

NELES

Interim Report

January – September
2020

Neles' Interim Report January – September 2020

Focus on business performance and profitability

- Solid adjusted EBITA margin continued in the third quarter despite still challenging Covid-19 pandemic situation, supported by cost saving actions
- Pulp and Paper projects continued at a good level; weaker activity in Oil and Gas projects compared to the first half of the year
- Increased market activity in Services and Maintenance, Repairs and Operations-driven (MRO) businesses, but recovery slower than previously anticipated due to continued postponements of large maintenance shutdowns and tightening cash management by customers

The partial demerger of Metso Group took place on June 30, 2020, and the continuing operations were renamed Neles Group. Until the end of 2020, Neles Group will be reported as continuing operations and the demerged Metso Minerals business as discontinued operations (for the period January 1–June 30, 2020).

In this Interim Report, in addition to IFRS financial information, a comparable balance sheet and a cash flow statement are disclosed. Figures in parentheses refer to the corresponding period in 2019 unless otherwise stated.

Neles Group is reported as one segment, starting on June 30, 2020.

Summary of key figures

Operative key figures, Neles, continuing operations	7–9/20	7–9/19	Change, %	1–9/20	1–9/19	Change, %	2019
EUR million							
Orders received	134	171	-22 ¹	456	527	-13	681
Order backlog at end of period	293	295	-1	293	295	-1	280
Sales	144	170	-15 ¹	421	493	-15	660
Service sales ²	32	38	-16	93	108	-14	152
% of sales	23	22		22	22		23
Adjusted EBITA, continuing operations	23	28	-18	62	78	-21	97
% of sales	15.8	16.6		14.8	15.9		14.7
Adjustment items ³	2	-		8	-		-
Operating profit	19	27	-30	52	75	-31	93
% of sales	13.5	16.0		12.3	15.3		14.0
Earnings per share, continuing operations, EUR	0.09	0.15	-40	0.24	0.38	-37	0.46
Free cash flow	17	12	42	32	48	-33	34

Balance sheet key figures, IFRS	Neles 9/20	Metso 9/19	Metso 12/19
Return on capital employed (ROCE) before taxes, %	14.8	19.2	19.2
Balance sheet total, EUR million	625	3,972	3,887
Net debt, EUR million	118	420	798
Equity to assets ratio, %	42.2	40.2	42.3
Net debt / EBITDA, rolling 12 months	1.3	-	-
Gearing, %	46.5	28.4	52.3
Personnel at end of period, continuing operations	2,840	2,911	2,866

¹ Organic orders received declined by 10% in 1–9/2020 and 15% in 7–9/2020. Organic sales declined by 12% in 1–9/2020 and 10% in 7–9/2020.

² Services sales include the sales volume from the Services business

³ Adjustment items amounted to EUR 8.0 million in 1–9/2020 and EUR 2.3 million in 7–9/2020. No adjustment items were included in 7–9/2019 and full-year 2019. The adjustments were attributable to advisory, brand, IT and other costs related to the creation and rebranding of Neles as well as setting up a new operating structure. See Note 5.

Creation of Neles on June 30, 2020

Metso's Extraordinary General Meeting on October 29, 2019, approved the partial demerger of the company. The registration of the completion of the partial demerger was executed on June 30, 2020. According to the demerger plan, the Metso Minerals businesses were carved out and combined with Outotec Group. Metso's valves business formed the continuing operations and on July 1, 2020, Metso Group was renamed Neles Group. Metso's shareholders continue as shareholders of Neles Corporation. Additionally, shareholders received 4.3 new Outotec shares for one old Metso share as consideration for the distributed net assets of the Minerals business. The partial demerger of Metso was completed on June 30, 2020, with share trading continuing under the Neles name on Nasdaq Helsinki on July 1. In IFRS reporting, a gain of EUR 2,022 million was recorded on the distribution of the Minerals net assets at fair value and is included in *Profit for the period, discontinued operations*.

Public tender offer by Alfa Laval and stake building by Valmet

On July 13, Alfa Laval AB (publ) published its intention of making a Public Tender Offer (PTO) for all shares of Neles Oyj at a price of EUR 11.50 per share. Tender Offer was published on August 12, 2020. On October 15, Alfa Laval amended its PTO terms by lowering the minimum acceptance threshold to more than 50% of outstanding Neles shares (previously 2/3 of outstanding Neles shares) and extending the PTO to October 30 (previously October 22). Neles' Board recommended the acceptance of the PTO on August 12 and repeated its recommendation on October 19.

Valmet Oyj, which acquired a stake of 14.88% in Neles Oyj on July 1, has increased its ownership to 29.54% as of September 30, 2020. On September 29, Valmet published a proposal for a merger between Valmet Oyj and Neles Oyj. On October 12, Neles' Board announced there were no ongoing discussions with Valmet and repeated the recommendation for Alfa Laval's PTO.

President and CEO Olli Isotalo:

During the third quarter, the market continued to be mixed. As during the first half, we were successful in winning important Pulp and Paper projects. As already anticipated in our half-year review, the Oil and Gas project situation slowed during the third quarter compared with the high level of activity in the first half of the year. During the third quarter, our Services and MRO-driven businesses saw increasing market activity in many market areas compared with the second quarter, but continued to be negatively impacted by postponements in customers' planned large maintenance shutdowns, mobility restrictions and lockdowns, as well as customers' tightening cash management actions. The increased market activity in Services and MRO-driven businesses has therefore yet to materialize in orders.

Our sales grew 2% sequentially from the second to the third quarter, despite negative impact from exchange rates. Thanks to the continued cost saving actions that we had already initiated during the second quarter, we were able to maintain solid profitability during the reporting period, despite the low sales volume. Cost savings included temporary measures such as reduced working time, which we plan to mostly end during the fourth quarter. In the second quarter, we also undertook some permanent cost-saving actions, mainly in the US and Finland, from which we already started to see savings during the third quarter. We also increasingly focused on managing our net working capital and cash flows and achieved a reduction in our inventory levels.

During the third quarter, there has been considerable debate about, and public interest in the ownership situation of Neles Oyj. In the midst of this, management and employees have been focusing on daily business, serving customers and executing the growth strategy Neles' Board approved on July 1.

Market outlook

We expect the market activity in Pulp and Paper projects to continue at a good level.

Market activity in Oil and Gas projects is expected to continue to decline from the good level in the first half of the year, due to general economic concerns. Postponements and global uncertainties are reducing visibility in the Oil and Gas project business.

Market activity for Services and the customer Maintenance, Repair and Operations-driven (MRO) businesses is expected to gradually improve from the suppressed levels during the reporting period, because customers' operations are resuming to a more normal level. Large shutdowns are still being postponed due to the Covid-19 pandemic situation and customers' tightening cash management actions.

The ongoing Covid-19 pandemic continues to create uncertainties and risks of abrupt changes in all markets.

Covid-19 pandemic update

The Covid-19 pandemic continues to pose significant short-term risks and uncertainties for the markets. The spread and severity of the pandemic continue to be difficult to predict. Abrupt measures taken by various national and local governments to restrict the spread of the virus have increased the unpredictability of the demand for Neles' products and services. The pandemic-related mobility restrictions have impacted Neles' operations by restricting Neles' ability to provide services at customer sites, as well as the running of manufacturing sites when lockdowns were imposed. These uncertainties are expected to continue in the fourth quarter.

In the third quarter, customers have returned to more normalized operations compared to the second quarter, but large maintenance projects are still largely postponed due to mobility restrictions and tightening cash management by customers. The situation has caused slow-down in Services and MRO-driven businesses. Also, due to earlier shutdowns, there has been some deterioration in supplier delivery times during the third quarter. Thus far, Neles has experienced no material credit losses or cancellations of orders in the order backlog.

During the second and third quarters, management took proactive measures to ensure the safety of employees, and to control costs and preserve cash flow to protect Neles' financial position. The measures included a variety of enforced safety procedures at manufacturing sites, remote working and strict travel restrictions, cuts on external spending across the organization, as well as cost-saving and optimization activities. Increased attention was also paid to managing net working capital.

There is an increased risk that global economic growth will significantly deteriorate because of the pandemic, which, with uncertain political and trade-related developments, could affect Neles' customer industries, reduce investment appetite and customer spending, thus weakening the demand for Neles' products and services, as well as affecting the company's business operations and profitability. There are also other market- and customer-related risks that could cause planned and ongoing projects to be postponed, delayed or discontinued.

Neles' Interim Report January – September 2020

Orders, Sales and Operating environment

Market activity was mixed during the reporting period. On the one hand, investment projects in the Pulp and Paper industry actively continued during the reporting period. Oil and Gas project activity was strong in the first half of the year but decreased during the third quarter. On the other hand, the impacts of the Covid-19 pandemic have led to cancellations and postponements of customers' planned site work and maintenance shutdowns. This decreased orders received and sales for Services and MRO-driven businesses during the second and third quarters.

The North American Market Area was particularly impacted in the second quarter, both by Covid-19 pandemic-related issues and oil price fluctuations, and market sentiment was generally subdued. There has been a gradual recovery during the third quarter, but overall market activity remains suppressed.

EMEIA (Europe, Middle East, India and Africa) Market Area business activity continued to decline from the second quarter. Oil and Gas projects declined strongly. Services and MRO-driven businesses were also at low levels.

The APAC Market Area's received orders increased from the second quarter's low level. Project activity was healthy in China in Pulp and Paper, as well as Oil and Gas projects.

South America Market Area business remained at a good level but was lower than in the first half of the year, because the peak of Pulp and Paper project orders has passed in South America.

Orders received in Q1–Q3/2020 decreased by 13% (organic decrease 10%) to EUR 456 million (EUR 527 million), and orders received in Q3/2020 decreased by 22% (organic decrease 15%) to EUR 134 million (EUR 171 million). The decline in orders was due to slowdowns in Services and MRO-driven businesses. Currency exchange rate changes had a negative impact of 4% in 1–9/2020 and a negative impact of 7% in 7–9/2020 on orders received.

The order backlog as of September 30, 2020 was EUR 293 million (September 30, 2019: EUR 295 million).

Sales in Q1–Q3/2020 decreased by 15% (organic decrease 12%) to EUR 421 million (EUR 493 million), and sales in Q3/2020 decreased by 15% (organic decrease 10%) to EUR 144 million (EUR 170 million). The decline in sales was due to slowdowns in Services and MRO-driven businesses. Currency exchange rate changes had a negative impact of 3% in 1–9/2020 and a negative impact of 6% in 7–9/2020 on sales. The currency exchange rate impacts came from Brazilian real, US dollar, Singapore dollar, South African rand, and Chilean peso.

Orders by market area

EUR million	7–9/20	7–9/19	1–9/20	1–9/19	2019
EMEIA	52	63	170	214	284
North America	38	56	131	169	214
South America	13	16	52	39	47
Asia Pacific	31	36	103	105	136
Neles total	134	171	456	527	681

Sales by market area

EUR million	7–9/20	7–9/19	1–9/20	1–9/19	2019
EMEIA	57	71	161	187	251
North America	38	59	130	182	235
South America	13	8	36	27	37
Asia Pacific	36	32	94	98	137
Neles total	144	170	421	493	660

FX impact on orders received and sales

	Orders received		Sales	
	7–9/20	1–9/20	7–9/20	1–9/20
2019, EUR million	171	527	170	493
Organic growth in constant currencies, %	-15	-10	-10	-12
Impact of changes in exchange rates, %	-7	-4	-6	-3
Structural changes, %	0	0	0	0
Total change, %	-22	-13	16	-15
2020, EUR million	134	456	144	421

Financial performance

Neles, continuing operations

In the third quarter, July 1 – September 30, 2020, Neles adjusted EBITA amounted to EUR 23 million, or 15.8% of sales (EUR 28 million, or 16.6%). Adjustment items of EUR 2 million had a negative impact on the operating profit in the third quarter (EUR 0 million). The adjustments were attributable to advisory, brand, IT and other costs related to the creation and rebranding of Neles as well as setting up a new operating structure. The operating profit was EUR 19 million, or 13.5% of sales (EUR 27 million, or 16.0%).

In the reporting period, January 1 – September 30, 2020, Neles adjusted EBITA amounted to EUR 62 million, or 14.8% of sales (EUR 78 million, or 15.9%). Profitability was negatively affected by a lower sales volume than

the previous year, specifically in Services and MRO-driven businesses. This was due to the slower than expected market recovery, and ongoing mobility restrictions and lockdowns related to the Covid-19 pandemic, as well as postponements of customers' maintenance shutdowns. To offset the negative volume impact on profitability, both permanent and temporary cost-saving actions were taken. Temporary cost-saving actions such as reduced work time continued during the third quarter. Most of the temporary savings actions ended on September 30. SG&A costs in the reporting period were lower compared to comparison period due to cost saving actions, lower business activity and reduced external spending.

In the reporting period, adjustment items of EUR 8 million had a negative impact on operating profit (EUR 0 million). Adjustment items in the third quarter amounted to EUR 2 million (EUR 0 million). The adjustments were attributable to advisory, brand, IT and other costs related to the creation and rebranding of Neles as well as setting up a new operating structure. The operating profit in the reporting period amounted to EUR 52 million, or 12.3% of sales (EUR 75 million, or 15.3%). In the third quarter, the operating profit amounted to EUR 19 million, or 13.5% (EUR 27 million, or 16.0%). Adjustments will also continue in the fourth quarter. Should there be a potential change in ownership, this could result in a major increase in adjustment items in the fourth quarter, as customary in these types of arrangements.

Financial net expenses in the reporting period amounted to EUR 4 million (EUR 1 million). Financial net expenses in the third quarter amounted to EUR 1 million (EUR 0 million). The increase was attributable to loan facilities allocated to Neles and other finance expenses related to funding arrangements at the time of the partial demerger.

Earnings per share for continuing Neles operations amounted to EUR 0.09 for the third quarter and EUR 0.24 for the reporting period.

Discontinued operations

The profit for discontinued operations amounted to EUR 2,150 million for the January 1–June 30, 2020 period. The reported amount includes a net profit of EUR 127 million for Minerals operations, without depreciations and amortizations, and a EUR 2,022 million gain recorded on the distribution of Minerals net assets at fair value. Accordingly, earnings per share for discontinued operations were EUR 14.31. See more in Note 10.

Cash flow

Free cash flow in the third quarter amounted to EUR 17 million (EUR 12 million) and EUR 32 million (EUR 48 million) in the reporting period for January 1–September 30, 2020.

Investments amounted to EUR 3 million (EUR 4 million) in the third quarter and EUR 11 million (EUR 10 million) in the reporting period for January 1–September 30, 2020.

Financial position

Neles' balance sheet and liquidity position remain solid. Liquid funds on September 30, 2020 were EUR 103 million (EUR 114 million after the demerger on June 30, 2020). In July, Neles paid EUR 26 million in withholding taxes on the dividend distribution paid to shareholders in June.

Interest bearing liabilities were EUR 221 million (EUR 213 million at the end of June 2020), including EUR 53 million lease liabilities (EUR 41 million at the end of June 2020). The increase in the lease liabilities was due to the completion of the new factory in China. On September 30, 2020, Neles' net debt amounted to EUR 118 million, gearing was 46.5% and the equity-to-asset ratio was 42.2%.

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. Neles Group has no public rating in any ratings agency.

Creation of Neles on June 30, 2020

Metso's Extraordinary General Meeting on October 29, 2019, approved the partial demerger of the company. The registration of the completion of the partial demerger was executed on June 30, 2020. According to the demerger plan, the Metso Minerals businesses were carved out and combined with Outotec Group. Metso's valves business formed the continuing operations and on July 1, 2020, Metso Group was renamed Neles Group. Metso's shareholders continue as shareholders of Neles Corporation. Additionally, shareholders received 4.3 new Outotec shares for one old Metso share as consideration for the distributed net assets of the Minerals business. The partial demerger of Metso was completed on June 30, 2020, with share trading continuing under the Neles name on Nasdaq Helsinki on July 1. In IFRS reporting, a gain of EUR 2,022 million

was recorded on the distribution of the Minerals net assets at fair value and is included in *Profit for the period, discontinued operations*.

Capital expenditure and investments

In the reporting period, gross capital expenditure for continuing Neles operations, was EUR 11 million (EUR 10 million). EUR 4 million (EUR 3 million in 1–9 /2019) of the investments are related to the new manufacturing site in Jiaxing, China.

Research and development

Neles' research and development activities focus on the renewal and expansion of certain product platforms to ensure its offering's future competitiveness.

R&D and IP related expenditure

EUR million	1–9/20	1–9/19	2019
R&D expenditure	13	14	18
of sales, %	3.2	2.8	2.5
Of which expensed	11	12	17
of sales, %	2.6	2.5	2.6

Personnel

At the end of September 2020, Neles had 2,840 employees (June 30, 2020: 2,950 employees).

Neles employee negotiations in Finland were finalized on June 23, 2020; as a result, 32 permanent positions of the initial estimated maximum of 45 will be terminated by the end of 2020. In the US, 49 permanent positions were terminated in the second quarter. Temporary layoffs, as announced on March 25, 2020, included most of the personnel in Finland, excluding some employees in manufacturing at the Vantaa factory and in IT. Similar arrangements were implemented globally. Most of the temporary layoffs, as well as reduced working hours globally, ended on September 30, 2020. Cost-saving actions were related to structural changes and the Covid-19 pandemic.

Personnel, end of reporting period

	9/20	9/19	12/19
Neles total	2,840	2,911	2,868
June 30, 2020 discontinued operations	-	11,652	12,955
Metso total	-	14,563	15,821

Shares and share trading

Neles' share capital was reduced by EUR 90,000,000.00 in accordance with the partial demerger plan. After the transaction, 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 98,817,240 Neles shares was traded on Nasdaq Helsinki in July–September 2020, and the value of shares traded was approximately EUR 1,004 million. Neles' market capitalization at the end of September 2020, excluding shares held by the Parent Company, was EUR 1,736 million.

A total of 92,128,115 Metso shares was traded on Nasdaq Helsinki in January–June 2020, and the value of shares traded was EUR 2,523 million. Metso's market capitalization at the end of June 2020, before the demerger and excluding shares held by the Parent Company, was EUR 4,381 million (EUR 5,280 million at the end of 2019).

In preparing for the demerger, Metso decided to terminate its American Depositary Receipts (ADR) facility, which was traded on the International OTCQX market in the United States under the ticker symbol 'MXCY', with four ADRs representing one Metso share. The closing price of the Metso ADR was USD 7.78 when termination became effective on May 21, 2020.

On September 30, 2020, Valmet Corporation's shareholding in Neles Oyj amounted to 44,415,207 shares, which represents 29.54% of Neles' total shares.

Neles share performance on Nasdaq Helsinki, July 1–September 30, 2020

EUR	7–9/2020
Closing price	11.56
Highest share price	12.30
Lowest share price	8.26
Volume-weighted average trading price, all trades	10.16
Volume-weighted average trading price, without contract trades	10.74

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/>.

Public tender offer by Alfa Laval and stake building by Valmet

On July 13, Alfa Laval AB (publ) published its intention of making a Public Tender Offer (PTO) for all shares of Neles Oyj at a price of EUR 11.50 per share. Tender Offer was published on August 12, 2020. On October 15, Alfa Laval amended its PTO terms by lowering the minimum acceptance threshold to more than 50% of outstanding Neles shares (previously 2/3 of outstanding Neles shares) and extending the offer period to October 30 (previously October 22). Neles' Board recommended the acceptance of the PTO on August 12 and repeated its recommendation on October 19.

Valmet Oyj, which acquired a stake of 14.88% on July 1, has increased its ownership in Neles Oyj to 29.54% as of September 30, 2020. On September 29, Valmet published a proposal for a merger between Valmet Oyj and Neles Oyj. On October 12, Neles' Board announced there were no ongoing discussions with Valmet and repeated the recommendation for Alfa Laval's PTO.

Other main events during the reporting period

September 29: Neles confirmed that it has received an unsolicited letter from Valmet proposing a merger between Neles and Valmet.

September 4: The Shareholders' Nomination Board was announced, and it comprises the representatives of the four largest shareholders of the company as of September 1, 2020 and the Chair of the Board of Directors.

The members of the Shareholders' Nomination Board are:

- Pasi Laine, President and CEO, Valmet Oyj
- Philip Ahlgren, Vice President, Cevian Capital Partners Ltd
- Mikko Mursula, Chief Investment Officer, Ilmarinen Mutual Pension Insurance Company (Chair)
- Risto Murto, President and CEO, Varma Mutual Pension Insurance Company
- Jukka Moisio, Chair of Neles' Board of Directors

The Shareholders' Nomination Board will be obliged to provide its proposal for the Board of Directors by January 31, 2021. More detailed information on the Shareholders' Nomination Board is available on Neles' website.

September 3: The determining of the acquisition cost of Neles and Metso Outotec shares in Finnish income taxation was published.

August 12: The Board of Directors of Neles Corporation published a statement regarding the recommended voluntary public cash tender offer by Alfa Laval AB (publ).

August 12: Alfa Laval AB (publ) announced it commences the recommended public cash tender offer for all shares in Neles on August 13, 2020.

July 29: At the request of Valmet Corporation, the shareholders of Neles were notified of the Extraordinary General Meeting to be held on Thursday, October 29, 2020.

July 17: Moody's Investors Service (Moody's) withdrew the Baa2 long-term Issuer rating and (P)Baa2 senior unsecured MTN rating of Metso Corporation that was renamed to Neles. Moody's states that it has decided to withdraw the unsolicited rating for its own business reasons.

July 13: Alfa Laval AB (publ) and Neles Corporation entered into a combination agreement pursuant to which Alfa Laval made a voluntary recommended public cash tender offer for all issued and outstanding shares in Neles. **July 7:** Neles' new valve technology center in Jiaxing, China, started its operations. The new plant strengthens Neles' valve and related products production capabilities and increases availability for customers across various process industries, in China and globally.

July 2: The Board of Directors of Neles received a request from Valmet to convene an Extraordinary General Meeting. Valmet proposed that the Extraordinary General Meeting resolve that the Board of Directors of Neles shall have eight (8) members and that Jukka Tiitinen, currently Valmet's Area President, Asia Pacific, be elected as a member of the Board of Directors of Neles.

July 2: Solidium representative Petter Söderström notified Neles that he has resigned from Neles' Shareholders' Nomination Board, as Solidium is no longer a shareholder of Neles.

July 1: The Board of Directors of Neles Corporation decided on the establishment of a new share-based long-term incentive scheme for company management and selected key employees. More information on Neles website at <https://www.neles.com/investors/governance/>

July 1: Neles Corporation's Board of Directors made the following decisions in its organization meeting:

- Appointments of the Board's committees and deputy CEO
 - Audit Committee: Anu Hämäläinen (Chair), Britta Giesen, Niko Pakalén, and Petter Söderström
 - Remuneration Committee: Jukka Moisio (Chair), Mark Vernon, and Teija Sarajärvi
 - Chief Financial Officer Simo Sääskilahti appointed as Deputy CEO
- Confirmation and approval of the company's profitable growth strategy
- Confirmation and approval of the company's mid-term financial targets
- Update to the company's Disclosure Policy

CEO and executive committee nominations were announced in entirety on June 23, 2020.

Strategy for profitable growth and mid-term financial targets

The Board confirmed and approved Neles' profitable growth strategy and mid-term financial targets, as announced on May 25, 2020.

Neles' vision is to become a leading diversified valve and valve automation company, reinventing reliability in flow control. Neles aims to achieve profitable, faster than market growth and will continue to develop its organization and operations to ensure successful execution of its strategy.

The confirmed mid-term financial targets derived from the strategy are:

- Orders received of more than EUR 1 billion around 2025
- Annual organic growth ambition of at least 5%
- EBITA margin of at least 15%, while investing in growth
- Maintaining a strong balance sheet (net debt/EBITDA less than 2.5), while investing in growth
- Dividend payout of approx. 40% of net earnings (excluding PPA amortization related to acquisitions)

Neles' strategic targets are mid-term ambitions and should not be viewed as guidance for the near-term performance of Neles, as the current Covid-19 pandemic will adversely impact the Neles' business in the short term.

Update to the Disclosure Policy

The Board confirmed that Neles will observe a 30-day silent period prior to the publication of its financial results. During this time, Neles is not in contact with capital market representatives nor does it comment on the company's financial performance, markets or its future outlook. The full Disclosure Policy is available on Neles' website.

May 27: Neles held its first capital markets day on May 27. The event covered themes such as Neles' end markets, business prospects, cornerstones of the strategy as well as mid-term financial targets as published on May 25. A full archive of the materials is available at <https://www.neles.com/investors/cmd/>.

Events after the reporting period

October 27: Alfa Laval announced it has received all necessary regulatory approvals for the recommended public cash tender offer for all shares in Neles

October 23: Risto Murto resigned from the Shareholders' Nomination Board due to change in Varma Mutual Pension Insurance's shareholding in Neles.

October 22: Neles and Metsä Fibre signed a preliminary agreement for valve solutions delivery to the new Kemi bioproduct mill in Finland.

October 19: The Board of Directors of Neles Corporation supplemented its statement regarding the recommended voluntary public cash tender offer by Alfa Laval AB (publ) after change of PTO terms.

October 15: Alfa Laval changed its PTO terms (minimum acceptance more than 50%, previously 2/3 of shares) and extended its offer period (October 30, previously October 22).

October 12: The Board of Directors of Neles assessed Valmet's merger proposal. The recommendation by the Board of Directors of Neles published on August 12, 2020, regarding the Tender Offer made by Alfa Laval remains in place.

Operating model and management appointments

On July 1, Neles confirmed its new operating model and executive team composition. More information at <https://www.neles.com/investors/governance/>.

Annual General Meeting, June 16, 2020

Metso Corporation's Annual General Meeting (AGM) was held on June 16, 2020. Decisions taken at the AGM and information about Board's authorizations can be found on Neles' website.

https://www.neles.com/siteassets/documents/2020/agm2020_decisions-taken.pdf
<https://www.neles.com/investors/governance/agm/>

Short-term business risks and market uncertainties

The Covid-19 pandemic continues to pose significant short-term risks and uncertainties for the markets. The spread and severity of the pandemic continue to be difficult to predict. Abrupt measures taken by various national and local governments to restrict the spread of the virus have increased the unpredictability of the demand for Neles' products and services. The pandemic-related mobility restrictions have impacted Neles' operations by restricting Neles' ability to provide services at customer sites, as well as the running of manufacturing sites when lockdowns were imposed. These uncertainties are expected to continue in the fourth quarter.

In the third quarter, customers have returned to more normalized operations compared to the second quarter, but large maintenance projects are still largely postponed due to mobility restrictions and tightening cash management by customers. The situation has caused slow-down in Services and MRO-driven businesses. Also, due to earlier shutdowns, there has been some deterioration in supplier delivery times during the third quarter. Thus far, Neles has experienced no material credit losses or cancellations of orders in the order backlog.

There are also other market- and customer-related risks that could cause planned and on-going projects to be postponed, delayed or discontinued.

Tightening trade relations, continued market growth and inflation, as well as the impact of tariffs or other trade barriers could pose challenges to Neles' supply chain and price management, impacting the company's growth capability and margins.

Exchange rate fluctuations and changes in commodity prices could affect our orders received, sales and financial position. Neles hedges currency exposure linked to firm delivery and purchase agreements.

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

Market outlook

We expect the market activity in Pulp and Paper projects to continue at a good level.

Market activity in Oil and Gas projects is expected to continue to decline from the good level in the first half of the year, due to general economic concerns. Postponements and global uncertainties are reducing visibility in the Oil and Gas project business.

Market activity for Services and the customer Maintenance, Repair and Operations-driven (MRO) businesses is expected to gradually improve from the suppressed levels during the reporting period, because customers' operations are resuming to a more normal level. Large shutdowns are still being postponed due to the Covid-19 pandemic situation and customers' tightening cash management actions.

The ongoing Covid-19 pandemic continues to create uncertainties and risks of abrupt changes in all markets.

Vantaa, October 28, 2020
Neles Corporation's Board of Directors

Neles' Interim Review: tables

Content

Consolidated statement of income, IFRS
 Consolidated statement of comprehensive income, IFRS
 Consolidated balance sheet, IFRS
 Consolidated statement of changes in shareholders' equity, IFRS
 Consolidated statement of cash flows, IFRS
 Analysis of consolidated balance sheet
 Analysis of consolidated statement of cash flows
 Notes to the Interim Review IFRS

Consolidated statement of income, IFRS

EUR million	7-9/20	7-9/19	1-9/20	1-9/19	1-12/19
Continuing operations					
Sales	144	170	421	493	660
Cost of goods sold	-97	-112	-280	-324	-435
Gross profit	47	58	141	169	225
Selling and marketing expenses	-14	-17	-47	-53	-73
Research and development expenses	-3	-4	-11	-12	-17
Administrative expenses	-10	-10	-30	-27	-39
Other operating income and expenses, net	-1	0	-2	-1	-4
Share in profits of associated companies	-	-	-	-	-
Operating profit	19	27	52	75	93
Financial income and expenses, net	-1	0	-4	-1	-2
Profit before taxes	18	28	47	75	91
Income taxes	-4	-5	-12	-18	-22
Profit for the period, continuing operations	14	22	36	57	69
Profit for the period, discontinued operations	-	52	2,150	172	230
Profit for the period	14	75	2,185	228	299
Profit attributable to, continuing operations					
Shareholders of the parent company	14	22	36	57	69
Non-controlling interests	-	-	-	-	-
Profit attributable to, discontinued operations					
Shareholders of the parent company	-	52	2,150	172	232
Non-controlling interests	-	0	0	0	-1
Profit attributable to					
Shareholders of the parent company	14	75	2,185	228	301
Non-controlling interests	0	0	0	0	-1
Earnings per share, EUR					
Basic and diluted, continuing operations	0.09	0.15	0.24	0.38	0.46
Basic and diluted, discontinued operations	-	0.35	14.31	1.14	1.54
Basic and diluted	0.09	0.50	14.55	1.52	2.00

Consolidated statement of comprehensive income, IFRS

EUR million	7-9/20	7-9/19	1-9/20	1-9/19	1-12/19
Continuing operations					
Profit for the period	14	22	36	57	69
Other comprehensive income					
Measurement at fair value, net of tax	0	0	0	0	0
Currency translation on subsidiary net investments	-9	0	-8	0	0
Items that may be reclassified to profit or loss in subsequent periods	-9	0	-8	0	0
Defined benefit plan actuarial gains and losses, net of tax	0	0	0	0	2
Items that will not be reclassified to profit or loss	0	0	0	0	2
Total comprehensive income, continuing operations	5	22	27	57	70
Profit attributable to, continued operations					
Shareholders of the parent company	5	22	27	57	70
Non-controlling interests	-	-	-	-	-
Total comprehensive income, discontinued operations	-	-	2,098	-	231
Profit attributable to, discontinued operations					
Shareholders of the parent company	-	-	2,098	-	232
Non-controlling interests	-	-	0	-	-1
Total comprehensive income	5	-	2,125	-	301
Profit attributable to					
Shareholders of the parent company	5	-	2,125	-	303
Non-controlling interests	-	-	0	-	-1

Consolidated Balance Sheet – Assets, IFRS

EUR million	Neles 9/20	Continuing and discontinued operations 9/19	Continuing operations 12/19
Non-current assets			
Intangible assets			
Goodwill	59	543	62
Other intangible assets	17	89	18
Total intangible assets	77	632	81
Tangible assets			
Land and water areas	6	41	6
Buildings and structures	23	97	21
Machinery and equipment	29	145	28
Assets under construction	6	51	11
Total tangible assets	64	334	67
Right-of-use assets	52	131	46
Other non-current assets			
Investments in associated companies	0	5	0
Non-current financial assets	0	3	0
Loan and other interest bearing receivables	-	6	-
Derivative financial instruments	-	4	-
Deferred tax asset	21	114	13
Other non-current receivables	2	41	1
Total other non-current assets	23	173	14
Total non-current assets	215	1,270	208
Current assets			
Inventories	166	1,046	181
Trade receivables	96	678	95
Customer contract assets	-	111	-
Interest bearing receivables	-	0	-
Derivative financial instruments	0	20	0
Income tax receivables	5	54	2
Other current receivables	39	150	40
Deposits and securities, maturity more than three months	0	5	-
Cash and cash equivalents	102	637	57
Liquid funds	103	642	57
Total current assets	409	2,702	374
Assets, discontinued operations	-	-	3,305
TOTAL ASSETS	625	3,972	3,887

Consolidated Balance Sheet – Equity and liabilities, IFRS

EUR million	Neles 9/20	Continuing and discontinued operations 9/19	Continuing operations 12/19
Equity			
Share capital	51	141	141
Cumulative translation adjustments	43	-89	52
Fair value and other reserves	30	296	298
Discontinued operations	-	-	-155
Retained earnings	131	1,119	1,187
Equity attributable to shareholders	253	1,467	1,523
Non-controlling interests	0	10	3
Total equity	253	1,477	1,526
Liabilities			
Non-current liabilities			
Interest bearing liabilities	150	689	36
Lease liabilities	43	103	37
Post-employment benefit obligations	14	73	9
Provisions	1	36	3
Derivative financial instruments	1	3	-
Deferred tax liability	3	37	4
Other non-current liabilities	0	2	0
Total non-current liabilities	212	943	89
Current liabilities			
Interest bearing liabilities	18	247	20
Lease liabilities	11	29	10
Trade payables	51	412	63
Provisions	9	71	12
Advances received	24	231	24
Customer contract liabilities	-	68	-
Derivative financial instruments	0	2	1
Income tax liabilities	12	91	2
Other current liabilities	35	401	39
Total current liabilities	159	1,552	171
Total liabilities	371	2,495	259
Liabilities, discontinued operations	-	-	2,102
TOTAL EQUITY AND LIABILITIES	625	3,972	3,887

Net interest bearing liabilities

EUR million	Neles 9/20	Continuing and discontinued operations 9/19	Continuing operations 12/19
Interest bearing liabilities	167	936	56
Lease liabilities	53	133	47
Liquid funds	-103	-642	-57
Other interest bearing assets	-	-6	-
Net interest bearing liabilities	118	420	46

Consolidated statement of changes in shareholders' equity, IFRS

EUR million	Share capital	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	52	298	-155	1,187	1,523	3	1,526
Profit for the period, continuing operations	-	-	-	-	36	36	-	36
Profit for the period, discontinued operations	-	-	-	-	2,150	2,150	0	2,150
Other comprehensive income								
Currency translation on subsidiary net investments	-	-8	-	-53	-	-61	0	-61
Discontinued operations	-	-	1	-	-	1	-	1
Total comprehensive income	-	-8	1	-53	2,185	2,125	0	2,125
Dividends	-	-	-	-	-221	-221	-	-221
Distributed assets in the demerger at fair value	-	-	-	-	-3,171	-3,171	-	-3,171
Effect of demerger	-90	-	-273	208	156	-	-3	-3
Share-based payments, net of tax	-	-	2	-	-5	-3	-	-3
Other items	-	-	1	-	1	2	-1	1
Equity financing, Metso Group	-	-	-	-	-1	-1	-	-1
Sep 30, 2020	51	43	28	-	131	254	0	254

EUR million	Share capital	Cumulative translation adjustments	Fair value and other reserves	Discontinued operations	Retained earnings	Equity attributable to shareholders	Non-controlling interests	Total equity
Jan 1, 2019	141	-101	302	-	1,061	1,403	10	1,413
Profit for the period, continuing operations	-	-	-	-	57	57	-	57
Profit for the period, discontinued operations	-	-	-	-	172	172	-1	171
Other comprehensive income								
Cash flow hedges, net of tax	-	-	2	-	-	2	-	2
Currency translation on subsidiary net investments	-	12	-	-	-	12	-	12
Total comprehensive income	-	12	2	-	228	242	-1	241
Dividends	-	-	-	-	-180	-180	0	-180
Share-based payments, net of tax	-	-	4	-	0	4	-	4
Other items	-	-	-12	-	11	-1	0	-1
Sep 30, 2019	141	-89	296	-	1,119	1,467	10	1,477

Consolidated statement of cash flows, IFRS

EUR million	Continuing and discontinued operations				
	7-9/20	7-9/19	1-9/20	1-9/19	1-12/19
Operating activities					
Profit for the period, continuing operations	14	22	36	57	69
Profit for the period, discontinued operations	-	52	127	171	230
Adjustments					
Depreciation and amortization	6	24	18	69	82
Financial expenses, net	1	6	15	26	38
Income taxes	4	28	59	69	95
Other items	1	4	5	5	-2
Change in net working capital	1	-83	173	-243	-254
Net cash flow from operating activities before financial items and taxes	27	54	420	153	258
Financial income and expenses paid, net	-3	-2	-19	-18	-30
Income taxes paid	-4	-31	-45	-83	-137
Net cash flow from operating activities	20	21	356	52	91
Investing activities					
Capital expenditures on intangible and tangible assets	-3	-31	-52	-72	-107
Proceeds from sale of intangible and tangible assets	0	4	1	5	8
Proceeds from and investments in financial assets, net	-	-	-	31	31
Business acquisitions, net of cash acquired	-	4	1	-30	-214
Proceeds from sale of businesses, net of cash sold	-	-	-	9	9
Other items	-	-	-	-	-3
Net cash flow from investing activities	-3	-23	-50	-58	-276
Financing activities					
Dividends paid	-5	-	-200	-90	-180
Transactions with non-controlling interests	-	-	-	-	-13
Proceeds from and repayment of debt, net	-4	315	143	328	198
Repayments of lease liabilities	-4	-9	-20	-27	-34
Financing, Metso Group	-13	-	-13	-	-
Net cash flow from financing activities	-27	306	-91	211	-29
Net change in liquid funds	-9	304	215	205	-215
Effect from changes in exchange rates	-2	10	-13	11	2
Cash and cash equivalents transferred in demerger	-	-	-312	-	-
Liquid funds equivalents at beginning of period	114	328	213	426	426
Liquid funds at end of period	103	642	103	642	213
Liquid funds at end of period, continuing operations	-	95	-	95	57
Liquid funds at end of period, discontinued operations	-	547	-	547	156

Free cash flow

EUR million	Continuing and discontinued operations		
	1-9/20	1-9/19	1-12/19
Cash flow from operating activities	356	52	91
Capital expenditures on intangible and tangible assets	-52	-72	-107
Proceeds from sale of intangible and tangible assets	1	5	8
Free cash flow	305	-15	-9

Analysis of consolidated balance sheet - Assets

This analysis table is showing a comparable balance sheet for continuing Neles for the comparative period 9/2019 in addition to IFRS financial information.

EUR million	Neles 9/20	Continuing operations 9/19	12/19
Non-current assets			
Intangible assets			
Goodwill	59	64	62
Other intangible assets	17	19	18
Total intangible assets	77	83	81
Tangible assets			
Land and water areas	6	6	6
Buildings and structures	23	22	21
Machinery and equipment	29	29	28
Assets under construction	6	4	11
Total tangible assets	64	61	67
Right-of-use assets	52	46	46
Other non-current assets			
Deferred tax asset	21	22	13
Other non-current receivables	2	1	1
Total other non-current assets	23	23	14
Total non-current assets	215	213	208
Current assets			
Inventories	166	181	181
Trade receivables	96	99	95
Derivative financial instruments	0	0	0
Income tax receivables	5	1	2
Other current receivables	39	31	40
Deposits and securities, maturity more than three months	0	1	-
Cash and cash equivalents	102	94	57
Liquid funds	103	95	57
Total current assets	409	408	374
TOTAL ASSETS	625	621	582

Analysis of consolidated balance sheet – Equity and liabilities

This analysis table is showing a comparable balance sheet for continuing Neles for the comparative period 9/2019 in addition to IFRS financial information.

EUR million	Neles 9/20	Continuing operations	
		9/19	12/19
Equity			
Share capital	51	141	141
Cumulative translation adjustments	43	-89	-103
Fair value and other reserves	30	296	298
Retained earnings	131	1,119	1,187
Equity attributable to shareholders	253	1,467	1,523
Non-controlling interests	0	10	3
Total equity	253	1,477	1,526
Equity for discontinued operations	-	-1,093	-1,203
Total equity, continuing operations	253	384	324
Liabilities			
Non-current liabilities			
Interest bearing liabilities	150	-	36
Lease liabilities	43	38	37
Post-employment benefit obligations	14	13	9
Provisions	1	1	3
Deferred tax liability	3	4	4
Other non-current liabilities	0	0	0
Total non-current liabilities	212	58	89
Current liabilities			
Interest bearing liabilities	18	18	20
Lease liabilities	11	8	10
Trade payables	51	56	63
Provisions	9	12	12
Advances received	24	22	24
Derivative financial instruments	0	0	1
Income tax liabilities	12	6	2
Other current liabilities	35	58	39
Total current liabilities	159	180	171
Total liabilities	371	238	259
TOTAL EQUITY AND LIABILITIES	625	622	582

Net interest bearing liabilities

EUR million	Neles 9/20	Continuing operations 12/19
Interest bearing liabilities	167	56
Lease liabilities	53	47
Liquid funds	-103	-57
Net interest bearing liabilities	118	46

Analysis of consolidated statement of cash flows

This analysis table is showing the cash flow statements for continuing Neles for the periods in this interim report January 1–September 30, 2020, addition to IFRS financial information.

EUR million	Continuing operations		
	1–9/20	1–9/19	1–12/19
Operating activities			
Profit for the period	36	57	69
Adjustments			
Depreciation and amortization	18	19	25
Financial expenses, net	4	1	2
Income taxes	12	18	22
Other items	-12	4	5
Change in net working capital	-6 ¹	-16	-30
Net cash flow from operating activities before financial items and taxes	52	82	92
Financial income and expenses paid, net	-4	1	0
Income taxes paid	-5	-24	-38
Net cash flow from operating activities	42	58	54
Investing activities			
Capital expenditures on intangible and tangible assets	-11	-10	-20
Proceeds from sale of intangible and tangible assets	0	0	0
Acquisitions/divestments, Metso Group	-	-	-50
Net cash flow from investing activities	-10	-10	-70
Financing activities			
Dividends paid	-44	-18	-36
Proceeds from/repayments of short-term debt, net	-1	11	13
Proceeds from/repayment of long-term debt, net	-	-	36
Financing, Metso group	71 ¹	-39	-34
Lease payments	-8	-9	-10
Net cash flow from financing activities	17	-55	-31
Net change in liquid funds	49	-7	-46
Effect from changes in exchange rates	-3	1	2
Liquid funds at beginning of period	57	101	101
Liquid funds at end of period	103	95	57

Free cash flow

EUR million	Continuing operations		
	1–9/20	1–9/19	1–12/19
Cash flow from operating activities	42	58	54
Capital expenditures on intangible and tangible assets	-11	-10	-20
Proceeds from sale of intangible and tangible assets	0	0	0
Free cash flow	32	48	34

¹ For the period 1–9/2020, carve out related items are excluded from *Change in networking capital* and presented in *Financing, Metso Group*.

Notes to the Interim Review

Contents

1. Basis of preparation
2. New accounting standards
3. Key figures and formulas
4. Disaggregation of sales
5. Reconciliation of adjusted EBITA and operating profit
6. Fair value estimation
7. Notional amounts of derivative instruments
8. Contingent liabilities and commitments
9. Borrowings
10. Discontinued operations
11. Quarterly information
12. Exchange rates
13. Events after reporting period

1. Basis of preparation

This Interim review has been prepared in accordance with IAS 34 *Interim Financial Reporting*, applying the accounting policies published in the Financial Statements 2019 of Metso group. Neles Group will continue to apply these IFRS accounting policies, as applicable to Neles operations. New accounting standards have been adopted as described in note 2. This Interim Review is unaudited.

The partial demerger of Metso Group was effective on June 30th, 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 period January 1 – June 30, 2020 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. Alternative performance measures, however, should not be considered as a substitute for measures of performance in accordance with the IFRS.

All figures presented have been rounded and consequently the sum of individual figures might differ from the presented total figure.

2. New accounting standards

New and amended standards adopted in 2020

Neles has applied the following revised IFRS Standards that have been effective since January 1, 2020. These amendments have not had a material impact on the reported figures.

- Amendments to IFRS 3 Definition of a business
- Amendments to IAS 1 and IAS 8 Definition of material
- Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

3. Key figures

	1–9/20	1–9/19	1–12/19
EUR million			
Sales	421	493	660
Services sales	93	108	152
% of sales	22	22	23
Adjusted EBITA	62	78	97
% of sales	14.8	15.9	14.7
Operating profit	52	75	93
% of sales	12.3	15.3	14.0
Profit for the period, continuing operations	36	57	69
Profit for the period, discontinued operations	2,150	172	230
Profit for the period	2,185	228	299
Earnings per share			
Continuing operations:			
Earnings per share, basic, EUR	0.24	0.38	0.46
Earnings per share, diluted, EUR	0.24	0.38	0.46
Discontinued operations:			
Earnings per share, basic, EUR	14.31	1.14	1.54
Earnings per share, diluted, EUR	14.31	1.14	1.54
Total:			
Earnings per share, basic, EUR	14.55	1.52	2.00
Earnings per share, diluted, EUR	14.55	1.52	2.00
Cash flow			
Free cash flow, continuing, EUR million	32	48	34
Free cash flow/share, continuing, EUR	0.21	0.32	0.23
R&D expenditure, EUR million	13	14	18
% of sales	3.2	2.8	2.7
Gross capital expenditure, EUR million	11	10	20
% of sales	2.5	2.1	3.0
Amortization, EUR million	3	3	4
Depreciation of tangible assets, EUR million	7	7	10
Depreciation of right-of-use assets, EUR million	9	8	11
Adjustment items, EUR million ¹	8	-	-
Balance sheet			
Balance sheet total, EUR million	625	3,972	3,887
Equity attributable to shareholders, EUR million	254	1,467	1,523
Equity per share, EUR	1.69	9.77	10.15
Equity-to-assets ratio, %	42.2	40.2	42.3
Net debt, EUR million	118	420	798
Gearing, %	46.5	28.4	52.3
Net debt / EBITDA	1.3	-	-
Debt to capital ratio, %	46.5	-	-
Number of outstanding shares at end of period (thousands)	150,198	150,076	150,076
Average number of shares (thousands)	150,173	150,051	150,057
Average number of diluted shares (thousands)	150,173	150,192	150,200
Personnel at the end of period	2,840	14,563	15,281

¹ Adjusting items are 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.

Formulae 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	= $\frac{\text{Free cash flow}}{\text{Average number of outstanding shares during the period}}$	
Net debt	= Interest bearing liabilities - non-current financial assets - loan and other interest bearing receivables (current and non-current) - liquid funds	
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 + liquid funds + tax receivables, net + interest payables, net	

4. Disaggregation of sales

Neles' sales consist of sale of process industry flow control solutions with delivery of valves and services to 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	7-9/20	7-9/19	1-9/20	1-9/19	1-12/19
Products/ equipments	112	132	328	386	508
Services	32	38	93	108	152
Sales total	144	170	421	493	660

External sales by geographical area

EUR million	7-9/20	7-9/19	1-9/20	1-9/19	1-12/19
EMEIA	57	71	161	187	251
North America	38	59	130	182	235
South America	13	8	36	27	37
Asia-Pacific	36	32	94	98	137
Sales total	144	170	421	493	660

5. Reconciliation of adjusted EBITA and operating profit

EUR million	7-9/20	7-9/19	1-9/20	1-9/19	1-12/19
Adjusted EBITA	23	28	62	78	97
% of sales	15.8	16.6	14.8	15.9	14.7
Amortizations	-1	-1	-3	-3	-4
Adjustments					
- Restructuring costs	-1	-	-1	-	-
- Rebranding and establishing costs	-1	-	-7	-	-
Adjustments , total	-2	-	-8	-	-
Operating profit	19	27	52	75	93
% of sales	13.5	16.0	12.3	15.3	14.0

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 present 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	9/20			12/19		
	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	-	-	0	-
Total	-	1	-	-	0	-
Liabilities						
Financial liabilities at fair value through profit and loss						
Derivatives not under hedge accounting	-	1	-	-	1	-
Total	-	1	-	-	1	-

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	9/20	12/19
Nickel swap contracts	0	0

The notional amounts are 348 tons (336 tons in 2019), which indicate the volumes in the use of derivatives, but do not indicate the exposure to risk.

8. Contingent liabilities and other commitments

EUR million	9/20	12/19
Guarantees		
External guarantees given by parent and group companies	39	39
Other commitments		
Repurchase commitments	9	11
Other contingencies	3	4
Total	51	55

9. Borrowings

In the demerger, EUR 150 million term loan was transferred to Neles. Loan has a floating interest rate base and matures in July 2022. The covenant of the loan is related to the debt to capital ratio and is clearly covered at the end of the period.

Neles has lease liabilities EUR 52 million at the end of period, which mainly relates to plant and office leases.

Neles has syndicated revolving credit facility of EUR 200 million with four banks, maturing in 2023 with two one-year extension options and EUR 200 million Finnish commercial paper program. Both the revolving credit facility loan and commercial paper program are fully undrawn at the end of reporting period.

10. Discontinued operations

Result of discontinued operations

EUR million	1–9/20	1–12/19
Sales	1,447	2,976
Expenses	-1,272	-2,673
Result from operating activities	175	303
Income taxes	-47	-72
Result from operating activities, net of tax	127	230
Fair value gain from valuation of net assets of discontinued operations	2,022	-
Profit from discontinued operations, net of tax	2,150	230
Earnings per share, EUR	14.31	1.54
Earnings per share, diluted, EUR	14.31	1.54

Profit from discontinued operations include demerger expenses of EUR 11 million in H1/2020 and EUR 22 million in 2019. Profit from discontinued operations of EUR 2,150 million (EUR 230 million) is attributable to the owners of the parent company.

Cash flows from discontinued operations

EUR million	1–9/20	1–12/19
Net cash flow from operating activities	314	36
Net cash flow from investing activities	-40	-207
Net cash flow from financing activities	-108	2
Net cash flow for the period	166	-169

Net assets of discontinued operations

EUR million	9/20
Goodwill	551
Other intangible assets	173
Tangible assets	337
Right-of-use assets	97
Deferred tax assets	101
Investments	8
Loan receivables	6
Financial assets	35
Other non-current receivables	35
Inventories	886
Trade receivables	485
Customer contract assets	94
Income tax receivables	29
Other receivables	79
Liquid funds	312
Assets total	3,229

EUR million	9/20
Borrowings	857
Lease liabilities	83
Deferred tax liabilities	62
Post-employment benefit obligations	58
Trade payables	351
Provisions	94
Advances received	185
Customer contract liabilities	79
Income tax liabilities	47
Financial liabilities	20
Other current liabilities	244
Liabilities total	2,079
Net assets and liabilities	1,150

11. Quarterly information

EUR million, %	7–9/20	4–6/20	1–3/20	10–12/19	7–9/19	4–6/19	1–3/19
Orders received	134	131	191	154	171	165	191
Order backlog	293	305	337	280	295	298	311
Sales	144	141	137	167	170	168	155
Adjusted EBITA	23	23	17	18	28	27	23
% of sales	15.8	16.3	11.7	11.0	16.6	16.2	14.2
Amortization	1	1	1	1	1	1	1
Adjustment items	2	4	1	-	-	-	-
Operating profit	19	18	15	17	27	26	22
% of sales	13.5	12.6	10.9	10.4	16.0	16.1	14.0
Earning per share, EUR	0.09	0.08	0.07	0.09	0.15	0.13	0.09

12. Exchange rates

Currency	1–9/20	1–9/19	1–12/19	9/20	9/19	12/19
USD (US dollar)	1.1293	1.1241	1.1214	1.1708	1.0889	1.1234
BRL (Brazilian real)	5.7015	4.3840	4.4195	6.6308	4.5288	4.5157
INR (Indian rupee)	83.4016	78.7047	78.8488	86.2990	77.1615	80.1870
CNY (Chinese yuan)	7.8872	7.7167	7.7353	7.9720	7.7784	7.8205
SGD (Singapore dollar)	1.5635	1.5332	1.5279	1.6035	1.5060	1.5111
SEK (Swedish krona)	10.5648	10.5547	10.5572	10.5713	10.6958	10.4468
GBP (Pound sterling)	0.8823	0.8841	0.8773	0.9124	0.8857	0.8508
CAD (Canadian dollar)	1.5246	1.4959	1.4882	1.5676	1.4426	1.4598

13. Events after reporting period

October 27: Alfa Laval announced it has received all necessary regulatory approvals for the recommended public cash tender offer for all shares in Neles

October 23: Risto Murto resigned from the Shareholders' Nomination Board due to change in Varma Mutual Pension Insurance's shareholding in Neles.

October 22: Neles and Metsä Fibre signed a preliminary agreement for valve solutions delivery to the new Kemi bioproduct mill in Finland

October 19: The Board of Directors of Neles Corporation supplemented its statement regarding the recommended voluntary public cash tender offer by Alfa Laval AB (publ) after change of PTO terms.

October 15: Alfa Laval changed its PTO terms (minimum acceptance more than 50%, previously 2/3 of shares) and extended its offer period (October 30, previously October 22).

October 12: The Board of Directors of Neles assessed Valmet's merger proposal. The recommendation by the Board of Directors of Neles published on August 12, 2020, regarding the Tender Offer made by Alfa Laval remains in place.

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 which 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

Neles Corporation, Group Head Office
Vanha Porvoontie 229, FIN-01380 Vantaa, Finland
Tel. +358 10 417 5000
www.neles.com