

NELES

Financial Statement
Review

January – December
2020

Neles' Financial Statement Review January – December 2020

Good profitability and strong cash flow

- Pulp and Paper projects continued at a good level; Chemicals and Oil & Gas projects were at a satisfactory level, but down from the good level in the first half of the year
- Market activity improved in the Services business, but overall, the Services and Maintenance, Repairs and Operations-driven (MRO) businesses remained at a weak level compared to 2019 due to postponements of large maintenance shutdowns and customers' tight cash management
- Supported by cost saving actions, a solid adjusted EBITA margin continued in the fourth quarter despite still challenging Covid-19 pandemic situation
- Strong free cash flow due to active management of net working capital
- Board of Directors dividend proposal: EUR 0.18 per share

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

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

Summary of key figures

Operative key figures, Neles, continuing operations	10– 12/20	10– 12/19	Change, %	1–12/20	1–12/19	Change , %
EUR million						
Orders received ¹	134	154	-13	590	681	-13
Order backlog at end of period	270	280	-3	270	280	-4
Sales ¹	155	166	-7	576	660	-13
Service sales ²	36	44	-18	129	152	-15
% of sales	23	26		22	23	
Adjusted EBITA, continuing operations	23	18	28	85	97	-12
% of sales	14.6	10.9		14.8	14.7	
Adjustment items ³	3	-		11	-	
Operating profit	19	17	12	70	93	-25
% of sales	12.0	10.4		12.2	14.0	
Earnings per share, continuing operations, EUR	0.08	0.08	-	0.32	0.46	-30
Free cash flow	37	-14	-	69	34	103

Balance sheet key figures, IFRS	Neles ⁴⁾ 12/20	Metso 12/19
Return on capital employed (ROCE) before taxes, %	15.6	19.2
Balance sheet total, EUR million	644	3,887
Net debt, EUR million	81	789
Equity to assets ratio, %	42.6	42.3
Net debt / EBITDA, rolling 12 months	0.9	-
Gearing, %	30.9	52.3
Personnel at end of period, continuing operations	2,840	15,821

¹ Orders received in comparable currencies declined by 9% in 1–12/2020, and 6% in 10–12/2020. Sales in comparable currencies declined by 9% in 1–12/2020, and increased by 1% in 10–12/2020.

² Services sales include the sales volume from the Services business

³ Adjustment items amounted to EUR 11.3 million in 1–12/2020 and EUR 3.3 million in 10–12/2020. No adjustment items were included in 10–12/2019 and full-year 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. See Note 5.

⁴ Neles continuing operations

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 the 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 the 50% threshold) of Neles shares during the offer period. On December 31, 2020, Alfa Laval's shareholding in Neles 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.

President and CEO Olli Isotalo:

As anticipated, the market conditions changed little during the fourth quarter. There were several positive developments in our Services business. Service orders received grew quarter-on-quarter, although there were big differences between geographical markets. We won some major orders for our digital service concepts relating to advanced installed base management and process monitoring. Despite the positive trends in Services, the overall Services and MRO-driven businesses remained at a weak level due to customers' tight cash management, and postponements of large service and upgrade projects due to the Covid-19 pandemic.

In 2020, project business developed well. We received many orders particularly during the first half of the year and second half orders were also at a good level. Project sales increased quarter by quarter, peaking in the fourth quarter. The share of the Services and MRO-driven businesses was slightly over 60% of total orders received in 2020, compared to a bit less than 70% in 2019. We continue to see a healthy project funnel in Pulp and Paper for 2021. We are also seeing activity in Chemicals and Oil & Gas projects, but at a lower level than a year ago and with uncertainties around the timing of orders.

We continued tight cost management to keep our profitability at a good level, despite the low sales volume. We will also continue many cost saving measures at the beginning of 2021. We completed personnel negotiations for temporary layoffs at our Helsinki plant and will continue our ongoing global efforts to reallocate resources to support our strategy execution. In 2020, we reported EUR 11 million in adjustment items associated with the partial demerger, the launch of Neles, the share ownership developments which started in the second quarter, and restructuring. The activities associated with these adjusting items are largely completed. Certain

development activities, in particular our ongoing ERP harmonization project, will continue in 2021 and will be reported as part of our operating costs instead of adjusting items.

We completed our annual customer satisfaction survey, and the results were very pleasing. Customer satisfaction, measured by a net promoter score, improved from 29 in 2019 to an all-time high of 38 in 2020. I feel this is strong testimony to the great commitment of Neles personnel in serving our customers and co-operating with our partners for the long-term, even in difficult times.

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 businesses.

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.

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 cancellations 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.

Neles' Financial Statement Review January – December 2020

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 cancellations 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, 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.

In 2020, orders received decreased by 13% (decrease in comparable currencies 9%) to EUR 590 million (EUR 681 million), and orders received in Q4/2020 decreased by 13% (decrease in comparable currencies 6%) to EUR 134 million (EUR 154 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 and a negative impact of 7% in 10–12/2020 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), and sales in Q4/2020 decreased by 7% (increase in comparable currencies 1%) to EUR 155 million (EUR 166 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 and a negative impact of 8% in 10–12/2020 on sales. The currency exchange rate impacts came mainly from the Brazilian real, US dollar, Singapore dollar, South African rand, and Chilean peso.

Orders by market area

EUR million	10–12/20	10–12/19	1–12/20	1–12/19
EMEIA	55	70	225	284
North America	37	45	168	214
South America	13	8	65	47
Asia-Pacific	29	30	132	136
Neles total	134	154	590	681

Sales by market area

EUR million	10–12/20	10–12/19	1–12/20	1–12/19
EMEIA	62	64	223	251
North America	36	53	166	235
South America	21	10	57	37

Asia-Pacific	36	39	130	137
Neles total	155	166	576	660

FX impact on orders received and sales

	Orders received		Sales	
	10–12/20	1–12/20	10–12/20	1–12/20
2019, EUR million	154	681	166	660
Organic growth in constant currencies, %	-6	-9	1	-9
Impact of changes in exchange rates, %	-7	-4	-8	-4
Structural changes, %	0	0	0	0
Total change, %	-13	-13	-7	-13
2020, EUR million	134	590	155	576

Financial performance

Neles, continuing operations

In the fourth quarter of 2020, Neles' adjusted EBITA amounted to EUR 23 million, or 14.6% of sales (EUR 18 million, or 10.9%). Adjustment items of EUR 3 million had a negative impact on the operating profit in the fourth quarter (EUR 0 million). The adjustments were attributable to advisory, brand, IT and other costs associated with the creation and rebranding of Neles, establishing a new operating structure and developments around Neles' shareholding. The operating profit was EUR 19 million, or 12.0% of sales (EUR 17 million, or 10.4%).

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 apart from the ongoing ERP harmonization project, which will continue in 2021. These costs will be reported as part of normal operating expenses in 2021 and not in 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). Financial net expenses in the fourth quarter amounted to EUR 2 million (EUR 0 million). The increase was attributable to loan facilities allocated to Neles and other finance expenses related to funding arrangements at the time of the partial demerger.

In 2020, the effective tax rate was 24.4%.

Earnings per share for continuing Neles operations amounted to EUR 0.08 for the fourth quarter and EUR 0.32 for 2020.

Cash flow, continuing operations

Free cash flow in the fourth quarter amounted to EUR 37 million (EUR -14 million) and 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 2 million (EUR 10 million) in the fourth quarter and 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. See more in Note 10.

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. 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). EUR 5 million (2019: EUR 8 million) of the investments were associated with the new manufacturing site in Jiaxing, China.

Research and development

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

R&D and IP related expenditure

EUR million	1–12/20	1–12/19
R&D expenditure	18	19
of sales, %	3.1	2.8
Of which expensed	14	17
of sales, %	2.5	2.6

Personnel

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

Personnel, end of reporting period

	12/20	12/19
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 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.

Operating model and management appointments

December 15: Neles announced that Elisa Erkkilä, LL.M, has been appointed 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.

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

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

Shares and share trading

Neles' share capital was reduced by EUR 90,000,000.00 in accordance with the partial demerger plan. After the transaction, Neles' share capital was EUR 50,982,843.80, and the number of shares was 150,348,256. This included 150,361 treasury shares held by the Parent Company, which represented 0.1% of all Neles shares and votes.

A total of 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 MXCY, with four ADRs representing one Metso share. The closing price of the Metso ADR was USD 7.78 when termination became effective on May 21, 2020.

On December 31, 2020, Valmet Corporation's shareholding in Neles Oyj amounted to 44,415,207 shares, which represents 29.54% of Neles' total shares.

Neles share performance on Nasdaq Helsinki, July 1–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
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Flagging notifications in the reporting period

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

Public tender offer by Alfa Laval and stake-building by Valmet

On July 13, Alfa Laval AB (publ) published its intention of making a Public Tender Offer (PTO) for all the 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 the 50% threshold) of Neles shares during the offer period. On December 31, 2020, Alfa Laval's shareholding in Neles 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.

Extraordinary General Meeting, October 29, 2020

A Neles EGM was held on October 29, 2020. Valmet's proposal to elect Mr. Jukka Tiitinen as a member of the Board of Directors was accepted. Minutes of the EGM can be found on Neles' website.

<https://www.neles.com/investors/governance/agm/egm2020/>

<https://www.neles.com/siteassets/documents/2020/egm/neles-corporation-extraordinary-general-meeting-291020-minutes.pdf>

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 authorizations can be found on Neles' website.

https://www.neles.com/siteassets/documents/2020/agm2020_decisions-taken.pdf

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

Other main events in 2020

December 22: Proposals of the Shareholders' Nomination Board regarding the composition and remuneration of the Board of Directors

The Shareholders' Nomination Board proposes to the AGM 2021 that:

- the number of Board members be seven
- remuneration remains unchanged
- Jaakko Eskola be elected as 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.

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

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

October 19: The Board of Directors of Neles Corporation supplemented its statement regarding the recommended voluntary public cash tender offer by Alfa Laval AB (publ) after a 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 had received an unsolicited letter from Valmet proposing a merger between Neles and Valmet.

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

The members of the Shareholders' Nomination Board are:

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

More detailed information on the Shareholders' Nomination Board is available on Neles' website.

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

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

August 12: Alfa Laval AB (publ) announced it 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 17: 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 Neles. Moody's stated that it had decided to withdraw the unsolicited rating for its own business reasons.

July 13: Alfa Laval AB (publ) and Neles Corporation entered into a combination agreement pursuant to which Alfa Laval made a voluntary recommended public cash tender offer for all issued and outstanding shares in Neles.

July 7: Neles' new valve technology center in Jiaying, China, started its operations. The new plant strengthens Neles' valve and related products production capabilities and increases availability for customers across various process industries, in China and globally.

July 2: The Board of Directors of Neles received a request from Valmet to convene an Extraordinary General Meeting. Valmet proposed that the Extraordinary General Meeting resolve that the Board of Directors of Neles

should have eight (8) members, and that Jukka Tiitinen, currently Valmet's Area President, Asia-Pacific, be elected as a member of the Board of Directors of Neles.

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

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

July 1: 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 Sääskilähti appointed as Deputy CEO
- Confirmation and approval of the company's profitable growth strategy
- Confirmation and approval of the company's mid-term financial targets
- Update to the company's Disclosure Policy

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

Strategy for profitable growth and mid-term financial targets

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

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

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

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

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

Update to the Disclosure Policy

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

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

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 cancellations 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, increasing trade restrictions, inflation and 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 businesses.

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.

Vantaa, February 2, 2021
Neles Corporation's Board of Directors

Neles' Financial Statements Review: tables

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Consolidated statement of income, IFRS

EUR million	10–12/20	10–12/19	1–12/20	1–12/19
Continuing operations				
Sales	155	166	576	660
Cost of goods sold	-106	-111	-386	-435
Gross profit	49	55	190	225
Selling and marketing expenses	-19	-20	-65	-73
Research and development expenses	-3	-4	-14	-17
Administrative expenses	-9	-11	-39	-39
Other operating income and expenses, net	0	-3	-2	-4
Operating profit	19	17	70	93
Financial income and expenses, net	-2	0	-6	-2
Profit before taxes	16	17	64	91
Income taxes	-4	-5	-16	-22
Profit for the period, continuing operations	13	12	48	69
Profit for the period, discontinued operations	-	60	2,150	230
Profit for the period	13	72	2,198	299
Profit attributable to, continuing operations				
Shareholders of the parent company	13	12	48	69
Non-controlling interests	-	-	-	-
Profit attributable to, discontinued operations				
Shareholders of the parent company	-	60	2,150	232
Non-controlling interests	-	0	0	-1
Profit attributable to				
Shareholders of the parent company	13	72	2,198	301
Non-controlling interests	0	0	0	-1
Earnings per share, EUR				
Basic and diluted, continuing operations	0.08	0.08	0.32	0.46
Basic and diluted, discontinued operations	-	0.40	14.31	1.54
Basic and diluted	0.08	0.48	14.63	2.00

Consolidated statement of comprehensive income, IFRS

EUR million	10–12/20	10–12/19	1–12/20	1–12/19
Continuing operations				
Profit for the period	13	12	48	69
Other comprehensive income				
Measurement at fair value, net of tax	-	0	-	0
Currency translation on subsidiary net investments	-7	-4	-16	0
Items that may be reclassified to profit or loss in subsequent periods	-7	-4	-16	0
Defined benefit plan actuarial gains and losses, net of tax	2	2	2	2
Items that will not be reclassified to profit or loss	2	2	2	2
Other comprehensive income total	-5	-2	-13	1
Total comprehensive income, continuing operations	8	10	35	70
Profit attributable to, continued operations				
Shareholders of the parent company	8	10	35	70
Non-controlling interests	-	0	-	0
Total comprehensive income, discontinued operations	-	50	2,098	231
Profit attributable to, discontinued operations				
Shareholders of the parent company	-	51	2,098	232
Non-controlling interests	-	-1	0	-1
Total comprehensive income	8	60	2,133	301
Profit attributable to				
Shareholders of the parent company	8	62	2,133	303
Non-controlling interests	-	-1	0	-1

Consolidated Balance Sheet – Assets, IFRS

EUR million	Neles 12/20	Metso 12/19
Non-current assets		
Intangible assets		
Goodwill	57	62
Other intangible assets	17	18
Total intangible assets	74	81
Tangible assets		
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	51	46
Other non-current assets		
Non-current financial assets	0	0
Deferred tax asset	18	13
Other non-current receivables	12	1
Total other non-current assets	31	14
Total non-current assets	217	208
Current assets		
Inventories	160	181
Trade receivables	89	95
Derivative financial instruments	0	0
Income tax receivables	4	2
Other current receivables	37	40
Cash and cash equivalents	136	57
Total current assets	426	374
Assets, discontinued operations	-	3,305
TOTAL ASSETS	644	3,887

Consolidated Balance Sheet – Equity and liabilities, IFRS

EUR million	Neles 12/20	Metso 12/19
Equity		
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	150	36
Lease liabilities	41	37
Post-employment benefit obligations	21	9
Provisions	2	3
Deferred tax liability	3	4
Other non-current liabilities	0	0
Total non-current liabilities	216	89
Current liabilities		
Interest bearing liabilities	16	20
Lease liabilities	11	10
Trade payables	60	63
Provisions	9	12
Advances received	27	24
Derivative financial instruments	1	1
Income tax liabilities	5	2
Other current liabilities	35	39
Total current liabilities	164	171
Total liabilities	381	259
Liabilities, discontinued operations	-	2,102
TOTAL EQUITY AND LIABILITIES	644	3,887

Net interest-bearing liabilities

EUR million	Neles 12/20	Metso 12/19
Interest bearing liabilities	166	56
Lease liabilities	51	47
Cash and cash equivalents	-136	-57
Net interest-bearing liabilities	81	46

Consolidated statement of changes in shareholders' equity, IFRS

EUR million	Share capital	Cumulative translation adjustments	Fair value and other reserves	Discontinued operations	Retained earnings	Equity attributable to shareholders	Non-controlling interests	Total equity
Jan 1, 2020	141	52	298	-155	1,187	1,523	3	1,526
Profit for the period, continuing operations	-	-	-	-	48	48	-	48
Profit for the period, 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, net of tax	-	-	-	-	2	2	-	2
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, net of tax	-	-	2	-	-6	-4	-	-4
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 period, continuing operations	-	-	-	-	69	69	0	69
Profit for the period, discontinued operations	-	-	-	-	232	232	-1	230
Other comprehensive income								
Cash flow hedges, net of tax	-	-	3	-	-	3	-	3
Currency translation on subsidiary net investments	-	1	-	-	-	1	-	1
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	-	-1	-1	-	-1
Discontinued operations	-	151	-	-155	3	-	-	-
Total comprehensive income	-	152	3	-155	302	302	-1	301
Dividends	-	-	-	-	-180	-180	0	-180
Share-based payments, net of tax	-	-	5	-	0	5	-	5
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

The IFRS cash flow statement includes both cash flows from continuing Neles operations for the full year 2020 and from discontinued Metso Mineral operations for the period January 1–June 30, 2020. The comparative year 2019 includes cash flows from continuing and discontinued operations for the full year.

EUR million	10–12/20	10–12/19	1–12/20	1–12/19
Operating activities				
Profit for the period, continuing operations	13	12	48	69
Profit for the period, discontinued operations	-	60	2,150	230
Adjustments				
Depreciation and amortization	6	13	24	82
Financial expenses, net	2	13	18	38
Income taxes	4	26	63	95
Fair value of distributed net assets in the demerger	-	-	-2,022	-
Other items	0	-6	5	-2
Change in net working capital	23	-11	216	-254
Net cash flow from operating activities before financial items and taxes	48	105	488	258
Financial income and expenses paid, net	-3	-12	-21	-30
Income taxes paid	-6	-55	-51	-137
Net cash flow from operating activities	39	39	416	91
Investing activities				
Capital expenditures on intangible and tangible assets	-2	-35	-54	-107
Proceeds from sale of intangible and tangible assets	0	3	1	8
Proceeds from and investments in financial assets, net	-	-	-	31
Business acquisitions, net of cash acquired	-	-184	1	-214
Proceeds from sale of businesses, net of cash sold	-	-	-	9
Other items	-	-3	-	-3
Net cash flow from investing activities	-2	-219	-52	-276
Financing activities				
Dividends paid	-	-90	-221	-180
Transactions with non-controlling interests	-	-13	-	-13
Investments in financial assets	0	-	0	-
Proceeds from and repayment of debt, net	-1	-130	143	198
Repayments of lease liabilities	-3	-7	-23	-34
Financing, Metso Group	0	-	-14	-
Net cash flow from financing activities	-5	-240	-116	-29
Net change in cash and cash equivalents	32	-420	248	-215
Effect from changes in exchange rates	1	-9	-12	2
Cash and cash equivalents transferred in demerger	-	-	-312	-
Cash and cash equivalents at beginning of period	103	642	213	426
Cash and cash equivalents at end of period	136	213	136	213
Cash and cash equivalents at end of period, continuing operations	-	57	-	57
Cash and cash equivalents at end of period, discontinued operations	-	156	-	156

Analysis of consolidated statement of cash flows of continued Neles operations

This analysis table is showing the cash flow statements for continuing Neles for the periods in this Financial Statements review January 1–December 31, 2020, addition to IFRS financial information.

EUR million	10–12/20	10–12/19	1–12/20	1–12/19
Operating activities				
Profit for the period	13	12	48	69
Adjustments				
Depreciation and amortization	6	6	24	25
Financial expenses, net	2	1	6	2
Income taxes	4	4	16	22
Other items	0	1	-13	5
Change in net working capital	23	-14	17 ¹	-30
Net cash flow from operating activities before financial items and taxes	48	10	99	92
Financial income and expenses paid, net	-3	-1	-6	0
Income taxes paid	-6	-14	-12	-38
Net cash flow from operating activities	39	-4	81	54
Investing activities				
Capital expenditures on intangible and tangible assets	-2	-10	-13	-20
Proceeds from sale of intangible and tangible assets	0	0	0	0
Acquisitions/divestments, Metso Group	-	-50	-	-50
Net cash flow from investing activities	-2	-60	-12	-70
Financing activities				
Dividends paid	-	-18	-44	-36
Investments in financial assets	0	-	0	-
Proceeds from/repayments of short-term debt, net	-1	3	-2	13
Proceeds from/repayment of long-term debt, net	0	36	-	36
Financing, Metso group	0	4	71 ¹	-34
Lease payments	-3	-1	-11	-10
Net cash flow from financing activities	-5	24	13	-31
Net change in cash and cash equivalents	32	-39	81	-46
Effect from changes in exchange rates	1	1	-2	2
Cash and cash equivalents at beginning of period	103	95	57	101
Cash and cash equivalents at end of period	136	57	136	57

Free cash flow

EUR million	10–12/20	10–12/19	1–12/20	1–12/19
Cash flow from operating activities	39	-4	81	54
Capital expenditures on intangible and tangible assets	-2	-10	-13	-20
Proceeds from sale of intangible and tangible assets	0	0	0	0
Free cash flow	37	-14	69	34

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

Notes to the Financial Statements Review

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1. Basis of preparation

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

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

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

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

2. New accounting standards

New and amended standards adopted in 2020

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

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

3. Key figures

	1–12/20	1–12/19
EUR million		
Sales	576	660
Services sales	129	152
% of sales	22	23
Adjusted EBITA	85	97
% of sales	14.8	14.7
Operating profit	70	93
% of sales	12.2	14.0
Profit for the period, continuing operations	48	69
Profit for the period, discontinued operations	2,150	230
Profit for the period	2,198	299
Earnings per share		
Continuing operations:		
Earnings per share, basic, EUR	0.32	0.46
Earnings per share, diluted, EUR	0.32	0.46
Discontinued operations:		
Earnings per share, basic, EUR	14.31	1.54
Earnings per share, diluted, EUR	14.31	1.54
Total:		
Earnings per share, basic, EUR	14.63	2.00
Earnings per share, diluted, EUR	14.63	2.00
Cash flow		
Free cash flow, continuing, EUR million	69	34
Free cash flow/share, continuing, EUR	0.46	0.23
R&D expenditure, EUR million	18	19
% of sales	3.1	2.8
Gross capital expenditure, EUR million	13	20
% of sales	2.2	3.0
Amortization, EUR million	3	4
Depreciation of tangible assets, EUR million	9	10
Depreciation of right-of-use assets, EUR million	12	11
Adjustment items, EUR million ¹	11	-
Balance sheet		
Balance sheet total, EUR million	644	3,887
Equity attributable to shareholders, EUR million	263	1,523
Equity per share, EUR	1.74	10.15
Equity-to-assets ratio, %	42.6	42.3
Net debt, EUR million	81	798
Gearing, %	30.9	52.3
Net debt / EBITDA	0.9	-
Debt to capital ratio, %	45.2	-
Number of outstanding shares at end of period (thousands)	150,198	150,076
Average number of shares (thousands)	150,179	150,057
Average number of diluted shares (thousands)	150,179	150,200
Personnel at the end of period	2,840	15,281

¹ Adjusting items are attributable to advisory, brand, IT and other costs related to the creation and rebranding of independent Neles, or restructuring costs, outcome of material intellectual property rights disputes, gains and losses on business disposals, and other infrequent events.

Formulae for key figures

Earnings before financial expenses, net, taxes and amortization, adjusted (adjusted EBITA)	=	Operating profit + adjustment items + amortization	
Earnings per share, basic	=	$\frac{\text{Profit attributable to shareholders}}{\text{Average number of outstanding shares during the period}}$	
Earnings per share, diluted	=	$\frac{\text{Profit attributable to shareholders}}{\text{Average number of diluted shares during the period}}$	
Equity/share	=	$\frac{\text{Equity attributable to shareholders}}{\text{Number of outstanding shares at the end of the period}}$	
Return on capital employed (ROCE) before taxes, %	=	$\frac{\text{Profit before tax + financial expenses}}{\text{Capital employed (average for the period)}}$	x 100
Gearing, %	=	$\frac{\text{Net interest bearing liabilities}}{\text{Total equity}}$	x 100
Debt to capital, %	=	$\frac{\text{Interest bearing liabilities}}{\text{Total equity + interest bearing liabilities}}$	x 100
Equity to assets ratio, %	=	$\frac{\text{Total equity}}{\text{Balance sheet total - advances received}}$	x 100
Free cash flow	=	Net cash flow from operating activities – investments in intangible and tangible assets + proceeds from sale of intangible and tangible assets	
Free cash flow/share	=	$\frac{\text{Free cash flow}}{\text{Average number of outstanding shares during the period}}$	
Net debt	=	Interest bearing liabilities - non-current financial assets - loan and other interest bearing receivables (current and non-current) - 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 sale of process industry flow control solutions with delivery of valves and services to delivered equipment. Equipment deliveries are recognized as revenue at point in time, when delivered, and sales from providing services are recognized when the services are rendered.

External sales by product type

EUR million	10–12/20	10–12/19	1–12/20	1–12/19
Products/ equipment	119	122	447	508
Services	36	44	129	152
Sales total	155	166	576	660

External sales by geographical area

EUR million	10–12/20	10–12/19	1–12/20	1–12/19
EMEIA	62	64	223	251
North America	36	53	166	235
South America	21	10	57	37
Asia-Pacific	36	39	130	137
Sales total	155	166	576	660

5. Reconciliation of adjusted EBITA and operating profit

EUR million	10–12/20	10–12/19	1–12/20	1–12/19
Adjusted EBITA	23	18	85	97
% of sales	14.6	10.9	14.8	14.7
Amortizations	-1	-1	-3	-4
Adjustments				
- Restructuring costs	0	-	-1	-
- Rebranding and establishing costs	-3	-	-10	-
Adjustments, total	-3	-	-11	-
Operating profit	19	17	70	93
% of sales	12.0	10.4	12.2	14.0

6. Fair value estimation

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

- Level 1 Quoted unadjusted prices at the balance sheet date in active markets. The market prices are readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. The quoted market price used for financial assets is the current bid price. Level 1 financial instruments include debt and equity investments classified as financial instruments at fair value through profit and loss.
- Level 2 The fair value of financial instruments in Level 2 is determined using valuation techniques. These techniques utilize observable market data readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. Level 2 financial instruments include:
- Over-the-counter derivatives classified as financial assets/liabilities at fair value through profit and loss or qualified for hedge accounting
 - Debt securities classified as financial instruments at fair value through profit and loss
 - Fixed rate debt under fair value hedge accounting
- Level 3 A financial instrument is categorized into Level 3 if the calculation of the fair value cannot be based on observable market data. Neles had no such instruments.

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

EUR million	12/20			12/19		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Financial assets at fair value through profit and loss						
Derivatives not under hedge accounting	-	1	-	-	0	-
Total	-	1	-	-	0	-
Liabilities						
Financial liabilities at fair value through profit and loss						
Derivatives not under hedge accounting	-	1	-	-	1	-
Total	-	1	-	-	1	-

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

7. Notional amounts of derivative instruments

EUR million	12/20	12/19
Nickel swap contracts	0	0

The notional amounts are 360 tons (336 tons in 2019), which indicate the volumes in the use of derivatives, but do not indicate the exposure to risk.

8. Contingent liabilities and other commitments

EUR million	12/20	12/19
Guarantees		
External guarantees given by parent and group companies	44	39
Other commitments		
Repurchase commitments	10	11
Other contingencies	1	4
Total	55	55

9. Borrowings

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

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

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

10. Discontinued operations

Result of discontinued operations

EUR million	1-6/20	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 H1/2020 and EUR 22 million in 2019. Profit from discontinued operations of EUR 2,150 million (EUR 230 million) is attributable to the owners of the parent company.

Cash flows from discontinued operations

EUR million	1-6/20	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

11. Quarterly information

EUR million, %	10–12/20	7–9/20	4–6/20	1–3/20	10–12/19	7–9/19	4–6/19	1–3/19
Orders received	134	134	131	191	154	171	165	191
Order backlog	270	293	305	337	280	295	298	311
Sales	155	144	141	137	166	170	168	155
Adjusted EBITA	23	23	23	17	18	28	27	23
% of sales	14.6	15.8	16.3	11.7	10.9	16.6	16.2	14.2
Amortization	1	1	1	1	1	1	1	1
Adjustment items	3	2	4	1	-	-	-	-
Operating profit	19	19	18	15	17	27	26	22
% of sales	12.0	13.5	12.6	10.9	10.4	16.0	16.1	14.0
Earning per share, EUR	0.08	0.09	0.08	0.07	0.08	0.15	0.13	0.09

12. Exchange rates

Currency	1–12/20	1–12/19	12/20	12/19
USD (US dollar)	1.1452	1.1214	1.2271	1.1234
BRL (Brazilian real)	5.8847	4.4195	6.3735	4.5157
INR (Indian rupee)	84.5785	78.8488	89.6605	80.1870
CNY (Chinese yuan)	7.8916	7.7353	8.0225	7.8205
SGD (Singapore dollar)	1.5735	1.5279	1.6218	1.5111
SEK (Swedish krona)	10.4789	10.5572	10.0343	10.4468
GBP (Pound sterling)	0.8864	0.8773	0.8990	0.8508
CAD (Canadian dollar)	1.5320	1.4882	1.5633	1.4598

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

Such factors include, but are not limited to:

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

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