

NELES

Financial Statements
Review

January–December
2021

Neles' Financial Statements Review January–December 2021

This Financial Statements Review is not an offer of merger consideration shares in the United States. The merger consideration shares have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act"), and may not be offered, sold or delivered within or into the United States, except pursuant to an applicable exemption of, or in a transaction not subject to, the Securities Act. There will be no public offering of securities in the United States. This Financial Statements Review does not constitute an offer of or an invitation by or on behalf of, Neles, Valmet, or any other person, to purchase any securities.

Strong order intake and sales volume supporting solid profitability

- Positive situation in Pulp, Paper and Bioproducts projects, as well as Services, continued in the fourth quarter. Maintenance, repair and operations (MRO) business continued to recover
- Chemical and Oil & Gas projects' market situation remained weak, with clear signs of improvement at the end of the year
- Solid profitability supported by good sales volumes in the fourth quarter
- Good free cash flow in 2021, especially in the fourth quarter
- The acquisition of Flowrox valves and pumps businesses was completed in November. The acquisition strengthens Neles' position in the metals and mining markets
- Board of Directors dividend proposal: EUR 0.266 per share

In this Financial Statements Review, a comparable cash flow statement is disclosed in addition to IFRS financial information. Figures in parentheses refer to the corresponding period of the continuing operations in 2020 unless otherwise stated. Neles Group has been reported as one segment since June 30, 2020.

Summary of key figures

Operative key figures	10–12/21	10–12/20	Change, %	1–12/21	1–12/20	Change, %
EUR million						
Orders received ¹	170.4	134.5	27	625.2	590.1	6
Order backlog at end of period	294.4	270.3	9	294.4	270.3	9
Sales ²	174.2	154.9	12	610.9	576.3	6
Adjusted EBITA	26.8	22.7	18	86.8	85.0	2
% of sales	15.4	14.6		14.2	14.8	
Adjustment items ³	1.9	3.3		7.2	11.3	
Operating profit	23.6	18.5	27	75.8	70.3	8
% of sales	13.6	12.0		12.4	12.2	
Earnings per share, continuing operations, EUR	0.14	0.08	60	0.38	0.32	17
Free cash flow, continuing operations	34.8	36.8	-5	77.5	68.7	13

Balance sheet key figures	12/21	12/20
Balance sheet total, EUR million	700.2	643.8
Net debt, EUR million	81.4	81.4
Net debt/EBITDA, rolling 12 months	0.8	0.9
Gearing, %	26.8	30.9
Personnel at end of period	2,934	2,840

¹ Of which EUR 120.6 (88.3) million in 10–12/21 and EUR 442.0 (357.8) million in 1–12/21 were for the Services and MRO-driven businesses including EUR 35.9 (35.0) million in 10–12/21 and EUR 153.5 (133.5) million in 1–12/21 for Services orders received. Orders received in comparable currencies increased by 20% in 10–12/21 and by 7% in 1–12/21.

² Of which EUR 112.0 (96.7) million in 10–12/21 and EUR 403.8 (368.7) million in 1–12/21 were for the Services and MRO-driven businesses including EUR 38.5 (35.4) million in 10–12/21 and EUR 148.1 (128.6) million in 1–12/21 for Services sales. Sales in comparable currencies increased by 8% in 10–12/21 and by 7% in 1–12/21.

³ Adjustment items amounted to EUR 1.9 (3.3) million in 10–12/21 and EUR 7.2 (11.3) million in 1–12/21. See note 5.

Interim President and CEO Simo Sääskilahti: Positive ending to a challenging year – 20% organic growth in orders received in the fourth quarter

The market situation in the fourth quarter remained mainly the same for the project business as in the second and third quarters of 2021. The Pulp, Paper and Bioproducts project business continued to be strong, and we continued to win new projects, as well as additions to the existing projects. In Chemicals and Oil & Gas projects, the market was slow, but towards the end of the year, projects in sales phase started progressing. Most of these projects are expected to be awarded during the first half of 2022.

The Services business remained at a good level, and the MRO-driven business continued to recover during the fourth quarter. Overall, our fourth quarter orders received for the Services and MRO-driven businesses were 37% higher than a year ago, and 16% higher than in 2019. Business momentum in the North and South America was particularly strong, and business has also developed positively in most of our other market areas. The current Covid-19 situation is creating uncertainties, but so far, there are no clear indications that the positive development direction in businesses would be reversed. We were again able to achieve 15% adjusted EBITA in the fourth quarter thanks to good sales volumes, although we continued to face challenges in logistics and the availability of electronics components. These challenges also continue to create delivery risks for 2022 first half deliveries.

Diversification to growing new industries is a cornerstone of our strategy. We have seen promising progress in our business development efforts to create opportunities in the renewable energy and decarbonization areas. A tangible example of our efforts' results is that we published in the fourth quarter an agreement to provide solutions for green hydrogen applications.

In the beginning of November, we welcomed 101 new Neles professionals when we closed the acquisition of the Flowrox valves and pumps businesses. This acquisition will greatly strengthen our offering, channels and understanding of the growing metals and mining markets.

I was honored to start as the interim President and CEO of Neles at the start of 2022. I am grateful to have had the opportunity to work for more than two years alongside Olli Isotalo, who retired as President and CEO at the end of 2021. Despite market challenges, Olli was able to lead the business with a clear vision and positive attitude, and Neles was able to be agile and successful in managing the challenging environment. I want to thank Olli for his vision and strategic clarity in navigating Neles through these uncertain times.

I would also like to thank all Neles employees for delivering good results in a challenging environment. In addition to delivering the financial results, we have during the year been able to achieve and report several important milestones in building the strategic foundation for Neles business' long-term success.

Mergers and acquisitions

Acquisition of Flowrox valve and pump businesses

On November 1, 2021, Neles completed the acquisition of the valve and pump businesses of the technology company Flowrox in Finland, the USA, South-Africa, Australia, China, Russia and Peru, through an asset deal. The acquisition complements Neles' offering and improves its market positioning in the mining and metals industry. It enables Neles to better leverage growth opportunities in minerals processing applications. In 2020, the sales of the acquired businesses amounted to approximately EUR 30 million. As a result of the acquisition, 101 employees transferred to Neles.

On November 1, 2021, a EUR 40.3 million cash consideration was paid for the acquired businesses. Additionally, an earn-out of up to EUR 3 million will be paid as a cash consideration, subject to set orders received criteria for a one-year period after closing. The acquisition generated a goodwill of EUR 25.1 million. For additional details of the acquisition, see note 10.

Merger of Neles and Valmet

On July 2, 2021, Neles announced that the Board of Directors of Neles Corporation and Valmet Oyj have signed a combination agreement and a merger plan to combine the two companies through a merger. Both companies held an Extraordinary General Meeting (EGM) on September 22, 2021, and both EGMs approved the merger. The

completion of the merger was expected to occur on January 1, 2022, subject to all conditions for completion being fulfilled.

On November 5, 2021, Valmet announced that due to the regulatory review processes taking longer than previously estimated, the completion of the merger was targeted to occur on or before April 1, 2022. As the completion has not yet taken place, the next possible date under the Combination Agreement for the completion to take place is April 1, 2022. The planned closing date may be delayed due to the regulatory processes ongoing. Should the closing be delayed from April 1, 2022, Valmet will issue a stock exchange release on the matter and the merger prospectus will be supplemented once there is more clarity on the timetable of the regulatory processes. Until the completion of the merger Neles and Valmet will carry out their respective businesses as separate and independent companies.

As a merger consideration, Neles shareholders will receive 0.3277 new shares in Valmet for each share they hold in Neles. Among other conditions, the combination is subject to, the obtaining of merger control and other regulatory approvals, and an extra distribution of funds in the amount of a maximum of EUR 2.00 per share to the Neles shareholders prior to the merger's completion.

On July 2, 2021, Neles signed a EUR 301 million bridge-to-bond facility, the purpose of which is to finance the extraordinary distribution of funds prior to the completion of the merger. If executed, the facility term is 12 months, with two 6-month extension options.

For more information, please see <https://www.neles.com/company/valmet-neles-merger/>.

Market outlook

Market activity in Pulp and Paper projects is expected to continue at a good level.

Market activity in the Chemicals and Oil & Gas project business was weak during 2021. The market activity is expected to return to a satisfactory level during the next 6 months.

Market activity was satisfactory/good for the Services and the Maintenance, Repair and Operations-driven (MRO) businesses during the fourth quarter of 2021. Positive development is expected to continue in these markets and reach a good level in the first half of 2022.

The ongoing challenges in global logistics, availability of electronic components and the Covid-19 pandemic continues to create uncertainty and risks of abrupt changes in all markets important to Neles.

The market outlook reflects the management's expectation for the next six months unless otherwise stated.

Covid-19 pandemic update

In the first quarter of 2021, Neles' Brazilian supply center was temporarily closed. At the beginning of the second quarter, there were also temporary closures in Neles' Indian factories. The Covid-19 pandemic situation is being followed closely by management, prioritizing the health and safety of Neles' employees and partners. At the end of 2021, all Neles factories were operational.

The global logistics situation continued to be challenging during the fourth quarter of 2021. The availability of transportation and difficulties in arranging logistics by Neles or its customers has caused delays in Neles' deliveries. In addition, delays have occurred due to a shortage of electronic components.

Neles has operations in several regions where the Covid-19 pandemic continues to cause disruptions. There continue to be risks of similar temporary closures of local Neles operations, challenges in global logistics and availability of electronic components. These above challenges are expected to continue at least in the first half of 2022.

Travel restrictions, cuts to external spending across the organization, and cost-saving and optimization activities have continued in 2021. Ever more attention has also been paid to managing net working capital. There have been no material credit losses or order cancellations.

Neles' Financial Statements Review January–December 2021

Operating environment

The Pulp, Paper and Bioproducts project business remained active and at a good level throughout 2021. Neles won new projects as well as additional orders for ongoing projects.

Chemicals and Oil & Gas project activity was weak throughout 2021, and orders received were notably below the 2020 comparison period. However, toward the end of the fourth quarter, Chemicals, Oil & Gas projects in the funnel began to progress and project orders are expected during the first half of 2022.

Overall, orders received in the Services and MRO-driven businesses were at a good level in the fourth quarter of 2021, but there were regional differences in orders. Orders received in the North and South America Market Area were particularly strong. In 2021, Services demand was good and comparable to the pre-Covid level. Services orders grew in all market areas and achieved 15% growth from the comparison period. MRO-driven business demand improved and was well above the previous year's level. There was also positive development across market areas for the MRO-driven business orders, which grew by 29%.

In the fourth quarter, orders received in the North American Market Area grew by 61% compared to the comparison period and 27% compared to the third quarter. In 2021, the market sentiment in the North American Market Area improved rapidly in the first quarter and continued to be good throughout the year. The Market Area's orders grew by 32% from the comparison period.

In the fourth quarter, the EMEIA (Europe, Middle East, India and Africa) Market Area's orders received grew by 14% compared to the comparison period, driven by the Services and MRO-driven businesses. Project orders remained weak. In 2021, the EMEIA Market Area's orders received grew by 3% from the previous year. Project orders were weak compared to the previous year, while Services and MRO-driven businesses improved notably.

The APAC Market Area's orders received grew by 12% in the fourth quarter from the comparison period, which was attributed to improved orders received in the Services and MRO-driven businesses. In 2021, orders received in the APAC Market Area declined by 5% from the previous year. In 2021, project orders were satisfactory, but clearly lower than in 2020, which was a strong year for projects. Growth in the Services and MRO-driven businesses was not enough to offset the decline in project orders.

In the fourth quarter, project orders had a positive impact on the South America Market Area's orders received. The decline in orders received in 2021 from the comparison period is explained by a strong project order intake in 2020. The Services and MRO-driven businesses developed well in the South America Market Area in 2021.

Orders and Sales

Orders by market area

EUR million	10–12/21	10–12/20	1–12/21	1–12/20
EMEIA	62.7	55.1	230.7	224.9
North America	60.4	37.5	222.4	168.5
South America	14.6	12.8	46.4	64.6
Asia Pacific	32.7	29.2	125.7	132.2
Neles total	170.4	134.5	625.2	590.1

In the fourth quarter, orders received increased from the comparison period mainly due to growth in the Services and MRO-driven businesses. Orders received in the Services and MRO-driven businesses totaled EUR 120.6 (88.3) million, of which Services orders were EUR 35.9 (35.0) million.

In 2021, orders received increased from the comparison period due to growth in the Services and MRO-driven businesses. Orders received in the Services and MRO-driven businesses totaled EUR 442.0 (357.8) million, of which Services orders were EUR 153.5 (133.5) million.

The order backlog on December 31, 2021, was EUR 294.4 (270.3) million.

Sales by market area

EUR million	10–12/21	10–12/20	1–12/21	1–12/20
EMEIA	73.4	62.1	245.3	223.0
North America	54.2	36.4	195.8	166.5
South America	10.4	20.5	51.3	56.9
Asia Pacific	36.2	35.9	118.6	130.0
Neles total	174.2	154.9	610.9	576.3

The sales growth in the fourth quarter was attributable to both projects and MRO-driven business. Sales in the Services and MRO-driven businesses totaled EUR 112.0 (96.7) million, of which Services sales were EUR 38.5 (35.4) million.

In 2021, the growth in sales was attributable to increased sales in the Services and MRO-driven businesses. Sales in the Services and MRO-driven businesses totaled EUR 403.8 (368.7) million, of which Services sales were EUR 148.1 (128.6) million.

FX impact on orders received and sales

	Orders received		Sales	
	10–12/21	1–12/21	10–12/21	1–12/21
2020, EUR million	134.5	590.1	154.9	576.3
Organic growth in constant currencies	20%	7%	8%	7%
Acquisitions	4%	1%	3%	1%
Impact of changes on exchange rates	3%	-2%	2%	-2%
Total change	27%	6%	12%	6%
2021, EUR million	170.4	625.2	174.2	610.9

In the fourth quarter, orders received grew by 27% from the comparison period, of which organic growth with comparable currencies was 20% and growth from acquisition was 4%. Sales grew by 12%, of which organic growth with comparable currencies was 8% and growth from acquisition was 3%. Additionally, currency exchange rates had a positive impact on the reported orders received and sales.

In 2021, growth in orders received and sales was 6% and resulted mainly from organic growth. Changes in currency exchange rates had a negative impact on orders received and sales.

Currency exchange rate impacts were mainly due to the US dollar and Brazilian real.

Financial performance

EUR million	10–12/21	10–12/20	1–12/21	1–12/20
Adjusted EBITA	26.8	22.7	86.8	85.0
% of sales	15.4	14.6	14.2	14.8
Amortizations	-1.3	-0.9	-3.7	-3.4
Adjustments	-1.9	-3.3	-7.2	-11.3
Operating profit	23.6	18.5	75.8	70.3
% of sales	13.6	12.0	12.4	12.2
Financial expenses, net	-1.0	-2.2	-5.0	-6.5
Income taxes	-2.3	-3.6	-14.1	-15.6
Effective tax rate %	-	-	20.0	24.4
Net profit for the period	20.3	12.7	56.7	48.2
Earnings per share	0.14	0.08 ¹	0.38	0.32 ¹

¹ Earnings per share, continuing operations

In the fourth quarter, 12.4% higher sales volumes had a positive impact on profitability compared to the comparison period. Adjusted EBITA was 18.1% higher, and adjusted EBITA-margin 0.8%-points better than in the comparison period. Gross margin was 32.3% (31.6%). SGA costs, excluding adjustment items, were EUR 3.5 million higher than in the comparison period. Adjustment items in the fourth quarter amounted to EUR 1.9 (3.3) million.

In 2021, adjusted EBITA grew by 2.1% from 2020 to EUR 86.8 (85.0) million. The positive impact came from sales volume growth. Profitability was negatively impacted by decline in gross margin of 32.5% (33.0%), 3.5% growth in SGA costs without adjustment items of EUR 111.1 (107.3) million, and a decline in Other operating income and expenses of EUR -4.6 (-1.8) million. Other operating income and expenses reflect the impact of non-deductible withholding taxes, currency fluctuations and hedging results. Adjustment items in 2021 amounted to EUR 7.2 (11.3) million.

In 2021, adjusting item costs related to Neles and Valmet merger, acquisitions and changes in the long-term incentive plans. In 2020, the adjustments items were attributable to advisory, brand, IT and other costs related to the creation and rebranding of Neles, establishing a new operating structure and developments around Neles' shareholding.

In 2021, the effective tax rate was 20.0% and it was impacted by the previous year's taxes and deferred tax adjustments. The comparative operative tax rate was about 24.1% (24.4%).

Earnings per share for 2021 amounted to EUR 0.38 (EUR 0.32, continued operations).

Cash flow and investments

EUR million	1–12/21	1–12/20
Cash flow from operating activities	88.3	81.1
Capital expenditures, net	-10.9	-12.4
Free cash flow, continuing operations	77.5	68.7
Cash conversion, %	137	142

The free cash flow for the full year 2021 was good and amounted to EUR 77.5 million (EUR 68.7 million). Cash generation was good during the fourth quarter of 2021. An increase in sales and active net working capital management supported the good cash flow development. The majority of the capital expenditures consisted of R&D projects, ERP harmonization, and investments in manufacturing capacity and equipment. Some of the planned investments for 2021 have been delayed.

Financial position

EUR million	12/21	12/20
Inventory	187.0	160.3
Trade receivables	84.2	88.9
Trade payables	-62.8	-59.9
Advances received	-27.3	-26.7
Other receivables and liabilities, net	-30.9	-19.0
Net working capital	150.2	143.6
Interest bearing liabilities	215.6	217.3
Other interest bearing assets	-1.8	-
Cash and cash equivalents	-132.4	-135.9
Net debt	81.4	81.4
Gearing, %	26.8	30.9
Equity	304.0	263.1
Total assets	700.2	643.8
Equity to assets ratio, %	45.2	42.6

At the end of 2021, net working capital amounted to EUR 150.2 (143.6) million. Continued challenges in global logistics and acquisition of Flowrox contributed to the inventory increase. See note 10. Acquisitions and disposals for additional information regarding the acquisition's impact on the increase in inventory. The increase in other receivables and liabilities, net was caused by accrued merger-related expenses and recognized contingent consideration of the acquisition.

Neles' balance sheet and liquidity position remained solid. Interest bearing liabilities on December 31, 2021 were EUR 215.6 million (EUR 217.3 million at the end of December 2020), including EUR 47.5 million in lease liabilities (EUR 51.5 million at the end of December 2020). A dividend of EUR 33.1 million was paid on April 8, 2021.

Neles' available additional funding consists of an undrawn, committed syndicated revolving credit facility of EUR 200 million and the EUR 200 million Finnish commercial paper program. In the second quarter, the Termination Date of the existing EUR 200 million Revolving Credit Facility was extended by one year to June 30, 2024.

In July, Neles signed a EUR 150 million bilateral Term Loan, which was drawn down in August to refinance the existing EUR 150 million Term Loan, with maturity in July 2022. The tenor of the new loan is seven years.

On July 2, 2021, Neles signed a EUR 301 million Bridge-to-bond facility, the purpose of which is to finance the extraordinary distribution of funds prior to the completion of the merger. If executed, the facility term is 12 months, with two 6-month extension options. Neles Group has no public rating in any ratings agency.

Research and development

Neles' research and development activities focus on the renewal and expansion of certain product platforms to ensure the future competitiveness of its offerings. Neles research and development efforts also continuously aim to improve customers' processes in terms of sustainability, efficiency and reliability.

Research and development as well as IP related expenditure

EUR million	1–12/21	1–12/20
Research and Development expenditure	16.6	17.6
of sales, %	2.7	3.1
Of which expensed	15.3	14.2
of sales, %	2.5	2.5

Product launches and new inventions

In the fourth quarter, Neles launched the second phase of a new metal seat ball valve platform. The platform will improve product performance and manufacturing efficiency in class 600 trunnion ball valves. Neles also launched an expansion to its globe valve product line with new capabilities in high temperature applications. The temperature range was expanded up to 540 °C and this new high temperature option allows Neles to offer globe valves for even more demanding applications, e.g. in refineries, petrochemical plants and the power industry.

In the third quarter, Neles launched a new version of Expertune PlantTriage software. It continuously monitors customers' plant to identify issues whenever they occur. In the second quarter, Neles launched the first products based on a new butterfly valve platform and the first valve with a 3D printed valve body was delivered for field testing.

Mergers and acquisitions

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On November 1, 2021, a EUR 40.3 million cash consideration was paid for the acquired businesses. Additionally, an earn-out of up to EUR 3 million will be paid as a cash consideration, subject to set orders received criteria for a one-year period after closing. The acquisition generated a goodwill of EUR 25.1 million. For additional details of the acquisition, see note 10.

Merger of Neles and Valmet

On July 2, 2021, Neles announced that the Board of Directors of Neles Corporation and Valmet Oyj have signed a combination agreement and a merger plan to combine the two companies through a merger. Both companies held an Extraordinary General Meeting (EGM) on September 22, 2021, and both EGMs approved the merger. The completion of the merger was expected to occur on January 1, 2022, subject to all conditions for completion being fulfilled.

On November 5, 2021, Valmet announced that due to the regulatory review processes taking longer than previously estimated, the completion of the merger was targeted to occur on or before April 1, 2022. As the completion has not yet taken place, the next possible date under the Combination Agreement for the completion to take place is April 1, 2022. The planned closing date may be delayed due to the regulatory processes ongoing. Should the closing be delayed from April 1, 2022, Valmet will issue a stock exchange release on the matter and the merger prospectus will be supplemented once there is more clarity on the timetable of the regulatory processes. Until the completion of the merger Neles and Valmet will carry out their respective businesses as separate and independent companies.

As merger consideration, the shareholders in Neles will receive 0.3277 new shares in Valmet for each share they hold in Neles. Among other conditions, the combination is subject to, the obtaining of merger control and other regulatory approvals, and an extra distribution of funds in the amount of a maximum of EUR 2.00 per share to the Neles shareholders prior to the completion of the merger.

On July 2, 2021, Neles signed a EUR 301 million bridge-to-bond facility, the purpose of which is to finance the extraordinary distribution of funds prior to the completion of the merger. If executed, the facility term is 12 months, with two 6-month extension options.

For more information, please see <https://www.neles.com/company/valmet-neles-merger/>.

Personnel

At the end of December 2021, Neles had 2,934 employees (December 31, 2020: 2,840 employees). Due to the Flowrox acquisition on November 1, 2021, 101 employees transferred to Neles.

Safety

Neles is committed to the continuous improvement of safety with the goal of zero harm. Neles LTIF in 2021 remained at a good level at 1.3 (1.3).

In October, Neles achieved a record 1,000 days without a Lost Time Incident at its technology center in Finland.

Injuries in Neles operations, rolling 12 months	12/21	12/20
Lost time incident frequency, LTIF	1.3	1.3

Share-based long-term incentive schemes for key personnel

In relation to Neles' merger with Valmet, the Board of Directors has decided to adjust the structure of Neles' long-term incentive schemes. All long-term incentive schemes will be paid as a cash reward, and their plan and vesting periods have been shortened to reflect the merger schedule. As a result, Neles has recognized an accelerated cost of EUR 2.7 million for 2021, which is reported as an adjusting item. The final execution of these modifications is subject to the closing of the merger. The payments of the cash rewards are scheduled for 2022 and 2023.

Management appointments

On November 30, 2021, Neles' Board of Directors appointed CFO Simo Säaskilahti interim President and CEO as of January 1, 2022. President and CEO, Olli Isotalo continued in his role until December 31, 2021.

On January 1, 2021, Elisa Erkkilä, LL.M, joined Neles Executive Team. She been with the Company as General Counsel and Chief Compliance Officer since the launch of Neles Corporation in July 2020.

Shares and share trading

Neles' share capital was EUR 50,982,843.80, and the number of shares was 150,348,256. This included 150,361 treasury shares held by the Parent Company, which represented 0.1% of all Neles shares and votes.

A total of 73,082,380 Neles shares was traded on Nasdaq Helsinki in January–December 2021, and the value of the shares traded was approximately EUR 872 million. Neles' market capitalization at the end of December 2021, excluding shares held by the Parent Company, was EUR 2,056 million.

Neles share performance on Nasdaq Helsinki, January 1–December 31, 2021

	1–12/2021
Closing price, Dec 31, 2021	13.69
Highest share price	14.02
Lowest share price	10.03
Volume-weighted average trading price	11.94

Flagging notifications in the reporting period

All flagging notifications received by Neles Oyj from its shareholders are available on the Company's website at <https://www.neles.com/company/media/news/>.

Extraordinary General Meeting, September 22, 2021

Neles' extraordinary general meeting approved the merger of Neles and Valmet in accordance with the Merger Plan and authorized the board to resolve the distribution of funds.

Resolution on the merger

The General Meeting resolved to approve the Merger Plan regarding the merger between Neles and Valmet and the merger of Neles into Valmet in accordance with the Merger Plan. Pursuant to the Merger Plan, Neles would be merged into Valmet through an absorption merger, so that all assets and liabilities of Neles would be transferred without a liquidation procedure to Valmet in a manner described in more detail in the Merger Plan. The merger has been described in more detail in the stock exchange release published by Neles on July 2, 2021. Pursuant to the Merger Plan, the shareholders of Neles shall receive as merger consideration 0.3277 new shares of Valmet for each share they hold in Neles.

The completion of the merger is conditional upon the satisfaction of the conditions for completion set out in the Merger Plan, or the waiver thereof by Valmet and Neles. In addition to the approvals of the Extraordinary General Meetings of both companies, these conditions include, among others, that necessary merger control and other regulatory approvals have been obtained and that the extra distribution of funds by Neles referred to in the Merger Plan has been executed prior to the completion of the merger, as well as the completion or waiver of other conditions set forth in the Merger Plan.

The planned effective date of the merger is January 1, 2022, but the effective date may change, as described in the Merger Plan, depending inter alia on the satisfaction of the conditions for completion of the merger.

One shareholder, representing 3,000 shares and votes, made a demand at the General Meeting for the redemption of its shares in Neles, in accordance with Chapter 16, Section 13 of the Finnish Companies Act.

Resolution to authorize the Board of Directors to resolve upon an extra distribution of funds

Based on the Combination Agreement and Merger Plan between Neles and Valmet, Neles may at any time prior to the execution of the merger resolve to distribute to its shareholders an extra distribution of funds in the amount of up to EUR 2.00 per share. The General Meeting resolved to authorize the Board of Directors of Neles to resolve, before the completion of the merger, on an extra distribution of funds not exceeding EUR 2.00 per share to be paid either as dividend from the company's retained earnings or as a return of equity from the company's fund for invested unrestricted equity, or a combination of the two. The authorization is in force until the opening of the next Annual General Meeting of the company.

Neles will separately publish its Board of Directors' resolution to distribute funds based on the authorization and will simultaneously confirm the applicable record and payment dates. Funds paid on the basis of the authorization will be paid to shareholders who are registered as shareholders in Neles' shareholders' register on the record date of the distribution of funds.

Annual General Meeting, March 26, 2021

Neles Corporation's virtual Annual General Meeting (AGM) was held on March 26, 2021. The AGM granted the Company's Board of Directors and the President and CEO discharge from liability for the January 1, 2020 – December 31, 2020 financial period.

The majority of votes were against the approval of the Company's Remuneration Report in the advisory vote.

Dividend

Based on the shareholder vote concerning a minority dividend, the AGM decided in deviation from the proposal of the Board of Directors that a minority dividend corresponding to eight (8) percent of the Company's equity shall be paid in accordance with Chapter 13, Section 7 of the Companies Act. The amount of minority dividend is EUR 0.2205 per share. The dividend was paid on April 8, 2021.

Remuneration of members of the Board of Directors

The AGM decided in accordance with the proposal of the Shareholders' Nomination Board that the annual remuneration payable to the members of the Board of Directors for the upcoming term would remain unchanged as follows:

- Chair of the Board: EUR 115,000
- Vice Chair of the Board: EUR 65,000
- Other members of the Board of Directors: EUR 50,000 each

It was further decided in accordance with the proposal of the Shareholders' Nomination Board that an additional annual remuneration be paid to the members of the Board of Directors who are elected as members of the Audit Committee and the Remuneration Committee as follows:

- Chair of the Audit Committee: EUR 15,000
- Members of the Audit Committee: EUR 7,500 each
- Chair of the Remuneration Committee: EUR 7,500
- Members of the Remuneration Committee: EUR 3,750 each

The AGM decided in accordance with the proposal of the Shareholders' Nomination Board that as a condition of the fixed annual remuneration, the members of the Board were obliged, directly based on the AGM's decision, to use approximately 40% of the total annual remuneration for purchasing the Company's shares from the market at a price formed in public trading, and that the purchase would be carried out within two weeks of the publication of the Company's Half Year Review. The Company will compensate the transaction costs and costs related to the applicable asset transfer tax arising from the share purchases. The tax deduction for the entire annual fee will be made from the cash amount.

It was further decided in accordance with the proposal of the Shareholders' Nomination Board that a meeting fee in the amount of EUR 800 would be paid for each virtual Board and Committee meeting. If the physical presence of the Board member is required, the meeting fee will be paid as follows:

- Board members residing in the Nordic countries: EUR 800 for each meeting
- Board Members residing in other European countries: EUR 1,600 for each meeting
- Board Members residing outside Europe: EUR 3,200 for each meeting.

The meeting fees will be paid in cash. Any travel expenses will be reimbursed according to the travel policy of the Company.

Composition of the Board of Directors

The AGM decided, in accordance with the proposal of the Shareholders' Nomination Board, that the number of members of the Board of Directors would be seven.

In accordance with the proposal of the Shareholders' Nomination Board, the AGM elected Jaakko Eskola as Chair of the Board of Directors, Perttu Louhiluoto as Vice Chair of the Board of Directors, and Anu Hämäläinen, Niko Pakalén, Teija Sarajärvi, Jukka Tiitinen and Mark Vernon as members of the Board of Directors.

The members of the Board of Directors are presented in more detail on Neles' website at: www.neles.com/investors/governance/board/

Election of Auditor and their remuneration

In accordance with the proposal of the Board of Directors, the AGM resolved to re-elect Ernst & Young Oy, authorized public accountants, as auditor for a term ending at the end of the following AGM. Ernst & Young Oy has notified that Toni Halonen, APA, will act as the principal auditor of the Company. The remuneration for the auditor will be paid against the invoice approved by the Audit Committee.

Authorizing the Board of Directors to decide on the repurchase of the Company's own shares

The AGM decided, in accordance with the proposal of the Board of Directors, to authorize the Board of Directors to decide on the repurchase of the Company's own shares as follows.

The number of the Company's own shares to be repurchased shall not exceed 5,000,000 shares, which corresponds to approximately 3.3 percent of all the shares in the Company. The Company's own shares can also be repurchased otherwise than in proportion to the shareholdings of the shareholders (directed repurchase). The Company's own shares can be repurchased using the unrestricted equity of the Company at a price formed in public trading on the date of the repurchase, or otherwise at a market-based price.

Shares may be repurchased to develop the Company's capital structure, to finance or carry out acquisitions, investments or other business transactions, or to use the shares as part of the Company's incentive schemes.

The Company's own repurchased shares may be held by the Company, canceled, or transferred further.

The Board of Directors was authorized to decide on all other matters related to the repurchase of the Company's own shares. The authorization is effective until June 30, 2022, and it cancels the authorization given by the AGM on June 16, 2020 to decide on the repurchase of the Company's own shares. This authorization has not been exercised by February 4, 2022.

Authorizing the Board of Directors to decide on the issuance of shares and the issuance of special rights entitling to shares

In accordance with the proposal by the Board of Directors, the AGM authorized the Board of Directors to decide on the issuance of shares as well as the issuance of the special rights entitling to shares referred to in Chapter 10, Section 1 of the Companies Act as follows.

The number of shares to be issued either directly or on the basis of special rights entitling to shares shall not exceed 15,000,000 shares in aggregate, which corresponds to approximately 10 percent of all of shares in the Company.

The Board of Directors was authorized to decide on all the conditions of the issuance of shares and of special rights entitling to shares. The authorization concerns both the issuance of new shares, as well as the transfer of treasury shares. The issuance of shares and of special rights entitling to shares may be carried out in deviation from the shareholders' pre-emptive rights (directed issue).

The authorization is effective until June 30, 2022, and it cancels the authorization given by the AGM on June 16, 2020 to decide on the issuance of shares and the issuance of special rights entitling to shares. This authorization has not been exercised by February 4, 2022.

Amendment of the Articles of Association

The AGM decided that 8 § of the Articles of Association of the Company be amended to read as follows:

8 § Place of the shareholders' meeting and advance notice

The Company's shareholders' meetings may be held in Helsinki, Espoo or Vantaa.

Notice of a shareholders' meeting shall be given to the shareholders by publishing a notice on the Company's website or in one or several widely circulated newspaper/s named by the Board of Directors or otherwise verifiably no earlier than three (3) months and no later than three (3) weeks before the shareholders' meeting, but in any

case, at least nine (9) days before the record date of the shareholders' meeting, referred to in Chapter 5, Section 6a of the Companies Act.

To attend a shareholders' meeting, a shareholder shall register with the Company no later than on the day stated in the notice to the meeting, which may not be earlier than ten (10) days before the shareholders' meeting."

Organizing meeting

Anu Hämäläinen was appointed Chair of the Audit Committee, and Perttu Louhiluoto and Jukka Tiitinen as members of the Audit Committee.

Jaakko Eskola was appointed as Chair of the Remuneration Committee, and Niko Pakalén, Teija Sarajärvi and Mark Vernon as members of the Remuneration Committee.

Further details and the minutes of the AGM can be found on Neles' website.

<https://www.neles.com/investors/governance/agm/>

Other main events in 2021

November 30: Neles announced that Neles' Board of Directors had appointed CFO Simo Sääskilahti as Neles' interim President and CEO as of January 1, 2022. President and CEO, Olli Isotalo continued in his role until December 31, 2021.

November 17: Neles announced that Neles and thyssenkrupp Uhde Chlorine Engineers had signed a frame agreement for the delivery of valve solutions for green hydrogen applications. Within the scope of the agreement, Neles will deliver Neles™ segment valves to be used in electrolysis plant modules supplied by thyssenkrupp Uhde Chlorine Engineers.

November 8: Neles announced Neles™ Eurohub, a centralized warehouse and logistics concept catering to the needs of its European channel partners. The new concept enables fast and reliable delivery of off-the-shelf Neles products and parts from a conveniently located hub. Eurohub opens with a wide selection of valve automation products, as well as selected valve types.

November 5: Neles and Valmet announced that the length of the regulatory review processes had been impacted by third-party statements submitted to competition authorities and would take longer than previously estimated. The target now is that the merger's completion will occur on or before April 1, 2022.

November 1: Neles announced that its acquisition of the valve and pump businesses of the Finland-based technology company Flowrox had been successfully completed. With this acquisition, Neles expands its offering and exposure to the mining and metals industry.

September 22: Neles' extraordinary general meeting approved the merger in accordance with the Merger Plan of Neles and Valmet and authorized the board to resolve on the distribution of funds.

September 2: Neles announced that the Finnish Supervisory Authority had approved the merger prospectus concerning the combination of Neles Corporation and Valmet Oyj published on July 2, 2021.

September 2: Neles announced the members of its Shareholders' Nomination Board. On September 1, 2021, the four largest registered shareholders of Neles were Valmet Corporation (29.54% of shares and votes), Cevian Capital Partners Ltd. (10.88% of shares and votes), Alfa Laval Ab (publ) (8.46% of shares and votes) and Ilmarinen Mutual Pension Insurance Company (2.99% of shares and votes).

The members of Neles' Shareholders' Nomination Board are:

- Pasi Laine, President and CEO, Valmet Corporation
- Philip Ahlgren, Vice President, Cevian Capital AB
- Emma Adlerton, Senior Vice President & Group General Counsel, Alfa Laval Ab (publ)
- Mikko Mursula, Chief Investment Officer, Ilmarinen Mutual Pension Insurance Company
- Jaakko Eskola, Chair of Neles' Board of Directors

The Shareholders' Nomination Board shall submit its proposals for candidates to succeed the members of the Board of Directors to Neles' Board of Directors by January 31, 2022. Further information on the Nomination Board is available at www.neles.com/investors/governance/nomination-board/.

July 27: Neles announced that it had signed an asset purchase agreement to acquire the valve and pump businesses of the Finland-based technology company Flowrox. The acquisition would complement Neles' offering and exposure to the mining and metals industry. The closing of the acquisition was expected in November 2021.

July 26: Neles announced the resignation of Vice Chair of the Neles Board of Directors Perttu Louhiluoto. Anu Hämäläinen was appointed as the new Vice Chair, and Niko Pakalén was appointed as a member of the Audit Committee.

July 9: In July, Neles signed a EUR 150 million bilateral Term Loan which was drawn down in August to refinance the existing EUR 150 million Term Loan with maturity in July 2022. The tenure of the new loan is seven years.

July 2: Valmet and Neles announced the plan to merge, creating a leading company with a unique global offering for process industries.

July 2: Neles signed a EUR 301 million bridge-to-bond facility, the purpose of which was to finance an extraordinary dividend payment prior to the closing of the merger with Valmet. If executed, the facility tenor will be 12 months, with two 6-month extension options.

June 14: Neles is optimizing its production operations and will commission a new production unit at its valve factory in Vantaa, Finland. The project will enable Neles to improve the availability and delivery times of its valve solutions, and further develop the environmental performance of the Vantaa technology center. The new unit is scheduled to start operations in early 2022.

June 7: Neles is introducing a new versatile butterfly valve product range that enables easy valve configuration for an extensive range of applications in all process industries. With its proven technology and state-of-the-art functionality, the product range offers superior process efficiency with a minimized environmental footprint.

May 5: Neles delivered its first valve with a 3D printed valve body for field testing. Except for the body, the valve was a standard T5-series stainless steel ball valve. It will be tested at Teollisuuden Voima's power plant in Finland. The project is being carried out in cooperation with Teollisuuden Voima and Fortum.

April 19: Neles Corporation received a tax decision and payment request of EUR 1.8 million from the Finnish Tax Authority regarding withholding taxes related to the 2015 and 2016 dividend payments. Neles considers the decision of the Finnish Tax Authority to be unfounded and has appealed against it. However, Neles made the required payment in April 2021 to avoid incurring additional interest costs and increases during the appeals process.

March 24: Neles gave notification of a temporary closure of its Brazilian supply center due to Covid-19 cases at the location. The temporary closure of the Brazilian supply center and the consequent delay in sales recognition in subsequent quarters, the timing of other deliveries in the order backlog, and exchange rate fluctuations were expected to have a negative impact on first quarter sales. Sales were estimated to have declined by approximately EUR 10 million or more compared to the first quarter of 2020. Delays in sales will be recovered during the rest of the year.

Events after 2021 reporting period

January 25: Neles Corporation has decided on a new operating model and organization, effective from February 7, 2022. The new organization is designed to accelerate strategy implementation by strengthening Neles' long-term offering development and diversification to new customer industries. The other main objective of the change is to better align Neles' organization and processes with the specific requirements of customer segments.

Neles' new business lines will be

- Projects
- MRO and Service
- Valve Controls and Actuators

A new global function, Products and Solutions, will focus on developing and implementing industry-specific strategies and offering, including product management, and R&D.

Neles' operating model also continues to include global operations, corporate functions and four market areas.

Tuomo Paukkula has been appointed as Head of the Projects business line and a member of Neles' executive management team as of February 7, 2022. He is currently VP, Project Business at Neles.

Other members of the executive management team remain unchanged with few changes in individual roles: Sami Nousiainen, MRO and Service; Kalle Suurpää, Valve Controls and Actuators; Jon Jested-Rask, Products and Solutions; Kevin Tinsley, Global Operations; Timo Hänninen, EMEA market area; Patrick Dunn, North America; Fabio Maia; South America, Tan HangPheng, APAC; Elisa Erkkilä, Legal and Compliance; Hanne Peltola, Human Resources; and Kaisa Voutilainen, Communications and Marketing.

All executive management team members will report to Neles' Interim President and CEO Simo Säaskilahti. The change does not impact Neles' financial reporting.

January 24: The Shareholders' Nomination Board of the Neles Corporation ("Neles") presents the following proposals to the Annual General Meeting 2022 planned to be held on March 22, 2022, if the merger with Valmet Oyj does not close before February 28, 2022. The proposals concern the term of office of the Board of Directors commencing at the end of the Annual General Meeting 2022 and expiring at the registration of the completion of the merger of Neles into Valmet Oyj.

Proposal for the composition of the Board of Directors

The Shareholders' Nomination Board proposes the following composition:

- the number of Board members will be six
- Jaakko Eskola will be re-elected as Chair of the Board
- Anu Hämäläinen will be re-elected as Vice Chair of the Board, and
- Niko Pakalén, Teija Sarajärvi, Jukka Tiitinen and Mark Vernon will be re-elected as Board members.

The proposed members of the Board of Directors are presented on Neles' website at <https://www.neles.com/investors/governance/board/>.

The proposed Board members have all given their consent to be elected.

All proposed Board members have been assessed to be independent of the company. Apart from Jukka Tiitinen and Niko Pakalén, the proposed Board members are independent of significant shareholders. Jukka Tiitinen has been assessed to be dependent on Valmet Oyj due to his position of Area President, North America of Valmet Oyj. Niko Pakalén has been assessed to be dependent on Cevian Capital Partners Ltd due to his position of Partner at Cevian Capital AB.

Proposal for the remuneration of the Board of Directors

The Shareholders' Nomination Board proposes the same fixed annual remuneration to the Board members as in the previous term. The remuneration to be paid will be calculated pro rata to the length of the term of office based on the following annual remuneration:

- The Chair of the Board will be paid EUR 115,000, the Vice-Chair EUR 65,000 and each member the Board EUR 50,000
- The Chair of the Audit Committee will be paid EUR 15,000 and each member of Audit Committee EUR 7,500
- The Chair of the Remuneration Committee will be paid EUR 7,500 and each member of the Remuneration Committee EUR 3,750

The Shareholders' Nomination Board further proposes that a meeting fee of EUR 800 will be paid for each virtual Board and Committee meeting. If physical presence of the Board member is required, the meeting fees will be paid as follows:

- a fee of EUR 800 will be paid to the Board members who reside in the Nordic countries
- a fee of EUR 1,600 will be paid to the Board members who reside in other European countries
- a fee of EUR 3,200 will be paid to the Board members who reside outside Europe

The fixed annual remuneration and meeting fees will be paid in cash. Possible travel expenses will be reimbursed according to the travel policy of the company.

Composition of the Shareholders' Nomination Board

Members of the Shareholders' Nomination Board are Mikko Mursula, Deputy CEO, Investments, Ilmarinen Mutual Pension Insurance Company; Pasi Laine, CEO, Valmet Oyj; Philip Ahlgren, Vice President, Cevian Capital AB, and Jaakko Eskola, Chair of Neles' Board of Directors. Further information about Shareholders' Nomination Board can be found at <https://www.neles.com/investors/governance/nomination-board/>.

January 14: Neles announced that Alfa Laval AB (publ.) had informed Neles Corporation that it had sold the shares it held in Neles. Consequently, Emma Adlerton, a member of the Shareholders' Nomination Board, resigned on January 14 from the Shareholders' Nomination Board.

January 1: Simo Sääskilahti started as Neles' interim President and CEO.

Covid-19 pandemic update

In the first quarter of 2021, Neles' Brazilian supply center was temporarily closed. At the beginning of the second quarter, there were also temporary closures in Neles' Indian factories. The Covid-19 pandemic situation is being followed closely by management, prioritizing the health and safety of Neles' employees and partners. At the end of 2021, all Neles factories were operational.

The global logistics situation continued to be challenging during the fourth quarter of 2021. The availability of transportation and difficulties in arranging logistics by Neles or its customers has caused delays in Neles' deliveries. In addition, delays have occurred due to a shortage of electronic components.

Neles has operations in several regions where the Covid-19 pandemic continues to cause disruptions. There continue to be risks of similar temporary closures of local Neles operations, challenges in global logistics and availability of electronic components. These above challenges are expected to continue at least in the first half of 2022.

Travel restrictions, cuts to external spending across the organization, and cost-saving and optimization activities have continued in 2021. Ever more attention has also been paid to managing net working capital. There have been no material credit losses or order cancellations.

Short-term business risks and market uncertainties

In addition to risks related to the Covid-19 pandemic, increasing trade restrictions, inflation, and the impact of tariffs or other trade barriers could pose challenges to Neles' supply chain and price management. These, as well as customers' tight cost management and tight competitive situation in projects, may impact the Company's growth capability and margins.

Exchange rate fluctuations and changes in commodity prices could affect Neles' orders received, sales, and financial position. Neles hedges currency exposure linked to firm delivery and purchase agreements. Other market- and customer-related risks could also cause planned and ongoing projects to be postponed, delayed, or discontinued.

During the fourth quarter, the challenging situation in global logistics continued. In addition, there were shortages of electronics components. These issues are expected to continue to cause delivery delay risks during the first half of 2022. There is a risk that cost inflation related to production factors will accelerate more than Neles can compensate with cost savings and other measures, which will cause pressure on the gross margin.

Uncertain market conditions could adversely affect Neles' customers payment behavior and increase the risk of lawsuits, claims, and disputes against Neles in various countries in relation to products, projects, and other operations, for example.

Market outlook

Market activity in Pulp and Paper projects is expected to continue at a good level.

Market activity in the Chemicals and Oil & Gas project business was weak during 2021. The market activity is expected to return to a satisfactory level during the next 6 months.

Market activity was satisfactory/good for the Services and the Maintenance, Repair and Operations-driven (MRO) businesses during the fourth quarter of 2021. Positive development is expected to continue in these markets and reach a good level in the first half of 2022.

The ongoing challenges in global logistics, availability of electronic components and the Covid-19 pandemic continues to create uncertainty and risks of abrupt changes in all markets important to Neles.

The market outlook reflects the management's expectation for the next six months unless otherwise stated.

Board of Directors' proposal on the use of profit

Neles' distributable funds on December 31, 2021, totaled EUR 410,545,461.30, of which the net profit for 2021 was EUR 80,746,314.64.

The Board of Directors proposes that a dividend of EUR 0.266 per share be paid based on the balance sheet to be adopted for the financial year, ended December 31, 2021, and that the remaining portion of the profit be retained and included in the Company's unrestricted equity.

Vantaa, February 4, 2022
Neles Corporation's Board of Directors

Neles' Interim Review: tables

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Consolidated statement of income, IFRS

EUR million	10–12/21	10–12/20	1–12/21	1–12/20
Continuing operations				
Sales	174.2	154.9	610.9	576.3
Cost of goods sold	-117.9	-105.9	-412.1	-386.1
Gross profit	56.3	49.0	198.8	190.2
Selling and marketing expenses	-17.4	-18.5	-62.2	-65.3
Research and development expenses	-4.6	-3.3	-15.3	-14.2
Administrative expenses	-10.8	-8.8	-40.8	-38.6
Other operating income and expenses, net	0.1	0.2	-4.6	-1.8
Operating profit	23.6	18.5	75.8	70.3
Financial income and expenses, net	-1.0	-2.2	-5.0	-6.5
Profit before taxes	22.7	16.4	70.8	63.8
Income taxes	-2.3	-3.6	-14.1	-15.6
Profit for the period, continuing operations	20.3	12.7	56.7	48.2
Profit for the period, discontinued operations	-	-	-	2,149.6
Profit for the period	20.3	12.7	56.7	2,197.8
Profit attributable to, continuing operations				
Shareholders of the parent company	20.3	12.7	56.7	48.2
Non-controlling interests	-	-	-	-
Profit attributable to, discontinued operations				
Shareholders of the parent company	-	-	-	2,149.1
Non-controlling interests	-	-	-	0.5
Profit attributable to				
Shareholders of the parent company	20.3	12.7	56.7	2,197.3
Non-controlling interests	-	-	-	0.5
Earnings per share, EUR				
Basic and diluted, continuing operations	0.14	0.08	0.38	0.32
Basic and diluted, discontinued operations	-	-	-	14.31
Basic and diluted	0.14	0.08	0.38	14.63

Consolidated statement of comprehensive income, IFRS

EUR million	10–12/21	10–12/20	1–12/21	1–12/20
Continuing operations				
Profit for the period	20.3	12.7	56.7	48.2
Other comprehensive income				
Measurement at fair value, net of tax	-	0.0	-	-
Currency translation on subsidiary net investments	6.1	-7.1	17.5	-15.6
Items that may be reclassified to profit or loss in subsequent periods	6.1	-7.1	17.5	-15.6
Defined benefit plan actuarial gains and losses, net of tax	1.0	2.2	1.0	2.2
Items that will not be reclassified to profit or loss	1.0	2.2	1.0	2.2
Other comprehensive income total	7.1	-4.9	18.4	-13.4
Total comprehensive income, continuing operations	27.4	7.8	75.1	34.8
Profit attributable to, continued operations				
Shareholders of the parent company	27.4	7.8	75.1	34.8
Non-controlling interests	-	-	-	-
Total comprehensive income, discontinued operations	-	-	-	2,098.3
Profit attributable to, discontinued operations				
Shareholders of the parent company	-	-	-	2,097.9
Non-controlling interests	-	-	-	0.5
Total comprehensive income	27.4	7.8	75.1	2,133.2
Profit attributable to				
Shareholders of the parent company	27.4	7.8	75.1	2,132.7
Non-controlling interests	-	-	-	0.5

Consolidated Balance Sheet – Assets, IFRS

EUR million	12/21	12/20
Non-current assets		
Intangible assets		
Goodwill	85.6	57.3
Other intangible assets	25.8	16.6
Total intangible assets	111.5	73.9
Tangible assets		
Land and water areas	5.8	5.5
Buildings and structures	22.3	22.1
Machinery and equipment	31.7	30.5
Assets under construction	3.9	4.2
Total tangible assets	63.6	62.3
Right-of-use assets	45.8	50.5
Other non-current assets		
Non-current financial assets	2.0	0.2
Deferred tax asset	16.0	17.9
Other non-current receivables	13.7	12.0
Total other non-current assets	31.7	30.6
Total non-current assets	252.6	217.3
Current assets		
Inventories	187.0	160.3
Trade receivables	84.2	88.9
Derivative financial instruments	-	0.0
Income tax receivables	5.0	4.0
Other current receivables	38.9	37.4
Cash and cash equivalents	132.4	135.9
Total current assets	447.6	426.5
TOTAL ASSETS	700.2	643.8

Consolidated Balance Sheet – Equity and liabilities, IFRS

EUR million	12/21	12/20
Equity		
Share capital	51.0	51.0
Treasury shares	-3.3	-3.3
Cumulative translation adjustments	53.5	36.1
Fair value and other reserves	30.0	31.3
Retained earnings	172.6	148.0
Equity attributable to shareholders	303.8	263.0
Non-controlling interests	0.1	0.1
Total equity	304.0	263.1
Liabilities		
Non-current liabilities		
Interest bearing liabilities	149.6	149.7
Lease liabilities	36.0	40.7
Post-employment benefit obligations	21.3	20.7
Provisions	2.0	2.4
Deferred tax liability	3.5	2.7
Other non-current liabilities	0.3	0.3
Total non-current liabilities	212.7	216.4
Current liabilities		
Interest bearing liabilities	18.5	16.1
Lease liabilities	11.5	10.8
Trade payables	62.8	59.9
Provisions	11.2	8.6
Advances received	27.3	26.7
Derivative financial instruments	0.5	1.4
Income tax liabilities	3.0	5.4
Other current liabilities	48.8	35.4
Total current liabilities	183.6	164.3
Total liabilities	396.3	380.7
TOTAL EQUITY AND LIABILITIES	700.2	643.8

Net interest-bearing liabilities

EUR million	12/21	12/20
Interest bearing liabilities	168.1	165.9
Lease liabilities	47.5	51.5
Other interest bearing assets	-1.8	-
Cash and cash equivalents	-132.4	-135.9
Net interest-bearing liabilities	81.4	81.4

Consolidated statement of changes in shareholders' equity, IFRS

EUR million	Share capital	Treasury shares	Cumulative translation adjustments	Fair value and other reserves	Retained earnings	Equity attributable to shareholders	Non-controlling interests	Total equity
Jan 1, 2021	51.0	-3.3	36.1	31.3	148.0	263.0	0.1	263.1
Profit for the period	-	-	-	-	56.7	56.7	-	56.7
Other comprehensive income								
Currency translation on subsidiary net investments	-	-	17.5	-	-	17.5	-	17.5
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	-	1.0	1.0	-	1.0
Total comprehensive income	-	-	17.5	-	57.6	75.1	-	75.1
Dividends	-	-	-	-	-33.1	-33.1	-	-33.1
Share-based payments, net of tax	-	-	-	-1.2	-	-1.2	-	-1.2
Other items	-	-	-	-	0.1	0.1	0.0	0.1
Dec 30, 2021	51.0	-3.3	53.5	30.0	172.6	303.8	0.1	304.0

EUR million	Share capital	Treasury shares	Cumulative translation adjustments	Fair value and other reserves	Discontinued operations	Retained earnings	Equity attributable to shareholders	Non-controlling interests	Total equity
Jan 1, 2020	141.0	-6.2	51.7	303.8	-154.8	1,187.5	1,522.9	2.8	1,525.7
Profit for the period, continuing operations	-	-	-	-	-	48.2	48.2	-	48.2
Profit for the period, discontinued operations	-	-	-	-	-	2,149.6	2,149.6	0.5	2,150.0
Other comprehensive income									
Currency translation on subsidiary net investments	-	-	-15.6	-	-52.8	-	-68.4	0.0	-68.4
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	-	-	2.2	2.2	-	2.2
Discontinued operations	-	-	-	1.1	-	-	1.1	-	1.1
Total comprehensive income	-	-	-15.6	1.1	-52.8	2,200.0	2,132.7	0.5	2,133.2
Dividends	-	-	-	-	-	-220.8	-220.8	-	-220.8
Distributed assets in the demerger at fair value	-	-	-	-	-	-3,171.1	-3,171.1	-	-3,171.1
Effect of demerger	-90.0	-	-	-273.5	207.6	155.8	-	-2.6	-2.6
Share-based payments, net of tax	-	2.9	-	-1.2	-	-5.8	-4.1	-	-4.1
Prior year corrections	-	-	-	-	-	2.5	2.5	-	2.5
Other items	-	-	-	1.0	-	0.8	1.8	-0.5	1.2
Equity financing, Metso Group	-	-	-	-	-	-0.9	-0.9	-	-0.9
Dec 30, 2020	51.0	-3.3	36.1	31.3	-	148.0	263.0	0.1	263.1

Consolidated statement of cash flows, IFRS

EUR million	10–12/21	10–12/20	1–12/2021	1–12/20
Operating activities				
Profit for the period, continuing operations	20.3	12.7	56.7	48.2
Profit for the period, discontinued operations	-	-	-	2,149.6
Adjustments				
Depreciation and amortization	6.8	6.3	25.0	24.5
Financial expenses, net	1.0	2.2	5.0	17.5
Income taxes	2.3	3.6	14.1	62.9
Fair value of distributed net assets in the demerger	-	-	-	-2,022.2
Other items	-0.9	-0.2	2.0	5.4
Change in net working capital	16.9	22.9	7.2	202.6
Net cash flow from operating activities before financial items and taxes	46.5	47.5	110.1	488.4
Financial income and expenses paid, net	-0.6	-2.5	-4.7	-21.4
Income taxes paid	-5.8	-6.3	-17.1	-51.4
Net cash flow from operating activities	40.2	38.7	88.3	415.7
Investing activities				
Capital expenditures on intangible and tangible assets	-5.4	-2.0	-10.9	-54.3
Proceeds from sale of intangible and tangible assets	0.0	0.1	0.1	1.1
Business acquisitions, net of cash acquired	-40.3	0.0	-40.3	0.9
Net cash flow from investing activities	-45.7	-1.9	-51.1	-52.3
Financing activities				
Dividends paid	-	-	-33.1	-220.8
Investments in financial assets	-	-0.5	0.5	-0.5
Change in loan receivables, net	-	-	-1.8	-
Proceeds from issuance of debt	0.0	0.0	151.8	142.4
Repayment of debt	-1.9	-0.9	-150.0	0.0
Repayments of lease liabilities	-2.8	-2.9	-11.0	-23.4
Financing, Metso Group	-	-0.4	-	-13.9
Net cash flow from financing activities	-4.6	-4.7	-43.7	-116.2
Net change in cash and cash equivalents	-10.1	32.1	-6.5	247.6
Effect from changes in exchange rates	1.6	1.1	2.9	-12.4
Cash and cash equivalents transferred in demerger	-	-	-	-312.4
Cash and cash equivalents at beginning of period	140.9	102.7	135.9	213.1
Cash and cash equivalents at end of period	132.4	135.9	132.4	135.9

In 2020, the IFRS cash flow statement includes both cash flows from continuing Neles operations for the full year 2020 and from discontinued Metso Minerals operations for the January 1–June 30, 2020 period.

Analysis of consolidated statement of cash flows of continued Neles operations

This analysis table shows the continuing Neles cash flow statements for the 1–12/2020 periods in this January 1–December 31, 2021 financial statements review, in addition to IFRS financial information.

EUR million	1–12/21	1–12/20
Operating activities		
Profit for the period	56.7	48.2
Adjustments		
Depreciation and amortization	25.0	24.5
Financial expenses, net	5.0	6.5
Income taxes	14.1	15.6
Other items	2.0	-12.6
Change in net working capital	7.2	17.1 ¹
Net cash flow from operating activities before financial items and taxes	110.1	99.2
Financial income and expenses paid, net	-4.7	-6.4
Income taxes paid	-17.1	-11.8
Net cash flow from operating activities	88.3	81.1
Investing activities		
Capital expenditures on intangible and tangible assets	-10.9	-12.6
Proceeds from sale of intangible and tangible assets	0.1	0.2
Business acquisitions, net of cash acquired	-40.3	-
Acquisitions/divestments, Metso Group	-	-
Net cash flow from investing activities	-51.1	-12.4
Financing activities		
Dividends paid	-33.1	-44.2
Investments in financial assets	0.5	-0.5
Change in loan receivables, net	-1.8	-
Proceeds from issuance of debt	151.8	-
Repayment of debt	-150.0	-2.1
Financing, Metso group	-	70.6 ¹
Lease payments	-11.0	-11.3
Net cash flow from financing activities	-43.7	12.6
Net change in cash and cash equivalents	-6.5	81.3
Effect from changes in exchange rates	2.9	-2.1
Cash and cash equivalents at beginning of period	135.9	56.7
Cash and cash equivalents at end of period	132.4	135.9

Free cash flow

EUR million	1–12/21	1–12/20
Cash flow from operating activities	88.3	81.1
Capital expenditures on intangible and tangible assets	-10.9	-12.6
Proceeds from sale of intangible and tangible assets	0.1	0.2
Free cash flow	77.5	68.7

¹ For the 1–12/2020 period, carve out related items are excluded from *Change in net working capital* and presented in *Financing, Metso Group*.

Notes to the Financial Statements Review

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1. Basis of preparation

This Financial Statement Review has been prepared in accordance with IAS 34 *Interim Financial Reporting*, applying the accounting policies in the Financial Statements 2021 of the Neles Group. New accounting standards have been adopted as described in note 2. This Financial Statements Review is unaudited.

The partial demerger of Metso Group was effective on June 30, 2020 and the continuing group was renamed the Neles Group. Neles Group is reported as continuing operations and separated Metso Minerals operations and a proportioned share of *Group Head office and other* for the January 1–June 30, 2020 period as discontinued operations in the income statement. From June 30, 2020, Neles Group is reported as one segment.

Neles' performance is measured with operating profit (EBIT). In addition, Neles uses several other alternative performance measures to reflect the underlying business performance and to improve comparability between financial periods. However, alternative performance measures, should not be considered a substitute for measures of performance in accordance with the IFRS.

The partial demerger of Metso Group was effective on June 30, 2020 and the continuing group was renamed the Neles Group. The Neles Group is reported as continuing operations and separated Metso Minerals operations and a proportioned share of *Group Head office and other* for the January 1–June 30, 2020 period as discontinued operations in the income statement. From June 30, 2020, Neles Group is reported as one segment.

All figures presented have been rounded, and the sum of individual figures may therefore differ from the presented total figure.

2. New accounting standards

New and amended standards adopted in 2021

Neles has applied the following revised IFRS Standards that have been effective since January 1, 2021. These amendments have not had a material impact on the reported figures.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16: Interest Rate Benchmark Reform Phase 2 and Covid-19

3. Key figures

	1–12/21	1–12/20
EUR million		
Sales	610.9	576.3
Services sales	148.1	128.6
% of sales	24.2	22.3
Adjusted EBITA	86.8	85.0
% of sales	14.2	14.8
Operating profit	75.8	70.3
% of sales	12.4	12.2
Profit for the period, continuing operations	56.7	48.2
Profit for the period, discontinued operations	-	2,149.6
Profit for the period	56.7	2,197.8
Earnings per share		
Continuing operations:		
Earnings per share, basic, EUR	0.38	0.32
Earnings per share, diluted, EUR	0.38	0.32
Discontinued operations:		
Earnings per share, basic, EUR	-	14.31
Earnings per share, diluted, EUR	-	14.31
Total:		
Earnings per share, basic, EUR	0.38	14.63
Earnings per share, diluted, EUR	0.38	14.63
Cash flow		
Free cash flow, continuing, EUR million	77.5	68.7
Free cash flow/share, continuing, EUR	0.52	0.46
R&D expenditure, EUR million	16.6	17.6
% of sales	2.7	3.1
Gross capital expenditure, EUR million	10.9	12.6
% of sales	1.8	2.2
Amortization, EUR million	3.7	3.4
Depreciation of tangible assets, EUR million	9.4	9.1
Depreciation of right-of-use assets, EUR million	11.9	11.9
Adjustment items, EUR million ¹	7.2	11.3
Balance sheet		
Balance sheet total, EUR million	700.2	643.8
Equity attributable to shareholders, EUR million	303.8	263.0
Equity per share, EUR	2.02	1.72
Equity-to-assets ratio, %	45.2	42.6
Net debt, EUR million	81.4	81.4
Gearing, %	26.8	30.9
Net debt / EBITDA	0.8	0.9
Debt to capital ratio, %	41.5	45.2
Number of outstanding shares at end of period (thousands)	150,197.9	150,197.9
Average number of shares (thousands)	150,197.9	150,179.3
Average number of diluted shares (thousands)	150,197.9	150,179.3
Personnel at the end of period	2,934	2,840

¹ In the reporting period, adjustment items are related to mergers and acquisitions. In the comparison period, adjusting items were attributable to advisory, brand, IT and other costs related to the creation and rebranding of independent Neles, or restructuring costs, outcome of material intellectual property rights disputes, gains and losses on business disposals, and other infrequent events.

Formulas for key figures

Earnings before financial expenses, net, taxes and amortization, adjusted (adjusted EBITA)	= Operating profit + adjustment items + amortization	
Earnings per share, basic	= $\frac{\text{Profit attributable to shareholders}}{\text{Average number of outstanding shares during the period}}$	
Earnings per share, diluted	= $\frac{\text{Profit attributable to shareholders}}{\text{Average number of diluted shares during the period}}$	
Equity/share	= $\frac{\text{Equity attributable to shareholders}}{\text{Number of outstanding shares at the end of the period}}$	
Return on capital employed (ROCE) before taxes, %	= $\frac{\text{Profit before tax + financial expenses}}{\text{Capital employed (average for the period)}}$	x 100
Gearing, %	= $\frac{\text{Net interest bearing liabilities}}{\text{Total equity}}$	x 100
Debt to capital, %	= $\frac{\text{Interest bearing liabilities}}{\text{Total equity + interest bearing liabilities}}$	x 100
Equity to assets ratio, %	= $\frac{\text{Total equity}}{\text{Balance sheet total - advances received}}$	x 100
Free cash flow	= Net cash flow from operating activities – investments in intangible and tangible assets + proceeds from sale of intangible and tangible assets	
Free cash flow/share	= $\frac{\text{Free cash flow}}{\text{Average number of outstanding shares during the period}}$	
Cash conversion, %	= $\frac{\text{Free cash flow}}{\text{Profit for the period}}$	x 100
Net debt	= Interest bearing liabilities - non-current financial assets - loan and other interest bearing receivables (current and non-current) - cash and cash equivalents	
Net debt / EBITDA rolling 12 months, %	= Net debt / EBITDA x 100	
Net working capital (NWC)	= Inventories + trade receivables + other non-interest bearing receivables + customer contract assets and liabilities, net - trade payables - advances received - other non-interest bearing liabilities	
Capital employed	= Net working capital + intangible and tangible assets + right-of-use assets + non-current investments + interest bearing receivables + cash and cash equivalents + tax receivables, net + interest payables, net	

4. Disaggregation of sales

Neles' sales consist of the sale of process industry flow control solutions with delivery of valves and services for delivered equipment. Equipment deliveries are recognized as revenue at point in time, when delivered, and sales from providing services are recognized when the services are rendered.

External sales by product type

EUR million	10–12/21	10–12/20	1–12/21	1–12/20
Products/equipment	135.7	119.6	462.8	447.8
Services	38.5	35.4	148.1	128.6
Sales total	174.2	154.9	610.9	576.3

External sales by geographical area

EUR million	10–12/21	10–12/20	1–12/21	1–12/20
EMEIA	73.4	62.1	245.3	223.0
North America	54.2	36.4	195.8	166.5
South America	10.4	20.5	51.3	56.9
Asia-Pacific	36.2	35.9	118.6	130.0
Sales total	174.2	154.9	610.9	576.3

5. Reconciliation of adjusted EBITA and operating profit

EUR million	10–12/21	10–12/20	1–12/21	1–12/20
Adjusted EBITA	26.8	22.7	86.8	85.0
% of sales	15.4	14.6	14.2	14.8
Amortizations	-1.3	-0.9	-3.7	-3.4
Adjustments				
- Restructuring costs	-	0.0	-	-1.4
- Rebranding and establishing costs	-	-3.3	-	-9.9
- Merger and acquisition costs	-1.9	-	-7.2	-
Adjustments, total	-1.9	-3.3	-7.2	-11.3
Operating profit	23.6	18.5	75.8	70.3
% of sales	13.6	12.0	12.4	12.2

6. Fair value estimation

For those financial assets and liabilities which have been recognized at fair value in the balance sheet, the following measurement hierarchy and valuation methods have been applied:

- Level 1 Quoted unadjusted prices at the balance sheet date in active markets. The market prices are readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. The quoted market price used for financial assets is the current bid price. Level 1 financial instruments include debt and equity investments classified as financial instruments at fair value through profit and loss.
- Level 2 The fair value of financial instruments in Level 2 is determined using valuation techniques. These techniques utilize observable market data readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. Level 2 financial instruments include:

- Over-the-counter derivatives classified as financial assets/liabilities at fair value through profit and loss or qualified for hedge accounting
- Debt securities classified as financial instruments at fair value through profit and loss
- Fixed rate debt under fair value hedge accounting

Level 3 A financial instrument is categorized into Level 3 if the calculation of the fair value cannot be based on observable market data. Neles had no such instruments.

The table below presents Neles' financial assets and liabilities that are measured at fair value. There have been no transfers between fair value levels during the periods.

EUR million	12/21			12/20		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Financial assets at fair value through profit and loss						
Derivatives not under hedge accounting	-	1.2	-	-	1.2	-
Total	-	1.2	-	-	1.2	-
Liabilities						
Financial liabilities at fair value through profit and loss						
Derivatives not under hedge accounting	-	0.5	-	-	1.5	-
Total	-	0.5	-	-	1.5	-

The carrying value of other financial assets and liabilities than those presented in this fair value level hierarchy table approximates their fair value. Fair values of other debt are calculated as net present values.

7. Notional amounts of derivative instruments

EUR million	12/21	12/20
Forward exchange contracts	-0.1	-0.6
Nickel swap contracts	0.7	0.4

The notional amounts are for forward exchange contracts EUR 109 million (EUR 159 million in 2020) and for nickel swap contracts 312 tons (360 tons in 2020), which indicate the volumes in the use of derivatives, but not the exposure to risk.

8. Contingent liabilities and other commitments

EUR million	12/21	12/20
Guarantees		
External guarantees given by parent and group companies	39.4	43.8
Other commitments		
Repurchase commitments	22.8	16.4*
Other contingencies	2.2	1.4
Total	64.4	61.6

* Repurchase commitments from 2020 was restated to amount of EUR 16.4 million. Restatement of EUR 6.7 million has been made to present the repurchase commitments comparable to Q4/2021 reporting.

Neles Finland Oy has committed to enter 10 years lease agreement in connection to technology center in Finland, after finalizing the construction phase of the premises in early 2022. Estimated lease liability amount to EUR 3.9 million will be included in lease liabilities at the beginning of the lease term.

9. Transactions and balances with related parties

Valmet Plc, holding a 29.5% stake of Neles shares, has the ability to exercise a significant influence over the company and is therefore a related party to Neles.

Transactions with related party are made on terms equivalent to other external customers and on arm's length basis.

EUR million	1-12/21	8-12/20 ¹
Sales	10.7	6.6
Rental income	0.1	0.1
Receivables	1.6	6.5

¹ Valmet became a related party entity on August 12, 2020, when its shareholding exceeded 20%.

10. Acquisitions and disposals

On November 1, 2021, Neles acquired the valve and pump businesses of the technology company Flowrox in Finland, USA, South-Africa, Australia, China, Russia and Peru, through an asset deal. The acquisition complements Neles' offering and improves its market positioning the mining and metals industry. The acquired businesses employs 101 people.

Preliminary assets and liabilities recognized as a result of the acquisitions

EUR million	2021
Intangible assets	9.5
Tangible assets	0.2
Right-of-use assets	1.4
Inventory	9.1
Other receivables	0.1
Interest bearing liabilities	-1.4
Other liabilities	-0.7
Net identifiable assets acquired at fair value	18.1
Goodwill	25.1
Purchase consideration	43.3

The goodwill is attributable to synergies related the extended offering in the mining and metals industry and personnel knowhow. Initial calculation on goodwill generated are based on the carrying value of acquired net assets, adjusted by changes in accounting principles and effects from the fair value adjustment. Goodwill recognized will be deductible for tax purposes.

The acquired business contributed sales of EUR 4.0 million to Neles Group for the period from November 1, 2021 to December 31, 2021. In 2020, sales of the acquired business amounted to approximately EUR 30 million.

Net cash flow impact of the acquisitions

EUR million	2021
Cash consideration paid	40.3
Cash and cash equivalents acquired	0.0
Net cash flow for the year	40.3
Contingent consideration	3.0
Cash considerations, total	43.3

Contingent consideration of the Flowrox acquisition will be paid if the order intake based earn out criteria are met during a one-year period.

Acquisition costs of EUR 0.6 million are expensed and included in administrative expenses as adjusting item in the income statement and in operating cash flow in the statement of cash flows.

11. Quarterly information

EUR million, %	10–12/21	7–9/21	4–6/21	1–3/21	10–12/20	7–9/20	4–6/20	1–3/20	10–12/19
Orders received	170.4	149.6	151.3	153.9	134.5	133.8	130.9	190.9	154.2
Order backlog	294.4	292.0	303.9	298.4	270.3	292.8	305.3	337.4	279.8
Sales	174.2	161.5	146.2	129.1	154.9	144.0	140.6	136.8	166.2
Adjusted EBITA	26.8	25.0	19.0	15.9	22.7	22.8	22.9	16.7	18.1
% of sales	15.4	15.5	13.0	12.3	14.6	15.8	16.3	12.2	10.9
Amortization	1.3	0.8	0.8	0.8	0.9	1.0	0.8	0.8	0.9
Adjustment items	1.9	4.4	1.0	-	3.3	2.4	4.3	1.3	-
Operating profit	23.6	19.8	17.3	15.1	18.5	19.5	17.8	14.5	17.2
% of sales	13.6	12.3	11.8	11.7	12.0	13.5	12.6	10.6	10.4
Earning per share, EUR	0.14	0.09	0.08	0.07	0.08	0.09	0.08	0.07	0.08

12. Exchange rates

Currency	1–12/21	1–12/20	12/21	12/20
USD (US dollar)	1.1851	1.1452	1.1326	1.2271
BRL (Brazilian real)	6.3782	5.8847	6.3101	6.3735
INR (Indian rupee)	87.4940	84.5785	84.2292	89.6605
CNY (Chinese yuan)	7.6388	7.8916	7.1947	8.0225
SGD (Singapore dollar)	1.5891	1.5735	1.5279	1.6218
SEK (Swedish krona)	10.1469	10.4789	10.2503	10.0343
GBP (Pound sterling)	0.8615	0.8864	0.8403	0.8990
CAD (Canadian dollar)	1.4868	1.5320	1.4393	1.5633

It should be noted that certain statements herein which are not historical facts, including, without limitation, those regarding expectations for general economic development and the market situation, expectations for customer industry profitability and investment willingness, expectations for company growth, development and profitability and the realization of synergy benefits and cost savings, and statements preceded by “expects”, “estimates”, “forecasts” or similar expressions, are forward-looking statements. These statements are based on current decisions and plans and currently known factors. They involve risks and uncertainties that may cause the actual results to materially differ from the results currently expected by the company.

Such factors include, but are not limited to:

- (1) general economic conditions, including fluctuations in exchange rates and interest levels that influence the operating environment and profitability of customers and thereby the orders received by the company and their margins,
- (2) the competitive situation, especially significant technological solutions developed by competitors,
- (3) the company’s own operating conditions, such as the success of production, product development and project management and their continuous development and improvement,
- (4) the success of pending and future acquisitions and restructuring.

NELES

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