

NELES

Financial Statement Review 2020:

Good profitability and strong cash flow

Olli Isotalo, President and CEO
Simo Sääskilahti, CFO

February 3, 2021

Forward-looking statements

This presentation contains forward-looking statements that reflect the current views of Neles. These forward-looking statements include statements with regard to the expected development of business, results of operations and financial position of Neles. Accordingly, you should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond the control of Neles. Among the factors that might influence our ability to achieve our objectives are the progress of our strategy implementation. In addition, stronger than expected competition, technological innovations, legal proceedings and regulatory developments, among other factors, may have a material adverse effect on our results. Further, the economic downturn in our markets, due to the COVID-19 pandemic or otherwise, may also have an impact on our business development and the availability of financing on favorable conditions. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, our actual performance may materially differ from the performance expressed or implied by forward-looking statements. We can offer no assurance that our estimates or expectations will be achieved. Without prejudice to existing obligations under capital market law, we do not assume any obligation to update forward-looking statements to take new information or future events into account or otherwise.

Important note about this financial information

- The partial demerger of Metso Group took place on June 30, 2020, and the continuing operations were renamed Neles Group. Neles valves business has been reported as continuing operations and the demerged Metso Minerals business as discontinued operations (for the period January 1–June 30, 2020).
- In this Financial Statements Review, in addition to IFRS financial information, a comparable balance sheet and a cash flow statement are disclosed. Figures in parentheses refer to the corresponding period in 2019 unless otherwise stated.
- Neles Group has been reported as one segment since June 30, 2020.



Q4 highlights



2020 Business review



Financial review

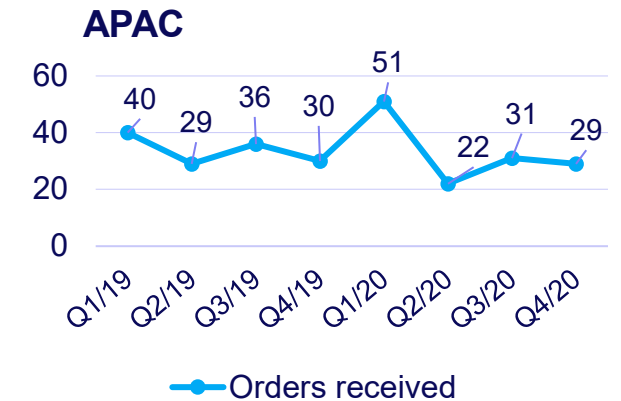
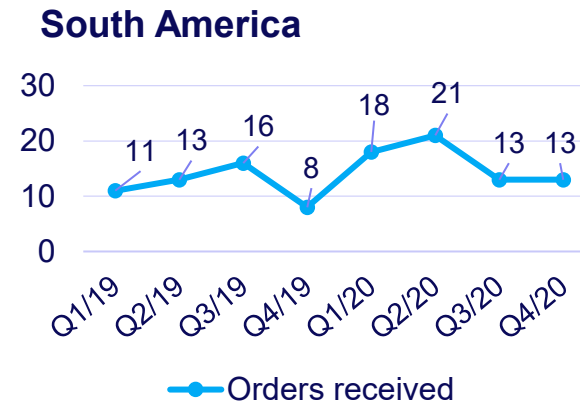
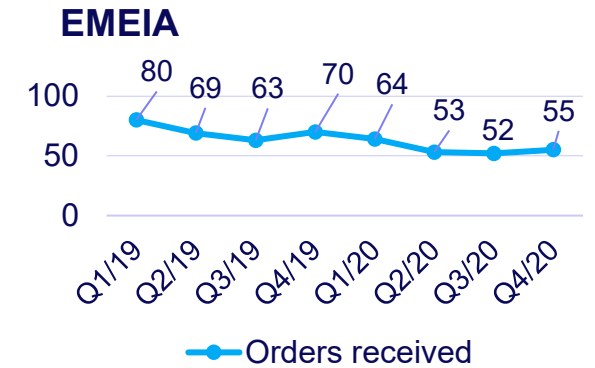
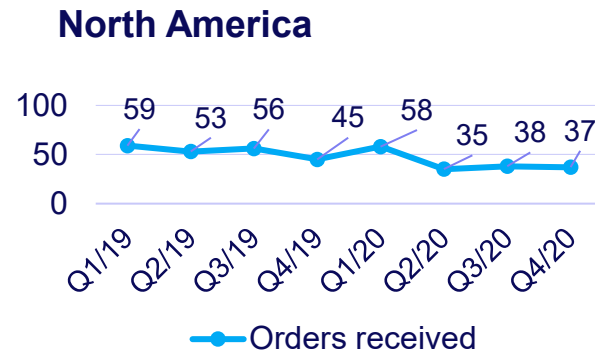
Highlights of Q4

- A solid adjusted EBITA margin continued, profitability supported by cutting external costs
- Strong free cash flow due to active management of NWC
- Pulp & Paper projects continued at a good level
- Chemicals and Oil & Gas projects at a satisfactory level
- Project sales peaked in Q4
- Market activity improved in the Services business Q-o-Q with regional differences
- Weak MRO businesses due to postponements of large maintenance shutdowns and customers' tight cash management

NELES

Markets and operating environment in Q4

- NA: Gradual recovery since Q3, overall market activity remained suppressed
- EMEIA: Gradual improvement in Services & MRO in Q4, overall project business good
- APAC: Healthy activity in P&P and Chemicals and Oil & Gas projects in China, Services and MRO down due to Covid-19 restrictions and customers' cost saving activities
- SA: Business activity on a good level. Pulp & Paper project orders peaked in H1. Business at good level in H2



- 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.

Market situation during the past four quarters	Market outlook for the next six months				
	Q1/2020	Q2/2020	Q3/2020	Q4/2020	Q1-Q2/2021
Pulp, Paper & Bio projects	Good	Good	Good	Good	Good
Chemicals and Oil & Gas projects	Good	Good	Satisfactory	Satisfactory	Satisfactory
Services & MRO businesses	Good	Satisfactory/Weak	Weak	Weak	Weak

Market condition description: good – satisfactory – weak

Industry activity level: improve – stable/stay – decline

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

Contents

NELES



Q4 highlights



2020 Business review



Financial review

Highlights of 2020

- Launch of Neles
- Strong project business throughout the year, especially in H1
- Services and MRO-driven orders slightly over 60% (2019: a bit less than 70%)
- Continued progress in growing the installed base
- Developing new virtual ways of working
- All-time-high net promoter score (NPS) of 38 (2019: 29)
- Incremental improvements to offering, two products launched
- Tight cost management to keep profitability at a good level

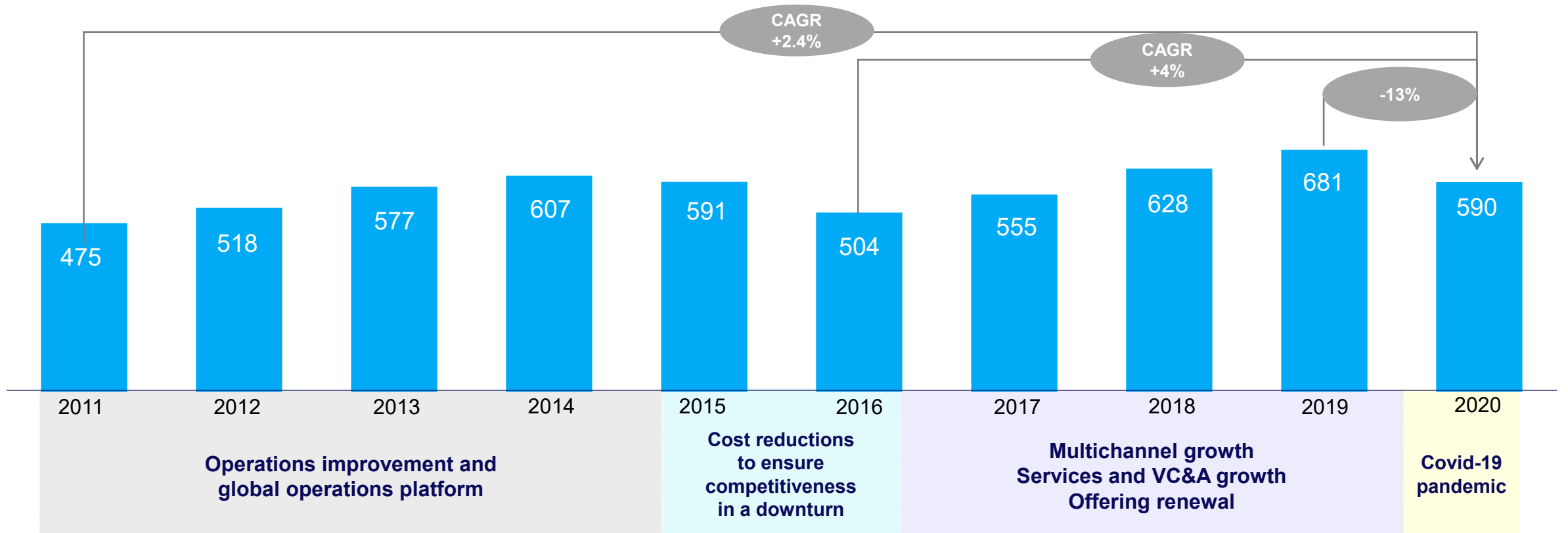


Neles has shown resilience throughout the cycles

NELES

Orders received, MEUR

Orders received

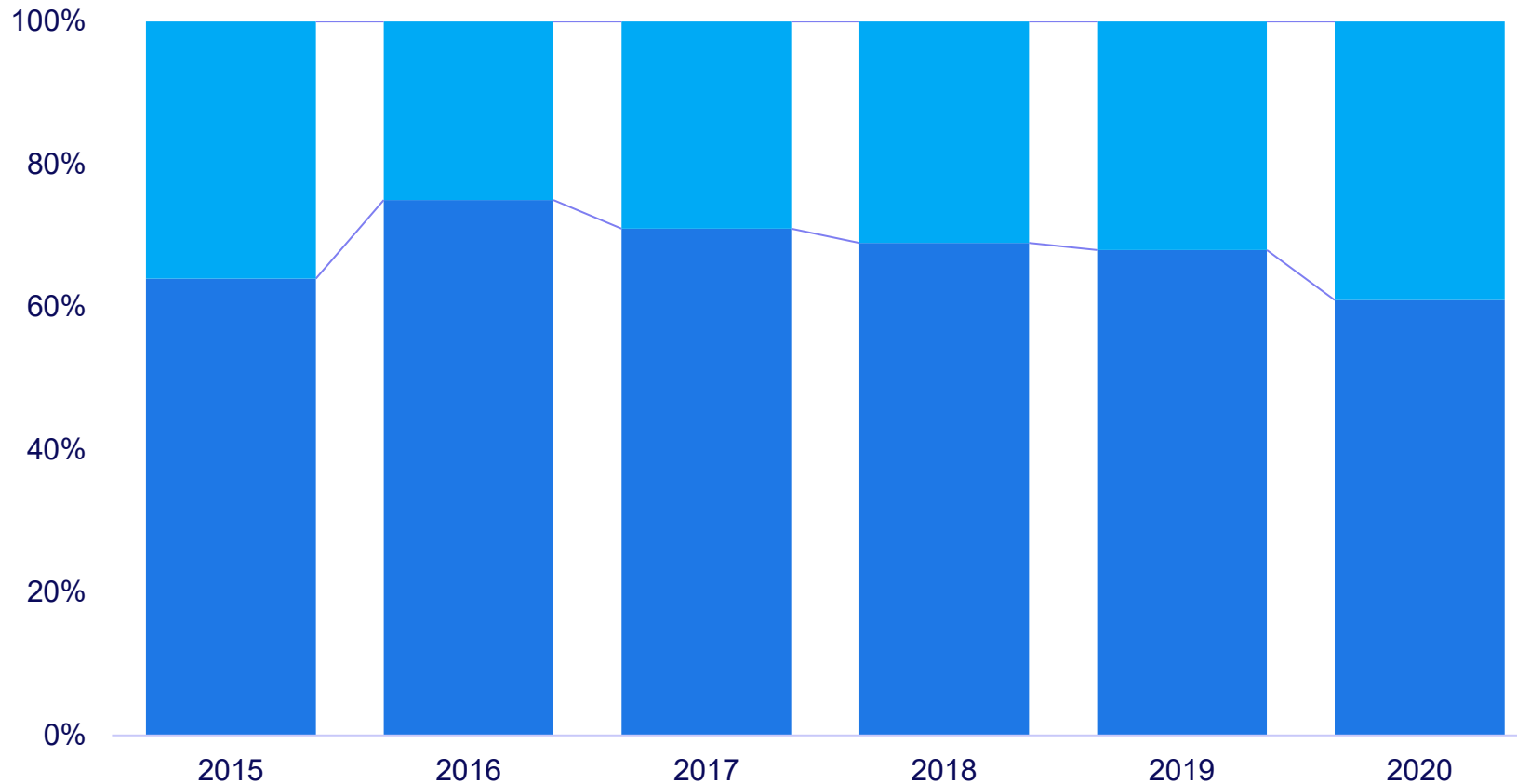


Postponements in MRO-driven business, continued success in projects

Business type,
Orders received ¹

CAPEX-driven
business
Projects

OPEX driven
Maintenance, repair &
operations (MRO)
business



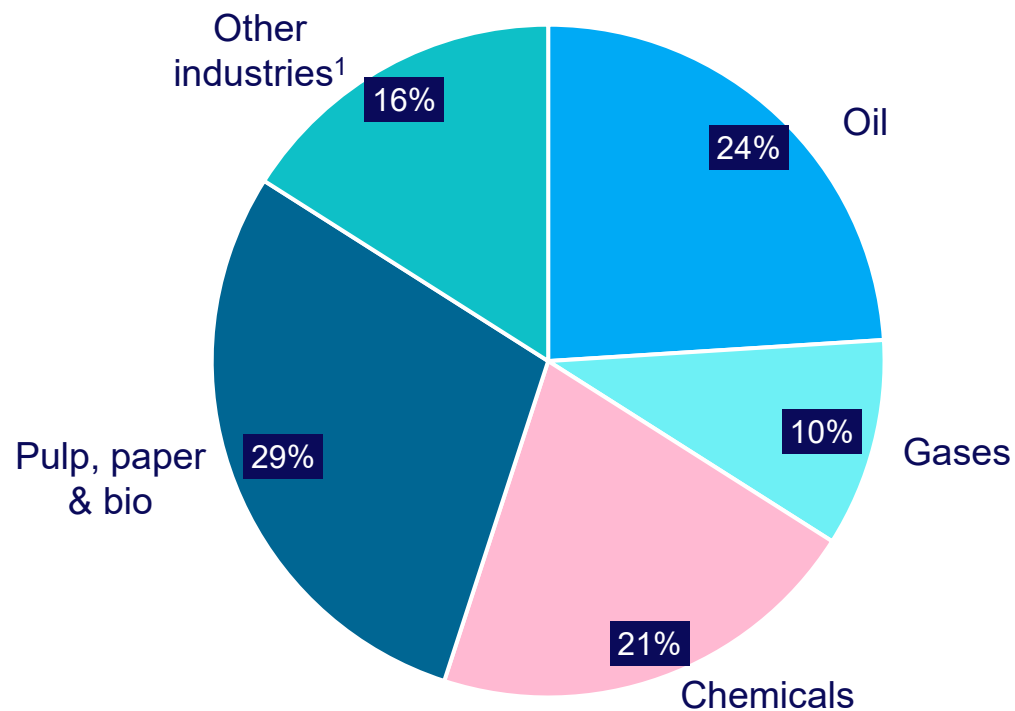
- Project business growth since 2016

- Growth in absolute terms until 2019
- Covid impact in 2020 reduced orders

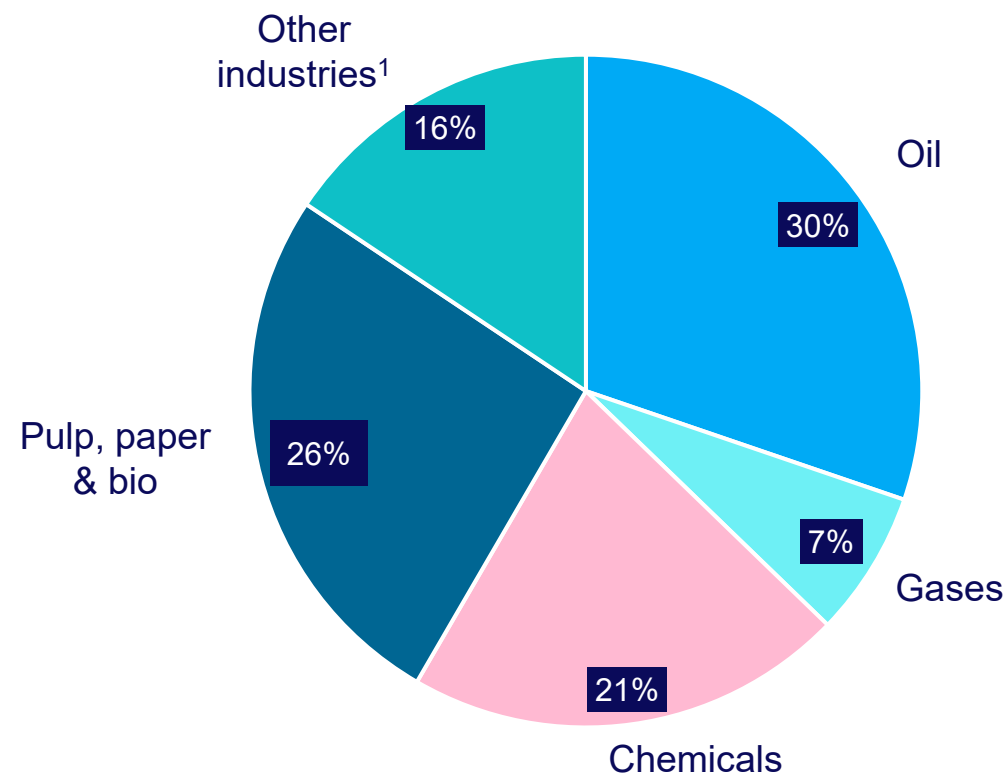
¹ 2015 based on segment figures, 2016-2017 figures based on carve out figures; The 2018-2019 figures are based on continuing operations in the 2019 financial statements; The 2020 figures are based on Neles' 2020 financial statements.

Sales diversification across customer industries

Share (%) of Neles 2020 sales



Share (%) of Neles 2019 sales



¹Incl. Mining & Metals, Power, Water treatment, Food and Bev

Board's dividend proposal

Dividend proposal of 0.18 per share and EUR 27 million corresponds to:

- 56.3% of Neles net earnings for continuing operations
- 48.0% of Neles earnings for continuing operations without adjusting items

≥5%
organic
growth ambition

>€1bn
orders received
around 2025

>15%
EBITA
while investing
in growth

<2.5x
Net Debt/EBITDA
maintaining
a healthy
balance sheet
while investing
in growth

~40%
of underlying¹
net earnings paid
as dividends

¹Net Earnings excluding amortizations resulting from future M&A

Contents

NELES



Q4 highlights



2020 Business review

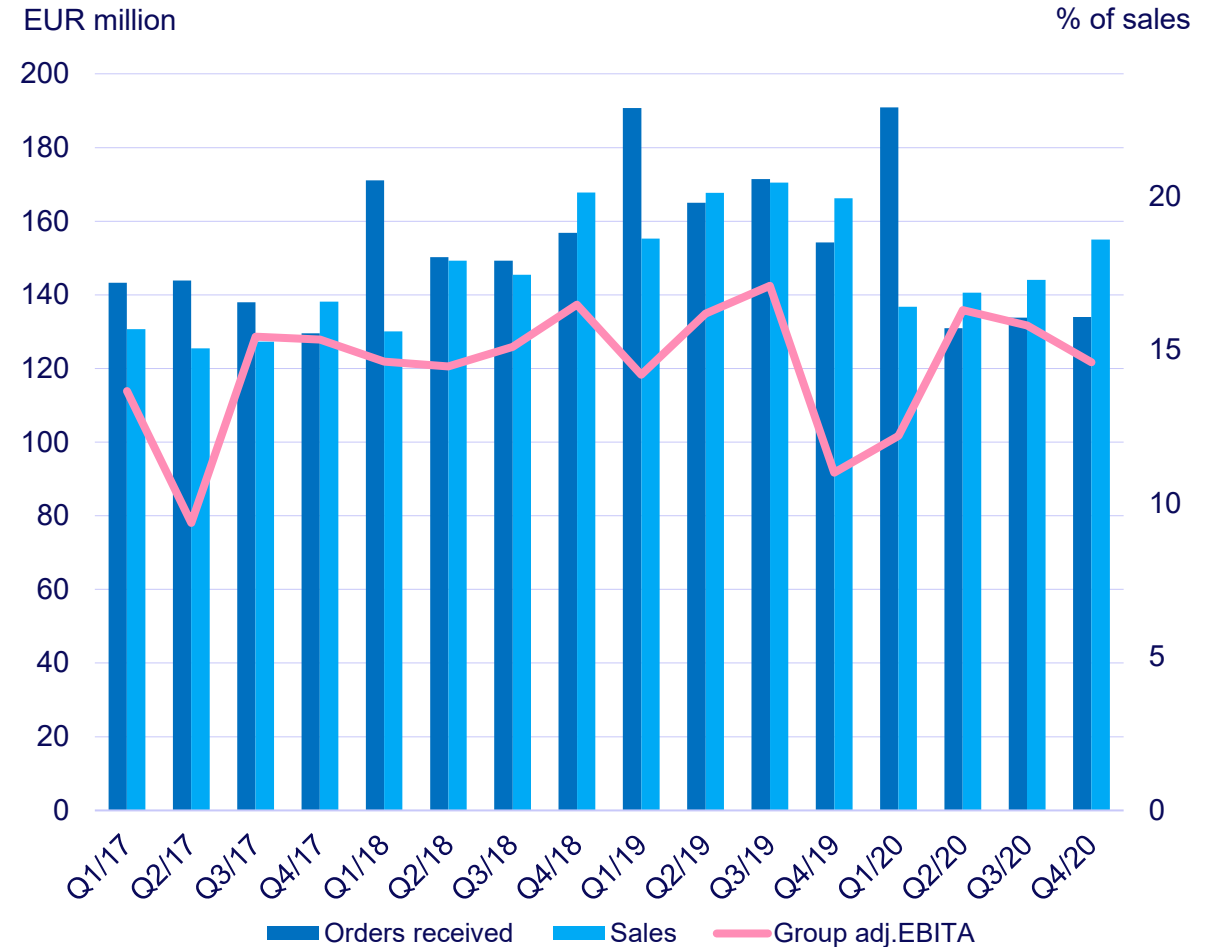


Financial review

Focus on business performance and cost management in Q4

Group key figures – Q4/2020

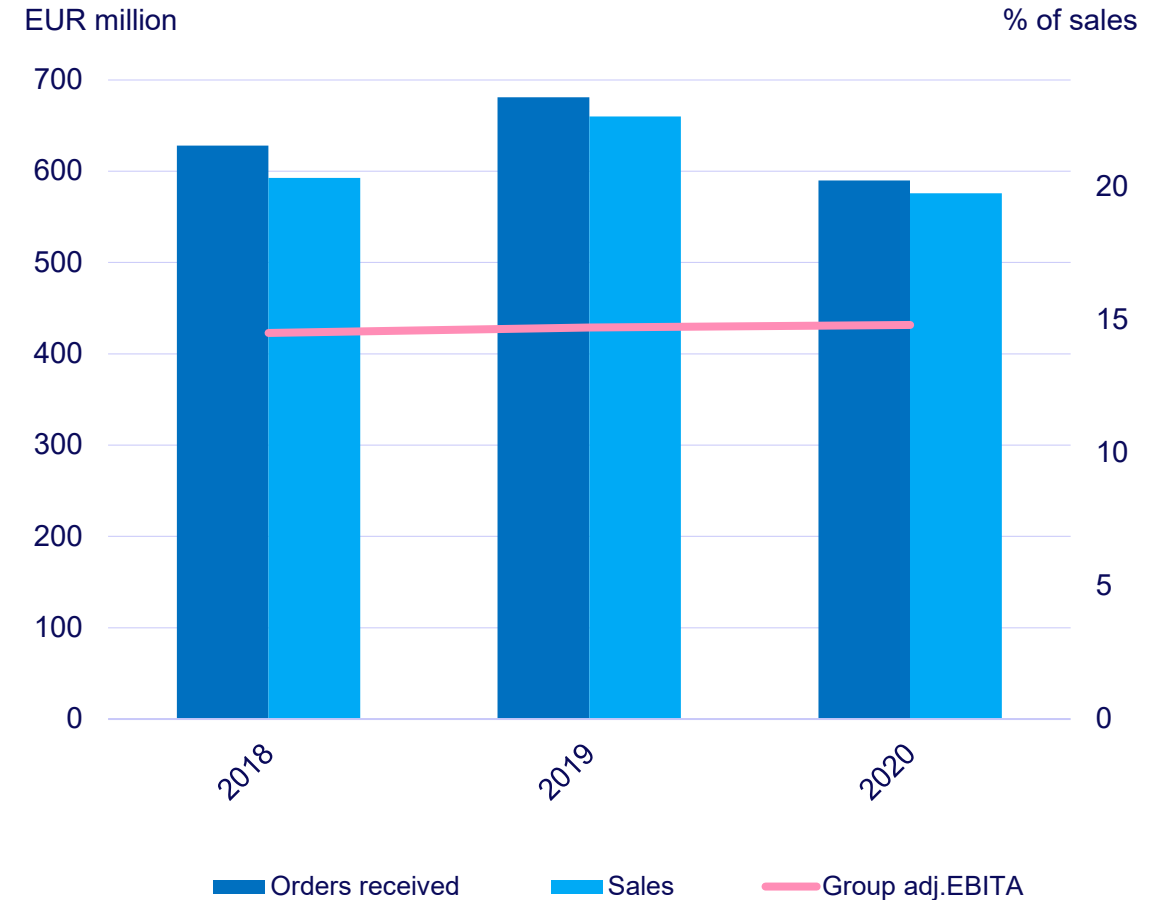
- Orders received EUR 134 million, down 13% y-o-y (comparable currencies -6%)
- Sales EUR 155 million, down 7% y-o-y (comparable currencies +1%)
- Services sales down 18% y-o-y
- Project sales increased Q-by-Q, peaking in Q4
- Adjusted EBITA EUR 23 million or 14.6% of Sales, up 28% y-o-y
- Adjustment items EUR 3.0 million
- Operating profit EUR 19 million or 12.0% of sales, up 12% y-o-y



Orders and sales impacted by Covid-19; profitability protected by cost saving actions

Group key figures – 2020

- Orders received EUR 590 million, down 13% (comparable currency -9%)
- Sales EUR 576 million, down 13% y-o-y (comparable currency -9%)
- Services sales down 15% y-o-y
- Order backlog EUR 270 million, down 4% from y-o-y
- Adjusted EBITA EUR 85 million or 14.8% of Sales, down 12% y-o-y
- Adjustment items EUR 11 million
- Operating profit EUR 70 million or 12.2% of Sales, down 25% y-o-y



IFRS balance sheet

NELES

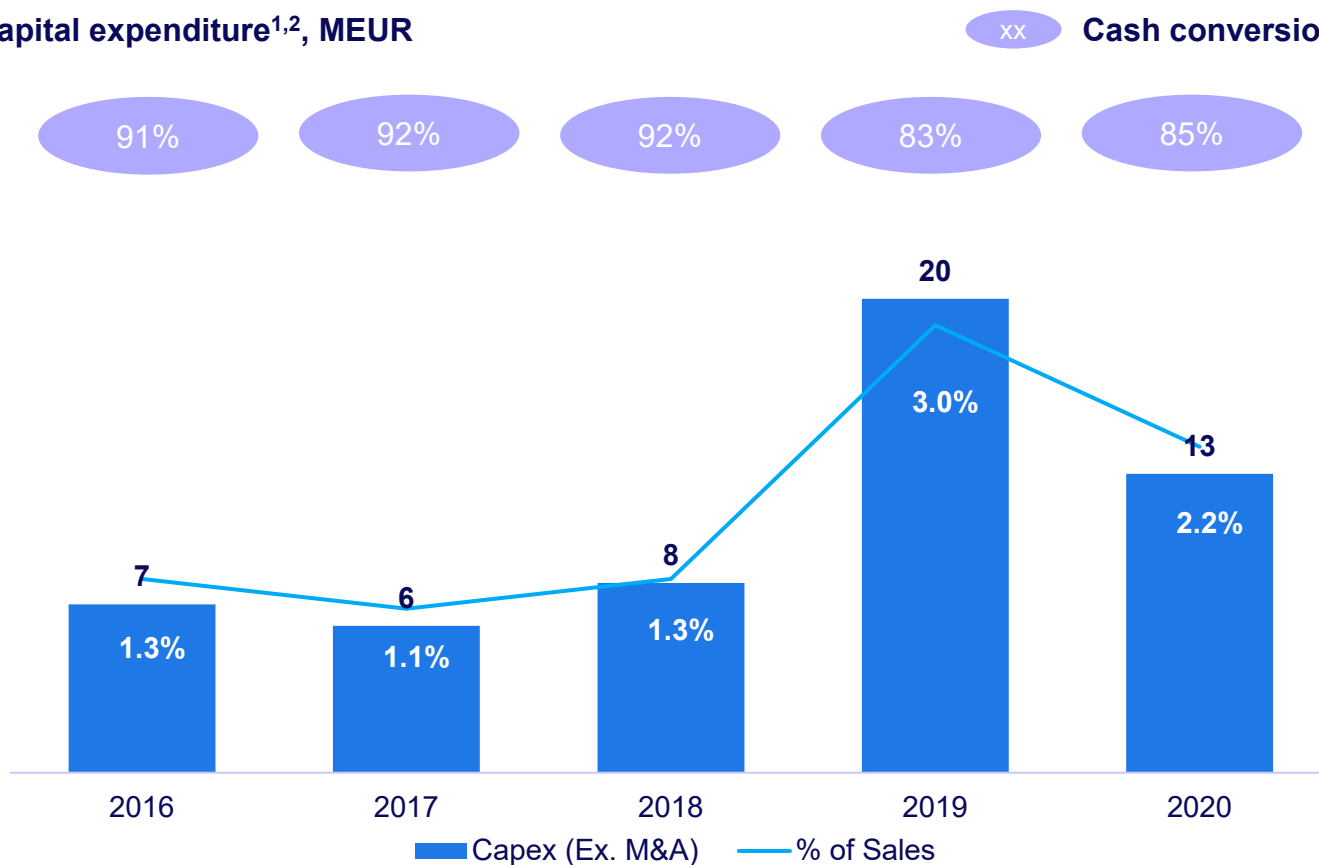
EUR million	Dec 31, 2020	Dec 31, 2019
Intangible assets	74	81
Tangible assets	62	67
Right-of-use assets	51	46
Other non-current assets	31	14
Inventories	160	181
Receivables (trade and other)	130	137
Cash and cash equivalents	136	57
Assets, continuing operations	644	582
Assets, discontinued operations	-	3,305
TOTAL ASSETS	644	3,887
Total equity	263	1,526
Interest bearing liabilities	217	103
Non-interest bearing liabilities	163	157
Liabilities, continuing operations	381	259
Liabilities, discontinued operations	-	2,102
TOTAL EQUITY AND LIABILITIES	644	3,887

Key figures	Dec 31, 2020
Net debt, EUR million	81
Gearing, %	30.9
Equity-to-assets ratio, %	42.6
Debt to capital, %	45.2
Net debt/EBITDA ratio	0.9
Return on capital employed, before taxes continued operations, %	15.6

Good cash conversion and China's new factory investment completed

Capital expenditure^{1,2}, MEUR

xx Cash conversion³



- 2016–2017: Maintenance investments
- 2018–2019: System renewal investments
- 2019: System renewal investments continued and investment in new factory in China and some machining capacity additions
- 2020: Continued investments in the new China factory (completed) and systems
- 2021: Continued investments in system renewals (ERP), operations development and R&D. Capex at 2020 levels

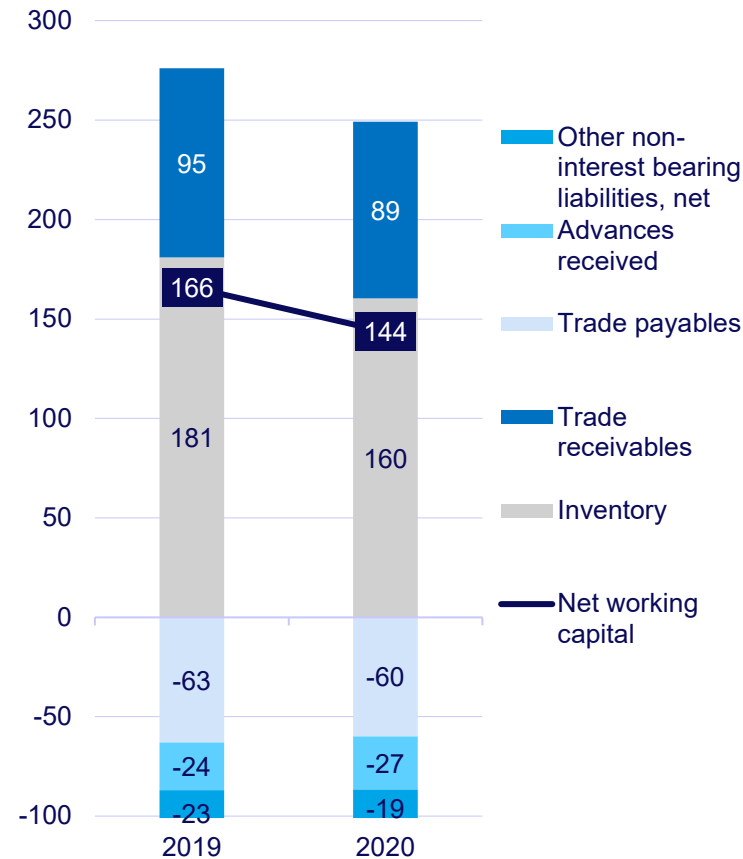
¹ 2016-2017 financials based on carve-out numbers; 2018-2019 financials based on Metso's "Continuing operations" as in 2019 annual report, 2020 financials based on Neles annual report in 2020

² Capex numbers exclude M&A

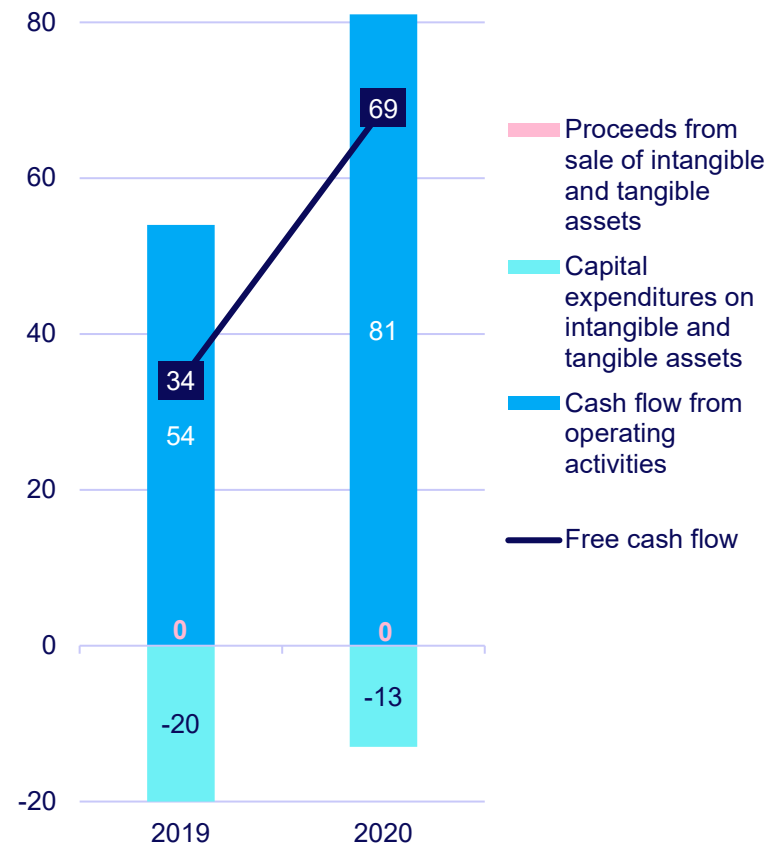
³ Cash conversion rate = (Adj. EBITDA-CAPEX)/Adj. EBITDA; EBITDA and Capex based on carve-out/continuing operations figures

Strong cash flow due to active management of NWC

Net working capital, EUR million



Free cash flow, EUR million



Initiatives addressing NWC turns:

- Project delivery improvement
- Improved manufacturing planning systems and stock optimization; Inventory reduction and management improvement program
- Development of distribution channel for improved availability
- Enforced cash conservation and collection activities in current situation

Capital deployment priorities

Organic Capex

- Creating shareholder value by investing in operations and driving organic growth
- Organic capex
 - Maintenance investments
 - Capacity debottlenecking and increases
 - IT investments initially to harmonize IT landscape

M&A

- Strong balance sheet allowing M&A while maintaining the financial leverage targets and dividend policy

Shareholder Return

- Solid dividend profile of ~40% of underlying adjusted net income in normalised business condition generating strong shareholder return.

2021 Strategic focus areas

- H1: Tight cost control continues
- H2: R&D investments and sales network expansion
- Increasing focus on industry diversification
- Service focus on leveraging recovery in shutdown projects and fast growing installed base
- Easyflow by Neles™ offering from India to global markets
- Continue to improve project excellence and standard product delivery capabilities

NELES



Reinventing reliability



@neles



@nelesworld



@nelesflow



@Neles



@nelesflow

NELES