half of the year.

Operating profit (EBIT) in April–June was EUR 85 million, i.e. 9.0 percent of net sales (EUR 62 million and 6.8%). Items affecting comparability amounted to EUR 2 million (EUR -6 million).

Operating profit in the first half of the year was EUR 161 million, i.e. 8.9 percent of net sales (EUR 104 million and 6.0%). Items affecting comparability amounted to EUR 11 million (EUR -7 million).

Valmet's investment in Neles had no material impact on operating profit in April–June, or in the first half of the year.

Net financial income and expenses

Net financial income and expenses in April–June were EUR -1 million (EUR -2 million). In the first half of the year, net financial income and expenses were EUR -2 million (EUR -3 million).

Profit before taxes and earnings per share

Profit before taxes for April–June was EUR 83 million (EUR 60 million). The profit attributable to owners of the parent in April–June was EUR 64 million (EUR 44 million), corresponding to earnings per share (EPS) of EUR 0.43 (EUR 0.29).

In the first half of the year, profit before taxes was EUR 158 million (EUR 100 million). The profit attributable to owners of the parent was EUR 121 million (EUR 74 million), corresponding to earnings per share (EPS) of EUR 0.81 (EUR 0.49).

Valmet's investment in Neles had no material impact on the financial result in April–June, or in the first half of the year.

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

In January–June, the annualized return on capital employed (ROCE) before taxes was 20 percent (16%) and the annualized return on equity (ROE) was 21 percent (15%).

Business lines

Services: Orders received and net sales increased in Q2/2021

Services business line	Q2/2021	Q2/2020	Change	Q1–Q2/ 2021	Q1–Q2/ 2020	Change
Orders received (EUR million)	372	328	13%	756	726	4%
Net sales (EUR million)	338	322	5%	628	617	2%
Personnel (end of period)				6,115	6,229	-2%

In April–June, orders received by the Services business line increased 13 percent to EUR 372 million (EUR 328 million). Services accounted for 30 percent (40%) of Valmet's orders received. Orders received increased in South America and North America, and remained at the previous year's level in China, EMEA and Asia-Pacific. Orders received increased in Board, Paper and Tissue Solutions, Pulp and Energy Solutions, Fabrics and Performance Parts, and remained at the previous year's level in Rolls. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 decreased orders received by approximately EUR 8 million.

In the first half of the year, orders received by the Services business line remained at the previous year's level and amounted to EUR 756 million (EUR 726 million). Services accounted for 30 percent (36%) of all orders received. Orders received increased in North America, China and South America, remained at the previous year's level in Asia-Pacific, and decreased in EMEA. Orders received increased in Board, Paper and Tissue Solutions, and Rolls, and remained at the previous year's level Performance Parts, Fabrics, and Pulp and Energy Solutions. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 decreased orders received by approximately EUR 21 million.

Net sales for the Services business line amounted to EUR 338 million (EUR 322 million) in April–June, corresponding to 36 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.

In the first half of the year, net sales for the Services business line amounted to EUR 628 million (EUR 617 million), 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 16 million.

COVID-19 related travel restrictions and lower capacity utilization in graphical paper mills impacted Services’ business environment during the first half of the year.

Automation: Orders received and net sales increased in Q2/2021

Automation business line	Q2/2021	Q2/2020	Change	Q1–Q2/ 2021	Q1–Q2/ 2020	Change
Orders received (EUR million)	91	81	12%	194	173	12%
Net sales (EUR million)	81	77	6%	131	146	-10%
Personnel (end of period)				1,974	1,940	2%

In April–June, orders received by the Automation business line increased 12 percent to EUR 91 million (EUR 81 million) and accounted for 7 percent (10%) of Valmet's orders received. Orders received increased in all geographical areas. Orders received increased in Pulp and Paper, and decreased 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 1 million.

In the first half of the year, orders received by the Automation business line increased 12 percent to EUR 194 million (EUR 173 million). Automation accounted for 8 percent (9%) of Valmet’s orders received. Orders received increased in EMEA and China, remained at the previous year's level in Asia-Pacific, and decreased in South America and North America. Orders received increased in Pulp and Paper and decreased 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 4 million.

Net sales for the Automation business line amounted to EUR 81 million (EUR 77 million) in April–June, corresponding to 9 percent (8%) 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.

In the first half of the year, net sales for the Automation business line amounted to EUR 131 million (EUR 146 million), corresponding to 7 percent (8%) 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 4 million.

COVID-19 caused access restrictions to some customer sites, which impacted Automation’s business environment during the first half of the year.

Pulp and Energy: Orders received increased and net sales decreased in Q2/2021

Pulp and Energy business line	Q2/2021	Q2/2020	Change	Q1-Q2/ 2021	Q1-Q2/ 2020	Change
Orders received (EUR million)	326	215	51%	787	591	33%
Net sales (EUR million)	238	265	-10%	469	506	-7%
Personnel (end of period)				1,897	1,833	4%

In April–June, orders received by the Pulp and Energy business line increased 51 percent to EUR 326 million (EUR 215 million). Pulp and Energy accounted for 27 percent (26%) of Valmet's orders received. Orders received increased in all other areas except for EMEA, where orders received decreased. Orders received increased in Pulp and decreased in Energy. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 decreased orders received by approximately EUR 2 million.

In the first half of the year, orders received by the Pulp and Energy business line increased 33 percent to EUR 787 million (EUR 591 million). Pulp and Energy accounted for 31 percent (29%) of all orders received. Orders received increased in all other areas except for South America, where orders received decreased. Orders received increased in Pulp and decreased in Energy. 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 Pulp and Energy business line amounted to EUR 238 million (EUR 265 million) in April–June, corresponding to 25 percent (29%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 did not have a material impact on net sales.

In the first half of the year, net sales for the Pulp and Energy business line amounted to EUR 469 million (EUR 506 million), corresponding to 26 percent (29%) 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 5 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 the first half of the year.

Paper: Orders received and net sales increased in Q2/2021

Paper business line	Q2/2021	Q2/2020	Change	Q1-Q2/ 2021	Q1-Q2/ 2020	Change
Orders received (EUR million)	440	201	>100%	803	522	54%
Net sales (EUR million)	285	255	12%	574	472	22%
Personnel (end of period)				3,754	3,074	22%

In April–June, orders received by the Paper business line more than doubled to EUR 440 million (EUR 201 million) and accounted for 36 percent (24%) of Valmet's orders received. Orders received increased in Asia-Pacific, South America and EMEA, and decreased in North America and 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 (the acquired PMP Group) contributed EUR 15 million to orders received of the Paper business line. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 decreased orders received by approximately EUR 18 million.

In the first half of the year, orders received by the Paper business line increased 54 percent to EUR 803 million (EUR 522 million). Paper accounted for 32 percent (26%) of all orders received. Orders received increased in all other areas except for Asia-Pacific, where orders received decreased. Orders received increased in Stock Preparation and Recycled Fiber, Board and Paper, and Tissue. Small and Medium size Machines (the acquired PMP Group) contributed EUR 25 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 20 million.

Net sales for the Paper business line amounted to EUR 285 million (EUR 255 million) in April–June, corresponding to 30 percent (28%) of Valmet’s net sales. Small and Medium size Machines (the acquired PMP Group) contributed EUR 17 million to net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 decreased net sales by approximately EUR 3 million.

In the first half of the year, net sales for the Paper business line amounted to EUR 574 million (EUR 472 million), corresponding to 32 percent (27%) of Valmet’s net sales. Small and Medium size Machines (the acquired PMP Group) contributed EUR 37 million to net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2020 decreased net sales by approximately EUR 9 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 the first half of the year.

Cash flow and financing

Cash flow provided by operating activities amounted to EUR 180 million (EUR 151 million) in April–June and EUR 328 million (EUR 324 million) in the first half of the year. Net working capital totaled EUR -764 million (EUR -658 million) at the end of the reporting period. Change in net working capital in the statement of cash flows was EUR 80 million (EUR 57 million) in April–June and EUR 184 million (EUR 207 million) in the first half of the year. Payment schedules of large capital projects have a significant impact on net working capital development.

Cash flow after investments totaled EUR 168 million (EUR 124 million) in April–June, and EUR 293 million (EUR 280 million) in the first half of the year.

At the end of June, gearing was -1 percent (-23%) and equity to assets ratio was 39 percent (38%). Interest-bearing liabilities amounted to EUR 475 million (EUR 361 million), and net interest-bearing liabilities totaled EUR -9 million (EUR -223 million) at the end of the reporting period.

The average maturity of Valmet’s non-current debt was 3.2 years, and average interest rate was 0.9 percent at the end of June. Lease liabilities have been excluded from calculation of these two key performance indicators.

Valmet’s liquidity was strong at the end of the reporting period, with cash and cash equivalents amounting to EUR 431 million (EUR 518 million) and interest-bearing current financial assets totaling EUR 54 million (EUR 65 million). Valmet’s liquidity was additionally secured by a committed and unused revolving credit facility worth of EUR 200 million, which matures in 2024, and an uncommitted and unused commercial paper program worth of EUR 200 million.

Capital expenditure

Gross capital expenditure (excluding business combinations and leased assets) totaled EUR 23 million (EUR 27 million) in April–June, of which maintenance investments were EUR 10 million (EUR 11 million).

In the first half of the year, gross capital expenditure (excluding business combinations and leased assets) totaled EUR 47 million (EUR 44 million), of which maintenance investments were EUR 21 million (EUR 17 million).

Acquisitions and disposals

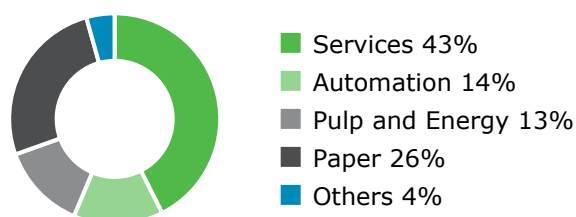
Valmet made no acquisitions or disposals during January–June 2021.

Personnel

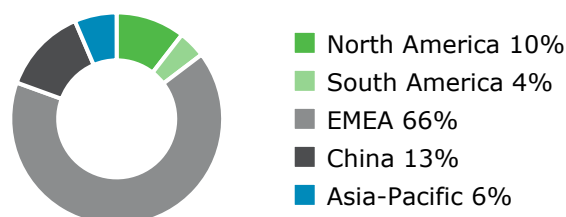
Personnel by business line	As at June 30, 2021	As at June 30, 2020	Change	As at March 31, 2021
Services	6,115	6,229	-2%	5,959
Automation	1,974	1,940	2%	1,922
Pulp and Energy	1,897	1,833	4%	1,825
Paper	3,754	3,074	22%	3,742
Other	622	549	13%	578
Total	14,362	13,626	5%	14,026

Personnel by area	As at June 30, 2021	As at June 30, 2020	Change	As at March 31, 2021
North America	1,508	1,534	-2%	1,523
South America	602	554	9%	545
EMEA	9,457	8,837	7%	9,187
China	1,872	1,803	4%	1,878
Asia-Pacific	923	898	3%	893
Total	14,362	13,626	5%	14,026

Personnel by business line as at June 30, 2021



Personnel by area as at June 30, 2021



During the first half of the year, Valmet employed an average of 14,099 people (13,575). The number of personnel at the end of June was 14,362 (13,626). Personnel expenses totaled

EUR 482 million (EUR 465 million) in January–June, of which wages, salaries and remuneration amounted to EUR 378 million (EUR 366 million).

Impacts of the COVID-19 pandemic on Valmet

The COVID-19 pandemic impacted Valmet's operations during the first half of the year. 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.

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. For example, the increased use of Industrial Internet and remote connections resulted in lower travel expenses in January–June.

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.

Progress in sustainability

During the first half of 2021, Valmet progressed with the actions defined in its Sustainability360° agenda. In March, Valmet introduced its climate program – Forward to a carbon neutral future – in the company's Capital Markets Day. The program has received excellent feedback from stakeholders, and the program's concrete actions have proceeded well across the value chain, including Valmet's own operations, the supply chain, and the use of Valmet's technologies by its customers. The progress of the actions will be reported in more detail in the end of the year. In July, the climate program's targets were approved by the Science Based Targets initiative, which means that the targets are based on the latest climate science and in line with the Paris Climate Agreement's 1.5-degree pathway.

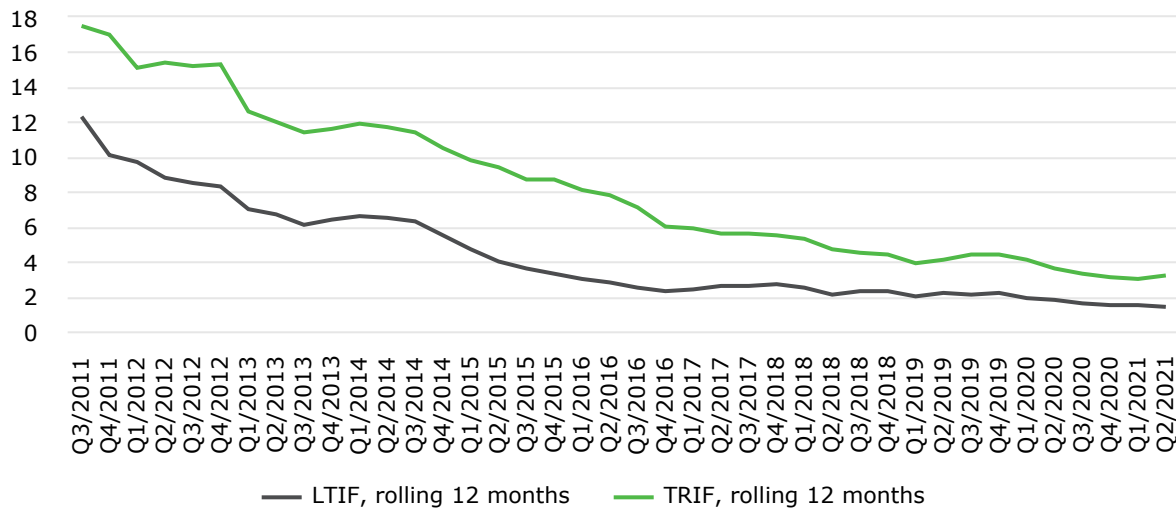
During 2021, Valmet has continued to develop its climate-related financial disclosures according to the Task Force on Climate-related Financial Disclosures (TCFD) reporting recommendations. In line with TCFD's recommendations, Valmet has also published a scenario analysis of how climate change will potentially affect its operations and business environment by 2030.

Valmet continued to further strengthen its sustainable supply chain by conducting ten supplier sustainability audits globally, seven in China, one in India and two remotely in South America. Due to COVID-19 restrictions, Valmet has not yet continued sustainability audits in other areas. Valmet's target is to conduct at least 40 sustainability audits by the end of 2021.

During the first half of 2021 Valmet ran its core people processes. The Annual Review process, which includes a review of past performance, development planning, and target setting, was completed by 98 percent of white-collar employees. The annual salary planning process was run in line with Valmet's remuneration principles of driving high performance, competitive remuneration to retain talent with the best fit, and fairness and sustainability. Valmet is committed to a strong pay-for-performance culture for its employees throughout the whole organization. The Talent Review process, which helps strengthen Valmet's successor pool and develop talent, was completed for around 8,300 employees and identified 2,885 successor candidates. A new work-life integration approach was also launched, focusing on six core areas: staying connected, adapting to change, managing workload, professional growth, life goals and healthy lifestyle.

At the end of June, Valmet's lost time incident frequency rate (LTIF) for own employees was 1.4 (1.8 at the end of June 2020) and the total recordable incident frequency rate (TRIF) for own employees was 3.2 (3.6 at the end of June 2020). Valmet also continued preventive and protective measures as part of its global COVID-19 management activities.

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



¹ LTIF reflects the number of injuries resulting in an absence of at least one work day per million hours worked.

² LTIF + medical treatment and restricted work cases

Lawsuits and claims

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

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

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

Corporate Governance Statement and Remuneration Report

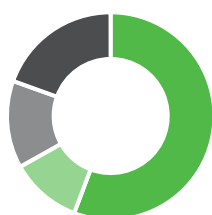
Valmet has published a separate Corporate Governance Statement and a Remuneration Report for 2020, which comply with the recommendations of the Finnish Corporate Governance Code for listed companies. These reports also cover other central areas of corporate governance, and they have been published on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

Shares and shareholders

Share capital, number of shares and shareholders

	As at June 30, 2021	As at June 30, 2020
Share capital, EUR	100,000,000	100,000,000
Number of shares	149,864,619	149,864,619
Treasury shares	391,358	370,274
Shares outstanding	149,473,261	149,494,345
Market capitalization, EUR million	5,512	3,481
Number of shareholders	56,238	48,436

Shareholder structure as at June 30, 2021



- Nominee registered and non-Finnish holders 55.7%
- Solidium Oy 11.1%
- Finnish private investors 13.6%
- Finnish institutions, companies and foundations 19.5%

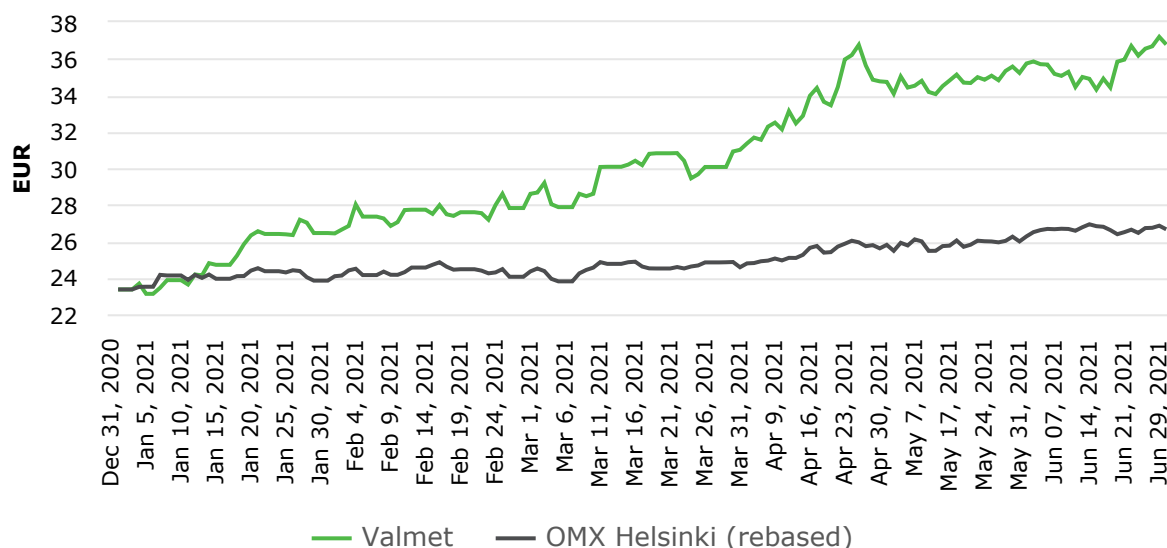
Trading of shares

	January 1 - June 30, 2021	January 1 - June 30, 2020
Trading of Valmet shares on Nasdaq Helsinki		
Number of shares traded	51,918,931	90,805,425
Total value, EUR million	1,584	1,847
High, EUR	37.37	25.20
Low, EUR	23.02	13.33
Volume-weighted average price, EUR	30.51	20.34
Closing price on the final day of trading, EUR	36.78	23.23

The closing price of Valmet's share on the final day of trading for the reporting period, June 30, 2021, was EUR 36.78, i.e. 57 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 11 million Valmet shares were traded on these three alternative marketplaces in January–June (Source: valmet.com).

Development of Valmet's share price, December 31, 2020 – June 30, 2021



Flagging notifications

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

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

Board authorizations regarding share repurchase and share issue

Valmet Oyj's Annual General Meeting on 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.

As at June 30, 2021, Valmet's Board of Directors had not used the 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	350,029	272,762	149,386

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.

Long-term incentive plan 2021–2023

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

Performance Share Plan

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

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

Deferred Share Plan

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

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

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

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

At the end of the reporting period, the Company held 391,358 treasury shares related to the share-based incentive programs.

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

Resolutions of Valmet's Annual General Meeting

The Annual General Meeting 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 Kempainen, 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/agm.

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.

Risks and business uncertainties

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

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

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

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

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

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

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

Changes in labor costs and the prices of raw materials and components can affect Valmet's profitability. Wage inflation is continuing, but Valmet's goal is to offset this at least partly through increased productivity and strict price discipline. It is possible, however, that tough competition in some product categories will make it difficult to pass on cost increases to product prices. On the other hand, some of Valmet's customers are raw material producers and their ability to operate and invest may be enhanced by strengthening commodity prices and hampered by declining commodity prices.

To ensure a high level of quality in both production and services, it is important to sustain a high level of competence and talent availability. This includes, for example, maintaining efficient recruitment programs, utilization of existing talent and sharing knowledge globally.

Through acquisitions, Valmet may become exposed to risks associated with new markets and business environments. The actual acquisition process also includes risks. Other risks associated with acquisitions include, but are not limited to, integration of the acquired business, increased financial risk exposure, retention of key personnel and achieving the targets set for the acquired business.

Management of project business risks important

An important part of Valmet's business consists of project business. Pulp business projects in particular can be large, thus project-specific risk management is crucial. Key risks related to projects are project cost estimation, scheduling, project risk management, quality and performance risks, and materials management risks. Risk analysis shall, as a minimum, take place for all significant project quotations. The work concerning threat and opportunity

assessment continues during the execution phase of the project. Risk management is based on careful planning and continuous, systematic monitoring and evaluation. Project risks are managed by improving and continuously developing project management processes and the related systems.

There may be changes in the competitive situation of Valmet's individual businesses, such as the emergence of new, cost-effective competition in the markets. Valmet can safeguard its market position by developing its products and services, and through good customer service and local presence.

Availability of financing crucial

Securing the continuity of Valmet's operations requires sufficient available funding under all circumstances. Valmet estimates that its liquid cash assets and committed credit limits are sufficient to secure its immediate liquidity and to ensure the flexibility of financing. The average maturity of Valmet's non-current debt, excluding lease liabilities, is 3.2 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 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 June 30, 2021, Valmet had EUR 716 million (EUR 687 million) of goodwill on its statement of financial position. Valmet assesses the carrying value of its goodwill for impairment annually, or more frequently if facts and circumstances indicate that carrying value may not be recoverable. Valmet has not identified any indications of impairment during the reporting period. The principles used for impairment testing are presented in the Financial Statements.

The COVID-19 pandemic

Depending on the success in suppressing the COVID-19 pandemic and in case the outbreak will be further prolonged, there could be further adverse impact on Valmet's operations, customer investment activity, project deliveries, supply chain and availability of financing for both Valmet and its customers.

Epidemic outbreaks and potential other pandemics remain a heightened 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 scattered all around the world, we have 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 and local IMT structure established to manage Valmet's response to pandemics.

Events after the reporting period

On July 1, 2021, Valmet announced that it has 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 will be included in Valmet's financial reporting for the first time in Valmet's third quarter financial reporting 2021. EWK Umwelttechnik became a part of Valmet's Pulp and Energy business line. ECP Group will be reported under Valmet's Services business line.

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 combination is subject to, among other items, approval by a majority of two-thirds of the votes cast and shares represented at the respective Extraordinary General Meetings of Valmet and Neles, and the obtaining of merger control and other regulatory approvals. The completion is expected to occur on or about January 1, 2022, subject to all conditions for completion being fulfilled.

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

Guidance for 2021

Valmet reiterates its guidance issued on April 16, 2021, in which Valmet estimates that net sales in 2021 will increase in comparison with 2020 (EUR 3,740 million) and Comparable EBITA in 2021 will increase in comparison with 2020 (EUR 365 million).

Market outlook

General economic outlook according to OECD

The COVID-19 pandemic continues to cast a long shadow over the world's economies. Prospects for the global economy have improved, but to a different extent across economies. In the advanced economies, the progressive rollout of an effective vaccine has begun to allow more contact-intensive activities to reopen gradually. At the same time, additional fiscal stimulus is helping to boost demand, reduce spare capacity and lower the risks of sizeable long-term scarring from the pandemic. However, in many emerging-market economies, slow vaccination deployment, further infection outbreaks, and associated containment measures, will continue to hold down growth for some time.

The world economy has now returned to pre-pandemic activity levels, but will remain short of what was expected prior to the crisis by end-2022. OECD forecasts global GDP to rise by 5.75 per cent in 2021 and close to 4.5 per cent in 2022. (OECD Economic Outlook, May 31, 2021)

Short-term market outlook

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

In Espoo on July 22, 2021

Valmet's Board of Directors

Important notice

Securities laws in the United States and in other jurisdictions restrict Valmet from discussing or disclosing any information with respect to the contemplated merger with Neles further to the information disclosed in this report. Information regarding the contemplated merger can be found at www.valmet.com/merger. Until the completion of the merger Valmet and Neles will carry out their respective businesses as separate and independent companies. The information contained in this report concerns only Valmet.

The merger of Valmet and Neles and the merger consideration securities have not been and will not be registered under 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.

The information in this report contains forward-looking statements, which are information on Valmet's current expectations and projections relating to its financial condition, results of operations, plans, objectives, future performance and business. These statements may include, without limitation, any statements preceded by, followed by or including words such as "target," "believe," "expect," "aim," "intend," "may," "anticipate," "estimate," "plan," "project," "will," "can have," "likely," "should," "would," "could" and other words and terms of similar meaning or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond Valmet's control that could cause Valmet's actual results, performance or achievements to be materially different from the expected results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding Valmet's present and future business strategies and the environment in which it will operate in the future.

Consolidated statement of income

EUR million	Q2/2021	Q2/2020	Q1-Q2/ 2021	Q1-Q2/ 2020
Net sales	943	919	1,801	1,740
Cost of goods sold	-701	-709	-1,345	-1,326
Gross profit	241	210	455	414
Selling, general and administrative expenses	-154	-147	-296	-297
Other operating income and expenses, net	-3	-1	2	-13
Share in profits and losses of associated companies, operative investments	—	1	—	—
Operating profit	85	62	161	104
Financial income and expenses, net	-1	-2	-2	-3
Share in profits and losses of associated companies, financial investments	—	—	—	-2
Profit before taxes	83	60	158	100
Income taxes	-20	-16	-37	-26
Profit for the period	64	44	121	74
Attributable to:				
Owners of the parent	64	44	121	74
Non-controlling interests	—	—	—	—
Profit for the period	64	44	121	74
Earnings per share attributable to owners of the parent:				
Earnings per share, EUR	0.43	0.29	0.81	0.49
Diluted earnings per share, EUR	0.43	0.29	0.81	0.49

Consolidated statement of comprehensive income

EUR million	Q2/2021	Q2/2020	Q1-Q2/ 2021	Q1-Q2/ 2020
Profit for the period	64	44	121	74
Items that may be reclassified to profit or loss:				
Cash flow hedges	1	12	-16	3
Currency translation on subsidiary net investments	6	3	13	-14
Share of other comprehensive income of associated companies accounted for using equity method	3	—	1	—
Income tax relating to items that may be reclassified	—	-3	3	-1
Total items that may be reclassified to profit or loss	10	12	2	-12
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	-11	29	20	-20
Income tax relating to items that will not be reclassified	3	-8	-5	5
Total items that will not be reclassified to profit or loss	-9	21	15	-15
Other comprehensive income for the period	1	34	17	-27
Total comprehensive income for the period	65	78	138	47
Attributable to:				
Owners of the parent	65	78	137	47
Non-controlling interests	—	—	1	—
Total comprehensive income for the period	65	78	138	47

Consolidated statement of financial position

Assets

EUR million	As at June 30, 2021	As at June 30, 2020	As at December 31, 2020
Non-current assets			
Intangible assets			
Goodwill	716	687	711
Other intangible assets	270	251	272
Total intangible assets	986	938	983
Property, plant and equipment			
Land and water areas	25	26	25
Buildings and structures	122	119	124
Machinery and equipment	181	171	178
Leased assets	63	68	66
Assets under construction	59	49	48
Total property, plant and equipment	450	432	441
Other non-current assets			
Investments in associated companies	458	12	468
Non-current financial assets	15	14	23
Deferred tax assets	77	80	61
Non-current income tax receivables	25	28	27
Other non-current assets	15	14	14
Total other non-current assets	590	148	592
Total non-current assets	2,027	1,519	2,016
Current assets			
Inventories			
Materials and supplies	79	88	89
Work in progress	426	352	355
Finished products	141	106	110
Total inventories	646	546	553
Receivables and other current assets			
Trade receivables	557	487	602
Amounts due from customers under revenue contracts	217	252	229
Other current financial assets	90	79	124
Income tax receivables	33	30	28
Other receivables	144	113	133
Cash and cash equivalents	431	518	274
Total receivables and other current assets	1,471	1,480	1,389
Total current assets	2,118	2,026	1,943
Total assets	4,144	3,544	3,959

Consolidated statement of financial position

Equity and liabilities

EUR million	As at June 30, 2021	As at June 30, 2020	As at December 31, 2020
Equity			
Share capital	100	100	100
Reserve for invested unrestricted equity	426	423	423
Cumulative translation adjustments	-27	-31	-40
Hedge and other reserves	9	4	21
Retained earnings	631	465	633
Equity attributable to owners of the parent	1,138	961	1,137
Non-controlling interests	6	6	6
Total equity	1,144	967	1,142
Liabilities			
Non-current liabilities			
Non-current debt	195	238	417
Non-current lease liabilities	37	42	40
Post-employment benefits	182	211	201
Non-current provisions	35	38	47
Other non-current liabilities	7	13	18
Deferred tax liabilities	65	57	65
Total non-current liabilities	521	599	789
Current liabilities			
Current debt	222	58	18
Current lease liabilities	22	23	22
Trade payables	320	331	372
Current provisions	180	147	164
Amounts due to customers under revenue contracts	1,202	989	1,002
Other current financial liabilities	23	17	29
Income tax liabilities	68	64	65
Other current liabilities	443	349	357
Total current liabilities	2,480	1,978	2,029
Total liabilities	3,001	2,577	2,817
Total equity and liabilities	4,144	3,544	3,959

Consolidated statement of cash flows

EUR million	Q2/2021	Q2/2020	Q1-Q2/ 2021	Q1-Q2/ 2020
Cash flows from operating activities				
Profit for the period	64	44	121	74
Adjustments				
Depreciation and amortization	30	25	60	52
Financial income and expenses	1	2	2	3
Income taxes	20	16	37	26
Other non-cash items	-2	19	-23	8
Change in net working capital	80	57	184	207
Net interests and dividends received	1	—	-1	-2
Income taxes paid	-14	-12	-53	-44
Net cash provided by (+) / used in (-) operating activities	180	151	328	324
Cash flows from investing activities				
Capital expenditure on fixed assets	-23	-27	-47	-44
Proceeds from sale of fixed assets	—	—	1	—
Business combinations, net of cash acquired and loans repaid	1	—	1	—
Investments in associated companies	10	—	10	—
Net cash provided by (+) / used in (-) investing activities	-12	-27	-35	-44
Cash flows from financing activities				
Redemption of own shares	—	—	-3	-6
Dividends paid	-135	-105	-135	-105
Proceeds from non-current debt	—	100	100	150
Repayments of non-current debt	—	—	-119	-101
Repayments of lease liabilities	-7	-7	-13	-13
Change in current debt	—	10	—	40
Financial investments	16	-20	23	-39
Net cash provided by (+) / used in (-) financing activities	-125	-22	-145	-74
Net increase (+) / decrease (-) in cash and cash equivalents	43	102	147	206
Effect of changes in exchange rates on cash and cash equivalents	3	-1	10	-3
Cash and cash equivalents at beginning of period	385	417	274	316
Cash and cash equivalents at end of the period	431	518	431	518

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	—	—	—	—	121	121	—	121
Other comprehensive income for the period	—	—	13	-13	16	17	—	17
Total comprehensive income for the period	—	—	13	-13	137	137	1	138
Transactions with owners in their capacity as owners								
Dividends	—	—	—	—	-135	-135	—	-135
Purchase of treasury shares	—	—	—	—	-3	-3	—	-3
Share-based payments, net of tax	—	3	—	—	-2	—	—	—
Balance at June 30, 2021	100	426	-27	9	631	1,138	6	1,144
Balance at January 1, 2020								
Balance at January 1, 2020	100	421	-16	1	534	1,040	6	1,046
Profit for the period	—	—	—	—	74	74	—	74
Other comprehensive income for the period	—	—	-14	3	-15	-27	—	-27
Total comprehensive income for the period	—	—	-14	3	59	47	—	47
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	—	—	—
Balance at June 30, 2020	100	423	-31	4	465	961	6	967

Basis of preparation

General information

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

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

These condensed consolidated interim financial statements were approved for issue on July 22, 2021.

Basis of presentation

These condensed consolidated interim financial statements for the six months ended June 30, 2021, have been prepared in accordance with IAS 34 – Interim financial reporting and in conformity with IFRS as adopted by the European Union. The financial information presented in these condensed consolidated interim financial statements has not been audited. These condensed consolidated interim financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS.

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

Except for the above, the accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2020.

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

Key exchange rates

	Average rates		Period-end rates	
	Q1-Q2/2021	Q1-Q2/2020	Q2/2021	Q2/2020
USD (US dollar)	1.2060	1.1061	1.1884	1.1198
SEK (Swedish krona)	10.1312	10.6435	10.1110	10.4948
CNY (Chinese yuan)	7.8010	7.7808	7.6742	7.9219

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.

Reporting segments and geographic information

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

The performance of the Group is reviewed by the CODM. One key indicator of performance reviewed is Earnings before interest, taxes and amortization (EBITA). Performance is also assessed through Comparable EBITA, i.e. with EBITA excluding certain items of income and expense that reduce the comparability of the Group's performance from one period to another. The alternative performance measures of EBITA and Comparable EBITA are published by Valmet as part of regulated financial information to enable users of the financial information to prepare more meaningful analysis on Valmet's performance. Items affecting comparability consist of income and expenses arising from activities that amend the capacity of Valmet's operations, such as restructuring costs, and gains or losses on sale of businesses or non-current assets, 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 law suits) as well as income and expenses arising from changes in legislation expected to affect Valmet temporarily only (e.g. customs or other tariffs imposed by authorities on Valmet's products).

EUR million	Q2/2021	Q2/2020	Q1-Q2/ 2021	Q1-Q2/ 2020
Net sales	943	919	1,801	1,740
Comparable EBITA	95	76	175	128
% of net sales	10.1%	8.3%	9.7%	7.4%
Operating profit	85	62	161	104
% of net sales	9.0%	6.8%	8.9%	6.0%
Amortization	-13	-8	-25	-16
Depreciation, property, plant and equipment (excl. leased assets)	-12	-12	-23	-24
Depreciation, leased assets	-6	-6	-12	-12
Gross capital expenditure (excl. business combinations and leased assets)	-23	-27	-47	-44
Additions to leased assets	-4	-10	-9	-19
Business combinations, net of cash acquired and loans repaid	1	—	1	—
Capital employed, end of period			1,619	1,327
Orders received	1,228	826	2,540	2,013
Order backlog, end of period			4,019	3,492

Reconciliation between Comparable EBITA, EBITA and Operating profit

EUR million	Q1-Q2/ 2021	Q1-Q2/ 2020
Comparable EBITA	175	128
Items affecting comparability in cost of sales		
Expenses related to capacity adjustments	—	-2
Expensing of fair value adjustments recognized in business combinations	-1	-1
Other items affecting comparability	1	-1
Items affecting comparability in selling, general and administrative expenses		
Expenses related to capacity adjustments	—	-3
Expenses related to acquisitions	-1	—
Other items affecting comparability	—	—
Items affecting comparability in other operating income and expenses		
Expenses related to capacity adjustments	—	—
Other items affecting comparability ¹	6	—
Items affecting comparability in share in profits and losses of associated companies, operative investments		
Other items affecting comparability	7	—
EBITA	186	121
Amortization included in selling, general and administrative expenses		
Intangibles recognized in business combinations	-10	-10
Other intangibles	-8	-7
Amortization included in share in profits and losses of associated companies, operative investments		
Other intangibles	-7	—
Operating profit	161	104

¹ Includes income arising from real estate related transactions.

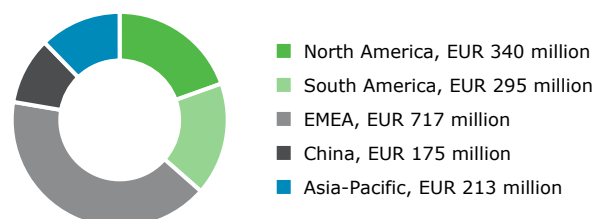
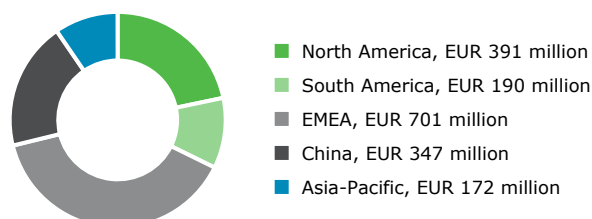
Entity-wide information

Valmet has operations globally in over 35 countries. Measured by net sales, the top three countries in January–June 2021 were China, the USA and Finland, which together accounted for 45 percent of total net sales. In January–June 2020, the top three countries were the USA, Brazil and China, which together accounted for 35 percent of total net sales. Net sales for Finland (the country of domicile) amounted EUR 167 million in January–June 2021 (EUR 144 million).

Net sales by destination:

Q1-Q2/2021: EUR 1,801 million

Q1-Q2/2020: EUR 1,740 million



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

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
Q1-Q2/2021	1	1	40	4	1	47
Q1-Q2/2020	3	1	35	5	1	44

Revenue

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

Net sales by business lines:

EUR million	Q2/2021	Q2/2020	Q1-Q2/2021	Q1-Q2/2020
Services	338	322	628	617
Automation	81	77	131	146
Pulp and Energy	238	265	469	506
Paper	285	255	574	472
Total	943	919	1,801	1,740

Timing of revenue recognition:

EUR million	Q2/2021	Q2/2020	Q1-Q2/ 2021	Q1-Q2/ 2020
Performance obligations satisfied at a point in time	397	376	730	721
Performance obligations satisfied over time	546	543	1,070	1,019
Total	943	919	1,801	1,740

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

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

Valmet receives payments from customers based on invoicing schedules as set out in the customer contracts. Changes in contract assets and liabilities are due to Valmet's performance under the contracts. Amounts due from customers under revenue contracts primarily relate to Valmet's right to consideration for work completed but not yet invoiced at the reporting date. These assets are transferred to trade receivables when right to consideration becomes unconditional, which is typically at the time when Valmet has contractual right to issue an invoice. Significant part of amounts due to customers relate to advance consideration received from customers in long-term capital contracts for which revenue is recognized over time. These amounts are recognized as revenue as (or when) Valmet performs under the contracts.

Following tables provide specification of movements in amounts due from customers under revenue contracts and amounts due to customers under revenue contracts over the reporting period. Revenue recognized in the period also includes revenue recognized related to performance obligations satisfied in previous periods, the amount of which however is insignificant.

Amounts due from customers under revenue contracts:

EUR million	Q1-Q2/ 2021	Q1-Q2/ 2020	2020
Balance at beginning of the period	229	263	263
Translation differences	2	-2	1
Acquired in business combinations	—	—	—
Revenue recognized in the period	322	315	628
Transfers to trade receivables	-335	-323	-664
Balance at end of the period	218	252	229

Amounts due to customers under revenue contracts:

EUR million	Q1-Q2/ 2021	Q1-Q2/ 2020	2020
Balance at beginning of the period	1,002	913	913
Translation differences	20	-25	-30
Acquired in business combinations	—	—	39
Revenue recognized in the period	-1,084	-917	-2,008
Consideration invoiced and/or received	1,264	1,018	2,088
Balance at end of the period	1,202	989	1,002

EUR million	As at June 30, 2021	As at June 30, 2020	As at December 31, 2020
Amounts due to customers under revenue contracts for which revenue is recognized			
Point in time	345	269	308
Over time	856	720	694
Carrying value at end of the period	1,202	989	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 June 30, 2021, Valmet had no costs to obtain or fulfill contracts capitalized under IFRS 15.

The aggregate amount of transaction price allocated to unsatisfied or partially satisfied performance obligations as at June 30, 2021, was EUR 4,019 million (EUR 3,492 million).

Net working capital

Valmet's net working capital is typically negative due to advance payments received from customers related to long-term capital projects. Net working capital does not include non-operative items such as taxes, interest-bearing assets and liabilities, or other items related to funding of the Group's operations.

EUR million	As at June 30, 2021	As at June 30, 2020	As at December 31, 2020	Q1-Q2/ 2021 impact
Assets included in net working capital				
Non-current trade receivables	1	1	1	—
Other non-current assets	15	14	14	-1
Inventories	646	546	553	-93
Trade receivables	557	487	602	46
Amounts due from customers under revenue contracts	217	252	229	11
Derivative financial instruments (assets)	46	23	68	22
Other receivables	144	113	133	-11
Liabilities included in net working capital				
Post-employment benefits	-182	-211	-201	-19
Provisions	-215	-185	-211	4
Other non-current non-interest-bearing liabilities	-3	-3	-3	—
Trade payables	-320	-331	-372	-52
Amounts due to customers under revenue contracts	-1,202	-989	-1,002	200
Derivative financial instruments (liabilities)	-27	-27	-44	-17
Other current liabilities	-441	-349	-355	86
Total net working capital	-764	-658	-588	176
Effect of changes in foreign exchange rates				-9
Remeasurement of defined benefit plans				21
Change in allowance for doubtful receivables and inventory obsolescence provision				-3
Change in net working capital in the Consolidated statement of cash flows				184

Intangible assets and property, plant and equipment

Intangible assets

EUR million	Q1-Q2/2021	Q1-Q2/2020	2020
Carrying value at beginning of the period	983	941	941
Translation differences	6	—	-15
Capital expenditure	15	15	29
Acquired in business combinations	—	—	61
Amortization charges for the period	-18	-16	-33
Impairment losses	—	—	-1
Other changes and disposals	—	—	1
Carrying value at end of the period	986	938	983

Property, plant and equipment (excl. leased assets)

EUR million	Q1-Q2/2021	Q1-Q2/2020	2020
Carrying value at beginning of the period	375	365	365
Translation differences	5	-6	-9
Capital expenditure	32	29	60
Acquired in business combinations	-1	—	8
Depreciation charges for the period	-23	-24	-47
Other changes and disposals	—	—	-1
Carrying value at end of the period	388	364	375

Leases

Leased assets

EUR million	Q1-Q2/2021	Q1-Q2/2020	2020
Carrying value at beginning of the period	66	65	65
Translation differences	1	-1	-2
Additions	10	19	27
Acquired in business combinations	—	—	2
Depreciation	-12	-12	-24
Other changes	-1	-3	-3
Carrying value at end of the period	63	68	66

Investments in associated companies

Valmet acquired 29.5 percent of Neles' shares and voting rights during July–September 2020. There has been no change in Valmet's ownership since September 30, 2020.

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 condensed consolidated interim financial statements for the six months ended June 30, 2021, include Valmet's share of Neles' fourth-quarter 2020 and first-quarter 2021 results, amounting to EUR 7 million.

Valmet had no material transactions with Neles or its other associated companies in the six months ended June 30, 2021, or material receivables or liabilities as at June 30, 2021.

Summarized financial information for Neles is set out below.

EUR million	Neles ¹
Balance sheet	
Non-current assets	220
Current assets	455
Non-current liabilities	217
Current liabilities	208
Net assets	250
Valmet's share of net assets	74
Income statement	
Revenue	284
Profit or loss	24
Total comprehensive income	30

Reconciliation to carrying values in Valmet Group:

EUR million	Q1-Q2/2021 ¹
Net assets at beginning of the period	253
Profit for the period	24
Other comprehensive income for the period	6
Dividends paid	-33
Net assets at end of the period	250
Valmet's share of net assets	74
Notional goodwill and fair value adjustments	371
Carrying value at end of the period	445
Market value of listed shares at end of the period	540

¹ Balance sheet as at March 31, 2021, and income statement for Q4/2020–Q1/2021.

Changes in Valmet's investment in Neles during the period:

EUR million	Q1-Q2/2021
Historical cost	
Historical cost at beginning of the period	456
Additions	—
Historical cost at end of the period	456
Equity adjustments	
Equity adjustments at beginning of the period	-2
Profit for the period	7
Other comprehensive income for the period	2
Dividends received	-10
Expensing of fair value adjustments	-8
Other adjustments	-1
Equity adjustments at end of the period	-11
Carrying value at end of the period	445

There were no material changes in Valmet's investments in its other associated companies during January–June 2021.

Financial instruments

Derivative financial instruments

As at June 30, 2021	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts ¹	2,860	45	-25	20
Interest rate swaps ¹	75	—	-2	-2
Electricity forward contracts ²	187	1	—	1
Nickel forward contracts ³	54	—	—	—

As at June 30, 2020	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts ¹	2,882	24	-24	—
Interest rate swaps ¹	45	—	-3	-3
Electricity forward contracts ²	134	—	-1	-1
Nickel forward contracts ³	24	—	—	—

¹ Notional amount and fair values in EUR million.

² Notional amount in GWh and fair values in EUR million.

³ Notional amount in metric tons and fair values in EUR million.

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

Classification of financial assets and liabilities:

EUR million	At amortized cost	At fair value through other comprehensive income	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value
As at June 30, 2021						
Non-current financial assets						
Equity investments	—	1	2	—	3	3
Loan receivables	1	—	—	—	1	1
Derivative financial instruments	—	—	—	10	11	11
Total	1	1	3	10	15	15
Current financial assets						
Interest-bearing financial assets	—	54	—	—	54	54
Non-interest-bearing financial assets	9	—	—	—	10	10
Trade receivables	557	—	—	—	557	557
Derivative financial instruments	—	—	7	28	36	36
Cash and cash equivalents	431	—	—	—	431	431
Total	997	54	7	28	1,086	1,086

EUR million	At amortized cost	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value
As at June 30, 2021					
Non-current financial liabilities					
Loans from financial institutions	195	—	—	195	197
Lease liabilities	37	—	—	37	37
Derivative financial instruments	—	—	4	4	4
Total	232	—	4	236	238
Current financial liabilities					
Loans from financial institutions	222	—	—	222	222
Lease liabilities	22	—	—	22	22
Trade payables	320	—	—	320	320
Derivative financial instruments	—	4	19	23	23
Total	564	4	19	587	587

EUR million	At amortized cost	At fair value through other comprehensive income	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value
As at June 30, 2020						
Non-current financial assets						
Equity investments	—	1	2	—	3	3
Loan receivables	1	—	—	—	1	1
Derivative financial instruments	—	—	—	9	9	9
Total	1	1	3	9	14	14
Current financial assets						
Interest-bearing financial assets	—	65	—	—	65	65
Non-interest-bearing financial assets	12	—	—	—	12	12
Trade receivables	487	—	—	—	487	487
Derivative financial instruments	—	—	3	11	14	14
Cash and cash equivalents	518	—	—	—	518	518
Total	1,017	65	3	11	1,097	1,097

EUR million	At amortized cost	At fair value through profit or loss	Derivatives qualified for hedge accounting	Carrying value	Fair value
As at June 30, 2020					
Non-current financial liabilities					
Loans from financial institutions	238	—	—	238	239
Lease liabilities	42	—	—	42	42
Derivative financial instruments	—	—	10	10	10
Total	280	—	10	290	291
Current financial liabilities					
Loans from financial institutions	18	—	—	18	18
Lease liabilities	23	—	—	23	23
Trade payables	331	—	—	331	331
Derivative financial instruments	—	6	11	17	17
Total	371	6	11	389	389

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.

Level 1

Quoted unadjusted prices at reporting date in active markets. Valmet 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. Valmet 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. Valmet level 3 financial instruments include equity investments classified as financial assets at fair value through profit or loss.

Provisions

EUR million	Q1-Q2/2021	Q1-Q2/2020	2020
Balance at beginning of the period	211	173	173
Translation differences	1	-2	-3
Additions charged to profit or loss	70	53	136
Acquired in business combinations	—	—	1
Used reserve	-36	-26	-63
Reversal of reserve	-32	-12	-32
Balance at end of the period	215	185	211
Non-current	35	38	47
Current	180	147	164

Contingencies and commitments

EUR million	As at June 30, 2021	As at June 30, 2020	As at December 31, 2020
Guarantees on behalf of Valmet Group	1,347	1,005	1,032

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

Events after the reporting period

On July 1, 2021, Valmet completed the acquisition of EWK Umwelttechnik GmbH and ECP Group Oy. EWK Umwelttechnik is a German company manufacturing and supplying air emission control systems and after-installation services. 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 EWK Umwelttechnik were approximately EUR 22 million in 2020. The company employs approximately 50 employees mainly in Kaiserslautern, Germany. 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.

EWK Umwelttechnik and ECP Group will be included in Valmet's financial reporting for the first time in Valmet's third quarter financial reporting 2021. The acquisitions will not, individually or

in aggregate, have a material impact on the results or financial position of Valmet, or its financial reporting.

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 combination is subject to, among other items, approval by a majority of two-thirds of the votes cast and shares represented at the respective Extraordinary General Meetings of Valmet and Neles, and the obtaining of merger control and other regulatory approvals. The completion is expected to occur on or about January 1, 2022, subject to all conditions for completion being fulfilled.

Key ratios

	Q1-Q2/2021	Q1-Q2/2020
Earnings per share, EUR	0.81	0.49
Diluted earnings per share, EUR	0.81	0.49
Equity per share at end of period, EUR	7.61	6.43
Return on equity (ROE), % (annualized)	21%	15%
Return on capital employed (ROCE) before taxes, % (annualized)	20%	16%
Equity to assets ratio at end of period, %	39%	38%
Gearing at end of period, %	-1%	-23%
Cash flow provided by operating activities, EUR million	328	324
Cash flow after investments, EUR million	293	280
Gross capital expenditure (excl. business combinations and leased assets), EUR million	-47	-44
Additions to leased assets, EUR million	-9	-19
Business combinations, net of cash acquired and loans repaid, EUR million	1	—
Investments in associated companies	—	—
Depreciation and amortization, EUR million	-60	-52
Amortization	-25	-16
Depreciation, property, plant and equipment (excl. leased assets)	-23	-24
Depreciation, leased assets	-12	-12
Number of outstanding shares at end of period	149,473,261	149,494,345
Average number of outstanding shares	149,462,766	149,504,385
Average number of diluted shares	149,462,766	149,504,385
Interest-bearing liabilities at end of period, EUR million	475	361
Net interest-bearing liabilities at end of period, EUR million	-9	-223

Formulas for calculation of indicators

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

EBITA:

Operating profit + amortization

Comparable EBITA¹:

Operating profit + amortization +/- items affecting comparability

Earnings per share:

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

Earnings per share, diluted:

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

Equity per share:

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

Return on equity (ROE), % (annualized):

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

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

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

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

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

Equity to assets ratio, %:

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

Gearing, %:

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

Net interest-bearing liabilities:

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

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

Quarterly information

EUR million	Q2/2021	Q1/2021	Q4/2020	Q3/2020	Q2/2020
Net sales	943	858	1,167	832	919
Comparable EBITA	95	80	146	91	76
% of net sales	10.1%	9.4%	12.5%	10.9%	8.3%
Operating profit	85	76	135	79	62
% of net sales	9.0%	8.9%	11.6%	9.5%	6.8%
Profit before taxes	83	75	133	75	60
% of net sales	8.8%	8.7%	11.4%	9.0%	6.5%
Profit for the period	64	57	100	57	44
% of net sales	6.8%	6.7%	8.6%	6.9%	4.8%
Earnings per share, EUR	0.43	0.38	0.67	0.38	0.29
Earnings per share, diluted, EUR	0.43	0.38	0.67	0.38	0.29
Amortization	-13	-13	-11	-8	-8
Depreciation, property, plant and equipment (excl. leased assets)	-12	-12	-12	-12	-12
Depreciation, leased assets	-6	-6	-6	-6	-6
Research and development expenses, net	-21	-19	-22	-15	-20
% of net sales	-2.2%	-2.2%	-1.9%	-1.9%	-2.2%
Items affecting comparability:					
in cost of goods sold	—	—	-4	—	-3
in selling, general and administrative expenses	-1	—	—	-3	-3
in other operating income and expenses, net	—	5	2	—	—
in share in profits and losses of associated companies, operative investments	4	3	3	—	—
Total items affecting comparability	2	8	—	-3	-6
Gross capital expenditure (excl. business combinations and leased assets)	-23	-24	-24	-21	-27
Additions to leased assets	-4	-6	-3	-4	-10
Business combinations, net of cash acquired and loans repaid	1	—	-48	—	—
Investments in associated companies	—	—	-3	-453	—
Capital employed, end of period	1,619	1,557	1,639	1,541	1,327
Orders received	1,228	1,312	940	700	826
Order backlog, end of period	4,019	3,709	3,257	3,311	3,492

Valmet's financial reporting in 2021

October 26, 2021 - Interim Review for January–September 2021



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