

NELES

Half-Year Review
January–June
2021

Neles' Half-Year Review January–June 2021

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

Overall positive market development, differences between regions and businesses

- Second quarter orders received grew 16% year-on-year. Strong performance in Services and in North America
- Second quarter sales growth 4% year-on-year. Challenges in global logistics, availability of electronic components and customers delaying ongoing project execution postponed sales to second half.
- On July 2, Neles and Valmet announced a plan to merge

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

Summary of key figures

Operative key figures	4–6/21	4–6/20	Change, %	1–6/21	1–6/20	Change, %	2020
EUR million							
Orders received ¹	151.3	130.9	16	305.2	321.8	-5	590.1
Order backlog at end of period	303.9	305.3	0	303.9	305.3	0	270.3
Sales ²	146.2	140.6	4	275.2	277.4	-1	576.3
Adjusted EBITA, continuing operations	19.0	22.9	-17	34.9	39.5	-12	85.0
% of sales	13.0	16.3		12.7	14.3		14.8
Adjustment items ³	1.0	4.3		1.0	5.6		11.3
Operating profit	17.3	17.8	-3	32.4	32.3	0	70.3
% of sales	11.8	12.6		11.8	11.7		12.2
Earnings per share, continuing operations, EUR	0.08	0.08	-	0.15	0.14	7	0.32
Free cash flow	8.2	38.7	-79	27.8	14.8	88	68.7

Balance sheet key figures, IFRS	6/21	6/20	2020
Balance sheet total, EUR million	648.1	631.7	643.8
Net debt, EUR million	88.1	98.8	81.4
Net debt / EBITDA, rolling 12 months	0.9	1.0	0.9
Gearing, %	33.9	39.1	30.9
Personnel at end of period, continuing operations	2,878	2,950	2,840

¹ Of which EUR 106.4 million in 4–6/2021 and EUR 218.8 million in 1–6/2021 (EUR 76.8 million in 4–6/2020 and EUR 184.2 million in 1–6/2020) were for Services and MRO-driven businesses including EUR 41.9 million in 4–6/2021 and EUR 82.4 million in 1–6/2021 (EUR 31.7 million in 4–6/2020 and EUR 68.8 million in 1–6/2020) for Services orders received. Orders received in comparable currencies increased by 21% in 4–6/2021 and by 0% in 1–6/2021.

² Of which EUR 98.8 million in 4–6/2021 and EUR 187.2 in 1–6/2021 (88.8 million in 4–6/2020 and 183.4 million in 1–6/2020) were for Services and MRO-driven businesses including EUR 38.4 million in 4–6/2021 and EUR 69.7 million in 1–6/2021 (EUR 31.4 million in 4–6/2020 and EUR 60.8 million in 1–6/2020) for Services sales. Sales in comparable currencies increased by 9% in 4–6/2021 and by 5% in 1–6/2021.

³ Adjustment items amounted to EUR 1.0 million in 4–6/2021 and in 1–6/2021 (EUR 4.3 million in 4–6/2020 and EUR 5.6 million in 1–6/2020). See Note 5.

President and CEO Olli Isotalo:

Overall market development was positive during the second quarter, but there were differences between markets. The Services business continued its strong momentum that started already in the first quarter in all markets. We also saw good demand for our Valve Controls and Actuators business across market areas. In our project businesses the second quarter was slow, in particular in the Chemicals and Oil & Gas businesses, while Pulp, Paper and Bioproduct activity continued at the same good level as in the first quarter. There is however a healthy pipeline of project opportunities both in Chemicals and Oil & Gas, as well as in Pulp, Paper and Bioproducts projects, many of which we expect to turn into orders in the second half of 2021.

North American business was strong during the second quarter, while APAC orders received were negatively impacted by customers' cost saving activities and delayed project investment decisions in China. The recovery of business in EMEIA was slower than estimated; the pick-up in MRO-driven business and projects was slow, while demand for Services continued to be strong.

The global logistics situation continues to be challenging and impacted our deliveries in the second quarter and is causing some shipments to be delayed until the third and fourth quarter of 2021.

We continuously develop our offering to meet the tightening requirements from customers and to improve the sustainability handprint of our products. We launched our next generation butterfly valve platform in the second quarter. The new platform offers both increased performance and sustainability benefits for our customers such as reduced fugitive emissions, longer periods between services, less complexity, as well as new configurations that were previously unavailable.

One of our strategic aims is to improve our delivery times and delivery accuracy in our project business. To achieve this, we are expanding our technology center in Finland to increase the capacity and reorganize the production flows. This development project was started during the second quarter and is expected to be completed in early 2022.

Market outlook

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

Market activity in Chemicals and Oil & Gas projects was weak in the first half of 2021. The market activity is expected to return to a satisfactory level in the second half of 2021. Postponements of projects and global uncertainties continue to reduce visibility in the Chemicals and Oil & Gas project businesses.

Market activity was satisfactory for the Services and the customer Maintenance, Repair and Operations-driven (MRO) businesses during the first half of 2021. These markets are expected to continue to improve, reaching a good level towards the end of 2021.

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

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

Valmet and Neles to merge creating a leading company with a unique offering for process industries globally

On July 2, Neles and Valmet announced that they had entered into a combination agreement and a merger plan to combine the two companies through an absorption merger whereby Neles would be merged into Valmet. The shareholders in Neles would receive 0.3277 new shares in Valmet for each share they hold in Neles as merger consideration.

The combination is subject to, among other conditions, approval by a majority of two-thirds of the votes cast and shares represented at the respective Extraordinary General Meetings ("EGM") of Valmet and Neles, the obtaining of merger control and other regulatory approvals, and an extra distribution of funds in the amount of EUR 2.00 per share to the shareholders in Neles prior to the completion of the merger. The completion is expected to occur on or about January 1, 2022, subject to all conditions for completion being fulfilled.

Covid-19 pandemic update

In 2020, the Services and other MRO-driven businesses were negatively impacted by pandemic-related mobility restrictions and our customers' tight cash management. Especially large maintenance shutdowns were postponed. The global situation in the Services and MRO-driven businesses has been clearly improving in the first half of 2021, but uncertainties and risks in certain regions are expected to continue into the second half of 2021, while the overall business activity in these segments is expected to continue to improve.

In the first quarter of 2021, Neles' Brazilian supply center was temporarily closed due to Covid-19 cases, which caused delays in deliveries and a reduction in sales in the first quarter. The supply center reopened more quickly than initially expected due to attentive management of the situation. Currently, the facility is operating. We had similar challenges in our Indian factories at the beginning of the second quarter, leading to temporary closures. Currently the situation is being carefully managed by local management and the factories are back in operation, prioritizing the health and safety of our employees and partners.

The deferred sales due to the facilities' closure is expected to be recognized during 2021. Neles has operations in several regions where the Covid-19 pandemic continues to cause disruptions. There continue to be risks of similar temporary closures of local Neles operations as those experienced in Brazil and India.

The global logistics situation continues to be challenging. The availability of transportation and difficulties in arranging logistics by Neles or its customers has caused delays in our deliveries. In addition, we have experienced shortages of electronic components causing delays in deliveries. We expect to catch up with these delays during the second half of 2021, but risks related to the logistics situation continue.

Since the second quarter of 2020, Neles has taken proactive measures to ensure the safety of employees, control costs and preserve cash flow to protect the company's financial position. The measures have included a variety of enforced safety procedures at manufacturing sites, remote working, travel restrictions, cuts to external spending across the organization, as well as cost-saving and optimization activities.

Increased attention has also been paid to managing net working capital. There have been no material credit losses or order cancellations.

Neles' Half-Year Review January–June 2021

Operating environment

The overall market activity started to improve during the first quarter of 2021. In the second quarter the overall positive development continued, but there were differences between markets. The Pulp, Paper and Bioproducts project business remained active and at a good level during the first half of 2021. Neles won new projects, as well as additional orders for ongoing projects. Chemicals and Oil & Gas project activity was weak throughout the first half. Orders received were clearly below the very strong comparison period in 2020. The Services and MRO-driven businesses environment improved from the weak level of the second half of 2020 to a satisfactory level. Orders received in Services during the first half already corresponded to the 2019 level, while orders received in the MRO-driven business improved sequentially during the first quarter and continued on the same level during the second quarter. Orders received in the MRO-driven business still remain below pre-Covid-19 levels.

The improvement of market sentiment in the North American Market Area continued in the second quarter, and orders received grew by 23.7% in the first half of 2021 compared to the comparison period.

The Services and MRO-driven businesses have clearly improved compared to the first half of 2020 in the EMEIA (Europe, Middle East, India and Africa) and APAC Market Areas. Project business was suppressed in the EMEIA and in APAC regions in the first half of 2021, in particular in the Chemicals and Oil & Gas project businesses. In the comparison period, project orders received in the APAC area were particularly strong. South America Market Area orders received in the first half of 2021 were clearly below the comparison period, during which large Pulp, Paper and Bioproducts project orders were received. Despite the challenging Covid-19 situation, the overall market activity was at a solid level in South America.

Orders and Sales

Orders by market area

EUR million	4–6/21	4–6/20	1–6/21	1–6/20	2020
EMEIA	56.4	53.1	111.1	117.4	224.9
North America	59.9	34.6	114.5	92.6	168.5
South America	10.4	21.3	21.2	39.2	64.6
Asia Pacific	24.7	21.9	58.4	72.6	132.2
Neles total	151.3	130.9	305.2	321.8	590.1

In the second quarter, orders received increased from the comparison period due to growth in Services and MRO-driven businesses. In the second quarter, orders received in Services and MRO-driven businesses totaled EUR 106.4 million in 4–6/21 (EUR 76.8 million in 4–6/20), of which Services orders were EUR 41.9 million in 4–6/21 (EUR 31.7 million in 4–6/20).

In the first half, the decline in orders was due to a decline in project orders across all market areas compared to the very high level in the comparison period. In the reporting period, orders received in Services and MRO-driven businesses totaled EUR 218.8 million in 1–6/21 (EUR 184.2 million in 1–6/20), of which Services orders were EUR 82.4 million in 1–6/21 (EUR 68.8 million in 1–6/20). The order backlog on June 30, 2021 was EUR 303.9 million (EUR 305.3 million).

Sales by market area

EUR million	4–6/21	4–6/20	1–6/21	1–6/20	2020
EMEIA	54.1	52.1	106.4	104.4	223.0
North America	47.5	38.9	91.1	91.7	166.5
South America	14.8	16.0	28.4	23.5	56.9
Asia Pacific	29.8	33.7	49.4	58.0	130.0
Neles total	146.2	140.6	275.2	277.4	576.3

In the second quarter, sales in Services and MRO-driven businesses totaled EUR 98.8 million in 4–6/21 (EUR 88.8 million 4–6/20), of which Services sales were EUR 38.4 million (EUR 31.4 million in 4–6/20). In the reporting period, sales in Services and MRO-driven businesses totaled EUR 187.2 million 1–6/21 (EUR 183.4 million 1–6/20), of which Services sales were EUR 69.7 million (EUR 60.8 million in 1–6/20).

FX impact on orders received and sales

	Orders received		Sales	
	4–6/21	1–6/21	4–6/21	1–6/21
2020, EUR million	130.9	321.8	140.6	277.4
Organic growth in constant currencies	21%	0%	9%	5%
Impact of changes on exchange rates	-5%	-6%	-5%	-6%
Total change	16%	-5%	4%	-1%
2021, EUR million	151.3	305.2	146.2	275.2

In the second quarter, orders received grew by 21% and sales by 9% at constant currencies. Currency exchange rates had a negative impact on the reported orders received and sales. The currency exchange rate impacts were due mainly to the Brazilian real and US dollar.

Financial performance

EUR million	4–6/21	4–6/20	1–6/21	1–6/20	1–12/20
Adjusted EBITA	19.0	22.9	34.9	39.5	85.0
% of sales	13.0	16.3	12.7	14.3	14.8
Amortizations	-0.8	-0.8	-1.6	-1.6	-3.4
Adjustments	-1.0	-4.3	-1.0	-5.6	-11.3
Operating profit	17.3	17.8	32.4	32.3	70.3
% of sales	11.8	12.6	11.8	11.7	12.2
Financial expenses, net	-1.6	-2.4	-2.6	-3.1	-6.5
Income taxes	-3.9	-4.1	-7.3	-7.5	-15.6
Effective tax rate %	-	-	24.5	25.7	24.4
Net profit for the period	11.8	11.3	22.5	21.7	48.2
Earnings per share	0.08	0.08 ¹	0.15	0.14 ¹	0.32 ¹

¹ Earnings per share, continuing operations

In the second quarter, profitability was negatively impacted by low sales due to postponements in deliveries. Despite delivery delays, sales in the second quarter was EUR 5.6 million higher than in the comparison period.

To support the profitability, tight cost control continued during the second quarter. In the comparison period, costs were further lowered by additional Covid-19 pandemic related cost saving actions, which included temporary layoffs, for example. In addition, during the second quarter of 2020 there was a EUR 1 million positive impact due to final adjustments on the partial demerger date.

In the second quarter, adjusted gross profit was EUR 0.7 million higher and SG&A excluding adjustment items increased by EUR 0.7 million compared to the comparison period. Other net operating income and expenses were EUR -2.3 million (EUR 1.3 million), reflecting the impact of non-deductible withholding taxes and currency fluctuations and hedging results.

These resulted in adjusted EBITA being lower in the second quarter of 2021 than in the comparison period at EUR 19.0 million, or 13.0% of sales (EUR 22.9 million, or 16.3% of sales).

In the reporting period, adjustment items were related to mergers and acquisitions. In the comparison period, adjustment items consisted of carve out, IT, rebranding, and establishing and restructuring costs for setting up independent Neles.

Cash flow and investments

EUR million	1–6/21	1–6/20	1–12/20
Cash flow from operating activities	31.3	22.6	81.1
Capital expenditures, net	-3.5	-8.0	-12.4
Free cash flow	27.8	14.8	68.7
Cash conversion, %	124	68	142

In the reporting period, the free cash flow was impacted by the weaker cash flow in the second quarter. In addition, increase in net working capital and taxes paid in the second quarter reduced the free cash flow. Capex consisted of R&D projects, ERP harmonization, and investments in manufacturing capacity.

Neles Corporation has paid in April a payment request of EUR 1.8 million from the Finnish Tax Authority regarding withholding taxes related to the 2015 and 2016 dividend payments. Neles considers the decision of the Finnish Tax Authority to be unfounded and has appealed against it. The payment was made to avoid incurring additional interest costs and increases during the appeals process and it is included in cash flow from financing activities.

Financial position

EUR million	6/21	6/20	12/20
Inventory	177.3	180.8	160.3
Trade receivables	84.0	95.8	88.9
Trade payables	-54.4	-53.7	-59.9
Advances received	-32.2	-24.4	-26.7
Other	-23.2	-38.5	-19.0
Net working capital	151.6	160.0	143.6
Interest bearing liabilities	217.8	213.2	217.3
Other interest bearing assets	-1.8	-	-
Cash and cash equivalents	-127.9	-114.4	-135.9
Net debt	88.1	98.8	81.4
Gearing, %	33.9	39.1	30.9
Equity	259.4	252.8	263.1
Total assets	648.1	631.7	643.8
Equity to assets ratio, %	42.1	41.4	42.6

Neles' balance sheet and liquidity position remained solid. Interest bearing liabilities on June 30, 2021 were EUR 217.8 million (EUR 217.3 million at the end of December 2020), including EUR 48.5 million in lease liabilities (EUR 51.5 million at the end of December 2020). A dividend of EUR 33.1 million was paid on April 8, 2021.

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

In July, Neles signed an EUR 150 million bilateral Term Loan, the purpose of which is to refinance the existing EUR 150 million Term Loan maturing in July 2022. The tenor of the new loan is seven years. Neles Group has no public rating in any ratings agency.

Research and development

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

R&D and IP related expenditure

EUR million	1-6/21	1-6/20	2020
R&D expenditure	8.1	10.4	17.6
of sales, %	3.0	3.6	3.1
Of which expensed	7.3	7.8	14.2
of sales, %	2.6	2.9	2.5

Product launches and new inventions

In the second quarter, Neles launched first products based on a new butterfly valve platform. Neles' versatile butterfly valve platform delivers new functionality while leaning on field-proven technologies and decades of experience to meet the challenges of modern industrial processes. Sustainable, yet profitable performance is the result of design and engineering aimed at minimized emissions and reduced size, weight, and complexity. Neles' reliable valves are designed to deliver long-lasting consistent performance with longer maintenance intervals and fewer shutdowns over the extended valve lifecycle.

The first valve with a 3D printed valve body has been delivered for field testing. As industry standards for 3D printed materials are under development, the field test will provide valuable information on the feasibility of using 3D printing to produce pressure-retaining parts with significantly quicker delivery times. 3D printing also enables more efficient use of materials and optimized flow paths in noise attenuation trims, delivering superior performance compared to conventionally produced trims.

Personnel

At the end of June 2021, Neles had 2,878 employees (June 30, 2020: 2,950; December 30, 2020: 2,840 employees).

Safety

Neles is committed to the continuous improvement of safety with the goal of zero harm.

At the end of the reporting period, Neles achieved its short-term safety KPI target of keeping the Lost Time Incident Frequency (LTIF) rolling 12 months rate below one.

In April, Neles Finland's operations, for the second time in a row, scored the best rating in the Vision Zero Forum's review in the category of occupational safety: Level I. This is at the forefront of occupational safety in the world. The Forum's decision criteria include an improvement in the safety KPIs, especially the Lost Time Incident Frequency. One of the greatest achievements in terms of Neles global safety improvement was a decline of LTIF to the level of 1.3 at the end of 2020, which is the best in Neles' history. In addition to the safety KPIs, the severity of accidents and the level of safety hazard reporting practices play a key role in the forum's decision making. Some 450 Finnish companies participated in the rating.

Injuries in Neles operations, rolling 12 months	6/21	12/20
Lost time incident frequency, LTIF	0.7	1.3

Share-based long-term incentive schemes for key personnel

On January 5, 2021, Neles granted DSUP 2021–2023 as a first individual plan within the DSUP structure to 39 people in Neles' senior management. The reward will be earned through individual-, business-, or company-level performance criteria in 2021. The reward earned in 2021 will be converted to synthetic share units for an approximately two-year share price performance period. The reward is paid thereafter in cash in the spring of 2024, based on Neles' share value at the time of payment.

On February 4, 2021, Neles granted a PSP 2021–2023 plan to the members of the Neles Executive Management Team. The reward is based on the performance targets relative to the total shareholder return of Neles share and earnings per share (EPS) from 2021 to 2023. The reward earned will be paid in shares, and the aggregate maximum number of shares to be paid based on this plan is approximately 277,000 shares.

Additionally, the Board of Directors has decided to pay the earned reward of the DSUP 2018 plan in cash in July 2021. The amount of the cash reward to be paid to 16 persons will be based on the market value of 114,388 shares in the April 15, 2021–April 30, 2021 valuation period.

Neles originally announced the establishment of the long-term incentive scheme on July 1, 2020 and on December 15, 2020.

Neles share-based long-term incentive schemes are as follows:

Jun 30, 2021	Deferred Share Unit Plan 2019	Deferred Share Unit Plan 2021	PSP 2020–2022	PSP 2021–2023
Type of the plan	Equity	Cash	Equity	Equity
Maximum number of shares	69,415	-	280,000	277,000
Grant date	Mar 15, 2019	Jan 5, 2021	Oct 8, 2020	Feb 4, 2021
Grant price	8.10	-	11.58	10.71
Vesting date	May 13, 2022	Mar 31, 2024	Mar 5, 2023	Mar 13, 2024
Share incentives granted Jan 1, 2021	69,145	-	265,510	-
Granted	-	-	-	276,600
Forfeited, released	-	-	-	-
Share incentives granted Jun 31, 2021	69,415	-	265,510	276,600
Number of beneficiaries Jun 31, 2021	19	39	12	13
Neles Executive Team members	9	-	12	13
Other beneficiaries	10	39	-	-

The current share-based long-term incentive schemes reflect the Neles situation as of June 30, 2021, and they will be subject to changes as part of the proposed merger with Valmet.

Shares and share trading

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

A total of 40,175,956 Neles shares was traded on Nasdaq Helsinki in January–June 2021, and the value of the shares traded was approximately EUR 444 million. Neles' market capitalization at the end of June 2021, excluding shares held by the Parent Company, was EUR 1,826 million.

Neles share performance on Nasdaq Helsinki, January 1–June 30, 2021

	1–6/2021
Closing price, Jun 30, 2021	12.16
Highest share price	12.44
Lowest share price	10.03
Volume-weighted average trading price	11.06

Flagging notifications in the reporting period

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

Annual General Meeting, March 26, 2021

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

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

Dividend

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

Remuneration of members of the Board of Directors

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

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

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

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

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

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

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

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

Composition of the Board of Directors

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

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

The members of the Board of Directors are presented in more detail on Neles' website at:

www.neles.com/investors/governance/board/

Election of Auditor and their remuneration

In accordance with the proposal of the Board of Directors, the AGM resolved to re-elect Ernst & Young Oy, authorized public accountants, as auditor for a term ending at the end of the following AGM. Ernst & Young Oy has

notified that Toni Halonen, APA, will act as the principal auditor of the Company. The remuneration for the auditor will be paid against the invoice approved by the Audit Committee.

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

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

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

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

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

The Board of Directors was authorized to decide on all other matters related to the repurchase of the Company's own shares. The authorization is effective until June 30, 2022, and it cancels the authorization given by the AGM on June 16, 2020 to decide on the repurchase of the Company's own shares. This authorization has not been exercised by July 23, 2021.

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

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

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

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

The authorization is effective until June 30, 2022, and it cancels the authorization given by the AGM on June 16, 2020 to decide on the issuance of shares and the issuance of special rights entitling to shares. This authorization has not been exercised by July 23, 2021.

Amendment of the Articles of Association

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

"8 § Place of the shareholders' meeting and advance notice

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

Notice of a shareholders' meeting shall be given to the shareholders by publishing a notice on the Company's website or in one or several widely circulated newspaper/s named by the Board of Directors or otherwise verifiably no earlier than three (3) months and no later than three (3) weeks before the shareholders' meeting, but in any case, at least nine (9) days before the record date of the shareholders' meeting, referred to in Chapter 5, Section 6a of the Companies Act.

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

Organizing meeting

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

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

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

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

Valmet and Neles to merge creating a leading company with a unique offering for process industries globally

On July 2, Neles and Valmet announced that they had entered into a combination agreement and a merger plan to combine the two companies through an absorption merger whereby Neles would be merged into Valmet. The shareholders in Neles would receive 0.3277 new shares in Valmet for each share they hold in Neles as merger consideration.

Shareholders representing approximately 16.9 percent of the shares and votes in Valmet, and shareholders representing approximately 15.4 percent of the shares and votes in Neles, have subject to certain customary conditions irrevocably undertaken to vote in favor of the combination. Together with Valmet, the above-mentioned shareholders in Neles hold approximately 45.0 percent of the outstanding shares and votes in Neles.

The combination is subject to, among other conditions, approval by a majority of two-thirds of the votes cast and shares represented at the respective Extraordinary General Meetings ("EGM") of Valmet and Neles, the obtaining of merger control and other regulatory approvals, and an extra distribution of funds in the amount of EUR 2.00 per share to the shareholders in Neles prior to the completion of the merger. The completion is expected to occur on or about January 1, 2022, subject to all conditions for completion being fulfilled.

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

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

Other main events in H1 2021

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

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

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

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

March 24: Neles gave notification of a temporary closure of its Brazilian supply center due to Covid-19 pandemic cases at the location. The temporary closure of the Brazilian supply center and the consequent delay in sales

recognition in subsequent quarters, the timing of other deliveries in the order backlog, and exchange rate fluctuations were estimated to have a negative impact on first quarter sales. Sales were estimated to have declined by approximately EUR 10 million or more compared to the first quarter of 2020. Delays in sales will be recovered during the rest of the year.

Events after the end of Q2 2021

July 9: Neles signed a EUR 150 million bilateral Term Loan the purpose of which is to refinance existing EUR 150 million Term Loan maturing in July 2022. The tenor of the new loan is seven years.

July 2: Valmet and Neles to merge creating a leading company with a unique offering for process industries globally

July 2: Neles signed a EUR 301 million Bridge-to-bond facility the purpose of which is to finance extraordinary dividend payment prior to the closing of the merger with Valmet. The facility tenor, if executed, is 12 months with two 6-month extension options.

Covid-19 pandemic update

In 2020, the Services and other MRO-driven businesses were negatively impacted by pandemic-related mobility restrictions and our customers' tight cash management. Especially large maintenance shutdowns were postponed. The global situation in the Services and MRO-driven businesses has been clearly improving in the first half of 2021, but uncertainties and risks in certain regions are expected to continue into the second half of 2021, while the overall business activity in these segments is expected to continue to improve.

In the first quarter of 2021, Neles' Brazilian supply center was temporarily closed due to Covid-19 cases, which caused delays in deliveries and a reduction in sales in the first quarter. The supply center reopened more quickly than initially expected due to attentive management of the situation. Currently, the facility is operating. We had similar challenges in our Indian factories at the beginning of the second quarter, leading to temporary closures. Currently the situation is being carefully managed by local management and the factories are back in operation, prioritizing the health and safety of our employees and partners.

The deferred sales due to the facilities' closure is expected to be recognized during 2021. Neles has operations in several regions where the Covid-19 pandemic continues to cause disruptions. There continue to be risks of similar temporary closures of local Neles operations as those experienced in Brazil and India.

The global logistics situation continues to be challenging. The availability of transportation and difficulties in arranging logistics by Neles or its customers has caused delays in our deliveries. In addition, we have experienced shortages of electronic components causing delays in deliveries. We expect to catch up with these delays during the second half of 2021, but risks related to the logistics situation continue.

Since the second quarter of 2020, Neles has taken proactive measures to ensure the safety of employees, control costs and preserve cash flow to protect the company's financial position. The measures have included a variety of enforced safety procedures at manufacturing sites, remote working, travel restrictions, cuts to external spending across the organization, as well as cost-saving and optimization activities.

Increased attention has also been paid to managing net working capital. There have been no material credit losses or order cancellations.

Short-term business risks and market uncertainties

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

The global logistics situation continues to be challenging. During the second quarter, the challenging situation in global logistics continued and is estimated to continue also in the second half of 2021. In addition, there were

shortages of electronics components. These are expected to continue to cause delays in deliveries. We expect to catch up with these delays during the second half of 2021.

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

Market outlook

Market activity in Chemicals and Oil & Gas projects was weak in the first half of 2021. The market activity is expected to return to a satisfactory level in the second half of 2021. Postponements of projects and global uncertainties continue to reduce visibility in the Chemicals and Oil & Gas project businesses.

Market activity was satisfactory for the Services and the customer Maintenance, Repair and Operations-driven (MRO) businesses during the first half of 2021. These markets are expected to continue to improve, reaching a good level towards the end of 2021.

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

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

Vantaa, July 23, 2021
Neles Corporation's Board of Directors

Neles' Half-Year Review: tables

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Consolidated statement of income, IFRS

EUR million	4–6/21	4–6/20	1–6/21	1–6/20	1–12/20
Continuing operations					
Sales	146.2	140.6	275.2	277.4	576.3
Cost of goods sold	-98.7	-94.3	-187.2	-183.4	-386.1
Gross profit	47.5	46.3	88.1	94.0	190.2
Selling and marketing expenses	-15.7	-17.7	-29.9	-36.0	-65.3
Research and development expenses	-3.8	-3.6	-7.3	-7.8	-14.2
Administrative expenses	-8.3	-8.6	-15.9	-16.4	-38.6
Other operating income and expenses, net	-2.3	1.3	-2.7	-1.5	-1.8
Operating profit	17.3	17.8	32.4	32.3	70.3
Financial income and expenses, net	-1.6	-2.4	-2.6	-3.1	-6.5
Profit before taxes	15.7	15.4	29.8	29.2	63.8
Income taxes	-3.9	-4.1	-7.3	-7.5	-15.6
Profit for the period, continuing operations	11.8	11.3	22.5	21.7	48.2
Profit for the period, discontinued operations	-	2,091.4	-	2,149.6	2,149.6
Profit for the period	11.8	2,102.6	22.5	2,171.3	2,197.8
Profit attributable to, continuing operations					
Shareholders of the parent company	11.8	11.3	22.5	21.7	48.2
Non-controlling interests	-	-	-	-	-
Profit attributable to, discontinued operations					
Shareholders of the parent company	-	2,090.9	-	2,149.1	2,149.1
Non-controlling interests	-	0.5	-	0.5	0.5
Profit attributable to					
Shareholders of the parent company	11.8	2,102.1	22.5	2,170.8	2,197.3
Non-controlling interests	-	0.5	-	0.5	0.5
Earnings per share, EUR					
Basic and diluted, continuing operations	0.08	0.08	0.15	0.14	0.32
Basic and diluted, discontinued operations	-	13.93	-	14.32	14.31
Basic and diluted	0.08	14.00	0.15	14.46	14.63

Consolidated statement of comprehensive income, IFRS

EUR million	4-6/21	4-6/20 *)	1-6/21	1-6/20	1-12/20
Continuing operations					
Profit for the period	11.8	-	22.5	21.7	48.2
Other comprehensive income					
Measurement at fair value, net of tax	-	-	-	0.0	-
Currency translation on subsidiary net investments	-3.4	-	7.2	0.3	-15.6
Items that may be reclassified to profit or loss in subsequent periods	-3.4	-	7.2	0.3	-15.6
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	0.0	2.2
Items that will not be reclassified to profit or loss	-	-	-	0.0	2.2
Other comprehensive income total	-3.4	-	7.2	0.3	-13.4
Total comprehensive income, continuing operations	8.4	-	29.6	22.0	34.8
Profit attributable to, continued operations					
Shareholders of the parent company	8.4	-	29.6	22.0	34.8
Non-controlling interests	-	-	-	-	-
Total comprehensive income, discontinued operations	-	-	-	2,097.3	2,098.3
Profit attributable to, discontinued operations					
Shareholders of the parent company	-	-	-	2,096.9	2,097.9
Non-controlling interests	-	-	-	0.5	0.5
Total comprehensive income	8.4	-	29.6	2,119.4	2,133.2
Profit attributable to					
Shareholders of the parent company	8.4	-	29.6	2,121.5	2,132.7
Non-controlling interests	-	-	-	-2.1	0.5

*) Neles demerger was effective June 30, 2020 and therefore the comparative figures for Q2 quarter are not available

Consolidated Balance Sheet – Assets, IFRS

EUR million	6/21	6/20	12/20
Non-current assets			
Intangible assets			
Goodwill	58.2	60.3	57.3
Other intangible assets	16.7	17.3	16.6
Total intangible assets	74.9	77.6	73.9
Tangible assets			
Land and water areas	5.6	5.8	5.5
Buildings and structures	22.0	19.0	22.1
Machinery and equipment	32.2	26.0	30.5
Assets under construction	1.1	13.5	4.2
Total tangible assets	60.9	64.2	62.3
Right-of-use assets	47.1	40.9	50.5
Other non-current assets			
Non-current financial assets	2.0	0.3	0.2
Deferred tax asset	17.9	16.6	17.9
Other non-current receivables	12.1	1.7	12.0
Total other non-current assets	32.0	18.6	30.6
Total non-current assets	214.9	201.3	217.3
Current assets			
Inventories	177.3	180.8	160.3
Trade receivables	84.0	95.8	88.9
Derivative financial instruments	-	0.0	0.0
Income tax receivables	4.7	2.4	4.0
Other current receivables	39.3	37.1	37.4
Cash and cash equivalents	127.9	114.4	135.9
Total current assets	433.2	430.4	426.5
TOTAL ASSETS	648.1	631.7	643.8

Consolidated Balance Sheet – Equity and liabilities, IFRS

EUR million	6/21	6/20	12/20
Equity			
Share capital	51.0	51.0	51.0
Treasury shares	-3.3	-3.3	-3.3
Cumulative translation adjustments	43.3	52.0	36.1
Fair value and other reserves	30.0	31.3	31.3
Retained earnings	138.3	121.0	148.0
Equity attributable to shareholders	259.3	252.0	263.0
Non-controlling interests	0.1	0.7	0.1
Total equity	259.4	252.8	263.1
Liabilities			
Non-current liabilities			
Interest bearing liabilities	149.8	149.7	149.7
Lease liabilities	37.9	32.4	40.7
Post-employment benefit obligations	22.1	13.9	20.7
Provisions	1.4	1.4	2.4
Deferred tax liability	4.1	3.6	2.7
Other non-current liabilities	0.3	0.3	0.3
Total non-current liabilities	215.7	201.2	216.4
Current liabilities			
Interest bearing liabilities	19.5	22.0	16.1
Lease liabilities	10.6	9.1	10.8
Trade payables	54.4	53.7	59.9
Provisions	9.9	10.7	8.6
Advances received	32.2	24.4	26.7
Derivative financial instruments	1.4	0.2	1.4
Income tax liabilities	5.5	6.5	5.4
Other current liabilities	39.6	51.1	35.4
Total current liabilities	173.0	177.7	164.3
Total liabilities	388.8	379.0	380.7
TOTAL EQUITY AND LIABILITIES	648.1	631.7	643.8

Net interest-bearing liabilities

EUR million	6/21	6/20	12/20
Interest bearing liabilities	169.3	171.6	165.9
Lease liabilities	48.5	41.5	51.5
Other interest bearing assets	-1.8	-	-
Cash and cash equivalents	-127.9	-114.4	-135.9
Net interest-bearing liabilities	88.1	98.8	81.4

Consolidated statement of changes in shareholders' equity, IFRS

EUR million	Share capital	Treasury shares	Cumulative translation adjustments	Fair value and other reserves	Retained earnings	Equity attributable to shareholders	Non-controlling interests	Total equity
Jan 1, 2021	51.0	-3.3	36.1	31.3	148.0	263.0	0.1	263.1
Profit for the period	-	-	-	-	22.5	22.5	-	22.5
Other comprehensive income								
Currency translation on subsidiary net investments	-	-	7.2	-	-	7.2	-	7.2
Total comprehensive income	-	-	7.2	-	22.5	29.6	-	29.6
Dividends	-	-	-	-	-33.1	-33.1	-	-33.1
Share-based payments, net of tax	-	-	-	-1.2	1.0	-0.2	-	-0.2
Other items	-	-	-	-	0.0	0.0	0.0	0.0
Jun 30, 2021	51.0	-3.3	43.3	30.0	138.3	259.3	0.1	259.4

EUR million	Share capital	Treasury shares	Cumulative translation adjustments	Fair value and other reserves	Discontinued operations	Retained earnings	Equity attributable to shareholders	Non-controlling interests	Total equity
Jan 1, 2020	141.0	-6.2	51.7	303.8	-154.8	1,187.5	1,522.9	2.8	1,525.7
Profit for the period, continuing operations	-	-	-	-	-	21.7	21.7	-	21.7
Profit for the period, discontinued operations	-	-	-	-	-	2,149.6	2,149.6	0.5	2,150.0
Other comprehensive income									
Cash flow hedges, net of tax	-	-	-	0.0	-	-	0.0	-	0.0
Currency translation on subsidiary net investments	-	-	0.3	0.0	-52.8	0.0	-52.5	0.0	-52.5
Discontinued operations	-	-	0.0	1.1	0.0	-	1.1	-	1.1
Total comprehensive income	-	-	0.3	1.1	-52.8	2,171.3	2,119.9	0.5	2,120.4
Dividends	-	-	-	-	-	-220.8	-220.8	-	-220.8
Distributed assets in the demerger at fair value	-	-	-	-	-	-3,171.1	-3,171.1	-	-3,171.1
Effect of demerger	-90.0	-	-	-273.5	207.6	155.8	0.0	-2.6	-2.6
Share-based payments, net of tax	-	2.9	-	-1.0	-	-4.5	-2.7	-	-2.7
Other items	-	-	-	0.9	-	2.9	3.8	0.0	3.9
Jun 30, 2020	51.0	-3.3	52.0	31.3	0.0	121.0	252.0	0.7	252.8

Consolidated statement of cash flows, IFRS

EUR million	4–6/2021	4–6/2020	1–6/2021	1–6/2020	1–12/20
Operating activities					
Profit for the period, continuing operations	11.8	11.3	22.5	21.7	48.2
Profit for the period, discontinued operations	-	2,091.4	-	2,149.6	2,149.6
Adjustments					
Depreciation and amortization	5.9	6.2	12.1	12.0	24.5
Financial expenses, net	1.6	11.8	2.6	14.2	17.5
Income taxes	3.9	32.3	7.3	54.8	62.9
Fair value of distributed net assets in the demerger	-	-2,022.2	-	-2,022.2	-2,022.2
Other items	1.1	3.8	2.7	4.7	5.4
Change in net working capital	-7.2	141.2	-6.0	158.3	202.6
Net cash flow from operating activities before financial items and taxes	17.1	275.4	41.2	393.1	488.4
Financial income and expenses paid, net	-2.0	-12.0	-2.5	-15.9	-21.4
Income taxes paid	-5.2	-16.2	-7.3	-40.8	-51.4
Net cash flow from operating activities	9.9	247.2	31.3	336.5	415.7
Investing activities					
Capital expenditures on intangible and tangible assets	-2.0	-23.4	-3.8	-49.7	-54.3
Proceeds from sale of intangible and tangible assets	0.3	-0.2	0.3	1.0	1.1
Business acquisitions, net of cash acquired	-	-	-	0.9	0.9
Net cash flow from investing activities	-1.7	-23.6	-3.5	-47.9	-52.3
Financing activities					
Dividends paid	-33.1	-194.8	-33.1	-194.8	-220.8
Investments in financial assets	0.5	-	0.5	-	-0.5
Change in loan receivables, net	-1.8	-	-1.8	-	-
Proceeds from and repayment of debt, net	-0.9	-3.6	3.2	147.2	142.4
Repayments of lease liabilities	-2.8	-7.8	-5.6	-16.5	-23.4
Financing, Metso Group	-	-	-	-	-13.9
Net cash flow from financing activities	-38.1	-206.1	-36.8	-64.1	-116.2
Net change in cash and cash equivalents	-29.9	17.5	-9.0	224.8	247.6
Effect from changes in exchange rates	0.0	-3.6	1.0	-11.3	-12.4
Cash and cash equivalents transferred in demerger	-	-312.4	-	-312.4	-312.4
Cash and cash equivalents at beginning of period	157.8	412.9	135.9	213.1	213.1
Cash and cash equivalents at end of period	127.9	114.4	127.9	114.4	135.9

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

Analysis of consolidated statement of cash flows of continued Neles operations

This analysis table shows the continuing Neles cash flow statements for the 1–6/2020 and 1–12/2020 periods in this January 1–June 30, 2021 half-year report, in addition to IFRS financial information.

EUR million	1–6/21	1–6/20	1–12/20
Operating activities			
Profit for the period	22.5	21.7	48.2
Adjustments			
Depreciation and amortization	12.1	12.0	24.5
Financial expenses, net	2.6	3.1	6.5
Income taxes	7.3	7.5	15.6
Other items	2.7	-13.3	-12.6
Change in net working capital	-6.0	-6.4 ¹	17.1 ¹
Net cash flow from operating activities before financial items and taxes	41.2	24.7	99.2
Financial income and expenses paid, net	-2.5	-0.9	-6.4
Income taxes paid	-7.3	-1.2	-11.8
Net cash flow from operating activities	31.3	22.6	81.1
Investing activities			
Capital expenditures on intangible and tangible assets	-3.8	-8.0	-12.6
Proceeds from sale of intangible and tangible assets	0.3	0.1	0.2
Acquisitions/divestments, Metso Group	-	-	-
Net cash flow from investing activities	-3.5	-8.0	-12.4
Financing activities			
Dividends paid	-33.1	-39.0	-44.2
Investments in financial assets	0.5	-	-0.5
Change in loan receivables, net	-1.8	-	-
Proceeds from/repayments of short-term debt, net	3.2	2.8	-2.1
Financing, Metso group	-	84.4 ¹	70.6 ¹
Lease payments	-5.6	-4.4	-11.3
Net cash flow from financing activities	-36.8	43.9	12.6
Net change in cash and cash equivalents	-9.0	58.6	81.3
Effect from changes in exchange rates	1.0	-1.0	-2.1
Cash and cash equivalents at beginning of period	135.9	56.7	56.7
Cash and cash equivalents at end of period	127.9	114.4	135.9

Free cash flow

EUR million	1–6/21	1–6/20	1–12/20
Cash flow from operating activities	31.3	22.6	81.1
Capital expenditures on intangible and tangible assets	-3.8	-8.0	-12.6
Proceeds from sale of intangible and tangible assets	0.3	0.1	0.2
Free cash flow	27.8	14.8	68.7

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

Notes to the Half-Year Review

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1. Basis of preparation

This Financial Statement review has been prepared in accordance with IAS 34 *Interim Financial Reporting*, applying the accounting policies in the Financial Statements 2020 of Neles Group. New accounting standards have been adopted as described in note 2. This Half-Year Review is unaudited.

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

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

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

2. New accounting standards

New and amended standards adopted in 2021

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

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

3. Key figures

	1–6/21	1–6/20	1–12/20
EUR million			
Sales	275.2	277.4	576.3
Services sales	69.7	60.8	128.6
% of sales	25.3	21.8	22.3
Adjusted EBITA	34.9	39.5	85.0
% of sales	12.7	14.3	14.8
Operating profit	32.4	32.3	70.3
% of sales	11.8	11.7	12.2
Profit for the period, continuing operations	22.5	21.7	48.2
Profit for the period, discontinued operations	-	2,149.6	2,149.6
Profit for the period	22.5	2,171.3	2,197.8
Earnings per share			
Continuing operations:			
Earnings per share, basic, EUR	0.15	0.14	0.32
Earnings per share, diluted, EUR	0.15	0.14	0.32
Discontinued operations:			
Earnings per share, basic, EUR	-	14.32	14.31
Earnings per share, diluted, EUR	-	14.32	14.31
Total:			
Earnings per share, basic, EUR	0.15	14.46	14.63
Earnings per share, diluted, EUR	0.15	14.46	14.63
Cash flow			
Free cash flow, continuing, EUR million	27.8	14.8	68.7
Free cash flow/share, continuing, EUR	0.19	0.10	0.46
R&D expenditure, EUR million	8.1	10.4	17.6
% of sales	3.0	3.6	3.1
Gross capital expenditure, EUR million	3.8	8.0	12.6
% of sales	1.4	2.9	2.2
Amortization, EUR million	1.6	1.6	3.4
Depreciation of tangible assets, EUR million	4.7	4.6	9.1
Depreciation of right-of-use assets, EUR million	5.9	5.8	11.9
Adjustment items, EUR million ¹	1.0	5.6	11.3
Balance sheet			
Balance sheet total, EUR million	648.1	631.7	643.8
Equity attributable to shareholders, EUR million	259.3	252.0	263.0
Equity per share, EUR	1.73	1.68	1.72
Equity-to-assets ratio, %	42.1	41.4	42.6
Net debt, EUR million	88.1	98.8	81.4
Gearing, %	33.9	39.1	30.9
Net debt / EBITDA	0.9	1.0	0.9
Debt to capital ratio, %	45.6	45.7	45.2
Number of outstanding shares at end of period (thousands)	150,197.9	150,197.9	150,197.9
Average number of shares (thousands)	150,197.9	150,160.4	150,179.3
Average number of diluted shares (thousands)	150,197.9	150,214.6	150,179.3
Personnel at the end of period	2,878	2,950	2,840

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

Formulas for key figures

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

4. Disaggregation of sales

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

External sales by product type

EUR million	4–6/21	4–6/20	1–6/21	1–6/20	1–12/20
Products/equipment	107.8	109.3	205.5	216.7	447.8
Services	38.4	31.4	69.7	60.8	128.6
Sales total	146.2	140.6	275.2	277.4	576.3

External sales by geographical area

EUR million	4–6/21	4–6/20	1–6/21	1–6/20	1–12/20
EMEIA	54.1	52.1	106.4	104.4	223.0
North America	47.5	38.9	91.1	91.7	166.5
South America	14.8	16.0	28.4	23.5	56.9
Asia-Pacific	29.8	33.7	49.4	58.0	130.0
Sales total	146.2	140.6	275.2	277.4	576.3

5. Reconciliation of adjusted EBITA and operating profit

EUR million	4–6/21	4–6/20	1–6/21	1–6/20	1–12/20
Adjusted EBITA	19.0	22.9	34.9	39.5	85.0
% of sales	13.0	16.3	12.7	14.3	14.8
Amortizations	-0.8	-0.8	-1.6	-1.6	-3.4
Adjustments					
- Restructuring costs	-	-0.4	-	-0.4	-1.4
- Rebranding and establishing costs	-	-3.8	-	-5.2	-9.9
- Merger and acquisition costs	-1.0	-	-1.0	-	-
Adjustments, total	-1.0	-4.3	-1.0	-5.6	-11.3
Operating profit	17.3	17.8	32.4	32.3	70.3
% of sales	11.8	12.6	11.8	11.7	12.2

6. Fair value estimation

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

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

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

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

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

EUR million	6/21			12/20		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Financial assets at fair value through profit and loss						
Derivatives not under hedge accounting	-	1.5	-	-	1.2	-
Total	-	1.5	-	-	1.2	-
Liabilities						
Financial liabilities at fair value through profit and loss						
Derivatives not under hedge accounting	-	1.4	-	-	1.5	-
Total	-	1.4	-	-	1.5	-

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

7. Notional amounts of derivative instruments

EUR million	6/21	12/20
Nickel swap contracts	0.6	0.4

The notional amounts are 252 tons (360 tons in 2020), which indicate the volumes in the use of derivatives, but not the exposure to risk.

8. Contingent liabilities and other commitments

EUR million	6/21	12/20
Guarantees		
External guarantees given by parent and group companies	42.8	43.8
Other commitments		
Repurchase commitments	9.8	9.8
Other contingencies	1.4	1.4
Total	54.0	55.1

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

9. Transactions and balances with related parties

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

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

EUR million	1-6/21	8-12/20 ¹
Sales	6.6	6.6
Rental income	0.1	0.1
Receivables	5.0	6.5

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

10. Quarterly information

EUR million, %	4-6/21	1-3/21	10-12/20	7-9/20	4-6/20	1-3/20	10-12/19	7-9/19	4-6/19
Orders received	151.3	153.9	134.5	133.8	130.9	190.9	154.2	171.4	165.0
Order backlog	303.9	298.4	270.3	292.8	305.3	337.4	279.8	295.5	297.9
Sales	146.2	129.1	154.9	144.0	140.6	136.8	166.2	170.5	167.7
Adjusted EBITA	19.0	15.9	22.7	22.8	22.9	16.7	18.1	28.3	27.2
% of sales	13.0	12.3	14.6	15.8	16.3	12.2	10.9	16.6	16.2
Amortization	0.8	0.8	0.9	1.0	0.8	0.8	0.9	1.1	0.9
Adjustment items	1.0	-	3.3	2.4	4.3	1.3	-	-	-
Operating profit	17.3	15.1	18.5	19.5	17.8	14.5	17.2	27.3	26.3
% of sales	11.8	11.7	12.0	13.5	12.6	10.6	10.4	16.0	15.7
Earning per share, EUR	0.08	0.07	0.08	0.09	0.08	0.07	0.08	0.15	0.13

11. Exchange rates

Currency	1-6/21	1-6/20	1-12/20	6/21	6/20	12/20
USD (US dollar)	1.2060	1.1061	1.1452	1.1884	1.1198	1.2271
BRL (Brazilian real)	6.4553	5.3983	5.8847	5.9050	6.1118	6.3735
INR (Indian rupee)	88.5467	81.6590	84.5785	88.3240	84.6235	89.6605
CNY (Chinese yuan)	7.8010	7.7808	7.8916	7.6742	7.9219	8.0225
SGD (Singapore dollar)	1.6052	1.5405	1.5735	1.5976	1.5648	1.6218
SEK (Swedish krona)	10.1312	10.6435	10.4789	10.1110	10.4948	10.0343
GBP (Pound sterling)	0.8703	0.8735	0.8864	0.8581	0.9124	0.8990
CAD (Canadian dollar)	1.5078	1.5040	1.5320	1.4722	1.5324	1.5633

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

Such factors include, but are not limited to:

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

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