NELES

Annual report 2020

We deliver reliable performance

Neles delivers mission-critical flow control innovations, technologies, and services for the continuously evolving needs of global process industries. We help our customers to improve their process performance and ensure the safe flow of materials. We drive profitable growth and sustainable productivity across our customer industries.

Welcome to Neles Annual Report 2020.




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Reinventing reliability

In our line of business, reliability is everything. We draw on our long heritage and knowhow to continuously develop and innovate solutions that redefine how process industries experience reliable flow control performance. Our customer promise 'Reinventing reliability', reflects our continuous commitment in serving our customers throughout their investment and operations life cycle.

Neles in brief

Sales, MEUR

576

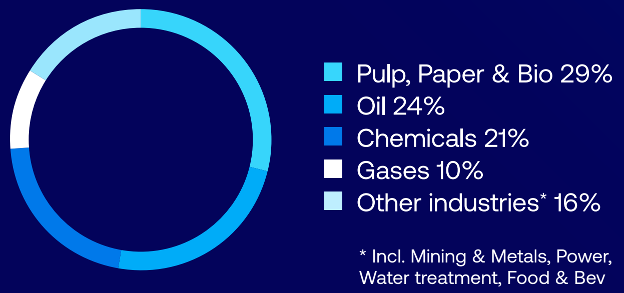
Employees

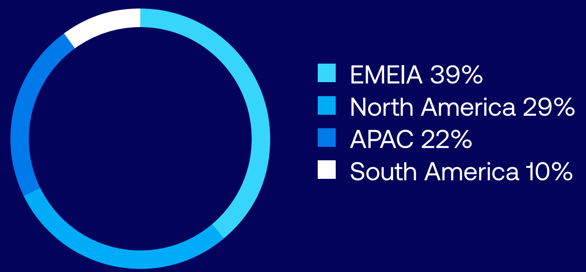
2,840

Adjusted EBITA

14.8%

of sales





Our vision

Leading valve and valve automation company, Reinventing reliability in flow control.

Leading brands Neles™
Jamesbury™
Easyflow by Neles™

Delivering flow control performance that helps meet growing demand

Improving safety and environmental performance

Leading the way towards increased digitalization

Going forward with reliability

2020 was a period of great change for Neles. Reborn as an independent flow control company, we ensured an uninterrupted business transition and maintained profitability despite the challenging global situation.

Since the 1950s, Neles has been a forerunner in developing flow control solutions. Over the years, Neles has systematically expanded its offering to new customer segments and developed its services strategy and capabilities to become the most reliable partner for our customers.

This year, we restarted our journey as an independent stock-listed company. After the partial demerger of Metso's Minerals business and Flow Control business, which was renamed Neles, Neles became the successor of Metso on the Helsinki Stock Exchange in July.

Although Neles' business operations were already independent from the minerals business, the project to separate Neles from Metso's infrastructure and to build its own systems, processes and identity was a year-long journey directly involving dozens of people and indirectly impacting many more. The process was an uplifting experience for us all and created a lot of excitement around the organization.

Despite challenges caused by the global pandemic, we successfully finalized the partial demerger and ensured a smooth, uninterrupted global business transition. We also launched our renewed identity centered around "Reinventing Reliability", which describes our continuous commitment to providing products and services that enable our customers to improve their processes for better profitability and more sustainable operations.

Strategy for profitable growth

Prior to the demerger, we defined the new strategy and financial targets for Neles, which were presented during our first, fully virtual Capital Markets Day in May. Our main ambition is to grow faster than the market by expanding our offering and diversifying the valves and valve controls businesses to new customer segments. We aim to do this while maintaining first-class profitability.

Developing sustainable operations and offering

At Neles, sustainability is integrated into everything we do in terms of health and safety, environment as well as society and people. Our safety, measured by incidents causing injuries, has improved to the best level ever. Despite the positive development, we know that safety requires a constant focus.

Over the last couple of years, reducing fugitive emissions and improving energy efficiency have become increasingly critical for our customers. Even though we were adjusting our spending during the market slowdown in 2020, we were able to advance our R&D efforts in the renewal and development of key technology platforms, such as smart digital controllers and various valve product families. These technologies help customers to achieve more sustainable and reliable performance through better valve performance and advanced control and diagnostics.

In July, we opened our second valve technology center in China, in Jiaxing. This was an important strategic addition to our global manufacturing footprint and good news for our valve customers around the world. Following our environmental targets, the principle at the new site was to ensure the most reliable and emission-free production processes.

Customer success is our success – annual feedback encouraging

After leading Neles team for a year, I started as the CEO of the company in July 2020. Before the world went into lockdown, I had the opportunity to visit several Neles locations around the world, meet hundreds of colleagues, and discuss their expectations, challenges and ideas. I was impressed by how dedicated our employees and channel partners are to our customers. The feedback from our annual customer satisfaction survey echoed the same message: in addition to product quality, our customers strongly value the technical expertise and the never-walk-away mentality of our employees. Neles' Net Promoter Score of 38 compares well with the peer flow control companies, and it was a significant improvement from last year's score of 29.

Exceptional year for business in a mixed market

We started the year with a strong order backlog and a positive business outlook, and we reacted quickly when the pandemic hit globally. From the start, our priority was to protect our employees and customer deliveries. We also took early resolute action to ensure profitability and cash generation in preparation for all scenarios.

The unique feature of the Covid-19 crisis was that it hit our services and Maintenance, Repairs and Operations (MRO) driven business immediately, as lockdowns and postponements of large service events at customer sites started in the second quarter. Although some markets have improved and there are signals of recovery overall, the market situation for services and MRO-driven business was still suppressed at the end of 2020.

The momentum in our project business was better. Oil and Gas projects were active in the first half of the year, but the funnel got thinner in the second half. We were successful in winning Pulp and Paper projects and strengthened our market leadership throughout 2020.

Thanks to our proactive measures, we kept our profitability and cash flows at a good level despite the reduced orders and sales. Our adjusted EBITA for the full year was a solid 14.8% of sales.

Development in shareholder base

During the third quarter, there was considerable debate and public interest in the ownership situation of Neles. Valmet became a major shareholder on July 1st and continued to increase its shareholding through the third quarter. Alfa Laval announced a voluntary public tender offer for all Neles shares in early July. In November, Alfa Laval announced that they would not complete the offer, as they had not reached the threshold ownership level in their offer. In the midst of this, Neles' management and employees focused on daily business, serving customers and executing our strategy.

Looking forward

Looking ahead in 2021, the visibility for the direction of the markets and business could be better, but we expect market activity for the services and MRO-driven businesses to gradually improve during the second quarter of 2021. We envisage that Pulp and Paper projects continue at a good level. Also Chemicals and Oil & Gas projects are expected to continue at a satisfactory level as in the second half of 2020; however, global uncertainties continue to reduce visibility of their timing. We will continue implementing our strategy to develop our cost base, product and services offering, as well as our delivery capabilities for different future scenarios.

I want to take this opportunity to give my sincerest thanks to all Neles and Metso colleagues for their enthusiasm and dedication in creating a strong, independent Neles during this journey. A special thanks to all our customers and partners for working with us to find solutions that enable us to work together in these new circumstances. With this solid foundation, we can continue 'Reinventing Reliability' together for a successful future.

Olli Isotalo
President and CEO, Neles Corporation

Building new Neles was a year-long journey directly involving dozens of people and indirectly impacting many more.

2020 Highlights

Strategy implementation

- Partial demerger of Metso Group and launch of Neles' standalone operations
- Launch of the new technology center in Jiaxing, China
- Good performance in pulp and paper projects
- Customer NPS 38 (29 in 2019)

Financial performance

- Good profitability and strong cash flow
- Adjusted EBITA EUR 85 million
- Adjusted EBITA % 14.8
- EPS, continuing operations EUR 0.32
- Board of Directors dividend proposal: EUR 0.18 per share

Achievements in sustainability

- Developing safety culture - Lost Time Indicent Frequency improved to 1.3
- 100% of R&D projects had set sustainability targets
- 12 supplier sustainability audits
- 88% of personnel completed Code of Conduct training

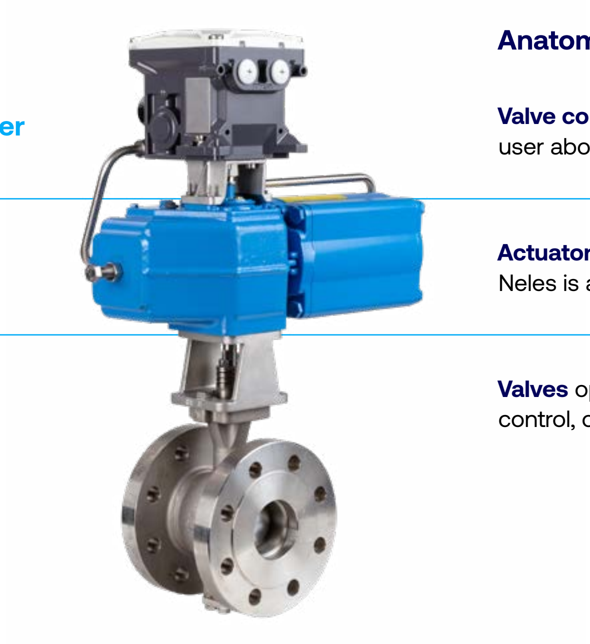
Mission critical equipment – did you know this about valves?

Valves play an important role in our everyday lives, and they allow various industries to produce materials that keep our societies and infrastructures up and running. Wherever e.g. liquid or gas is moved in a pipe, valves are involved.

The valves Neles makes are very different from the valves you find at home, for example. They are high-performance industrial process valves that can operate in demanding conditions, such as high pressures or temperatures, and they can handle challenging gases and liquids flowing through them. They must meet tight environmental regulations and customer requirements and are often engineered to customers' specific requirements.

Valves are used to secure safety in process plants or to regulate and control process flows in, e.g., pulp or bioproduct mills or oil refineries. The important role they play in the productivity and safety of process plants makes them mission-critical. In order to keep valves functioning reliably, they are serviced at regular intervals.

Neles produces full valve packages consisting of the valve, actuator and valve controller, as well as sells each of these components as standalone products.



Anatomy of a flow control solution

Valve controller

Valve controllers, aka positioners, control the actuator with pneumatic signal (compressed air) and send information to the user about the valve's position or condition. Today, Neles is one of the world's top three providers of valve controllers.

Actuator

Actuator is the motor that operates the valve. Together, the actuator and valve controller form a valve automation solution. Neles is among top five players in actuators globally.

Valve

Valves open, close or control the liquid or gas flow path in the pipe. They can be categorized based on their functionality: control, on/off, or safety. In total, the market consists of ~900 valve providers. Neles is among the 10 largest players globally.

Neles valves facts

Neles designs and produces valves that range from ~1/4 to 100 inches

~500,000
valves delivered every year

~7 million valves in our installed base

~1.2 million serviceable valves tagged

A pulp mill with annual production of 1 million tons typically has around 2,000-2,500 control valves

Neles valves in the field

90% coverage in required automated valves in a typical pulp mill project

Decades of experience in deliveries to polyolefin processes

Ultra-reliable offering for Industrial gases such as oxygen or hydrogen

150+ shutdowns per year and 100+ service agreements globally

More than 20,000 overhauled valves per year

The Neles journey

History of industry experience and technology leadership

Neles' history of innovation starts in 1956. Over the years, the company has expanded from having a pulp and paper market focus to being a leading global player in several process industries, including oil and gas refining, petrochemicals and industrial gases.

Frontrunner in valve automation and digitalization

Since 1990s, Neles has been a frontrunner in valve automation and digital solutions for flow control applications in process industries. Recent industry-leading developments in this area include the next-generation digital positioner family Neles™ NDX valve controller.

Services expansion

Over the years Neles has earned its reputation as a trusted partner bringing reliability to customer processes and supporting them throughout the plant life cycle. Together with our service partners, we have built an extensive global network of service centers close to our customers. We have also invested in developing data-driven solutions to support our customers' ongoing process monitoring and valve maintenance, and in managing their valve installed base with a rich set of information.

Organic growth, supported by strategic acquisitions

Neles has mainly grown through systematic organic development. Acquisition of Jamesbury in 1988 was a transformative step in becoming a global leader in flow control. Acquisitions since then have been smaller in scale and have complemented our offering, widened our market reach to new customer segments and geographies, and strengthened our global operations and supply chain capabilities.

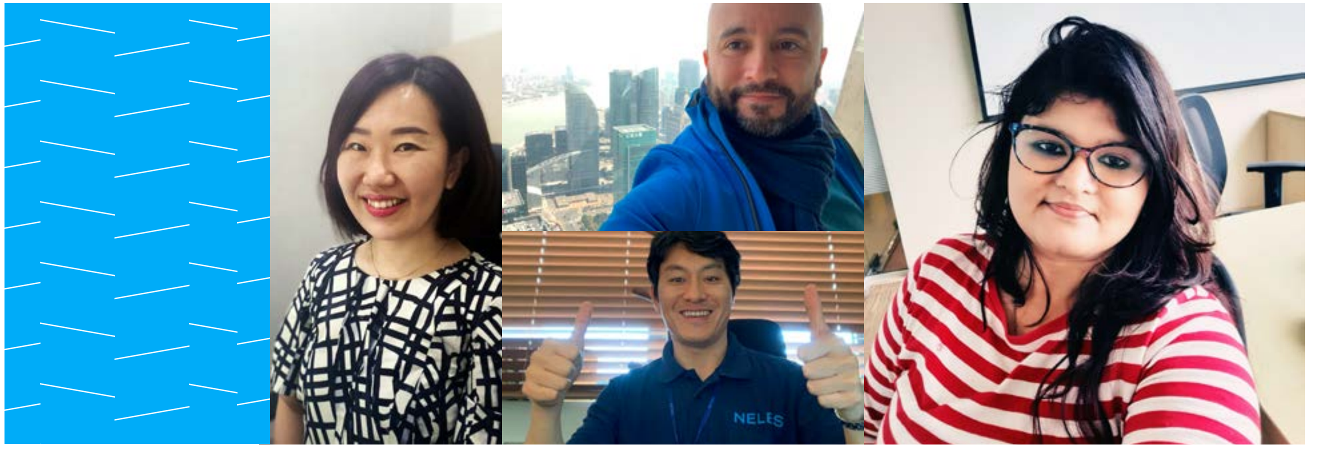
Today, Neles is a leading provider of mission-critical flow control solutions and services for all process industries. We have expanded our sales and services reach to cover all the main global markets, and our operations and supply chain footprint stretches from Europe to the US, China, India, Middle East and Latin America.

2021 will be Neles' 65th year of industry-leading innovations and experience.

- **1956** **Neles** founded
- **1982** **Neles** acquired by predecessor of Metso
- **1988** **Jamesbury** acquired
- **2000** **StoneL** acquired – Broadening the valve controls and switches offering
- **2001** **Valvcon** acquired
- **2008** **MAPAG** acquired – Expansion to industrial gas
- **2012** **Valstone** acquired – Broadening the control valve offering with globe valves
- **2013** **ExperTune** acquired Software for performance services
- **2018** **Rotex** valve automation division acquired – Easyflow by Neles™ range and a manufacturing footprint in India
- **2020** **Neles** independent

Our people and culture

We are a global and committed team of flow control experts, with strong industry knowhow and focus on helping our customers to succeed. We believe that best results are made through great collaboration and knowledge sharing within our network.



In 2020, Neles identity and key cultural elements were defined together with employees. Neles culture is driven by understanding our customers' businesses and needs and getting things done. Our values guide us in how we do business and in how we work together with our stakeholders.

Customer Success is our success

We are driven to understand customers' business needs, where we can help them and how satisfied they are.

We build and share expertise

We place huge importance on growing and sharing knowledge, within our team and our customers and partners.

We strive for better together

We're honest and open about how things can be better, and always strive to reach the best possible solution.

We keep our promises

We never walk away from issues until we get to a conclusion. We do what we say we'll do and live up to our promises.

2,840 employees in 38 countries

51 nationalities

9 years average career at Neles

Close to our customers all over the world

Neles serves customers in 115 countries around the world. Our customers are increasingly focusing on efficiency and reliability as well as effective maintenance to avoid disruptions in their processes. This means that valves, spare parts, or expert services must be at hand when they are needed.

The flexibility of our global footprint was put to the test in 2020, as the pandemic made moving people and goods challenging. Thanks to our global partner network, sourcing, and logistics, we were able to manage these challenges.

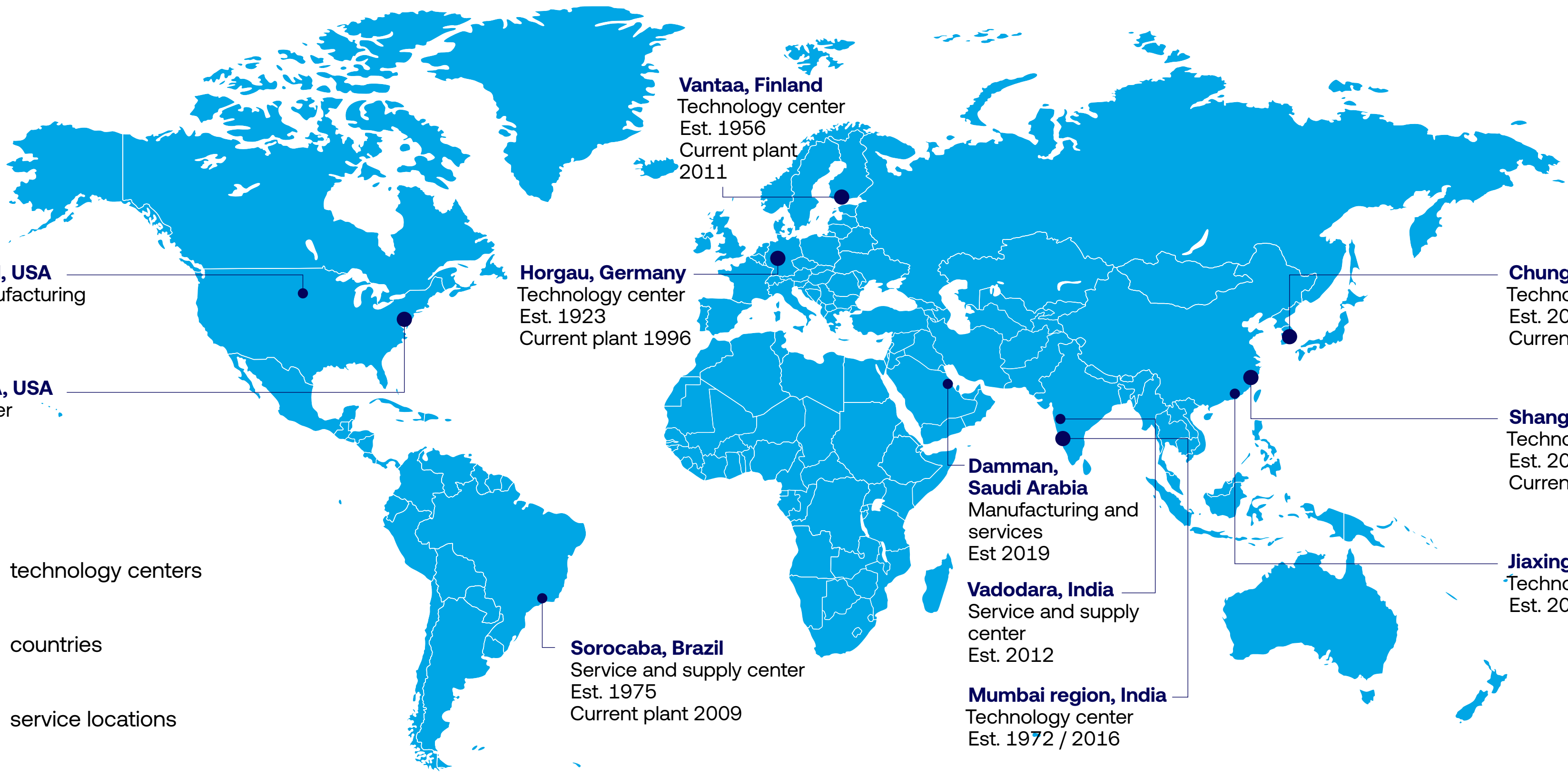
Our new technology center in Jiaxing, China, started its operations in July and was fully operational throughout the second half of 2020. We also ramped up a new plant in Dammam, Saudi Arabia, through a joint venture with Industrial Systems Group. The new plant provides support to our clients across the Middle East.

Neles' valves typically go through Factory Acceptance Testing (FAT) before being delivered to customer projects. Prior Covid-19, the customer would normally visit the factory for conducting FAT. In order to ensure that our customers' valves are manufactured according to their requirements and to prevent the virus from spreading, Neles carried out FAT by utilizing photos, video and also provided a live streaming possibilities.

Training our own personnel and our customers' and partners' is an important part of Neles' expertise. In 2020, we held more than 75 webinars and virtual seminars for customers globally and 85 online trainings for channel partners in North America only.

We continued the development of our sales and services network in 2020 by adding 25 new channel partners globally.

Neles in the world



7 technology centers

38 countries

~40 service locations

300+ channel partners

400+ service professionals

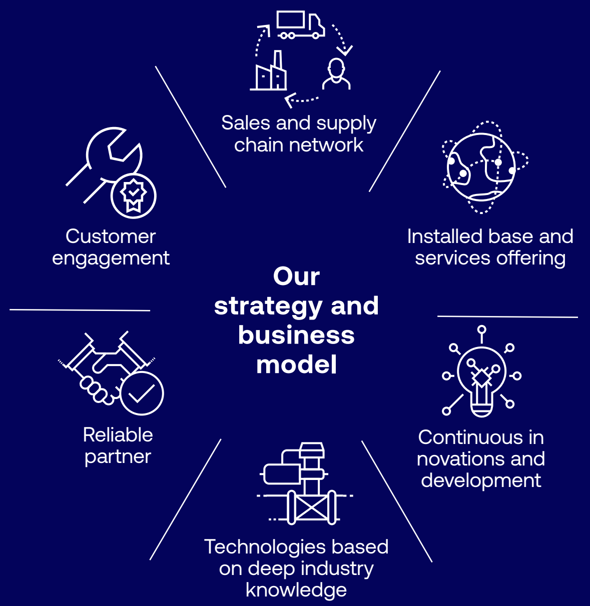
Creating value

Capitals

- Financial
- People and leadership
- Natural resources
- Brand and intellectual property
- Distributors
- Supply chain
- Own manufacturing

What we do

We are a reliable partner offering sustainable solutions to our customer industries. We create value to our customers, shareholders and other stakeholders



Growing demand for materials

Safety, reliability, emissions

Growing automation levels and digitalization

Our impact: Sustainable solutions

Outputs

Direct

- Industrial valves, controllers, spare parts and related services

Indirect

- Solutions contributing in solving global environmental challenges
- Promoting circular economy and recycling e.g. through serviceable products and new by-products from out-of-waste flow

Benefits for customers

- Sustainable solutions to support customers in their sustainability work
- Innovation for productivity, energy efficiency and safety
- Solutions for complying with tightening regulations and legislation
- Optimized process efficiency

Economic value created *

Society
EUR 16 million

Shareholders
EUR 44 million

Employees
EUR 134 million

Suppliers
EUR 260 million

Customers
EUR 576 million

* Calculated according to GRI standards

Environmental impact
2020 reduction of emissions:
4,879 tCO_2 tons in logistics
0.16 tCO_2 tons in production
Compared to 2019 baseline

Social impact

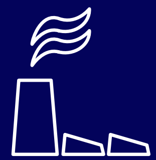
28.3
employee NPS

7,992
risk observations

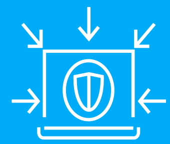
Mission: Providing market-leading expertise, products and services to add the most value to customers.

Responding to megatrends

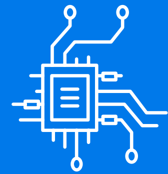
In 2020, the global pandemic made Neles, our customer industries and partners, as well as societies at large to rethink the ways things are done. This situation continues to cause uncertainties in the short term. Mid-to-long-term, however, there are solid drivers for growth in process industries and thus in the valves and valve automation business.



GROWING DEMAND FOR MATERIALS



SAFETY, RELIABILITY, EMISSIONS



GROWING AUTOMATION LEVELS AND DIGITALIZATION

Rapid industrialization and continuing global population growth are increasing the demand for industrial goods and materials. At the same time, tighter regulations and increasing environmental consciousness are adding to the demand for more reliable and better performing equipment and more intelligent solutions.

We have identified the megatrends and industry drivers that have great impact on our customers and where Neles technologies and solutions can help them to tackle these challenges in a sustainable manner.

Growing and changing demand for materials

Urbanization and global GDP growth increases and changes the demand for materials. A good example of this is our traditional stronghold, the pulp and paper industry, which is transforming to meet the demand for bio-based materials, such as tissue (e.g. sanitary papers), biodegradable packaging materials and biofuels. Neles has been active in developing solutions to support this transformation through our extensive process knowledge, our products, and through our digital tools designed to help collect and utilize accurate data to improve process performance.

Safety, reliability and emissions

As environmental awareness is increasing, producers are looking for more reliable process performance with less waste and emissions. Safety, reliability and emissions of industrial processes are thrust into the spotlight as a result of tighter legislation. End products, e.g. in the oil industry, are facing tighter environmental regulation. We see these trends as increased investments to upgrade and replace processes and related valve assets.

Growing automation levels and digitalization

Unplanned downtime and seemingly unpredictable breakages are the key driver of lost production. Therefore, growing automation levels and digitalization not only help to secure safety, but also plant productivity. Neles develops solutions for better process and product utilization, enabling predictable maintenance needs and well-timed decisions to ensure stable performance and avoid unplanned downtime. Collaboration is the key to success when it comes to collecting, managing and utilizing data. Therefore, we work towards better use of digitalization opportunities together with our network.

New generation bioproduction

In 2020, Neles was selected as the main supplier of valve solutions for the new bioproduct mill of Metsä Fibre, part of Metsä Group. The new bioproduct mill to be built in Kemi, Finland, will have the capacity to produce 1.5 million tonnes of pulp and various other bioproducts annually. Metsä Fibre set high environmental, material and energy efficiency targets for the new mill. Therefore, also their partners are expected to deliver the technically most reliable solutions as well as deep knowledge of production requirements.

The new bioproduct mill will be the largest and most efficient wood-processing unit in the Northern Hemisphere and the largest investment in Finnish forest industry history. (Image: Metsä Group)

Sustained performance through digitalization

In a typical process plant, many controls and processes are not operating optimally; this can result in less stable production, higher raw material usage, increased energy consumption and lower yield. Generally, about 20–30% of controls are in manual mode, and up to 85% of control loops have sub-optimal settings. Neles PID tuning and process control services identify incorrectly configured control loops and the root causes of issues and prepare corrective actions that optimize control performance.

Our advanced testing facilities enable testing valve solutions for maximum tightness as well as functionality in extreme conditions.

Minimizing fugitive emissions

Fugitive emissions are emissions caused by leaks and other unintended releases of gases in industrial activities. In addition to the economic cost of lost commodities, fugitive emissions contribute to air pollution and may increase the risk of occupational hazards.

Neles' valve products are designed and tested to ensure minimum fugitive emissions. A large portion of Neles valve products are certified to meet the global ISO 15848 standard requiring close to zero emissions for processes involving hazardous fluids and volatile air pollutants; they also comply with many standards mandated in specific regions.

Meeting these tight requirements is a mandatory requirement in the majority of current projects in the oil and gas industries worldwide, and, increasingly, in other process industries as well. By eliminating fugitive emissions, valve products help our customers improve the health and safety of workers, allow plants to meet regulatory standards, reduce product losses, and ultimately improve the environmental performance over the entire plant life cycle.

Our knowledge of fugitive emissions is based on strong in-house capabilities where fugitive emissions theory and testing are combined with skilled personnel. Neles has advanced valve testing facilities where the fugitive emissions development and type-approval tests are done.

Our operating environment

Neles serves process industries that play an important role in keeping modern societies and infrastructures functional. We support our customer industries in making sustainable choices by enabling safe flow of materials.

Valves are used across wide variety of process industries, which makes the business less sensitive to industry-specific fluctuations. End-product prices, production capacity, new project and energy markets are the main demand drivers in the process industries. Neles offers valve and valve automation technologies and services to all process industries.

Process industry flow control market is highly fragmented with a few large global players who are present in most markets, as well as huge number of smaller, local ones. Neles in among the top ten valve manufactures globally, in the top five in actuators and among the top three in valve controls.

Neles' business consists of business driven by capital investments, such as EPC projects, as well as business driven by services and customer Maintenance, Repair and Operations (MRO), which is mostly sold to end customers directly or through our channel partner network.

Capital investment-driven business is cyclical in nature, and different customer industries have different cycles. The services and MRO-driven business is normally less cyclical, enduring global economic shocks and growing stably, as it is driven by customer operating volumes, the need to perform service and maintenance regularly, and customer needs to upgrade their processes to accommodate new products or to meet safety and environmental requirements.

However, in 2020 customers started postponing their planned maintenance shutdowns and focused on conservation of cash and reducing operating costs, which contributed negatively to our services and MRO-driven business.

Total market of valves, actuators and valve controllers is EUR ~40 billion globally.

Strategy for profitable growth

In 2020, Neles defined the new strategy for sustainable profitable growth. Our ambition is to grow faster than the market by expanding our offering and diversifying the valves, valve automation and services businesses to new customer segments.

Global businesses and local customer service

Neles' competitiveness is based on the high-quality of its products and services, its proven technologies and its global team of experts. The cornerstones of our strategy are: broadening our innovations and product reliability, expanding our multi-channel service capabilities supported by digitalization, and accelerating growth in valve automation. Neles businesses have been organized in three business lines, Valve Equipment, Valve Controls and Actuator and Services, and centralized operations function to support daily execution of our strategy..

To enable collaboration with customers, Neles has market-specific sales organizations in four market areas. Our global presence in 38 countries is further enhanced by a growing network of channel partners. In 2020, we continued the development of our sales and services network by adding 25 new channel partners to our network globally.

Sustainability integrated throughout the value chain

Our commitment to reinventing reliability covers the whole life cycle of our valve solutions. Sustainability is integrated into everything we do. Our approach is twofold:

We are a **reliable partner offering sustainable solutions for our customer industries** by helping to ensure the safe flow of materials. We innovate solutions that help our customers to improve their process performance in a safe and sustainable way, through product safety and reduced energy consumption and waste.

We are committed to **improving sustainability in our own operations** in terms of **safety, environment, and society and people.** In practice, this means continuous improvement of safety and environmental efficiency – from manufacturing and logistics to the way we work together with colleagues, partners, and customers every day.

Read more about our sustainability agenda and targets on pages 124–133.

Innovation and product reliability at the core

Neles product and service portfolio is built on remarkable innovations, some of which have been industry benchmarks for decades. We have a field-proven track record in developing long-lasting and reliable valve technologies. Today, valves must withstand more stringent process conditions, such as high process pressures or extreme temperatures. Not only are the technical requirements more demanding, there is also pressure to bring more economical solutions to market.

Neles is constantly developing our portfolio of high-engineered valves, valve controls and standard solutions to meet the diverse needs of our customers. We build on continuous and systematic product renewal and expanding our offering. We are also exploring new manufacturing methods and materials technologies and further leveraging our simulation and design automation capabilities.

In 2020, the focus of Neles' research and development activities was on the renewal and expansion of certain product platforms, e.g. high-pressure ball valve technology. By focusing on the development of seat technology, we are ensuring better internal tightness and thus minimizing harmful fugitive emissions to the atmosphere, even in the most demanding applications.

All research and development projects have sustainability targets, e.g. for product safety and efficiency.

Next wave in 3D printing

3D printing has evolved from a viable technology for prototyping and training purposes into a robust and reliable production process that is ideal for small, complex shapes. As 3D printing does not require production tooling, such as casting patterns, it makes it economically feasible to customize valve features for an individual valve or customer.

Neles is one of the 3D frontrunners in the valve business. In 2018, we delivered the first valves with 3D-printed parts. These 3D components allow the valves to perform in a particularly demanding application where they need to withstand numerous fast open-close cycles without maintenance. In 2020, Neles manufactured an entire 3D-printed valve body to be installed in a customer process for field testing.

High-performance and reliability with Easyflow by Neles offering

In 2020, we continued to roll out our high-performance valve solution offering under the Easyflow by Neles™ brand. Designed and manufactured largely at Neles' Technology Center in India, Easyflow by Neles offers a complete suite of products for the easy selection and creation of automated valve assemblies suitable for a wide range of industries and applications.

Valve automation

Valve controls and actuators play a key role in ensuring process performance and safety, regardless of the valve in use. Together they form the core of a valve automation solution. Accurate control and automation solution helps to ensure production quality and minimize the amount of production losses. It also allows optimizing the material flows as well as use of chemicals and energy. Today, we are among the top three players in valve controls and top five in actuators.

In 2020, Valve controls and Actuators was launched as a new business line targeting to accelerate growth in valve automation. We are focusing on the development and expansion of our current valve automation solutions portfolio and on developing dedicated channels to be able to serve a wider range of customers.

Next generation of valve control

One of our latest innovations in valve automation is the Neles NDX valve controller. Neles NDX is a technology platform for smart digital controllers having independent computing power for accurate and fast control and diagnostics with Industry 4.0 communication capabilities. Neles NDX valve controller has been designed with a strong focus on the user experience and it is compatible with all valve brands in a wide range of applications, regardless of customer or industry.

Service leadership and digitalization

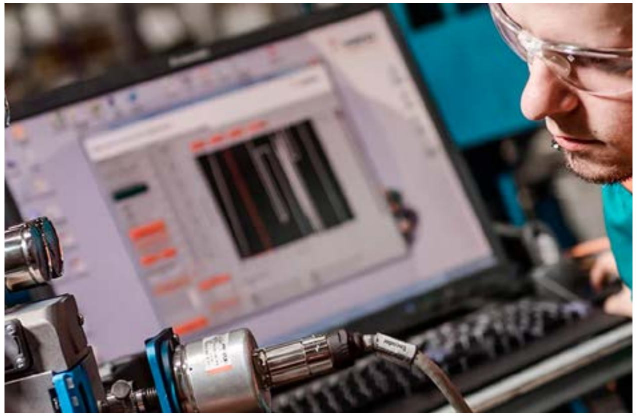
Process plants need production lines that are up and running as reliably and as efficiently as possible. Correct, timely maintenance actions not only enable the best plant performance, but also helps to manage and mitigate risks.

Neles is an industry leader in services. Our service portfolio covers the entire plant lifecycle from start-up of new plants to modernization and upgrade of existing ones. Over the years, we have developed global network of service professionals and facilities as well as unique capabilities to leverage data about and generated by our customers' valves. This data is used to offer value-adding insights and services to our customers.

We also develop new methods to interact and transfer data with our sales partners and customers. Additionally, our performance service solutions enable process plants to monitor process loops and prioritize improvement and maintenance actions.

Combining data and experience for proactive maintenance

Today, asset data has become vital information for industry, both strategically and operationally. At the end of 2020, Neles had matched roughly one million valves with end user tags, and new deliveries and repairs continue to generate and add data. This data is valuable when planning maintenance shutdowns, turnarounds and outages (STOs) at critical intervals to ensure efficient and safe process operations. Neles also combines decades of cumulative experience from designing and servicing valves with diagnostic, performance and historical maintenance data to determine which valves should be prioritized for maintenance at each opportunity to pull equipment from the process. Well-planned maintenance and good practices ultimately increase production capacity, improve product quality, maximize energy efficiency and reduce unit downtime.



Reliability and sustainability through digitized services

A client in Russia used Neles' control performance services to stabilize pulp mill production processes and to achieve goals for chemical savings. By identifying unperforming controllers and returning them to automatic operation, the process variability was reduced, leading to more stable and reliable operations. By using Expertune™ PlantTriage™ software to investigate the performance of hundreds of valves and controllers, the customer was able to identify and resolve issues, resulting in a reduction in two bleaching chemicals; more than 6% reduction in caustic (NaOH) and more than 5% reduction in chlorine dioxide (ClO_2), all while maintaining production and quality targets.

ExperTune™ PlantTriage™ was installed in the production process to constantly monitor the production process for potential issues and to report them in real time with analysis and suggestions for continuous improvement. Neles and customer engineers used PlantTriage™ tools remotely, via customer-approved secure connections.

Board of Directors' Report

Neles Group created on June 30, 2020

Board of Directors' Report

Financial year 2020

The partial demerger of Metso Group took place on June 30, 2020, and the continuing operations were renamed Neles Group. Neles valves business has been reported as continuing operations, and the demerged Metso Minerals business as discontinued operations (for the period January 1–June 30, 2020). In this Financial Statement Review, 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.

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. The 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 until October 30 (previously October 22). Neles' Board recommended the PTO on August 12 and again on October 19 regarding the changed PTO terms. On November 4, 2020, Alfa Laval announced it would not complete the PTO, as it had received approximately 32.82% (of 50% threshold) of Neles shares during the offer period. On December 31, 2020, Alfa Laval's shareholding in Neles shares was 8.46%.

Valmet Oyj, which acquired a stake of 14.88% in Neles Oyj on July 1, had a shareholding of 29.54% as of December 31, 2020. On September 29, Valmet published a proposal for a merger between Valmet Oyj and Neles Oyj. On October 12, Neles' Board announced that there were no ongoing discussions with Valmet and reiterated its recommendation regarding Alfa Laval's PTO.

Key figures, IFRS

EUR million	2020	2019	Change, %
Continuing operations			
Orders received	590	681	−13
Order backlog at the end of period	270	280	−4
Sales	576	660	−13
Sales by services business	129	152	−15
% of sales	22	23	
Adjusted EBITA [1)]	85	97	−12
% of sales	14.8	14.7	
Operating profit	70	93	−25
% of sales	12.2	14.0	
Earnings per share, EUR	0.32	0.46	−30
Free cash flow	69	34	103
Return on capital employed (ROCE) before taxes, %	15.6	19.2	

1) Adjustment items amounted to EUR 11.3 million in 2020. No adjustment items were included in 2019. The adjustments 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.

EUR million	2020	2019
Discontinued operations		
Profit for the year, discontinued operations	2,150	230
Earnings per share, EUR	14.31	1.54
Neles total		
Profit for the year	2,198	299
Earnings per share, EUR	14.63	2.00
Net debt	81	46
Equity to assets ratio, %	42.6	39.5
Net debt/ EBITDA, rolling 12 months	0.9	–
Gearing, %	30.9	52.7
Personnel at end of period	2,840	15,821

Operating environment, Orders and Sales

Market activity was mixed in 2020. Pulp and Paper investment projects remained active throughout 2020. Chemicals and Oil & Gas project activity was strong in the first half of the year. The activity decreased during the second half of the year but remained at a satisfactory level. Travel restrictions and lockdown measures associated with the Covid-19 pandemic led to cancelations and postponements of customers' planned site work and maintenance shutdowns. From the second quarter, this decreased both orders received and sales for Services and MRO-driven businesses.

In 2020, orders received decreased by 13% (decrease in comparable currencies 9%) to EUR 590 million (EUR 681 million). The decline in orders was due to a slowdown in the Services and MRO-driven businesses. Currency exchange rate changes had a negative impact of 4% in 2020 on orders received. The order backlog as of December 31, 2020 was EUR 270 million (December 31, 2019: EUR 280 million).

In 2020, sales decreased by 13% (decrease in comparable currencies 9%) to EUR 576 million (EUR 660 million). The decline in sales was due to slowdowns in Services and MRO-driven businesses, while project sales were at a high level, peaking in the fourth quarter. Currency exchange rate changes had a negative impact of 4% in 2020 on sales. The currency exchange rate impacts came mainly from the Brazilian real, US dollar, Singapore dollar, South African rand, and Chilean peso.

FX impact on orders received and sales

	Orders received	Sales
2019, EUR million	681	660
Organic growth in constant currencies, %	–9	–9
Impact of changes in exchange rates, %	–4	–4
Structural changes, %	–	–
Total change, %	–13	–13
2020, EUR million	**590**	**576**

In 2020, market sentiment was generally subdued in the North American Market Area due to Covid-19 pandemic-related issues and oil price fluctuations. Since the start of the third quarter, there has been a gradual recovery, but overall market activity has remained suppressed.

The EMEIA (Europe, Middle East, India, and Africa) Market Area was impacted by challenges associated with the Covid-19 pandemic, which especially affected the Services and MRO-driven businesses during the second and third quarters. In the fourth quarter, the situation gradually improved. Overall project business activity remained at a good level, even though Chemicals and Oil & Gas project orders declined during the second half of the year.

Project activity was strong in APAC. In the second half of 2020, project activity in both Pulp and Paper and in Chemicals and Oil & Gas was driven by the Chinese market. The Services and MRO-driven businesses' activity was reduced due to Covid-19-related travel restrictions, lockdowns, shutdown postponements and customers' cost-saving activities.

South America Market Area business activity was strong, thanks to growth in Pulp and Paper project orders, which peaked in the first half. During the second half of the year, business remained at a good level but was lower than in the first half of the year.

Orders by market area

EUR million	2020	2019
EMEIA	225	284
North America	168	214
South America	65	47
Asia-Pacific	132	136
Neles total	**590**	**681**

Sales by market area

EUR million	2020	2019
EMEIA	223	251
North America	166	235
South America	57	37
Asia-Pacific	130	137
Neles total	**576**	**660**

Financial performance

Neles, continuing operations

In 2020, Neles adjusted EBITA amounted to EUR 85 million, or 14.8% of sales (EUR 97 million, or 14.7%). Adjusted EBITA was negatively affected by a lower sales volume than in 2019, especially in the Services and MRO-driven businesses. Both permanent and temporary cost-saving actions were taken to offset the negative volume impact on profitability. Reduced work time was implemented during the second and third quarters, while other cost-saving activities related to external spending also continued in the fourth quarter. SG&A costs in 2020 were lower than the comparison period due to cost-saving actions and lower business activity than in 2019.

In 2020, adjustment items of EUR 11 million (EUR 0 million) had a negative impact on operating profit. The adjustments were attributable to advisory, brand, IT, and other costs related to the creation and rebranding of Neles, setting up a new operating structure and developments around Neles' shareholding. The activities related to the adjustment items are mainly completed. Certain development activities, in particular ongoing ERP harmonization project, will continue in 2021 and will be reported as part of our operating costs instead of adjusting items. The operating profit in 2020 amounted to EUR 70 million, or 12.2% of sales (EUR 93 million, or 14.0%).

Financial net expenses in 2020 amounted to EUR 6 million (EUR 2 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.

In 2020, the effective tax rate was 24.4%.

Earnings per share in 2020 for continuing Neles operations amounted to EUR 0.32.

Cash flow, continuing operations

Free cash flow amounted to EUR 69 million (EUR 34 million) in the reporting period for January 1–December 31, 2020. The strong free cash flow was due to decreased net working capital.

Investments amounted to EUR 13 million (EUR 20 million) in the reporting period for January 1–December 31, 2020.

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 in the distribution of Minerals net assets at fair value. Accordingly, earnings per share for discontinued operations were EUR 14.31.

Financial position

Neles' balance sheet and liquidity position remained solid. Cash and cash equivalents on December 31, 2020 were EUR 136 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 on December 31, 2020 were EUR 217 million (EUR 213 million at the end of June 2020), including EUR 51 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 December 31, 2020, Neles' net debt amounted to EUR 81 million, gearing was 30.9%, and the equity-to-asset ratio was 42.6%.

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.

On July 17, 2020, Moody's Investors Service (Moody's) withdrew the Baa2 long-term Issuer rating and (P)Baa2 senior unsecured MTN rating of Metso Corporation, which was renamed to Neles. Moody's states that it has decided to withdraw the unsolicited rating for its own business reasons. Neles Group has no public rating in any ratings agency.

Capital expenditure and investments

In 2020, gross capital expenditure for continuing Neles operations was EUR 13 million (EUR 20 million). Capital expenditure was related to production facilities and equipment, IT systems, HS&E related improvements, and one Research and Development project. EUR 5 million (2019: EUR 8 million) of the investments are associated with 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. All research and development projects also have sustainability targets, e.g. for product safety and efficiency.

In the first quarter of 2020, Neles™ R-series segmented ball valve with on-off valve seating technology to allow new competitive solution shut-off applications was launched. In the fourth quarter of 2020, the Jamesbury™ 7000/9000 flanged ball valve product line was upgraded to continue design improvements for enhanced conformity to the latest industry standards. In addition, incremental improvements were made across the Neles product portfolio.

R&D and IP-related expenditure, continuing operations

EUR million	2020	2019
R&D expenditure	18	19
of sales, %	3.1	2.8
Of which expensed	14	17
of sales, %	2.5	2.6

Inventions and patents, continuing operations

Pieces	2020	2019
Invention disclosures	78	53
Priority patent applications	2	0
Inventions protected by patents [1], as of December 31	42	37

[1] Three patent families were transferred to Neles at the time of the partial demerger.

Safety and sustainability

Neles is a reliable partner, offering sustainable solutions to its customers. This means that Neles operates efficiently and responsibly in terms of safety, the environment, society, people and the economy. Neles' operations are audited regularly by a third party.

Safety

Neles' aim is to reinforce its commitment to the continuous improvement of safety and the goal of zero harm. In 2020, Neles succeeded in improving its safety performance, ending the year with a lost time incident frequency (LTIF) of 1.3 (2019: 1.5). The focus on safety was also reflected in the increased number of risk observations and safety conversations in 2020. In 2020, Neles' Health, Safety and Environmental policy and minimum safety standards were set and communicated to all employees.

Neles has developed a safety audit process with follow-up plans for corrective actions for its manufacturing and service sites. Neles has the ISO 45001 occupational health and safety management system certificate for its manufacturing operations, which are audited regularly.

Environment

Neles works to prevent environmental hazards by auditing its own operations and following the implementation of corrective actions. In 2020, Neles' environmental audits focused on chemical safety and the handling of hazardous waste, for example. Neles has the ISO 14001 environmental management system certificate for its manufacturing operations. To ensure compliance, regular audits are conducted by a third party.

In 2020, for example, Neles improved energy efficiency at its production sites by investing in an efficient painting line Volatile Organic Compound, and emission control system and solar panels in China, and evaluating pressure air systems to identify possible leakages and make improvements in the US and Finland. Neles' European plants have ISO 50001 energy management system certificates and are audited regularly. Water consumption was also decreased by reusing and recycling process waters.

Climate

In 2020, Neles set climate targets for the most significant sources of emissions. Neles has committed to a 25% reduction in carbon emissions in production by 2030 compared to the 2019 base line. Neles enforces sustainability not only in its own production, but 20% of its suppliers in terms of spend are also required to set emission targets by 2025. By streamlining transportation routes and optimizing warehouse locations, Neles aims for a 20% reduction in transportation emissions by 2025.

Additionally, Neles aims to make an impact in the reduction of greenhouse gas emissions in the most energy-intensive customer processes using its products. This is further reinforced by the sustainability targets in all Neles R&D projects. As supportive actions, Neles will also continue to find new ways to decrease emissions in its offices e.g., by purchasing CO_2 free energy.

Responsible procurement

Neles has published a Supplier Code of Conduct that sets the standards for Neles' suppliers and forms the basis for supplier cooperation. Neles has over 1,000 suppliers in more than 30 countries. The direct procurement spending in 2020 totaled EUR 166 million.

In 2020, Neles conducted 12 supplier sustainability audits; 11 were done by Neles supplier quality team and one by a third party.

Corporate governance and remuneration

Decisions of the 2020 Annual General Meeting

Metso Corporation's Annual General Meeting (AGM) was held on June 16, 2020 in Helsinki. The meeting approved the financial statements and discharged the members of the Board of Directors and the President & CEO from liability for the 2019 financial year.

Dividend for 2019

The meeting approved the Board of Directors' proposal to pay a dividend of EUR 1.47 per share for the 2019 financial year. The dividend was paid to the shareholders who were registered in the company's shareholders' register, held by Euroclear Finland Oy, on the dividend record date June 18, 2020. The dividend was paid on June 25, 2020. All the shares in the company were entitled to a dividend except for the company's own shares held on the dividend record date.

Composition of the Boards of Directors

Metso Corporation (January 1–June 15, 2020)

The Board of Directors of Metso had seven members for the period January 1–June 30, 2020, Mikael Lilius as Chair, Christer Gardell as Vice Chair, and Lars Josefsson, Antti Mäkinen, Kari Stadigh and Arja Talma.

Metso Corporation (June 16–30, 2020)

The AGM on June 16, 2020, confirmed that the Board of Directors of Metso has seven members and re-elected Mikael Lilius as Chair, Christer Gardell as Vice Chair, and Lars Josefsson, Antti Mäkinen, Kari Stadigh and Arja Talma as members of the Board. Emanuela Speranza was elected as a new member.

The Board's term of office commenced at the end of the Annual General Meeting and will expire at the registration of the completion of the partial demerger of Metso Corporation.

Neles Corporation (effective July 1, 2020)

The AGM confirmed that the Board of Directors of the future Neles has seven members. Jukka Moisio was elected as Chair, Mark Vernon as Vice Chair, and Britta Giesen, Anu Hämäläinen, Niko Pakalén, Teija Sarajärvi and Petter Söderström as members of the Board.

The term of office of the Board of the future Neles Corporation commences at the registration of the completion of the partial demerger of Metso Corporation and expires at the end of the next Annual General Meeting of the future Neles Corporation.

Remuneration of the Boards of Directors

Metso Corporation (effective June 16–30, 2020)

The AGM decided that the Metso Board members would be paid the same fixed annual remuneration 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:

Chair: EUR 120,000
Vice Chair: EUR 66,000
Other members: EUR 53,000 each

It was further decided that the same additional remuneration as in the previous term would be paid to the members of the Board of Directors elected as members of the Audit Committee and the Remuneration and HR Committee. The additional remuneration to be paid will be calculated pro rata to the length of the term of office based on the following annual remuneration:

Chair of the Audit Committee: EUR 20,000
Members of the Audit Committee: EUR 10,000 each
Chair of the Remuneration and HR Committee: EUR 10,000
Members of the Remuneration and HR committee: EUR 5,000 each

The AGM also approved that the fixed annual remuneration be paid to the members of the Board of Directors in cash within two weeks after the expiry of their term of office.

Neles Corporation (effective July 1, 2020)

The AGM decided that the following fixed annual remuneration would be paid to the members of the Board of Directors of the Neles Corporation. The remuneration to be paid will be calculated pro rata to the length of the term of office based on the following annual remuneration:

Chair: EUR 115,000
Vice Chair: EUR 65,000
Other members: EUR 50,000 each

It was further decided that an additional remuneration would be paid for the members of the Board of Directors elected as members of the Audit Committee and the Remuneration and HR Committee. The remuneration to be paid will be calculated pro rata to the length of the term of office based on the following annual remuneration:

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

As a condition for the annual remuneration, the members of the Board of Directors of the Neles Corporation are obliged to use 40 percent of the fixed total annual remuneration to purchase Neles Corporation's shares from the market at a price formed in public trading. The purchase was be carried out within two weeks of the publication of the interim review for the period following the registration of the completion of the partial demerger of Metso Corporation.

Meeting fees

The AGM also approved the following meeting fees: for each meeting of the Board of Directors of Metso Corporation and the Neles Corporation and their respective Committees, a fee of EUR 800 to be paid to the members of the Board residing in the Nordic countries; a fee of EUR 1,600 to be paid to the members of the Board residing in other European countries; and a fee of EUR 3,200 to be paid to the members of the Board residing outside Europe.

Auditor

The authorized Public Accountant Ernst & Young Oy was elected as the company's Auditor until the end of the next AGM. Ernst & Young Oy has designated Mikko Järventausta, APA, as the responsible auditor. In addition, Mr. Toni Halonen, APA, will act as the responsible auditor of the Neles Corporation after the partial demerger. It was decided to pay the remuneration for the Auditor against the invoice approved by the Audit Committee.

Authorization to repurchase the company's own shares

The AGM approved the proposal of the Board of Directors to authorize the Board to decide on the repurchase of Metso's own shares. The number of Metso's own shares to be repurchased may not exceed 5,000,000 shares, which corresponds to approximately 3.3 percent of all Metso's shares. The authorization is effective until June 30, 2021, and it cancels the previous authorization. This authorization has not been exercised as of February 3, 2021.

Authorization to issue shares and special rights entitling to shares

The AGM approved the proposal of the Board of Directors to decide on the issuance of shares and the issuance of special rights entitling to shares. The number of new shares that may be issued based on decision(s) of the Board of Directors pursuant to the authorization may not exceed 10,000,000 shares, which corresponds to approximately 6.7 percent of all Metso's shares. The number of Metso's own shares that may be transferred pursuant to the authorization may not exceed 5,000,000 shares, which corresponds to approximately 3.3 percent of all Metso's shares. The authorization is effective until June 30, 2021, and it cancels the previous authorization. This authorization has not been exercised as of February 3, 2021.

Neles Board's organizational meeting on July 1, 2020

Neles Corporation's Board of Directors made the following decisions at 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

Personnel representation from July 1, 2020

The personnel are represented through regular reviews with the President and CEO, as well as employee representative's participation in Neles Finland management team meetings.

Extraordinary Annual General Meeting on October 29, 2020

Neles' Extraordinary General Meeting (EGM) was held on October 29, 2020. The EGM resolved, in accordance with the proposals made on July 2, 2020 by its largest shareholder, Valmet Corporation, that the number of members of the Board be eight, and that for a term of office expiring at the end of the next Annual General Meeting, Mr. Jukka Tiitinen be elected as a new member of the Board in addition to the previous members of the Board.

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 the Board's authorization can be found on Neles' website https://www.neles.com/investors/governance/agm/.

Neles Executive Team, July 1–December 31, 2020

The composition of the Neles Executive Team from July 1, 2020 onwards: Olli Isotalo, President and CEO; Timo Hänninen, Head of Equipment; Sami Nousiainen, Head of Services; Kalle Suurpää, Head of Valve Controls & Actuators; Patrick Dunn, Head of North America; Fabio Maia, Head of South America; Jon Jested-Rask, Head of EMEIA; Tan HangPheng, Head of Asia-Pacific; Kevin Tinsley, Head of Global Operations; Simo Sääskilahti, Finance (CFO and deputy CEO); Hanne Peltola, Head of Human Resources and Kaisa Voutilainen, Communications and Marketing.

Ms. Elisa Erkkilä, LL.M, was appointed on December 15, 2020, as a member of the Neles Executive Team as of January 1, 2021. Elisa Erkkilä has been with Neles as General Counsel and Chief Compliance Officer since the launch of Neles Corporation in July 2020.

Up-to-date information regarding the Neles executive team at https://www.neles.com/investors/governance/.

Metso Executive Team, January 1–June 30, 2020

The composition of the Metso Executive Team from January 1 to June 30, 2020: Pekka Vauramo, President and CEO; Eeva Sipilä, Chief Financial Officer, Deputy to CEO; Uffe Hansen, President, Recycling; Olli Isotalo, President, Valves; Hannele Järvistö, Interim Senior Vice President, Human Resources; Mikko Keto, President, Minerals Services and Pumps (until 1.1.2020); Giuseppe Campagnelli, President, Minerals Services and Pumps (from 2.1.2020), Stephan W. Kirsch, President, Mining Equipment; Jani Puroranta, Chief Digital Officer; Markku Simula, President, Aggregates Equipment; Sami Takaluoma, President, Minerals Consumables.

Shareholders' Nomination Board's proposals regarding the composition and remuneration of the Board of Directors of Metso and Neles

Composition of the Neles' Shareholders Nomination Board

The composition of the Shareholders' Nomination Board on December 31, 2020 was as follows: Mr. Pasi Laine, President and CEO, Valmet Corporation; Mr. Philip Ahlgren, Vice President, Cevian Capital AB; Mr. Mikko Mursula, Chief Investment Officer, Ilmarinen Mutual Pension Insurance Company and Mr. Jukka Moisio, Chair of Neles Board. Mr. Risto Murto, President and CEO, Varma Mutual Pension Insurance Company resigned on October 23, 2020 due to changes in Varma's shareholding.

Neles Shareholders' Nomination Board announced on December 22, 2020 its proposal to the AGM 2021. The proposal regarding composition and remuneration of the Board of Directors were as follows:

- the number of Board members be seven
- fixed annual remuneration be kept unchanged
- Jaakko Eskola be elected as the Chair
- Perttu Louhiluoto be elected as Vice-Chair, and
- Anu Hämäläinen, Niko Pakalén, Teija Sarajärvi, Jukka Tiitinen and Mark Vernon be re-elected as Board members.

Composition of the Metso's Shareholders Nomination Board

The Shareholders' Nomination Board published its proposals regarding the composition and remuneration of the Board of Directors of both Metso and the future Neles Corporation on January 16, 2020. The Nomination Board would provide these proposals to Metso's Board of

Directors, which would submit them to Metso's next Annual General Meeting, to be held on March 20, 2020.

Metso's Shareholders' Nomination Board comprised Petter Söderström (Investment Director, Solidium Oy) as the Chair and Niko Pakalén (Partner, Cevian Capital Partners Ltd.), Mikko Mursula (Deputy CEO, Ilmarinen Mutual Pension Insurance Company), Risto Murto (President and CEO, Varma Mutual Pension Insurance Company), and as an expert member, Mikael Lilius (Chair of Metso's Board of Directors). The Shareholders' Nomination Board consists of the representatives of the four largest registered shareholders of the company based on the ownership situation as of September 1 annually.

Mikael Lilius did not participate in the decision making of the Nomination Board's proposal concerning the remuneration of the Chair of the Board and the election of the Chair of the Board of Metso due to his current position as Metso's Chair.

Petter Söderström and Niko Pakalén did not participate in the decision making of the Nomination Board's proposal concerning the remuneration of the members of the Board of Directors and the election of the Board members of the Neles Corporation due to their being proposed as Board members of Neles.

Solidium representative Petter Söderström notified Neles on July 2, 2020, that he has resigned from Neles' Shareholders' Nomination Board due to changes in Solidium's shareholding.

Personnel

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

Personnel, end of reporting period

	2020	2019
Neles total	2,840	2,868
Discontinued operations	–	12,955
Metso total	–	15,821

Structural changes and the Covid-19 pandemic

The employee negotiations concerning the production of the Helsinki plant announced by Neles Finland Oy on December 7, 2020 were completed on December 17, 2020. As a result of the negotiations, temporary layoffs of employees in the factory production and quality functions were initiated for production and financial reasons. The temporary layoffs affect a total of about 300 people, and their precise targeting and duration will depend on the function. Layoffs are for a fixed period of up to 90 days starting on January 1, 2021.

Neles employee negotiations in Finland were finalized on June 23, 2020; as a result, 32 permanent positions of the initial estimated maximum of 45 were terminated in 2020. In the US, 49 permanent positions were terminated in the second quarter of 2020. 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.

Share-based long-term incentive schemes for Neles key personnel

On December 15, 2020, the Board of Directors decided on the commencement of a new plan period within the share-based long-term incentive scheme targeted at Neles' management and key employees. The scheme comprises a Performance Share Plan (also PSP) for top management, a deferred share unit plan (also DSUP) for other management and selected key employees, and a Restricted Share Plan (also RSP) as a complementary structure for specific situations. Neles originally announced the establishment of the long-term incentive scheme on July 1, 2020.

Share-based long-term incentive program conversion for Metso personnel

In the demerger, all the open long-term incentive programs and obligations were allocated to Metso Minerals business key personnel, except for Neles key persons their share in Deferred Share unit Plans in 2018 and 2019. Each Metso share unit earned was converted into Neles share unit based on the average share prices of July 2020 with the objective that the value of the reward will not be affected by the conversion. The reward will be paid after a two-years retention period in 2021 and 2022.

Employee engagement

Employee engagement is measured by the Neles' global employee survey, PeoplePulse, which was conducted in 2020 and showed that Neles employees in global comparison were highly committed, had a strong feeling of being able to contribute and a good level of competences in performing in their work. The PeoplePulse response rate was 75% (89% in 2019) and it provided information for practical and positive development actions. In 2020, PeoplePulse included only approximately 62% of total personnel, mainly those impacted by the partial demerger. Neles employee net promoter score (eNPS) in 2020 was 28.3 (2019: Valves business area 34.4).

Neles employees represent 51 nationalities, operating in 38 countries and in 83 locations. The combination of different backgrounds and a wide range of service years and ages ensures diverse capabilities.

Personnel representation in governing bodies

The personnel are represented through regular reviews with the President and CEO, as well as via participation in Neles Finland management team meetings.

Strategy for profitable growth and mid-term financial targets

On July 1, Neles' Board of Directors confirmed and approved Neles' profitable growth strategy and mid-term financial targets, as announced on May 25, 2020 and presented at

Neles' first virtual capital markets day on May 27. A full archive of the materials is available at https://www.neles.com/investors/cmd/.

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 the 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.

Other main events in 2020

December 2: Neles announced it would expand its presence with eight new channel partners in South and Central America.
November 9: Neles announced it had strengthened its distributor network with 13 new partners in India, Sri Lanka, and Bangladesh.
November 4: Alfa Laval announced it would not complete the PTO. The final result of the PTO was 32.82% of Neles shares out of the required 50% per the PTO. Additional information can be found at neles.com.
October 29: A Neles EGM was held and Valmet's proposal to elect Mr. Jukka Tiitinen as a member of the Board of Directors was accepted.
October 27: Alfa Laval announced it had received all necessary regulatory approvals for the recommended public cash tender offer for all shares 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 the 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.
September 29: Neles confirmed that it has received an unsolicited letter from Valmet proposing a merger between Neles and Valmet.
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 would commence the recommended public cash tender offer (PTO) for all shares (EUR 11.50 per share) 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 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 1: The Board approved Neles' Disclosure Policy and confirmed that Neles would 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.
June 30: The completion of Metso's partial demerger was registered at the Finnish Trade Register.
June 23: Appointments of the composition of the Board of Directors and Executive Management Team of Neles.
June 23: Metso Corporation and Outotec Oyj to complete the combination of Outotec and Metso's Minerals business.
June 18: Metso Corporation and Outotec Oyj received all regulatory approvals for the combination of Metso's Minerals business and Outotec.
May 18: Future Metso Outotec business structure and Executive Team appointments announced.
May 13: Metso Corporation and Outotec Oyj received unconditional merger control clearance from the European Commission for the combination of Metso Minerals with Outotec.

Covid-19 pandemic update

The Covid-19 pandemic continues to present significant short-term risks and uncertainties for the markets. It continues to be difficult to predict the pandemic's spread and severity. 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 have been imposed. These uncertainties are expected to continue in the first half of 2021.

The business situation did not change significantly from the third to the fourth quarter. Customers have returned to more normal operations than in the second quarter, but large maintenance projects remain largely postponed due to mobility restrictions and customers' tight cash management. The situation has caused a slowdown in the Services and MRO-driven businesses. The company's supply chains have been operational, and the delays in delivery times reported in the third quarter have eased. Thus far, Neles has experienced no material credit losses or order cancelations in the order backlog.

Since the second quarter, management has taken proactive measures to ensure the safety of employees, control costs and preserve cash flow to protect Neles' financial position. The measures have included a variety of enforced safety procedures at manufacturing sites, remote working and strict travel restrictions, cuts to external spending across the organization, and cost-saving and optimization activities. Increased attention has also been 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, and reduce investment appetite and customer spending, weakening the demand for Neles' products and services, as well as affecting the company's business operations and profitability. Other market- and customer-related risks could also cause planned and ongoing projects to be postponed, delayed or discontinued.

Short-term business risks and market uncertainties

In addition to risks related to the Covid-19 pandemic, 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. Other market- and customer-related risks could also cause planned and ongoing projects to be postponed, delayed or discontinued.

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 Chemicals and Oil & Gas projects is expected to continue at a satisfactory level, as it did during the second half of 2020. Postponements of projects and global uncertainties continue to reduce visibility in the Chemicals and Oil & Gas project business.

Market activity for the Services and the customer Maintenance, Repair and Operations-driven (MRO) businesses is expected to gradually improve during the second quarter of 2021 from the weak levels of the second half of 2020. Large shutdowns are still being postponed due to the Covid-19 pandemic and customers' tight cash management.

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

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

Corporate Governance Statement and Remuneration Report 2020

The Corporate Governance Statement for 2020, which complies with the recommendations of the Finnish Corporate Governance Code for listed companies and covers other central areas of corporate governance, is published as part of Annual Report 2020. In addition, Remuneration Report for 2020 is published as part of Annual Report 2020.

Non-financial information

Neles Non-financial Report 2020

Neles serves process industries which are characterized by strict safety procedures and targets, continuously tightening environmental regulations for production processes and end products, as well as demands for process reliability to maximize efficiency and minimize variances. Neles products, services and expertise support customers in achieving these aims. Neles' strategic aim is to be a long-term partner, working sustainably and in accordance with the highest standards to reinvent reliability with its customers. Neles is constantly working to ensure the sustainable development of its own operations, personnel, suppliers and sales channel partners to meet these customer needs and offer solutions to their challenges. Neles invests continuously in R&D to meet and exceed the tightening sustainability requirements.

Neles is committed to the United Nations' Global Compact Initiative, UN Sustainable Development Goals and OECD Guidelines for Multinational Enterprises. Neles supports the protection of internationally proclaimed human rights such as those described in the United Nations (UN) Guiding Principles on Business and Human Rights and the International Labour Organization's (ILO) Declaration of Fundamental Principles and Rights at Work.

To ensure compliance with the non-financial management key topics, the Board of Directors has reviewed Neles' corporate governance model, policies and processes as part of the preparation for the partial demerger on June 30, 2020. In addition, the Board has reviewed Neles' sustainability strategy, risk management and initiatives to implement the Code of Conduct. There was also a focus on people and leadership topics as Neles became independent.

Neles' business model

Neles drives profitable growth and sustainable productivity across its customer industries to create value for its shareholders and other stakeholders by offering a diverse, comprehensive and competitive portfolio of reliable flow control solutions and services to all process industries.

Neles has a presence in 38 countries, while its customers are in 115 countries. Neles approaches its existing and new customers globally both through direct and third-party sales channels. Neles' supply chains are global and include a number of strategic component suppliers.

Neles serves a large customer and installed base globally. Neles has no large single transaction risks. Generally, the largest customer accounts for approximately 5%, and the largest single sales contract for less than 2% of annual sales.

Climate and environmental impact

Process industries face increasing energy costs, declining water resources and more stringent environmental legislation. Neles' valve solutions are mission-critical in terms of process functionality. Neles' product and services are designed with the intention of helping customers operate safely with higher productivity and profitability, while reducing their resource intensity. Innovating for sustainable solutions to help customers in their sustainability work is a key driver for Neles' research and development programs. Another key driver in Neles' R&D is product safety. The product safety principles and certificates cover all aspects relevant to safe installation and operation, as well as servicing and maintaining products in varying and challenging conditions.

Neles' goal is to define sustainability targets for each new R&D project: 100% of the new R&D projects in 2020 had environmental efficiency and/or product safety innovation targets. The R&D expenditure in 2020 was EUR 18 million (EUR 19 million in 2019).

Neles' services portfolio, which ranges from spare parts to life cycle services, is an important part of its total offering. Service centers close to customers ensure efficient and timely service. Well-maintained equipment typically has a smaller environmental footprint.

In 2020, Neles set internal targets that include CO_2 emissions reduction for procurement, production, and inbound and outbound transportation. The targets also include a reduction of waste, water and energy for each factory, as well as increasing opportunities for the circular economy and local supportive actions such as the environmental efficiency of offices and commuting.

Neles' main KPIs are:

- Zero harm for the environment: In 2020, there were 0 environmental incidents
- Logistics: –20% CO_2 by 2025, 2020 reduction of emissions compared to baseline year 2019 4,879 tCO_2 (20%)
- Production: –25% CO_2 by 2030, 2020 reduction of emissions compared to baseline year 2019 0.16 tCO_2 (1.6%).

Neles works to prevent environmental hazards by auditing its own operations, followed by corrective actions. Neles HSEQ management system has the ISO 14001 environmental management system certificate for its manufacturing and is also audited regularly by a third party. Additionally, Neles' European plants have ISO 50001 energy management system certificates.

Personnel, social matters and respect for human rights

The performance and engagement of Neles employees are key contributors to value creation. Engagement is supported and achieved by the safety and wellbeing of employees and responsible employment. Health issues, discrimination and harassment are the most significant human and labor rights-related risks. Sick leave absences may have a negative cost impact and compromise customer deliveries. Low employee engagement may lead to a loss of talent and competences.

Neles' Code of Conduct sets the main principles for tackling the abovementioned risks. The Code of Conduct outlines Neles' approach to human rights: All employees are entitled to be treated with respect, and there is zero tolerance of discrimination, harassment or illegal threats. Any form of compulsory, forced or child labor is unacceptable. Neles respects applicable national laws regarding working hours and employee compensation. All Neles personnel are required to complete Code of Conduct training once every two years. Human rights-related topics, including safety and labor rights, are regularly reviewed in Neles' own operations and the operations of its suppliers. In 2020, Neles assessed 11 suppliers internally and one supplier using a third party in India. Based on the results, follow-up plans are being prepared and improvements made; the assessments will be expanded in 2021.

Risks related to the engagement, safety and wellbeing of Neles' and its suppliers' employees are also mitigated by providing managers with tools in daily management activities and through continuous leadership development. The Neles early support model is an example of the focus on wellbeing and safety in Finland. It helps ensure that employees receive appropriate support when needed.

Valuing diversity and providing equal opportunities is important. To advance work-related human rights principles, Neles has an Equal Opportunity and Diversity Policy. The underlying principle is Neles' commitment to promoting equal opportunities for all employees, regardless of gender, age, race, religion, caste or religious beliefs, ethnic or national origins, marital/civil partnership status, union membership, political affiliation, sexuality or disability. Employees are selected based on merit and experience.

Continuous development and learning in everyone's daily work is emphasized in Neles' learning approach, which is supported by our global people processes and tools. Additionally, Neles aims for fair remuneration systems that take into consideration the individual, team, business area and the Group's performance, as well as the varying global market practices. Excelling in leadership makes all the difference from an employee engagement perspective. Employee engagement is measured by the Neles' global employee survey, PeoplePulse, which was conducted in 2020 and showed that Neles employees in a global comparison were highly committed, had a strong feeling of being able to contribute and a good level of competences to perform their work.

The Covid-19 pandemic has triggered new kinds of management and leadership challenges as remote working has become more usual. To support the managers' work and to build the new culture, Neles has started to offer new trainings, webinars and info sessions on how to lead remotely, how to support the wellbeing of employees, and how to build the sense of belonging in teams. These topics will also continue to feature strongly in the agenda for 2021.

Neles' main health and safety risks occur both in its own operations and at customer sites. The most common risks in the company's own operations are related to lifting, working at heights, machinery, hot work and road travel.

These risks are mitigated with the help of work instructions, training, risk observations, audits and the corrective actions these generate. Neles uses lost-time incident frequency (LTIF) as the key indicator for safety both at its own premises and for the subcontractors working at Neles' and customers' sites. Another important safety focus area is to ensure that products are safe to use and maintain; thus, the safety of services is considered in the early phase of product and service development. Neles has a safety system in place to continuously improve its processes and culture for safety development. Key elements of the Neles safety system are:

- Common guidelines for a Health, Safety & Environmental policy and Neles minimum safety standards
- Individual safety target setting (number of Risk Observations and Safety Conversations) for all employees
- A safety audit process with follow-up plans for corrective actions
- The Neles HSEQ management system has the ISO 45001 occupational health and safety management system certificate for its manufacturing and is also audited regularly by a third party.

Employee safety, risk observations, safety discussions and safety training hours are continuously measured and monitored. In 2020, the lost time incident frequency (LTIF) was 1.3 (1.5 in 2019). Annually, an external partner conducts site visits as part of sustainability reporting assurance. In 2020, three sites were visited as part of the assurance process in the USA, Finland and China.

Anti-corruption

The Code of Conduct is the highest standard that outlines what good corporate citizenship means at Neles. The Code of Conduct includes topics such as compliance with the laws and rules of society, fair employment practices, anti-corruption and fair competition. It was approved by the Board and is available in eight languages. A new Code of Conduct e-learning course was launched in December 2020. All employees are required to complete Code of Conduct training, either as a classroom training or an e-learning course every two years. By the given time limit 88% of Neles' employees had completed Code of Conduct training. The training is also part of the onboarding of all new employees.

In addition to the Code of Conduct, the Board has approved Neles' Corporate Anti-Corruption Policy, which demonstrates the company's commitment to prevent corruption in all its operations' business activities. The purpose of the policy and related training is to guide employees in recognizing situations which pose a heightened risk of corruption and taking appropriate measures to ensure compliance with the law. In addition to the policy, local rules for gifts, entertainment and hospitality were prepared to support employees in making the right decisions or escalating issues to management. These are monitored through general management controls, as well as the company's Internal Audit function.

Third-party sales channel partners (distributors, resellers and agents) are an important part of Neles' sales strategy. Neles has a systematic process for evaluating, onboarding and managing its channel partners to ensure they are committed to non-corrupt business activities. Due diligence is conducted of channel partners to assess potential corruption risks, and face-to-face training and e-learning courses are part of the onboarding and ongoing support. Since the partial demerger, Neles has been in the process of developing a new e-learning course for its channel partners, which it expects to launch in early 2021.

At Neles, each employee is responsible for integrity. All employees are therefore encouraged to report any suspected wrongdoing or misconduct via the Speak Up channel, a reporting tool maintained by an external service provider, or via internal reporting channels. All reports are treated as confidential and anonymous. Retaliation against any individual who reports suspected misconduct or participates in an investigation is strictly prohibited.

Shares, trading and shareholders

Neles has one share series, and each share entitles its holder to one vote at a General Meeting and to an equal amount of dividend. Neles' shares are registered in the Finnish book-entry system maintained by EuroClear.

Basic share information

Listed on	Nasdaq Helsinki
Trading code	NELES
ISIN code	FI4000440664
Industry	Industrials
Number of shares on December 31, 2020	150,348,256
Share capital on December 31, 2020	EUR 50,982,843.80
Market value on December 31, 2020, excl. treasury shares	EUR 1,630 million
Listing date	July 1, 1999

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.

On February 26, 2020, a total of 121,727 own shares were conveyed without consideration to the 81 key individuals participating in the Performance Share Plan 2017–2019 under the terms and conditions of the plan decreasing the number of treasury shares to 150,361. The direct share issue was based on an authorization given by the Annual General Meeting 2019.

A total of 148,832,522 Neles shares was traded on Nasdaq Helsinki in July–December 2020, and the value of shares traded was approximately EUR 1,333 million. Neles' market capitalization at the end of December 2020, excluding shares held by the Parent Company, was EUR 1,630 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 MXCYY, 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.

At the end of 2020, Neles had 49,125 shareholders in the book-entry system. The largest shareholder was Valmet, with 44,415,207 shares and 29.54 percent of the share capital.

At the end of 2020, the members of the Neles Board of Directors and President and CEO Olli Isotalo held a total of 23,762 Neles shares, corresponding to 0.016 percent of the total number of shares and votes. More information about management holdings is available in Note 5.3 of the Consolidated Financial Statements.

Share performance and trading on Nasdaq Helsinki July 1–December 31, 2020

EUR	7–12/2020
Closing price, Dec 31, 2020	10.86
Highest share price	12.30
Lowest share price	8.26
Volume-weighted average trading price, all trades	10.51
Volume-weighted average trading price, without contract trades	10.81

Share key figures 2016–2020

	2020	2019	2018	2017	2016
Share capital, at the end of year, EUR million	51	141	141	141	141
Number of shares, at the end of year					
Number of outstanding shares	150,197,895	150,076,168	149,997,128	149,997,128	149,984,538
Own shares held by the Parent Company	150,361	272,088	351,128	351,128	363,718
Total number of shares	150,348,256	150,348,256	150,348,256	150,348,256	150,348,256
Average number of outstanding shares	150,179,270	150,057,328	149,997,128	149,995,127	149,984,538
Average number of diluted shares	150,179,270	150,200,101	150,186,841	150,151,338	150,113,107
Earnings/share, basic [1], EUR	14.63	2.00	1.53	0.68	0.87
Earnings/share, diluted, EUR	14.63	2.00	1.53	0.68	0.87
Free cash flow/share [2], EUR	0.46	0.26	0.97	1.05	2.26
Dividend/share [3], EUR	0.18	1.47	1.20	1.05	1.05
Dividend [3], EUR million	27	221	180	157	157
Dividend/earnings [1], %	1.2	73.5	78.4	154.0	121.0
Effective dividend yield, %	1.7	4.2	5.2	3.7	3.9
P/E ratio [1]	0.74	17.6	15.0	41.9	31.2
Equity/share, EUR	1.72	10.15	9.37	8.96	9.54

[1] In 2020 for continuing operations earnings per share was EUR 0.32, dividend/earnings 56.3% and P/E ratio 33.9.
[2] Share of continuing operations in 2020.
[3] Board proposal to the AGM.

Largest shareholders December 31, 2020

	Shareholders	Shares	% of shares
1	Valmet Oyj	44,415,207	29.54
2	Alfa Laval Ab (publ)	12,723,923	8.46
3	Ilmarinen Mutual Pension Insurance Company	4,091,010	2.72
4	Elo Mutual Pension Insurance Company	2,091,735	1.39
5	The State Pension Fund	1,150,000	0.76
6	OP Funds	999,429	0.66
	OP-Finland	884,838	0.59
	OP-Finland Index Fund	114,591	0.08
7	Nordea Funds	788,626	0.52
	Nordea Pro Finland Fund	219,409	0.15
	Nordea Finnish Passive Fund	211,948	0.14
	Nordea Premium Varainhoito Tasapaino Fund	87,964	0.06
	Nordea Premium Varainhoito Maltti Fund	82,046	0.05
	Nordea Säästö 50	69,010	0.05
	Nordea Säästö 25 Fund	45,833	0.03
	Nordea Säästö 75	40,810	0.03
	Nordea Premium Varainhoito Kasvu Fund	31,606	0.02
8	Sigrid Jusélius Foundation	662,465	0.44
9	Mandatum Life Insurance Company Ltd.	509,204	0.34
10	SEB Finland Small Cap Fund	500,000	0.33
	10 largest shareholders total	**67,931,599**	**45.18**
	Nominee registered	55,886,149	37.17
	Others	26,530,508	17.65
	Total	**150,348,256**	**100.00**

Breakdown of share ownership on December 31, 2020

Number of shares	Shareholders	% of shareholders	No. shares and votes	% of share capital and voting rights
1–100	25,179	51.25	1,154,144	0.77
101–1,000	20,401	41.53	7,122,034	4.74
1,001–10,000	3,282	6.68	8,106,460	5.39
10,001–50,000	195	0.40	3,770,847	2.51
50,001–100,000	29	0.06	2,155,713	1.43
> 100,000	39	0.08	128,031,078	85.16
Total	**49,125**	**100.00**	**150,340,276**	**100.00**
Nominee registered	12	0.02	55,886,149	37.17
In the joint book-entry account			7,980	0.01
Number of shares issued			**150,348,256**	**100.00**

Breakdown by shareholder category

	Shareholders		Shares	
Sector	No. of shares	%	No. of shares	%
Foreign and nominee registered	296	0.60	69,065,836	45.94
Households	46,598	94.86	16,279,230	10.83
Public sector organizations	44	0.09	8,418,703	5.60
Financial and insurance institutions	65	0.13	5,400,229	3.59
Non-profit institutions serving households	625	1.27	4,258,857	2.83
Private companies	1,509	3.07	46,917,421	31.21
In the joint book-entry account	0	0.00	7,980	0.01
Number of shares issued	**49,125**	**100.00**	**150,348,256**	**100.00**

Flaggings

Under the provisions of the Finnish Securities Markets Act, shareholders of listed companies have an obligation to notify both the Finnish Financial Supervision Authority and the company of changes when their holdings reach, exceed or fall below a certain threshold. Neles is not aware of any shareholders' agreements regarding Neles shares or voting rights. All flagging notifications that have been released as a stock exchange release are available at www.neles.com/company/media/news/.

Key figures

EUR million	2020	2019	2018	2017[1)]	2016[1)]
Orders received	590	681	628	2,982	2,724
Order backlog, December 31	270	280	276	1,439	1,320
Sales	576	660	593	2,699	2,586
Exports from Finland and international operations	541	629	560	2,628	2,501
% of sales	93.9	95.3	94.6	97.4	96.7
Operating profit	70	93	83	218	227
% of sales	12.2	14.0	14.1	8,1	8.8
Profit before taxes	64	91	85	184	188
% of sales	11.1	13.8	14.3	6.8	7.3
Profit for the year, continuing operations	48	69	65	102	130
% of sales	8.4	10.4	10.9	3.8	5.0
Profit for the year, discontinued operations	2,150	230	164	–	–
Profit attributable to shareholders of the company	2,198	301	230	102	130
Amortization	3	4	2	17	17
Depreciation	9	10	10	42	44
Depreciation of right-of-use assets	12	11	–	–	–
Depreciation and amortization, total	24	25	12	59	61
EBITA	74	97	86	236	244
% of sales	12.8	14.7	14.5	8.7	9.4
EBITDA	95	117	95	277	288
% of sales	16.4	17.8	16.1	10.3	11.1
Adjustment items [2)]	11	–	–	8	30
EBITA, adjusted	85	97	86	236	244
% of sales	14.8	14.7	14.5	8.6	9.4
EBITDA, adjusted	106	117	95	277	288
% of sales	18.4	17.8	16.1	10.3	11.1
Financial expenses, net	6	2	–1	35	39
% of sales	1.1	0.2	–0.2	1.3	1.5
Interest expenses	6	n/a	n/a	23	29
% of sales	1.1	n/a	n/a	0.9	1.1
Interest cover (EBITDA)	14.6×	n/a	n/a	7.9×	7.4×
Gross capital expenditure	13	20	8	38	31
% of sales	2.2	3.1	1.4	1.4	1.2
Business acquisitions, net of cash acquired	–	–	–	30	–
Net capital expenditure	12	20	8	35	19
% of sales	2.2	3.0	1.3	1.3	0.7
Net cash flow from operating activities	81	54	81	185	346
Free cash flow	69	34	73	158	339
Cash conversion, %	142	52	123	155	261
Research and development	18	19	16	27	34
% of sales	3.1	2.8	2.7	1.0	1.3

1) Key figures for years 2016–2017 are presenting total Metso Group including discontinued operations.

2) Adjustment items in 2020 were attributable to advisory, brand, IT and other costs related to the creation and rebranding of Neles as well as establishing a new operating structure.

EUR million	2020	2019	2018[1]	2017[1]	2016[1]
Balance sheet total [2]	644	3,887	3,279	3,287	3,236
Equity attributable to shareholders [2]	263	1,523	1,406	1,344	1,431
Total equity [2]	263	1,526	1,416	1,351	1,439
Interest bearing liabilities	217	103	598	853	794
Net interest bearing liabilities	81	46	165	24	–26
Net working capital (NWC)	144	166	633	502	487
% of sales	24.9	25.2	20.0	18.6	18.8
Capital employed	480	425	2,015	2,204	2,233
Return on equity (ROE) [2], %	18.7	20.4	16.5	7.3	9.0
Return on capital employed (ROCE) before taxes [2], %	15.6	19.2	16.9	10.3	10.4
Return on capital employed (ROCE) after taxes [2], %	12.1	15.1	12.5	6.6	7.8
Equity to assets ratio [2], %	42.6	39.5	47.7	44.5	48.0
Gearing [2], %	30.9	52.3	11.7	1.8	–1.8
Debt to capital [2], %	45.2	40.0	29.7	38.7	35.6
Average number of personnel	2,840	14,331	12,605	11,703	12,059
Personnel, December 31	2,840	15,821	13,150	12,037	11,542

[1] Key figures for years 2016–2018 are presenting total Metso Group including discontinued operations.
[2] Key figure for year 2019 is presenting total Metso Group including discontinued operations.

The Income statement and Balance sheet of discontinued operations are presented in more detail in the Note 5.5.

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

Return on capital employed (ROCE) before taxes, %
$$\frac{\text{Profit before tax + financial expenses}}{\text{Capital employed (average for the period)}} \times 100$$

Return on capital employed (ROCE) after taxes, %
$$\frac{\text{Profit for the period + financial expenses}}{\text{Capital employed (average for the period)}} \times 100$$

Net gearing, %
$$\frac{\text{Net interest bearing liabilities}}{\text{Total equity}} \times 100$$

Debt to capital, %
$$\frac{\text{Interest bearing liabilities}}{\text{Total equity + interest bearing liabilities}} \times 100$$

Equity to assets ratio, %
$$\frac{\text{Total equity}}{\text{Balance sheet total – advances received}} \times 100$$

Free cash flow
Net cash provided by operating activities – maintenance investments + 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, %
$$\frac{\text{Free cash flow}}{\text{Profit for the period}} \times 100$$

Interest cover (EBITDA)
$$\frac{\text{EBITDA (Earnings before financial expenses, net, taxes, depreciation and amortization}}{\text{Financial income and expenses, net}}$$

Interest bearing liabilities
Interest bearing liabilities, non-current and current + lease liabilities, non-current and current

Net interest bearing liabilities
Interest bearing liabilities – Non-current financial assets – loan and other interest bearing receivables (current and non-current) – cash and cash equivalents

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 assets and tangible assets + right-of-use assets + non-current investments + interest bearing receivables + cash and cash equivalents + tax receivables, net + interest payables, net

Operative capital employed
Intangible and tangible assets + right-of-use assets + investments in associated companies + inventories + non-interest bearing operative assets and receivables (external) – non-interest bearing operating liabilities (external)

Return on operative capital employed for reporting segments (segment ROCE), %
$$\frac{\text{Operating profit}}{\text{Operative capital employed (month-end average)}} \times 100$$

Board of Directors' proposal on the use of profit

On December 31, 2020, the distributable equity of Neles Corporation was:

Invested non-restricted equity fund	EUR	39,408,070.56
Retained earnings	EUR	323,509,711.15
Distributable equity, total	EUR	362,917,781.71

The Board of Directors proposes that a dividend of EUR 0.18 per share be paid based on the balance sheet to be adopted for the financial year, which ended December 31, 2020.

Dividend payment	EUR	27,035,621.10
Distributable equity after dividend payment	EUR	335,882,160.61

These financial statements were authorized for issue by the Board of Directors on February 2, 2021 after which, in accordance with Finnish Company Law, the financial statements are either approved, amended, or rejected in the Annual General Meeting.

Financial statements

Financial statements

Consolidated Financial Statements

Consolidated Statement of Income, IFRS

EUR million	Note	2020	2019
Continuing operations			
Sales	1.1	576	660
Cost of goods sold	1.4, 3.3	–386	–435
Gross profit		190	225
Selling and marketing expenses	1.2, 1.4, 3.3	–65	–73
Administrative expenses	1.2, 1.4, 3.3	–39	–39
Research and development expenses	1.2, 1.4, 3.3	–14	–17
Other operating income and expenses, net	1.3	–2	–4
Share in profits of associated companies	5.3	0	0
Operating profit		70	93
Financial income	1.6	1	1
Foreign exchange gains/losses	1.6	–1	0
Financial expenses	1.6	–7	–2
Financial income and expenses, net		–6	–2
Profit before taxes		64	91
Income taxes	1.7	–16	–22
Profit from continuing operations		48	69
Profit from discontinued operations [1]		2,150	230
Profit for the year		2,198	299

EUR million	Note	2020	2019
Profit from continuing operations attributable to			
Shareholders of the parent company		48	69
Non-controlling interests		–	–
Profit from discontinued operations attributable to			
Shareholders of the parent company		2,150	232
Non-controlling interests		0	–1
Profit attributable to			
Shareholders of the parent company		2,198	301
Non-controlling interests		0	–1
Earnings per share for continuing operations	1.8		
Basic, EUR		0.32	0.46
Diluted, EUR		0.32	0.46
Earnings per share for discontinued operations	1.8		
Basic, EUR		14.31	1.54
Diluted, EUR		14.31	1.54
Earnings per share	1.8		
Basic, EUR		14.63	2.00
Diluted, EUR		14.63	2.00

[1] The result for the period from discontinued operations is described in more detail in the Note 5.5.

Consolidated Statement of Comprehensive Income, IFRS

EUR million	Note	2020	2019
Continuing operations			
Profit for the year		48	69
Other comprehensive income			
Measurement at fair value	4.2, 4.4	–	0
Currency translation on subsidiary net investments	4.4	–16	0
Items that may be reclassified to profit or loss in subsequent periods		–16	0
Defined benefit plan actuarial gains and losses	2.7	3	3
Tax from previous		–1	–1
Items that will not be reclassified to profit or loss		2	2
Other comprehensive income		–13	1
Total comprehensive income from continuing operations		35	70
Profit from continuing operations attributable to			
Shareholders of the parent company		35	70
Non-controlling interests		–	0
Discontinued operations			
Profit for the year		2,150	230
Other comprehensive income		–52	1
Total comprehensive income from discontinued operations		2,098	231
Profit from discontinued operations attributable to			
Shareholders of the parent company		2,098	232
Non-controlling interests		0	–1
Total comprehensive income		2,133	301
Attributable to			
Shareholders of the parent company		2,133	303
Non-controlling interests		0	–1

Consolidated Balance Sheet, IFRS – Assets

EUR million	Note	2020	2019
Non-current assets			
Intangible assets	3.1, 3.3		
Goodwill		57	62
Other intangible assets		17	18
Total intangible assets		74	81
Tangible assets	3.2, 3.3		
Land and water areas		6	6
Buildings and structures		22	21
Machinery and equipment		30	28
Assets under construction		4	11
Total tangible assets		62	67
Right-of-use assets	3.3, 3.4	51	46
Other non-current assets			
Investments in associated companies	5.3	0	0
Non-current financial assets	4.2	0	0
Deferred tax asset	2.8	18	13
Other non-current receivables	2.3, 2.7, 4.2	12	1
Total other non-current assets		31	14
Total non-current assets		217	208
Current assets			
Inventories	2.4	160	181
Trade receivables	2.2	89	95
Derivative financial instruments	4.8	0	0
Income tax receivables	1.7	4	2
Other current receivables	2.3	37	40
Cash and cash equivalents	4.3	136	57
Total current assets		426	374
Discontinued operations, assets [1]		–	3,305
TOTAL ASSETS		644	3,887

[1] The assets of discontinued operations are described in more detail in the Note 5.5.

Consolidated Balance Sheet, IFRS – Equity and Liabilities

EUR million	Note	2020	2019
Equity	4.4		
Share capital		51	141
Cumulative translation adjustments		36	52
Fair value and other reserves		28	298
Discontinued operations		–	–155
Retained earnings		148	1,187
Equity attributable to shareholders		263	1,523
Non-controlling interests		0	3
Total equity		263	1,526
Liabilities			
Non-current liabilities			
Interest bearing liabilities	4.2, 4.5	150	36
Lease liabilities	4.2, 4.5	41	37
Post-employment benefit obligations	2.7	21	9
Provisions	2.6	2	3
Derivative financial instruments	4.8	–	–
Deferred tax liability	2.8	3	4
Other non-current liabilities	2.5	0	0
Total non-current liabilities		216	89
Current liabilities			
Interest bearing liabilities	4.2, 4.5	16	20
Lease liabilities	4.2, 4.5	11	10
Trade payables	2.5	60	63
Provisions	2.6	9	12
Advances received		27	24
Derivative financial instruments	4.8	1	1
Income tax liabilities	1.7	5	2
Other current liabilities	2.5	35	39
Total current liabilities		164	171
Total liabilities		381	259
Discontinued operations, liabilities [1]		–	2,102
TOTAL EQUITY AND LIABILITIES		644	3,887

[1] The liabilities of discontinued operations are described in more detail in the Note 5.5.

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 year, continuing operations	–	–	–	–	48	48	–	48
Profit for the year, discontinued operations	–	–	–	–	2,150	2,150	0	2,150
Other comprehensive income								
Currency translation on subsidiary net investments	–	−16	–	−53	–	−68	0	−68
Defined benefit plan actuarial gains and losses	–	–	–	–	3	3	–	3
Tax effect from previous	–	–	–	–	−1	−1	–	−1
Discontinued operations	–	–	1	–	–	1	–	1
Total comprehensive income	–	−16	1	−53	2,200	2,133	0	2,133
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	–	–	2	–	−8	−6	–	−6
Tax effect from previous	–	–	0	–	3	2	–	2
Prior year corrections [1]	–	–	–	–	3	3	–	3
Other items	–	–	1	–	1	2	−1	1
Equity financing, Metso Group	–	–	–	–	−1	−1	–	−1
Dec 31, 2020	51	36	28	–	148	263	0	263

[1] Corrections to deferred taxes after demerger.

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 year, continuing operations	–	–	–	–	69	69	0	69
Profit for the year, discontinued operations	–	–	–	–	232	232	−1	230
Other comprehensive income								
Cash flow hedges	–	–	4	–	–	4	–	4
Tax effect from previous	–	–	−1	–	–	−1	–	−1
Measurement at fair value	–	–	0	–	–	0	–	0
Currency translation on subsidiary net investments	–	1	–	–	–	1	0	1
Defined benefit plan actuarial gains and losses	–	–	–	–	−1	−1	–	−1
Tax effect from previous	–	–	–	–	0	0	–	0
Discontinued operations	–	151	0	−155	3	–	–	–
Total comprehensive income	–	152	3	−155	302	302	−1	301
Dividends	–	–	–	–	−180	−180	0	−180
Share-based payments	–	–	7	–	−1	6	–	6
Tax effect from previous	–	–	−2	–	0	−1	–	−1
Other items	–	–	−12	–	12	0	0	0
Changes in non-controlling interests	–	–	–	–	−7	−7	−7	−13
Dec 31, 2019	141	52	298	−155	1,187	1,523	3	1,526

Consolidated Statement of Cash Flows, IFRS

EUR million	Note	2020	2019
Operating activities			
Profit for the year from continuing operations		48	69
Profit for the year from discontinued operations		2,150	230
Adjustments			
Depreciation and amortization	3.3	24	82
Gain / loss on sale of intangible and tangible assets, net	1.3	0	0
Share of profits and losses of associated companies		–	–1
Financial expenses, net	1.6	18	38
Income taxes	1.7	63	95
Fair value of distributed net asset in the demerger		–2,022	–
Other non-cash items		6	–2
Change in net working capital		203	–254
Net cash flow from operating activities before financial items and taxes		488	258
Interest paid		–21	–31
Interest received		1	1
Other financial items, net		–1	–1
Income taxes paid		–51	–137
Net cash flow from operating activities		416	91
Investing activities			
Capital expenditures on intangible and tangible assets	3.1, 3.2	–54	–107
Proceeds from sale of intangible and tangible assets	3.1, 3.2	1	8
Proceeds from financial assets		–	31
Business acquisitions, net of cash acquired		1	–214
Proceeds from sale of business, net of cash sold		–	9
Investments in associated companies		–	–3
Net cash flow from investing activities		–52	–276

EUR million	Note	2020	2019
Financing activities			
Dividends paid		–221	–180
Transactions with non-controlling interests		–	–13
Investments in financial assets		0	–
Increase in loan receivables	4.6	0	0
Proceeds from / repayments of short-term debt, net	4.6	2	–78
Proceeds from issuance of long-term debt	4.6	140	450
Repayments of long-term debt	4.6	–	–175
Repayments of lease liabilities	4.6	–23	–34
Equity financing, Metso Group		–14	–
Net cash flow from financing activities		–116	–29
Net change in cash and cash equivalents		248	–215
Effect from changes in exchange rates		–12	2
Cash and cash equivalents transferred in demerger		–312	–
Cash and cash equivalents at beginning of year, continuing operations	4.3, 4.6	57	–
Cash and cash equivalents at beginning of year, discontinued operations	5.5	156	–
Cash and cash equivalents at beginning of year		213	426
Cash and cash equivalents at end of year, continuing operations	4.3, 4.6	–	57
Cash and cash equivalents at end of year, discontinued operations	5.5	–	156
Cash and cash equivalents at end of year		136	213

[1] Discontinued operations' cash flows are described in more detail in the Note 5.5.

Notes to the Consolidated Financial Statements

Basic information

Neles Corporation (the "Parent Company") with its subsidiaries ("Neles" or the "Group") is a global flow control solutions and services provider to the oil and gas refining, pulp, paper and bioproducts industries, chemicals and other process industries. The Group is presented as one reporting segment.

Neles Corporation is a publicly quoted company with its shares listed on Nasdaq Helsinki under the trading symbol NELES. Neles Corporation is domiciled in Finland and the address of the Group Head Office is Vanha Porvoontie 229, 01380 Vantaa, Finland.

These financial statements have been prepared for the period from January 1 to December 31, 2020. These consolidated financial statements were authorized for issue by Neles Corporation's Board of Directors on February 2, 2021, after which, in accordance with Finnish Companies Act, the financial statements are either approved, amended or rejected at the next Annual General Meeting.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC Interpretations as adopted by the European Union. The consolidated financial statements have been prepared on a historical cost basis, except for financial assets and liabilities classified as at fair value.

Based on the decision taken by Metso's Extraordinary General Meeting on October 29, 2019, to approve the partial demerger of the company, Metso has applied IFRS 5 and classified and disclosed its businesses of Minerals segment as discontinued operations from the beginning of November 2019. Thus, depreciations and amortizations of discontinued operations have been ceased from November 2019. Accordingly, Neles (former Flow Control) businesses form the continuing operations of Neles Group (former Metso). The partial demerger of Minerals business became effective on June 30, 2020. Accordingly, the profit of Minerals business for the period January–June, 2020 and the excess value over the carrying value of the net assets distributed to shareholders on June 30, 2020, are shown in the income statement in the line Profit for the year, discontinued operations.

The financial statements are presented in euros, which is the Parent Company's functional currency and Neles' presentation currency. The figures presented have been rounded; consequently, the sum of individual figures might differ from the presented total figure.

Neles' more detailed accounting policies are disclosed in the relevant note to the consolidated financial statements.

Critical accounting estimates and judgments by Management

The preparation of financial statements, in conformity with the IFRS, requires management to make estimates and assumptions and to exercise its judgment in the process of applying the Group's accounting policies. These affect the reported amounts of balance sheet items, the presentation of contingent assets and liabilities, and the income and expenses for the financial year. Actual results may differ from the estimates made.

Implications of Covid-19

The ongoing Covid-19 pandemic has increased general risk on global markets. There were and still are changes in customer demand, risks of supply chain and production disruptions, workforce and travel restrictions and financial market factors fluctuations. These may affect negatively Neles' financial performance, liquidity, and cash flows projections. Neles' financial statements for the year 2020 are prepared on going concern basis. Except for the decreased orders and sales, no other significant risks have realized so far as a result of the Covid-19. Neles liquidity is at a good level and Management took actions to ensure profitability of the business despite the lower volumes. As the pandemic situation is expected to continue in 2021, Management has re-evaluated all estimates and judgements used in the Financial statements for the year 2020 to reflect the increased risk in the general market conditions and possible future implications to Neles. Specific description of Covid-19 implications is disclosed in each relevant note.

The assets and liabilities involving a higher degree of judgment or complexity, or areas where the assumptions and estimates are significant to Neles' consolidated financial statements, are the following:

Note 1.1 Sales [1)]
Note 1.5 Share-based payments
Note 1.7 Income taxes
Note 2.2 Trade receivables [1)]
Note 2.3 Other receivables
Note 2.4 Inventory [1)]
Note 2.6 Provisions
Note 2.7 Post-employment obligations
Note 2.8 Deferred tax assets and liabilities
Note 3.1 Goodwill and other intangible assets [1)]
Note 3.2 Tangible assets
Note 3.4 Right-of-use assets
Note 4.1 Financial risk management

[1)] Covid-19 implication disclosed

Reporting segment

Neles Group as one operating segment is based on its operational business model. The Board of Directors is Neles' chief operating decision-maker (CODM) and responsible for allocating resources and assessing the performance of the operating segment and business lines, deciding on strategy, selecting key employees, as well as deciding on major development projects, business acquisitions, investments, organizational structure and financing. The accounting principles applied to the operative reporting are the same as those used in preparing the consolidated financial statements.

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. Adjusting items comprise of costs related to the demerger and setting up Neles business area as an independent company, capacity adjustment costs, outcome of material intellectual property rights disputes, gains and losses on business disposals, and other infrequent events. Alternative performance measures, however, should not be considered as a substitute for measures of performance in accordance with the IFRS.

Abbreviations used in the Financial Statements

AGM	Annual general meeting
EGM	Extraordinary general meeting
CGU	Cash generating unit
EBIT	Earnings before financial expenses, net and taxes
EBITA	Earnings before financial expenses net, taxes and amortization
EBITDA	Earnings before financial expenses net, taxes, amortization and depreciation
EMTN	Euro Medium Term Note program
EPS	Earnings per share
FAS	Finnish accounting standards
HSE	Health, safety and environment
IFRIC	Interpretations of International financial reporting standards
IFRS/IAS	International financial reporting standards
KPI	Key performance indicator
LTIF	Lost time incident frequency
NWC	Net working capital
OCI	Other comprehensive income
OTC	Over the counter
P/E	Price/earnings ratio
PSP	Performance share incentive plan
R&D	Research and development
ROCE	Return on capital employed
ROE	Return on equity
RSP	Restricted share incentive plan
SGA	Sales, general and administration expenses
TSR	Total shareholder return
WACC	Weighted average cost of capital

1 Group performance

Sales, MEUR

576

Employees

2,840

EPS, continuing operations, EUR

0.32

1.1 Sales

A Accounting policy

Neles applies IFRS 15 Revenue form Contracts with Customers standard. The principle is that sales are recognized at an amount that reflects the consideration to which Neles expects to receive in exchange for transferring goods or services to a customer. Sales are recognized when the control of goods or services is transferred to a customer. The control is transferred either at a point in time or over time.

Neles providing standardized valves equipment and wear or spare parts to customers, sales are recognized at a point in time, when control for the goods is transferred, typically at the delivery of the goods or after commissioning. Sales to the distributors are recognized at the delivery when the distributor is not acting as an agent. If the distributor is acting as an agent, sales are recognized only when the goods are delivered to ultimate customer.

Neles providing services, the performance obligation is satisfied by rendering the services, Sales from services are recognized when the performance obligation is satisfied and customer has been invoiced. For short-term service contracts with hourly fee based on valid price list, sales are recognized to the extent Neles has the right to invoice the customer, and for service contracts with fixed hourly fee agreed in the contract, sales are recognized based on invoicing.

Customer contracts may include promises such as volume-based rebates, late delivery penalties or right to return delivered parts. The impact of these promises on the final consideration will be estimated when revenue is recognized and systematically during the contract period. Sales will be recognized to the extent that Neles is entitled to the consideration. Also, creditworthiness of the client and collectability of the consideration is assessed through the contract period. Extended warranties are treated as a separate performance obligation and appropriate transaction price is allocated to them and recognized in sales when occurred.

Neles may require advance payments from customers. Applying IFRS 15, advances received do not include a financing component, because the payment schedule of them follows closely the timing of performance obligations to be satisfied.

E Estimates and assessments by Management

Sales recognized at a point in time may require judgement on facts and circumstances when the control is considered to have passed to the client, affecting on timing of sales to be recognized. Transfer of the control is assessed mainly based on terms of delivery in the contract and local legislation.

Customer contracts including clauses on rebates, late delivery penalties, right to return promises or extended warranties requires management judgement on the probability of such clauses to influence contracts sales. Judgements are based on earlier experience, combined with current market outlook, when it is available.

Covid-19 impact

Decrease in Sales was caused mainly by lower orders for service and maintenance, repair and operations driven business and some delays in deliveries. There were no other major extraordinary impacts on revenue recognition during 2020 because of the Covid-19 pandemic situation.

Management has in place internal control measures for customer contract clauses on rebates, late delivery penalties or right to return promises.

Risks on collectability of client considerations is managed through credit limit management and enhanced collection measures.

Disaggregation of sales

External sales by category

Continuing operations EUR million	2020	2019
Sales from services	129	152
Sales of equipment and goods	447	508
Total	576	660

Contract balances

Continuing operations EUR million	2020	2019
Trade receivables	89	95
Advances received	27	24

When providing valves equipment, and wear or spare parts, invoicing takes place in general at the delivery or after commissioning. In long-term valves delivery and service contracts invoicing is based on the client contracts. Short-term service contracts are invoiced when service is rendered.

Trade receivables are based on the invoicing to customers and are generally on terms of 30–90 days. Information about provision for expected credit losses on trade receivables is presented in note 2.2.

The performance obligation partial satisfied, and not yet invoiced is recognized in work in progress and finished products in inventory.

Advances received is the amount paid in advance to Neles by customers. Typically, Neles receives advance payments in the long-term valves' delivery and service contracts. Advances received are annually recognized as sales mainly during the following year.

Major customers

In 2020 and 2019, Neles did not have a single customer whose sales would have exceeded 10 percent of the consolidated sales.

Geographical information

Neles monitors Sales by market areas.

External sales by destination

Continuing operations EUR million	2020	2019
Finland	35	31
EMEIA	188	220
North America	166	235
South America	57	37
Asia-Pacific	130	137
Sales	576	660

1.2 Selling, general and administrative expenses

Continuing operations EUR million	2020	2019
Marketing and selling expenses	–65	–73
Research and development expenses, net	–14	–17
Administrative expenses	–39	–39
Selling, general and administrative expenses	–118	–128

A Accounting policy

Research and development expenses are recorded in SGA and comprise salaries, administration costs, depreciation and amortization of tangible and intangible assets and are mainly recognized as incurred. When material development costs meet certain capitalization criteria under IAS 38, they are capitalized and amortized over the expected useful life of the underlying technology. Possible grants received are deducted from research and development expenses.

Research and development expenses

Continuing operations EUR million	2020	2019
Research and development expenses, total	–18	–19
Capitalized development costs	2	1
Capital expenditure	1	0
Grants received	1	1
Depreciation and amortization	0	0
Research and development expenses, net	–14	–17

1.3 Other operating income and expenses

A Accounting policy

Other operating income and expenses comprise income and expenses that do not directly relate to the operating activity of businesses within Neles or which arise from unrealized and realized changes in fair value of foreign currency denominated financial instruments related to operations, including forward exchange contracts. Such items include costs related to significant restructuring programs, gains and losses on disposal of assets, and foreign exchange gains and losses, excluding those qualifying for hedge accounting and those, which are reported under financial income and expenses, net. Additionally, non-recoverable foreign taxes, which are not based on taxable profits, are reported in other operating income and expenses, net. These include foreign taxes and such like payments not based on double taxation treaties in force.

Continuing operations EUR million	2020	2019
Other operating income		
Gain on sale of intangible and tangible assets	0	0
Rental income	0	0
Foreign exchange gains [1]	9	4
Other income	3	1
Other operating income, total	13	5
Other operating expenses		
Loss on sale of intangible and tangible assets	0	0
Impairment of intangible and tangible assets	0	0
Foreign exchange losses [1]	–11	–5
Other expenses	–3	–4
Other operating expenses, total	–14	–9
Other operating income and expenses, net	–2	–4

[1] Includes foreign exchange gains and losses resulting from trade receivables and payables and related derivatives.

1.4 Personnel expenses and the number of personnel

Personnel expenses

Continuing operations EUR million	2020	2019
Salaries and wages	–119	–127
Pension costs, defined contribution plans	–10	–11
Pension costs, defined benefit plans [1]	–1	–1
Other post-employment benefits [1]	0	0
Share-based payments [2]	–1	–1
Other indirect employee costs	–23	–26
Total	–154	–167

[1] For more information on pension costs, see note 2.7.
[2] For more information on share-based payments, see note 1.5.

Number of personnel

	2020		2019	
	At end of year	Average	At end of year	Average
Continuing operations	2,840	2,840	2,927	2,890
Discontinued operations	–	–	12,894	11,441
Total	2,840	2,840	15,821	14,331

1.5 Share-based payments

A Accounting policy

Neles has share-based incentive plans for its key personnel.

The equity-settled share awards are valued based on the market price of Neles share as of the grant date and recognized as an employee benefit expense over the vesting period with corresponding entry in other reserves of the equity. The historical development of Neles share and the expected dividends have been taken into account when calculating the fair value. The entire share incentive, including the cash-for-taxes portion are recognized in equity. Also, the value of the cash portion is based on the grant date value. As a market condition, total shareholder return of the Performance Share Plans will be considered when determining the fair value at grant and it will not be changed during the plan. The fair value of the cost estimate of the Performance Share Plans will only be changed when service condition and non-market conditions are concerned.

At each balance sheet date, Neles revises its estimates on the amount of share-based payments that are expected to vest. The impact of the revision to previous estimate is accrued as an employee benefit expense with corresponding entry to equity.

E Estimates and assessments by Management

At each balance sheet date, the management revises its estimates for the number of shares that are expected to vest. As part of this evaluation, Neles takes into account the changes in the forecasted performance of the Group, the expected turnover of the personnel benefiting from the incentive plan and other pertinent information impacting the number of shares to be vested.

Share-based payments, continuing operations

After the demerger on June 2020, Neles has two share-based long-term incentive programs in operation: a Deferred Share Unit Plan ("DSUP") for the senior management and a Performance Share Plan ("PSP") for the Neles executive team members. The plans are designed to align the interest of Neles management with those of its shareholders to increase the value of Neles in a long-term and to commit the key personnel to the company by offering them a competitive reward plan. Continued employment to Neles is a basic requirement in the plans, if an employment terminates during the plan the participant will lose the right to the reward.

The rewards in the Deferred Share Plans have been initially earned from individual and company level performance during the one-year performance periods in 2018 and 2019 in Metso group. In the demerger on June 30, 2020, each Metso share unit earned was converted into Neles share unit based on the average share prices of July 2020 with the objective that the value of the reward will not be affected by the conversion. The reward will be paid after a two-year retention period in 2021 and 2022, respectively in net shares and as a cash payment for taxes arising from the reward to the employee. Board of Directors has the right to decide to pay the reward in full in cash.

The Performance Share Plan 2020–2022 was launched by the Board of Directors of Neles for Neles Executive Team in July 2020. The potential reward will be paid based on the performance targets set for relative total shareholder return (TSR) of Neles' share and earnings per share (EPS) during the three-year performance period. Potential reward earned will be paid after the performance period in 2023 in net shares and as a cash payment for taxes arising from the reward to the employee. Board of Directors has the right to decide to pay the reward in full in cash.

The fair value of share-based incentives have been determined at grant date, recognized in equity and expensed until vesting. Market condition (TSR) will be taken into account when determining the fair value at grant and it will not be changed during the plan. The fair value of the cost estimate of the Performance Share Plans will only be changed as far as service condition and non-market conditions are concerned.

2020	Deferred Share Unit Plan 2018	Deferred Share Unit Plan 2019	PSP 2020–2022
Type of the plan	Equity	Equity	Equity
Maximum amount of shares	144,348	69,415	280,000
Grant date	Mar 15, 2018	Mar 15, 2019	Oct 8, 2020
Grant price	8.56	8.10	11.58
Vesting date	May 13, 2021	May 13, 2022	Mar 5, 2023
Share incentives granted Jan 1	109,322	66 356	–
Granted	5,026	3,059	265,510
Forfeited, released	–	–	–
Share incentives granted Dec 31	114,348	69,415	265,510
Number of beneficiaries Dec 31	16	19	12
Neles Executive Team members	9	9	12
Other beneficiaries	7	10	–

Share-based payments 2019 and until June 2020

Metso had the Performance Share Plans (PSP), PSP 2017–2019, PSP 2018–2020, PSP 2019–2021 and Restricted share plans for the periods 2018–2020 and 2019–2021 as a long-term incentive program in operation in 2019 and until the demerger as at June 30, 2020. The plans were designed to align the interest of Metso management with those of its shareholders to increase the value of on total Metso in a long-term and to commit the key personnel to the company.

At the end of 2019, Neles Oyj (former Metso Oyj) had issued shares 150,348,256, treasury shares 272,088 and outstanding shares 150,076,168. In March 2020, a total of 121,727 treasury shares were used to pay rewards to 81 participants in PSP 2017–2019 Plan. After to the transaction Neles Oyj has 150,361 treasury shares and 150,197,895 outstanding shares at the end of 2020.

In the carve out of Metso Minerals business, all the open long-term incentive obligations were allocated to Metso Minerals business key personnel, except for Neles key persons share in Deferred Share unit Plans in 2018 and 2019. In the demerger in June 2020, Neles Corporation was released from liability related to remuneration in respect of the Minerals busines key personnel.

Costs recognized

2020 EUR thousand	Metso PSPs until June 2020	Deferred Share Unit Plan 2018	Deferred Share Unit Plan 2019	PSP 2020–2021	Total 2020	Total 2019
Expenses for the financial period						
Neles Executive Team members	135	96	105	164	500	1,010
Other beneficiaries	0	51	65	–	117	0
Expenses for the financial period, continuing operations	135	147	171	164	617	1,010
Expenses for the financial period, discontinued operations	2,900	–	–	–	2,900	5,108

1.6 Financial income and expenses

Continuing operations EUR million	2020	2019
Financial income		
Interest income on cash and cash equivalents	1	0
Other financial income	0	0
Gain from foreign exchange	0	0
Financial income total	1	1
Financial expenses		
Interest expenses from financial liabilities at amortized cost	–4	–1
Interest expenses on leases	–2	–1
Other financial expenses	–1	0
Financial expenses total	–7	–2
Financial income and expenses, net	–6	–2

1.7 Income taxes

A Accounting policy

Income taxes in the consolidated income statement include taxes of subsidiaries based on taxable income for the current period, tax adjustments for previous periods and the changes in deferred taxes. The other comprehensive income statement (OCI) includes taxes on items presented in OCI. Deferred taxes are determined for temporary differences arising between the tax base of assets and liabilities and their financial statement carrying amounts, measured using substantially enacted tax rates.

E Estimates and assessments by Management

Neles is subject to income tax in its operating countries. Neles' management is required to make certain assumptions and estimates in preparing the annual tax calculations for which the ultimate tax consequence is uncertain. Annually, Neles has tax audits ongoing in several subsidiaries and recognizes tax liabilities on for anticipated tax audit issues based on estimate of whether additional taxes will be due. Where the outcome of these issues is different from the estimated amounts, the difference will impact the income tax in the period in which such determination is made.

The components of income taxes

Continuing operations EUR million	2020	2019
Income taxes for current year	–16	–22
Income taxes for prior years	–1	0
Change in deferred tax asset and liability	2	0
Income taxes	–16	–22

The differences between income tax expense computed at the Finnish statutory rate and income tax expense provided on earnings

Continuing operations EUR million	2020	2019
Profit before taxes	64	93
Income tax at Finnish statutory tax rate of 20.0%	–13	–19
Effect of different tax rates in foreign subsidiaries	–2	–3
Non-deductible expenses	–1	–2
Tax exempt income or tax incentives	2	1
Foreign non-creditable withholding taxes	0	–1
Deferred tax liability on undistributed earnings	0	0
Effect of enacted change in tax rates	0	0
Income tax for prior years	–1	0
Other	0	1
Income taxes	–16	–22

1.8 Earnings per share

A Accounting policy

Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the company by the weighted average number of shares issued and outstanding for the year, excluding own shares held by the Parent company.

Diluted

The shares to be potentially issued in the future are treated as outstanding shares when calculating the diluted earnings per share if they have a dilutive effect. The own shares held by Neles are reissued within the terms of the share ownership plan to the key personnel if the targets defined in the plan are met. Diluted earnings per share are calculated by increasing the weighted average number of outstanding shares with the number of those shares, which would be distributed to the beneficiaries based on the results achieved, if the conditional earnings period ended at the end of the financial period in question. As at December 31, 2020 Neles holds 150,361 own shares to be used as consideration under the share ownership plans.

Basic

2020	Continuing operations	Discontinued operations	Total
Profit attributable to shareholders of the company, EUR million	48	2,150	2,198
Weighted average number of shares issued and outstanding (in thousands)	150,197	150,197	150,197
Earnings per share, basic, EUR	0.32	14.31	14.63

2019	Continuing operations	Discontinued operations	Total
Profit attributable to shareholders of the company, EUR million	69	232	301
Weighted average number of shares issued and outstanding (in thousands)	150,057	150,057	150,057
Earnings per share, basic, EUR	0.46	1.54	2.00

Diluted

2020	Continuing operations	Discontinued operations	Total
Profit attributable to shareholders of the company, EUR million	48	2,150	2,198
Weighted average number of shares issued and outstanding (in thousands)	150,197	150,197	150,197
Weighted average number of diluted shares issued and outstanding (in thousands)	150,197	150,197	150,197
Earnings per share, diluted, EUR	0.32	14.31	14.63

2019	Continuing operations	Discontinued operations	Total
Profit attributable to shareholders of the company, EUR million	69	232	301
Weighted average number of shares issued and outstanding (in thousands)	150,057	150,057	150,057
Adjustment for potential shares distributed (in thousands)	143	143	143
Weighted average number of diluted shares issued and outstanding (in thousands)	150,200	150,200	150,200
Earnings per share, diluted, EUR	0.46	1.54	2.00

2 Operational assets and liabilities

Net working capital, MEUR

144

Capital empoyed, MEUR

480

Return on capital employed, before taxes %

15.6

2.1 Net working capital and capital employed

Net working capital, balance sheet value

Continuing operations EUR million	2020	2019
Inventories	160	181
Trade receivables	89	95
Other non-interest bearing receivables	49	41
Trade payables	–60	–63
Advances received	–27	–24
Other non-interest bearing liabilities	–68	–64
Net working capital	144	166

Net working capital, cash flow effect

Continuing operations EUR million	2020	2019
Inventories	12	–24
Trade receivables	0	–4
Other non-interest bearing receivables	–1	–11
Trade payables	0	6
Advances received	5	4
Other non-interest bearing liabilities	2	–2
Net working capital	17	–30

More information on the cash flow statement from continuing operations can be found in the note 4.3.

Capital employed

Continuing operations EUR million	2020	2019
Net working capital	144	166
Intangible assets	74	81
Tangible assets	62	67
Right-of-use assets	51	46
Non-current investments	0	0
Cash and cash equivalents	136	57
Tax receivables, net	14	8
Interest payables, net	0	0
Capital employed	480	425

Continuing operations EUR million	2020	2019
Total capital employed, average	453	n/a
Profit before taxes + interest and other financial expenses	71	94
Profit after taxes + interest and other financial expenses	55	71
Return on capital employed (ROCE) before taxes, %	15.6	n/a
Return on capital employed (ROCE) after taxes, %	12.1	n/a

Longer time series is presented in Key figures section.

Non-current assets by location

Continuing operations EUR million	2020	2019
Finland	56	63
Other European countries	12	14
North America	42	36
South and Central America	2	2
Asia-Pacific	37	32
Africa and Middle East	17	3
Non-allocated	32	46
Total	199	195

Non-current assets presented in the table above comprise intangible and tangible assets, right-of-use assets, investments in associated companies and joint ventures, equity investments and other non-interest bearing non-current assets. Non-allocated assets include mainly goodwill and other assets arising from business acquisitions that have not been pushed down to the subsidiaries' books.

2.2 Trade receivables

A Accounting policy

Trade receivables are invoiced receivables from customers related to Neles' ordinary business transactions. General payment terms are typically from 30 days to 90 days and they are non-interest bearing receivables. Trade receivables are initially recognized at recoverable value and subsequently valued at amortized cost. If exceptionally over 360 days payment term has been offered to a client, the invoiced amount is discounted to its fair value.

Neles may enter an agreement to sell trade receivables. Trade receivable will be derecognized when payment has been received and there is certainty that credit risk and other risks and rewards have been transferred to a third party.

Customer contract assets are recognized receivables related to sales recognition over time, at the time when performance obligation satisfied by Neles exceeds the amount invoiced from the customer. Customer contract assets are related only to discontinued operations.

Neles applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance to be assessed and recognized regularly.

Based on the analysis of previous year's credit losses by aging category and nature, as well as macroeconomic outlook in the near future, Neles recognizes a credit loss allowance from 0.2% to 5% on undue or less than 180 days overdue trade receivables. For more than 180 days overdue trade receivables, the impairment is assessed individually, but without any credit guarantee, collateral or similar assurance on the recoverability, a minimum credit loss provision of 25% (over 180 days overdue) and 100% (over 360 days overdue) will be recognized. Trade receivables are written off when there is no reasonable expectation of recovery. Probability of bankruptcy, other financial reorganization or similar situation indicating insolvency of the client trigger final write off.

E Estimates and assessments by Management

Estimate on expected credit losses and credit loss provision to be recognized are based on management's best judgement. The judgement is based on earlier experience on past years credit losses and current economic outlooks and client segment and location information. Trade receivables are collected actively, and possible impairment analyzed regularly by businesses and Neles legal units, and necessary actions to secure the receivables are made by the management. When credit loss provision of a trade receivable is assessed individually, collateral, credit guarantees, financial position of client and earlier payment behavior are considered.

Covid-19 pandemic impact

There were no increases in realized credit losses in 2020 or major delays in payments because of the Covid-19 pandemic situation. No changes to the payment terms have been negotiated.

Management has increased internal control measures by monitoring public information on clients' creditworthiness and the aging of trade receivables and through intensive collection. The method to recognize credit loss allowances in the expected credit loss model was kept unchanged.

EUR million	2020	2019
Trade receivables	89	95

Provision on trade receivables by ageing category

	2020		2019	
EUR million	Gross	of which provided	Gross	of which provided
Undue	66	0	55	0
overdue 1–30 days	14	0	17	0
overdue 31–180 days	8	0	20	1
overdue 181–360 days	1	0	3	1
overdue 360 days or more	3	3	4	3
Total	93	4	99	4

Write-offs totaled EUR 0.2 million (EUR 0.1 million in 2019). Reservation percentage scale used for expected credit loss provision made in 2020 were 0.4% for undue, 0.3% for overdue 1–30 days, 6.0% for overdue 31–180 days, 33.1% for overdue 181–360 days and 95.0% for overdue 361 or more.

Provision for impairment of trade receivables

EUR million	2020	2019
Accumulated provision January 1	4	31
Accumulated provision January 1, discontinued operations	–	−27
Impact in income statement	0	0
Currency rate differences	0	0
Other change	0	1
Accumulated provision December 31	4	4

2.3 Other receivables

A Accounting policy

Other non-interest bearing receivables are recognized in the balance sheet at fair value which can be subsequently written down due to impairment. The impairment is expensed under selling, general and administrative expenses.

E Estimates and assessments by Management

Neles' policy is to calculate an impairment loss based on the best estimate of the amounts that are potentially uncollectable at the balance sheet date. Neles' management actively monitors the amount of receivables past due globally and initiates action as necessary.

	2020			2019		
EUR million	Non-current	Current	Total	Non-current	Current	Total
Loan receivables	–	6	6	–	–	–
Prepaid expenses and accrued income	–	17	17	–	27	27
VAT, payroll tax and social charge receivables	–	11	11	–	11	11
Pension assets	10	–	10	–	–	–
Other receivables	2	2	3	1	1	2
Non-interest bearing receivables total	12	36	48	1	40	41

Other current non-interest bearing receivables included EUR 3 million in 2020 (EUR 2 million in 2019) Brazilian tax credits arising from delivery of goods and transfer of services (ICMS) recognized by a local subsidiary.

2.4 Inventory

A Accounting policy

Inventories are valued at the lower of historical cost calculated or net realizable value. Costs are measured on a weighted average cost basis and include purchase costs as well as transportation and processing costs. The costs of finished goods include direct materials, wages and salaries plus employer social contributions, subcontracting and other direct costs, as well as a portion of production and project administration overheads. Net realizable value is the estimated amount that can be realized from the sale of the asset in the normal course of business less costs to sell.

Inventories are shown net of a provision for obsolete and slow-moving inventories. Neles' policy is to maintain a provision for slow-moving and obsolete inventory based on the best estimate of such amounts at the balance sheet date. An obsolescence provision is charged to income statement in the period in which the obsolescence is determined. Estimates are based on a systematic, on-going review and evaluation of inventory balance.

Trade-in equipment received is recorded as inventory at the lower of cost or net realizable value.

E Estimates and assessments by Management

Inventory valuation requires management to make estimates and judgements particularly relating to obsolescence and expected selling prices.

Covid-19 impact

The Covid-19 pandemic situation caused some challenges in 2020 in the inventory management through the lower than planned orders and delays in deliveries, that was caused by lower demand as well as workforce and transportation restrictions. Lower capacity utilization led to higher obsolescence provision relative to inventory value.

Neles has managed to keep its supply chains and manufacturing operations ongoing, expect for certain temporary difficulties. Neles has global supply chains and manufacturing footprint, therefore it does not have major risk associated with concentration of production.

Management has increased internal controls on the inventory management with the aim of optimizing the level of net working capital in a timely manner. The methods to recognize obsolescence provision and scrapping were kept unchanged.

EUR million	2020	2019
Materials and supplies	53	60
Work in process	27	28
Finished products	81	92
Inventories	160	181

The cost of inventories recognized as expense totaled EUR 378 million in 2020 (EUR 426 million in 2019).

Changes in provision for inventory obsolescence

EUR million	2020	2019
Balance at beginning of year	14	64
Balance at beginning of year, discontinued operations	–	–53
Impact of exchange rates	0	1
Additions charged to expense	3	5
Used reserve	–2	–2
Deductions / other additions	–2	–1
Balance at end of year	13	14

2.5 Trade and other payables

A Accounting policy

The fair values and carrying amounts of trade and other payables are approximately the same due to the short-term maturities. The maturities of the current non-interest bearing liabilities rarely exceed six months. The maturities of trade payables are largely determined by trade practices and individual agreements between Neles and its supplier.

Accrued personnel costs, including holiday pay, are accrued and settled in accordance with local laws and regulations.

	2020			2019		
EUR million	Non-current	Current	Total	Non-current	Current	Total
Trade payables	–	60	60	–	63	63
Derivative instruments	–	1	1	–	1	1
Other payables						
Accrued interests	–	0	0	–	0	0
Accrued personnel costs	–	18	18	–	21	21
Accrued project costs	–	2	2	–	0	0
VAT, payroll tax and social charge payables	–	6	6	–	7	7
Other payables	0	9	9	0	12	12
Other payables	0	35	36	0	39	39

2.6 Provisions

Accounting policy

Provisions are recognized when the Group has a legal or constructive obligation as a result of a past event, and it is probable that financial benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions, for which settlement is expected to occur more than one year after the initial recognition, are discounted to their present value and adjusted in subsequent closings for the time effect.

Warranty and guarantee provisions

Neles issues various types of contractual product warranties under which it generally guarantees the performance levels agreed in the sales contract, the performance of products delivered during an agreed warranty period and services rendered for a certain period or term. The provision for estimated warranty costs is based on historical realized warranty costs for deliveries of standard products and services in the past. The typical warranty period is 12 months from accepted delivery. The adequacy of provisions is assessed periodically on a case by case basis.

Restructuring and capacity adjustment costs

A provision for restructuring and capacity adjustment costs is recognized only after management has approved, committed to and started to implement a formal plan. Employee termination benefits are recognized after the representatives of employees or individual employees have been informed of the intended measures in detail and the related compensation packages can be reliably measured. The costs included in a provision for capacity adjustment are those costs that are either incremental or incurred as a direct result of the plan or are as the result of a continuing contractual obligation with no continuing economic benefit to Neles or a penalty incurred to cancel the contractual obligation.

Restructuring and capacity adjustment expenses are recognized in either cost of goods sold or selling, general and administrative expenses depending on the nature of the restructuring expenses. Restructuring costs can also include other costs incurred as a result of the plan, which are recorded under other operating income and expenses, net, such as asset write-downs.

Environmental remediation costs

Neles recognizes provisions associated with environmental remediation obligations when there is a present obligation as a result of past events, an outflow of resources is considered probable and the obligation can be estimated reliably. Such provisions are adjusted as further information develops or circumstances change. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed virtually certain.

Provision for loss making projects

A provision for loss making projects is booked when the costs needed to settle the performance obligations of the contract exceed the consideration to be received. Such a provision for the unrecognized portion of the loss is recognized immediately when these conditions have been met and is revised according to the progress of the project. Provision for loss making projects has applied only for the discontinued operations.

Estimates and assessments by Management

Provisions booked require management to estimate the future costs needed to settle the obligations and to estimate the possible outcomes of claims or lawsuits. The outcome depends on future development and events, so the final costs needed and timing to settle the obligation may differ from the initial provision estimated.

Provisions

	2020			2019		
EUR million	Non-current	Current	Total	Non-current	Current	Total
Warranty and guarantee provision	–	6	6	–	5	5
Restructuring provision	0	0	1	–	1	1
Environmental remedial provision	–	–	–	0	1	1
Other provisions [1]	2	3	5	3	5	8
Total	2	9	11	3	12	15

[1] Includes provisions related to lawsuit and personnel liabilities.

Changes in provisions

2020 EUR million	Warranty and guarantee provision	Restructuring provision	Environmental remediation provision
Carrying value on January 1	5	1	1
Impact of exchange rates	0	0	0
Addition charged to expense	4	0	
Used reserve	–4	–1	0
Reversal of reserve / other changes	–	–	–1
Carrying value on December 31	6	1	–

2019 EUR million	Warranty and guarantee provision	Restructuring provision	Environmental remediation provision
Carrying value on January 1	51	5	1
Carrying value on January 1, discontinued operations	–47	–5	–1
Impact of exchange rates	0	0	0
Addition charged to expense	3	1	0
Used reserve	–1	0	0
Reversal of reserve / other changes	0	–	–
Carrying value on December 31	5	1	1

2.7 Post-employment obligations

A Accounting policy

Neles has several different post-employment plans in accordance with local regulations and practices in countries where it operates. In certain countries, the plans are defined benefit plans providing retirement, disability, death, and other post-employment benefits, termination and retirement lump sums. The retirement benefits are usually based on the number of service years and the salary levels of the final service years. Neles has both defined contribution and defined benefit pension plans. The pension plans are generally funded through payments to insurance companies or to trustee-administered funds. Other arrangements are unfunded with benefits being paid directly by Neles as they fall due. All arrangements are subject to local tax and legal restrictions in their respective jurisdictions.

In the case of defined benefit plans, the net liability recognized from the plan is the present value of the defined benefit obligation as of the balance sheet date less the fair value of the plan assets. Independent actuaries calculate the defined benefit obligation by applying the projected unit credit method under IAS 19R. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and having maturity approximating to the terms of the related pension obligation. The cost of providing retirement and other post-retirement benefits to personnel is charged to profit and loss concurrently with the service rendered by personnel. Net interest is recorded through financial income and expenses in the income statement. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized through OCI in shareholders' equity in the period in which they arise. Past service costs, gains and losses on curtailments or settlements are recognized immediately in the income statement.

The contributions to defined contribution plans and multi-employer and insured plans are recognized in the income statement concurrently with the payment obligations.

E Estimates and assessments by Management

The present value of the pension obligations is based on annual actuarial calculations, which use several assumptions such as the discount rate and expected return on assets, salary and pension increases and other actuarial factors. As a result, the liability recorded on Neles' balance sheet and cash contributions to funded arrangements are sensitive to changes. Where the actuarial experience differs from those assumptions gains and losses result, which are recognized in OCI. Sensitivity analyses on the present value of the defined benefit obligation have been presented in the tables. Assets of Neles' funded arrangements are managed by external fund managers. The allocation of assets is reviewed regularly by those responsible for managing Neles' arrangements based on local legislation, professional advice and consultation with Neles, based on acceptable risk tolerances.

Neles' pension and other post-employment plans

Neles' most financially significant arrangements are the US pension plan and the German pension plans which amount for 98% of Neles' pension obligations and 99% of Neles' pension assets. The US plan is closed to new entrants and to future accrual of benefits. Annual funding valuations are carried out in accordance with local principles to determine if cash funding contributions are required. As the plan has been in surplus over recent years, no contributions have recently been required. Neles' obligations in the US also include a more modest unfunded pension plan and a deferred compensation arrangement. Neles' defined benefit plans in other territories include modest pension plans, as well as lump sum benefits payable on leaving service and retirement.

Movement in the net defined benefit liability

EUR million	2020 Defined benefit obligation	2020 Fair value of plan assets	2020 Net defined benefit liability (asset–/liability+)	2019 Defined benefit obligation	2019 Fair value of plan assets	2019 Net defined benefit liability (asset–/liability+)
January 1	92	–84	8	85	–74	11
Adjustments due to business combinations	4	1	5	–	–	–
Change in consolidation scope	0	–	0	–	–	–
Included in income statement						
Current service cost	0	–	0	1	–	1
Past service cost	–	–	–	0	–	0
Settlements	–	–	–	–	–	–
Administration costs	–	–	–	–	–	–
Interests	2	–2	–	3	–3	0
Total in Income statement	3	–2	0	4	–3	1
Included in Other comprehensive income						
Remeasurement gains (–)/ losses (+)						
Actuarial gains/losses arising from changes in financial assumptions	6	–	6	9	–	9
Actuarial gains/losses arising from changes in demographical assumptions	–1	–	–1	–1	–	–1
Actuarial gains/losses arising from experience adjustments	–	–	–	–1	–	–1
Return on plan assets (excluding amounts included in interest expenses)	–	–8	–8	–	–11	–11
Exchange rate differences	–7	7	0	1	–1	0
Total in Other comprehensive income	–2	–1	–3	9	–12	–3
Contributions paid by the employer	–	0	0	–	–1	–1
Benefits paid by the employer	0	0	0	0	0	0
Benefits paid from plan assets	–5	5	0	–5	5	0
December 31	91	–81	10	92	–84	8
Present value of funded defined obligation	71	–	71	77	–	77
Fair value of plan assets	–	–81	–81	–	–84	–84
Funded obligations, net	71	–81	–10	77	–84	–7
Present value of unfunded obligation	21	–	21	15	–	15
Defined benefit net liability	92	–81	10	92	–84	8
of which in balance sheet assets			–10			–8
of which in balance sheet liabilities			21			15

Net liability in Germany amounted to EUR 11.2 million (EUR 10.2 million) and the net surplus in the United States EUR 2.3 million (EUR 3.5 million). Average duration of defined benefit obligation in Germany is 30 years and in US 10 years at the end of 2020.

Neles paid contributions of EUR 0.4 million to defined benefit plans in 2020. The expected contributions to plans in 2021 are EUR 0.4 million.

Fair values of plan assets

EUR million	2020	2019
Quoted		
Equity securities	17	17
Bonds	63	66
Unquoted		
Property	0	–
Insurance contracts	–	1
Cash	0	0
Total	81	84

As at December 31, 2020 there were no plan assets invested in affiliated or property occupied by affiliated companies.

The principal actuarial assumptions

	2020		2019	
%	Germany	US	Germany	US
Discount rate	0.52	2.20	0.70	3.00
Future salary increase	2.50	3.50	2.50	3.50
Future pension increase	1.60	3.00	1.75	3.00
Rate of inflation	1.60	3.00	1.75	3.00

The life expectancy used

	2020	
Longevity at age 65	Germany	US
Current age		
45 years, male	23.2	22.0
45 years, female	26.1	23.8
65 years, male	20.4	20.5
65 years, female	24.4	22.4

Life expectancy is allowed for in the assessment of the Defined Benefit Obligation using mortality tables which are generally based on experience within the country in which the arrangement is located with an allowance made for anticipated future improvements in longevity.

Sensitivity analyses

Impact to pension obligation, change in assumption, increase (+)/decrease (–)

	2020	
EUR million	Germany	US
0.25% increase in discount rate	–0.8	–1.6
0.25% decrease in discount rate	0.9	1.7
0.25% increase in salary growth rate	0.1	0.0
0.25% decrease in salary growth rate	–0.1	0.0
0.25% increase in pensions	0.2	0.0
0.25% decrease in pensions	–0.2	0.0
One-year increase in the life expectancy	0.4	2.9

Sensitivity analyses presents the impact on the Defined Benefit Obligation when major assumptions are changed while others held constant.

Maturity profile of the future benefit payments, nominal payments

EUR million	2020
Maturity	
year 1	5.5
year 2	5.5
year 3	5.4
year 4	5.2
year 5	5.1
years 6–10	23.9

2.8 Deferred tax assets and liabilities

A Accounting policy

The deferred tax asset or liability is determined for temporary differences arising between the tax bases of assets and liabilities and their financial statement carrying amounts using the substantially enacted tax rates expected to apply in future years. Typical temporary differences arise from provisions, depreciation and amortization expense, inventory and trade receivable valuation, defined benefit plans and tax loss carry forwards. Deferred tax liabilities are recognized in the balance sheet in full, and the deferred tax assets are only recognized if it is probable there will be taxable income in the future against which deferred tax can be used. Deferred tax assets are set off against deferred tax liabilities if they relate to taxes levied by the same taxation authority. Deferred tax assets are assessed for realizability at the end of each reporting period. If it is no longer probable that sufficient taxable profit will be available to allow deferred tax asset utilization, carrying amount of deferred tax asset is reduced.

E Estimates and assessments by Management

In determining the deferred tax assets and liabilities, Neles is required to make certain assumptions and estimates on in particular future operating performance and the taxable income of subsidiaries, recoverability of tax loss carryforwards and potential changes of tax laws in jurisdictions where Neles operates. A deferred tax liability based on foreign subsidiaries undistributed earnings has been provided only where Neles management has elected to distribute such earnings in the coming years and the distribution is subject to taxation. Because the tax consequences are difficult to predict, the deferred tax asset and liabilities may need to be adjusted in coming financial years, which will have an impact in the period in which such determination is made.

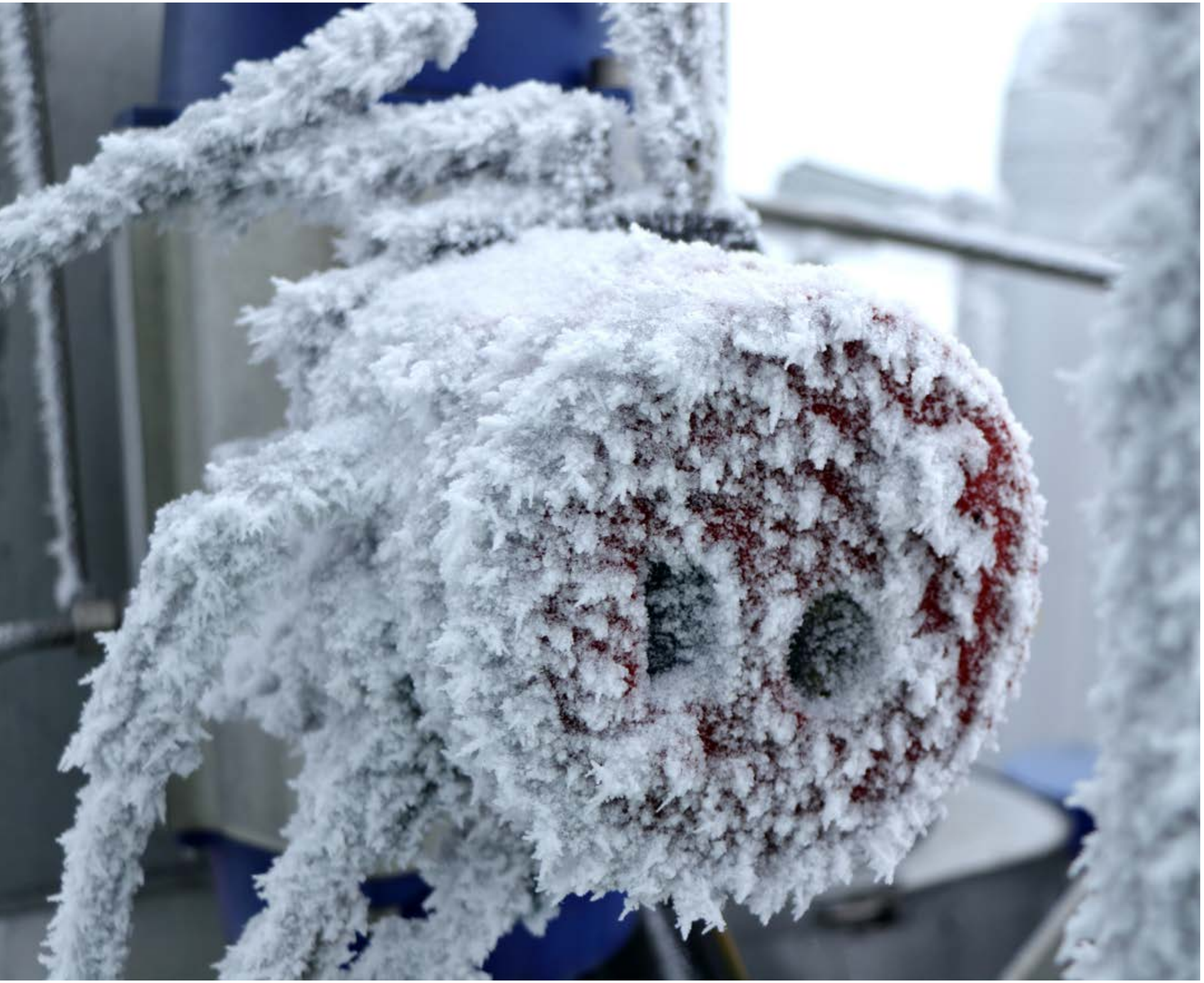
Reconciliation of deferred tax balances, continuing operations

2020 EUR million	January 1	Charged to income statement	Charged to share-holders' equity	Translation differences and Group items	December 31
Deferred tax assets					
Tax losses carried forward	0	7	–	0	7
Intangible and tangible assets	4	–1	–	–1	2
Inventory	4	0	–	2	5
Provisions	0	0	0	1	2
Accruals	0	1	0	1	1
Pension related items	3	0	2	–3	1
Other	3	–2	2	–1	3
Total deferred tax assets	14	6	4	–2	22
Offset against deferred tax liabilities	–1	–	–	–	–4
Net deferred tax assets	13	6	4	–2	18
Deferred tax liabilities					
Purchase price allocations	4	–1	–	–1	2
Intangible and tangible assets	0	0	–	2	2
Other	1	5	0	–4	2
Total deferred tax liabilities	5	4	0	–3	6
Offset against deferred tax assets	–1	–	–	–	–4
Net deferred tax liabilities	4	4	0	1	3
Deferred tax assets, net	9	2	4	0	15

2019 EUR million	January 1	January 1, discon-tinued operations	Charged to income statement	Charged to share-holders' equity	Translation differences and Group items	December 31
Deferred tax assets						
Tax losses carried forward	6	–6	0	–	0	0
Intangible and tangible assets	17	–13	0	–	0	4
Inventory	25	–21	0	–	0	4
Provisions	18	–17	0	–	–1	0
Accruals	10	–10	0	–	0	0
Pension related items	13	–4	0	0	–6	3
Other	24	–22	0	–	0	3
Total deferred tax assets	114	–93	0	0	–7	14
Offset against deferred tax liabilities	–12	12	–	–	0	–1
Net deferred tax assets	101	–81	0	0	–7	13
Deferred tax liabilities						
Purchase price allocations	12	–8	0	–	0	4
Intangible and tangible assets	6	–6	0	–	0	0
Other	25	–24	0	–	0	1
Total deferred tax liabilities	43	–38	0	–	0	5
Offset against deferred tax assets	–12	12	–	–	0	–1
Net deferred tax liabilities	30	–26	0	–	0	4
Deferred tax assets, net	71	–55	0	–	–7	9

Deferred tax liability on undistributed retained earnings in subsidiaries will be recognized when the dividend distribution is probable in the near future and it will cause a tax impact. At the end of year 2020 there are no substantial undistributed earnings in subsidiaries from which deferred tax liability is not booked.

3 Intangible and tangible assets



Goodwill, MEUR

57

Other intangible assets, MEUR

17

Tangible assets, MEUR

62

Right-of-use asets, MEUR

51

Amortizations, MEUR

3

Depreciations, MEUR

21

3.1 Goodwill and other intangible assets

A Accounting policy

Goodwill and other intangible assets with an indefinite useful life

Goodwill represents the excess of acquisition costs over the fair value of net identified assets acquired and liabilities assumed and the fair values of previously owned interests and non-controlling interests. Neles Group is one operating segment consisting of three cash generating units (CGU), Equipment (VEQ), Service (VSE) and Valve Controls (VCO). In Neles operational model, goodwill is contributing the future cash flows integrated to all of the CGUs' and is therefore allocated to group of these CGUs' forming Neles Group. The carrying value of goodwill is tested at least annually with the Neles Group value in use. Previously recognized impairment losses on goodwill are not reversed.

Other intangible assets with an indefinite useful life, such as brand values, are not amortized. Currently testing of such assets are included the annual impairment testing. Previous losses on impairment are only reversed to the extent that the new carrying amount of the assets does not exceed the carrying amount the asset would have had, if the asset had not been impaired.

Other intangible assets

Other intangible assets with a definite useful life, mainly trademarks, patents, licenses, IT software or acquired order backlog are measured at costs less accumulated amortizations and impairment losses.

Amortization of intangible assets

Amortization of intangible assets with a definite useful life is calculated on a straight-line basis over the useful life of the assets as follows:

Patents and licenses	5–10 years
Computer software	3–5 years
Technology	3–20 years
Customer relationships	3–20 years
Other intangible assets	< 1–20 years

The probable useful lives of assets are reviewed annually. If material deviations from previous estimates arise, the useful lives are reassessed. The carrying value of intangible assets subject to amortization is reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. A previously recognized impairment loss may be reversed if there is a significant improvement of the circumstances having initially caused the impairment, but not to a higher value than the carrying amount, which would have been recorded had there been no impairment in prior years.

Research and development expenses comprise salaries, administration costs, depreciation and amortization of tangible and intangible assets and they are mainly recognized as incurred. When material development costs meet certain capitalization criteria under IAS 38, they are capitalized and amortized during the expected useful life of the underlying technology.

Goodwill and other intangible assets

2020 EUR million	Goodwill	Patents and licenses	Capitalized software	Other intangible assets	Intangible assets total
Acquisition cost at beginning of year	62	0	21	31	111
Translation differences	−3	0	−1	−3	−6
Capital expenditure	–	0	0	3	4
Reclassifications	–	–	1	−1	0
Effect of demerger	−2	0	0	0	−2
Acquisition cost at end of year	57	1	21	31	107
Accumulated amortization at beginning of year	–	0	−16	−17	−30
Translation differences	–	0	0	0	0
Amortization for the year	–	0	−2	−2	−3
Other changes	–	0	0	0	0
Accumulated amortization at end of year	–	0	−18	−18	−33
Net book value at end of year	57	1	4	13	74

2019 EUR million	Goodwill	Patents and licenses	Capitalized software	Other intangible assets	Intangible assets total
Acquisition cost at beginning of year, Metso total	525	27	92	139	783
Acquisition cost at beginning of year, discontinued operations	−462	−27	−75	−108	−672
Translation differences	0	0	0	0	−1
Business acquisitions	−1	–	–	–	−1
Capital expenditure	–	0	1	2	3
Reclassifications	–	–	2	−2	–
Other changes	0	0	0	1	0
Acquisition cost at end of year	62	0	21	31	111
Accumulated amortization at beginning of year, Metso total	–	−19	−81	−74	−175
Accumulated amortization at beginning of year, discontinued operations	–	19	66	60	145
Translation differences	–	0	0	0	0
Impairment losses	–	0	–	−1	−1
Amortization for the year	–	0	−2	−2	−4
Other changes	–	0	0	1	1
Accumulated amortization at end of year	–	0	−16	−17	−30
Net book value at end of year	62	0	4	14	81

Impairment testing

A Accounting policy

Goodwill and other intangible assets with an indefinite useful life are tested for impairment annually. The testing of goodwill and other intangible assets with an indefinite useful life is performed at Neles Group level. If the carrying value of goodwill exceeds the recoverable value, an impairment is recognized in the income statement under depreciations and amortizations. Impairment losses on goodwill are not reversed. From July 1, 2020 Neles Group allocates the goodwill to be tested to the Neles Group, formed by the aggregation of three cash generating units (CGUs), Equipment, Service and Valve Controls.

The recoverable amounts are based on value in use calculations, where the estimated future cash flows are discounted to their present value. The cash flows are derived from the current year's last quarter estimate, the following year's budget and the approved strategy for the next three years, beyond which cash flows are calculated using the terminal value method. The terminal growth rate used is based on management's judgment regarding the average long-term growth. Cash flows include only normal maintenance investments and exclude any potential investments that enhance Neles' performance and acquisitions.

E Estimates and assessments by Management

Value in use calculations is inherently judgmental and highly susceptible to change from period to period because they require management to make assumptions about future supply and demand related to its individual business units, future sales prices, profit margins and achievable efficiency savings over time. The value of benefits and savings expected from the efficiency improvement programs are inherently subjective. Neles management estimates sales growth rate and EBITDA development for the testing period as well as the discount factor used. The present value of the predicted cash flows is discounted using the weighted average cost of capital (WACC) calculated by Neles. WACC calculations include judgments on regarding, among other things, relevant beta factors, peer companies and capital structure to use.

Neles performs impairment testing annually, or whenever there is an indication of impairment. Typical triggering events are material and permanent deterioration in the global economy or political environment, observed significant under-performance relative to projected future performance and significant changes in Neles' strategic orientations. Expected useful lives and remaining amortization periods for other intangible assets are reviewed annually by management. Acquisitions, disposals and restructuring actions typically generate a need for the reassessment of the recoverable amounts and remaining useful lives of the assets. When the other intangible assets are measured at fair value less costs of disposal, the selling price, incremental costs and selling costs need to be estimated by management.

Upon initial acquisition Neles uses readily available market values to determine the fair values of acquired net assets to be allocated. However, when this is not possible, the valuation is based on past performance of such an asset and expected future cash generating capacity, which requires management to make estimates and assumptions of the future performance and use of these assets. Any change in Neles' future business priorities may affect the recoverable amounts.

Covid-19 impact

As the Covid-19 pandemic has increased uncertainties and risks related to global economy, predicting future long-term cash flows have become increasingly difficult. In 2020 impairment test, management has considered this increased estimation uncertainty by adjusting the timing of estimated cash flows in the strategy periods.

Annual impairment test in 2020

As at December 31, 2020, goodwill totaled EUR 57 million. Given that the recoverable amount significantly exceeded the carrying value of goodwill and other tested assets, no indication of impairment was found in 2020. The value in use calculations were derived from estimates, budgets and strategy figures reviewed by Neles' management and approved by the Board of Directors.

The key assumptions used in assessing the recoverable amount are the profitability and growth rate for the estimate period, long-term average growth in the terminal period and discount rate. The key values used were the following:

	2020	2019
Sales growth in four years estimate period	9.4%	5.9%
EBITDA % range in four years estimate period	15.6%–18.9%	14.9%–19.7%
Growth rate in the terminal period	1.7%	1.7%
WACC after tax	10.1%	9.0%
WACC before tax	12.5%	11.4%

Values assigned to key assumptions reflect past experience and the management's expectations on the future sales and production volumes, which are based on the current structure and production capacity. In the 2020 testing, the increased risk in forecasting future cash flows caused by the Covid-19 pandemic situation has been assessed. Consequently, the timing of targeted cash flows for the strategy period has been adjusted. Additionally, data on growth, demand and price development provided by various research institutions have been utilized. The growth rate of 1.7% for the terminal period is based on the long-term expectations on the growth in the Neles' market environments considering the current low interest rate environment and overall financial market situation.

WACC before tax is used as a discount factor in the calculations. It takes into account the expected return on both debt and equity and has been derived from the WACC on comparable peer industry betas, capital structure and tax rates. WACC is evaluated annually for testing and business specific risk is incorporated through individual beta factors from the market data of peer companies. Increase in WACC used in 2020 is reflecting the Covid-19 impact the market and manages the risk of estimating future cash flows.

Sensitivity analysis

The sensitivity to impairment was tested in the following scenarios:

- Scenario 1: increasing WACC by 2.0 percentage points
- Scenario 2: reducing the terminal growth rate from 1.7% to 1.2% and increasing WACC by 2.0 percentage points

The impact to the value in use of the CGUs in the sensitivity analysis

	2020
WACC increase by 2 p.p.	–18%
Terminal growth from 1.7% to 1.2% and WACC increase by 2 p.p.	–20%

The sensitivity analysis also includes several cash projections on break-even levels of EBITDA %, WACC and sales growth based on reasonable change in the future performance. However, the impact on the present value obtained is limited as long as there is no permanent weakening expected for the business, which would affect the terminal value. Based on these sensitivity analyses, the management believes that no reasonably possible change of the key assumptions used would cause the carrying value exceed its recoverable amount. In 2020, the sensitivity analysis did not indicate risks of impairment.

3.2 Tangible assets

A Accounting policy

Tangible assets are stated at historical cost, less accumulated depreciation and impairment loss, if any. The tangible assets of acquired subsidiaries are measured at their fair value at the acquisition date.

Depreciation is calculated on a straight-line basis over the expected useful lives of the assets as follows:

Buildings and structures	15–40 years
Machinery and equipment	3–20 years
Land and water areas	are not depreciated.

Expected useful lives are reviewed at each balance sheet date and if they differ significantly from previous estimates, the remaining depreciation periods are adjusted accordingly.

Subsequent improvement costs related to an asset are included in the carrying value of such asset or recognized as a separate asset, as appropriate, only when the future economic benefits associated with the costs are probable and the related costs can be separated from normal maintenance costs.

Neles reviews tangible assets to be held and used by the company for impairment whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Gains and losses on the disposal of tangible asset and possible impairments are recognized in operating income and expenses. Previously recognized impairment loss may be reversed if there is a significant improvement to the circumstances having initially caused the impairment, however not to a higher value than the carrying amount, which would have been recorded had there been no impairment in prior years.

Capitalized interests

The interest expenses of self-constructed tangible assets are capitalized in Neles' financial statements. The capitalized interest expense is amortized over the estimated useful life of the underlying asset. Capitalization of interests has been applied only in discontinued operations.

Government grants

Government grants relating to additions to tangible assets are deducted from the acquisition cost of the asset and they reduce the depreciation charge of the related asset. Other government grants are deferred and recognized as profit concurrently with the costs they compensate.

Estimates and assessments by Management

Acquisitions, disposals and restructuring actions typically generate a need for the reassessment of the recoverable values and remaining useful lives of the assets. When tangible assets are valued at fair value less costs of disposal, selling price, incremental costs and selling costs need to be estimated by management.

Tangible assets

2020 EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Tangible assets total
Acquisition cost at beginning of year	6	48	128	11	194
Translation differences	0	–3	–5	0	–9
Capital expenditure	–	5	3	2	10
Reclassifications	0	0	9	–9	0
Other changes	0	–1	1	0	0
Acquisition cost at end of year	6	49	135	4	194
Accumulated depreciation at beginning of year	–	–28	–100	–	–128
Translation differences	–	2	4	0	6
Other changes	–	0	–1	–	0
Impairment losses	–	0	0	0	0
Depreciation for the year	–	–2	–7	–	–9
Accumulated depreciation at end of year	–	–27	–105	0	–132
Net book value at end of year	6	22	30	4	62

2019 EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Tangible assets total
Acquisition cost at beginning of year, Metso total	40	228	562	33	863
Acquisition cost at beginning of year, discontinued operations	–35	–181	–438	–31	–684
Translation differences	0	0	1	0	2
Capital expenditure	0	0	4	12	16
Reclassifications	–	0	2	–3	–
Other changes	–	–	–3	0	–3
Acquisition cost at end of year	6	48	128	11	194
Accumulated depreciation at beginning of year, Metso total	–	–131	–428	–	–558
Accumulated depreciation at beginning of year, discontinued operations	–	105	333	–	438
Translation differences	–	0	–1	–	–1
Other changes	–	0	3	–	4
Impairment losses	–	–	0	–	0
Depreciation for the year	–	–2	–8	–	–10
Accumulated depreciation at end of year	–	–28	–100	–	–128
Net book value at end of year	6	21	28	11	67

3.3 Depreciation and amortization

Depreciation and amortization

EUR million	2020	2019
Intangible assets from acquisitions	0	–2
Other intangible assets	–3	–2
Tangible assets		
Buildings and structures	–2	–2
Machinery and equipment	–7	–8
Right-of-use assets		
Land areas	0	0
Buildings	–10	–10
Machinery and equipment	–2	–1
Total	–24	–25

Depreciation and amortization by function

EUR million	2020	2019
Cost of goods sold	–17	–17
Selling, general and administrative expenses	–7	–7
Total	–24	–25

3.4 Right-of-use assets

A Accounting policy

Neles as a lessee

Neles applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Neles recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

Neles recognizes right-of-use assets at the date the underlying asset is available for use. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost comprises of the lease liability, initial direct costs and lease payments made at or before the commencement of the lease less any lease incentives received.

Lease contracts may include extension and termination options. Such options have been considered when determining the lease term. A period covered by Neles' option to extend the lease is included in the lease term if such option is likely to be exercised. Further, a period covered by Neles' option to terminate the lease is included in the lease term if such option is estimated not to be exercised.

Right-of-use assets are depreciated on a straight-line-basis over the shorter of estimated useful life and the lease term, as follows:

Buildings	3–10 years
Vehicles and other equipment	3–5 years

Short-term leases and leases of low-value assets

Neles applies recognition exemption to leases that have a lease term less than 12 months (*short-term-leases*) and leases that are considered to low value contracts (*low-value-assets*). Lease payments for leases of low value assets and short-term leases are expensed in the income statement on a straight-line-basis over the lease term.

Lease liabilities

Lease liabilities are included in interest bearing liabilities, see Note 4.5. Borrowings and lease liabilities.

E Estimates and assessments by Management

The most significant management judgment relates to lease agreements that include extension or early termination options for Neles. For these contracts, management needs to assess the probability of exercising such option, which may significantly affect the estimated length of lease term and consequently the amounts of right-of-use asset and lease liability as well as the related depreciation and interest expense. Management judgment is also applied in defining the incremental borrowing rate used to calculate the present value of the future lease payments.

Amounts recognized in right-of use assets

2020 EUR million	Land and water areas	Buildings	Machinery and equipment	Right-of-use assets total
Acquisition cost at beginning of year	0	53	5	57
Additions	–	18	1	19
Derecognition	–	–5	–1	–6
Acquisition cost at end of year	0	66	5	71
Accumulated depreciation at beginning of year	0	–10	–1	–11
Translation differences	–	0	0	0
Derecognition	–	1	0	1
Other changes	–	1	0	1
Depreciation for the year	0	–10	–2	–12
Accumulated depreciation at end of year	0	–18	–2	–20
Net book value at end of year	0	48	3	51

2019 EUR million	Land and water areas	Buildings	Machinery and equipment	Right-of-use assets total
Acquisition cost at beginning of year	0	107	19	126
Acquisition cost at beginning of year, discontinued operations	0	–58	–16	–74
Additions	–	5	2	7
Derecognition	–	–2	0	–2
Acquisition cost at end of year	0	53	5	57
Translation differences	–	0	–	0
Other changes	–	0	0	0
Depreciation for the year	0	–10	–1	–11
Accumulated depreciation at end of year	0	–10	–1	–11
Net book value at end of year	0	43	3	46

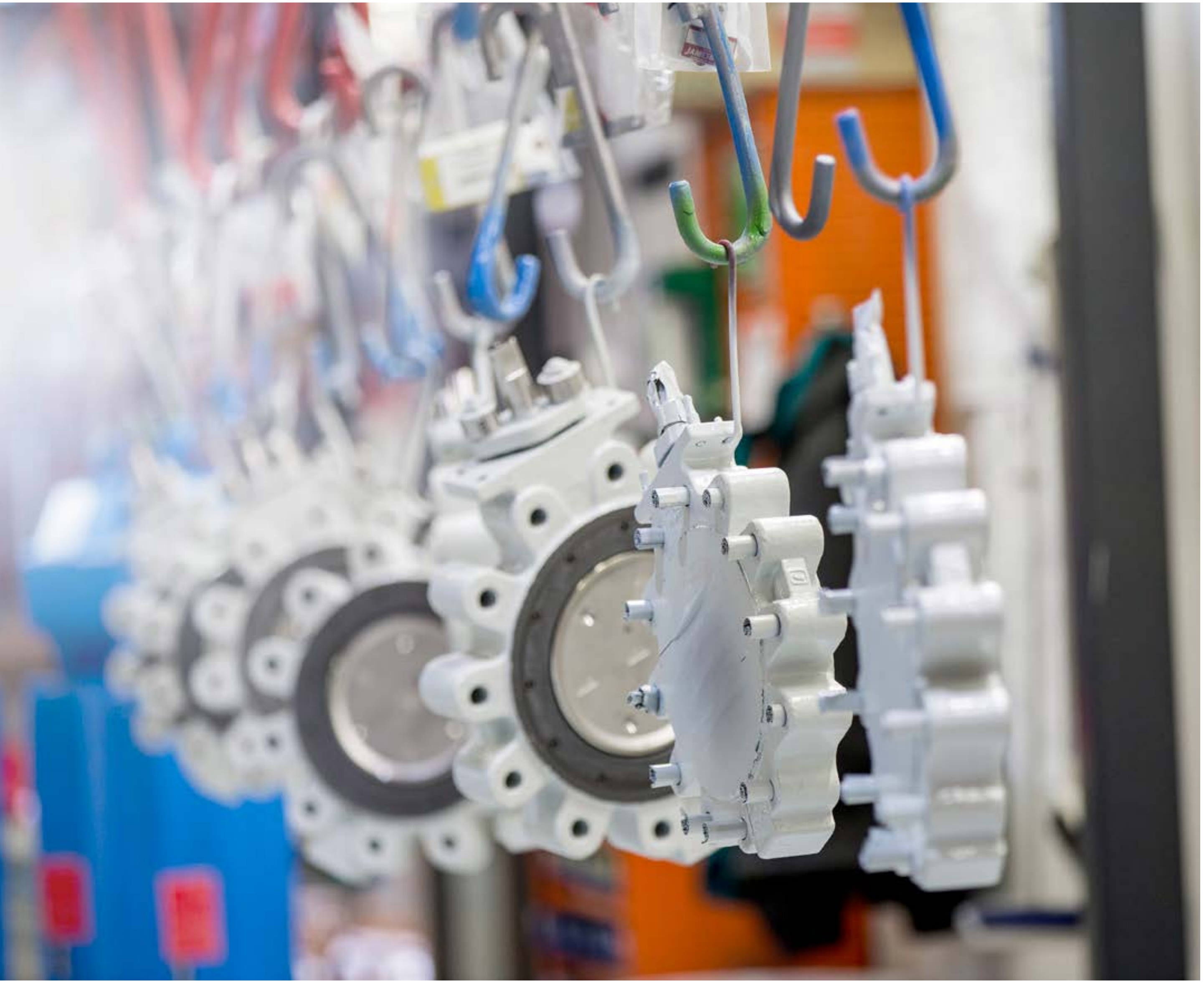
Amounts recognized in profit and loss

Continuing operations EUR million	2020	2019
Operating profit		
Depreciation expense on right-of-use assets	–12	–11
Rental expense relating to leases of low-value assets	–1	–1
Rental expense relating to leases of short-term assets	0	0
Finance expenses		
Interest expense on lease liabilities	–2	–1
Total amount recognized in profit and loss	–14	–14

The total cash outflow for leases including short-term leases and leases of low value assets in 2020 was EUR 13 million and in 2019 it was EUR 12 million.

Lease liabilities and maturity analysis of payments are presented in note 4.5.

4 Capital structure and financial instruments



Net debt, MEUR

81

Gearing, %

30.9

Free cash flow, MEUR

69

4.1 Financial risk management

As a global company, Neles is exposed to a variety of business and financial risks. Financial risks are managed centrally by the Group Treasury under annually reviewed written policies approved by the Board of Directors. Treasury operations are monitored by the CFO. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the operating units. Group Treasury functions as counterparty to the operating units, manages external funding centrally and is responsible for the management of financial assets and appropriate hedging measures. The objective of financial risk management is to minimize potential adverse effects on Neles' financial performance.

Sensitivity analysis

Sensitivity analysis figures presented in connection with different financial risks are based on the risk exposures on the balance sheet date. The sensitivity is calculated by assuming a change in one of the risk factors of a financial instrument, such as interest or currency. It is not likely that the future volatility of a risk factor will develop in accordance with the test assumptions and that only one factor would be impacted.

When calculating the sensitivity, Neles has chosen to use market conventions in assuming a one percentage point (100 basis points) variation in interest rates, 10 percent change in foreign exchange rates and in commodity prices because this provides better comparability from one period to another and information on the volatility to users of financial statements. Neles is aware that such assumptions may not be realistic when compared to past volatility and they are not intended to reflect the future. Neles has chosen not to use past volatility as this could mislead the users of financial statements to assume the analysis reflects management's view on future volatility of the financial instruments.

Liquidity and refinancing risk and capital structure management

Liquidity or refinancing risk arises when a company is not able to arrange funding at terms and conditions corresponding to its creditworthiness. Sufficient cash, short-term investments and committed and uncommitted credit facilities are maintained to protect short-term liquidity. Diversification of funding among different markets and adequate number of financial institutions is used to safeguard the availability of liquidity at all times. Group Treasury monitors bank account structures, cash balances and forecasts of the operating units and manages the utilization of the consolidated cash resources.

The liquidity position of the Group remained good supported by the available back up credit facilities and maturity structure of the funding. During the year no bank loans were withdrawn. At the end of 2020 cash and cash equivalents amounted to EUR 136 million (EUR 57 million in 2019), and there were no deposits or securities with maturity over three months in years 2020 and 2019.

At the end of 2020 Neles had a fully drawn term loan of EUR 150 (EUR 36 million in 2019) million which matures in 2022. Additionally, Neles has a committed syndicated revolving credit facility of EUR 200 million (EUR 200 million in 2019) This syndicated revolving credit facility is fully undrawn and matures in 2023 and has two one-year extension options.

Additionally, the uncommitted Finnish Commercial Paper program totaling EUR 200 million can be utilized for funding.

Neles' refinancing risk is managed by balancing the proportion of short-term and long-term debt as well as the average remaining maturity of long-term debt. The table below analyzes the repayments and interests on Neles' liabilities by the remaining maturities from the balance sheet date to the contractual maturity date.

Maturities of debts

	Dec 31, 2020			Dec 31, 2019		
EUR million	<1 year	1–5 years	>5 years	<1 year	1–5 years	>5 years
Long-term debt						
Repayments	–	150	–	–	36	–
Interests	2	1	–	0	1	–
Other liabilities	–	0	–	–	0	–
Short-term debt						
Repayments	20	–	–	20	–	–
Interests	0	–	–	0	–	–
Trade payables	71	–	–	63	–	–
Other liabilities	1	–	–	1	–	–
Total	94	151	–	84	37	–

Detailed information on balance sheet items is presented in other notes to consolidated financial statements.

Capital structure is assessed regularly by the Board of Directors and managed operationally by the Group Treasury. Capital structure management in Neles comprises both equity and interest bearing debt. As of December 31, 2020, the equity attributable to shareholders was EUR 258 million (EUR 1,516 million in 2019) and the amount of interest bearing debt was EUR 166 million (EUR 56 million in 2019). The objectives are to safeguard the ongoing business operations and to optimize the cost of capital.

Covenants included in some loan agreements refer to Neles' capital structure. Neles is in compliance with all covenants and other terms of its debt instruments.

Interest rate risk

Interest rate risk arises when changes in market interest rates and interest margins influence finance costs, returns on financial investments and valuation of interest bearing balance sheet items. Interest rate risks are managed by balancing the ratio between fixed and floating interest rates and administrating duration of debt and investment portfolios. The interest rate risk is managed and controlled by the Group Treasury and measured using sensitivity analysis and maturity of long-term debt. The average maturity of long-term interest bearing debt was 1.5 years as at December 31, 2020 (2.5 years in 2019).

At the end of 2020 the balance sheet items exposed to interest rate risk were interest bearing assets of EUR 136 million (EUR 57 million in 2019) and interest bearing debt of

EUR 166 million (EUR 56 million in 2019). Of the total interest bearing debt 90 percent (65 percent in 2019) was denominated in EUR.

The basis for the interest rate sensitivity analysis is an aggregate group level interest exposure, composed of interest bearing assets and interest bearing debt. For all interest bearing current debt and assets to be fixed during next 12 months a one percentage point move upwards or downwards in interest rates with all other variables held constant would have an effect on Neles' net interest expenses, net of taxes, of EUR +/– 1.7 million (EUR 0 million in 2019).

Foreign exchange risk

Neles operates globally and is exposed to foreign exchange risk in several currencies, although the geographical diversity of operations decreases the significance of any individual currency. About 74 percent of Neles' sales originate from outside the euro zone; the main currencies being euro, US dollar, SG dollar, Brazilian real and Chinese yuan.

Transaction exposure

Foreign exchange transaction exposure arises when an operating unit has commercial or financial transactions and payments in other than its own functional currency, and when related cash inflow and outflow amounts are not equal or concurrent.

In accordance with the Neles Treasury Policy, operating units are required to hedge in full the foreign currency exposures on balance sheet and other firm commitments. Future cash flows denominated in a currency other than the functional currency of the unit are hedged with internal foreign exchange contracts with the Group Treasury for periods, which do not usually exceed two years. Operating units also do some hedging directly with banks in countries, where regulation does not allow corporate internal cross-border contracts.

Group Treasury monitors the net position of each currency and decides to what extent a currency position is to be closed. Neles Treasury Policy defines upper limits on the open currency exposures managed by the Group Treasury; limits have been calculated on the basis of their potential profit impact. To manage the foreign currency exposure Group Treasury may use forward exchange contracts and foreign exchange options. Neles does not apply hedge accounting for foreign exchange derivatives.

Total amount of foreign currency exposures on December 31

Continuing operations EUR million	2020	2019
Operational items affecting to operating profit	14	28
Financial items	0	119
Hedges	–7	–146
Total exposure	7	1

This aggregate group level currency exposure is the basis for the sensitivity analysis of foreign exchange risk. This exposure, net of respective hedges, is composed of all assets and liabilities denominated in foreign currencies, projected cash flows for unrecognized firm commitments, both short- and long-term sales and purchase contracts and anticipated operational cash flows to the extent their realization has been deemed highly probable and therefore hedged. This analysis excludes net foreign currency investments in subsidiaries.

Assuming euro to appreciate or depreciate ten percent against all other currencies, the impact on cash flows, net of taxes, derived from the year-end net exposure as defined above, would be EUR +/– 0.2 million (EUR –/+ 0.1 million in 2019). Transaction exposure is spread in about 27 currencies and as of December 31, 2020, the biggest open exposures were in CNH, 19 percent, and USD, 18 percent.

A sensitivity analysis of financial instruments as required by IFRS 7, excludes following items: projected cash flows for unrecognized firm commitments, advance payments, both short- and long-term purchase contracts and anticipated operational cash flows. The next table presents the effects, net of taxes, of a +/– 10 percent change in EUR foreign exchange rates:

	2020				2019			
EUR million	USD	SGD	Others	Total	USD	ZAR	Others	Total
Effects in								
Income statement	+/– 0.3	+/– 0.3	–/+ 0.1	–/+ 0.5	+/– 0.3	–/+ 0.6	–/+ 0.8	–/+ 1.1

Effect in income statement is the fair value change for all financial instruments exposed to foreign exchange risk.

Translation or equity exposure

Foreign exchange translation exposure arises when the equity of a subsidiary is denominated in currency other than the functional currency of the Parent Company. The major translation exposures are in US Dollar and Chinese Yuan, which altogether comprise approximately 82 percent of the total equity exposure. Neles is currently not hedging any equity exposure.

Commodity risk

Neles is exposed to variations in prices of raw materials and of supplies. Neles units identify their commodity price hedging needs and hedges are executed through the Group Treasury using approved counterparties and instruments. Hedging is done on a rolling basis with a declining hedging level over time.

To reduce its exposure to the volatility caused by the surcharge for certain metal alloys (Alloy Adjustment Factor) comprised in the price of stainless steel charged by its suppliers, Neles has entered into average-price swap agreements for nickel. The Alloy Adjustment Factor is based on monthly average prices of its components of which nickel is the most significant. As of December 31, 2020, Neles had outstanding nickel swaps amounting to 360 tons (336 tons in 2019).

The sensitivity analysis of the commodity prices based on financial instruments under IFRS 7 comprises the net aggregate amount of commodities bought through forward contracts and swaps but excludes the anticipated future consumption of raw materials.

A 10 percent change upwards or downwards in commodity prices would have effects, net of taxes, of EUR +/–0.3 million to income statement in year 2020 (EUR +/–0.2 million to income statement in year 2019).

Hedge accounting is not applied to nickel agreements, and the change in the fair value is recorded through profit and loss. Other commodity risks are not managed using financial derivative instruments.

Credit and counterparty risk

Credit or counterparty risk is defined as the possibility of a customer or a financial counterparty not fulfilling its commitments towards Neles. The operating units of Neles are primarily responsible for credit risks pertaining to sales and procurement activities. The units assess the credit quality of their customers, by taking into account their financial position, past experience and other relevant factors. When appropriate, advance payments, letters of credit and third party guarantees, or credit insurance are used to mitigate credit risks. Group Treasury provides centralized services related to customer financing and seeks to ensure that the principles of the Treasury Policy are adhered to with respect to terms of payment and required collateral. Neles has no significant concentrations of credit risks.

The maximum credit risk equals the carrying value of trade and loan receivables. The credit quality is evaluated both on the basis of aging of the trade receivables and also on the basis of customer specific analysis. The aging structure of trade receivables is presented in note 2.2.

Counterparty risk arises also from financial transactions agreed upon with banks, financial institutions and corporates. The risk is managed by careful selection of banks and other counterparties, by counterparty specific limits determined in the Treasury Policy, and netting agreements such as ISDA (Master agreement of International Swaps and Derivatives Association). The compliance with counterparty limits is regularly monitored.

Credit risk exposure relates to carrying value of financial assets valued at amortized cost, such as trade receivables, interest bearing receivables, other receivables, deposits and security investments and cash and cash equivalents, and customer contract assets.

Impairment on cash at hand, bank accounts, deposits and interest bearing investments is assessed regularly, but seen minor, because of their high investment grade and short duration. Group Treasury makes a financial analysis of corporate counterparties regularly. In addition, the investments are constantly monitored by Group Treasury and Neles does not expect any future credit losses from these investments.

For trade receivables and customer contract assets Neles applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance to be assessed and recognized regularly, see note 2.2.

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 fund investments classified as 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 in 2020 or in 2019.

Financial assets and liabilities measured at fair value

	2020			2019		
EUR million	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit and loss						
Derivatives not under hedge accounting, assets	–	1	–	–	0	–
Derivatives not under hedge accounting, liabilities	–	1	–	–	1	–

4.2 Financial assets and liabilities by category

A Accounting policy

Under IFRS 9 Neles classifies financial assets and liabilities into measurement categories according to contractual terms of the cash flows and Neles' business model to manage the investment at the inception. Reclassification of the categories will be made only, if the business model for managing those assets changes. Financial assets and liabilities are classified as non-current items, when the remaining maturity exceeds 12 months and as current items, when the remaining maturity is 12 months or less. Financial assets and liabilities are classified as follows:

A) At amortized cost

Financial assets

Financial assets valued at amortized cost are investments in debt instruments or receivables, which are held end of maturity and for collection of contractual cash flows, where those cash flows are solely payments of principal and/or interest. These are initially recognized at fair value less transaction costs, and subsequently measured at amortized cost using the effective interest method. Interest income is recognized as financial income in income statement. Financial assets at amortized cost include deposit, commercial papers, interest bearing loans and receivables, trade receivables and non-interest bearing receivables. Impairment is assessed regularly and when the carrying value exceed the recoverable value of discounted cash flows, appropriate impairment is recognized in income statement.

For trade receivables, Neles applies the simplified method in IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. See more in note 2.2.

Financial liabilities

Issued bonds and withdrawn loan facilities from financial institutions as well as trade and other liabilities are initially recognized at fair value, net transaction costs, and subsequently measured at amortized cost using the effective interest method. Trade and other receivables are non-interest bearing short-term unpaid debts.

The difference, between the debt amount net transaction cost recognized of bonds and loans from financial institutions and the redemption amount, is recognized in income statement as interest cost over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized in the income statement as other finance expense over the period of the facility, or, if the withdrawn of the loan is probable, as part of transaction cost.

B) At fair value through other comprehensive income (FVOCI)

Financial assets

Financial assets valued at fair value through other comprehensive income are debt instruments or receivables, which are held for collection of contractual cash flows or held for selling the assets, and where contractual cash flows are solely payments of principal and/or interest. Interest income is recognized in income statement using the effective interest method. Change in fair value is recognized in other comprehensive income (OCI). At the derecognition, the cumulative previously booked gains and losses in OCI are released from equity to income statement. Neles includes in this measurement category derivatives under hedge accounting, trade receivables for sale and security investments with maturity less than three months. Impairment is assessed regularly and when the carrying value exceeds the recoverable value of discounted cash flows, appropriate impairment is recognized in income statement. This financial asset measurement category has been applied only for discontinued operations.

C) At fair value through profit and loss (FVPL)

Financial assets

Financial assets valued at fair value through profit and loss are equity investments, investments in funds and derivatives not under hedge accounting. Change in fair value and gain or loss at the derecognition will be recognized in income statement. The change in the fair value includes the valuation of the impairment risk as well. Fair value of listed equity shares or investments in funds is the quoted market price on the balance sheet date. Unlisted shares are valued at cost less impairment, if any.

Financial liabilities

Fixed rate debts covered by fair value hedges accounting and derivatives not under hedge accounting are included in this measurement category. Change in fair value and gains or losses at derecognition will be recognized in income statement.

Financial assets and liabilities by categories as of December 31

2020 EUR million	At fair value through profit and loss	At fair value through other comprehen-sive income	At amor-tized cost	Carrying value	Fair value
Non-current financial assets					
Equity investments	0	–	–	0	0
Other receivables	–	–	1	1	1
Total	–	–	1	1	1
Current financial assets					
Trade receivables	–	–	89	89	89
Derivatives	1	–	–	1	1
Other receivables	–	–	37	37	37
Deposits and securities, maturity three months or less	–	–	7	7	7
Cash at hand and on bank accounts	–	–	129	129	129
Total	1	–	262	263	263
Non-current liabilities					
Loans from financial institutions	–	–	150	150	150
Lease liabilities	–	–	41	41	41
Other liabilities	–	–	0	0	0
Total	–	–	191	191	191
Current liabilities					
Current portion of non-current debt	–	–	–	–	–
Lease liabilities	–	–	11	11	11
Loans from financial institutions	–	–	16	16	16
Trade payables	–	–	71	71	71
Derivatives	1	–	–	1	1
Other liabilities	–	–	35	35	35
Total	1	–	133	134	134

2019 EUR million	At fair value through profit and loss	At fair value through other comprehen-sive income	At amor-tized cost	Carrying value	Fair value
Current financial assets					
Trade receivables	–	–	95	95	95
Derivatives	0	–	–	0	0
Other receivables	–	–	40	40	40
Deposits and securities, maturity three months or less	–	–	15	15	15
Cash at hand and on bank accounts	–	–	42	42	42
Total	0	–	192	192	192
Non-current liabilities					
Loans from financial institutions	–	–	36	36	36
Lease liabilities	–	–	37	37	37
Other liabilities	–	–	0	0	0
Total	–	–	73	73	73
Current liabilities					
Current portion of non-current debt	–	–	–	–	–
Lease liabilities	1	–	10	10	10
Loans from financial institutions	–	–	20	20	20
Trade payables	–	–	63	63	63
Derivatives	0	–	–	1	1
Other liabilities	–	–	39	39	39
Total	1	–	132	132	132

For more information on derivative financial instruments, see note 4.8.

4.3 Cash and cash equivalents

Accounting policy

Cash and cash equivalents consist of cash on hand and bank accounts, deposits and interest bearing investments, which are easily convertible to known amount of cash within the period of three months or less as well as bond fund investments, with the same risk profile.

Cash on hand, bank accounts, deposits and interest bearing investments are measured at amortized cost. The bond fund investments are measured at fair value through profit and loss accounts.

Impairment on cash on hand, bank accounts, deposits and interest bearing investments is assessed regularly, but seen minor, because of their high investment grade and short duration. Impairment risk of bond fund investment is included in the change in fair value of them.

EUR million	2020	2019
Cash and cash equivalents		
Deposits and securities, maturity three months or less	7	15
Cash on hand and bank accounts	129	42
Cash and cash equivalents	136	57
Cash attributable for discontinued operations	–	156
Cash and cash equivalents	136	213

Some of the Neles' subsidiaries are located in countries, where the currency market is restricted. Cash and cash equivalents located in these countries were EUR 15 million in year 2020 (EUR 38 million in 2019).

Average returns for deposits and securities

EUR million	2020	2019
With maturity three months or less	0.53%	2.03%

Analysis of Consolidated Statement of Cash Flows

Continuing operations, carve-out EUR million	2020	2019
Operating activities		
Profit for the year	48	69
Adjustments		
Depreciation and amortization	24	25
Financial expenses, net	6	2
Income taxes	16	22
Other items	–13	5
Change in net working capital [1]	17	–30
Net cash flow from operating activities before financial items and taxes	99	92
Financial income and expenses, net	–6	0
Income taxes paid	–12	–38
Net cash flow from operating activities	81	54
Investing activities		
Capital expenditures on intangible and tangible assets	–13	–20
Proceeds from sale of intangible and tangible assets	0	0
Acquisitions/disposals, Metso group	–	–50
Net cash flow from investing activities	–12	–70
Financing activities		
Dividends paid	–44	–36
Investments in financial assets	0	–
Proceeds from / repayments of short-term debt, net	–2	13
Proceeds from/ repayments of long-term debt, net	–	36
Net borrowing / payment, Metso Group [1]	71	–34
Repayments of lease liabilities	–11	–10
Net cash flow from financing activities	13	–31
Net change in cash and cash equivalents	81	–46
Effect from changes in exchange rates	–2	2
Cash and cash equivalents at beginning of year	57	101
Cash and cash equivalents at end of year	136	57

[1] For the period 1–12/2020 carve-out related items are excluded from Change in networking capital and presented in Financing, Metso Group.

4.4 Equity

A Accounting policy

Issue of new shares and own shares

Transaction costs directly attributable to the issue of new shares or options are shown net of their tax effect in equity as a deduction from the proceeds.

Own shares held by the Parent Company valued at the historical acquisition price are deducted from equity. Should such shares be subsequently sold or reissued, the consideration received, net of any directly attributable transaction costs and related income tax, is recorded in equity.

Translation differences

The translation differences arising from subsidiary net investments and non-current subsidiary loans without agreed settlement dates are recognized through the Other Comprehensive Income (OCI) to cumulative translation adjustments under equity. When Neles hedges the net investment of its foreign subsidiaries with foreign currency loans and with financial derivatives, the translation difference is adjusted by the currency effect of the hedging instruments which has been recorded, net of taxes, through OCI in equity. When a foreign entity is disposed of, the respective accumulated translation difference, including the effect from qualifying hedging instruments, is reversed through OCI and recognized in the consolidated statements of income as part of the gain or loss on the sale. If the equity of a subsidiary denominated in a foreign currency is reduced by a return of capital, the translation difference relating to the reduction is reversed through OCI and recognized in the consolidated statements of income.

Dividends

Dividends proposed by the Board of Directors are recognized annually after the shareholders' approval in the Annual General Meeting.

Share capital and number of shares

Neles Corporation's registered share capital, which is fully paid, was EUR 50,982,843.80 as at December 31, 2020 (140,982,843.80 as at December 31, 2019).

A reduction of share capital of EUR 90,000,000.00 was recorded at the demerger on June 2020.

As at December 31, 2020 the acquisition price of 150,361 own shares held by the Parent Company was EUR 3,337,728.57 and was recognized in treasury stock.

Shares	2020	2019
Number of outstanding shares at beginning of year	150,076,168	149,997,128
Shares granted as share incentive reward	121,727	79,040
Number of outstanding shares at end of year	150,197,895	150,076,168
Own shares held by the Parent Company	150,361	272,088
Total number of shares on December 31	150,348,256	150,348,256

Dividends

The Board of Directors proposes that a dividend of EUR 0.18 per share be paid based on the balance sheet to be adopted for the financial year, which ended December 31, 2020. These financial statements do not reflect this dividend payable of EUR 27 million.

Fair value and other reserves

Share-based payments are presented within the fair value reserve. The legal reserve consists of restricted equity, which has been transferred from distributable funds under the Articles of Association, local company act or by a decision of the shareholders. The other reserves consist of the distributable fund and the invested non-restricted equity fund held by the Parent Company.

A reduction of fair value reserve EUR 7 million and of other reserves EUR 266 million were recorded at the demerger on June 2020.

Changes in fair value and other reserves

EUR million	Treasury stock	Hedge reserve	Fair value reserve	Legal reserve	Other reserves	Total
January 1, 2020	−6			1	293	298
Share-based payments, net of tax	3			–	–	2
Other	–			–	1	1
Demerger	–			0	−266	−272
December 31, 2020	−3			1	29	28

EUR million	Treasury stock	Hedge reserve	Fair value reserve	Legal reserve	Other reserves	Total
January 1, 2019	−9	−3	6	14	293	302
Cash flow hedges						
Fair value gains (+) / losses (−), net of tax	–	8	–	–	–	8
Transferred to profit and loss, net of tax						
Sales	–	−4	–	–	–	−4
Interest income / expenses	–	−2	–	–	–	−2
Share-based payments, net of tax	2	–	3	–	–	5
Other	–	–	–	−13	0	−12
Discontinued operations	–	0	–	–	–	0
December 31, 2019	−6	–	9	1	293	298

4.5 Borrowings and lease liabilities

Accounting policy

Borrowings

Long-term debt is initially recognized at fair value, net of transaction costs incurred and subsequently measured at amortized cost using the effective interest method. The difference, between the debt amount recognized and the redemption amount, is recognized in income statement as interest expense over the period of the borrowings. A portion of long-term debt is classified as short-term debt, when the settlement of the liability is due within 12 months from the balance sheet date. Borrowings are derecognized only if the contractual obligation is discharged, cancelled, or expired.

Fees paid on the establishment of loan facilities are recognized in income statement as other finance expense over the period of the facility, or, if the withdrawal of the loan is probable, as part of transaction cost. Transaction costs arising from modification to debt instruments are included in the carrying value of the debt and amortized using the effective interest method over the remaining period of the modified liability provided that the new conditions obtained through the modification do not substantially differ from those of the original debt. Modification gain or loss will be recognized in income statement at the time of non-substantial modification.

Lease liabilities

Neles recognizes lease liabilities to make lease payments for the right-of-use assets rented to use in Neles operations.

On the commence date of the lease, Neles recognize lease liabilities measured at the present value of lease payments to be made over the lease. Lease payments include fixed payments less any lease incentives receivable, variable payments that depend on an index or a rate and amounts expected payments under residual value guarantees. The lease payments also include the exercise price of purchase options when exercise is estimated to be reasonably certain and penalties for terminating the lease if the lease term reflects the exercise of a termination option.

In calculating the present value of lease payments, Neles uses the incremental borrowing rate at the commence date, because the implicit interest rate in the lease contracts cannot be readily determined. Subsequently, lease liabilities are increased to reflect the accretion of interest and reduced for the lease payments made. The carrying value of lease liabilities is remeasured if there is a modification of the contract, a change in the lease term or a change in the assessment of usage of an option.

	2020		2019	
EUR million	Carrying values	Fair values	Carrying values	Fair values
Loans from financial institutions	150	150	36	36
Lease liabilities	41	41	37	37
Total long-term interest bearing debt	191	191	73	73
Loans from financial institutions	16	16	20	20
Lease liabilities	11	11	10	10
Total short-term interest bearing debt	27	27	30	30
Total interest bearing debt	217	217	103	103

The average interest rate of total loans was 1.15% on December 31, 2020 (1.15% in 2019). The average maturity of long-term interest bearing debt was 1.5 years on December 31, 2020 (2.5 years in 2019).

Short term loans from financial institutions consists of bank loans withdrawn by Neles subsidiaries to fund local operations. The subsidiary loans are mainly Indian rupee and South Korean won denominated. The weighted average interest rate applicable to the short-term borrowing at December 31, 2020 was 4.3% (5.7% in 2019).

At the end of 2020 Neles had a fully drawn term loan of EUR 150 (EUR 36 million in 2019) million which has maturity date in 2022. Additionally, Neles has a syndicated revolving credit facility of EUR 200 million with four banks, maturing in 2023 (EUR 200 million in 2019) with two one-year extension options. Neles also has a Finnish commercial paper program amounting to EUR 200 million. Both revolving credit facility and commercial paper program were undrawn at the end of 2020.

Contractual maturities of interest bearing debt

2020 EUR million	Repayments of borrowings	Of which interests	Repayments of lease liabilities [1]
2021	16	0	12
2022	150	0	11
2023	–	–	10
2024	–	–	9
Later	–	–	16
Total	166	1	58

[1] Future lease payments at nominal value.

The maturities of derivative financial instruments are presented in note 4.8.

4.6 Interest bearing net debt reconciliation

Net interest bearing liabilities

EUR million	2020	2019
Non-current interest bearing liabilities [1]	150	36
Lease liabilities	51	47
Current interest bearing liabilities	16	20
Cash and cash equivalents	−136	−57
Net interest bearing liabilities	81	46

[1] Including current portion of non-current liabilities.

Changes in net interest bearing liabilities

2020

EUR million	Balance at beginning of year	Cash flows	Acquisi-tions	Translation differences	Other non-cash move-ments	Balance at end of year
Non-current interest bearing liabilities	36	114	–	–	–	150
Lease liabilities	47	−11	–	0	15	51
Current interest bearing liabilities	20	−2	–	−2	–	16
Cash and cash equivalents	−57	−81	–	2	–	−136
Net interest bearing liabilities	46	9	–	0	15	81

2019

EUR million	Balance at beginning of year	Balance at beginning of year, discon-tinued operations	Cash flows	Translation differences	Other non-cash move-ments	Balance at end of year
Non-current interest bearing liabilities	557	−557	36	–	–	36
Lease liabilities	126	−74	−10	0	4	47
Current interest bearing liabilities	41	−35	13	0	–	20
Loan and other interest bearing receivables	−7	7	–	–	–	–
Cash and cash equivalents	−426	325	46	−2	–	−57
Net interest bearing liabilities	292	−334	86	−2	4	46

4.7 Contingent liabilities and other commitments

A Accounting policy

Neles companies have guaranteed obligations arising in the ordinary course of business. Typically, guarantees given to secure commercial contractual obligations, or received advance payments.

Repurchase commitments represent engagements whereby Neles agrees to purchase back equipment sold to customer. The conditions triggering the buy-back obligation are specific to each sales contract.

Neles discloses contingent liabilities and commitments as off-balance sheet liabilities and recognizes them only when the realization of them is probable.

EUR million	2020	2019
Guarantees		
External guarantees given by parent and group companies	43	39
Other commitments		
Repurchase commitments	10	11
Other contingencies	1	4
Total	54	55

For legal claims and related contingent liabilities, see Note 6.2.

4.8 Derivative instruments

Accounting policy

Derivatives are initially recognized in the balance sheet at fair value and subsequently measured at their fair value at each balance sheet date. Derivatives are designated at inception as derivatives at fair value through profit and loss that do not meet the hedge accounting criteria.

Derivatives are classified as non-current assets or liabilities when the remaining maturities exceed 12 months and as current assets or liabilities when the remaining maturities are less than 12 months.

Derivatives at fair value through profit and loss

These instruments, which have been contracted to mitigate risks arising from operating and financing activities, comprise foreign exchange forward contracts, currency and interest rate options, interest rate swaps and swap agreements for nickel.

Changes in the fair value of interest rate swaps are recognized in interest expenses. Changes in the fair value of foreign exchange forward contracts are mainly recognized in other operating income and expenses. However, when the foreign exchange forwards have been contracted to mitigate the exchange rate risks arising from foreign currency denominated cash and from financial instruments used for cash management, the changes in fair value of the derivatives are recognized in financial income and expenses. Changes in the fair value of other derivative instruments such as commodity instruments are recognized in other operating income and expenses.

Fair value estimation of derivative instruments

The fair value of the foreign currency forward contracts is determined using forward exchange market rates at the balance sheet date. The fair value of the interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. The fair value of the commodity forwards and swaps are based on quoted market prices at the balance sheet date. The fair value of options is determined using Black-Scholes valuation model.

Notional amounts and fair values of derivative financial instruments at end of year

2020 EUR million	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts	159	1	1	–1
Nickel swap contracts [1]	360	0	0	0
Total		0	0	0

2019 EUR million	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts	34	0	0	0
Nickel swap contracts [1]	336	0	0	0
Total		0	0	0

[1] Notional amount in tons.

The notional amounts indicate the volumes in the use of derivatives, but do not indicate the exposure to risk.

Derivative financial instruments recognized in balance sheet at end of year

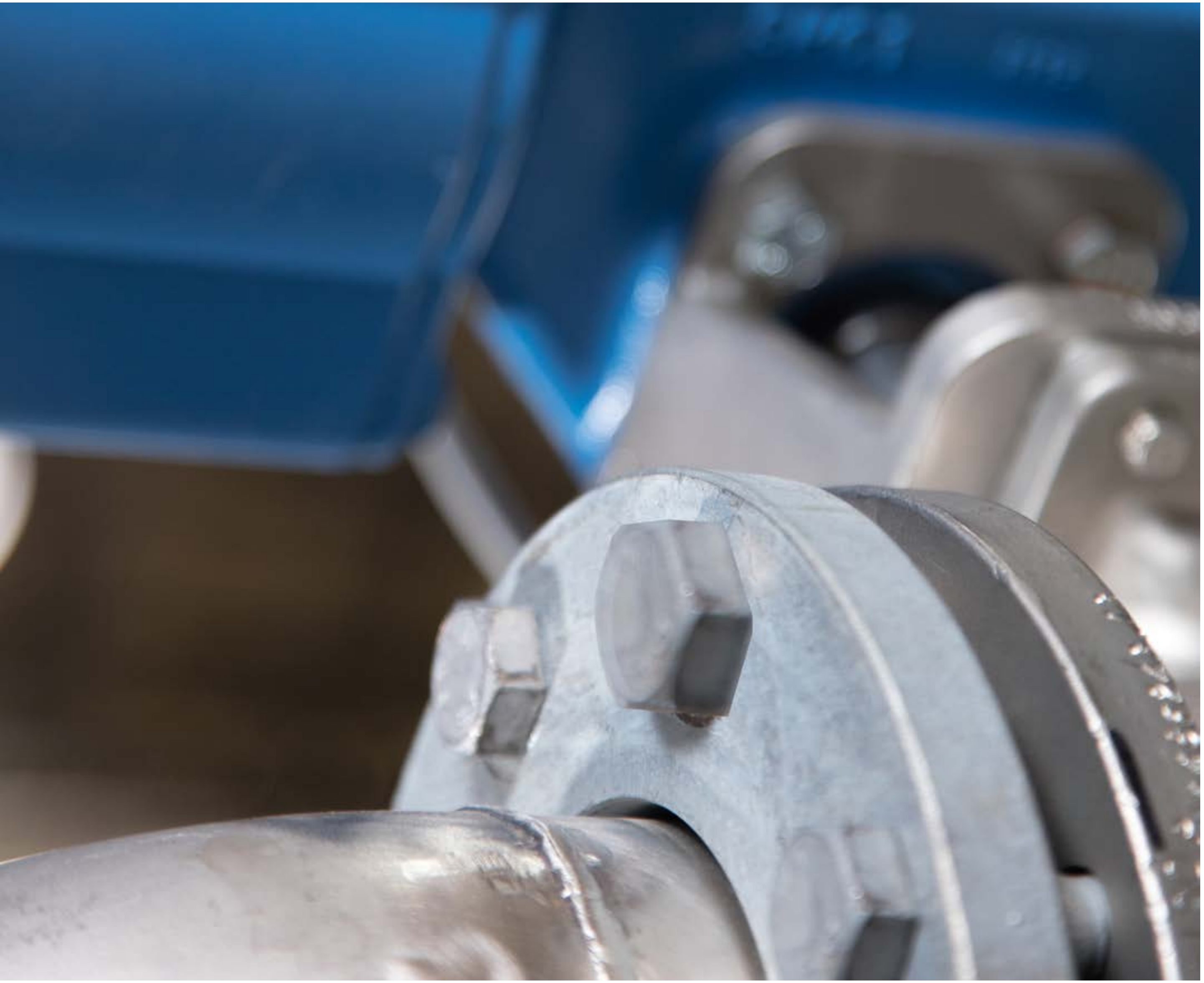
	2020		2019	
EUR million	Assets	Liabilities	Assets	Liabilities
Forward exchange contracts – non-qualifying hedges	1	1	0	0
Nickel swaps – non-qualifying hedges	0	0	0	0
Total	1	1	0	0

Maturities of financial derivatives as at December 31, 2020 (expressed as notional amounts)

EUR million	2021	2022	2023	2024	2025
Forward exchange contracts	159	–	–	–	–
Nickel swap contracts [1]	288	72	–	–	–

[1] Notional amount in tons.

5 Consolidation



Neles subsidiaries in

34

countries

Metso partial demerger effective on June 30, 2020

Metso Minerals business as discontinued operations for the period Jan 1 – Jun 30, 2020

5.1 Principles of consolidation

Subsidiaries

The consolidated financial statements include the financial statements of the Parent Company and each of those companies over which Neles exercises control. Control is achieved when Neles is exposed, or has rights, to variable returns from the investee and can affect those returns through its power over the investee. The companies acquired during the financial period have been consolidated from the date Neles acquired control. Subsidiaries sold or distributed to the owners have been included up to their date of disposal.

All intercompany transactions, balances and gains or losses on transactions between subsidiaries are eliminated as part of the consolidation process. Non-controlling interests are presented in the consolidated balance sheet within equity, separate from equity attributable to shareholders. Non-controlling interests are separately disclosed in the consolidated statement of income.

Acquisitions of businesses are accounted for using the acquisition method. The purchase consideration of an acquisition is measured at fair value over the assets given up, shares issued, or liabilities incurred or assumed at the date of acquisition. For each acquisition, the non-controlling interest in the acquiree, if any, can be recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess acquisition price over the fair value of net assets acquired is recognized as goodwill (see also intangible assets). If the purchase consideration is less than the fair value of the Group's share of the net assets acquired, the difference is recognized directly through profit and loss account.

When Neles ceases to have control, any retained interest in equity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity is accounted for as if the group had directly disposed of the related assets or liabilities.

Non-controlling interest

Transactions with non-controlling interests are regarded as transactions with equity owners. In the case of purchases from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets acquired in the subsidiary is recorded in shareholders' equity. Gains or losses on disposal to non-controlling interests are also recorded directly in shareholders' equity.

Non-current assets or disposal group held-for-sale

Neles classifies a non-current asset or disposal group as held for sale if it's carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are valued at the lower of it carrying value and fair value less costs to sell, and assets subject to depreciation or amortization are no longer amortized. Assets related to non-current assets or a disposal group classified a held-for-sale are disclosed separately from other assets, but financial statements for prior periods are not reclassified.

Discontinued operations

Neles has classified assets, debts and liabilities belonging to Metso Minerals business as discontinued operations, based on the approval of partial demerger of Metso by Extraordinary General Meeting on October 29, 2019. The partial demerger of Metso and disposal of the net assets became effective on June 30, 2020. From November 2019 valves business has formed the continuing operations of the group. In the Neles' income statement for the year 2020, Metso Minerals business' profit for the period has been included in line Profit from *discontinued operations* for the period January 1–June 30, 2020. See more on Note 5.5 Discontinued operations.

Foreign currency translation

Neles' Financial Statements are presented in euros, which is the parent company's functional currency. Transactions in foreign currencies are recorded at the rates of exchange prevailing at the date of the transaction. At the end of the reporting period, unsettled foreign currency transaction balances are valued at the rates of exchange prevailing at the balance sheet date. Trade related foreign currency exchange gains and losses are recorded in other operating income and expenses, unless the foreign currency denominated transactions are subject to hedge accounting, in which case the related exchange gains and losses are recorded in the same line item as the hedged transaction. Foreign exchange gains and losses associated with financing are entered as a net amount under financial income and expenses.

The statement of income of a subsidiary with a functional currency different from the presentation currency is translated into euros at the average of the month end exchange rate for the financial year, and the balance sheet is translated at the exchange rate in effect on the balance sheet date. This exchange rate difference is recorded through other comprehensive income (OCI) within cumulative translation adjustments under equity.

Net investment hedge

The translation differences arising from subsidiary net investments and long-term subsidiary loans without agreed settlement dates are recognized through OCI within cumulative translation adjustments under equity.

Neles may hedge its net foreign investments in certain currencies to reduce the effect of exchange rate fluctuations. The hedging instruments are mainly foreign currency loans and foreign currency forward contracts. Both realized and unrealized exchange gains and losses measured on these instruments are recorded, net of taxes, through OCI in a separate component of equity against the translation differences arising from consolidation to the extent these hedges are effective. The interest portion of derivatives qualifying as hedges of net investment is recognized under financial income and expenses.

When a foreign entity is disposed of, the respective accumulated translation difference, including the effect from qualifying hedging instruments, is reversed through OCI and recognized in the consolidated statement of income as part of the gain or loss on the sale. If the equity of a foreign currency denominated subsidiary is reduced by reimbursement of invested funds, the translation difference relating to the reduction is reversed through OCI and recognized in the consolidated statement of income. Net investment hedges have not been executed in 2020.

5.2 Subsidiaries

Company name and ownership	Dec 31, 2020
Australia	
Neles Australia Flow Control Pty Ltd	100.0%
Austria	
Neles Austria GmbH	100.0%
Brazil	
Neles do Brazil Indústria e Comércio Ltda	100.0%
Canada	
Neles Canada Ltd	100.0%
Chile	
Neles Chile SpA	100.0%
China	
Neles (China) Investment Co. Ltd	100.0%
Neles Flow Control (Shanghai) Co. Ltd	100.0%
Neles Flow Control (Jiaxing) Co. Ltd	100.0%
Czech Republic	
Neles Czech Republic s.r.o.	100.0%
Finland	
Neles Finland Oy	100.0%
France	
Neles France SAS	100.0%
Germany	
Neles Germany GmbH	100.0%
India	
Neles India Private Limited	100.0%
Italy	
Neles Italy SpA	100.0%
Japan	
Neles Japan Co. Ltd	100.0%
Malaysia	
Neles Flow Control Malaysia Sdn. Bhd.	100.0%
Mexico	
Neles Mexico SA de CV	100.0%
Netherlands	
Neles Netherlands B.V.	100.0%
Peru	
Neles Perú S.A.C	100.0%

Company name and ownership	Dec 31, 2020
Poland	
Neles Poland Sp zoo	100.0%
Portugal	
Neles Portugal, Unipessoal LDA	100.0%
Qatar	
Neles Automation WLL [1]	49.0%
Romania	
Neles Flow Control Romania S.R.L.	100.0%
Russia	
OOO Neles	100.0%
Saudi Arabia	
Neles Plant Saudi Arabia LLC	70.0%
Singapore	
Neles Asia Pacific Pte Ltd	100.0%
South Africa	
Neles South Africa Pty Ltd	100.0%
South Korea	
Neles Korea Co. Ltd	100.0%
Spain	
Neles Flow Control Spain, SL	100.0%
Sweden	
Neles Sweden AB	100.0%
Taiwan	
Neles Taiwan Co Ltd	100.0%
Thailand	
Neles (Thailand) Co. Ltd	100.0%
Turkey	
Neles Turkey Dis Ticaret A.S.	100.0%
United Arab Emirates	
Neles FZE	100.0%
Neles Flow Control LLC[1]	49.0%
United Kingdom	
Neles UK Ltd	100.0%
United States	
Neles USA Inc.	100.0%
Neles-Jamesbury Inc.	100.0%

[1] Has been 100% consolidated.

5.3 Related party transactions

Neles' related parties include members of the Board of Directors, members of Neles executive team, their close family members, entities under their control or with significant influence as well as subsidiaries and shareholders with significant influence. The subsidiaries are listed in note 5.2. The related party transactions disclosed in this note are those not eliminated in the consolidated financial statements.

Executive team remuneration

President and CEO

EUR	2020	2019
President and CEO Olli Isotalo [1]		
Salaries, bonuses and fringe benefits	233,445	–
Post-employment benefits	50,425	–
Share-based payments	–	–
Total	283,870	–
President and CEO Pekka Vauramo [2]		
Salaries, bonuses and fringe benefits	771,463	719,886
Post-employment benefits	103,125	32,688
Share-based payments	–	–
Total	874,588	752,574

[1] From July 1, 2020 onwards
[2] Year 2020 for the period January 1–June 30, 2020

President and CEO, Olli Isotalo is eligible to retire at the age of 64, unless otherwise to be agreed by the Company and the President and CEO, and belongs to a supplementary defined contribution pension plan with 20% contribution of annual salary. The notice period for both parties is six (6) months. Severance pay is full monthly salary multiplied by twelve (12) if the agreement is terminated by the company. For year 2020 pension premium payments for period July 1–December 31 for supplementary defined contribution pension plan totaled approximately EUR 50 thousand.

President and CEO participates in the share-based incentive programs according to the respective terms and conditions decided by the Board. More information in notes 1.5 Share-based payments and 5.3 Related party transactions as well as in Renumeration report 2020. Neles has subscribed supplementary pension plans for other Neles Executive Team members for retirement. These pension premium payments totaled approximately EUR 50 thousand in 2020 (EUR 278 thousand in 2019).

Other executive team members

EUR	2020	2019
Neles executive team [1]		
Salaries, bonuses and fringe benefits	945,450	–
Post-employment benefits	110,822	–
Share-based payments	–	–
Total	1,056,272	–
Metso executive team [2]		
Salaries, bonuses and fringe benefits	2,222,352	3,862,280
Post-employment benefits	134,627	–
Share-based payments	789,462	641,446
Total	3,146,441	4,503,726

[1] From July 1, 2020 onwards
[2] Year 2020 for the period January 1–June 30, 2020

Continuing and discontinued operations

EUR million	2020	2019
Executive remuneration, continued operations	2	1
Executive remuneration, discontinued operations	3	4
Total	5	5

Remuneration of Board members

Board of Directors'

EUR thousand	January 1–June 30, 2020	July 1–December 31, 2020	2019
Serving Board members			
Jukka Moisio	–	–73	–
Mark Vernon	–	–79	–
Britta Giesen	–	–45	–
Anu Hämäläinen	–	–45	–
Niko Pakalén	–	–37	–
Teija Sarajärvi	–	–36	–
Petter Söderström	–	–37	–
Jukka Tiitinen	–	–31	–
Former Board members			
Mikael Lilius	–53	–	–140
Christer Gardell	–33	–	–81
Peter Carlsson	–25	–	–58
Lars Josefsson	–28	–	–68
Antti Mäkinen	–30	–	–73
Kari Stadigh	–25	–	–60
Arja Talma	–34	–	–83
Raimo Brand	–3	–	–10
Nina Kopola	–	–	–44
Ozey K. Horton, Jr.	–	–	–13
Total	–231	–382	–631

Board of Directors' compensation disclosed on the table above on accrued basis, as impacting in the consolidated income statement.

Continuing and discontinued operations

EUR million	2020	2019
Board remuneration, continued operations	–1	0
Board remuneration, discontinued operations	0	–1
Total	–1	–1

In 2020, Board of directors accrued cost of continuing operations amounted to EUR 604 thousand.

Based to the decision of the Annual General Meeting of Metso on June 16, 2020, the annual fees paid to the Neles Board members were: Chairman of the Board EUR 115,000, Vice Chairman of the Board EUR 65,000 and other Board members EUR 50,000. An additional annual remuneration is paid to the member of the Board elected in the position of Chairman of the Audit Committee EUR 15,000, members of the Audit Committee EUR 7,500, Chairman of Remuneration and HR Committee EUR 7,500 and members of the Remuneration and HR Committee EUR 3,750.

In addition, an attendance fee of EUR 800 per meeting attended, excluding committee meetings, is paid to members whose residence is in the Nordic countries, EUR 1,600 to members whose residence is elsewhere in Europe and EUR 3,200 for those residing outside Europe. Compensation for travel expenses and daily allowances are paid in accordance with Neles' travel policy.

According to the decision of the Annual General Meeting, 40 percent of the Board's annual fees were used to buy Neles shares from the market. The shares were acquired within the two weeks following the publication of the first Interim Review for Neles after the demerger (Neles Interim review Q2/2020).

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.

Transactions and balances with the related party

EUR million	2020	2019
Sales [1)]	7	–
Rental income	0	–
Receivables	7	–

[1)] Valmet became a related party entity on August 12, 2020, when its shareholding exceeded 20%. Sales reported here for the period August 1, 2020–December 31, 2020 and receivables as at December 31, 2020.

5.4 Acquisitions and business disposals

Acquisitions

There were neither acquisitions nor business disposals in years 2020 and 2019.

5.5 Discontinued operations

Demerger on June 30, 2020

Metso's Extraordinary General Meeting on October 29, 2019, approved the partial demerger of the company. According to the demerger plan, the Metso Minerals businesses were carved out from the Metso group and to be combined with Outotec Group. The registration of the completion of the partial demerger was executed on June 30, 2020. From July 1, 2020, valves business forms the continuing operations and Metso Group was renamed the Neles Group.

The net result of Metso Minerals business is reported in the income statement under "Profit from discontinued operations" separately from continuing operations for all periods presented. Also, the gain, on the distribution of the Minerals net assets at fair value, are reported in Profit from discontinued operations.

The demerger has been accounted for as a disposal to owners in accordance with *IFRIC 17 Distribution of non-cash assets to owners*. The difference between the fair value of Metso Minerals business and it's carrying value in Metso's consolidated balance sheet has been recorded as a distribution gain.

In the transaction, Metso's shareholders continued as shareholders of Neles Corporation. Shareholders received 4.3 new Outotec shares for one old Metso share as consideration for the distributed net assets of the Minerals business. Accordingly, the fair value of Metso Minerals business at the demerger date has been calculated by multiplying share price EUR 4.91 for Outotec Oyj on June 30, 2020 by the number of shares issued by Outotec, 645,850,948. The calculated fair value of Metso Minerals business amounted to EUR 3,171 million, the carrying value of distributed net assets EUR 1,150 million and consequently the distribution gain EUR 2,022 million.

Result of discontinued operations

EUR million	1–6/20	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 1–6/2020 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	1–6/20	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	6/20
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
Cash and cash equivalents	312
Assets total	3,229

EUR million	6/20
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

5.6 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.

- 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
- Conceptual Framework for Financial reporting

These amendments to standards have not had a material impact on the Neles Group.

New and amended standards to be applied

At the date of authorization of these financial statements, Neles has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

- IFRS 17 Insurance Contracts
- Amendments to IAS 1: Classification of Liabilities as Current or Non-Current
- Amendment to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use
- Amendment to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract
- IFRS 9 Financial instruments – Fees in the 10 per cent test for derecognition of financial liabilities

The amendments are not expected to have material impact on the Neles Group.

5.7 Exchange rates used

		Average rates 2020	Year-end rates 2020	Average rates 2019	Year-end rates 2019
USD	(US dollar)	1.1452	1.2271	1.1214	1.1234
BRL	(Brazilian real)	5.8847	6.3735	4.4195	4.5157
INR	(Indian rupee)	84.5785	89.6605	78.8488	80.1870
CNY	(Chinese yuan)	7.8916	8.0225	7.7353	7.8205
SGD	(Singapore dollar)	1.5735	1.6218	1.5279	1.5111
SEK	(Swedish crown)	10.4789	10.0343	10.5572	10.4468
GBP	(Pound sterling)	0.8864	0.8990	0.8773	0.8508
CAD	(Canadian dollar)	1.5320	1.5633	1.4882	1.4598

6 Other notes

6.1 Audit fees

EUR million	2020	2019 [1)]
Audit services	–0.9	–2.2
Tax services	0.0	0.1
Other services	0.0	–0.9
Total	–0.9	–3.1

1) Audit fee for 2019 include both the continuing and discontinued operations.

6.2 Lawsuits and claims

There are a few legal proceedings, legal claims and disputes based on various grounds against Neles in various countries. The legal proceedings, legal claims and disputes relate, among others, to Neles' products, projects, other operations and customer receivables. Neles' management assesses to the best of its understanding that the outcome of such legal proceedings, claims and disputes would not have a material adverse effect on Neles financial result in view of the grounds presented to them, provisions made, insurance coverage in force and the extent of Neles' total business activities. It should be noted however that an outcome of the pending legal proceedings, legal claims and disputes are beyond the direct influence of Neles' management and may materially deviate from the management's current assessment.

Asbestos litigation

Since 1998, there has been a number of asbestos litigation cases filed in the United States in relation to asbestos related health problems in which a Neles entity is one of the named defendants. On December 31, 2020, the number of pending litigation cases filed was 138 (142 on December 31, 2019). Neles management's understanding is that the risk caused by the pending asbestos litigation cases in the United States is not material in the context of Neles' total business activities. Asbestos litigation risk is accounted for as contingent liability.

Financial Statements of the Parent Company, FAS

Statement of Income of the Parent Company

EUR	Note	2020	2019
Sales		25,954,967.82	19,375,713.81
Other operating income	2	10,729.08	27,493.44
Personnel expenses	3	−15,097,816.26	−15,265,917.65
Depreciation and amortization	4	−495,095.00	−547,410.58
Other operating expenses		−57,283,515.37	−38,421,895.27
Operating profit/loss		−46,910,729.73	−34,832,016.25
Financial income and expenses, net	6	412,821,765.59	85,990,089.12
Profit before appropriations and taxes		365,911,035.86	51,158,072.87
Appropriations	7	20,701,000.00	61,385,000.00
Profit before taxes		386,612,035.86	112,543,072.87
Income taxes	8		
Current tax expense		−527,011.26	−4,698,080.90
Profit for the year		386,085,024.60	107,844,991.97

Balance Sheet of the Parent Company

Assets

EUR	Note	2020	2019
Non-current assets			
Intangible assets	9	411,441.39	659,035.74
Tangible assets	9	24,438.07	616,489.66
Investments			
Shares in Group companies	10	464,951,822.01	1,042,185,582.00
Other investments	10	9,344,447.82	409,766,298.06
Total non-current assets		474,732,149.29	1,453,227,405.46
Current assets			
Long-term receivables	12	10,646.21	2,499,058.29
Short-term receivables	12	89,453,938.83	488,072,970.66
Bank and cash		101,673,519.57	87,585,611.84
Total current assets		191,138,104.61	578,157,640.79
Total assets		665,870,253.90	2,031,385,046.25

Shareholders' equity and liabilities

EUR	Note	2020	2019
Shareholders' equity	13		
Share capital		50,982,843.80	140,982,843.80
Invested non-restricted equity fund		39,408,070.56	368,263,034.11
Retained earnings		323,509,711.95	528,703,617.63
Total shareholders' equity		413,900,626.31	1,037,949,495.54
Liabilities			
Long-term liabilities	14	149,743,440.00	853,127,370.00
Current liabilities	15	102,226,187.59	140,308,180.71
Total liabilities		251,969,627.59	993,435,550.71
Total shareholders' equity and liabilities		665,870,253.90	2,031,385,046.25

Cash Flow Statement of the Parent Company

EUR thousand	2020	2019
Cash flows from operating activities		
Profit for the year	386,085	107,845
Adjustments to operating profit (loss)		
Depreciation and amortization	495	547
Financial income and expenses, net	–412,821	–85,990
Group contributions	–20,701	–61,385
Taxes	527	4,698
Other non-cash items	0	–2,903
Total adjustments to operating profit (loss)	–432,500	–145,033
Increase / decrease in short-term non-interest bearing trade receivables	28,345	–1,360
Increase / decrease in short-term non-interest bearing debt	–9,915	19,360
Change in working capital	18,430	18,000
Interest and other financial expenses paid	–17,267	–32,431
Dividends received	115,580	89,640
Interest received	0	632
Income taxes paid	3,063	–15,014
Net cash provided by operating activities	73,391	23,639

EUR thousand	2020	2019
Cash flows from investing activities		
Investments in tangible and intangible assets	–860	–256
Investments in subsidiary shares	–	–292,505
Long-term loans granted	–292,519	–542,917
Repayments of long-term loans	325,234	420,338
Short-term loans granted	–31,657	–15,343
Purchase of other investments	–	106,457
Interest received from investments	13,293	25,752
Dividends received from investments	0	0
Net cash used in investing activities	13,491	–298,475
Cash flows from financing activities		
Investments in unrestricted equity	3,641	1,889
Withdrawals and instalments of short-term loans, net	–	8,327
Withdrawal of long-term loans	139,750	450,000
Repayments of long-term loans	–	–175,000
Dividends paid	–220,791	–180,091
Financial transactions of the demerger	–56,780	
Change in Group pool accounts	–	–23,278
Group contributions	61,385	60,660
Net cash provided by / used in financing activities	–72,795	142,506
Net increase / decrease in bank and cash	14,087	–132,330
Bank and cash at beginning of year	87,596	219,915
Bank and cash at end of year	101,674	87,586

Notes to the Financial Statements of the Parent Company

1 Accounting principles

The parent company financial statements have been prepared in accordance with the Finnish Generally Accepted Accounting Principles for the period January 1–December 31, 2020. The financial statements are presented in euros. The partial demerger of the company took place on June 30, 2020, thus the financial information for the year 2020 is not comparable with the previous year.

Foreign currency translations

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the date of the transaction. At the end of accounting period, monetary items are valued at the rate of exchange prevailing at the end of period.

Tangible and intangible assets

Tangible and intangible assets are valued at historical cost, less accumulated depreciation according to plan. Land and water areas are not depreciated.

Depreciation and amortization is calculated on a straight-line basis over the expected useful lives of the assets as follows:

Computer software	3–5 years
Other intangibles	10 years
Buildings and structures	20–25 years
Machinery and equipment	3–5 years
Other tangible assets	20 years

Financial Instruments

Neles' financial risk management is carried out by a central treasury department (Group Treasury) under the policies approved by the Board of Directors. Group Treasury functions in co-operation with the operating units to minimize financial risks in both the Parent Company and the Group.

Long-term debt is initially recognized at fair value, net of transaction costs incurred. In subsequent periods, they are valued at amortized cost using the effective interest rate method.

Forward exchange contracts are measured at fair value. The change in fair value is recognized as income or expense in the income statement. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

Bank and cash as well as securities consist of cash in the bank accounts and investments of liquid funds in interest bearing instruments. Financial assets are measured at historical cost, less possible impairment loss.

Provisions

Provisions are unrealized costs, for which the company is committed, and which will not provide any income in the future and which are likely to occur. Change in the provision are included in the profit and loss.

Income taxes

Income tax expense includes taxes calculated for the financial year and adjustments to prior year taxes. Company has made a change in its accounting policies not to recognize deferred tax assets or liabilities for temporary differences. This new accounting policy applies for the first time to the financial statements for the financial period January 1–December 31, 2020. The figures for the financial period January 1–December 31, 2019, have been adjusted accordingly.

2 Other operating income

EUR thousand	2020	2019
Other	11	27
Total	11	27

3 Personnel expenses

EUR thousand	2020	2019
Salaries and wages	−12,615	−13,730
Pension costs	−1,640	−1,161
Other indirect employee costs	−843	−375
Total	−15,098	−15,266

EUR thousand	2020	2019
Fringe benefits	1,133	1,194

Remuneration paid to CEO and Board members

EUR thousand	2020	2019
Chief Executive Officer	−1,158	−753
Board members [1]	−613	−631
Total	−1,771	−1,384

[1] Board remuneration is presented in note 5.3 for Consolidated Financial Statements.

Number of personnel

	2020	2019
Personnel at end of year	82	119
Average number of personnel during the year	87	125

4 Depreciation and amortization

EUR thousand	2020	2019
Buildings and structures	0	−30
Machinery and equipment	−71	−139
Intangible assets	−425	−379
Total	−495	−547

5 Audit fees

EUR thousand	2020	2019
Audit	−396	−527
Tax consulting	0	0
Other services	−63	−1,155
Total	−459	−1,682

6 Financial income and expenses

EUR thousand	2020	2019
Dividends received from		
Group companies	415,208	89,640
Others	1	0
Total	415,209	89,640
Interest income from investments from		
Group companies	14,553	28,165
Others	110	26
Total	14,663	28,191
Other interest and financial income from		
Others	119	327
Exchange rate differences	−37	129
Interest and financial income, total	429,954	118,286
Interest expenses to		
Group companies	−513	−390
Others	−16,543	−32,187
Other financial expenses		
Fair value change in derivatives	−76	281
Interest and other financial expenses, total	−17,132	−32,296
Financial income and expenses, net	412,822	85,990

7 Appropriations

EUR thousand	2020	2019
Group contributions received	20,701	61,385

8 Income taxes

EUR thousand	2020	2019
Income taxes on operating activities	−329	−4,682
Income taxes for prior years	−198	−18
Total	−527	−4,698

9 Fixed assets

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2020							
Acquisition cost Jan 1	4,502	156	747	927	103	1,932	6,435
Additions	860	–	–	–	–	–	860
Decreases	–778	–	–	–9	–16	–25	–803
Decreases/demerger	–3,161	–156	–733	–912	–63	–1,864	–5,025
Acquisition cost Dec 31	1,423	0	12	6	24	42	1,465
Accumulated depreciation Jan 1	–3,843	–	–747	–569	0	–1,316	–5,159
Accumulated depreciation of decreases	647	–	–	9	–	9	656
Accumulated depreciation of decreases/demerger	2,593	–	733	625	–	1,358	3,951
Depreciation for the period	–409	–	–	–71	0	–71	–480
Accumulated depreciation Dec 31	–1,012	–	–12	–6	0	–18	–1,030
Net carrying value Dec 31	411	0	0	0	24	24	435

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2019							
Acquisition cost Jan 1	4,398	156	747	776	103	1,782	6,180
Additions	104	–	–	151	–	151	255
Decreases	–	–	–	–	–	–	–
Acquisition cost Dec 31	4,502	156	747	927	103	1,932	6,435
Accumulated depreciation Jan 1	–3,465	–	–717	–430	0	–1,147	–4,612
Depreciation for the period	–379	–	–30	–139	0	–169	–547
Accumulated depreciation Dec 31	–3,843	–	–747	–569	0	–1,316	–5,159
Net carrying value Dec 31	659	156	0	358	103	616	1,276

10 Investments

EUR thousand	Shares in Group companies	Other shares	Receivables from Group companies	Receivables from other companies	Other investments total
2020					
Acquisition cost at Jan 1	1,042,186	2,673	407,093	–	409,766
Additions	299,628	–	292,519	–	292,519
Decreases	–	−88	−328,250	–	−328,338
Decreases/demerger	−876,862	−2,442	−362,161	–	−364,603
Acquisition cost at Dec 31	464,952	143	9,201	–	9,344
2019					
Acquisition cost at Jan 1	749,680	2,673	315,140	1,000	318,813
Additions	292,505	0	543,917	–	543,917
Decreases	0	0	−451,963	−1,000	−452,963
Acquisition cost at Dec 31	1,042,186	2,673	407,093	–	409,766

11 Shareholdings

Subsidiaries December 31, 2020

Subsidiary	Domicile	Ownership, %
Neles Canada Ltd	Canada, St. Laurent	100.0
Neles (China) Investment Co. Ltd	China, Shanghai	100.0
Neles Finland Oy	Finland, Vantaa	100.0
Neles-Jamesbury Inc.	United States, Worcester	100.0

12 Specification of receivables

Long-term receivables

EUR thousand	2020	2019
Derivatives	0	2,428
Long-term receivables from others	11	71
Long-term receivables total	11	2,499

Short-term receivables

EUR thousand	2020	2019
Trade receivables from		
Group companies	12,787	29,947
Others	93	23
Total	12,881	29,970
Loan receivables from		
Group companies	47,407	344,794
Others	–	–
Total	47,407	344,794
Prepaid expenses and accrued income from		
Group companies	20,545	67,249
Others	8,258	37,772
Total	28,803	105,020
Other receivables		
Investments	0	0
VAT receivable	363	2,487
Other receivables	0	5,801
Total	363	8,288
Short-term receivables total	89,454	488,073

Specification of prepaid expenses and accrued income

EUR thousand	2020	2019
Prepaid expenses and accrued income from Group companies		
Group contribution receivables	20,701	61,385
Accrued interest income	215	5,298
Other accrued items	–371	566
Total	20,545	67,249
Prepaid expenses and accrued income from others		
Accrued interest income	0	75
Accrued derivatives	1,192	13,136
Other accrued items	7,065	24,560
Total	8,258	37,772

13 Statement of changes in shareholders' equity

EUR thousand	2020	2019
Share capital at Jan 1	140,983	140,983
Decrease in demerger	–90,000	–
Share capital at Dec 31	50,983	149,983
Invested non-restricted equity fund at Jan 1	368,263	367,776
Change	876	487
Decrease in demerger	–329,731	–
Invested non-restricted equity fund at Dec 31	39,408	368,263
Retained earnings at Jan 1	528,704	599,061
Dividend distribution	–220,791	–180,091
Other change	2,765	1,888
Profit for the year	386,085	107,845
Decrease in demerger	–373,253	–
Retained earnings at Dec 31	323,510	528,704
Total shareholders' equity at Dec 31	413,901	1,037,949

Statement of distributable funds at December 31

EUR	2020	2019
Invested non-restricted equity fund	39,408,070.56	368,263,034.11
Retained earnings	323,509,711.15	528,703,617.63
Total distributable funds	362,917,781.71	896,966,651.74

At the end of the year, Neles Oyj held 150,361 treasury shares, the acquisition price of which, EUR 3,337,728.57 has been deducted from retained earnings.

14 Long-term liabilities

EUR thousand	2020	2019
Bonds from [1]		
Others	0	401,609
Loans from financial institutions	149,743	449,053
Interest derivatives	0	2,466
Total	149,743	853,127

[1] Specification of bonds and fair values in note 4.5 for Consolidated Financial Statements.

Debt maturing later than in five years

EUR thousand	2020	2019
Bonds	0	0

15 Short-term liabilities

EUR thousand	2020	2019
Short-term interest bearing debt		
Bonds	0	0
Loans from financial institutions	0	9,999
Group companies	20,993	33,917
Group pool accounts	68,715	38,656
Total	89,707	82,573
Trade payables to		
Group companies	1,474	26,569
Others	4,702	5,502
Total	6,176	32,071
Accrued expenses and deferred income to		
Group companies	256	404
Others	5,861	20,814
Total	6,118	21,217
Other short-term non-interest bearing debt to		
Others	225	4,447
Total	225	4,447
Short-term liabilities total	102,226	140,308
Short-term liabilities to Group companies total	91,438	99,546

Specification of accrued expenses and deferred income

EUR thousand	2020	2019
Accrued expenses and deferred income to Group companies		
Accrued interest expenses	116	87
Other accrued items	141	317
Total	256	404
Accrued expenses and deferred income to others		
Accrued interest expenses	273	3,971
Accrued derivatives	1,414	11,917
Accrued salaries, wages and social costs	3,037	3,844
Other accrued items	1,137	1,082
Total	5,861	20,814

16 Other contingencies

Guarantees and mortgages

EUR thousand	2020	2019
Guarantees on behalf of subsidiaries	36,429	248,191

Lease commitments

EUR thousand	2020	2019
Payments in the following year	444	1,080
Payments later	244	2,904
Total	688	3,984

Signatures of the Board of Directors' Report and Financial Statements 2020

Vantaa, February 2, 2021

Jukka Moisio
Chair of the Board

Mark Vernon
Vice Chair of the Board

Britta Giesen
Member of the Board

Anu Hämäläinen
Member of the Board

Niko Pakalén
Member of the Board

Teija Sarajärvi
Member of the Board

Petter Söderström
Member of the Board

Jukka Tiitinen
Member of the Board

Olli Isotalo
President and CEO

The auditor's note

Our auditor's report has been issued today.

Vantaa, February 2, 2021
Ernst & Young Oy
Authorized Public Accountant Firm

Toni Halonen
APA

Auditor's Report

(Translation of the Finnish original)

To the Annual General Meeting of Neles Corporation

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Neles Corporation (business identity code 1538032-5) (former Metso Corporation) for the year ended 31 December 2020. The financial statements comprise the consolidated balance sheet, statement of income, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 6.1 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition *We refer to note 1.1 of the consolidated financial statements .* Neles Group's turnover in 2020 amounted to 576 million euros consisting of sale of valves equipment and wear or spare parts and providing services to customers. Revenue from sale of valves equipment and wear or spare parts is recognized at a point in time, when control of the goods is transferred to customer, typically at the time of delivery of the goods or after commissioning. Revenue from services is recognized when the services are rendered. Revenue is a key performance indicator for Neles, which may be an incentive for premature revenue recognition. Revenue recognition was a key audit matter and a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2) due to the risk related to incorrect timing (cut-off) of revenue recognition.	Our audit procedures, which take into account the significant risk of material misstatement in revenue recognition, included among others: • assessment of the compliance of Neles Group's accounting policies over revenue recognition and comparison with applicable accounting standards; • assessing the revenue recognition process and -methodologies and testing controls where applicable; • obtaining confirmations of accounts receivable balances from customers and analyzed credit invoices issued after the balance sheet date; • testing revenue recognition including cut-off with analytical procedures and by substantive sales transactions testing and; • assessment of the adequacy of disclosures related to revenues.
Valuation of inventories *We refer to note 2.4 of the consolidated financial statements* At the balance sheet date 31.12.2020, the value of inventories amounted to 160 million euros representing 25% of total assets. Inventories are measured at historical cost or net realizable value if lower. Costs are measured on a weighted average cost basis and include purchase costs as well as transportation and processing costs. Net realizable value is the sales price in the ordinary course of business less sales costs and the costs needed to finish the production of the goods. Impairment due to obsolescence is considered when assessing the valuation of inventories. Obsolescence provision is based on the best estimate at the balance sheet date and requires judgement from management. Valuation of inventories is a key audit matter due to the size of the account balance and because inventory valuation involves management judgement.	Our audit procedures, included among others: • assessment of the compliance of Neles Group's accounting policies on inventory valuation and comparison with applicable accounting standards; • assessment of the processes and practices related to inventory valuation; • testing of the controls related to processes where applicable; • test of details related to inventory costing; • evaluation of the analyses, calculations and judgement made by management with respect to slow-moving and obsolete stock and; • assessment of the disclosures related to inventories.

Key Audit Matter	How our audit addressed the Key Audit Matter
Accounting for the partial demerger and discontinued operations	
We refer to the consolidated financial statements' accounting policies and to the note 5.5 In the partial demerger of Metso Corporation, the assets and liabilities of Metso Minerals business were demerged from Metso Group using carrying values as of 30 June 2020. Until the effective date of demerger, Metso Minerals was reported as a discontinued operation in the consolidated financial statements. Valves business has formed the entire year 2020 Group's continuing operations and from 1 July 2020, Metso Corporation was renamed as Neles Corporation. In the consolidated financial statements of Neles, the partial demerger has been accounted for as a disposal to owners in accordance with IFRIC 17 Distribution of non-cash assets to owners. The difference between the fair value of Metso Minerals business and it's carrying value in the consolidated balance sheet at 30 June 2020 has been recorded as a distribution gain in the consolidated statement of income as part of the result of the discontinued operations. The total value of net assets transferred amounted to 1.150 million euros and the distribution gain 2.022 million euros. As a result of the partial demerger, parent company's equity was reduced by 793 million euros amounting to 414 million euros at 31.12.2020 (1.038 million euros at 31.12.2019). The accounting for the partial demerger and discontinued operations was a key audit matter because it had a significant impact on the statement of income and balance sheet (including effect on equity) of Neles Group.	Our audit procedures in respect of the accounting for the partial demerger included, among others: • assessment of the compliance of the accounting treatment of the partial demerger against the Limited Liability Act and the demerger plan; • evaluation of the appropriateness of the transferred assets and liabilities by comparing them to the demerger plan; • testing of the fair value determination of the transferred business and recorded distribution gain and; • evaluation of the appropriateness and adequacy of the disclosures related to the partial demerger including presentation of discontinued operations

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 29.3.2012, and our appointment represents a total period of uninterrupted engagement of 9 years.

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions based on assignment of the Audit Committee

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the distribution of dividends is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the President and CEO of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 2nd February, 2021

Ernst & Young Oy
Authorized Public Accountant Firm

Toni Halonen
Authorized Public Accountant

Investor information

Investor Relations function and policies

The main task of Investor Relations is to support the correct valuation of Neles share by providing correct, adequate and up-to-date information to all market participants on matters concerning our operations, operating environment, strategy, objectives, financial performance and market outlook. In our work, we aim for promptness, transparency, agility and excellent service.

Investor Relations is responsible for all investor communications, including contacts with representatives of the capital markets. All investor meeting requests are processed by Investor Relations. In addition to financial reports and actively updated webpages our investor communications include investor meetings and seminars in which corporate executives actively participate. We also arrange Capital Markets Day events.

We are not in contact with capital market representatives during the 30-day period prior to publication of the annual, half-year or interim financial results.

Market estimates and analyst reports

We actively monitor market expectations and will review, if requested so by an analyst, their model against publicly available information. However, we do not comment on or take any responsibility for estimates or forecasts published by capital market representatives and we do not comment on the company's valuation or share price development, give preference to one particular analyst, or distribute analyst reports to the investment community.

We maintain a list of the analysts following Neles on a regular basis on our website at https://www.neles.com/investors/share/analysts/

Financial reporting schedule 2021

Financial statements review for 2020	February 3, 2021
Annual Report 2020	Week commencing March 1, 2021, at the latest
Interim review for January–March 2021	April 27, 2021
Half-year financial review 2021	July 23, 2021
Interim review for January–September 2021	October 27, 2021

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 continued 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.

Annual General Meeting 2021

Neles' Annual General Meeting 2021 will be held on Friday, March 26, 2021.

Proposals have been published as a stock exchange release on February 3, 2021, which is also available at www.neles.com/investors/governance/agm/2021.

IR contact

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Corporate governance

Neles Corporation became an independent company on completion of the partial demerger of Metso Corporation, registered on June 30, 2020. Prior to the demerger, Neles was Metso Corporation's Valves Business Area.

Neles Corporate Governance Statement 2020

Introduction

Neles Corporation ("Neles") is a public company domiciled in Vantaa. It became an independent company on completion of the partial demerger of Metso Corporation ("Metso"), registered on June 30, 2020. Prior to the demerger, Neles was operating as the Valves Business Area of Metso Corporation. Neles continued Metso's listing in Nasdaq Helsinki.

Key events in governance in 2020

Shareholders

Solidium Oy, the largest shareholder of Metso Corporation, sold its shares to Valmet Corporation on July 1, 2020. Valmet Corporation's shareholding was 29.5% on December 31, 2020. Cevian Capital Partners Ltd's shareholding was 10.9% on September 1, 2020. In the course of its voluntary public tender offer, Alfa Laval AB (publ) acquired 8.5% of Neles' shares, becoming the third largest shareholder of Neles.

External Auditor

The Annual General Meeting re-elected Ernst & Young Oy ("Ernst & Young") as the company's external auditor. Mr. Toni Halonen, APA, became the principal auditor of Neles.

Board of Directors

The Board composition changed in 2020 on the partial demerger of Metso Corporation and Neles starting as an independent listed company on July 1, 2020.

Neles' new strategy

From early January until June 30, 2020, the members-elect of Neles Board ("Sounding Board") worked intensively with Neles management to define the company's new strategic growth areas and financial targets for the 2020–2025 period. The strategy and financial targets were formally approved by the Board on July 1, 2020.

Neles Executive Team

Upon the partial demerger, the Neles Executive Team was composed. The members included the President and Chief Executive Officer, Chief Financial Officer, three Business Lines, four Market Areas, Valve Operations, Human Resources, and Communications and Marketing. Apart from running and developing the daily operations, the new Executive Team focused on defining the company's new values, strategy and brand.

Internal Audit

Neles outsourced the internal audit function to KPMG Oy Ab ("KPMG") from July 1, 2020. The audit plan for the H2/2020 was reviewed and approved by Neles' Audit Committee.

Regulatory framework

Neles complies with the Finnish Corporate Governance Code 2020, issued by the Securities Market Association. Financial reports, including consolidated financial statements, are prepared in accordance with the International Financial Reporting Standards, IFRIC Interpretations as adopted by the European Union, as well as the Financial Supervisory Authority's regulations and Nasdaq Helsinki's rules. This statement has been reviewed by the Audit Committee.

Regulatory framework for Corporate Governance at Neles

External framework	Internal framework
• Companies Act • Accounting Act • Securities Markets Act • Market Abuse Regulation (EU) No. 596/2014 ("MAR") • Finnish Corporate Governance Code 2020, rules, regulations and guidelines of Nasdaq Helsinki and the Finnish Financial Supervisory Authority	• Articles of Association • Code of Conduct • Board Charter and Board Committee Charters • Internal Audit Charter • Neles' internal policies and instructions

Updated information about our governance is available on our website.

The Finnish Corporate Governance Code 2020 is available on the website of the Securities Market Association: https://cgfinland.fi/en/corporate-governance-code/.

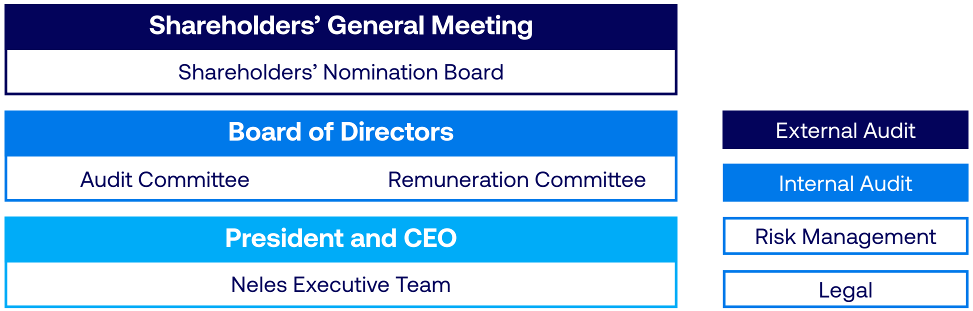
Governance structure

The management and control of Neles is divided between the shareholders' General Meeting, the Board of Directors ("Board") and the President and Chief Executive Officer ("President and CEO"). The Annual General Meeting is the ultimate decision-making authority. Every shareholder has the right to attend the General Meeting and participate in decision making by voting. Each share entitles the holder to one vote. Decisions at the General Meeting of shareholders are primarily made by a simple majority of votes, except in certain specified cases defined by the Companies Act (e.g. amending the Articles of Association).

Neles' Annual General Meeting is to be held within six months from the close of the fiscal year in Vantaa. The Annual General Meeting is usually held at the end of March.

Neles' business is reported as one segment (the former Metso Corporation had two external reporting segments, Minerals and Flow Control, until the partial demerger registered on June 30, 2020). Neles' three Business Lines with four Market Areas and Valve Operations are responsible for the company's business operations.

Neles' Governance bodies



General Meetings of Shareholders

Two shareholders' General Meetings were held in 2020.

Annual General Meeting 2020

The Annual General Meeting ("AGM") 2020 was held at the Metso headquarters in Helsinki on June 16, 2020. The AGM was held without the presence of the shareholders and their proxy representatives at the meeting venue pursuant to the temporary legislative act to limit the spread of the Covid-19 pandemic, as approved by the Finnish Parliament on April 24, 2020.

In view of the expected partial demerger of Metso Corporation, the AGM elected Mr. Mikael Lilius as the Chair, Mr. Christer Gardell as the Vice Chair, and Mr. Lars Josefsson, Mr. Antti Mäkinen, Mr. Kari Stadigh, Ms. Emanuela Speranza and Ms. Arja Talma as members to the Board of Metso Corporation for a term of office expiring on the registration of the partial demerger of Metso Corporation. The AGM elected Mr. Jukka Moisio as the Chair, Mr. Mark Vernon as the Vice Chair, and Dr. Britta Giesen, Ms. Anu Hämäläinen, Mr. Niko Pakalén, Ms. Teija Sarajärvi and Mr. Petter Söderström as members to the Board of the future Neles Corporation, for a term of office commencing from the registration of the partial demerger.

The minutes of the meeting are available on the Neles website.

Extraordinary General Meeting 2020

Neles' Extraordinary General Meeting ("EGM") was held on October 29, 2020, at Hilton Helsinki Airport in Vantaa. The EGM resolved, in accordance with the proposals of its largest shareholder, Valmet Corporation, that the number of members of the Board be eight, and that for a term of office expiring at the next Annual General Meeting, Mr. Jukka Tiitinen be elected as a new member of the Board in addition to the previous members of the Board.

The minutes of the meeting are available on the Neles website.

Shareholders' Nomination Board

The Shareholders' Nomination Board is a permanent governance body that was established by the AGM in 2011. The purpose of the Shareholders' Nomination Board is to prepare and present to the General Meeting proposals on the composition and members of the Board, and board remuneration.

The Shareholders' Nomination Board consists of five members nominated annually. Four members are appointed by the company's four largest shareholders, who appoint one member each. The Chair of the Neles Board serves as the fifth member. The four largest shareholders entitled to appoint members to the Shareholders' Nomination Board are determined on the basis of the registered holdings as of September 1 each year. The Shareholders' Nomination Board forwards its proposals for the AGM by January 31 each year.

The composition of the Shareholders' Nomination Board on December 31, 2020 was as follows:

- **Mr. Pasi Laine**, President and CEO, Valmet Corporation
- **Mr. Philip Ahlgren**, Vice President, Cevian Capital AB
- **Mr. Mikko Mursula**, Deputy CEO, Ilmarinen Mutual Pension Insurance Company
- **Mr. Jukka Moisio**, Chair of Neles Board

Mr. Risto Murto, President and CEO, Varma Mutual Pension Insurance Company, was a member of the Shareholders' Nomination Board until his resignation on October 23, 2020. Varma Mutual Pension Insurance Company transferred more than half the shares it held in Neles on September 1, 2020, and as a result was no longer among the ten largest shareholders of Neles. Pursuant to the Charter of the Shareholders' Nomination Board, a member nominated by such a shareholder is obliged to resign from the Shareholders' Nomination Board.

The Shareholders' Nomination Board held eight virtual meetings with attendance rate of 100% except for Mr. Moisio who recused himself from one meeting. In addition, the Shareholders' Nomination Board held several virtual meetings to interview the Board candidates. On December 22, 2020, the Shareholders' Nomination Board submitted its proposals to the Board for the AGM 2021. The proposal is available on the Neles website.

The composition of Metso's Shareholders' Nomination Board prior to September 1, 2020 was as follows:

- **Mr. Petter Söderström**, Investment Director, Solidium Oy
- **Mr Niko Pakalén**, Partner, Cevian Capital AB
- **Mr. Mikko Mursula**, Deputy CEO, Ilmarinen Mutual Pension Insurance Company
- **Mr. Risto Murto**, President and CEO, Varma Mutual Pension Insurance Company
- **Mr. Mikael Lilius**, Chair of Metso Board

Mr. Söderström resigned from the Shareholders' Nomination Board on July 1, 2020 following Solidium Oy's sale of shares to Valmet Corporation.

Metso's Shareholders' Nomination Board held one meeting in 2020, and the attendance rate was 100%. On January 16, 2020, the Shareholders' Nomination Board submitted its proposals to the Board for the AGM 2020 concerning the Metso Board until completion of the partial demerger and the Neles Board from thereon. The proposal is available on the Neles website.

The members of the Shareholders' Nomination Board are not remunerated by Neles for their representation. The members' expenses are reimbursable in accordance with the company's expense policy. Costs incurred from using external experts are borne by the company.

More information about the Nomination Board, including its Charter, is available on the Neles website.

Board of Directors and Board committees

The Chair and the members of the Board are elected by the shareholders' General Meeting. According to its Articles of Association, Neles shall have minimum five and maximum eight Board members.

Neles Board (December 31, 2020)

Jukka Moisio, Chair of the Board
- nationality: Finnish
- born: 1961
- education: MBA, M.Sc.
- main occupation: Nokian Tyres plc, President and CEO
- key positions of trust: Chair of the Board of Directors of Paulig Group (2020–) and Sulapac Oy (2019–); Member of the Board of Directors of Atria Oyj (2014–) and Member of the Supervisory Board of Suomen Messut (2008–)
- shareholding as of December 31, 2020: 13,027 shares

Mark Vernon, Vice Chair of the Board
- nationality: U.S.
- born: 1953
- education: B.Sc. Physical Chemistry
- main occupation: board professional
- key positions of trust: Chair of the Board of Directors of LiqTech International Inc. (2018–), Senior plc, Non-Executive Director (2011–)
- shareholding as of December 31, 2020: 1,699 shares

Britta Giesen, Member of the Board
- nationality: German
- born: 1966
- education: PhD (Tech.) Operations Research; Dipl.-Wirtsch.-Ing. (Tech.) Mechanical Engineering; M.Eng (Tech.) Aerospace Engineering, Aeronautics and Astronautics
- main occupation: Member of the Management Board of Pfeiffer Vacuum Technology AG (until December 31, 2020); Chairwoman of the Management Board and CEO of Pfeiffer Vacuum Technology AG (starting January 1, 2021)
- shareholding as of December 31, 2020: 1,421 shares

Anu Hämäläinen, Member of the Board
- nationality: Finnish
- born: 1965
- education: M.Sc., Economics
- main occupation: Kesko Oyj, Vice President, Group Treasury and Financial Services
- key positions of trust: Member of the Board of Directors of Finnfund (2019-)
- shareholding as of December 31, 2020: 1,606 shares

Niko Pakalén, Member of the Board
- nationality: Finnish and Swedish
- born: 1986
- education: M.Sc., Economics
- main occupation: Cevian Capital AB, Partner
- key positions of trust: Member of the Board of Directors of TietoEVRY (2019-)
- shareholding as of December 31, 2020: 1,421 shares

Teija Sarajärvi, Member of the Board
- nationality: Finnish
- born: 1969
- education: MA
- main occupation: Huhtamäki Oyj, Executive VP, HR and Safety
- shareholding as of December 31, 2020: 1,328 shares

Petter Söderström, Member of the Board
- nationality: Finnish
- born: 1976
- education: M.Sc., Economics
- main occupation: Solidium Oy, Investment Director
- shareholding as of December 31, 2020: 1,471 shares

Jukka Tiitinen, Member of the Board
- nationality: Finnish and U.S.
- born: 1965
- education: M.Sc., Engineering
- main occupation: Valmet Oyj, Area President, Asia-Pacific (until March 31, 2021); Valmet Oyj, Area President, North America (starting April 1, 2021)
- shareholding as of December 31, 2020: 924 shares

Independence of the members of the Neles Board on December 31, 2020

The Board considered all its members to be independent of the company. The Board further considered all members to be independent of major shareholders except:

- Mr. Jukka Tiitinen, who is considered to be dependent on Valmet Corporation. Mr. Tiitinen is the Area President, Asia-Pacific, of Valmet.
- Mr. Niko Pakalén, who is considered to be dependent on Cevian Capital Partners Ltd. Mr. Pakalén is a Partner of Cevian Capital AB.

Committees and Steering Groups of the Board

The Board has delegated some of its functions to the Audit Committee, Remuneration Committee (previously, the HR and Remuneration Committee) and to temporary steering groups tasked to assist the Board in specific matters. The Board appoints the members to the Committees and steering groups from among its members.

Each Committee meets regularly and reports on its work to the Board. The Committees have no decision-making authority independent of the Board, except where expressly authorized to do so by the Board.

Copies of the Board and Committee Charters are available on the Neles website.

Metso and Neles Board and Committee work in 2020

In addition to the duties specified in the Board Charter, Metso Board's focus was on overseeing that the partial demerger of Metso Corporation was implemented successfully, in that Metso's Minerals business was merged with Outotec Oyj and the Flow Control business continued as an independent listed company under Metso's listing on Nasdaq Helsinki under Neles name. Prior to the commencement of their term of office, the members-elect of the Neles Board ("Sounding Board") supported Neles' management in preparations for the "new Neles", e.g. in strategy development, setting financial targets and reviewing the governance model. On assuming office, the Board focused on assessing the public tender offer announced by Alfa Laval AB (publ) on August 13, 2020, the merger proposal made by Valmet Corporation on September 29, 2020, and convened the Extraordinary General Meeting, pursuant to the request made by Valmet Corporation.

The Audit Committee ensured that Neles organized resources appropriately to operate as an independent company after the partial demerger of Metso Corporation. In particular, the Audit Committee reviewed all the key operational policies relating to financial management and reporting.

The Remuneration Committee continued the implementation of remuneration policy and incentive systems, both new plans and those inherited from Metso, and conducted a people and talent management review.

Members of the Board of Directors, meeting attendance in 2020

Members on July 1–December 31, 2020	Board	Audit Committee	Remuneration Committee	Temporary steering groups
Jukka Moisio (Chair of the Board and Remuneration Committee)	12/12	–	3/3	5/5
Mark Vernon (Vice Chair of Board)	12/12	–	3/3	5/5
Britta Giesen	12/12	3/3	–	-
Anu Hämäläinen (Chair of Audit Committee)	12/12	3/3	–	5/5
Niko Pakalén [1]	8/12	3/3	–	–
Teija Sarajärvi	12/12	–	3/3	–
Petter Söderström [2]	9/12	3/3	–	–
Jukka Tiitinen [3]	1/1	1/1	–	–

[1] Mr. Pakalén recused himself from four Board meetings
[2] Mr. Söderström recused himself from three Board meetings
[3] Mr. Tiitinen was elected to the Board on October 29, 2020

In addition, the Sounding Board had five meetings, the future renumeration committee had three meetings, and the future audit committee had one meeting before July 1, 2020, all with 100% attendance.

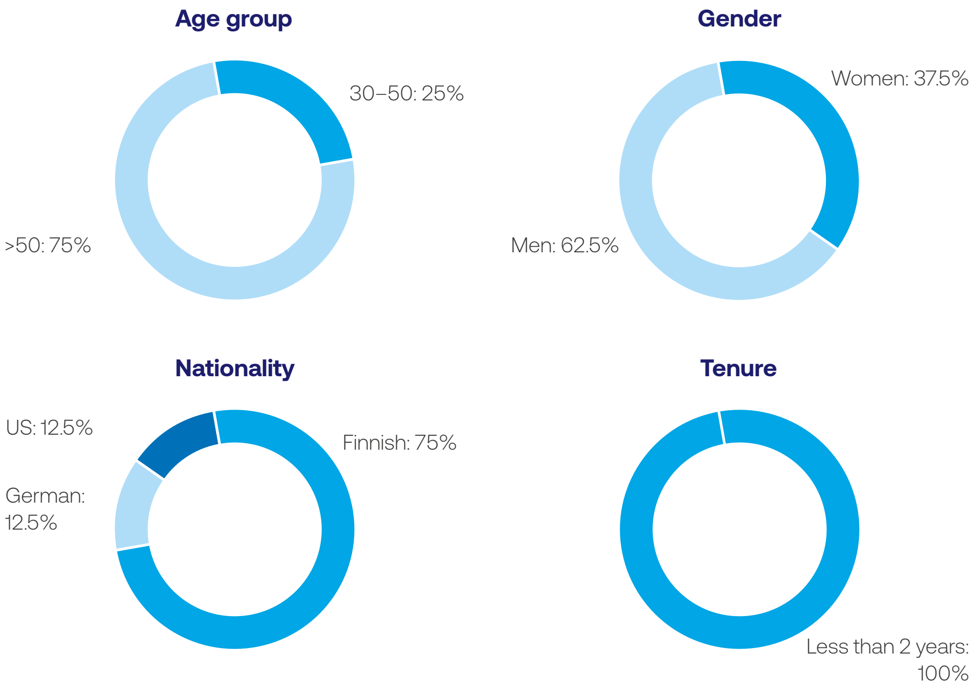
Members on January 1–June 30, 2020	Board	Audit Committee	Remuneration Committee
Mikael Lilius (Chair of the Board, and HR and Remuneration Committee)	10/10	–	3/3
Christer Gardell (Vice Chair)	10/10	–	3/3
Peter Carlsson [1]	8/8	–	–
Lars Josefsson	10/10	–	3/3
Antti Mäkinen	10/10	2/2	–
Kari Stadigh	10/10	–	–
Arja Talma (Chair of Audit Committee)	10/10	2/2	–
Emanuela Speranza [2]	2/2	–	–

[1] Mr. Carlsson's term ended on June 16, 2020
[2] Ms. Speranza was elected to Metso Board on June 16, 2020

Diversity of the Board of Directors

When planning Board composition, the Shareholders' Nomination Board considers the needs and development phases of Neles' businesses, and the competence areas required by the Board and its committees. In addition, individuals must be qualified for the position, be a good fit with the Board's competence profile and be able to allocate sufficient time to carry out their responsibilities. To achieve a balanced representation of genders within the Board, the Shareholders' Nomination Board seeks to include representatives of both genders in the Board candidate search and evaluation process. The status and progress of diversity is monitored by the Shareholders' Nomination Board in its self-assessment. There is no specific order of appointment of Board members. In the nomination process, the Shareholders' Nomination Board also takes into consideration the requirements of the Finnish Corporate Governance Code 2020 concerning the relevant and adequate competencies of Audit Committee members. More about Board diversity is available on the Neles website.

Board diversity (December 31, 2020)



Neles Management

President and CEO

The President and CEO is appointed by the Board and holds the position of Managing Director under the Limited Liability Companies Act. The President and CEO manages the company's operations in accordance with the law, and the guidance and instructions given by the Board. Under the law, the President and CEO is responsible for ensuring that the accounts of the company comply with the applicable laws, and that its financial affairs have been arranged reliably.

The Board determines the compensation and sets the short- and long-term incentive targets for the President and CEO. The main terms of the President and CEO's compensation and benefits are set out in the Remuneration Report which is available on the Neles website.

Mr. Olli Isotalo joined Metso as President, Valves Business Area on July 15, 2019. He started as President and CEO of Neles on July 1, 2020. Mr. Isotalo has extensive experience in leading a global engineering business.

Neles Executive Team

The Neles Executive Team is chaired by the President and CEO, and it comprises senior management leading:

- three Business Lines: Valves Equipment, Valve Controls & Actuators and Valves Services, responsible for business strategy, product management, and research and development
- four Market Areas: North America, South and Central America, EMEIA (Europe, Middle East, India and Africa) and Asia-Pacific, responsible for customers and the competitive situation in their respective market areas
- Valve Operations, responsible for procurement, supply chain management and manufacturing
- the CFO Office, responsible for financial and group control, treasury, tax, business development, legal and compliance, investor relations and IT
- Human Resources, responsible for developing all people matters in cooperation with the Business Lines, Market Areas and group functions
- Communications and Marketing, responsible for external and internal communications, marketing and brand.

The Neles Executive Team assists the President and CEO in strategy implementation, coordinates groupwide development projects and defines policies that guide the company's activities. The Neles Executive Team members report to the President and CEO, and their main task is to lead the daily operations of their respective unit or group function. Neles Executive Team members are approved by the Board.

Work of the Metso and Neles Executive Teams in 2020

The focus of the Metso Executive Team was on preparing the carve-out of the Metso Minerals business and its integration with Outotec Oyj, as well as enabling the Flow Control business to become an independent listed company. The Neles Executive Team developed and began to implement the new group strategy. A new management model was established to support agile business management and strategy execution, and the company's values and brand were defined. Ensuring employee safety, continuity of operations, a good cash position and profitability were high on the agenda of the Neles Executive Team due to the Covid-19 pandemic.

Metso Executive Team (from 1 January to 30 June 2020)

Prior to the partial demerger of Metso Corporation, the Metso management was as follows:

Vauramo, Pekka	President and CEO
Sipilä, Eeva	Chief Financial Officer, Deputy to CEO
Hansen, Uffe	President, Recycling
Isotalo, Olli	President, Valves
Järvistö, Hannele	Interim Senior Vice President, Human Resources
Keto, Mikko	President, Minerals Services and Pumps (until 1.1.2020)
Campagnelli, Giuseppe	President, Minerals Services and Pumps (from 2.1.2020)
Kirsch, Stephan W.	President, Mining Equipment
Puroranta, Jani	Chief Digital Officer
Simula, Markku	President, Aggregates Equipment
Takaluoma, Sami	President, Minerals Consumables

Neles Executive Team

Olli Isotalo, President and CEO
- born: 1959
- education: M.Sc., Engineering
- shareholding as of December 31, 2020: 865 shares

Sami Nousiainen, Head of Valves Services
- born: 1972
- education: M.Sc.
- shareholding as of December 31, 2020: -

Fabio da Silva Maia, Head of South and Central America Market Area
- born: 1974
- education: MBA, Business Management
- shareholding as of December 31, 2020: -

Simo Sääskilahti, CFO and Deputy to CEO
- born: 1971
- education: M.Sc., Engineering, M.Sc., Economics
- shareholding as of December 31, 2020: 4,387 shares

Jon Jested-Rask, Head of EMEIA Market Area
- born: 1975
- education: M.Sc., Economics and Business Administration
- shareholding as of December 31, 2020: 899 shares

Kevin Tinsley, Head of Global Operations
- born: 1962
- education: MBA
- shareholding as of December 31, 2020: 3,178 shares

Timo Hänninen, Head of Valves Equipment Business Line
- born: 1961
- education: B.Sc., eMBA
- shareholding as of December 31, 2020: -

Patrick Dunn, Head of North America Market Area
- born: 1967
- education: BA, Social Rehabilitation & Sociology
- shareholding as of December 31, 2020: 2,095 shares

Hanne Peltola, Head of HR
- born: 1969
- education: M.Soc.Sc., eMBA
- shareholding as of December 31, 2020: 1,021 shares

Kalle Suurpää, Head of Valve Controls and Actuators Business Line
- born: 1974
- education: M.Sc., Technology
- shareholding as of December 31, 2020: -

Hang Pheng Tan, Head of Asia-Pacific Market Area
- born: 1968
- education: MBA, Bachelor of Electrical Engineering
- shareholding as of December 31, 2020: -

Kaisa Voutilainen, Head of Communications and Marketing
- born: 1982
- education: MA, International Business Communication
- shareholding as of December 31, 2020: -

Main features of the internal control and risk management systems

Neles' internal control and risk management operating model is designed to provide sufficient assurance regarding the reliability of financial reporting, and to ensure that the financial statements are prepared in accordance with applicable laws and regulations, generally accepted accounting principles (IFRS) and other requirements for listed companies.

Risk management

The Board approves the Corporate Risk Management Policy that defines the objective, main principles and features, and division of responsibilities for risk management. Risk assessment related to financial reporting aims to identify and evaluate the most significant threats in Neles and its Business Lines, Market Areas, group functions and process levels. This includes risks related to fraud and unlawful activities, as well as the risk of loss or misappropriation of assets. Risk assessments result in control targets through which Neles seeks to ensure that the fundamental requirements placed on financial reporting are fulfilled.

Internal controls related to financial reporting

Neles' control standards are regularly updated to be in line with the Committee of Sponsoring Organizations (COSO) framework and Neles' business control environment. The controls, including financial reporting controls, have been defined based on the main risks in the process. Internal controls are one of the key elements of Neles' compliance framework, which also covers business ethics and regulatory compliance.

Control environment

Neles' control activities are based on corporate standards, policies and instructions and on Neles' responsible leadership model which ensure that management directives are carried out and that necessary action is taken to address risks related to the achievement of financial reporting objectives. Neles' compliance framework seeks to ensure the accuracy of its financial reporting, as well as compliance with governance principles, business ethics and regulatory compliance in all units. The framework is designed to create a coherent control environment by implementing proper internal control mechanisms for different business processes and sharing internal control related best practices.

The control standards define the minimum level for internal controls that all units must achieve. All units are required to perform an annual self-assessment to ensure they are compliant with the minimum control standards. In addition, Internal Audit is responsible for evaluating the operating effectiveness of these controls according to the annual audit plan.

The Audit Committee's task is to ensure that the established principles for financial reporting, risk management and internal control are followed. The President and CEO, with assistance from Internal Audit, is responsible for maintaining an effective control environment and the ongoing work on internal control regarding financial reporting. Internal Audit reports all relevant issues to the Audit Committee, the President and CEO, the Chief Financial Officer and the responsible members of the Neles Executive Team.

Information and communication

The CFO Office is responsible for ensuring that the financial reporting manuals and instructions are up-to-date, and that changes are communicated to the relevant units and functions. The process owners of the main finance processes are responsible for informing about upcoming changes in International Accounting Standards, new accounting principles and other changes in reporting requirements, and organizing training as necessary. Internal Audit reports the results of the evaluation of internal controls regularly to the Audit Committee. The results of the Audit Committee's work in the form of observations, recommendations, and proposed decisions and measures are reported to the Board after every Audit Committee meeting.

The Audit Committee is regularly informed about the financial reporting control environment, including:

- information on the development of fundamental risk areas
- activities planned and executed for these risk areas
- other measures to mitigate risks.

Monitoring

The effectiveness of internal control related to financial reporting is monitored by the Board and the Audit Committee. The President and CEO, the CFO Office, Internal Audit and the Heads of the Business Lines and Neles subsidiaries are responsible for compliance and maintaining an effective control environment. This includes follow-up of monthly financial reports, review of monthly estimates and plans, and Internal and External Audit reports.

Internal Audit assesses the effectiveness of Neles' operations and the adequacy of risk management annually, and reports the risks and weaknesses related to the internal control processes to the management and to the Audit Committee.

Reporting of suspected financial misconduct

Neles' policies and instructions on the prevention of financial and other misconduct define how suspected misconduct should be reported, how it is investigated, and how it is solved. All employees are encouraged to report suspected misconduct via the Speak Up or internal reporting channels. The Speak Up channel is a reporting tool maintained by an external service provider. The report can be submitted anonymously in several languages via the Internet or by email. Suspected misconduct is investigated confidentially without undue delay. Legal & Compliance, in cooperation with Internal Audit, decides how the matter will be investigated and reports the alleged misconduct to the Audit Committee. Legal & Compliance, with Human Resources, implements any measures consequential to possible misconduct.

Audit

Internal Audit

The role of Internal Audit is to provide independent objective assurance and consulting services that add value by contributing to the improvement of operations. Internal Audit offers a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control.

The operating principles of Internal Audit have been defined in the Internal Audit Charter approved by the Board. The Audit Committee approves the annual internal audit plan, which is developed taking into consideration the corporate risk assessment and plans and input of Business Lines and Market Areas, the Neles Executive Team and other senior management. Internal Audit reports functionally to the Audit Committee and administratively to the Chief Financial Officer.

Internal audit in 2020

Internal Audit was managed internally until the partial demerger on June 30, 2020. Neles outsourced the internal audit function to KPMG from July 1, 2020. The audit plan for the H2/2020 was reassessed and approved by Neles' Audit Committee.

During H1/2020 internal audits were conducted in eight Valves Business Area locations. According to the Neles' audit plan, internal audits in two locations and follow-up reviews in nine locations were conducted during H2/2020. The main areas covered were compliance in the sales, purchasing, inventory and credit management processes and controls in reporting systems, as well as the internal control environment in the Neles organization. The reliable transfer of the internal audit tasks to the outsourcing partner was also in focus.

External Audit

According to the Articles of Association, Neles has one auditor, which must be a firm of authorized public accountants. The aggregate duration of the consecutive terms of a principal auditor may not exceed seven years.

The auditor's statutory obligation is to audit the company's accounting, financial statements and administration for the financial year. The parent company's auditor is required to audit the company's consolidated financial statements. In conjunction with the annual financial statements, the external auditor gives Neles' shareholders an Auditor's Report, which is attached to the Neles' financial statements.

The auditor reports primarily to the Audit Committee, and at least once a year to the Board. The Audit Committee evaluates the performance and services of the independent auditor and decides if there is a need to arrange an open tender process.

The Audit Committee approves purchase of non-audit services from the auditor in accordance with Neles' Corporate Pre-approval Policy.

External Audit in 2020

The 2020 Annual General Meeting elected the Authorized Public Accountant Ernst & Young as the auditor, with Mikko Järventausta as principal auditor of Metso Corporation until the partial demerger, and with Toni Halonen as the principal auditor of Neles after the partial demerger.

Auditors' fees, EUR million	2020	2019
Audit services	0.85	2.2
Tax services	0.0	0.1
Other services	0.05	0.9
Total	0.9	3.1

In addition to Internal and External Audit, several other auditing measures are in place to secure efficient risk management.

Related Party Transactions

Neles maintains a list of its related parties (IAS24). Neles has adopted a monitoring process to identify and evaluate transactions eventually concluded with its related parties. The Board approves agreements and other transactions to be carried out with related parties if they are not part of the ordinary course of Neles' business or if they are not made at arm's length. Related party transactions are set out in the notes to the financial statements.

Insider management

Neles manages its inside information matters in accordance with the Market Abuse Regulation (MAR) and the Insider Guidelines of Nasdaq Helsinki. Neles' Insider Management Policy is based on this regulation.

Persons discharging managerial responsibilities in the company

Persons discharging managerial responsibilities and their closely associated persons have a duty to disclose transactions on Neles' financial instruments. Since July 1, 2020, the persons discharging managerial responsibilities at Neles are the members of Neles' Board, the President and CEO, and the Chief Financial Officer (previously, they were the members of the Metso Board and the Metso Executive Team). After the partial demerger, taking into consideration the organizational responsibilities and internal instructions of Neles, it was considered that the members of the Board, the President and CEO and the Chief Financial Officer have regular access to inside information relating to Neles and the power to take managerial decisions affecting the future developments and business prospects of Neles.

Neles maintains a list of persons discharging managerial responsibilities and their closely associated persons, and issues a stock exchange release of their transactions made on Neles' financial instruments in accordance with MAR.

In 2020, a total of 19 transaction notifications were published by the persons discharging managerial responsibilities. They are available on the Neles website.

Closed Period

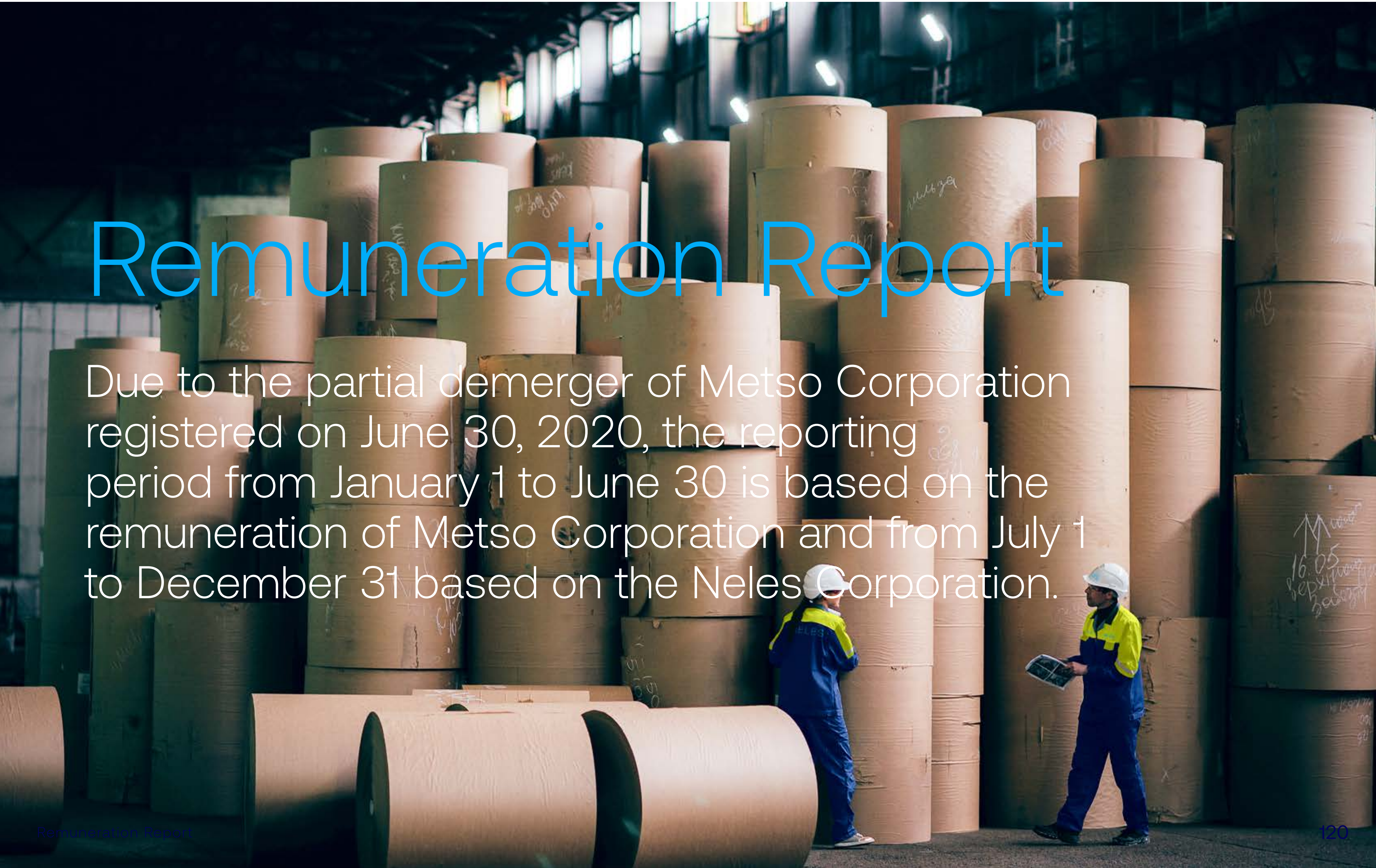
The Board, Neles Executive Team and selected employees with access to Neles' sensitive financial information may not trade on Neles' financial instruments during a period of 30 days prior to the publication of interim reports and financial statements, nor on the date of publication ("Closed Period").

Silent Period

From July 1, 2020, Neles observed a 30-day silent period prior to the publication of its interim reports and financial statements ("Silent Period"). During this time, Neles does not comment on the financial performance, markets or outlook, nor does it meet with capital markets representatives or the financial media. Until June 30, 2020 the duration of the Silent Period was 21 days.

Insider Projects

Neles maintains only project-based insider lists. The identification of inside information and decisions regarding the disclosure or delay of disclosure are made by the Board or the President and CEO in consultation with the General Counsel. The coordination and control of insider issues is the responsibility of the General Counsel.



Remuneration Report

Due to the partial demerger of Metso Corporation registered on June 30, 2020, the reporting period from January 1 to June 30 is based on the remuneration of Metso Corporation and from July 1 to December 31 based on the Neles Corporation.

Neles Remuneration Report 2020

1. Introduction

Due to the partial demerger of Metso Corporation registered on June 30, 2020, the reporting period from January 1 to June 30 is based on the remuneration of Metso Corporation ("Metso") i.e. including the Metso's Minerals Business. The reporting period from July 1 to December 31 is based on the remuneration in Neles Corporation ("Neles"). Accordingly, the historical data on business performance and remuneration is based on Metso's business until June 30, 2020.

1.1. Remuneration principles and implementation

Adherence to Remuneration Policy. Neles has adhered to its Remuneration Policy during the financial year 2020 with one temporary deviation only. The main remuneration principles of Neles are to offer compensation which considers relevant market and industry practices and support performance differentiation. Variable pay programs are developed with these principles in mind and in the best interest of the company and its shareholders. The aim is to create a clear link between variable pay and company's performance. This is achieved through utilizing appropriate key performance indicators and ensuring that the targets are set on levels which support the successful execution of the company strategy and reaching the financial targets.

The aim of board remuneration is to attract and retain Board members who possess relevant skills, competence and experience to exercise their duties and responsibilities in the best interest of the company and its stakeholders.

Temporary deviation. According to Neles' Remuneration Policy, deviations from the policy may be made in connection with corporate transactions. Neles has temporarily deviated from its Remuneration Policy by granting a customary one-off retention bonus to the President and CEO in connection with the public tender offer made to the shareholders of the company. Further details are set out below in section 3.1.

Contribution to cost savings. As part of the Covid-19 pandemic cash saving actions Neles' President and CEO and Metso's President and CEO have contributed to the cost savings efforts by giving up their holiday pay (equals to 50% of one month's salary) and part of their monthly salary.

1.2. Remuneration and company performance

The following historical evaluation data on the remuneration and the company performance is based on the consolidated numbers of Metso from 2016 until June 30, 2020, and therefore also includes Metso's Minerals Business. The reported numbers do not include other indirect employment costs. The performance metrics used in measuring the company performance were also used in the company's short-term incentive plans.

Average compensation	2020	2019	2018	2017	2016
Chairman of the Board, EUR	116,000 1)	140,000	139,000	126,000	126,000
Board of Directors (total), EUR	558,000 1)	631,000	668,000	582,000	652,000
CEO, EUR	1,158,533 1)	752,574	819,238	706,173	610,136
Employee, EUR	47,283 2)	44,798	46,172	47,766	45,609
Orders, MEUR	590 2)	3,690	3,499	2,982	2,724
Sales, MEUR	576 2)	3,635	3,173	2,706	2,586
EBITA, MEUR	85 2)	474	369	236	244
Free Cash Flow, MEUR	63 2)	39	146	158	339

1) Includes Metso data from January 1st to June 30th and Neles data from July 1st to December 31st.
2) Company performance metrics of the continuing operations only.

2. Remuneration of the Board of Directors

The remuneration of the Board of Directors of Neles and Metso was decided in Metso's Annual General Meeting on June 16, 2020 based on the proposal made by the Shareholders' Nomination Board.

The board remuneration includes a fixed fee based on the role(s) in the Board and its Committees (e.g. chair, committee member) and an additional meeting fee for each meeting attended. The members of the Board are obliged to use 40% of the fixed remuneration to purchase company shares. In anticipation of the completion of the partial demerger of Metso, the Annual General Meeting decided that the fixed annual remuneration was to be calculated pro rata to the length of the term of office. Board of Directors' remuneration does not include the company's bonus plans, share-based incentive schemes or pension plans.

2.1. Neles Board of Directors

Fixed annual remuneration

Pursuant to the decision of the Annual General Meeting to calculate the fixed annual remuneration pro rata to the length of the term office, the Board of Directors elected by the Annual General Meeting were paid 75% of annual fixed remuneration. Mr Jukka Tiitinen, who was elected to the Board by Extraordinary General Meeting on October 29, 2020, was paid 40% of the fixed annual remuneration.

Sounding Board

Prior to the commencement of their term of office, the members-elect of the Neles Board ("Sounding Board") supported Neles' management in preparations for the "new Neles", e.g. in strategy development, setting financial targets and reviewing the governance model. The members-elect received a small fee based on a consultancy agreement to compensate for their work as set out below.

Neles Board remuneration from July 1 to December 31, 2020

EUR	Share reward	Cash reward	Meeting fees [1]	Sounding Board fees	Total
Jukka Moisio, chair	37,406	54,469	15,200	2,850	109,925
Mark Vernon	20,995	30,567	64,000	2,850	118,412
Britta Giesen	17,560	25,565	22,400	2,850	68,375
Anu Hämäläinen	19,846	28,904	15,200	2,850	66,800
Niko Pakalén	17,560	25,565	8,800	2,850	54,775
Teija Sarajärvi	16,410	23,902	11,200	2,850	54,362
Petter Söderström	17,560	25,565	8,800	2,850	54,775
Jukka Tiitinen	9,872	14,388	6,400	–	30,660
Total	157,209	228,925	152,000	19,950	558,084

[1] During the reporting period the Board had 12 meetings but received meeting fees from 11 meetings only, one meeting being a short decision meeting only.

2.2. Metso Board of Directors

Metso's Annual General Meeting 2020 decided that Metso Board of Directors are paid the same fixed annual remuneration as in the previous term. However, the Metso Board of Directors decided to waive their fixed annual remuneration and hence were paid meeting fees only.

Metso Board remuneration from January 1 to June 30, 2020

EUR	Annual fee	Amount for share acquisitions	Cash reward portion	Meeting fees	Total
Mikael Lilius	0	0	0	5,600	5,600
Christer Gardell	0	0	0	5,600	5,600
Peter Carlsson	0	0	0	5,600	5,600
Lars Josefsson	0	0	0	5,600	5,600
Antti Mäkinen	0	0	0	5,600	5,600
Kari Stadigh	0	0	0	4,800	4,800
Arja Talma	0	0	0	5,600	5,600
Raimo Brand [1]	–	–	–	–	–
Total					38,400

[1] Mr. Brand has attended meetings as a personnel representative, without voting right.

3. Remuneration of the President and CEO

The compensation for President and CEO is decided by the Board of Directors in accordance with the Remuneration policy. The compensation includes base salary, benefits, supplementary pension, short- and long-term incentives paid during evaluation period.

3.1. Neles President and CEO from July 1 to December 31, 2020

Base salary and fringe benefits. The President and CEO, Mr Olli Isotalo was paid a base salary including fringe benefits (mobile phone and medical insurance) without any variable short-term or long-term incentives.

Supplementary contribution-based pension plans. The President and CEO's supplementary pension contribution amounts to 20% of his annual base salary. The President and CEO's retirement age is 64 years and 4 months.

Annual Bonus 2020. The short-term incentive measures were Orders Received, EBITA, Free Cash Flow and individual performance targets. The President and CEO achieved 10.6% of his targets which transforms to an annual bonus of 8.48% of his annual salary and will be paid EUR 40,724 in April 2021.

One-off retention bonus. A customary one-off retention bonus was granted by the Board of Directors to the President and CEO in connection with the public tender offer for Neles and any potential competing bids arising therefrom, including any subsequent corporate transactions. The retention bonus thresholds were linked to the announcement of the tender offer, the commencement of the tender offer period and the completion of, or ongoing assistance with, the tender offer or any competing bids including subsequent corporate transactions arising therefrom until June 30, 2021.

The maximum amount that can be earned from the retention bonus is six months' salary. On December 31, 2020 the President and CEO had earned an amount equivalent to four months' salary. The retention bonus will be paid in July 2021 provided that the President and CEO has not terminated his employment contract with the company on or before June 30, 2021. Whilst the retention bonus was a temporary deviation to the company's Remuneration Policy, the policy contemplates deviations in connection with corporate transactions..

Neles Performance Share Plans ("PSP") 2020–2022 and 2021–2023 were decided on in 2020. The key performance measures are relative TSR (weight 50%) and EPS (weight 50%). Performance periods of the plans will run until the end of 2022 and 2023 respectively. No earnings were vested based on the plans in 2020. The possible earnings will be paid out at the earliest in Q1 2023 (PSP 2020–2022) and in Q1 2024 (PSP 2021–2023). The maximum allocation for the President and CEO in both plans is 75,750 Neles shares (value of 150% of his annual base salary).

Cost saving contribution. As part of the Covid-19 pandemic cash saving actions the President and CEO has given up his holiday pay for 2020 and taken a reduction of 10% of his base salary during the months of August and September.

Neles President and CEO remuneration from July 1 to December 31, 2020

2020, EUR	Annual salary and benefits	Short-term incentive	Long-term incentive in cash	Long-term incentive in shares	Supplementary contribution based pension plan	Total	Share of fixed remuneration
Olli Isotalo, CEO	233,445	–	–	–	50,425	283,945	100%

3.2. Remuneration of the President and CEO of Metso, January 1 – June 30, 2020

In 2020, Metso's President and CEO, Mr Pekka Vauramo, was paid an annual base salary with fringe benefits (mobile, car and housing), the 2019 annual bonus (a short-term incentive) and a supplementary pension plan contribution. No long-term incentives were paid. Short-term incentive plan targets for 2019 were Operative Value Added (OVA), Orders Received and Free Cash Flow. The targets achieved transformed to a bonus of 54% of his annual salary.

Metso's President and CEO accepted a 50% reduction of one month's salary to contribute in cash saving actions.

Metso President and CEO remuneration from January 1 to June 30, 2020

2020, EUR	Annual salary and benefits	Short-term incentive	Long-term incentive in cash	Long-term incentive in shares	Pension plan	Total	Share of fixed remuneration	Share of variable remuneration
Pekka Vauramo, CEO	366,838	404,625	–	–	103,125	874,588	54%	46%

Sustainability

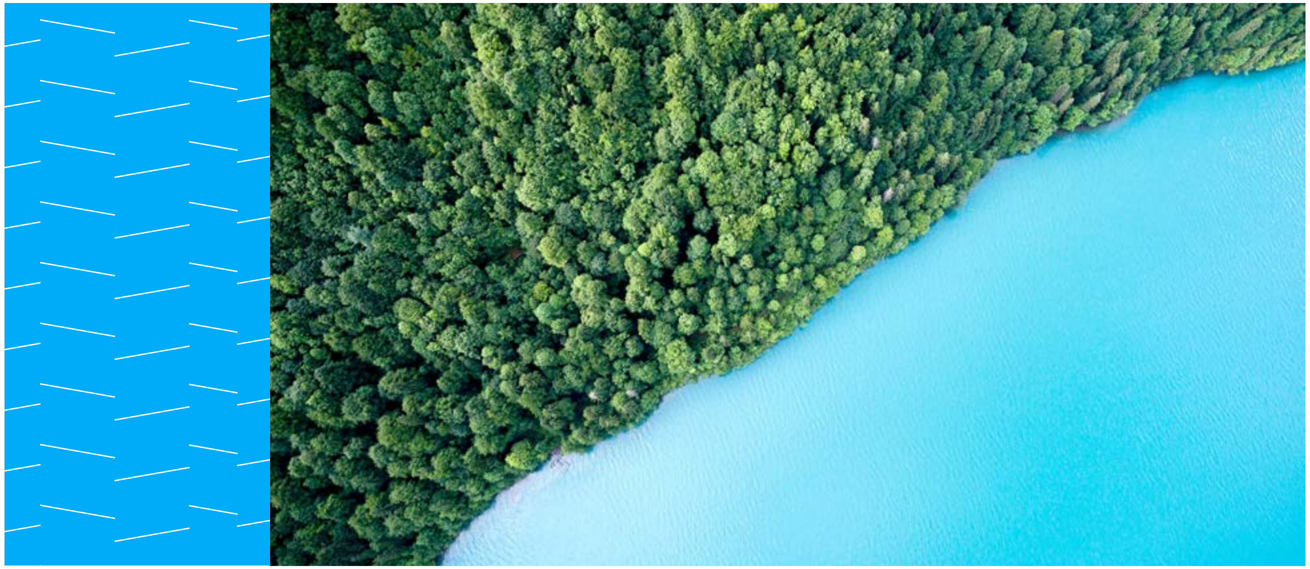
Neles' Sustainability section presents the company's most material sustainability view points.

Sustainability agenda at Neles

Neles' Sustainability report presents the company's most material sustainability view points following the materiality analysis conducted as part of the previous Metso organization.

Neles' sustainability agenda with its action plans and targets are aligned with the United Nation's Sustainable Development Goals (SDGs). The most relevant SDGs contributing to our sustainable productivity in line with our sustainability targets are below.

Neles – reliable partner offering sustainable solutions



Our goal within the sustainability sphere is to be a reliable partner offering sustainable solutions. We protect people, process performance and the planet by prioritizing safety and sustainability in everything we do. We have set our long-term sustainability targets to respond to global megatrends, driving more focus on sustainable business operations that impact all our stakeholders.

Neles' sustainability agenda is embedded into everything we do and integrated into our HSEQ management system to ensure internal efficiency and consistency. We set our targets to drive for a brighter tomorrow in three focus areas: **Health and safety**, **Environment**, **Society and People**.

In 2020, one of our greatest achievements was our Lost Time Incident Frequency (LTIF) score improving to 1.3 (2019: 1.5) in December. Read more on page 128.

Sustainability and HSEQ targets

Topic	Targets	Progress in 2020
Health and safety		
Accident rate	Solid safety culture towards zero harm	LTIF was 1.3 (in 2019: 1.5). Half-year (July – December) without incidents leading to non-working days.
Safety part of everyday work life	Individual HSE target of 2 risk observations per employee Safety conversations by managers	7,992 risk observations in 2020 (+7.35% from 2019). 73% of managers conducted safety conversations (a 5% increase from 2019).
	Regular HSE audits and corrective actions	97% planned actions completed to prevent the injuries from recurring. 6 production plants and 9 service locations were audited for HSE in 2020.
Training and awareness	8 hours of HSE training per employee	HSE training framework based on both local and global regulations, industry standards and best practices, as well requirements of employees, contractors, and customers in place. Meeting minimum safety standards and completing the safety training are mandatory for all employees.
R&D	Product safety always covered	100% of R&D projects had product safety included in 2020.
	Sustainable materials in use	100% of R&D projects had sustainability targets included.
Environment		
Energy consumption	Reduction of energy consumption for each factory	Reduced energy consumption in own operations from 19 TJ (2019) to 16 TJ due to Covid-19 pandemic-related drop in use of energy.
Reduction of water and waste	Reduction of water and waste for each factory	Water consumption reduced by 31% from 42 m^3 (2019) to 29 m^3. Hazardous waste reduced by 27% from 2019. Non-hazardous waste reduced by 21% from 2019.
Reduction of emissions (2019 baseline)	Logistics: -20% CO_2 by 2025 Production: -25% CO_2 by 2030	Logistics: 2020 reduction of emissions compared to year 2019 4,879 tCO_2 (20%). Production: 2020 reduction of emissions compared to year 2019 0.16 tCO_2 (1.6%).
R&D	Sustainability targets for R&D	100% of R&D projects had set sustainability targets.
Society and people		
Supplier assessments and audits	Long-term targets: Sustainability assessments conducted on 95% of Suppliers in higher risk areas by 2022	1 supplier sustainability audit performed by a third-party organization, 11 supplier sustainability audits by Neles' own, internal assessment team.
Supplier Code of Conduct	Long-term target: 90% of suppliers in terms of spend sign Supplier Code of Conduct by 2022. 2020 target: 60% sign Supplier Code of Conduct	67% signed Supplier Code of Conduct in 2020.
Reduction of emissions	20% of suppliers set emission targets by 2025	Not available
Code of Conduct	All employees trained biennially	88% of employees received Neles Code of Conduct training in December 2020.

Sustainable solutions for reliable customer experience

We redefine sustainability and, together with our customers, create a business eco-system that performs beyond the accepted norms.

Global megatrends, such as growing demand for materials, safe and reliable production, and tighter environmental legislation, put pressure on more sustainable operations within process industries. Industrial manufacturers face the common challenge of how to produce more with less and in an environmentally friendly and responsible way while maintaining profitability. These megatrends have also determined the key priorities of Neles' sustainability agenda.

For years, Neles has developed its products, services, and solutions that create value for its customers by improving the efficiency, safety, and quality of their processes and help them to perform responsibly in terms of process waste, emissions and maintenance.

The great results we have achieved in collaboration with our customers benefit our customers and the local communities within their operating and production environments.

Klabin stabilizes its pulp mill production with Neles' solution

Klabin's Ortigueira mill is a large, complex industrial plant in Brazil that simultaneously produces short-fiber pulp (eucalyptus), long-fiber pulp (pine) and fluff pulp (the basis for diapers and absorbents). With the help of Neles' performance solutions, process variabilities were reduced within two years from the variable average of 25–30% to an average of 1.5%, bringing the needed reliability and achieving the goal of chemical savings.
Read the full story at neles.com

SCA pulp and paper plant sets new standards

Sustainability and high plant availability are the main requirements of the paper and pulp industry. This is true also SCA, which operates its largest European integrated plant for the manufacture of tissue products in Germany. To minimize potential component and system downtime, SCA conducts scheduled system shutdowns twice a year. Neles' valve technology has extended the service life of valves from one year to one-and-a-half years without damage or restrictions.
Read the full story at neles.com

Neles' valve expertise secures Naantali power plant's reliability

The power plant process involves challenging conditions, and the plant must remain on stream continuously. The customer Turun Seudun Energiatuotanto Oy (TSE) has made a long-term plan to reduce emissions; since 2019, the power plant has used biofuel as the main source of energy. With Neles' valve solutions, the customer is able to keep its power plant in operation efficiently and responsibly. Read the full story at neles.com

Health and safety

Building a solid safety culture towards zero harm

Neles prioritizes the health and safety of its customers, employees, and partners. Our goal is zero harm for everyone, and we aim to build a solid safety culture, where safety is embraced by everyone in their daily work. We continuously improve our way of working by

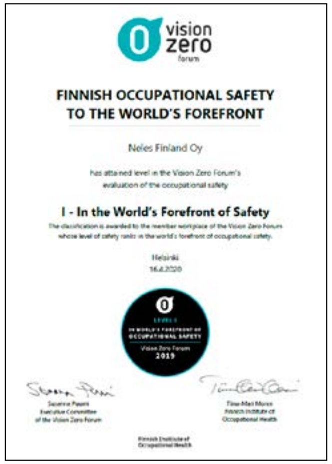
- observing potential risks
- reporting near misses and following up with corrective, and preventive actions to avoid incidents
- learning from colleagues by having safety conversations and sharing best practices
- training employees on safety standards and providing self-study materials on safety excellence
- regularly auditing main production sites

In 2020, a total of 7,992 risk observations were reported, an increase of 7.9% from the previous year. In addition, 62% of Neles employees completed their risk observation target in their annual review target setting.

We also care about how easy it is to install or service our equipment in the process pipeline. We take our safety approach further by innovating and developing solutions that are future-proof, elevating the safety of our customer operations and offering reliability. Product safety is always one of the main drivers in all our R&D projects.

One of our proudest accomplishments in 2020 was a favorable trend in our Lost Time Incident Frequency (LTIF), which was down to 1.3 (2019: 1.5) at the end of the year, topping the global industry benchmarking companies.

Safety comes first. Our supply center in Vadodara, India reached a remarkable safety record of three accident-free years on August 12, 2020.



The Vision Zero Forum is a Finnish national network of workplaces that share a common vision of becoming leaders in occupational health and safety and are willing to share their experiences for the benefit of other members. Neles' valve technology center in Vantaa, Finland, ranked the highest scores in 2020 and is committed to sharing best practices, ideas and learnings for the benefit of others.

Hitting a safety record of three accident-free years at Vadodara, India, amid global Covid-19 pandemic challenges

August 12, 2020, marked the three-year milestone of zero safety incidents at our supply center in Vadodara, India corresponding to 1,095 days of zero Lost Time Incidents. The common objective of zero harm is being embraced by all employees who are making this approach a daily habit. The Vadodara supply center serves the Indian domestic market with top works production, and the center also has assembly, services, spare parts, and warehouse operations. Even though the global Covid-19 pandemic caused additional challenges to the normal daily work routines, requiring more flexibility and new ways of working, and leading to sudden changes in work priorities to maintain our commitment to providing superior service and support for our customers, our team treated safety as a top priority with no compromises during these challenging times.

Neles' manufacturing operations in Finland recognized for long-term safety work

On April 16, 2020, Neles' manufacturing operations in Finland received recognition for its long-term safety work from 445 peer companies belonging in Vision Zero Forum, a network of Finnish companies aiming for continuous health and safety improvements at work. The Forum is coordinated by Finnish Institute of Occupational Health. The member organizations are surveyed every year, and, in 2020, Neles scored the highest in the category *In the World's Forefront of Safety.*

Key conclusions

Safety success requires long-term dedication and continuous effort to observe, audit, communicate and train safety standards. Safety conversations and risk observations are the most powerful tools to prevent incidents from happening. With careful planning and quick problem-solving skills we can overcome the challenges caused by the Covid-19 pandemic.

Environment

Minimizing the environmental load

We care about our environmental footprint throughout the product lifecycle. Our goal is to minimize the environmental impact from our own operations and to ensure the same from our suppliers and partners. Our ambition is to achieve zero harm for the environment.

Our operations are at a good level in terms of energy and water consumption and the amount of waste and emissions. Still, we are improving our environmental efficiency with focused actions at non-production sites, and by leveraging circular economy opportunities. Our aim is to further reduce energy and water consumption as well as the amount of waste at each manufacturing location. We are aiming to reduce our carbon dioxide emissions in logistics by 20% by 2025 and in our production by 25% by 2030.

We have also set sustainability targets for all our research and development (R&D) projects to provide our customers with environmental compliance; among the sustainability targets are, e.g., using sustainable materials and reducing process waste.

In 2020, Neles operations had zero environmental incidents.

Recycling wood waste at the valve technology center in Vantaa, Finland

In 2020, our valve technology center in Vantaa, Finland achieved a 10% increase in its wood waste recycling resulting in hundreds of tons of wood waste being recycled. Wood waste can be reused as a raw material for particleboards. The carbon in the waste wood is sequestered in the final product instead of being released into the atmosphere, as is the case when burning the wood.

The CO_2 difference in favor of particleboard production is significant, i.e. more than 1,300 kgCO_2e per ton of recycled wood chips. In addition, particleboard can still be recycled at the end of its life cycle or used as fuel.

The new painting line's VOC and emission control system has so far achieved an emission reduction of 27 mg/m^3 of the targeted 60 mg/m^3 Chinese standard.

Investing in a more sustainable environment at our new valve technology center in Jiaxing, China

In July 2020, Neles opened its new, state-of-the-art valve technology center in Jiaxing, China to further strengthen production capabilities and increase availability to customers across various process industries, in China and globally. The Jiaxing manufacturing operations use the latest technologies for efficient and environmentally-friendly mass production of high-volume standard valve products. The principle has been to ensure the most reliable and emission-free production processes. For example, the liquid recycling system at Jiaxing allows 95% of the liquids used in machining or testing processes to be reused, thereby minimizing the formation of hazardous substances. With the Regenerative Thermal Oxidizer in use, the painting process is up to 99% organic compound free. The valve technology center also invested in a new painting line with a Volatile Organic Compound and emission control system to support the target of emission-free production. To align with the company's policy on energy reduction, solar panels were installed. The valve technology center produces more than 100,000 valves per year.

Solar panels installed on the technology rooftop have produced 26% of the total energy consumption, exceeding the planned target output.

The Neles team gathered for the inauguration festivities in Jiaxing. Jiaxing employs ~220 people

In 2020, carbon dioxide emissions in logistics decreased by 20%

Vantaa technology center in Finland has successfully recycled wood waste.

Fixing pressurized air leaks at the valve technology center in Shrewsbury, USA

The valve technology center in Shrewsbury, USA, is a central hub serving North American customers since 1954. Air leakage in the manufacturing operations was noticed in 2019; planning the corrective actions started in the first quarter of 2020 by first identifying where the air leaks were happening, such as hoses, fittings and equipment, and then by the actual repair work. The investment to increase the efficiency of a compressed air system led to a decrease in energy consumption totaling 114,757 kilowatt hours as well as reduced carbon emissions supporting environmental objectives according to the ISO14001 management system.

Compressed air system generators

Identified and tagged air leak

Society and people

Making our mark in communities

In 2020, Neles joined the United Nations Global Compact program and built our sustainability reporting to meet legislative requirements. Within the UN Global Compact program we are committed to compliance with the UN Declaration of Human Rights and UN Guiding Principles on Human Rights. We also support and operate according to the principles described in the OECD Guidelines for Multinational Enterprises and the International Labor Organization's (ILO) Declaration of Fundamental Principles and Rights at Work.

Living by the Code

Neles' Code of Conduct is a foundation for all employees to work according to commonly accepted principles and with integrity beyond what is mandated by laws and regulations.

Throughout December 2020, all employees and partners were able to self-study key aspects of Neles' Code of Conduct via eLearning. By the end of the year, 88% of our employees and partners had completed the online course.

The Code of Conduct is included in the onboarding process of new employees, and it will be updated every second year to reflect operating environment changes impacting Neles' businesses.

In 2020, the participation rate in Code of Conduct training was 88%.

Learning and development

Learning and development at Neles consists of learning both in formal and informal settings. We believe that curiosity is key to our sustainable growth. We offer a wide range of learning opportunities at Neles Learning, an online platform providing self-study courses and materials for continuous personal and professional growth and development.

We encourage our employees to discover their potential by exploiting learning opportunities on the job and with colleagues and managers. One of the most important tools for steering an employee's career aspirations is the annual Performance and Development Discussions with one's own manager.

We conduct also formal development programs and training on leadership, sales, and products, in addition to safety training.

97% of our employees have conducted annual performance and career development discussions.

Leadership development

Our extensive leadership development portfolio was running throughout 2020 offering leaders formal and informal ways to develop their skills. The portfolio consists of opportunities for on-the-job learning, together with others or through mentoring, coaching, work shadowing and traditional classroom-based training. We believe that developing leadership skills to match with our leadership principles has a direct impact on employee engagement and wellbeing at work.

A global survey, PeoplePulse, was done in 2020 to measure employee engagement and to help teams identify development areas. Approximately 62% of total personnel, mainly those impacted by the partial demerger, were invited to participate in the PeoplePulse survey. According to the survey results, Neles employees were highly committed and able to contribute to the work and team's development with a good level of competences for work performance.

The employee engagement survey response rate was 75% in 2020 (89% in 2019.)

Neles employee net promoter score (eNPS) was 28.3 in 2020 (2019: Valves business area 34.4).

Responsible procurement

Neles' responsible way of operating also extends to suppliers through the Supplier Code of Conduct to ensure quality and sustainability in our supply chain. Neles' Supplier Code of Conduct sets the standards that we expect our suppliers to follow. It covers areas such as health and safety, child and forced labor, human rights, anti-corruption, compliance with laws and regulations, environment, and climate change.

We audit our suppliers regularly, and have set a long-term target of the top 90% of our suppliers in terms of spend having signed our Supplier Code of Conduct. In 2020, 1 supplier sustainability audit was conducted by an external auditor. We carried out 11 supplier sustainability audits with the support of our own internal team and an additional 10 supplier internal assessments. In cooperation with our suppliers, we take part in developing their operations through knowledge sharing on, for example, setting occupational safety performance indicators, developing good chemical usage practices and radiation measurement.

Neles cooperates actively with non-governmental organizations and local communities to build prosperity and wellbeing, to protect the environment, and to support science, research, and education. In 2020, Neles donated a total of 32,000 euros to local communities all around the world.

Setting up a smart class for digital learning at Ramgarh Girls Senior Secondary school.

Improving children's education and conditions in Indian schools with Plan India

A long-time beneficiary of donations has been the work of Plan International in India providing schools with better sanity, fresh water, computers, and tools for children to improve educational conditions. As part of the previous Metso organization, Neles supported the work of Plan India through the building and upgrading of school facilities, including sanitation, the upgrading and equipping of kitchens and dining facilities, setting up smart classes to make the education more digital and interactive, and installing solar panels to ensure regular power supply.

67% of suppliers have signed the Supplier Code of Conduct (2020 target: 60%).

NELES

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