Interim Review

January 1 – September 30, 2020

Valmet

Valmet's Interim Review
January 1 – September 30, 2020

Orders received decreased to EUR 700 million and Comparable EBITA increased to EUR 91 million in the third quarter

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

July–September 2020: Orders received decreased and comparable EBITA increased

- Orders received decreased 34 percent to EUR 700 million (EUR 1,058 million).
  - Orders received increased in the Paper business line, and decreased in the Pulp and Energy, Automation and Services business lines.
  - Orders received increased in China, and decreased in South America, North America, Asia-Pacific and EMEA (Europe, Middle East and Africa).
- Net sales remained at the previous year's level and amounted to EUR 832 million (EUR 857 million).
  - Net sales increased in the Paper business line, remained at the previous year's level in the Automation business line, and decreased in the Pulp and Energy, and Services business lines.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 91 million (EUR 81 million), and the corresponding Comparable EBITA margin was 10.9 percent (9.5%).
  - Comparable EBITA increased due to lower selling, general and administration (SG&A) expenses.
- Earnings per share were EUR 0.38 (EUR 0.34).
- Items affecting comparability amounted to EUR -3 million (EUR 1 million).
- Cash flow provided by operating activities was EUR 94 million (EUR 126 million).

January–September 2020: Strong cash flow from operating activities

- Orders received decreased 9 percent to EUR 2,712 million (EUR 2,976 million).
  - Orders received remained at the previous year's level in the Paper and Services business lines, and decreased in the Pulp and Energy, and Automation business lines.
  - Orders received increased in China, and decreased in South America, North America, Asia-Pacific and EMEA.
- Net sales increased 5 percent to EUR 2,573 million (EUR 2,444 million).
  - Net sales increased in the Pulp and Energy, and Paper business lines, remained at the previous year's level in the Automation business line, and decreased in the Services business line.
- Comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 218 million (EUR 198 million), and the corresponding Comparable EBITA margin was 8.5 percent (8.1%).
  - Comparable EBITA increased due to higher net sales and as SG&A expenses did not increase.
- Earnings per share were EUR 0.88 (EUR 0.80).
- Items affecting comparability amounted to EUR -11 million (EUR -2 million).
- Cash flow provided by operating activities was EUR 418 million (EUR 113 million).

Guidance for 2020 unchanged

Valmet reiterates its guidance issued on October 13, 2020, in which Valmet estimates that net sales in 2020 will remain at the previous year’s level in comparison with 2019 (EUR 3,547 million) and Comparable EBITA in 2020 will increase in comparison with 2019 (EUR 316 million).

Short-term market outlook

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

President and CEO Pasi Laine: The strong development in Paper continued

“Valmet’s orders received amounted to EUR 700 million in the third quarter of 2020. Orders received increased in the Paper business line and in China. Orders received decreased in the Pulp and Energy, Automation and Services business lines. Our order backlog amounted to EUR 3,311 million. The short-term market outlook for pulp, and board and paper is good.

Valmet’s net sales remained at the previous year’s level, and the Comparable EBITA increased to EUR 91 million, corresponding to a margin of 10.9 percent. Our balance sheet remained strong with a gearing of 18 percent.

The COVID-19 pandemic continued to impact our operations in the third quarter. Travel restrictions and lower capacity utilization in graphical paper mills had a negative impact on Services order intake and net sales. Despite COVID-19, Automation services order intake remained at the previous year's level, while capital order intake in Automation decreased. COVID-19 has not caused major impacts on Valmet's capital business. Our whole organization has performed well under the new circumstances and found new ways to operate, which can be utilized to improve Valmet's processes also after the pandemic. Furthermore, certain expenses were lower due to the pandemic.

In the beginning of July, Valmet acquired 14.9 percent of Neles. During the quarter, Valmet increased its ownership gradually to 29.5 percent and proposed a statutory merger between Valmet and Neles. We see that the combination would create excellent long-term value to the shareholders of both companies. It has excellent industrial logic and would form a strong platform for further business growth especially in automation systems and valves.

During the quarter, we entered into an agreement to acquire PMP Group in Poland. PMP supplies process technologies and services for tissue, board and paper machines globally, focusing on small and medium-sized tissue machines and board and paper machine rebuilds. PMP's product portfolio and presence in strategic markets will create new business opportunities for Valmet. The company employs about 650 people and we warmly welcome the new colleagues to Valmet.”

Key figures[1]

EUR million	Q3/2020	Q3/2019	Change	Q1–Q3/ 2020	Q1–Q3/ 2019	Change
Orders received	**700**	1,058	-34%	**2,712**	2,976	-9%
Order backlog[2]	**3,311**	3,425	-3%	**3,311**	3,425	-3%
Net sales	**832**	857	-3%	**2,573**	2,444	5%
Comparable earnings before interest, taxes and amortization (Comparable EBITA)	**91**	81	11%	**218**	198	10%
% of net sales	**10.9%**	9.5%		**8.5%**	8.1%	
Earnings before interest, taxes and amortization (EBITA)	**87**	83	5%	**208**	196	6%
% of net sales	**10.5%**	9.7%		**8.1%**	8.0%	
Operating profit (EBIT)	**79**	73	9%	**184**	172	7%
% of net sales	**9.5%**	8.5%		**7.1%**	7.0%	
Profit before taxes	**75**	70	6%	**174**	164	6%
Profit for the period	**57**	51	12%	**131**	121	9%
Earnings per share, EUR	**0.38**	0.34	12%	**0.88**	0.80	9%
Earnings per share, diluted, EUR	**0.38**	0.34	12%	**0.88**	0.80	9%
Equity per share, EUR[2]	**6.81**	6.13	11%	**6.81**	6.13	11%
Cash flow provided by operating activities	**94**	126	-25%	**418**	113	>100%
Cash flow after investments	**-380**	102		**-100**	-102	-2%
Return on equity (ROE) (annualized)				**17%**	17%	
Return on capital employed (ROCE) before taxes (annualized)				**17%**	19%	
Equity to assets ratio[2]				**38%**	38%	
Gearing[2]				**18%**	6%	

[1] *The calculation of key figures is presented on page 44.*
[2] *At end of period.*

Orders received, EUR million	Q3/2020	Q3/2019	Change	Q1–Q3/ 2020	Q1–Q3/ 2019	Change
Services	**288**	335	-14%	**1,014**	1,064	-5%
Automation	**65**	86	-25%	**238**	263	-10%
Pulp and Energy	**52**	395	-87%	**643**	805	-20%
Paper	**295**	243	22%	**818**	844	-3%
Total	**700**	1,058	-34%	**2,712**	2,976	-9%

Order backlog, EUR million	As at Sep 30, 2020	As at Sep 30, 2019	Change	As at June 30, 2020
Total	**3,311**	3,425	-3%	3,492

Net sales, EUR million	Q3/2020	Q3/2019	Change	Q1–Q3/ 2020	Q1–Q3/ 2019	Change
Services	**307**	336	-9%	**924**	973	-5%
Automation	**72**	75	-4%	**218**	221	-1%
Pulp and Energy	**211**	231	-9%	**717**	604	19%
Paper	**242**	214	13%	**713**	646	10%
Total	**832**	857	-3%	**2,573**	2,444	5%

News conference and webcast for analysts, investors and media

Valmet will arrange a news conference in English as a live webcast at https://valmet.videosync.fi/2020-q3 on Tuesday, October 27, 2020 at 2:00 p.m. Finnish time (EET). President and CEO Pasi Laine and CFO Kari Saarinen will be presenting the results.

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

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

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

The participants will be asked to provide the following conference PIN: 25170683#. 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 on the spot.

Valmet's Interim Review January 1 – September 30, 2020

Orders received decreased in Pulp and Energy, Automation and Services business lines in Q3/2020

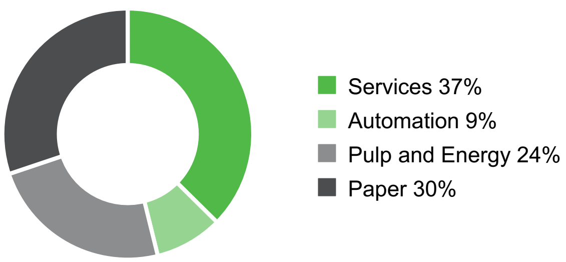
Orders received, EUR million	Q3/2020	Q3/2019	Change	Q1–Q3/ 2020	Q1–Q3/ 2019	Change
Services	**288**	335	-14%	**1,014**	1,064	-5%
Automation	**65**	86	-25%	**238**	263	-10%
Pulp and Energy	**52**	395	-87%	**643**	805	-20%
Paper	**295**	243	22%	**818**	844	-3%
Total	**700**	1,058	-34%	**2,712**	2,976	-9%

Orders received, comparable foreign exchange rates, EUR million[1]	Q3/2020	Q3/2019	Change	Q1–Q3/ 2020	Q1–Q3/ 2019	Change
Services	**304**	335	-9%	**1,039**	1,064	-2%
Automation	**68**	86	-20%	**245**	263	-7%
Pulp and Energy	**59**	395	-85%	**682**	805	-15%
Paper	**299**	243	23%	**824**	844	-2%
Total	**729**	1,058	-31%	**2,790**	2,976	-6%

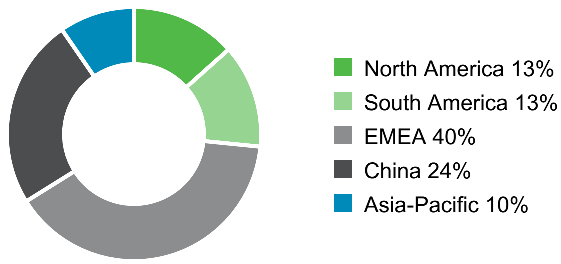
[1] *Indicative only. January–September 2020 orders received in euro calculated by applying January–September 2019 average exchange rates to the functional currency orders received values reported by entities.*

Orders received, EUR million	Q3/2020	Q3/2019	Change	Q1–Q3/ 2020	Q1–Q3/ 2019	Change
North America	**109**	239	-54%	**363**	557	-35%
South America	**40**	257	-85%	**358**	615	-42%
EMEA	**296**	390	-24%	**1,072**	1,199	-11%
China	**192**	54	>100%	**658**	210	>100%
Asia-Pacific	**64**	118	-46%	**260**	395	-34%
Total	**700**	1,058	-34%	**2,712**	2,976	-9%

Orders received by business line, Q1–Q3/2020



Orders received by area, Q1–Q3/2020



July–September 2020: Orders received decreased 34 percent

Orders received decreased 34 percent to EUR 700 million (EUR 1,058 million) in July–September. The Services and Automation business lines together accounted for 50 percent (40%) of Valmet's orders received. Orders received increased in the Paper business line, and decreased in the Pulp and Energy, Automation and Services business lines.

Orders received increased in China, and decreased in South America, North America, Asia-Pacific and EMEA (Europe, Middle East and Africa). Measured by orders received, the top three countries were China, the USA and Turkey, which together accounted for 50 percent of total orders received. The emerging markets accounted for 57 percent (45%) of orders received.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 30 million in July–September.

During July–September, Valmet received among others an order for a fine paper making line to China, typically valued at around EUR 80–100 million, an order for an extensive paper machine grade conversion rebuild to Turkey, typically valued at around EUR 40–50 million, and an order for a new bleach plant and upgrade of batch cooking and fiberline to India, typically valued at around EUR 20–30 million.

January–September 2020: Orders received decreased 9 percent

Orders received decreased 9 percent to EUR 2,712 million (EUR 2,976 million) in January–September. The Services and Automation business lines together accounted for 46 percent (45%) of Valmet's orders received. Orders received remained at the previous year's level in the Paper and Services business lines, and decreased in the Pulp and Energy, and Automation business lines.

Orders received increased in China, and decreased in South America, North America, Asia-Pacific and EMEA. Measured by orders received, the top three countries were China, Brazil and the USA, which together accounted for 47 percent of total orders received. The emerging markets accounted for 53 percent (46%) of orders received.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 78 million in January–September.

In addition to the above-mentioned, during January–September, Valmet received among others an order for key pulp mill technology and automation to Brazil, typically valued at around EUR 200–250 million, an order for a coated board making line to China, typically valued at around EUR 150–200 million, an order for a biomass-fired boiler plant to Finland with a value of approximately EUR 70 million, and an order for a hot water plant to Sweden, typically valued at above EUR 40 million. On April 29, 2020, Valmet announced that it has signed a preliminary agreement for key technology and automation delivery to Metsä Fibre's planned bioproduct mill in Kemi, Finland. The estimated value of Valmet's anticipated delivery is about EUR 350–400 million.

Order backlog at the same level as at the end of Q3/2019

Order backlog, EUR million	**As at September 30, 2020**	As at September 30, 2019	Change	As at June 30, 2020
Total	**3,311**	3,425	-3%	3,492

Order backlog at the end of the reporting period amounted to EUR 3,311 million, which is at the same level as at the end of June 2020 and at the end of September 2019. Approximately 30 percent of the order backlog relates to stable business (Services and Automation business lines, approximately 30% at the end of September 2019).

Net sales remained at the previous year's level in Q3/2020

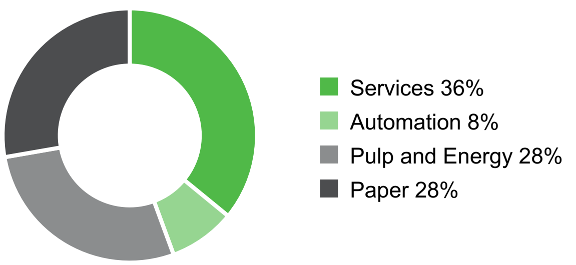
Net sales, EUR million	**Q3/2020**	Q3/2019	Change	**Q1–Q3/ 2020**	Q1–Q3/ 2019	Change
Services	**307**	336	-9%	**924**	973	-5%
Automation	**72**	75	-4%	**218**	221	-1%
Pulp and Energy	**211**	231	-9%	**717**	604	19%
Paper	**242**	214	13%	**713**	646	10%
Total	**832**	857	-3%	**2,573**	2,444	5%

Net sales, comparable foreign exchange rates, EUR million[1]	**Q3/2020**	Q3/2019	Change	**Q1–Q3/ 2020**	Q1–Q3/ 2019	Change
Services	**320**	336	-5%	**941**	973	-3%
Automation	**76**	75	0%	**222**	221	1%
Pulp and Energy	**221**	231	-4%	**742**	604	23%
Paper	**248**	214	16%	**723**	646	12%
Total	**865**	857	1%	**2,628**	2,444	8%

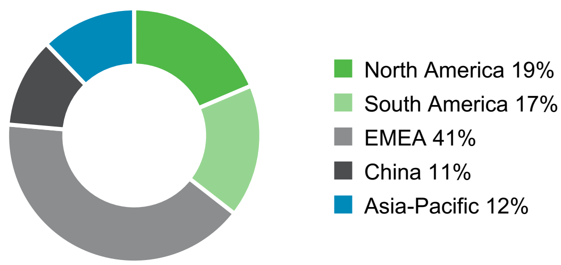
[1] *Indicative only. January–September 2020 net sales in euro calculated by applying January–September 2019 average exchange rates to the functional currency net sales values reported by entities.*

Net sales, EUR million	**Q3/2020**	Q3/2019	Change	**Q1–Q3/ 2020**	Q1–Q3/ 2019	Change
North America	**139**	175	-21%	**479**	567	-16%
South America	**141**	79	80%	**436**	212	>100%
EMEA	**334**	400	-17%	**1,051**	1,076	-2%
China	**119**	110	8%	**294**	343	-14%
Asia-Pacific	**100**	93	7%	**313**	246	27%
Total	**832**	857	-3%	**2,573**	2,444	5%

Net sales by business line, Q1–Q3/2020



Net sales by area, Q1–Q3/2020



July–September 2020: Net sales remained at the previous year's level

Net sales remained at the previous year's level and amounted to EUR 832 million (EUR 857 million) in July–September. The Services and Automation business lines together accounted for 46 percent (48%) of Valmet's net sales. Net sales increased in the Paper business line, remained at the previous year's level in the Automation business line, and decreased in the Pulp and Energy, and Services business lines.

Net sales increased in South America, China and Asia-Pacific, and decreased in North America and EMEA. Measured by net sales, the top three countries were China, Brazil and the USA, which together accounted for 42% percent of total net sales. Emerging markets accounted for 48 percent (40%) of net sales.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 33 million in July–September.

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

Net sales increased 5 percent to EUR 2,573 million (EUR 2,444 million) in January–September. The Services and Automation business lines together accounted for 44 percent (49%) of Valmet's net sales. Net sales increased in the Pulp and Energy, and Paper business lines, remained at the previous year's level in the Automation business line, and decreased in the Services business line.

Net sales increased in South America and Asia-Pacific, remained at the previous year's level in EMEA, and decreased in North America and China. Measured by net sales, the top three countries were the USA, Brazil and China, which together accounted for 37 percent of total net sales. Emerging markets accounted for 46 percent (40%) of net sales.

Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 55 million in January–September.

Comparable EBITA and operating profit

In July–September, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 91 million, i.e. 10.9 percent of net sales (EUR 81 million and 9.5%). Comparable EBITA increased due to lower selling, general and administration (SG&A) expenses.

In January–September, comparable earnings before interest, taxes and amortization (Comparable EBITA) were EUR 218 million, i.e. 8.5 percent of net sales (EUR 198 million and 8.1%). Comparable EBITA increased due to higher net sales and as SG&A expenses did not increase.

Operating profit (EBIT) in July–September was EUR 79 million, i.e. 9.5 percent of net sales (EUR 73 million and 8.5%). Items affecting comparability amounted to EUR -3 million (EUR 1 million).

Operating profit (EBIT) in January–September was EUR 184 million, i.e. 7.1 percent of net sales (EUR 172 million and 7.0%). Items affecting comparability amounted to EUR -11 million (EUR -2 million).

Net financial income and expenses

Net financial income and expenses in July–September were EUR -5 million (EUR -3 million). In January–September, net financial income and expenses were EUR -8 million (EUR -8 million).

Profit before taxes and earnings per share

Profit before taxes for July–September was EUR 75 million (EUR 70 million). The profit attributable to owners of the parent in July–September was EUR 57 million (EUR 51 million), corresponding to earnings per share (EPS) of EUR 0.38 (EUR 0.34).

In January–September, profit before taxes was EUR 174 million (EUR 164 million). The profit attributable to owners of the parent was EUR 131 million (EUR 120 million), corresponding to earnings per share (EPS) of EUR 0.88 (EUR 0.80).

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

In January–September, the annualized return on capital employed (ROCE) before taxes was 17 percent (19%) and annualized return on equity (ROE) 17 percent (17%).

Business lines

Services: Orders received and net sales decreased in Q3/2020

Services business line	Q3/2020	Q3/2019	Change	Q1–Q3/ 2020	Q1–Q3/ 2019	Change
Orders received (EUR million)	**288**	335	-14%	**1,014**	1,064	-5%
Net sales (EUR million)	**307**	336	-9%	**924**	973	-5%
Personnel (end of period)				**6,093**	6,444	-5%

In July–September, orders received by the Services business line decreased 14 percent to EUR 288 million (EUR 335 million). Services accounted for 41 percent of all orders received (32%). Orders received increased in South America and decreased in all other areas. COVID-19 related travel restrictions and lower capacity utilization in graphical paper mills had a negative impact on Services' orders received. Orders received remained at the previous year's level in Energy and Environmental, and decreased in Mill Improvements, Fabrics, Rolls and Performance Parts. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 16 million.

In January–September, orders received by the Services business line remained at the previous year's level and amounted to EUR 1,014 million (EUR 1,064 million). Services accounted for 37 percent of all orders received (36%). Orders received increased in China, remained at the previous year's level in South America and EMEA, and decreased in Asia-Pacific and North America. Orders received increased in Energy and Environmental, remained at the previous year's level in Performance Parts, and decreased in Mill Improvements, Fabrics and Rolls. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 24 million.

Net sales for the Services business line amounted to EUR 307 million (EUR 336 million) in July–September, corresponding to 37 percent (39%) of Valmet's net sales. COVID-19 related travel restrictions and lower capacity utilization in graphical paper mills had a negative impact on Services' net sales. The negative impact from lower volumes was compensated by cost savings measures. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 13 million.

In January–September, net sales for the Services business line amounted to EUR 924 million (EUR 973 million), corresponding to 36 percent (40%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 17 million.

Automation: Orders received decreased and net sales remained at the previous year's level in Q3/2020

Automation business line	Q3/2020	Q3/2019	Change	Q1–Q3/ 2020	Q1–Q3/ 2019	Change
Orders received (EUR million)	**65**	86	-25%	**238**	263	-10%
Net sales (EUR million)	**72**	75	-4%	**218**	221	-1%
Personnel (end of period)				**1,908**	1,894	1%

In July–September, orders received by the Automation business line decreased 25 percent to EUR 65 million (EUR 86 million). Automation accounted for 9 percent (8%) of all orders received. Orders received increased in South America, remained at the previous year's level in Asia-Pacific, and decreased in China, North America and EMEA. Orders received decreased in both Pulp and Paper, and Energy and Process. Despite COVID-19, automation services order intake remained at the previous year's level, while capital order intake decreased. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 4 million.

In January–September, orders received by the Automation business line decreased 10 percent to EUR 238 million (EUR 263 million). Automation accounted for 9 percent (9%) of Valmet's orders received. Orders received increased in South America, remained at the previous year's level in China, and decreased in North America, Asia-Pacific and EMEA. Orders received remained at the previous year's level in both Pulp and Paper, and Energy and Process. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 7 million.

Net sales for the Automation business line amounted to EUR 72 million (EUR 75 million) in July–September, corresponding to 9 percent (9%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 3 million.

In January–September, net sales for the Automation business line amounted to EUR 218 million (EUR 221 million), corresponding to 8 percent (9%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 4 million.

Pulp and Energy: Orders received and net sales decreased in Q3/2020

Pulp and Energy business line	Q3/2020	Q3/2019	Change	Q1–Q3/ 2020	Q1–Q3/ 2019	Change
Orders received (EUR million)	**52**	395	-87%	**643**	805	-20%
Net sales (EUR million)	**211**	231	-9%	**717**	604	19%
Personnel (end of period)				**1,820**	1,791	2%

In July–September, orders received by the Pulp and Energy business line decreased 87 percent to EUR 52 million (EUR 395 million). Pulp and Energy accounted for 7 percent of all orders received (37%). Orders received increased in Asia-Pacific, North America and China, and decreased in South America and EMEA. Orders received decreased in both Pulp and Energy. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 7 million.

In January–September, orders received by the Pulp and Energy business line decreased 20 percent to EUR 643 million (EUR 805 million). Pulp and Energy accounted for 24 percent of all orders received (27%). Orders received increased in China and decreased in all other areas. Orders received decreased in both Pulp and Energy. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 39 million.

Net sales for the Pulp and Energy business line amounted to EUR 211 million (EUR 231 million) in July–September, corresponding to 25 percent (27%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 10 million.

In January–September, net sales for the Pulp and Energy business line amounted to EUR 717 million (EUR 604 million), corresponding to 28 percent (25%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 25 million.

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

Paper: Orders received and net sales increased in Q3/2020

Paper business line	**Q3/2020**	Q3/2019	Change	**Q1–Q3/ 2020**	Q1–Q3/ 2019	Change
Orders received (EUR million)	**295**	243	22%	**818**	844	-3%
Net sales (EUR million)	**242**	214	13%	**713**	646	10%
Personnel (end of period)				**3,050**	2,887	6%

In July–September, orders received by the Paper business line increased 22 percent to EUR 295 million (EUR 243 million) and accounted for 42 percent of all orders received (23%). Orders received increased in China and EMEA, and decreased in South America, Asia-Pacific and North America. Orders received increased in both Board and Paper, and Tissue. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 3 million.

In January–September, orders received by the Paper business line remained at the previous year's level and amounted to EUR 818 million (EUR 844 million). Paper accounted for 30 percent of all orders received (28%). Orders received increased in China and decreased in all other areas. Orders received increased in Tissue and decreased in Board and Paper. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased orders received by approximately EUR 7 million.

Net sales for the Paper business line amounted to EUR 242 million (EUR 214 million) in July–September, corresponding to 29 percent (25%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 7 million.

In January–September, net sales for the Paper business line amounted to EUR 713 million (EUR 646 million), corresponding to 28 percent (26%) of Valmet's net sales. Changes in foreign exchange rates compared to the exchange rates for the corresponding period in 2019 decreased net sales by approximately EUR 9 million.

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

Cash flow and financing

Cash flow provided by operating activities amounted to EUR 94 million (EUR 126 million) in July–September and EUR 418 million (EUR 113 million) in January–September. Net working capital totaled EUR -629 million (EUR -421 million) at the end of the reporting period. Change in net working capital in the statement of cash flows was EUR -2 million (EUR 53 million) in July–September and EUR 206 million (EUR -85 million) in January–September. Payment schedules of large capital projects have a significant impact on net working capital development.

Cash flow after investments totaled EUR -380 million (EUR 102 million) in July–September, and EUR -100 million (EUR -102 million) in January–September. Investments in Neles shares had a cash flow impact of EUR -453 million in the third quarter. During the comparison period January–September 2019, Valmet completed the acquisitions of GL&V and J&L Fiber Services Inc., with a cash flow impact of EUR -163 million.

At the end of September, gearing was 18 percent (6%) and equity to assets ratio was 38 percent (38%). Interest-bearing liabilities amounted to EUR 517 million (EUR 316 million), and net interest-bearing liabilities totaled EUR 184 million (EUR 60 million) at the end of the reporting period.

The average maturity of Valmet's non-current debt was 2.5 years, and average interest rate was 1.1 percent at the end of September. 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 264 million (EUR 213 million) and interest-bearing current financial assets totaling EUR 68 million (EUR 43 million). The outstanding Nordic Investment Bank loan was repaid and replaced with a new 10-year EUR 50 million loan in January. In April–June, Valmet signed term-loan agreements with a total value of EUR 500 million, of which EUR 279 million was outstanding at the end of the reporting period. Valmet's liquidity was additionally secured by a committed revolving credit facility worth of EUR 200 million, which matures in 2024 and was undrawn at the end of the reporting period, and an uncommitted commercial paper program worth of EUR 200 million, of which EUR 20 million was outstanding at the end of the reporting period.

On June 25, 2020, Valmet paid out dividends of EUR 105 million. Withholding tax of EUR 15 million related to dividends was paid in July.

Capital expenditure

Gross capital expenditure (excluding business combinations and leased assets) totaled EUR 21 million (EUR 19 million) in July–September, of which maintenance investments were EUR 11 million (EUR 8 million).

In January–September, gross capital expenditure (excluding business combinations and leased assets) totaled EUR 65 million (EUR 57 million), of which maintenance investments were EUR 28 million (EUR 22 million).

Acquisitions and disposals

Valmet made no acquisitions or disposals during January–September 2020.

Investments in associates and joint ventures

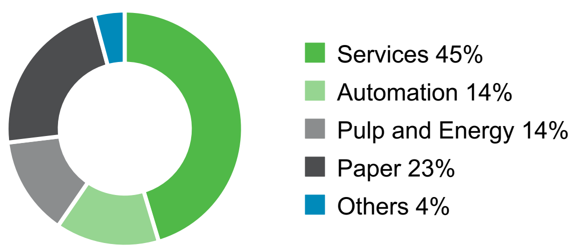
Valmet acquired a minority share in Neles Corporation during July–September 2020. As at September 30, 2020 Valmet held 29.5 percent of Neles' shares and voting rights. Valmet partly financed the share acquisition with a new loan facility. On September 29, 2020 Valmet announced that it had approached the Board of Directors of Neles with a proposal to start discussions on a potential statutory merger between the two companies. Neles is a globally leading diversified valve, valve automation and service company with net sales in 2019 amounting to EUR 660 million and an adjusted EBITA margin of 14.6 percent.

Number of personnel

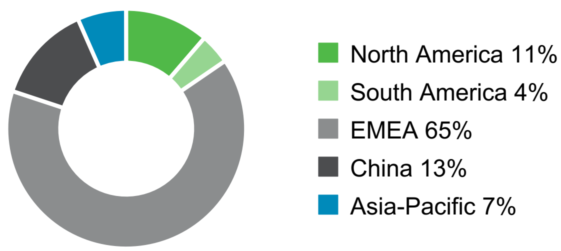
Personnel by business line	**As at September 30, 2020**	As at September 30, 2019	Change	As at June 30, 2020
Services	**6,093**	6,444	-5%	6,229
Automation	**1,908**	1,894	1%	1,940
Pulp and Energy	**1,820**	1,791	2%	1,833
Paper	**3,050**	2,887	6%	3,074
Other	**563**	530	6%	549
Total	**13,434**	13,546	-1%	13,626

Personnel by area	**As at September 30, 2020**	As at September 30, 2019	Change	As at June 30, 2020
North America	**1,522**	1,697	-10%	1,534
South America	**553**	539	3%	554
EMEA	**8,684**	8,625	1%	8,837
China	**1,788**	1,786	0%	1,803
Asia-Pacific	**887**	899	-1%	898
Total	**13,434**	13,546	-1%	13,626

Personnel by business line as at September 30, 2020



Personnel by area as at September 30, 2020



During January–September, Valmet employed an average of 13,550 people (13,129). The number of personnel at the end of September was 13,434 (13,546). Personnel expenses totaled EUR 665 million (EUR 656 million) in January–September, of which wages, salaries and remuneration amounted to EUR 523 million (EUR 517 million).

Impacts of the COVID-19 pandemic on Valmet

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

The Pulp and Energy, and Paper business lines have managed challenges caused by COVID-19 well, and therefore COVID-19 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 processes also after the pandemic. For example, the increased use of industrial internet and remote connections have resulted in lower travel expenses.

On April 21, 2020, Valmet announced that due to financial and production related reasons, especially because of the decreasing workload and in order to prepare for the potential widening of the business impacts from the COVID-19 pandemic, the company starts co-determination negotiations on April 21, 2020 for temporary lay-offs. The employees under negotiations are the Services business line employees in Finland and EMEA area organization in Finland. The planned lay-offs are temporary and they last up to 90 days at maximum. At the time of the announcement, it was estimated that the need for lay-offs concerns around 200 employees.

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

Structural changes

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

Valmet announced on March 17, 2020 that the co-determination negotiations have been completed. Valmet will relocate the dryer fabric and wide filter fabric production from Finland to Portugal. As a consequence of the relocation and re-organizing of the work, the need for workforce reduction in Tampere will be 78 persons mainly during 2021. In addition, the possibility for temporary lay-offs and part-time work remains if capacity adjustments need to be done later this year. For those affected by the reductions, Valmet will provide support measures like support for studies and re-employment.

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

Strategic goals and their implementation

Valmet is the leading global developer and supplier of technologies, automation and services for the pulp, paper and energy industries. Valmet focuses on delivering technology and services globally to industries that use bio-based raw materials. Valmet's main customer industries are pulp, paper and energy. These are all major global industries that offer growth potential for the future. Valmet is committed to moving its customers' performance forward.

Valmet's vision is to become the global champion in serving its customers, and its mission is to convert renewable resources into sustainable results. Valmet seeks to achieve its strategic targets by pursuing the following Must-Win initiatives: 'customer excellence', 'leader in technology and innovation', 'excellence in processes' and 'winning team'.

Valmet's product and service portfolio consists of productivity-enhancing services, automation solutions, plant upgrades and rebuilds, new cost-efficient equipment and solutions for optimizing energy and raw material usage, and technologies increasing the value of our customers' end products.

In order to improve its operational excellence, Valmet is in the process of renewing its ERP system. The aim is to improve Valmet's operational capability through process harmonization and standardization, and through renewal and modernization of the ERP platform.

Valmet has an annual strategy process, where, among others, Valmet's strategy, Must-Wins and financial targets are reviewed.

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

Valmet's financial targets are the following:

Financial targets

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

Continued focus on improving profitability

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

To improve sales process management, Valmet is focusing on key account management and analyzing the customers' share of wallet. Valmet is targeting market share improvement at key customers and adding focus on sales training. Valmet has also launched 'Valmet 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.

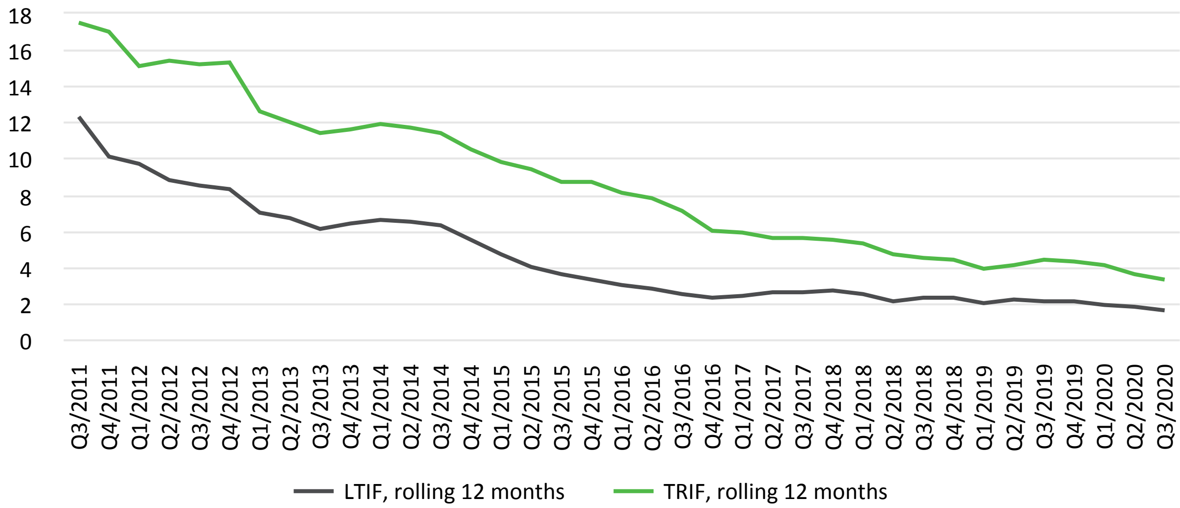
Progress in sustainability

During July–September 2020, Valmet progressed with the actions defined in its Sustainability360˚ agenda. Valmet conducts supplier sustainability audits with a certified third-party auditor to ensure its suppliers operate in compliance with Valmet's Sustainable Supply Chain Policy and local and international law. In addition to on-site audits, Valmet has piloted remote auditing in 2020 due to the COVID-19 pandemic.

In September 2020, Valmet's mid-year review discussions were completed by 98 percent of the employees included in the annual review process. Valmet also finished the enrollment process for its global mentoring program, which will include reverse mentoring for the first time.

At the end of September, Valmet's lost time incident frequency rate (LTIF) for own employees was 1.6 (2.0 at the end of September 2019) and the total recordable incident frequency rate (TRIF) for own employees was 3.3 (4.4 at the end of September 2019). In September Valmet launched an external reporting portal for its stakeholders for managing events related to health, safety, environment and continuous improvement in all Valmet's operations. Valmet also continued to implement its global coronavirus management strategy.

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 2020–2012. 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 prepared a separate Corporate Governance Statement and a Remuneration Report for 2019, which comply with the recommendations of the Finnish Corporate Governance Code for listed companies. These reports also cover other central areas of corporate governance, and they have been published on Valmet's website, separately from the Report of the Board of Directors, at www.valmet.com/governance.

Shares and shareholders

Share capital, number of shares and shareholders

	As at September 30, 2020	As at September 30, 2019
Share capital, EUR	**100,000,000**	100,000,000
Number of shares	**149,864,619**	149,864,619
Treasury shares	**370,274**	245,624
Shares outstanding	**149,494,345**	149,618,995
Market capitalization, EUR million	**3,167**	2,669
Number of shareholders	**49,242**	45,126

Shareholder structure as at September 30, 2020

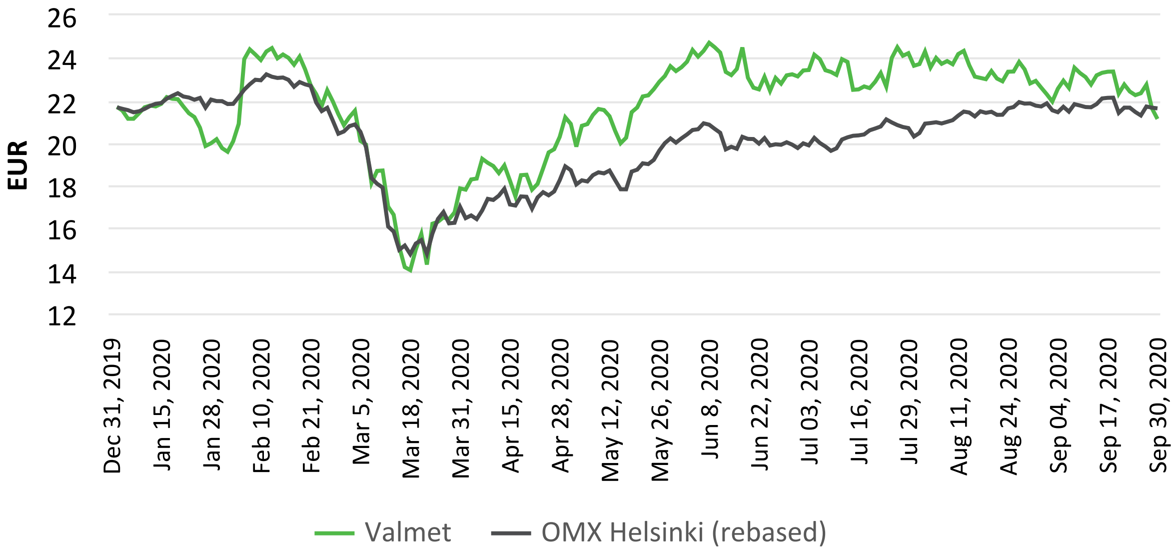
Trading of shares

Trading of Valmet shares on Nasdaq Helsinki	**January 1 - September 30, 2020**	January 1 - September 30, 2019
Number of shares traded	**125,586,609**	121,471,947
Total value, EUR	**2,649,948,166**	2,490,247,554
High, EUR	**25.20**	25.14
Low, EUR	**13.33**	15.55
Volume-weighted average price, EUR	**21.10**	20.65
Closing price on the final day of trading, EUR	**21.13**	17.81

The closing price of Valmet's share on the final day of trading for the reporting period, September 30, 2020, was EUR 21.13, i.e. 1 percent lower than the closing price on the last day of trading in 2019 (EUR 21.36 on December 30, 2019).

In addition to Nasdaq Helsinki Ltd, Valmet's shares are also traded on other marketplaces, such as Cboe CXE, Cboe BXE and Turquoise. A total of approximately 80 million Valmet shares were traded on alternative marketplaces in January–September, which equals to approximately 39 percent of the share's total trade volume (Bloomberg).

Development of Valmet's share price, December 31, 2019 – September 30, 2020



Flagging notifications

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

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

Board authorizations regarding share repurchase and share issue

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

The Company's own shares may be repurchased for reasons of developing the Company's capital structure, financing or carrying out acquisitions, investments or other business transactions, or for the shares to be used in an incentive scheme, however so that a maximum of 500,000 shares may be repurchased to be used in an incentive scheme, which corresponds to approximately 0.3 percent of all the shares in the Company.

The Board of Directors decides on all other terms related to the repurchasing of the Company's own shares.

Valmet Oyj's Annual General Meeting authorized Valmet's Board of Directors to decide on the issuance of shares as well as the issuance of special rights entitling to shares pursuant to Chapter 10(1) of the Finnish Limited Liability Companies Act in one or several tranches. The issuance of shares may be carried out by offering new shares or by transferring treasury shares held by Valmet Oyj. Based on this authorization, the Board of Directors may also decide on a directed share issue in deviation from the shareholders' pre-emptive rights and on the granting of special rights subject to the conditions mentioned in the Finnish Limited Liability Companies Act.

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

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

The Board of Directors may decide on all other terms of the issuance of shares and special rights entitling to shares pursuant to Chapter 10(1) of the Finnish Limited Liability Companies Act. The Board of Directors may use this authorization, for example, for reasons of developing the Company's capital structure, in financing or carrying out acquisitions, investments or other business transactions, or for the shares to be used in incentive schemes, however so that the Board of Directors may issue a maximum of 500,000 shares to be used in incentive schemes, which corresponds to approximately 0.3 percent of all the shares in the Company.

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

As at September 30, 2020, Valmet's Board of Directors had not used the authorizations given by the Annual General meeting on June 16, 2020.

Share-based incentive plans

Valmet's share-based incentive plans are part of the remuneration program for Valmet's key personnel. The purpose of the plans is to align the goals of shareholders and management to increase the value of the Company, to ensure management commitment, and to offer them a competitive, ownership-based reward scheme. Any shares to be potentially awarded are, or have been, acquired through public trading, and therefore the incentive plans have no diluting effect on the share value.

Long-term incentive plan 2018–2020

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

Performance period	2018	2019	2020
Incentive based on	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business (Services and Automation business lines)	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business (Services and Automation business lines)	Comparable EBITA as a percentage of net sales, and orders received growth in the stable business (Services and Automation business lines)
Potential reward payment	Was paid partly in Valmet shares and partly in cash in spring 2019	Was paid partly in Valmet shares and partly in cash in spring 2020	Will be paid partly in Valmet shares and partly in cash in spring 2021
Total number of shares	347,697	274,352	405,343

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).

In its meeting on December 19, 2019, the Board of Directors of Valmet decided to use the authorization granted by the Annual General Meeting held on March 21, 2019 to acquire the Company's own shares. Based on the authorization, the Board decided to initiate a fixed-term share buy-back program for the purpose of acquiring the Company's own shares to meet part of the obligations arising from the LTI Plan and the Restricted Shares Pool incentive plans. The share acquisitions began on February 10, 2020 and ended on February 24, 2020. The total number of acquired shares was 270,000. The shares were acquired at market price in public trading on Nasdaq Helsinki Ltd.

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

In the end of the reporting period, the Company held 370,274 treasury shares related to the share-based incentive programs.

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

Resolutions of Valmet's Annual General Meeting

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

The Annual General Meeting 2020 confirmed the number of Board members as seven and reappointed Mikael Mäkinen as Chairman of Valmet Oyj's Board and Aaro Cantell as Vice-Chairman. Pekka Kemppainen, Monika Maurer, Eriikka Söderström, Tarja Tyni and Rogério Ziviani will continue as members of the Board. The term of office of the members of the Board of Directors expires at the close of the Annual General Meeting 2021.

PricewaterhouseCoopers Oy was elected as the Company's auditor for a term expiring at the end of the next Annual General Meeting.

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

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

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

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

Risks and business uncertainties

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

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

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

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

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

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

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

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

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

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

Management of project business risks important

An important part of Valmet's business consists of project business. Pulp business projects in particular can be large, thus project-specific risk management is crucial. Key risks related to projects are project cost estimation, scheduling, project risk management, quality and performance risks, and materials management risks. Risk analysis shall, as a minimum, take place for all significant project quotations. The work concerning threat and opportunity assessment continues during the execution phase of the project. Risk management is based on careful planning and continuous, systematic monitoring and evaluation. Project risks are managed by improving and continuously developing project management processes and the related systems.

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

Availability of financing crucial

Securing the continuity of Valmet's operations requires sufficient available funding under all circumstances. Valmet estimates that its liquid cash assets and committed credit limits are sufficient to secure its immediate liquidity and to ensure the flexibility of financing. The average maturity of Valmet's non-current debt, excluding lease liabilities, is 2.5 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 September 30, 2020, Valmet had EUR 680 million (EUR 685 million) of goodwill on its statement of financial position. Valmet assesses the value of its goodwill for impairment annually, or more frequently if facts and circumstances indicate that a risk of impairment exists. Valmet has not identified any indications of impairment during the reporting period. The principles used for impairment testing are presented in the Financial Statements.

COVID-19 pandemic

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

Events after the reporting period

On October 12, 2020, Valmet announced that it sustains its goal to merge Valmet and Neles despite Neles' Board of Directors' negative response to Valmet's proposal, which Neles had announced on the same day.

On October 13, 2020, Valmet issued a guidance for 2020, in which Valmet estimates that net sales in 2020 will remain at the previous year's level in comparison with 2019 (EUR 3,547 million) and Comparable EBITA in 2020 will increase in comparison with 2019 (EUR 316 million).

On October 15, 2020, Valmet announced that it has completed the acquisition of PMP Group in Poland, effective as of October 1, 2020, following the agreement that was announced on September 11, 2020. PMP Group is a provider of technologies and services for the paper industry. The enterprise value of the acquisition is approximately EUR 64 million, plus a conditional and capped earn-out component. The acquired business becomes a part of Valmet's Paper business line. PMP Group supplies process technologies and services for tissue, board and paper machines globally, focusing on small and medium-sized tissue machines and board and paper machine rebuilds. The net sales of the company were approximately EUR 70 million in the fiscal year 2019. The company employs about 650 people in Poland, China, USA and Italy. PMP will be included in Valmet's financial reporting for the first time in Valmet's fourth quarter financial reporting 2020.

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

Guidance for 2020 unchanged

Valmet reiterates its guidance issued on October 13, 2020, in which Valmet estimates that net sales in 2020 will remain at the previous year's level in comparison with 2019 (EUR 3,547 million) and Comparable EBITA in 2020 will increase in comparison with 2019 (EUR 316 million).

Short-term outlook

General economic outlook according to IMF

The global economy is climbing out from the depths to which it had plummeted during the Great Lockdown in April. But with the COVID-19 pandemic continuing to spread, many countries have slowed reopening and some are reinstating partial lockdowns. While recovery in China has been faster than expected, the global economy's long ascent back to pre-pandemic levels of activity remains prone to setbacks.

Global growth is projected at -4.4 percent in 2020, a less severe contraction than in IMF's June 2020 forecast. For 2021, the growth forecast is 5.2 percent, and the level of global GDP in 2021 is expected to be a modest 0.6 percent above that of 2019. After the rebound in 2021, global growth is expected to gradually slow to about 3.5 percent into the medium term. The uncertainty surrounding the projection is unusually large, as the forecast rests on public health and economic factors that are inherently difficult to predict.

(International Monetary Fund, October 14, 2020)

Short-term market outlook

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

In Espoo on October 27, 2020

Valmet’s Board of Directors

Consolidated statement of income

EUR million	Q3/2020	Q3/2019	Q1–Q3/ 2020	Q1–Q3/ 2019
Net sales	**832**	857	**2,573**	2,444
Cost of goods sold	**-624**	-647	**-1,950**	-1,848
Gross profit	**209**	210	**622**	596
Selling, general and administrative expenses	**-130**	-139	**-427**	-425
Other operating income and expenses, net	**—**	1	**-13**	1
Share in profits and losses of associated companies, operative investments	**—**	—	**1**	—
Operating profit	**79**	73	**184**	172
Financial income and expenses, net	**-5**	-3	**-8**	-8
Share in profits and losses of associated companies, financial investments	**—**	—	**-2**	—
Profit before taxes	**75**	70	**174**	164
Income taxes	**-18**	-20	**-43**	-43
Profit for the period	**57**	51	**131**	121
Attributable to:				
Owners of the parent	**57**	51	**131**	120
Non-controlling interests	**—**	—	**—**	—
Profit for the period	**57**	51	**131**	121
Earnings per share attributable to owners of the parent:				
Earnings per share, EUR	**0.38**	0.34	**0.88**	0.80
Diluted earnings per share, EUR	**0.38**	0.34	**0.88**	0.80

Consolidated statement of comprehensive income

EUR million	Q3/2020	Q3/2019	Q1–Q3/ 2020	Q1–Q3/ 2019
Profit for the period	**57**	51	**131**	121
Items that may be reclassified to profit or loss:				
Cash flow hedges	**8**	-7	**11**	-2
Currency translation on subsidiary net investments	**-13**	4	**-27**	4
Income tax relating to items that may be reclassified	**-2**	1	**-2**	—
Total items that may be reclassified to profit or loss	**-6**	-2	**-18**	2
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	**8**	-32	**-12**	-57
Income tax relating to items that will not be reclassified	**-2**	7	**3**	13
Total items that will not be reclassified to profit or loss	**6**	-25	**-9**	-44
Other comprehensive income for the period	**—**	-26	**-27**	-42
Total comprehensive income for the period	**57**	25	**104**	79
Attributable to:				
Owners of the parent	**57**	24	**104**	78
Non-controlling interests	**—**	—	**—**	—
Total comprehensive income for the period	**57**	25	**104**	79

Consolidated statement of financial position

Assets

EUR million	As at September 30, 2020	As at September 30, 2019	As at December 31, 2019
Non-current assets			
Intangible assets			
Goodwill	**680**	685	687
Other intangible assets	**248**	257	253
Total intangible assets	**928**	942	941
Property, plant and equipment			
Land and water areas	**25**	25	25
Buildings and structures	**116**	115	115
Machinery and equipment	**166**	170	174
Leased assets	**65**	63	65
Assets under construction	**56**	55	51
Total property, plant and equipment	**429**	428	429
Other non-current assets			
Investments in associated companies	**466**	14	13
Non-current financial assets	**13**	6	8
Deferred tax assets	**68**	86	73
Non-current income tax receivables	**28**	31	30
Other non-current assets	**14**	14	17
Total other non-current assets	**589**	151	141
Total non-current assets	**1,946**	1,521	1,511
Current assets			
Inventories			
Materials and supplies	**89**	87	84
Work in progress	**383**	374	328
Finished products	**107**	102	101
Total inventories	**579**	562	514
Receivables and other current assets			
Trade receivables	**450**	625	656
Amounts due from customers under revenue contracts	**199**	235	262
Other current financial assets	**91**	62	59
Income tax receivables	**32**	23	27
Other receivables	**121**	107	108
Cash and cash equivalents	**264**	213	316
Total receivables and other current assets	**1,157**	1,264	1,428
Total current assets	**1,736**	1,827	1,942
Total assets	**3,682**	3,348	3,452

Consolidated statement of financial position

Equity and liabilities

EUR million	As at September 30, 2020	As at September 30, 2019	As at December 31, 2019
Equity			
Share capital	**100**	100	100
Reserve for invested unrestricted equity	**423**	421	421
Cumulative translation adjustments	**-43**	-14	-16
Hedge and other reserves	**10**	-7	1
Retained earnings	**529**	418	534
Equity attributable to owners of the parent	**1,019**	918	1,040
Non-controlling interests	**5**	6	6
Total equity	**1,024**	923	1,046
Liabilities			
Non-current liabilities			
Non-current debt	**417**	159	159
Non-current lease liabilities	**40**	38	39
Post-employment benefits	**204**	230	190
Provisions	**37**	23	31
Other non-current liabilities	**12**	9	8
Deferred tax liabilities	**60**	64	66
Total non-current liabilities	**770**	523	492
Current liabilities			
Current portion of non-current debt	**18**	48	48
Current debt	**20**	50	—
Current lease liabilities	**22**	21	22
Trade payables	**294**	300	354
Provisions	**155**	128	142
Amounts due to customers under revenue contracts	**991**	923	913
Other current financial liabilities	**16**	32	14
Income tax liabilities	**57**	59	66
Other current liabilities	**316**	340	356
Total current liabilities	**1,888**	1,902	1,915
Total liabilities	**2,658**	2,425	2,407
Total equity and liabilities	**3,682**	3,348	3,452

Consolidated statement of cash flows

EUR million	Q3/2020	Q3/2019	Q1–Q3/ 2020	Q1–Q3/ 2019
Cash flows from operating activities				
Profit for the period	**57**	51	**131**	121
Adjustments				
Depreciation and amortization	**25**	28	**77**	77
Financial income and expenses	**5**	3	**8**	8
Income taxes	**18**	20	**43**	43
Other non-cash items	**8**	-14	**17**	-6
Change in net working capital	**-2**	53	**206**	-85
Net interests and dividends received	**-2**	-2	**-4**	-5
Income taxes paid	**-15**	-12	**-60**	-40
Net cash provided by (+) / used in (-) operating activities	**94**	126	**418**	113
Cash flows from investing activities				
Capital expenditure on fixed assets	**-21**	-19	**-65**	-57
Proceeds from sale of fixed assets	**—**	4	**—**	5
Business combinations, net of cash acquired and loans repaid	**—**	-9	**—**	-163
Investments in associates and joint ventures	**-453**	—	**-453**	—
Net cash provided by (+) / used in (-) investing activities	**-474**	-24	**-518**	-215
Cash flows from financing activities				
Redemption of own shares	**—**	—	**-6**	-4
Dividends paid[1]	**-15**	—	**-120**	-97
Proceeds from non-current debt	**179**	—	**329**	45
Repayments of non-current debt	**—**	-11	**-101**	-40
Repayments of lease liabilities	**-6**	-6	**-20**	-17
Change in current debt	**-20**	25	**20**	50
Financial investments	**-8**	-25	**-47**	-1
Net cash provided by (+) / used in (-) financing activities	**130**	-16	**55**	-64
Net increase (+) / decrease (-) in cash and cash equivalents	**-251**	86	**-45**	-167
Effect of changes in exchange rates on cash and cash equivalents	**-4**	2	**-7**	4
Cash and cash equivalents at beginning of period	**518**	125	**316**	376
Cash and cash equivalents at end of the period	**264**	213	**264**	213

[1] *The dividends paid in Q3/2020 include the cash flow impact from withholding tax.*

Consolidated statement of changes in equity

EUR million	Share capital	Reserve for invested unrestricted equity	Cumulative translation adjustments	Hedge and other reserves	Retained earnings	**Equity attributable to owners of the parent**	Non-controlling interests	**Total equity**
Balance at January 1, 2020	**100**	**421**	**-16**	**1**	**534**	**1,040**	**6**	**1,046**
Profit for the period	—	—	—	—	131	**131**	—	**131**
Other comprehensive income for the period	—	—	-27	9	-9	**-27**	—	**-27**
Total comprehensive income for the period	—	—	-27	9	122	**104**	—	**104**
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	—	—	-1	**1**	—	**1**
Balance at September 30, 2020	**100**	**423**	**-43**	**10**	**529**	**1,019**	**5**	**1,024**
Balance at January 1, 2019	100	416	-18	-5	451	944	5	949
Change in accounting principles[1]	—	—	—	—	-4	-4	—	-4
Restated balance at January 1, 2019	100	416	-18	-5	447	940	5	945
Profit for the period	—	—	—	—	120	120	—	121
Other comprehensive income for the period	—	—	4	-2	-44	-42	—	-42
Total comprehensive income for the period	—	—	4	-2	77	78	—	79
Transactions with owners in their capacity as owners								
Dividends	—	—	—	—	-97	-97	—	-97
Purchase of treasury shares	—	—	—	—	-4	-4	—	-4
Share-based payments, net of tax	—	5	—	—	-4	1	—	1
Balance at September 30, 2019	100	421	-14	-7	418	918	6	923

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

Basis of preparation

General information

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

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

These condensed consolidated interim financial statements were approved for issue on October 27, 2020.

Basis of presentation

These condensed consolidated interim financial statements for the nine months ended September 30, 2020 have been prepared in accordance with IAS 34 – Interim financial reporting and in conformity with IFRS as adopted by the European Union. The financial information presented in these condensed consolidated interim financial statements has not been audited. These condensed consolidated interim financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS.

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

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

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

Key exchange rates

	Average rates		Period-end rates	
	Q1–Q3/2020	Q1–Q3/2019	**Q3/2020**	Q3/2019
USD (US dollar)	**1.1293**	1.1241	**1.1708**	1.0889
SEK (Swedish krona)	**10.5648**	10.5547	**10.5713**	10.6958
CNY (Chinese yuan)	**7.8872**	7.7167	**7.9720**	7.7784

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.

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

EUR million	**Q3/2020**	Q3/2019	**Q1–Q3/ 2020**	Q1–Q3/ 2019
Net sales	**832**	857	**2,573**	2,444
Comparable EBITA	**91**	81	**218**	198
% of net sales	**10.9%**	9.5%	**8.5%**	8.1%
Operating profit	**79**	73	**184**	172
% of net sales	**9.5%**	8.5%	**7.1%**	7.0%
Amortization	**-8**	-10	**-24**	-24
Depreciation, property, plant and equipment (excl. leased assets)	**-12**	-12	**-35**	-36
Depreciation, leased assets	**-6**	-6	**-18**	-17
Gross capital expenditure (excl. business combinations and leased assets)	**-21**	-19	**-65**	-57
Additions to leased assets	**-4**	-10	**-23**	-18
Business combinations, net of cash acquired and loans repaid	**—**	-9	**—**	-163
Capital employed, end of period			**1,541**	1,239
Orders received	**700**	1,058	**2,712**	2,976
Order backlog, end of period			**3,311**	3,425

Reconciliation between Comparable EBITA, EBITA and Operating profit

EUR million	Q1–Q3/ 2020	Q1–Q3/ 2019
Comparable EBITA	**218**	198
Items affecting comparability in cost of sales		
Expenses related to capacity adjustments	**-3**	—
Expensing of fair value adjustments recognized in business combinations	**-1**	-1
Other items affecting comparability	**-1**	-4
Items affecting comparability in selling, general and administrative expenses		
Expenses related to capacity adjustments	**-4**	—
Expenses related to acquisitions	**-2**	-2
Other items affecting comparability	**—**	—
Items affecting comparability in other operating income and expenses		
Expenses related to capacity adjustments	**—**	—
Other items affecting comparability[1]	**—**	6
EBITA	**208**	**196**
Amortization included in cost of sales		
Other intangibles	**-1**	-1
Amortization included in selling, general and administrative expenses		
Intangibles recognized in business combinations	**-13**	-15
Other intangibles	**-10**	-9
Operating profit	**184**	172

[1] *Includes income and expenses arising from settlements of lawsuits in Q1-Q3/2019.*

Entity-wide information

Valmet has operations globally in over 35 countries. Measured by net sales, the top three countries in January–September 2020 were the USA, Brazil and China, which together accounted for 37 percent of total net sales. In January–September 2019, the top three countries were the USA, China and Finland, which together accounted for 41 percent of total net sales. Net sales for Finland (the country of domicile) amounted EUR 238 million in January–September 2020 (EUR 198 million).

Net sales by destination:

Q1–Q3/2020: EUR 2,573 million

Q1–Q3/2019: EUR 2,444 million

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

EUR million	North America	South America	EMEA	China	Asia-Pacific	Total
Q1–Q3/2020	**3**	**1**	**53**	**6**	**1**	**65**
Q1–Q3/2019	4	4	39	9	2	57

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	Q3/2020	Q3/2019	Q1–Q3/ 2020	Q1–Q3/ 2019
Services	**307**	336	**924**	973
Automation	**72**	75	**218**	221
Pulp and Energy	**211**	231	**717**	604
Paper	**242**	214	**713**	646
Total	**832**	857	**2,573**	2,444

Timing of revenue recognition:

EUR million	Q3/2020	Q3/2019	Q1–Q3/ 2020	Q1–Q3/ 2019
Performance obligations satisfied at a point in time	**379**	383	**1,099**	1,074
Performance obligations satisfied over time	**454**	474	**1,473**	1,370
Total	**832**	857	**2,573**	2,444

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 customer 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–Q3/ 2020	Q1–Q3/ 2019	2019
Carrying value at the beginning of period	263	169	169
Translation differences	-3	-2	2
Acquired in business combinations	—	7	7
Revenue recognized in the period	478	456	875
Transfers to trade receivables	-538	-395	-790
Carrying value at the end of period	**199**	235	263

Amounts due to customers under revenue contracts:

EUR million	Q1–Q3/ 2020	Q1–Q3/ 2019	2019
Carrying value at the beginning of period	913	771	771
Translation differences	-34	1	-5
Acquired in business combinations	—	13	13
Revenue recognized in the period	-1,279	-1,176	-1,541
Consideration invoiced and/or received	1,392	1,315	1,675
Carrying value at the end of period	**991**	923	913

EUR million	As at September 30, 2020	As at September 30, 2019	As at December 31, 2019
Amounts due to customers under revenue contracts for which revenue is recognized			
Point in time	282	297	262
Over time	709	626	651
Carrying value at the end of period	**991**	923	913

Valmet typically issues contractual product warranties under which it guarantees the mechanical functioning of equipment delivered during the agreed warranty period. Valmet does not issue service-type warranties.

As at September 30, 2020, Valmet had no costs to obtain or fulfill contracts capitalized under IFRS 15.

The aggregate amount of transaction price allocated to unsatisfied or partially satisfied performance obligations as at September 30, 2020 was EUR 3,311 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. Calculation of 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 September 30, 2020	As at September 30, 2019	As at December 31, 2019	Q1–Q3/2020 impact
Assets included in net working capital				
Non-current trade receivables	**1**	—	—	**-1**
Other non-current assets	**14**	14	17	**3**
Inventories	**579**	562	514	**-66**
Trade receivables	**450**	625	656	**207**
Amounts due from customers under revenue contracts	**199**	235	262	**63**
Derivative financial instruments (assets)	**31**	21	21	**-9**
Other receivables	**121**	107	108	**-13**
Liabilities included in net working capital				
Post-employment benefits	**-204**	-230	-190	**15**
Provisions	**-192**	-151	-173	**19**
Other non-current non-interest-bearing liabilities	**-3**	-3	-3	**—**
Trade payables	**-294**	-300	-354	**-60**
Amounts due to customers under revenue contracts	**-991**	-923	-913	**78**
Derivative financial instruments (liabilities)	**-24**	-39	-19	**6**
Other current liabilities	**-315**	-340	-355	**-40**
Total net working capital	**-629**	-421	-426	**202**
Effect of foreign exchange rates				**22**
Remeasurement of defined benefit plans				**-14**
Change in allowance for doubtful receivables and inventory obsolescence provision				**-5**
Change in net working capital in the Consolidated statement of cash flows				**206**

Intangible assets and property, plant and equipment

Intangible assets

EUR million	Q1–Q3/2020	Q1–Q3/2019[1]	2019[1]
Carrying value at the beginning of period	**941**	818	818
Translation differences	**-10**	2	1
Capital expenditure	**21**	15	23
Acquired in business combinations	**—**	143	144
Amortization	**-24**	-24	-34
Other changes	**1**	-11	-11
Carrying value at the end of period	**928**	942	941

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

Property, plant and equipment (excl. leased assets)

EUR million	Q1–Q3/2020	Q1–Q3/2019	2019
Carrying value at the beginning of period	**365**	348	348
Translation differences	**-11**	1	1
Capital expenditure	**44**	42	57
Acquired in business combinations	**—**	12	10
Depreciation	**-35**	-36	-48
Impairment losses	**—**	—	-2
Other changes	**—**	-3	-1
Carrying value at the end of period	**363**	365	365

Leases

EUR million	Q1–Q3/2020	Q1–Q3/2019	2019
Carrying value at the beginning of period / at transition[1]	**65**	55	55
Translation differences	**-2**	—	—
Additions	**23**	18	27
Acquired in business combinations	**—**	7	7
Depreciation	**-18**	-17	-23
Other changes	**-3**	—	-1
Carrying value at the end of period	**65**	63	65

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

EUR million	As at September 30, 2020
Not later than 1 year	**22**
Later than 1 year and not later than 2 years	**16**
Later than 2 years and not later than 3 years	**10**
Later than 3 years and not later than 4 years	**6**
Later than 4 years and not later than 5 years	**4**
Later than 5 years	**9**
Total future lease payments	**67**

EUR million	Q3/2020	Q3/2019	Q1–Q3/ 2020	Q1–Q3/ 2019
Expenses related to short-term leases	**-1**	-1	**-3**	-3
Expenses related to leases of low-value assets	**-2**	-1	**-4**	-4
Expenses from variable lease payments not included in lease liabilities	**—**	—	**-1**	-1
Interest expenses on lease liabilities	**—**	-1	**-2**	-1
Total	**-4**	-3	**-9**	-8

Investments in associates and joint ventures

Valmet acquired a minority share in Neles Corporation during July–September 2020. As at September 30, 2020 Valmet held 29.5 percent of Neles' shares and voting rights.

Neles is a globally leading diversified valve, valve automation and service company with net sales in 2019 amounting to EUR 660 million and an adjusted EBITA margin of 14.6 percent. Neles' headquarters are located in Vantaa, Finland and the company has operations in more than 40 countries and employ approximately 2,900 employees.

Valmet's and Neles' financial statements are coterminous, but as Neles will report its third quarter results on October 28, 2020, Valmet's Interim Review January–September 2020 does not include any share of results from Neles. Going forward, Valmet's share of Neles' results will be accounted for with a lag of one quarter.

Financial instruments

Derivative financial instruments

As at September 30, 2020	**Notional amount**	**Fair value, assets**	**Fair value, liabilities**	**Fair value, net**
Forward exchange contracts[1]	**3,004**	**30**	**-20**	**10**
Interest rate swaps[1]	**75**	**1**	**-4**	**-3**
Electricity forward contracts[2]	**153**	**—**	**-1**	**-1**
Nickel forward contracts[3]	**18**	**—**	**—**	**—**

As at September 30, 2019	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts[1]	2,480	20	-36	-16
Interest rate swaps[1]	30	—	-3	-3
Electricity forward contracts[2]	162	1	—	1
Nickel forward contracts[3]	18	—	—	—

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

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

Interest-bearing and non-interest-bearing financial instruments

EUR million	As at September 30, 2020	As at September 30, 2019	As at December 31, 2019
Non-current financial assets			
Interest-bearing	**—**	—	—
Non-interest-bearing	**13**	6	8
Total	**13**	6	8

EUR million	As at September 30, 2020	As at September 30, 2019	As at December 31, 2019
Other current financial assets			
Interest-bearing	**68**	43	42
Non-interest-bearing	**23**	19	18
Total	**91**	62	59

Valmet's interest-bearing liabilities consist of debt and lease liabilities.

Provisions

EUR million	Q1–Q3/2020	Q1–Q3/2019	2019
Carrying value at the beginning of period	**173**	149	149
Translation differences	**-4**	-1	—
Additions	**86**	59	100
Acquired in business combinations	**—**	7	12
Amounts used	**-46**	-39	-54
Unused amounts reversed	**-17**	-25	-34
Carrying value at the end of period	**192**	151	173
Non-current	**37**	23	31
Current	**155**	128	142

Contingencies and commitments

EUR million	As at September 30, 2020	As at September 30, 2019	As at December 31, 2019
Guarantees on behalf of Valmet Group	**1,035**	1,006	998

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

Events after the reporting period

On October 1, 2020, Valmet completed the acquisition of PMP Group. The enterprise value of the acquisition is approximately EUR 64 million, plus a conditional and capped earn-out component.

PMP Group supplies process technologies and services for tissue, board and paper machines globally, focusing on small and medium-sized tissue machines and board and paper machine rebuilds. The net sales of the company were approximately EUR 70 million in the fiscal year 2019. The company employs about 650 people in Poland, China, USA and Italy.

PMP will be included in Valmet's financial reporting for the first time in Valmet's fourth quarter financial reporting 2020.

Key ratios

	Q1–Q3/2020	Q1–Q3/2019
Earnings per share, EUR	**0.88**	0.80
Diluted earnings per share, EUR	**0.88**	0.80
Equity per share at end of period, EUR	**6.81**	6.13
Return on equity (ROE), % (annualized)	**17%**	17%
Return on capital employed (ROCE) before taxes, % (annualized)	**17%**	19%
Equity to assets ratio at end of period, %	**38%**	38%
Gearing at end of period, %	**18%**	6%
Cash flow provided by operating activities, EUR million	**418**	113
Cash flow after investments, EUR million	**-100**	-102
Gross capital expenditure (excl. business combinations and leased assets), EUR million	**-65**	-57
Additions to leased assets, EUR million	**-23**	-18
Business combinations, net of cash acquired and loans repaid, EUR million	**—**	-163
Depreciation and amortization, EUR million	**-77**	-77
Amortization	**-24**	-24
Depreciation, property, plant and equipment (excl. leased assets)	**-35**	-36
Depreciation, leased assets	**-18**	-17
Number of outstanding shares at end of period	**149,494,345**	149,618,995
Average number of outstanding shares	**149,501,014**	149,599,543
Average number of diluted shares	**149,501,014**	149,599,543
Interest-bearing liabilities at end of period, EUR million	**517**	316
Net interest-bearing liabilities at end of period, EUR million	**184**	60

Formulas for calculation of indicators

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

EBITA:
Operating profit + amortization

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

Earnings per share:

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

Earnings per share, diluted:

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

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

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

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

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

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

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

Equity to assets ratio, %:

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

Gearing, %:

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

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

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

Quarterly information

EUR million	Q3/2020	Q2/2020	Q1/2020	Q4/2019	Q3/2019
Net sales	**832**	919	821	1,103	857
Comparable EBITA	**91**	76	52	118	81
% of net sales	**10.9%**	8.3%	6.3%	10.7%	9.5%
Operating profit	**79**	62	42	110	73
% of net sales	**9.5%**	6.8%	5.1%	9.9%	8.5%
Profit before taxes	**75**	60	40	105	70
% of net sales	**9.0%**	6.5%	4.9%	9.5%	8.2%
Profit for the period	**57**	44	30	81	51
% of net sales	**6.9%**	4.8%	3.6%	7.3%	5.9%
Earnings per share, EUR	**0.38**	0.29	0.20	0.54	0.34
Earnings per share, diluted, EUR	**0.38**	0.29	0.20	0.54	0.34
Amortization	**-8**	-8	-9	-9	-10
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	**-15**	-20	-17	-21	-15
% of net sales	**-1.9%**	-2.2%	-2.1%	-1.9%	-1.7%
Items affecting comparability:					
in cost of goods sold	**—**	-3	-1	-6	-1
in selling, general and administrative expenses	**-3**	-3	—	1	—
in other operating income and expenses, net	**—**	—	—	7	3
Total items affecting comparability	**-3**	-6	-1	1	1
Gross capital expenditure (excl. business combinations and leased assets)	**-21**	-27	-17	-22	-19
Additions to leased assets	**-4**	-10	-9	-9	-10
Business combinations, net of cash acquired and loans repaid	**—**	—	—	—	-9
Capital employed, end of period	**1,541**	1,327	1,256	1,314	1,239
Orders received	**700**	826	1,187	1,009	1,058
Order backlog, end of period	**3,311**	3,492	3,557	3,333	3,425

Valmet's financial reporting in 2021

February 4, 2021 - Financial Statements Review 2020
April 22, 2021 - Interim Review for January–March 2021
July 22, 2021 - Half Year Financial Review for January–June 2021
October 26, 2021 - Interim Review for January–September 2021

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