NELES

Neles Corporation

Final Accounts
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NELES

Table of contents

NELES

Board of Directors' Report

Financial period for January 1, 2022 - March 31, 2022

Merger of Neles and Valmet

On July 2, 2021, Neles announced that the Board of Directors of Neles Corporation and Valmet Oyj had signed a combination agreement and merger plan to combine the two companies through a merger. Neles held an Extraordinary General Meeting on September 22, 2021, where shareholders approved the merger of Neles into Valmet in accordance with the Merger Plan. All the conditions for completion of the merger were fulfilled in March 2022 and Annual General Meeting of Neles Corporation resolved to authorize on March 22, 2022 the Board of Directors of Neles to resolve on an extra distribution of funds in the amount of a maximum of EUR 2.00 per share to the Neles shareholders prior to the completion of the merger.

As a merger consideration, the shareholders of Neles received 0.3277 new shares in Valmet for each share they held in Neles. March 31, 2022 was Neles' last day of trading on the Nasdaq Helsinki stock exchange and the completion of the merger was executed on April 1, 2022.

These Final accounts has been prepared for the period of January 1 – March 31, 2022 in accordance with Finnish Limited Liability Companies Act chapter 16, section 17. For more information, please see https://www.neles.com/company/valmet-neles-merger/.

Operating environment

Orders received in the project business grew clearly during the first quarter of 2022 compared to corresponding period previous year. Orders in Pulp, Paper and Bioproducts projects stayed on a good level. After a challenging 2021, Chemicals and Oil & Gas project orders improved. The Services and MRO-driven businesses also developed well. The organic growth was further accelerated by the valve and pump businesses, which were acquired in the fourth quarter of 2021.

The EMEIA Market Area's orders received grew well compared to corresponding period previous year, driven by the Services and MRO-driven businesses. Orders received in the project business were weak in the first quarter of 2022.

The APAC Market Area's growth in orders received compared to corresponding period previous year was driven mainly by strong activity in project orders, both in Pulp, Paper and Bioproducts and in the Chemicals and Oil & Gas project businesses.

Orders received in the North America Market Area were very high in the first quarter of 2022. In particular, the standalone Valve Controls and Actuation business in North America developed well.

Business in the South and Central America Market Area continues to develop positively. As a result of the Flowrox valve and pump businesses acquisition, several growth opportunities in the mining industry have been developed.

Key figures

Neles' financial year in 2022 was 3 months long. The figures for the previous period refer to the full year 2021 and hence figures are not comparative between financial years.

EUR million	1-3/2022	1-12/2021
Orders received	196.0	625.2
Order backlog at the end of period	319.1	294.4
Sales	165.8	610.9
Sales by services business	36.4	148.1
% Of sales	21.9	24.2
Adjusted EBITA [1]	24.8	86.8
% Of sales	14.9	14.2
Operating profit	23.2	75.8
% Of sales	14.0	12.4
Profit for the year	16.1	56.7
Earnings per share, EUR	0.11	0.38
Free cash flow	4.1	77.5
Net debt	388.5	81.4
Net debt/ EBITDA, rolling 12 months	-	0.8
Gearing, %	-	26.8
Equity to assets ratio, %	-	45.2
Return on capital employed (ROCE) before taxes, %	15.0	15.4
Personnel at end of period	2,974	2,934

[1] Neles had no adjustment items in 2022. The adjustment items EUR 7.2 million in 2021 were attributable to modification of the long-term incentive plans relating to the Neles and Valmet merger and merger- and acquisition-related advisory costs.
[2] Not applicable due to equity distribution prior to merger

Orders and Sales

Orders by market area

EUR million	1-3/2022	1-12/2021
EMEIA	70.3	230.7
North America	71.0	222.4
South America	12.7	46.4
Asia-Pacific	42.0	125.7
Neles total	**196.0**	**625.2**

Orders received in the Services and MRO-driven businesses totaled EUR 135.2 (442.0) million, of which Services orders were EUR 45.2 (153.5) million.

The order backlog on March 31, 2022, was EUR 319.1 (294.4) million.

Sales by market area

EUR million	1-3/2022	1-12/2021
EMEIA	59.1	245.3
North America	60.3	195.8
South America	11.2	51.3
Asia-Pacific	35.2	118.6
Neles total	**165.8**	**610.9**

Sales in the Services and MRO-driven businesses totaled EUR 116.0 (403.8) million, of which Services sales were EUR 36.4 (148.1) million.

Financial performance

In 2022, adjusted EBITA was EUR 24.8 (86.8) million and 14.9% (14.2%) of sales. The positive impact to profitability came from sales volume growth and negative impact came from Russia related trade receivables write-off. Neles had no adjustment items in 2022. Adjustment items amounted to EUR 7.2 million in 2021. The adjustment items in 2021 were attributable to modification of the long-term incentive plans relating to the Neles and Valmet merger as well as merger- and acquisition-related advisory costs.

In 2022, the effective tax rate was 24.6% (20.0%) and comparative operative tax rate in 2021 was approximately 24.1%.

Earnings per share for 2022 amounted to EUR 0.11 (0.38).

Cash flow and Capital expenditure

In 2022 free cash flow amounted to EUR 4.1 (77.5) million. Capital expenditures consisted mainly of investments in manufacturing capacity and equipment.

Financial position

At the end of the first quarter of 2022, operative net working capital amounted to EUR 142.9 (150.2) million. Growth in net working capital was caused by an increase in inventory, which was impacted by continued challenges in global logistics and an increase in trade receivables due to good invoicing at the end of the quarter. Decrease in net working capital was due to unpaid withholding taxes related to dividend distribution. At the end of the first quarter, net working capital related to acquired business was EUR 10.3 million.

Based on the decisions of the Neles' Annual General Meeting and the Board of Directors on March 22, 2022, a total of EUR 340.3 million was distributed from the equity, of which EUR 40.0 million was dividend, EUR 261.3 million was extra dividend, and EUR 39.1 million was a distribution of funds.

Interest bearing liabilities on March 31, 2022, were EUR 520.3 million (EUR 215.6 million at the end of December 2021), including EUR 47.2 million in lease liabilities (EUR 47.5 million at the end of December 2021).

At the end of March 2022, interest bearing loans are disclosed as current loans because of the merger was effective on April 1, 2022. The total amount consists of a EUR 150.0 million bilateral term loan, EUR 19.3 million loans in subsidiaries, a EUR 215.0 million loan withdrawn in March 2022 to fund the extra distribution of funds and a EUR 88.8 million loan from Valmet Oyj.

At the completion of the merger on April 1, 2022, all interest-bearing liabilities were transferred to combined Valmet.

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. Neles' research and development efforts also continuously aim to improve customers' processes in terms of sustainability, efficiency, and reliability.

In March 2022, Neles introduced the renewed Nelprof selection tool for automated process valves. The complete Nelprof™ valve sizing and selection software for all intelligent automated process valves by Neles is now available as a free web-based tool. With its advanced control-valve selection features, the Nelprof™ tool allows fast and reliable selection of Neles™, Jamesbury™ and Easyflow by Neles™ branded intelligent automated process valves.

Research and Development as well as IP-related expenditure

EUR million	1-3/2022	1-12/2021
Research and Development expenditure	4.7	16.6
of sales, %	2.9	2.7
Of which expensed	4.5	15.3
of sales, %	2.7	2.5

Corporate governance and remuneration

Annual General Meeting

Neles Corporation's Annual General Meeting (AGM) was held on March 22, 2022.

The AGM granted the Company's Board of Directors and the President and CEO discharge from liability for the January 1, 2021 – December 31, 2021 financial period.

The AGM approved the Company's Remuneration Report in the advisory vote.

Dividend for 2021

The AGM decided to pay dividends of EUR 0.266 per share for the financial period ended on December 31, 2021. The dividend was paid on March 31, 2022.

Resolution to authorize the Board of Directors to resolve upon an extra distribution of funds

The AGM resolved to authorize the Board of Directors of Neles to resolve, before the execution of the merger, on an extra distribution of funds not exceeding EUR 2.00 per share, to be paid either as a dividend from the Company's retained earnings or a return of equity from the Company's fund for invested unrestricted equity or a combination of the two. The authorization was used on March 22, 2022, and the Board decided on a total of EUR 2.00 extra distribution of funds.

On March 22, 2022, Neles published the Board of Directors' resolution to distribute funds based on the authorization and simultaneously confirmed the record and payment dates applicable to the extra distribution. Funds were paid on March 31, 2022.

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 shall be six.

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

Remuneration of the Boards of Directors

The AGM decided in accordance with the proposal of the Shareholders' Nomination Board that the same fixed annual remuneration be paid to the members of the Board of Directors as in the previous term. The remuneration to be paid would be calculated pro rata to the length of the term of office based on the following annual remuneration:

- 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 that are elected as members of the Audit Committee and the Remuneration and HR 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

It was further decided in accordance with the proposal of the Shareholders' Nomination Board that a meeting fee in the amount of EUR 800 will be paid for each virtual Board and Committee meeting. If 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 fixed annual remuneration and the meeting fees will be paid in cash. Possible travel expenses will be reimbursed according to the travel policy of the Company.

Auditor and 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 next 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.

Authorization to repurchase 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 own shares. The authorization is effective until June 30, 2023, and it cancels the authorization given by the AGM on March 26, 2021 to decide on the repurchase of the Company's own shares. This authorization has not been exercised as of April 1, 2022.

Authorization to issue shares and 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, 2023, and it cancels the authorization given by the AGM on March 26, 2021 to decide on the issuance of shares and the issuance of special rights entitling to shares. This authorization has not been exercised as of April 1, 2022.

Neles Executive Team

The composition of the Neles Executive Team in 2022 was: Simo Sääskilahti, interim President and CEO; Timo Hänninen, Head of EMEIA; Sami Nousiainen, Head of MRO and Services; Kalle Suurpää, Head of Valve Controls & Actuators; Patrick Dunn, Head of North America; Fabio Maia, Head of South America; Jon Jested-Rask, Head of Products and Solutions; Tan HangPheng, Head of Asia-Pacific; Kevin Tinsley, Head of Global Operations; Tuomo Paukkula, Head of

Projects (from February 7, 2022); Hanne Peltola, Head of Human Resources; Kaisa Voutilainen, Head of Communications and Marketing and Elisa Erkkilä, General Counsel and Chief Compliance Officer.

Composition of the Neles' Shareholders Nomination Board

The composition of the Shareholders' Nomination Board on March 31, 2022 was as follows: Mikko Mursula, Deputy CEO, Investments, Ilmarinen Mutual Pension Insurance Company; Pasi Laine, President and CEO, Valmet Oyj; Philip Ahlgren, Vice President, Cevian Capital AB; and Mr. Jaakko Eskola, Chair of Neles Board.

Emma Adlerton, Senior Vice President and Group General Counsel, Alfa Laval AB (publ.), resigned on January 14, 2022 after Alfa Laval sold all its shares in Neles.

Personnel

At the end of March 2022, Neles had 2,974 employees (December 31, 2021: 2,934 employees). Neles employees represent 51 nationalities, operating in 38 countries and in 83 locations. The combination of different backgrounds and a wide range of service years and ages ensures diverse capabilities.

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

Due to the planned merger with Valmet Oyj, the Board consulted external advisors to study market practice relating to treatment of long-term incentives in a change of control situation. Based on the results, the Board decided to discontinue the PSP plans. The performance measurement of relative TSR (total shareholder return) was discontinued in the announcement of the merger plan on July 2, 2021, because it was considered that Neles share would not trade as an independent share after the merger announcement. The performance measurement of EPS (earnings per share) was discontinued on December 31, 2021. Potential earnings will be paid to key employees in cash after a retention period of 12 months from closing. As a result, Neles has recognized an accelerated cost of EUR 2.7 million for 2021, which is reported as an adjusting item. Neles originally announced the establishment of the long-term incentive scheme on July 1, 2020.

In 2022 share based payments plans have not been changed. Performance measurements were discontinued in first quarter of 2022 except for service condition. The payments of the cash rewards are scheduled for 2022 and 2023.

Personnel representation in governing bodies

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

Management appointments

On February 7, 2022, Tuomo Paukkula, M.Sc., engineering, joined Neles Executive Team. He has worked at Neles as VP, Project Business.

On November 30, 2021, Simo Sääskilahti, CFO and Deputy CEO, was appointed as interim President and CEO starting on January 1, 2022. President and CEO Olli Isotalo retired from his position on December 31, 2021.

Other main events in 2022

March 31: All the conditions to completion of the Merger of Neles and Valmet were fulfilled or waived and Valmet's listing application was approved. The last day of trading and listing of the shares in Neles on Nasdaq Helsinki. Valmet's listing application was approved, and trading in the new shares commenced on April 1, 2022.

March 22: Neles Board of Directors decided on an extra distribution of funds of EUR 2.00 in accordance with the combination agreement between Neles and Valmet. The Board resolved based on the authorization given to it by Neles' AGM 2022 that an extra dividend of EUR 1.74 per share would be distributed from the company's retained earnings, and a return of equity of EUR 0.26 per share would be distributed from the invested unrestricted equity fund.

March 22: The Boards of Directors of Neles and Valmet approved a loan agreement between the companies concerning the part of the extra distribution payable to Valmet. According to the Loan Agreement, the part of the extra distribution payable to Valmet as a shareholder of Neles will not be paid in cash to Valmet in connection with the payment of the extra distribution to other Neles shareholders, but the amount payable to Valmet was recorded on April 1, 2022, as debt owed by Neles to Valmet.

March 21: Neles Corporation and Valmet Oyj received all competition approvals for the merger of Neles into Valmet.

January 25: Neles Corporation decided on a new operating model and organization, effective from February 7, 2022. The new organization is designed to accelerate strategy implementation by strengthening Neles' long-term offering development and diversification to new customer industries. The other main objective of the change is to better align Neles' organization and processes with the specific requirements of customer segments.

Neles' new business lines will be

- Projects
- MRO and Service
- Valve Controls and Actuators

A new global function, Products and Solutions, will focus on developing and implementing industry-specific strategies and offering, including product management, and R&D.

Neles' operating model also continues to include global operations, corporate functions and four market areas.

Tuomo Paukkula has been appointed as Head of the Projects business line and a member of Neles' executive management team as of February 7, 2022. He is currently VP, Project Business at Neles.

Other members of the executive management team remain unchanged with few changes in individual roles: Sami Nousiainen, MRO and Service; Kalle Suurpää, Valve Controls and Actuators; Jon Jested-Rask, Products and Solutions; Kevin Tinsley, Global Operations; Timo Hänninen, EMEIA market area; Patrick Dunn, North America; Fabio Maia; South America, Tan HangPheng, APAC; Elisa Erkkilä, Legal and Compliance; Hanne Peltola, Human Resources; and Kaisa Voutilainen, Communications and Marketing.

All executive management team members will report to Neles' Interim President and CEO Simo Sääskilahti. The change does not impact Neles' financial reporting.

January 24: The Shareholders' Nomination Board of the Neles Corporation ("Neles") presents the following proposals to the Annual General Meeting 2022 planned to be held on March 22, 2022, if the merger with Valmet Oyj does not close before February 28, 2022.

- Proposal for the composition of the Board of Directors
- Proposal for the remuneration of the Board of Directors

The proposals concern the term of office of the Board of Directors commencing at the end of the Annual General Meeting 2022 and expiring at the registration of the completion of the merger of Neles into Valmet Oyj.

January 14: Neles announced that Alfa Laval AB (publ.) had informed Neles Corporation that it had sold the shares it held in Neles. Consequently, Emma Adlerton, a member of the Shareholders' Nomination Board, resigned on January 14 from the Shareholders' Nomination Board.

January 1: Simo Sääskilahti started as Neles' interim President and CEO. President and CEO Olli Isotalo retired from his position on December 31, 2021.

Events after 2022 reporting period

April 1: The merger of Neles Corporation and Valmet Oyj was registered with the Finnish Trade Register and the combination of Valmet's and Neles' business operations was completed. As a result of the registration of the completion of the Merger, Neles Corporation was dissolved. The new Valmet shares issued as merger consideration were registered on the book-entry accounts of Neles' shareholders and trading in the new shares commenced. In accordance with the merger agreement published on July 2, 2021, each Neles share was converted to 0.3277 of a Valmet share.

Covid-19 pandemic update

The Covid-19 pandemic situation has been followed closely by management, prioritizing the health and safety of Neles' employees and partners.

The global logistics situation continued to be challenging during the first quarter of 2022. The availability of transportation and its costs continued to be issues, impacting for example Neles' net working capital development and margins. In addition, challenges and risks related to the availability of electronics components continued.

At the end of March 2022, Covid-19 situation in China deteriorated causing Neles' main factory in China, situated in Jiaxing, to be closed for 2 days. The other Neles factory situated in Shanghai has been closed since the end of March. At the end of first quarter 2022, all Neles' factories, except Shanghai's technology center, were operational.

Impact of sanctions on Russia business in 2022

In the recent years Neles' sales to Russia has been less than 5 percent of total sales. Due to war in Ukraine and the subsequent sanctions affecting deliveries, logistics and financial transactions Neles suspended its sales to Russia in late February for an indefinite period of time.

Deliveries for items in the backlog were also suspended in late February. Subsequently, Neles has been winding down deliveries of the order backlog to Russia in a controlled manner according to the imposed sanctions, taking into account availability of logistics and financing as well as stakeholders.

Orders received in the first quarter of 2022 prior to suspension of sales amounted to EUR 4 million. At the end of the first quarter, Neles had the following risk exposure from Russia: order backlog worth approximately EUR 20 million, outstanding trade receivables approximately EUR 2 million and advances received approximately EUR 2 million.

In this Final Accounts, EUR 12.3 million was written down from the order backlog and EUR 1,9 million from the trade receivables.

Short-term business risks and market uncertainties

Due to merger of Neles Oyj and Valmet Oyj on April 1, 2022, Neles Oyj did not publish future looking statements.

Market outlook

Due to merger of Neles Oyj and Valmet Oyj on April 1, 2022, Neles Oyj did not publish future looking statements.

Corporate Governance Statement and Remuneration Report 2022

Neles Oyj and Valmet Oyj have merged on April 1, 2022 and hence Neles Oyj does not publish the Corporate Governance Statement, which complies with the recommendations of the Finnish Corporate Governance Code for listed companies and covers other central areas of corporate governance nor Remuneration Report from financial year 2022.

Non-financial information

Neles Non-financial Report 2022

Sustainability

Sustainability is fundamental to Neles' business and everyday work at all levels of the organization. Neles' Board of Directors oversees the effectiveness of Neles' sustainability governance and the impact of the sustainability agenda. The Neles Executive Team acts as a sustainability committee that regularly monitors and ensures the implementation of the sustainability agenda and makes decisions on corporate-level sustainability targets.

The Sustainability and HSEQ Management System Team drives the implementation of the sustainability agenda at the corporate level, in cooperation with the businesses and support functions. The Sustainability and HSEQ Management System Team manages Neles' material sustainability issues and coordinates the development of sustainability practices and communications, and the implementation of corporate policies. The direction of the sustainability agenda was revisited as part of the materiality assessment 2021. More detailed information on Neles' sustainability agenda is disclosed in the Neles GRI supplement 2021.

Neles serves process industries, such as Pulp, Paper and Bioproducts as well as Chemicals and Oil & Gas, which are characterized by strict safety procedures and targets, continuously tightening environmental regulations for production processes and end products, along with demands for process reliability to maximize efficiency and minimize variances. Neles' strategic sustainability objectives are to be a long-term partner, operate in accordance with the highest standards and to offer Neles products and services, which support customers' objectives. Neles is constantly working to ensure the development of its own operations, personnel, suppliers, and sales channel partners to meet the customer needs. Neles invests continuously in R&D to meet and exceed the tightening sustainability requirements.

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

Environmental and climate matters

Neles offering

Neles' customers in process industries are increasing their efforts to reduce emissions throughout their own operations and supply chains, At the same time the price of energy is rising, and resources are becoming scarce. Neles' valve solutions are mission-critical in terms of process functionality. Neles' products and services are designed with the intention of helping customers operate safely with higher productivity and profitability, while reducing their resource intensity.

Neles' service portfolio, which ranges from spare parts to life cycle services, is an important element of its total offering. An extended product life cycle and decreased environmental impact is achieved starting with long-lasting product design with a modular structure, allowing additions or replacements of components as needed. Well-maintained equipment has typically a smaller environmental footprint. Neles' Service centers are located close to customers to ensure efficient and timely service.

Innovating sustainable solutions to help customers in their sustainability work and endeavors on reducing emissions, is a key driver for Neles' research and development programs. Another key driver in Neles' R&D is product safety. The product safety principles and certificates cover all aspects relevant to safe installation and operation, as well as servicing and maintaining products in varying and challenging conditions.

Neles defines sustainability targets for all new R&D projects as an environmental efficiency and product safety innovation target. The R&D expenditure during the reporting period January 1 to March 31, 2022 was EUR 4.7 million (16.6 million in 2021).

Neles operations

Neles' has set emission- and waste reduction targets on corporate level, as well as water and energy efficiency targets in its factories. Neles has committed to a 25% reduction in carbon emissions in production by 2030 compared to the 2019 base line. By streamlining transportation routes and optimizing warehouse locations, Neles aims for a 20% reduction in transportation emissions by 2025.

To increase opportunities within circularity and decrease the environmental impact of its own operations, Neles uses recycled materials and recovers production waste in its manufacturing processes. Various recycling initiatives implemented with Neles' partners make use of excess materials, such as wooden packaging. Within procurement and sourcing, Neles assess the possibilities to source recycled materials and to increase the usage of renewable energy and bio-based or potentially fully recyclable materials. Partnering with new sustainable companies within the circular ecosystem helps Neles find new opportunities to increase reuse or recycling, and in this way turn the company's waste or by-products into usable resources or energy for other businesses. Neles also strives to increase its energy efficiency of its offices and plants.

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

Supply chain

Neles' responsible way of operating reaches out to the suppliers in the form of Supplier Code of Conduct ensuring quality and sustainability in the supply chain. Neles Supplier Code of Conduct sets the standards for what we expect of Neles suppliers. Neles' long-term target has been to have 90% of the company's suppliers in terms of spend, having signed Neles' Supplier Code of Conduct, or published their own corresponding code, by 2022. Neles also track the environment and climate change related agendas of its suppliers. Neles strives to partner with suppliers with similar values. This is measured for example by tracking how many suppliers have set emission targets.

Suppliers are audited regularly, and Neles' long-term target is to conduct supplier assessments and audits for 95% of its direct suppliers in high-risk areas by 2025. During the reporting period 1-3/2022, Neles conducted a total of 4 sustainability assessments including social and environmental aspects. Based on the results of each assessment, follow-up plans were prepared, and correcting actions made. The sustainability assessment of suppliers is improved and developed continuously as a critical part of Neles risk management, and sustainability agenda.

EU taxonomy - eligibility

In adopting the EU taxonomy, Neles has assessed sales, capital expenditure and operating expenditures against climate change sustainable activities regulation. EU taxonomy eligible sustainable activities during the reporting period assessment are those, which significantly contribute to climate change mitigation or climate change adoption, do not harm any of the other environmental objectives and comply with minimum social safeguards set by OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human rights. EU taxonomy eligible sales consist mainly of sales to manufacturing of low carbon technologies related to recycled pulp, paper, and bio product industries and to manufacturing of renewable energy technologies. Operating expenditure consists mainly of R&D to improve energy efficiency through valve tightness and minimized need for compressed air. Capital expenditure consists mainly of upgrades in energy management systems. Neles discloses the share of EU taxonomy eligible sustainable activities of sales, operating and capital expenditures in the table at the end of this section.

Personnel, social matters, human rights

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

Neles' Code of Conduct sets the main principles for tackling the above-mentioned risks. The Code of Conduct outlines Neles' approach to human rights: All employees are entitled to be treated with respect, and there is zero tolerance of discrimination, harassment, or illegal threats. Any form of compulsory forced, or child labor is unacceptable. Neles respects applicable national laws regarding working hours and employee compensation. All Neles employees are required to complete Code of Conduct training once every two years. Human rights-related topics, including safety and labor rights, are regularly reviewed in Neles' own operations and the operations of its suppliers.

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

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

Continuous development and learning in everyone's daily work is emphasized in Neles' learning approach, which is supported by our global people processes and tools. Additionally, Neles aims for fair remuneration systems that take into consideration the individual, team, business area and the Group's performance, as well as the varying global market practices. Excelling in leadership makes all the difference from an employee engagement perspective. Employee engagement is measured annually in the Neles' global employee survey, People Pulse. The results of the survey in 2021 showed that Neles employees in a global comparison were very engaged and the results in general were above the benchmark levels. Except for some cultural and geographic differences, Neles employees in general are very highly committed, had a strong feeling of being able to contribute and a good level of competences in performing in their work.

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

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

Employee safety, risk observations, safety discussions and safety training hours are continuously measured and monitored. The lost time incident frequency (LTIF) is the main indicator. Annually, an external partner conducts site visits as part of sustainability reporting assurance. Previous assurance was conducted in 2021 and three sites were visited in Finland, Germany, and India.

Anti-corruption and bribery

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

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

Third-party sales channel partners (distributors, resellers, and agents) are an important part of Neles' sales strategy. Neles has a systematic process for evaluating, onboarding, and managing its channel partners to ensure they are committed to ethical business activities. Due diligence is conducted of channel partners to assess potential corruption risks.

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

Neles' non-financial key performance indicators and targets are:

Key performance indicator (KPI)	Target	Result 1-3/2022	Result 2021
Environmental:			
Emission reduction in production	25% CO_2 reduction by 2030 since 2019 baseline	-12%[1]	-12%[2]
Emission reduction in logistics	20% CO_2 reduction by 2025 since 2019 baseline	-15%[1]	-18%
Environmental hazards	No environmental hazards	0	0
Sustainability target in R&D project	100%	100%	100%
Supplier emission reduction	Top 20% of suppliers in terms of spend set emission reduction targets by 2025	22%	22%
Personnel and safety:			
Lost time incident frequency (LTIF)	Solid safety culture towards zero harm	1.5	1.3
Global employee engagement survey score (eNPS)		-	24.2
Anticorruption and bribery:			
Code of Conduct training completed	All employees trained biennially	87%	87%
Share of supplier signed Code of Conduct	Top 90% of suppliers in terms of spend has signed the Supplier Code of Conduct by 2025	65%	65%
Activity	**EU taxonomy KPI definition**	**Result 1-3/2022**	**Result 2021[3]**
Sales	Proportion of sales derived from products or services that are EU taxonomy eligible	4%	5%
Operating expenditures (Opex)	Proportion of operating expenditures that are EU taxonomy eligible	12%	8%
Capital expenditures (Capex)	Proportion of capital expenditures that are EU taxonomy eligible	7%	2%

[1] Rolling 12 months result for the comparison to 2019 baseline
[2] The change is mainly due to the transition to use of renewable energy in Neles' Vantaa (Finland) plant
[3] Eligibility with climate change mitigation or climate change adoption

The accounting policy used in calculation of the EU taxonomy related KPIs has been the following: EU taxonomy eligible sales divided by Neles reported sales, EU taxonomy eligible operating expenditures divided by Neles reported R&D costs added with leases and capitalized cost related to real estates and EU taxonomy eligible capitalized expenditures divided by reported total capitalized expenditures, less capitalized costs related to real estates.

Shares, trading and shareholders

Neles had one share series, and each share entitled its holder to one vote at a General Meeting and to an equal amount of dividend. Neles' shares were registered in the Finnish book-entry system maintained by EuroClear until March 31, 2022.

Basic share information

Listed on	Nasdaq Helsinki
Trading code	NELES
ISIN code	FI4000440664
Industry	Industrials
Number of shares on March 31, 2022	150,348,256
Share capital on March 31, 2022	EUR 50,982,843.80
Market value on March 31, 2022, excl. treasury shares	EUR 1,388 million
Listing date	July 1, 1999

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

A total of 22,554,889 Neles shares was traded on Nasdaq Helsinki in January–March 2022, and the value of the shares traded was approximately EUR 274 million. Neles' market capitalization at the end of March 2022, excluding shares held by the Parent Company, was approximately EUR 1,388 million.

At the end of 2021, Neles had 47,281 shareholders in the book-entry system. The largest shareholder was Valmet, with 44,415,207 shares and 29.54% of the share capital.

At the end of March 2022, the members of the Neles Board of Directors and interim President and CEO Simo Sääskilahti held a total of 20,868 Neles shares, corresponding to 0.014% of the total number of shares and votes.

Share performance and trading on Nasdaq Helsinki January 1–March 31, 2022

EUR	1–3/2022
Closing price, Mar 31, 2022	9.24
Highest share price	14.02
Lowest share price	9.05
Volume-weighted average trading price	12.17

Share key figures 2019–2022

	2022	2021	2020	2019
Share capital, at the end of year, EUR million	51	51	51	141
Number of shares, at the end of year				
Number of outstanding shares	150,197,895	150,197,895	150,197,895	150,076,168
Own shares held by the Parent Company	150,361	150,361	150,361	272,088
Total number of shares	150,348,256	150,348,256	150,348,256	150,348,256
Average number of outstanding shares	150,197,895	150,197,895	150,179,270	150,057,328
Average number of diluted shares	150,197,895	150,197,895	150,179,270	150,200,101
Earnings/share, basic[1], EUR	0.11	0.38	14.63	2.00
Earnings/share, diluted, EUR	0.11	0.38	14.63	2.00
Free cash flow/share[2], EUR	0.03	0.52	0.46	0.26
Dividend/share[3,4], EUR	-	0.266	0.18	1.47
Dividend[3,4], EUR million	-	40	27	221
Dividend/earnings[1,4], %	-	70.3	1.2	73.5
Effective dividend yield[4], %	-	1.9	1.7	4.2
P/E ratio[1]	21.5	36.0	0.74	17.6
Equity/share[4], EUR	-	2.02	1.72	10.15

[1] In 2020 for continuing operations earnings per share was EUR 0.32, dividend/earnings 56.3% and P/E ratio 33.9. P/E ratio in 2022 is annualized.
[2] Share of continuing operations in 2020.
[3] Board proposal to the AGM.
[4] Not applicable due to equity distribution prior to the merger

Largest shareholders March 31, 2022

	Shareholders	Shares	% of shares
1	Valmet Oyj	44,415,207	29.54
2	Oras Invest Oy	6,966,538	4.63
3	Ilmarinen Mutual Pension Insurance Company	4,899,733	3.26
4	Elo Mutual Pension Insurance Company	2,096,735	1.39
5	OP Funds	1,794,820	1.19
	OP-Finland	1,640,054	1.09
	OP-Finland Index Fund	154,766	0.10
6	The State Pension Fund	1,150,000	0.76
7	OP-Finland Small Cap	1,070,041	0.71
8	SEB Finland Small Cap Fund	690,000	0.46
9	Sigrid Jusélius Foundation	662,465	0.44
10	Evli Finland Select Fund	482,842	0.32
	10 largest shareholders total	**64,228,381**	**42.72**
	Nominee registered	**60,272,886**	**40.09**
	Others	**22,693,140**	**15.09**
	Total	**150,348,256**	**100**

Shareholder notifications of changes in their holding

Under the provisions of the Finnish Securities Markets Act (Chapter 9, Section 5 and 6), shareholders of listed companies have an obligation to notify both the Finnish Financial Supervisory Authority and the listed company of changes in their holdings.

Shareholders exceeding 25% ownership in Neles on March 31, 2022:

Valmet Corporation

Shareholders exceeding 10% ownership in Neles on March 31, 2022:

Cevian Capital Partners Ltd.

Known shareholders' agreements

Neles is not aware of any shareholders' agreements regarding the Neles shares or voting rights.

Breakdown of share ownership on March 31, 2022

Number of shares	Shareholders	% Of shareholders	No. shares and votes	% Of share capital and voting rights
1 - 100	23,518	49.74	1,083,004	0.72
101 - 1,000	20,162	42.64	7,113,501	4.73
1,001 - 10,000	3,357	7.10	8,391,775	5.58
10,001 - 50,000	184	0.39	3,462,782	2.30
50,001 - 100,000	26	0.05	1,862,597	1.24
> 100,000	34	0.07	128,426,617	85.42
Total	**47,281**	**100**	**150,340,276**	**100**
Nominee registered	**11**	**0.02**	**60,272,886**	**40.09**
In the joint book-entry account			7,980	0.01
Number of shares issued			**150,348,256**	**100**

Breakdown by shareholder category

	Shareholders		Shares	
Sector	No. of shares	%	No. of shares	%
Foreign and nominee registered	341	0.72	60,496,760	40.24
Households	44,930	95.03	16,600,114	11.04
Public sector organizations	42	0.09	8,928,940	5.94
Financial and insurance institutions	42	0.09	6,555,517	4.36
Non-profit instit serving households	561	1.19	3,654,907	2.43
Private companies	1,376	2.91	54,104,038	35.99
In the joint book-entry account	0	0	7,980	0.01
Number of shares issued	**47,281**	**100**	**150,348,256**	**100**

Flaggings

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

Key figures

EUR million	2022	2021	2020	2019
Orders received	196.0	625.2	590.1	681
Order backlog, at the end of financial year	319.1	294.4	270.3	280
Sales	165.8	610.9	576.3	660
Exports from Finland and international operations	151.2	560.0	541.1	629
% Of sales	91.2	91.7	93.9	95.3
Operating profit	23.2	75.8	70.3	93
% Of sales	14.0	12.4	12.2	14.0
Profit before taxes	21.4	70.8	63.8	91
% Of sales	12.9	11.6	11.1	13.8
Profit for the year	16.1	56.7	48.2	69
% Of sales	9.7	9.3	8.4	10.4
Profit for the year, discontinued operations	-	-	2,149.6	230
Profit attributable to shareholders of the company	16.1	56.7	2,197.8	301
Amortization	1.5	3.7	3.4	4
Depreciation	2.4	9.4	9.1	10
Depreciation of right-of-use assets	3.3	11.9	11.9	11
Depreciation and amortization, total	7.3	25.0	24.5	25
EBITA	24.8	79.5	73.8	97
% Of sales	14.9	13.0	12.8	14.7
EBITDA	30.5	100.9	94.8	117
% Of sales	18.4	16.5	16.4	17.8
Adjustment items[1]	-	7.2	11.3	-
EBITA, adjusted	24.8	86.8	85.0	97
% Of sales	14.9	14.2	14.8	14.7
EBITDA, adjusted	30.5	108.1	106.0	117
% Of sales	18.4	17.7	18.4	17.8
Financial expenses, net	1.9	5.0	6.5	2
% Of sales	1.1	0.8	1.1	0.2
Interest expenses	1.3	4.6	5.7	n/a
% Of sales	0.8	0.7	1.1	n/a
Interest cover (EBITDA)	16.3x	20.1x	14.6x	n/a
Gross capital expenditure	2.4	10.9	12.6	20
% Of sales	1.5	1.8	2.2	3.1
Business acquisitions, net of cash acquired	-	-40.3	-	-
Net capital expenditure	2.4	10.7	12.4	20
% Of sales	1.4	1.7	2.2	3.0
Net cash flow from operating activities	6.4	88.3	81.1	54
Free cash flow	4.1	77.5	68.7	34
Cash conversion, %	25.1	136.7	142.4	52
Research and development	4.7	16.6	17.6	19
% Of sales	2.9	2.7	3.1	2.8

[1] In 2021 adjustment items were attributable to merger- and acquisition -related advisory costs and modification of the long-term incentive plans relating to the Neles and Valmet merger. In 2020 they were attributable to advisory, brand, IT and other costs related to the creation and rebranding of Neles as well as establishing a new operating structure.

EUR million	2022	2021	2020	2019
Balance sheet total[1]	718.8	700.2	643.8	3,887
Equity attributable to shareholders[1]	-14.1	303.8	263.0	1,523
Total equity[1]	-14.0	304.0	263.1	1,526
Interest bearing liabilities	520.4	215.6	217.3	103
Net interest bearing liabilities	388.5	81.4	80.9	46
Net working capital (NWC)	142.9	150.2	143.6	166
% Of sales	21.5	24.6	24.9	25.2
Capital employed	506.4	519.5	480.0	425
Return on equity (ROE)[1], %	-	20.0	18.7	20.4
Return on capital employed (ROCE) before taxes[1,2], %	-	15.4	15.6	19.2
Return on capital employed (ROCE) after taxes[1,2], %	-	12.5	12.1	15.1
Equity to assets ratio[1,2], %	-	45.2	42.6	39.5
Gearing[1,2], %	-	26.8	30.9	52.3
Debt to capital[1,2], %	-	41.5	45.2	40.0
Average number of personnel	2,954	2,858	2,840	14,331
Personnel, December 31	2,974	2,934	2,840	15,821

[1] Key figure for year 2019 is presenting total Metso Group including discontinued operations.
[2] Not applicable due to equity distribution prior to the merger

Formulae for the key figures

Earnings before financial expenses, net, taxes, amortization and depreciation (EBITDA)	=	Operating profit + amortization + depreciation	
Earnings before financial expenses, net, taxes, amortization and depreciation, adjusted (adjusted EBITDA)	=	Operating profit + adjustment items + amortization + depreciation	
Earnings before financial expenses, net, taxes and amortization (EBITA)	=	Operating profit + amortization	
Earnings before financial expenses, net, taxes and amortization, adjusted (adjusted EBITA)	=	Operating profit + adjustment items + amortization	
Earnings per share, basic	=	Profit attributable to shareholders / Average number of outstanding shares during the period	
Earnings per share, diluted	=	Profit attributable to shareholders / Average number of diluted shares during the period	
Equity/share	=	Equity attributable to shareholders / Number of outstanding shares at the end of the period	
Return on equity (ROE), %	=	Profit for the period / Total equity (average for the period)	x 100
Return on capital employed (ROCE) before taxes, %	=	Profit before tax + financial expenses / Capital employed (average for the period)	x 100
Return on capital employed (ROCE) after taxes, %	=	Profit for the period + financial expenses / Capital employed (average for the period)	x 100
Net gearing, %	=	Net interest bearing liabilities	x 100

		Total equity	
Debt to capital, %	=	Interest bearing liabilities / Total equity + interest bearing liabilities	x 100
Equity to assets ratio, %	=	Total equity / Balance sheet total - advances received	x 100
Free cash flow	=	Net cash provided by operating activities - investments + proceeds from sale of intangible and tangible assets	
Free cash flow/share	=	Free cash flow / Average number of outstanding shares during the period	
Cash conversion, %	=	Free cash flow / Profit for the period	x 100
Interest cover (EBITDA)	=	EBITDA (Earnings before financial expenses, net, taxes, depreciation and amortization / Financial income and expenses, net	
Interest-bearing liabilities	=	Interest-bearing liabilities, non-current and current + lease liabilities, non-current and current	
Net interest-bearing liabilities	=	Interest-bearing liabilities - Non-current financial assets - loan and other interest-bearing receivables (current and non-current) – cash and cash equivalents	
Net debt/ EBITDA, rolling 12 months	=	Net interest-bearing liabilities / 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 assets and tangible assets + right-of-use assets + non-current investments + interest bearing receivables + cash and cash equivalents + tax receivables, net + interest payables, net	

Board of Directors’ proposal on the use of profit

Neles Oyj merged to Valmet Oyj on April 1, 2022 and Neles Oyj was dissolved. Due to the merger the Board of Directors does not propose on the use of profit for financial year ended March 31, 2022.

Consolidated Financial Statements

Consolidated Statement of Income, IFRS

EUR million	Note	1–3/2022	1–12/2021
Sales	1.1	165.8	610.9
Cost of goods sold	1.4, 3.3	-110.0	-412.1
Gross profit		**55.8**	**198.8**
Selling and marketing expenses	1.2, 1.4, 3.3	-19.2	-62.2
Administrative expenses	1.2, 1.4, 3.3	-10.0	-40.8
Research and development expenses	1.2, 1.4, 3.3	-4.5	-15.3
Other operating income and expenses, net	1.3	1.0	-4.6
Operating profit		**23.2**	**75.8**
Financial income	1.6	0.2	1.0
Foreign exchange gains/losses	1.6	-0.3	0.0
Financial expenses	1.6	-1.7	-6.0
Financial income and expenses, net		-1.9	-5.0
Profit before taxes		21.4	70.8
Income taxes	1.7	-5.2	-14.1
Profit for the year		**16.1**	**56.7**
Profit attributable to			
Shareholders of the parent company		16.1	56.7
Non-controlling interests		-	-
Earnings per share	1.8		
Basic, EUR		0.11	0.38
Diluted, EUR		0.11	0.38

Consolidated Statement of Comprehensive Income, IFRS

EUR million	Note	1-3/2022	1-12/2021
Profit for the year		16.1	56.7
Other comprehensive income			
Currency translation on subsidiary net investments	4.4	7.0	17.5
Items that may be reclassified to profit or loss in subsequent periods		7.0	17.5
Defined benefit plan actuarial gains and losses	2.7	-0.2	1.3
Tax from previous		-0.1	-0.3
Items that will not be reclassified to profit or loss		-0.3	1.0
Other comprehensive income		6.6	18.4
Total comprehensive income		22.8	75.1
Attributable to			
Shareholders of the parent company		22.8	75.1
Non-controlling interests		-	-

Consolidated Balance Sheet, IFRS – Assets

EUR million	Note	31.3.2022	31.12.2021
Non-current assets			
Intangible assets	3.1, 3.3		
Goodwill		85.9	85.6
Other intangible assets		25.4	25.8
Total intangible assets		111.2	111.5
Tangible assets	3.2, 3.3		
Land and water areas		5.8	5.8
Buildings and structures		22.8	22.3
Machinery and equipment		32.5	31.7
Assets under construction		2.7	3.9
Total tangible assets		63.8	63.6
Right-of-use assets	3.3, 3.4	45.3	45.8
Other non-current assets			
Non-current financial assets	4.2	1.9	2.0
Deferred tax asset	2.8	16.6	16.0
Other non-current receivables	2.3, 2.7, 4.2	10.9	13.7
Total other non-current assets		29.4	31.7
Total non-current assets		249.8	252.6
Current assets			
Inventories	2.4	201.6	187.0
Trade receivables	2.2	89.6	84.2
Income tax receivables	1.7	5.7	5.0
Other current receivables	2.3	42.7	38.9
Cash and cash equivalents	4.3	129.5	132.4
Total current assets		469.0	447.6
TOTAL ASSETS		718.8	700.2

Consolidated Balance Sheet, IFRS – Equity and Liabilities

EUR million	Note	31.3.2022	31.12.2021
Equity	4.4		
Share capital		51.0	51.0
Treasury shares		-3.3	-3.3
Cumulative translation adjustments		60.5	53.5
Fair value and other reserves		1.5	30.0
Retained earnings		-123.8	172.6
Equity attributable to shareholders		-14.1	303.8
Non-controlling interests		0.1	0.1
Total equity		-14.0	304.0
Liabilities			
Non-current liabilities			
Interest bearing liabilities	4.2, 4.5	-	149.6
Lease liabilities	4.2, 4.5	35.5	36.0
Post-employment benefit obligations	2.7	18.2	21.3
Provisions	2.6	2.0	2.0
Deferred tax liability	2.8	3.7	3.5
Other non-current liabilities	2.5	0.3	0.3
Total non-current liabilities		59.7	212.7
Current liabilities			
Interest bearing liabilities	4.2, 4.5	473.1	18.5
Lease liabilities	4.2, 4.5	11.7	11.5
Trade payables	2.5	59.5	62.8
Provisions	2.6	11.6	11.2
Advances received		29.3	27.3
Derivative financial instruments	4.8	1.5	0.5
Income tax liabilities	1.7	7.3	3.0
Other current liabilities	2.5	79.0	48.8
Total current liabilities		673.1	183.6
Total liabilities		732.8	396.3
TOTAL EQUITY AND LIABILITIES		718.8	700.2

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, 2022	51.0	-3.3	53.5	30.0	172.6	303.8	0.1	304.0
Profit for the year	-	-	-	-	16.1	16.1	-	16.1
Other comprehensive income								
Currency translation on subsidiary net investments	-	-	7.0	-	-	7.0	-	7.0
Defined benefit plan actuarial gains and losses	-	-	-	-	-0.2	-0.2	-	-0.2
Tax effect from previous	-	-	-	-	-0.1	-0.1	-	-0.1
Total comprehensive income	-	-	7.0	-	15.8	22.8	-	22.8
Dividends and distribution of funds	-	-	-	-39.1	-301.3	-340.3	-	-340.3
Prior year corrections	-	-	-	10.6	-10.6	-	-	-
Other items	-	-	-	-	-0.4	-0.4	0.0	-0.4
Mar 31, 2022	51.0	-3.3	60.5	1.5	-123.8	-14.1	0.1	-14.0

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 year	-	-	-	-	56.7	56.7	-	56.7
Other comprehensive income								
Currency translation on subsidiary net investments	-	-	17.5	-	-	17.5	-	17.5
Defined benefit plan actuarial gains and losses	-	-	-	-	1.3	1.3	-	1.3
Tax effect from previous	-	-	-	-	-0.3	-0.3	-	-0.3
Total comprehensive income	-	-	17.5	-	57.6	75.1	-	75.1
Dividends	-	-	-	-	-33.1	-33.1	-	-33.1
Share-based payments	-	-	-	-1.5	-	-1.5	-	-1.5
Tax effect from previous	-	-	-	0.3	-	0.3	-	0.3
Other items	-	-	-	-	0.1	0.1	0.0	0.1
Dec 31, 2021	51.0	-3.3	53.5	30.0	172.6	303.8	0.1	304.0

Consolidated Statement of Cash Flows, IFRS

EUR million	Note	1–3/2022	1–12/2021
Operating activities			
Profit for the year		16.1	56.7
Adjustments			
Depreciation and amortization	3.3	7.3	25.0
Financial expenses, net	1.6	1.9	5.0
Income taxes		5.2	14.1
Other items	1.7	1.1	2.0
Change in net working capital		-21.3	7.2
Net cash flow from operating activities before financial items and taxes		10.3	110.1
Interest paid		-1.5	-4.5
Interest received		0.2	0.5
Other financial items, net		-0.7	-0.6
Income taxes paid		-1.8	-17.1
Net cash flow from operating activities		6.4	88.3
Investing activities			
Capital expenditures on intangible and tangible assets	3.1, 3.2	-2.4	-10.9
Proceeds from sale of intangible and tangible assets	3.1, 3.2	0.0	0.1
Business acquisitions, net of cash acquired	5.4	-	-40.3
Net cash flow from investing activities		-2.4	-51.1
Financing activities			
Dividends paid		-222.1	-33.1
Change in financial assets		-0.5	0.5
Increase in loan receivable	4.6	-	-1.8
Proceeds from / repayment of short-term debt, net	4.6	1.2	1.8
Proceeds from issuance of long-term debt	4.6	215.0	150.0
Repayments of long-term debt	4.6	-	-150.0
Repayments of lease liabilities	4.6	-3.1	-11.0
Net cash flow from financing activities		-9.6	-43.7
Net change in cash and cash equivalents		-5.5	-6.5
Effect from changes in exchange rates		2.6	2.9
Cash and cash equivalents at beginning of period		132.4	135.9
Cash and cash equivalents at end of period		129.5	132.4

Notes to the Consolidated Financial Statements

Basic information

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

Neles Corporation merged to Valmet Corporation on 1 April 2022 and Neles' shares were delisted on Nasdaq Helsinki stock exchange on 31 March 2022. Valmet Corporation is domiciled in Finland and the address of the Group Head Office is Keilasatama 5, 02150 Espoo, Finland.

Due to merger these final accounts have been prepared for the period from January 1 to March 31, 2022 in accordance with Finnish Limited Liability Companies Act chapter 16, section 17. Comparison period information has been presented for the period from January 1 to December 31, 2021 and hence figures are not comparative between financial years. These consolidated financial statements were authorized for issue by Neles Corporation's Board of Directors on May 30, 2022, after which, in accordance with Finnish Companies Act, the financial statements are either approved, amended or rejected at the next Annual General Meeting.

Basis of preparation

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

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

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

Critical accounting estimates and judgments by Management

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

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

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

[1] Covid-19 implication disclosed

Implications of Covid-19

The Covid-19 pandemic situation has been followed closely by management, prioritizing the health and safety of Neles' employees and partners.

The global logistics situation continued to be challenging during the first quarter. The availability of transportation and its costs continued to be issues, impacting for example Neles' net working capital development and margins. In addition, challenges and risks related to the availability of electronics components continued.

At the end of March 2022, Covid-19 situation in China deteriorated causing Neles' main factory in China, situated in Jiaxing, to be closed for 2 days. The other Neles factory situated in Shanghai has been closed since the end of March. At the end of first quarter, all Neles' factories, except Shanghai's technology center, were operational.

Impact of sanctions on Russian business in 2022

Due to war in Ukraine and the subsequent sanctions affecting deliveries, logistics and financial transactions Neles suspended its sales to Russia in late February 2022 for an indefinite period of time. Deliveries for items in the backlog were also suspended in late February 2022. Subsequently, Neles has been winding down deliveries of the order backlog to Russia in a controlled manner according to the imposed sanctions, taking into account availability of logistics and financing as well as stakeholders.

Orders received prior to suspension of sales operations amounted to EUR 4 million and sales in Russia amounted to EUR 1 million. At the end of March 2022, Neles has the following risk exposure from Russia: order backlog worth approximately EUR 20 million, outstanding trade receivables approximately EUR 2 million and advances received approximately EUR 2 million.

In this Final Accounts, EUR 12.3 million was written down from the order backlog and EUR 1,9 million from the trade receivables.

Reporting segment

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

Neles' performance is measured with operating profit (EBIT). In addition, Neles uses several other alternative performance measures to reflect the underlying business performance and to improve comparability between financial periods. Adjusting items comprise of costs related to the partial demerger and setting up Neles business area as an independent company, capacity adjustment costs, outcome of material intellectual property rights disputes, gains and losses on business disposals, and other infrequent events. Alternative performance measures, however, should not be considered as a substitute for measures of performance in accordance with the IFRS.

Abbreviations used in the Financial Statements

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

1 Group performance

1.1 Sales

Accounting policy

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

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

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

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

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

Estimates and assessments by Management

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

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

Covid-19 pandemic impact

Sales in 2022 were at good level and sales in 2021 grew compared to 2020. Covid-19 pandemic only had an impact on distribution of sales in the reporting periods. During the first half 2021, Sales were negatively impacted by temporary closures of certain Neles facilities, but these delays in deliveries were caught up in the second half of the year. There were no other major extraordinary impacts on revenue recognition in 2022 and 2021 because of the Covid-19 pandemic situation.

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

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

Disaggregation of sales

External sales by category

EUR million	1-3/2022	1-12/2021
Sales from services	36.4	148.1
Sales of equipment and goods	129.4	462.8
Total	165.8	610.9

Contract balances

EUR million	1-3/2022	1-12/2021
Trade receivables	89.6	84.2
Advances received	29.3	27.3

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

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

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

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

Major customers

In 2022 and 2021, Neles did not have a single customer whose sales would have exceeded 10 percent of the consolidated sales.

Geographical information

Neles monitors Sales by market areas.

External sales by destination

EUR million	1-3/2022	1-12/2021
Finland	14.6	50.9
EMEIA	44.5	194.3
North America	60.3	195.8
South America	11.2	51.3
Asia-Pacific	35.2	118.6
Sales	165.8	610.9

1.2 Selling, general and administrative expenses

EUR million	1-3/2022	1-12/2021
Marketing and selling expenses	-19.2	-62.2
Research and development expenses, net	-4.5	-15.3
Administrative expenses	-10.0	-40.8
Selling, general and administrative expenses	-33.6	-118.4

Accounting policy

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

Research and development expenses

EUR million	1-3/2022	1-12/2021
Research and development expenses, total	-4.7	-16.6
Capitalized development costs	0.2	1.0
Capital expenditure	0.0	0.2
Grants received	0.2	0.7
Depreciation and amortization	-0.2	-0.6
Research and development expenses, net	-4.5	-15.3

1.3 Other operating income and expenses

Accounting policy

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

EUR million	1-3/2022	1-12/2021
Other operating income		
Gain on sale of intangible and tangible assets	-	0.1
Rental income	0.0	0.0
Foreign exchange gains [1]	4.0	5.5
Other income	1.2	4.0
Other operating income, total	5.3	9.6
Other operating expenses		
Loss on sale of intangible and tangible assets	-0.1	-0.3
Impairment of intangible and tangible assets	0.0	-0.1
Foreign exchange losses [1]	-2.7	-7.7
Other expenses	-1.5	-6.1
Other operating expenses, total	-4.3	-14.2
Other operating income and expenses, net	1.0	-4.6

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

1.4 Personnel expenses and the number of personnel

Personnel expenses

EUR million	1-3/2022	1-12/2021
Salaries and wages	-36.1	-127.8
Pension costs, defined contribution plans	-3.2	-9.2
Pension costs, defined benefit plans [1]	-0.2	-1.2
Other post-employment benefits [1]	-0.3	-1.5
Share-based payments [2]	-0.3	-4.8
Other indirect employee costs	-9.9	-25.0
Total	-49.9	-169.6

[1] For more information on pension costs, see note 2.7.

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

Number of personnel

	2022 At end of financial year	Average	2021 At end of financial year	Average
Total	2,974	2,954	2,934	2,858

1.5 Share-based payments

Accounting policy

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

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

The cash-settled share-based incentive plans are valued based on performance criteria. Liability incurred is measured at the fair value at grant date and it is accrued as personnel expenses and other liabilities during the service period. Until cash reward is settled, liability is remeasured at the fair value at the end of each reporting period with any changes in fair value recognized in profit or loss for the period.

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

Estimates and assessments by Management

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

Share-based payments

Modification on 1.7.2021 to share-based payment plans:

In relation to Neles' merger with Valmet, the Board of Directors decided to adjust the structure of Neles' long-term incentive schemes. All outstanding long-term incentive schemes will be paid as a cash reward, and their plan and vesting periods have been shortened to reflect the merger schedule. The performance measurement of relative TSR (total shareholder return) was discontinued in the announcement of the merger plan on July 2, 2021 because it was considered that Neles share would not trade as an independent share after the merger announcement. The performance measurement of earnings per share (EPS) was discontinued on December 31, 2021. As a result, Neles has recognized an accelerated cost of EUR 2.7 million for the year 2021 as incremental fair value granted.

In 2022 share based payments plans have not been changed. Performance measurements were discontinued in first quarter of 2022 except for service condition. The payments of the cash rewards are scheduled for 2022 and 2023.

Share-based payments until July 2021

In January 2021, the DSUP 2021–2023 was granted as a first individual plan within the DSUP structure to 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.

In February 2021, the PSP 2021–2023 was granted to the members of the Neles Executive Management Team. The potential 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. Potential reward earned will be paid after the performance period in 2024 in net shares and as a cash payment for taxes arising from the reward to the employee.

In June 2021, the DSUP 2018 rewards were paid in cash to 16 employees and payment amounted to EUR 1.4 million.

2022	Deferred Share Unit Plan 2019	Deferred Share Unit Plan 2021	PSP 2020-2022	PSP 2021- 2023
Type of the plan	Cash	Cash	Cash	Cash
Grant date	Mar 15, 2019	Jan 5, 2021	Oct 8, 2020	Feb 4, 2021
Modification date	Jul 1, 2021	Jul 1, 2021	Jul 1, 2021	Jul 1, 2021
Vesting date	May 13, 2022	Mar 31, 2023	Mar 31, 2023	Mar 31, 2023
Number of beneficiaries, end of financial year	19	36	12	13
Neles Executive Team members	9	-	12	13
Other beneficiaries	10	36	-	-

Costs recognized

EUR thousand	Deferred Share Unit Plan 2019	Deferred Share Unit Plan 2021	PSP 2020–2022	PSP 2021-2023	Total 2022	Total 2021
Expenses for the financial period						
Neles Executive Team members	5.0	-	48.3	73.1	126.4	4,061.5
Other beneficiaries	2.2	134.4	-	-	136.6	764.5
Costs recognized total	7.2	134.4	48.3	73.1	263.0	4,826.0

1.6 Financial income and expenses

EUR million	1-3/2022	1-12/2021
Financial income		
Interest income on cash and cash equivalents	0.2	0.5
Other financial income	0.0	0.5
Gain from foreign exchange	-0.3	0.0
Financial income total	-0.1	1.0
Financial expenses		
Interest expenses from financial liabilities at amortized cost	-0.7	-2.9
Interest expenses on leases	-0.5	-1.9
Other financial expenses	-0.6	-1.2
Financial expenses total	-1.7	-6.0
Financial income and expenses, net	-1.9	-5.0

1.7 Income taxes

Accounting policy

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

Estimates and assessments by Management

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

The components of income taxes

EUR million	1-3/2022	1-12/2021
Income taxes for current year	-5.5	-18.4
Income taxes for prior years	0.0	7.1
Change in deferred tax asset and liability	0.2	-2.8
Income taxes	-5.2	-14.1

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

EUR million	1-3/2022	1-12/2021
Profit before taxes	21.4	70.8
Income tax at Finnish statutory tax rate of 20.0%	-4.3	-14.2
Effect of different tax rates in foreign subsidiaries	0.0	-4.2
Non-deductible expenses	-1.1	-1.0
Tax exempt income or tax incentives	0.0	0.8
Foreign non-creditable withholding taxes	-	-0.4
Deferred tax liability on undistributed earnings	-0.1	-1.1
Effect of enacted change in tax rates	-	-0.4
Reassessment of deferred taxes for prior years	0.6	-2.8
Income tax for prior years	0.0	7.1
Use of carry-forward tax losses	-	1.9
Other	-0.4	0.1
Income taxes	-5.2	-14.1

1.8 Earnings per share

Accounting policy

Basic

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

Diluted

The shares to be potentially issued in the future are treated as outstanding shares when calculating the diluted earnings per share if they have a dilutive effect. At March 31, 2022, Neles does not have any dilutive arrangements in force.

Basic

1-3/2022	Total
Profit attributable to shareholders of the company, EUR million	16.1
Weighted average number of shares issued and outstanding (in thousands)	150,197.9
Earnings per share, basic, EUR	0.11

1-12/2021	Total
Profit attributable to shareholders of the company, EUR million	56.7
Weighted average number of shares issued and outstanding (in thousands)	150,197.9
Earnings per share, basic, EUR	0.38

Diluted

1-3/2022	Total
Profit attributable to shareholders of the company, EUR million	16.1
Weighted average number of shares issued and outstanding (in thousands)	150,197.9
Weighted average number of diluted shares issued and outstanding (in thousands)	150,197.9
Earnings per share, diluted, EUR	0.11

1-12/2021	Total
Profit attributable to shareholders of the company, EUR million	56.7
Weighted average number of shares issued and outstanding (in thousands)	150,197.9
Weighted average number of diluted shares issued and outstanding (in thousands)	150,197.9
Earnings per share, diluted, EUR	0.38

2 Operational assets and liabilities

2.1 Net working capital and capital employed

Net working capital, balance sheet value

EUR million	31.3.2022	31.12.2021
Inventories	201.6	187.0
Trade receivables	89.6	84.2
Other non-interest bearing receivables	53.1	52.6
Trade payables	-59.5	-62.8
Advances received	-29.3	-27.3
Other non-interest bearing liabilities	-112.4	-83.6
Net working capital	142.9	150.2

Net working capital, cash flow effect

EUR million	31.3.2022	31.12.2021
Inventories	-11.7	-12.1
Trade receivables	-3.4	5.8
Other non-interest bearing receivables	-2.0	0.2
Trade payables	-4.2	2.5
Advances received	1.5	-0.7
Other non-interest bearing liabilities	-1.4	11.5
Net working capital	-21.3	7.2

Capital employed

EUR million	31.3.2022	31.12.2021
Net working capital	142.9	150.2
Intangible assets	111.2	111.5
Tangible assets	63.8	63.6
Right-of-use assets	45.3	45.8
Non-current investments	0.2	0.2
Interest bearing receivables	2.3	1.8
Cash and cash equivalents	129.5	132.4
Tax receivables, net	11.3	14.4
Interest payables, net	-0.2	-0.4
Capital employed	506.4	519.5
Total capital employed, average	513.0	499.8
Profit before taxes + interest and other financial expenses	23.1	76.8
Profit after taxes + interest and other financial expenses	17.9	62.7
Return on capital employed (ROCE) before taxes[1], %	-	15.4
Return on capital employed (ROCE) after taxes[1], %	-	12.5

[1] Not applicable due to equity distribution prior to the merger

Longer time series is presented in Key figures section.

Non-current assets by location

EUR million	31.3.2022	31.12.2021
Finland	81.1	82.9
Other European countries	10.2	10.5
North America	44.0	46.0
South and Central America	3.4	3.0
Asia-Pacific	35.8	36.3
Africa and Middle East	17.8	17.7
Non-allocated	39.2	38.4
Total	231.4	234.9

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

2.2 Trade receivables

Accounting policy

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

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

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

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

Estimates and assessments by Management

Estimate on expected credit losses and credit loss provision to be recognized are based on management's best judgement. The judgement is based on earlier experience on past years credit losses and current economic outlooks and client segment and location information. Trade receivables are collected actively, and possible impairment analyzed regularly by businesses and Neles legal units, and necessary actions to secure the receivables are made by the management. When credit loss provision of a trade receivable is assessed individually, collateral, credit guarantees, financial position of client and earlier payment behavior are considered. In 2022, management has used judgment in decision to write-off all Russia related trade receivables due to sanctions imposed to Russian business.

Covid-19 pandemic impact

There were no increases in realized credit losses in 2022 or major delays in payments because of the Covid-19 pandemic situation. No material changes to the payment terms have been negotiated.

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

EUR million	31.3.2022	31.12.2021
Trade receivables	89.6	84.2

Provision on trade receivables by ageing category

EUR million	31.3.2022 Gross	31.3.2022 of which provided	31.12.2021 Gross	31.12.2021 of which provided
Undue	69.3	0.3	61.8	0.2
overdue 1–30 days	9.5	0.0	11.8	0.1
overdue 31–180 days	10.0	0.2	9.6	0.5
overdue 181–360 days	1.5	0.5	2.0	0.6
overdue 360 days or more	2.8	2.6	2.5	2.0
Total	93.1	3.5	87.7	3.5

Realized bad debt write-offs totaled EUR 0.0 million (EUR 0.6 million in 2021). In addition, write-off in Russia related trade receivables of EUR 1.9 million was done in 2022. Reservation percentage scale used for expected credit loss provision made in 2022 were 0.2% for undue, 0.2% for overdue 1–30 days, 2.2% for overdue 31–180 days, 33.1% for overdue 181–360 days and 92.9% for overdue 361 or more.

Write offs and provision for impairment of trade receivables

EUR million	2022	2021
Realized write offs	-1.9	-0.6
Accumulated provision at the beginning of financial year	3.5	4.2
Impact in income statement	0.0	-0.6
Currency rate differences	0.0	0.0
Accumulated provision at the end of financial year	3.5	3.5

2.3 Other receivables

Accounting policy

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

Estimates and assessments by Management

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

EUR million	31.3.2022 Non-current	31.3.2022 Current	31.3.2022 Total	31.12.2021 Non-current	31.12.2021 Current	31.12.2021 Total
Prepaid expenses and accrued income	-	19.0	19.0	-	18.5	18.5
VAT, payroll tax and social charge receivables	-	11.6	11.6	-	10.9	10.9
Pension assets	9.7	-	9.7	12.5	-	12.5
Other receivables	1.3	8.0	9.2	1.2	8.4	9.7
Derivatives	-	3.6	3.6	-	1.2	1.2
Non-interest bearing receivables total	10.9	42.2	53.1	13.7	38.9	52.7

Other current non-interest bearing receivables included EUR 4.8 million in March 2022 (EUR 3.8 million in 2021) Brazilian tax credits arising from delivery of goods and transfer of services (ICMS) recognized by a local subsidiary.

2.4 Inventory

Accounting policy

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

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

Estimates and assessments by Management

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

Covid-19 pandemic impact

The Covid-19 pandemic situation and the resulting logistics challenges and component shortages caused some challenges in 2022 and 2021 for inventory management through delays in deliveries and need to ensure availability with more safety stocks.

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

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

EUR million	31.3.2022	31.12.2021
Materials and supplies	67.8	63.6
Work in process	23.6	26.1
Finished products	110.2	97.3
Inventories	201.6	187.0

The cost of inventories recognized as expense amounted EUR 107.8 million in Q1 2022 (EUR 403.6 million in 2021).

Changes in provision for inventory obsolescence

EUR million	31.3.2022	31.12.2021
Balance at beginning of year	14.2	13.1
Impact of exchange rates	0.3	0.6
Additions charged to expense	0.8	2.9
Acquisitions	0.1	0.6
Used reserve	-0.1	-1.7
Deductions / other additions	0.0	-1.3
Balance at end of year	15.2	14.2

2.5 Trade and other payables

Accounting policy

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

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

	31.3.2022			31.12.2021		
EUR million	Non-current	Current	Total	Non-current	Current	Total
Trade payables	-	59.5	59.5	-	62.8	62.8
Other payables						
Accrued interests	-	0.2	0.2	-	0.5	0.5
Accrued personnel costs	-	26.5	26.5	-	24.0	24.0
Accrued project costs	-	0.2	0.2	-	0.3	0.3
VAT, payroll tax and social charge payables	-	36.5	36.5	-	6.1	6.1
Other payables	0.3	15.7	16.0	0.3	18.0	18.2
Other payables	0.3	79.0	79.3	0.3	48.8	49.1

2.6 Provisions

Accounting policy

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

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

Warranty and guarantee provisions

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

Restructuring and capacity adjustment costs

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

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

Environmental remediation costs

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

Estimates and assessments by Management

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

Provisions

EUR million	31.3.2022 Non-current	Current	Total	31.12.2021 Non-current	Current	Total
Warranty and guarantee provision	-	6.7	6.7	-	6.6	6.6
Restructuring provision	0.1	0.7	0.8	0.1	0.9	0.9
Environmental remedial provision	-	-	-	-	-	-
Other provisions [1]	1.9	4.2	6.1	1.9	3.7	5.6
Total	2.0	11.6	13.6	2.0	11.2	13.1

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

Changes in provisions

2022 EUR million	Warranty and guarantee provision	Restructuring provision	Environmental remediation provision
Carrying value on January 1	6.6	0.9	-
Impact of exchange rates	0.0	0.0	-
Addition charged to expense	1.0	-	-
Used reserve	-1.0	-0.2	-
Carrying value on March 31	6.7	0.8	-

2021 EUR million	Warranty and guarantee provision	Restructuring provision	Environmental remediation provision
Carrying value on January 1	5.7	0.7	-
Impact of exchange rates	0.0	0.0	-
Addition charged to expense	3.7	0.8	-
Used reserve	-2.8	-0.6	-
Carrying value on December 31	6.6	0.9	-

2.7 Post-employment obligations

Accounting policy

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

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

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

Estimates and assessments by Management

The present value of the pension obligations is based on annual actuarial calculations, which use several assumptions such as the discount rate and expected return on assets, salary and pension increases and other actuarial factors. As a result, the liability recorded on Neles’ balance sheet and cash contributions to funded arrangements are sensitive to changes. Where the actuarial experience differs from those assumptions gains and losses result, which are recognized in OCI. Sensitivity analyses on the present value of the defined benefit obligation have been presented in the tables.

Assets of Neles’ funded arrangements are managed by external fund managers. The allocation of assets is reviewed regularly by those responsible for managing Neles’ arrangements based on local legislation, professional advice and consultation with Neles, based on acceptable risk tolerances.

Covid-19 pandemic impact

The Covid-19 pandemic impacts all assumptions used, of which interest rate factor has the main influence on the present value of the defined benefit obligation calculated.

Neles’ pension and other post-employment plans

Neles' most financially significant arrangements are the US pension plan and the German pension plans which amount for 98% of Neles' pension obligations and almost 100% of Neles' pension assets. The US funded pension plan is closed to new entrants and to future accrual of benefits. Annual funding valuations are carried out in accordance with local principles to determine if cash funding contributions are required. As the plan has been in funding surplus over recent years, no contributions have recently been required. Neles' obligations in the US also include a more modest unfunded pension plan and a deferred compensation arrangement. Deferred compensation arrangement will be paid to beneficiaries as a consequence of implementation of Neles merger to Valmet. Neles' defined benefit plans in other territories include modest pension plans, as well as lump sum benefits payable on leaving service and retirement.

Movement in the net defined benefit liability

EUR million	Defined benefit obligation 2022	Fair value of plan assets 2022	Net defined benefit liability (asset-/liability+) 2022	Defined benefit obligation 2021	Fair value of plan assets 2021	Net defined benefit liability (asset-/liability+) 2021
January 1	91.6	-82.8	8.8	91.5	-81.3	10.3
Adjustments due to business combinations	-	-	-	-	-	-
Change in consolidation scope	-	-	-	-	-	-
Included in income statement						
Current service cost	0.2	-	0.2	1.3	-	1.3
Past service cost	-	-	-	-	-	-
Settlements	-	-	-	-0.1	0.1	-
Administration costs	-	-	-	-	-	-
Net interest expense	0.5	-0.5	0.0	1.7	-1.8	-0.1
Gains/losses recognized in income statement	-	-	-	0.2	-0.2	-
Total in Income statement	0.7	-0.5	0.2	3.1	-1.9	1.2
Included in Other comprehensive income						
Remeasurement gains (-)/ losses (+)						
Actuarial gains/losses arising from changes in financial assumptions	-7.8	-	-7.8	-3.5	-	-3.5
Actuarial gains/losses arising from changes in demographical assumptions	-	-	-	0.3	-	0.3
Actuarial gains/losses arising from experience adjustments	0.1	-	0.1	0.1	-	0.1
Return on plan assets (excluding amounts included in interest expenses)	-	7.9	7.9	-	1.8	1.8
Exchange rate differences	1.7	-1.7	0.0	6.4	-6.4	0.0
Total in Other comprehensive income	-6.0	6.3	0.2	3.3	-4.6	-1.3
Contributions paid by the employer		-0.5	-0.5	-	-1.4	-1.4
Benefits paid by the employer	-0.5	0.5	-	-1.5	1.5	-
Benefits paid from plan assets	-1.3	1.3	-	-4.8	4.8	-
End of financial year	84.4	-75.8	8.5	91.6	-82.8	8.8
Present value of funded defined obligation	66.7	-	66.7	70.5	-	70.5
Fair value of plan assets	-	-75.8	-75.8	-	-82.8	-82.8
Funded obligations, net	66.7	-75.8	-9.1	70.5	-82.8	-12.4
Present value of unfunded obligation	17.7	-	17.7	21.2	-	21.2
Defined benefit net liability	84.4	-75.8	8.5	91.6	-82.8	8.8
of which in balance sheet assets			-9.7			-12.5
of which in balance sheet liabilities			18.2			21.3

Net liability in Germany amounted to EUR 8.2 million (EUR 11.0 million) and the net surplus in the United States EUR 1.4 million (EUR 4.0 million). Average duration of defined benefit obligation in Germany is 27 years and in the US 9 years at the end of March 2022.

Neles paid contributions of EUR 0.5 million to defined benefit plans in 2022, substantially in respect of direct benefit payments in the US deferred compensation plan.

Fair values of plan assets

EUR million	31.3.2022	31.12.2021
Quoted		
Equity securities	8.3	8.9
Bonds	66.9	73.3
Unquoted		
Property	0.2	0.2
Cash	0.4	0.4
Total	75.8	82.8

At March 31, 2022 there were no plan assets invested in affiliated or property occupied by affiliated companies.

The principal actuarial assumptions

%	Germany 2022	US 2022	Germany 2021	US 2021
Discount rate	1.90%	3.43%	0.80%	2.60%
Future salary increase	2.50%	n/a	2.50%	3.50%
Future pension increase	1.75%	n/a	1.75%	3.00%
Rate of inflation	n/a	n/a	1.75%	3.00%

The life expectancy used

Longevity at age 65	Germany 2021	US 2021
Current age		
45 years, male	23.2	22.1
45 years, female	26.1	24.0
65 years, male	20.5	20.6
65 years, female	23.9	22.6

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

Sensitivity analyses

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

EUR million	Germany 2021	US 2021
0.25% increase in discount rate	-0.8	-1.5
0.25% decrease in discount rate	0.8	1.6
0.25% increase in salary growth rate	0.0	0.0
0.25% decrease in salary growth rate	0.0	0.0
0.25% increase in pensions	0.2	0.0
0.25% decrease in pensions	-0.2	0.0
One-year increase in the life expectancy	0.4	2.6

Sensitivity analyses presents the impact on the Defined Benefit Obligation when major assumptions are changed while others held constant at the end of 2021.

Maturity profile of the future benefit payments, nominal payments

EUR million	2021
Maturity	
year 1	5.7
year 2	5.7
year 3	5.6
year 4	5.4
year 5	5.4
years 6–10	25.0

In addition to maturity profile of the future benefit payments at the end of 2021, US deferred compensation arrangement amounting to EUR 5.4 million will be paid to beneficiaries as a consequence of implementation of Neles merger to Valmet.

2.8 Deferred tax assets and liabilities

Accounting policy

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

Estimates and assessments by Management

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

Reconciliation of deferred tax balances

2022 EUR million	January 1	Charged to income statement	Charged to shareholders' equity	Translation differences and Group items	March 31
Deferred tax assets					
Tax losses carried forward	2.7	0.7	-	0.3	3.8
Intangible and tangible assets	3.5	-0.1	-	0.0	3.5
Inventory	6.5	0.5	-	0.2	7.2
Provisions	2.2	0.1	-	0.1	2.4
Accruals	0.4	-0.1	-	0.0	0.3
Pension related items	0.0	-	-	-	0.0
Other	4.2	-0.9	-	-0.3	3.0
Total deferred tax assets	19.4	0.3	-	0.4	20.1
Offset against deferred tax liabilities	-3.5	-	-	-	-3.5
Net deferred tax assets	15.9	0.3	-	0.4	16.6
Deferred tax liabilities					
Purchase price allocations	2.2	-0.1	-	-	2.1
Intangible and tangible assets	2.4	0.0	-	0.1	2.5
Undistributed retained earnings	1.6	0.1	-	-	1.7
Other	0.9	0.0	-	-	1.0
Total deferred tax liabilities	7.0	0.0	-	0.1	7.2
Offset against deferred tax assets	-3.5	-	-	-	-3.5
Net deferred tax liabilities	3.5	0.0	-	0.1	3.7
Deferred tax assets, net	12.5	0.2	-	0.3	13.0

2021 EUR million	January 1	Charged to income statement	Charged to shareholders' equity	Translation differences and Group items	December 31
Deferred tax assets					
Tax losses carried forward	7.2	-4.8	-	0.2	2.7
Intangible and tangible assets	2.2	1.3	-	0.0	3.5
Inventory	5.3	0.9	-	0.4	6.5
Provisions	2.0	0.2	-	0.1	2.2
Accruals	1.3	-0.2	-	-0.7	0.4
Pension related items	0.6	-0.1	-0.3	-0.2	0.0
Other	3.1	1.1	0.0	-0.1	4.2
Total deferred tax assets	21.7	-1.7	-0.3	-0.3	19.4
Offset against deferred tax liabilities	-3.8	-	-	-	-3.5
Net deferred tax assets	17.9	-1.7	-0.3	-0.3	15.9
Deferred tax liabilities					
Purchase price allocations	2.1	0.1	-	-	2.2
Intangible and tangible assets	2.3	0.1	-	0.0	2.4
Undistributed retained earnings	0.5	1.0	-	0.1	1.6
Other	1.6	0.0	-	-0.7	0.9
Total deferred tax liabilities	6.5	1.3	-	-0.7	7.0
Offset against deferred tax assets	-3.8	-	-	-	-3.5
Net deferred tax liabilities	2.7	1.3	-	-0.7	3.5
Deferred tax assets, net	15.2	-3.0	-0.3	0.5	12.5

Deferred tax liability on undistributed retained earnings in subsidiaries will be recognized when the dividend distribution is probable in the near future, and it will cause a tax impact.

At the end of March 2022, there are no substantial undistributed earnings in subsidiaries from which deferred tax liability is not booked.

3 Intangible and tangible assets

3.1 Goodwill and other intangible assets

Accounting policy

Goodwill and other intangible assets with an indefinite useful life

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

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

Other intangible assets

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

Amortization of intangible assets

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

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

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

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

Goodwill and other intangible assets

31.3.2022 EUR million	Goodwill	Patents and licenses	Capitalized software	Other intangible assets	Intangible assets total
Acquisition cost at beginning of year	85.6	0.7	22.0	39.8	148.1
Translation differences	0.2	0.0	0.2	0.6	0.9
Capital expenditure	-	0.0	0.0	0.6	0.6
Reclassifications	-	-	1.2	-1.2	-
Acquisition cost at 31.3.	85.9	0.8	23.4	39.7	149.7
Accumulated amortization at 1.1.	-	-0.2	-18.6	-17.8	-36.7
Translation differences	-	0.0	-0.1	-0.2	-0.3
Other changes	-	-	-	0.0	0.0
Amortization for the year	-	-0.1	-0.4	-1.1	-1.5
Accumulated amortization at 31.3.	-	-0.3	-19.1	-19.0	-38.5
Net book value at 31.3.	85.9	0.5	4.2	20.7	111.2

31.12.2021 EUR million	Goodwill	Patents and licenses	Capitalized software	Other intangible assets	Intangible assets total
Acquisition cost at 1.1.	5.,3	0.7	21.0	27.6	106.5
Translation differences	3.1	0.0	0.3	0.7	4.2
Business acquisitions	25.1	-	0.1	9.4	34.5
Capital expenditure	-	0.2	0.7	2.5	3.4
Reclassifications	-	-	0.3	-0.3	0.0
Other changes	0.2	-0.2	-0.5	0.0	-0.5
Acquisition cost at 31.12.	85.6	0.7	22.0	39.8	148.1
Accumulated amortization at 1.1.	-	-0.2	-17.5	-15.0	-32.6
Translation differences	-	0.0	-0.3	-0.1	-0.5
Other changes	-	0.2	0.5	-0.2	0.5
Impairment losses	-	-	-	-0.3	-0.3
Amortization for the year	-	-0.2	-1.3	-2.1	-3.7
Accumulated amortization at 31.12.	-	-0.2	-18.6	-17.8	-36.7
Net book value at 31.12.	85.6	0.5	3.3	22.0	111.5

Impairment testing

Accounting policy

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

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

Estimates and assessments by Management

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

Neles performs impairment testing annually, or whenever there is an indication of impairment. Typical triggering events are material and permanent deterioration in the global economy or political environment, observed significant under-performance relative to projected future performance and significant changes in Neles' strategic orientations.

Expected useful lives and remaining amortization periods for other intangible assets are reviewed annually by management. Acquisitions, disposals and restructuring actions typically generate a need for the reassessment of the recoverable amounts and remaining useful lives of the assets. When the other intangible assets are measured at fair value less costs of disposal, the selling price, incremental costs and selling costs need to be estimated by management.

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

Covid-19 pandemic impact

During the Covid-19 pandemic uncertainties and risks related to global economy have remained high and predicting future long-term cash flows has continued to be difficult. At the end of March 2022, impairment test is based on strategy figures that were revised during 2021 and plan 2022 created in the second half of 2021, taking into account the uncertainties related to the Covid-19 pandemic and other changes in market environment.

Impairment test in 2022

As at March 31, 2022, goodwill totaled EUR 85.9 million. Impairment testing has been conducted for annual financial statements in 2021 and that detailed calculation for carrying value has been used in impairment testing for final accounts as at March 31,2022.

Neles Group tested assets and liabilities have not significantly changed after financial statements 2021 testing. Change in tested net assets is -1.0% between final accounts March 31, 2022 and annual financial statements 2021. According to impairment testing prepared for the financial statements 2021, the recoverable amount significantly exceeded the carrying value of goodwill and other tested assets.

Management has analyzed events that have occurred and circumstances that have changed since the most recent recoverable amount calculation in connection with the annual financial statements 2021. Most significant changes are update of estimate for year 2022 and change in market interest rates.

Management has updated the 2022 economic estimate during the first quarter of 2022. In this estimate management has taken into account impact of Russian sanctions to forecasted cash flows, the Covid-19 pandemic and other changes in market environment.

In addition, change in market interest rates has been updated during the first quarter of 2022 which has impact on the discount factor used in value in use calculations.

Based on the analysis, the recoverable amount still significantly exceeded the carrying value of goodwill and other tested assets and no indication of impairment was found in 2022.

The impact of the CGUs value in use of the events that have occurred and circumstances that have changed in the value in use calculations

	31.3.2022
Change in economic estimate for 2022	-0.4%
Market interest rate change	-3.3%

Annual impairment test in 2021

As at December 31, 2021, goodwill totaled EUR 85.6 million. Given that the recoverable amount significantly exceeded the carrying value of goodwill and other tested assets, no indication of impairment was found in 2021. The value in use calculations were derived from estimates, budgets and strategy figures reviewed by Neles' management and approved by the Board of Directors.

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

	31.12.2021
Sales growth in four years estimate period	9.0%
EBITDA % range in four years estimate period	16.2%–19.5%
Growth rate in the terminal period	1.7%
WACC after tax	9.7%
WACC before tax	12.2%

Values assigned to key assumptions reflect past experience and the management's expectations on the future sales and production volumes, which are based on the current structure and production capacity. In the 2021 testing, the increased risk in forecasting future cash flows caused by the Covid-19 pandemic situation has been assessed. Additionally, data on growth, demand and price development provided by various research institutions have been utilized. The growth rate of 1.7% for the terminal period is based on the long-term expectations on the growth in the Neles' market environments considering the current low interest rate environment and overall financial market situation.

WACC before tax is used as a discount factor in the calculations. It takes into account the expected return on both debt and equity and has been derived from the WACC on comparable peer industry betas, capital structure and tax rates. WACC is evaluated annually for testing and business specific risk is incorporated through individual beta factors from the market data of peer companies. WACC used in 2021 is reflecting the Covid-19 pandemic impact on the market prices and takes into account the risks in estimating future cash flows.

Sensitivity analysis

The sensitivity to impairment was tested in the following scenarios:
- Scenario 1: increasing WACC by 2.0 percentage points
- Scenario 2: reducing the terminal growth rate from 1.7% to 1.2% and increasing WACC by 2.0 percentage points

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

	31.12.2021
WACC increase by 2 p.p.	-21%
Terminal growth from 1.7% to 1.2% and WACC increase by 2 p.p.	-23%

The sensitivity analysis also includes several cash projections on break-even levels of EBITDA %, WACC and sales growth based on reasonable change in the future performance. However, the impact on the present value obtained is limited as long as there is no permanent weakening expected for the business, which would affect the terminal value. Based on these sensitivity analyses, the management believes that no reasonably possible change of the key assumptions used would cause the carrying value exceed its recoverable amount. In 2021, the sensitivity analysis did not indicate risks of impairment.

3.2 Tangible assets

Accounting policy

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

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

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

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

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

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

Government grants

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

Estimates and assessments by Management

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

Tangible assets

2022 EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Tangible assets total
Acquisition cost at beginning of year	5.8	53.8	148.4	3.9	211.9
Translation differences	0.1	0.9	1.8	0.0	2.8
Capital expenditure	-	0.2	0.8	0.8	1.8
Reclassifications	-	0.5	1.6	-2.0	-
Other changes	-	-	-0.2	-	-0.2
Acquisition cost at 31.3.2022	5.8	55.4	152.5	2.7	216.3
Accumulated depreciation at beginning of year	-	-31.6	-116.7	-	-148.3
Translation differences	-	-0.6	-1.4	-	-2.0
Other changes	-	-	0.2	-	0.2
Depreciation for the year	-	-0.5	-2.0	-	-2.4
Accumulated depreciation at 31.3.2022	-	-32.6	-120.0	-	-152.6
Net book value at 31.3.2022	5.8	22.8	32.5	2.7	63.8

2021 EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Tangible assets total
Acquisition cost at beginning of year	5.5	49.4	135.3	4.2	194.4
Translation differences	0.2	3.8	7.1	0.1	11.2
Business acquisitions	-	-	0.2	-	0.2
Capital expenditure	-	0.3	3.5	3.8	7.5
Reclassifications	-	0.5	3.4	-3.8	0.0
Other changes	-	-0.1	-1.1	-0.3	-1.5
Acquisition cost at end of year	5.8	53.8	148.4	3.9	211.9
Accumulated depreciation at beginning of year	-	-27.3	-104.8	-	-132.2
Translation differences	-	-2.4	-5.5	-	-7.9
Other changes	-	-	1.3	-	1.3
Impairment losses	-	-	0.0	-	0.0
Depreciation for the year	-	-1.8	-7.6	-	-9.4
Accumulated depreciation at end of year	-	-31.8	-116.7	-	-148.3
Net book value at end of year	5.8	22.3	31.6	3.9	63.6

3.3 Depreciation and amortization

Depreciation and amortization

EUR million	1-3/2022	1-12/2021
Intangible assets from acquisitions	-	-0.2
Other intangible assets	-1.5	-3.4
Tangible assets		
Buildings and structures	-0.5	-1.8
Machinery and equipment	-2.0	-7.6
Right-of-use assets		
Buildings	-2.9	-10.6
Machinery and equipment	-0.4	-1.3
Total	-7.3	-25.0

Depreciation and amortization by function

EUR million	1-3/2022	1-12/2021
Cost of goods sold	-4.6	-17.9
Selling, general and administrative expenses	-2.7	-7.1
Total	-7.3	-25.0

3.4 Right-of-use assets

Accounting policy

Neles as a lessee

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

Right-of-use assets

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

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

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

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

Short-term leases and leases of low-value assets

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

Lease liabilities

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

Estimates and assessments by Management

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

Amounts recognized in right-of use assets

2022 EUR million	Land and water areas	Buildings	Machinery and equipment	Right-of-use assets total
Acquisition cost at beginning of year	0.0	73.0	5.5	78.4
Translation differences	-	0.5	0.0	0.5
Additions	-	2.2	0.3	2.6
Derecognition	-	-0.4	-0.3	-0.6
Acquisition cost at 31.3.2022	0.0	75.4	5.5	80.9
Accumulated depreciation at beginning of year	0.0	-29.6	-3.0	-32.6
Translation differences	-	-0.1	0.0	-0.1
Other changes	-	0.2	0.2	0.5
Depreciation for the year	-	-2.9	-0.4	-3.3
Accumulated depreciation at 31.3.2022	0.0	-32.4	-3.1	-35.6
Net book value at 31.3.2022	-	42.9	2.4	45.3

2021 EUR million	Land and water areas	Buildings	Machinery and equipment	Right-of-use assets total
Acquisition cost at beginning of year	0.0	66.1	4.8	70.9
Translation differences	-	3.2	0.2	3.4
Additions	-	4.7	1.3	6.0
Derecognition	-	-1.0	-0.8	-1.8
Acquisition cost at end of year	0.0	73.0	5.5	78.4
Accumulated depreciation at beginning of year	0.0	-18.2	-2.2	-20.4
Translation differences	-	-1.2	-0.1	-1.3
Derecognition	-	0.0	0.0	0.0
Other changes	-	0.3	0.6	1.0
Depreciation for the year	-	-10.6	-1.3	-11.9
Accumulated depreciation at end of year	0.0	-29.6	-3.0	-32.6
Net book value at end of year	0.0	43.3	2.5	45.8

Amounts recognized in profit and loss

EUR million	1-3/2022	1-12/2021
Operating profit		
Depreciation expense on right-of-use assets	-3.3	-11.9
Rental expense relating to leases of low-value assets	-0.3	-1.1
Rental expense relating to leases of short-term assets	-0.1	-0.4
Finance expenses		
Interest expense on lease liabilities	-0.5	-1.9
Total amount recognized in profit and loss	-4.2	-15.3

The total cash outflow for leases including short-term leases and leases of low value assets in 2022 was EUR 4.0 million and 2021 it was EUR 14.7 million.

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

4 Capital structure and financial instruments

4.1 Financial risk management

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

Sensitivity analysis

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

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

Liquidity and refinancing risk and capital structure management

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

As of March 31, 2022 cash and cash equivalents amounted to EUR 130 million (EUR 132 million in 2021), and there were no deposits or securities with maturity over three months in March 2022 (EUR 0 million in 2021).

As of March 31, 2022 Neles had a fully drawn term loan of EUR 150 (EUR 150 million in 2021) million with final maturity in 2028. Additionally, Neles had a committed syndicated revolving credit facility of EUR 200 million (EUR 200 million in 2021) This syndicated revolving credit facility was fully undrawn and had final maturity in 2024 and had one one-year extension option.

In 2021 Neles signed a EUR 301 million Bridge-to-bond facility, the purpose of which was to finance the extraordinary distribution of funds prior to the completion of the merger. On March 31, 2022 EUR 215 million had been drawn under this facility. The facility term was 12 months with maturity in March 2023 and it had two 6-month extension options.

In March 2022 Neles signed a EUR 88.8 million short-term loan agreement with Valmet the purpose of which was to maintain Valmet's share of extra distribution of funds as debt in Neles's balance sheet.

Additionally, as of March 31, 2022 the uncommitted Finnish Commercial Paper program totaling EUR 200 million was available for funding. At the end of March 2022, all interest bearing loans are disclosed as current loans, because of the merger effective on April 1, 2022.

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

Maturities of debts

	Mar 31, 2022			Dec 31, 2021		
EUR million	<1 year	1–5 years	>5 years	<1 year	1–5 years	>5 years
Long-term debt						
Repayments	-	-	-	-	-	150.0
Interests	-	-	-	1.2	5.2	2.1
Other liabilities	-	-	-	-	0.3	-
Short-term debt						
Repayments	473.5	-	-	18.5	-	-
Interests	8.2	-	-	0.1	-	-
Trade payables	59.5	-	-	62.8	-	-
Other liabilities	3.7	-	-	1.7	-	-
Total	544.9	-	-	84.2	5.5	152.1

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

Capital structure is monitored by the Board of Directors and managed operationally by the Group Treasury. Capital structure management in Neles comprises both equity and interest-bearing debt.

On March 31, 2022, Parent company's equity totaled EUR 119 million (EUR 462 million in 2021) and interest-bearing liabilities totaled EUR 473 million (EUR 168 million in 2021). The changes in the capital structure in March 2022 are part of the planned transactions related to the merger of Neles with Valmet group as of 1 April 2022. The covenants included in the previous loan agreements have been agreed with the banks as part of the merger arrangement.

Interest rate risk

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

As of March 31, 2022 the balance sheet items exposed to interest rate risk were interest bearing assets of EUR 132 million (EUR 134 million in 2021) and interest bearing debt of EUR 473 million (EUR 168 million in 2021). Of the total interest bearing debt 95 percent (89 percent in 2021) was denominated in EUR.

The basis for the interest rate sensitivity analysis is an aggregate group level interest exposure, composed of interest bearing assets and interest bearing debt. For all interest bearing current debt and assets to be fixed during next 12 months a one percentage point move upwards or downwards in interest rates with all other variables held constant would have an effect on Neles' net interest expenses, net of taxes, of EUR +/- 2.5 million (EUR +/- 2.0 million in 2021).

Foreign exchange risk

Neles operates globally and is exposed to foreign exchange risk in several currencies, although the geographical diversity of operations decreases the significance of any individual currency. About 75 percent of Neles' sales originate from outside the euro zone; the main currencies being euro, US dollar, SG dollar, Brazilian real and Chinese renminbi.

Transaction exposure

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

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

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

Total amount of foreign currency exposures at the end of period

EUR million	31.3.2022	31.12.2021
Operational items affecting to operating profit	29.2	25.1
Financial items	25.3	43.0
Hedges	-34.8	-58.3
Total exposure	19.7	9.8

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

Assuming euro to appreciate or depreciate ten percent against all other currencies, the impact on cash flows, net of taxes, derived from the year-end net exposure as defined above, would be EUR +/- 0.03 million (EUR +/- 0.3 million in 2021). Transaction exposure is spread in about 27 currencies and as of December 31, 2021, the biggest open exposures were in USD, 24 percent, and BRL, 13 percent.

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

	1-3/2022				1-12/2021			
EUR million	USD	BRL	Others	Total	USD	CNY	Others	Total
Effects in								
Income statement	+/- 0.6	+/- 0.4	-/+ 0.2	-/+1.3	+/- 0.3	+/- 0.4	-/+ 0.2	-/+ 0.5

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

Translation or equity exposure

Foreign exchange translation exposure arises when the equity of a subsidiary is denominated in currency other than the functional currency of the Parent Company. The major translation exposures are in US Dollar and Chinese Yuan, which altogether comprise approximately 78 percent of the total equity exposure. Neles is currently not hedging any equity exposure.

Commodity risk

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

To reduce its exposure to the volatility caused by the surcharge for certain metal alloys (Alloy Adjustment Factor) comprised in the price of stainless steel charged by its suppliers, Neles has entered into average-price swap agreements for nickel. The Alloy Adjustment Factor is based on monthly average prices of its components of which nickel is the most significant. As of March 31, 2022, Neles had outstanding nickel swaps amounting to 288 tons (312 tons in 2021).

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

A 10 percent change upwards or downwards in commodity prices would have effects, net of taxes, of EUR +/- 0.6 million to income statement in March 31, 2022 (EUR +/- 0.4 million to income statement in 2021).

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

Credit and counterparty risk

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

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

Counterparty risk arises also from financial transactions agreed upon with banks, financial institutions and corporates.

The risk is managed by careful selection of banks and other counterparties, by counterparty specific limits determined in the Treasury Policy, and netting agreements such as ISDA (Master agreement of International Swaps and Derivatives Association). The compliance with counterparty limits is regularly monitored.

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

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

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

Fair value estimation

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

Level 1

Quoted unadjusted prices at the balance sheet date in active markets. The market prices are readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. The quoted market price used for financial assets is the current bid price. Level 1 financial instruments include fund investments classified as fair value through profit and loss.

Level 2

The fair value of financial instruments in Level 2 is determined using valuation techniques. These techniques utilize observable market data readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. Level 2 financial instruments include:

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

Level 3

A financial instrument is categorized into Level 3 if the calculation of the fair value cannot be based on observable market data. Neles had no such instruments in 1-3/2022 or in 2021.

Financial assets and liabilities measured at fair value

	31.3.2022			31.12.2021		
EUR million	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit and loss						
Derivatives not under hedge accounting, assets	-	3.6	-	-	1.2	-
Derivatives not under hedge accounting, liabilities	-	1.5	-	-	0.5	-

4.2 Financial assets and liabilities by category

Accounting policy

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

A) At amortized cost

Financial assets

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

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

Financial liabilities

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

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

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

Financial assets

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

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

Financial assets

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

Financial liabilities

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

Financial assets and liabilities by categories

31.3.2022 EUR million	At fair value through profit and loss	At fair value through other comprehensive income	At amortized cost	Carrying value	Fair value
Non-current financial assets					
Equity investments	0.2	-	-	0.2	0.2
Loan receivables	-	-	1.8	1.8	1.8
Other receivables	-	-	1.3	1.3	1.3
Total	0.2	-	3.1	3.2	3.2
Current financial assets					
Trade receivables	-	-	89.6	89.6	89.6
Derivatives	3.6	-	-	3.6	3.6
Other receivables	-	-	42.7	42.7	42.7
Deposits and securities, maturity three months or less	-	-	7.3	7.3	7.3
Cash at hand and on bank accounts	-	-	122.3	122.3	122.3
Total	3.6	-	261.8	265.4	265.4
Non-current liabilities					
Lease liabilities	-	-	35.5	35.5	35.5
Other liabilities	-	-	0.3	0.3	0.3
Total	-	-	35.8	35.8	35.8
Current liabilities					
Loans from financial institutions	-	-	384.3	384.3	384.3
Loan from Valmet Oyj	-	-	88.8	88.8	88.8
Lease liabilities	-	-	11.7	11.7	11.7
Trade payables	-	-	59.5	59.5	59.5
Derivatives	1.5	-	-	1.5	1.5
Other liabilities	-	-	79.0	79.0	79.0
Total	1.5	-	623.4	625.0	625.0

31.12.2021 EUR million	At fair value through profit and loss	At fair value through other comprehensive income	At amortized cost	Carrying value	Fair value
Non-current financial assets					
Equity investments	0.2	-	-	0.2	0.2
Loan receivables	-	-	1.8	1.8	1.8
Derivatives	0.0	-	-	0.0	0.0
Other receivables	-	-	1.2	1.2	1.2
Total	0.2	-	3.0	3.3	3.3
Current financial assets					
Trade receivables	-	-	84.2	84.2	84.2
Derivatives	1.2	-	-	1.2	1.2
Other receivables	-	-	37.8	37.8	37.8
Deposits and securities, maturity three months or less	-	-	7.7	7.7	7.7
Cash at hand and on bank accounts	-	-	124.7	124.7	124.7
Total	1.2	-	254.4	255.6	255.6
Non-current liabilities					
Loans from financial institutions	-	-	149.6	149.6	149.6
Lease liabilities	-	-	36.0	36.0	36.0
Other liabilities	-	-	0.3	0.3	0.3
Total	-	-	185.9	185.9	185.9
Current liabilities					
Lease liabilities	-	-	11.5	11.5	11.5
Loans from financial institutions	-	-	18.5	18.5	18.5
Trade payables	-	-	62.8	62.8	62.8
Derivatives	0.5	-	-	0.5	0.5
Other liabilities	-	-	48.8	48.8	48.8
Total	0.5	-	141.6	142.1	142.1

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

4.3 Cash and cash equivalents

Accounting policy

Deposits and securities with maturities over three months, consist of highly liquid investments, which are part of Neles' cash management. These commercial papers deposit and debt investments have maturity less than twelve months, and they are measured at amortized cost.

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

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

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

EUR million	31.3.2022	31.12.2021
Cash and cash equivalents		
Deposits and securities, maturity three months or less	7.3	7.7
Cash on hand and bank accounts	122.3	124.7
Cash and cash equivalents	129.5	132.4

Some of the Neles' subsidiaries are located in countries, where the currency market is restricted. Cash and cash equivalents located in these countries were EUR 17 million at the end of March 2022 (EUR 14 million in 2021).

Average returns for deposits and securities

EUR million	1-3/2022	1-12/2021
With maturity three months or less	0.78%	4.70%

4.4 Equity

Accounting policy

Issue of new shares and own shares

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

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

Translation differences

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

Dividends

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

Share capital and number of shares

Neles Corporation's registered share capital, which is fully paid, was EUR 50,982,843.80 as at March 31, 2022 (50,982,843.80 as at December 31, 2021).

At March 31, 2022 the acquisition price of 150,361 own shares held by the Parent Company was EUR 3,337,728.57 and was recognized in treasury stock.

Shares	2022	2021
Number of outstanding shares at beginning of financial year	150,197,895	150,197,895
Number of outstanding shares at end of financial year	150,197,895	150,197,895
Own shares held by the Parent Company	150,361	150,361
Total number of shares at end of financial year	150,348,256	150,348,256

Dividends

Neles Corporation merged to Valmet Corporation on 1.4.2022 and Neles was dissolved. On the basis of merger to Valmet Oyj, the Board of Directors do not propose dividend for the financial year ended on March 31, 2022.

Fair value and other reserves

Share-based payments were presented within the fair value reserve at December 31, 2020. In 2021, a reduction of fair value reserve EUR 1.2 million was recorded due to changes in the structure of Neles' share-based payments schemes.

The legal reserve consists of restricted equity, which has been transferred from distributable funds under the Articles of Association, local company act or by a decision of the shareholders.

The other reserves consist of the distributable fund and the invested non-restricted equity fund held by the Parent Company. Distribution of funds EUR 39.1 million was done in 2022 in connection to merger to Valmet and correction to other reserves and retained earnings related to carve-out equity in 2020.

Changes in fair value and other reserves

EUR million	Legal reserve	Other reserves	Total
January 1, 2022	1.2	28.8	30.0
Distribution of funds	-	-39.1	-39.1
Prior year corrections	-	10.6	10.6
March 31, 2022	1.2	0.4	1.5

EUR million	Fair value reserve	Legal reserve	Other reserves	Total
January 1, 2021	1.2	1.2	28.8	31.3
Share-based payments, net of tax	-1.2	-	-	-1.2
December 31, 2021	-	1.2	28.8	30.0

4.5 Borrowings and lease liabilities

Accounting policy

Borrowings

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

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

Lease liabilities

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

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

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

EUR million	31.3.2022 Carrying values	Fair values	31.12.2021 Carrying values	Fair values
Loans from financial institutions	-	-	149.6	149.6
Lease liabilities	35.5	35.5	36.0	36.0
Total long-term interest-bearing debt	35.5	35.5	185.6	185.6
Loans from financial institutions	384.3	384.3	18.5	18.5
Loan from Valmet Oyj	88.8	88.8		
Lease liabilities	11.7	11.7	11.5	11.5
Total short-term interest-bearing debt	484.9	484.9	30.0	30.0
Total interest-bearing debt	520.4	520.4	215.6	215.6

On March 31, 2022, interest bearing loans are disclosed as current loans because of the Neles' merger, effective on April 1, 2022.

Short-term loans consist of a EUR 150.0 million bilateral term loan, EUR 215.0 million loan withdrawn in March 2022 to fund the extra distribution of funds and loans in subsidiaries. Neles subsidiaries' short-term loans from financial institutions were EUR 19.3 million (EUR 18.5 million in 2021) and are denominated in Indian rupee and South-Korean won and the weighted average interest rate at March 31, 2022 was 5.08 % (4.9 % in 2021).

Loan from Valmet Oyj was EUR 88.8 million and equals with the Valmet's share of the extra distribution of funds.

At the completion of the merger on April 1, 2022, all interest-bearing liabilities were transferred to combined Valmet.

The average interest rate of total loans was 0.57 % on March 31, 2021 (0.70% in 31.12.2021).

Maturities of interest-bearing debt

2022 EUR million	Loans from financial institutions	Loan from Valmet Oyj	Repayments of lease liabilities [1]
2022	384.3	88.8	13.5
2023	-	-	11.7
2024	-	-	10.0
2025	-	-	8.7
2026	-	-	2.4
Later	-	-	6.1
Total	384.3	88.8	52.4

[1] Future lease payments at nominal value.

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

4.6 Interest bearing net debt reconciliation

Net interest bearing liabilities

EUR million	31.3.2022	31.12.2021
Non-current interest bearing liabilities [1]	0.0	149.6
Lease liabilities	47.2	47.5
Current interest bearing liabilities	473.1	18.5
Loan and other interest bearing receivables	-2.3	-1.8
Liquid funds	-129.5	-132.4
Net interest bearing liabilities	388.5	81.4

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

Changes in net interest bearing liabilities

31.3.2022 EUR million	Balance at beginning of year	Cash flows	Acquisitions	Translation differences	Other non-cash movements	Balance at end of year
Non-current interest bearing liabilities	149.6	0.0	-	-	-149.6	0.0
Lease liabilities	47.5	-3.1	-	0.5	2.4	47.2
Current interest bearing liabilities	18.5	216.2	-	-	238.5	473.1
Loan and other interest bearing receivables	-1.8	-0.5	-	-	-	-2.3
Liquid funds	-132.4	5.5	-	-2.6	-	-129.5
Net interest bearing liabilities	81.4	218.1	-	-2.2	91.2	388.5

31.12.2021 EUR million	Balance at beginning of year	Cash flows	Acquisitions	Translation differences	Other non-cash movements	Balance at end of year
Non-current interest bearing liabilities	149.7	0.0	-	-	-0.1	149.6
Lease liabilities	51.5	-11.0	1.4	1.7	3.9	47.5
Current interest bearing liabilities	16.1	1.8	-	0.6	0.0	18.5
Loan and other interest bearing receivables	0.0	-1.8	-	-	-	-1.8
Liquid funds	-135.9	6.5	-	-2.9	0.0	-132.4
Net interest bearing liabilities	81.4	-4.5	1.4	-0.6	3.8	81.4

4.7 Contingent liabilities and other commitments

Accounting policy

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

Repurchase commitments represent engagements whereby Neles agrees to purchase back equipment sold to customer.

The conditions triggering the buy-back obligation are specific to each sales contract.

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

EUR million	31.3.2022	31.12.2021
Guarantees		
External guarantees given by parent and group companies	39.3	39.4
Other commitments		
Repurchase commitments	24.5	22.8
Other contingencies	6.4	2.2
Total	70.2	64.4

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

4.8 Derivative instruments

Accounting policy

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

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

Derivatives at fair value through profit and loss

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

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

Fair value estimation of derivative instruments

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

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

31.3.2022 EUR million	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts	105.5	0.2	1.5	-1.3
Nickel swap contracts[1]	288.0	3.4	-	3.4
Total		3.6	1.5	2.1

31.12.2021 EUR million	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts	109.4	0.4	0.5	-0.1
Nickel swap contracts[1]	312.0	0.7	-	0.7
Total		1.2	0.5	0.7

[1] Notional amount in tons.

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

Derivative financial instruments recognized in balance sheet at end of financial year

	31.3.2022		31.12.2021	
EUR million	Assets	Liabilities	Assets	Liabilities
Forward exchange contracts - non-qualifying hedges	0.2	1.5	0.4	0.5
Nickel swaps - non-qualifying hedges	3.4	-	0.7	-
Total	3.6	1.5	1.2	0.5

Maturities of financial derivatives as at March 31, 2022 (expressed as notional amounts)

EUR million	2022	2023	2024
Forward exchange contracts	105.5	-	-
Nickel swap contracts [1]	210.0	78.0	-

[1] Notional amount in tons.

5 Consolidation

5.1 Principles of consolidation

Subsidiaries

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

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

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

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

Non-controlling interest

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

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

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

Foreign currency translation

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

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

Net investment hedge

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

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

When a foreign entity is disposed of, the respective accumulated translation difference, including the effect from qualifying hedging instruments, is reversed through OCI and recognized in the consolidated statement of income as part of the gain or loss on the sale. If the equity of a foreign currency denominated subsidiary is reduced by reimbursement of invested funds, the translation difference relating to the reduction is reversed through OCI and recognized in the consolidated statement of income. Net investment hedges have not been executed in 2022 or 2021.

5.2 Subsidiaries

Company name and ownership	Mar 31, 2022
Australia	
Neles Australia Flow Control Pty Ltd	100.0%
Austria	
Neles Austria GmbH	100.0%
Brazil	
Neles do Brazil Indústria e Comércio Ltda	100.0%
Canada	
Neles Canada Ltd	100.0%
Chile	
Neles Chile SpA	100.0%
China	
Neles (China) Investment Co. Ltd	100.0%
Neles Flow Control (Shanghai) Co. Ltd	100.0%
Neles Flow Control (Jiaxing) Co. Ltd	100.0%
Czech Republic	
Neles Czech Republic s.r.o.	100.0%
Finland	
Neles Finland Oy	100.0%
France	
Neles France SAS	100.0%
Germany	
Neles Germany GmbH	100.0%
India	
Neles India Private Limited	100.0%
Italy	
Neles Italy SpA	100.0%
Japan	
Neles Japan Co. Ltd	100.0%
Malaysia	
Neles Flow Control Malaysia Sdn. Bhd.	100.0%
Mexico	
Neles Mexico SA de CV	100.0%
Netherlands	
Neles Netherlands B.V.	100.0%
Peru	
Neles Perú S.A.C	100.0%

Company name and ownership	Mar 31, 2022
Poland	
Neles Poland Sp zoo	100.0%
Portugal	
Neles Portugal, Unipessoal LDA	100.0%
Qatar	
Neles Automation WLL[1]	49.0%
Romania	
Neles Flow Control Romania S.R.L.	100.0%
Russia	
OOO Neles	100.0%
Saudi Arabia	
Neles Plant Saudi Arabia LLC	70.0%
Singapore	
Neles Asia Pacific Pte Ltd	100.0%
South Africa	
Neles South Africa Pty Ltd	100.0%
South Korea	
Neles Korea Co. Ltd	100.0%
Spain	
Neles Flow Control Spain, SL	100.0%
Sweden	
Neles Sweden AB	100.0%
Taiwan	
Neles Taiwan Co Ltd	100.0%
Thailand	
Neles (Thailand) Co. Ltd	100.0%
Turkey	
Neles Turkey Dis Ticaret A.S.	100.0%
United Arab Emirates	
Neles FZE	100.0%
Neles Flow Control LLC[1]	49.0%
United Kingdom	
Neles UK Ltd	100.0%
United States	
Neles USA Inc.	100.0%
Neles-Jamesbury Inc.	100.0%

[1] Has been 100% consolidated.

5.3 Related party transactions

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

Executive team remuneration

President and CEO

EUR[1]	1-3/2022	1-12/2021
Interim President and CEO		
Salaries, bonuses and fringe benefits	160,046	783,528
Post-employment benefits	6,250	100,422
Total	166,296	883,950

[1] On a cash basis
[2] Interim President and CEO Simo Sääskilahti for the period Jan 1, - Mar 31, 2022 and President and CEO Olli Isotalo in 2021

On November 30, 2021 the CEO agreement with Olli Isotalo had been terminated, to expire on May 31, 2022, and he was released from his duties on January 1, 2022. He will be entitled to the remuneration to be paid in 2022, EUR 1.3 million related to LTI rewards (PSP 2020–2022 and PSP 2021–2023 and EUR 0.5 million as severance pay, equivalent to 12 months' salary. Additionally, he will also be entitled to his additional pension contribution savings.

More information in notes 1.5 Share-based payments and 5.3 Related party transactions as well as in Renumeration report 2020. Neles has supplementary pension plans for other Neles Executive Team members for retirement. These pension premium payments totaled approximately EUR 0.0 (0.3) million.

Other executive team members

EUR	1-3/2022	1-12/2021
Neles executive team		
Salaries, bonuses and fringe benefits	1,190,284	2,736,598
Post-employment benefits	53,494	253,295
Share-based payments	-	889,637
Total	1,243,778	3,879,530

Remuneration of Board members

Board of Directors'

EUR thousand	2022	2021
Serving Board members		
Jaakko Eskola	-33.8	-102.3
Anu Hämäläinen	-22.0	-95.4
Niko Pakalén	-19.5	-76.3
Teija Sarajärvi	-16.6	-72.2
Jukka Tiitinen	-17.6	-64.8
Mark Vernon	-16.6	-102.0
Former Board members		
Britta Giesen	-	-30.5
Jukka Moisio	-	-42.3
Petter Söderström	-	-20.9
Perttu Louhiluoto	-	-27.9
Total	-126.3	-634.7

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

Based to the decision of the Annual General Meeting of Neles on March 26, 2021, the annual fees paid to the Neles Board members were: Chairman of the Board EUR 115,000, Vice Chairman of the Board EUR 65,000 and other Board members EUR 50,000. An additional annual remuneration is paid to the member of the Board elected in the position of Chairman of the Audit Committee EUR 15,000, members of the Audit Committee EUR 7,500, Chairman of Remuneration and HR Committee EUR 7,500 and members of the Remuneration and HR Committee EUR 3,750.

In addition, an attendance fee of EUR 800 per meeting attended, excluding committee meetings, is paid to members whose residence is in the Nordic countries, EUR 1,600 to members whose residence is elsewhere in Europe and EUR 3,200 for those residing outside Europe. Compensation for travel expenses and daily allowances are paid in accordance with Neles' travel policy. In 2022 only attendance fees were paid to members of the Neles Board.

Transactions and balances with related parties

Valmet Plc, holding a 29.5% stake of Neles shares on March 31, 2022, had the ability to exercise a significant influence over the company and is therefore a related party to Neles.

Transactions and balances with the related party entity are as follows:

Transactions and balances with the related party

EUR million	1-3/2022	1-12/2021
Sales [1]	11.1	10.7
Rental income	0.0	0.1
Receivables	1.3	1.6
Loan from Valmet Oyj	88.8	-

[1] Valmet became a related party entity on August 12, 2020, when its shareholding exceeded 20%. Transactions with related party are made on terms equivalent to other external customers and on arm's length basis.

5.4 Acquisitions and business disposals

Acquisitions 2022

There were neither acquisitions nor business disposals in financial year 2022.

Acquisitions 2021

On November 1, 2021, Neles acquired the valve and pump businesses of the technology company Flowrox in Finland, the USA, South-Africa, Australia, China, Russia and Peru, through an asset deal. The acquisition complements Neles' offering and improves its market positioning the mining and metals industry. The acquired businesses employs 101 people.

Preliminary assets and liabilities recognized as a result of the acquisitions

EUR millions	2021
Intangible assets	9.5
Tangible assets	0.2
Right-of-use assets	1.4
Inventory	9.1
Other receivables	0.1
Interest bearing liabilities	-1.4
Other liabilities	-0.7
Net identifiable assets acquired at fair value	18.1
Goodwill	25.1
Purchase consideration	43.3

The goodwill is attributable to synergies related the extended offering in the mining and metals industry and personnel knowhow. Calculation on goodwill generated are based on the carrying value of acquired net assets, adjusted by changes in accounting principles and effects from the fair value adjustment. Goodwill recognized will be deductible for tax purposes.

The acquired business contributed sales of EUR 4.0 million to Neles group for the period from November 1, 2021 to December 31, 2021. Sales volume of the acquired business amounted about EUR 30 million in the year 2020.

Net cash flow impact of the acquisitions

EUR millions	2021
Cash consideration paid	40.3
Cash and cash equivalents acquired	0.0
Net cash flow for the year	**40.3**
Contingent consideration	3.0
Cash considerations, total	43.3

Contingent consideration of the Flowrox acquisition will be paid if the order intake based earn out criteria are met during a one-year period.

Acquisition costs of EUR 0.6 million were expensed and included in administrative expenses in the income statement and in operating cash flow in the statement of cash flows.

5.5 New accounting standards

New and amended standards adopted in 2022

Neles has applied the following revised IFRS Standards that have been effective since January 1, 2022.

- IFRS 9 Financial instruments – Fees in the 10 per cent test for derecognition of financial liabilities
- Amendment to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract
- Amendment to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use
- Amendment to IFRS 1: Subsidiary as a First-time Adopter
- Amendment to IAS 41: Taxation in Fair Value Measurements
- Amendments to IFRS 3: Updating a Reference to the Conceptual Framework

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

New and amended standards to be applied

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

- IFRS 17 Insurance Contracts and its amendments
- Amendments to IAS 1: Classification of Liabilities as Current or Non-Current
- Amendments to IAS 8: Definition of Accounting Estimates
- Disclosure Initiative—Accounting Policies
- Amendment to IFRS 17: Initial Application of IFRS 17 and IFRS 9—Comparative Information

Neles does not publish financial statements in the future so the amendments do not have impact on the Neles Group.

5.6 Exchange rates used

		Average rates 1-3/2022	Year-end rates 31.3.2022	Average rates 1-12/2021	Year-end rates 31.12.2021
USD	(US dollar)	1.1196	1.1101	1.1851	1.1326
BRL	(Brazilian real)	5.8492	5.3009	6.3782	6.3101
INR	(Indian rupee)	84.0707	84.1340	87.4940	84.2292
CNY	(Chinese yuan)	7.0996	7.0403	7.6388	7.1947
SGD	(Singapore dollar)	1.5155	1.5028	1.5891	1.5279
SEK	(Swedish crown)	10.4205	10.3370	10.1469	10.2503
GBP	(Pound sterling)	0.8383	0.8460	0.8615	0.8403
CAD	(Canadian dollar)	1.4197	1.3896	1.4868	1.4393

6 Other notes

6.1 Audit fees

EUR million	1-3/2022	1-12/2021
Audit services	-0.2	-1.2
Tax services	0.0	0.0
Other services	0.0	-0.1
Total	-0.2	-1.4

Ernst & Young Oy has provided non-audit services to entities of Neles Group in total of 5 thousand euros during the financial year 2022. These services included only tax advisory services.

6.2 Lawsuits and claims

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

Asbestos litigation

Since 1998, there has been a number of asbestos litigation cases filed in the United States in relation to asbestos related health problems in which a Neles entity is one of the named defendants. On March 31, 2022, the number of pending litigation cases filed was 226 (207 on December 31, 2021). Neles management's understanding is that the risk caused by the pending asbestos litigation cases in the United States is not material in the context of Neles' total business activities. Asbestos litigation risk is accounted for as contingent liability.

6.3 Events after balance sheet date

On April 1, 2022 the merger of Neles Corporation and Valmet Oyj was registered with the Finnish Trade Register and the combination of Valmet's and Neles' business operations was completed. As a result of the registration of the completion of the Merger, Neles Corporation was dissolved. The new Valmet shares issued as merger consideration were registered on the book-entry accounts of Neles' shareholders and trading in the new shares commenced. In accordance with the merger agreement published on July 2, 2021, each Neles share was converted to 0.3277 of a Valmet share.

Financial Statements of the Parent Company, FAS

Statement of Income of the Parent Company

EUR	Note	1-3/2022	1-12/2021
Sales		8,637,421.15	34,588,772.96
Other operating income	2	-	115,821.09
Personnel expenses	3	-2,404,177.65	-13 658 606,86
Depreciation and amortization	4	-155,198.89	-376,340.20
Other operating expenses		-7,683,044.79,	-34,923,172.49
Operating profit/(loss)		-1,605,000.18	-14,253,525.50
Financial income and expenses, net	6	-536,791.09	73,237,449.17
Profit before appropriations and taxes		-2,141,791.27	58,983,923.67
Appropriations	7	-	22,156,000.00
Profit before taxes		-2,141,791.27	81,139,923.67
Income taxes	8		
Current tax expense		31,039.89	-393,609.03
Profit for the year		-2,110,751.38	80,746,314.64

Balance Sheet of the Parent Company

Assets

EUR	Note	31.3.2022	31.12.2021
Non-current assets			
Intangible assets	9	2,098,839.81	1,894,279.16
Tangible assets	9	31,927.07	32,758.07
Investments			
Shares in Group companies	10	464,951,822.01	464,951,822.01
Other investments	10	3,378,634.98	5,562,472.73
Total non-current assets		470,461,223.87	472,441,331.97
Current assets			
Long-term receivables	12	1,825,621.08	1,794,581.19
Short-term receivables	12	140,896,530.40	136,780,371.09
Bank and cash		63,182,343.59	76,156,392.83
Total current assets		205,904,495.07	214,731,345.11
Total assets		676,365,718.94	687,172,677.08

Shareholders' equity and liabilities

EUR	Note	31.3.2022	31.12.2021
Shareholders' equity	13		
Share capital		50,982,843.80	50,982,843.80
Invested non-restricted equity fund		356,617.86	39,408,070.56
Retained earnings		67,729,661.99	371,137,390.74
Total shareholders' equity		119,069,123.65	461,528,305.10
Liabilities			
Long-term liabilities	14	8,144,546.43	157,593,798.54
Current liabilities	15	549,152,048.86	68,050,573.44
Total liabilities		557,296,595.29	225,644,371.98
Total shareholders' equity and liabilities		676,365,718.94	687,172,677.08

Cash Flow Statement of the Parent Company

EUR thousand	1-3/2022	1-12/2021
Cash flows from operating activities		
Profit for the year	-2,111	80,746
Adjustments to operating profit (loss)		
Depreciation and amortization	155	376
Financial income and expenses, net	537	-73,237
Group contributions	-	-22,156
Taxes	-31	394
Total adjustments to operating profit (loss)	661	-94,623
Increase / decrease in short-term non-interest bearing trade receivables	-2,003	-1,436
Increase / decrease in short-term non-interest bearing debt	2,432	-16,515
Change in working capital	429	-17,951
Interest and other financial expenses paid	-773	-2,136
Dividends received	-	74,956
Interest received	45	393
Income taxes paid	-	-394
Net cash provided by operating activities	-1,750	40,991
Cash flows from investing activities		
Investments in tangible and intangible assets	-359	-1,867
Investments in subsidiary shares	-	-
Long-term loans granted	-	-7,763
Repayments of long-term loans	2,126	11,545
Short-term loans granted	-	-
Repayments of short-term loans	-2,668	2,514
Increase in loan receivables	-	-1,784
Interest received from investments	367	1,327
Dividends received from investments	-	-
Net cash used in investing activities	-535	3,961
Cash flows from financing activities		
Investments in unrestricted equity	-39,051	-
Withdrawal of long-term loans	215,176	157,850
Repayments of long-term loans	-	-150,000
Dividends paid	-183,082	-33,119
Financial transactions of the demerger	-	-
Change in Group pool accounts	-25,888	-65,902
Group contributions	22,156	20,701
Net cash provided by / used in financing activities	-10,689	-70,469
Net increase / decrease in bank and cash	-12,974	-25,517
Bank and cash at beginning of year	76,156	101,674
Bank and cash at end of year	63,182	76,156

Notes to the Financial Statements of the Parent Company

1 Accounting principles

These parent company's Final Accounts for the period January 1-March31, 2022 have been prepared in accordance with the Finnish Generally Accepted Accounting Principles and in accordance with Finnish Limited Liability Companies Act chapter 16, section 17. The financial statements are presented in euros. The previous year's 2021 financial information was for twelve months period and are not fully comparable.

Foreign currency translations

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

Tangible and intangible assets

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

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

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

Financial Instruments

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

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

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

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

Provisions

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

Income taxes

Income tax expense includes taxes calculated for the financial year and adjustments to prior year taxes. From financial year 2020 on, company has not recognized deferred tax assets or liabilities for temporary differences.

2 Other operating income

EUR thousand	1-3/2022	1-12/2021
Other	-	116
Total	-	116

3 Personnel expenses

EUR thousand	1-3/2022	1-12/2021
Salaries and wages	-2,192	-10,872
Pension costs	-276	-1,683
Other indirect employee costs	-64	-1,104
Total	-2,404	-13,659

EUR thousand	1-3/2022	1-12/2021
Fringe benefits	31	278

Remuneration paid to CEO and Board members

EUR thousand	1-3/2022	1-12/2021
Chief Executive Officer	-166	-884
Board members [1]	-126	-635
Total	-293	-1,519

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

Number of personnel

	1-3/2022	1-12/2021
Personnel at end of reporting period	84	89
Average number of personnel during the period	85	89

4 Depreciation and amortization

EUR thousand	1-3/2022	1-12/2021
Machinery and equipment	-1	-2
Intangible assets	-154	-375
Total	-155	-376

5 Audit fees

EUR thousand	1-3/2022	1-12/2021
Audit	-98	-647
Other services	-16	-138
Total	-114	-785

6 Financial income and expenses

EUR thousand	1-3/2022	1-12/2021
Dividends received from		
Group companies	-	74,954
Others	-	2
Total	-	74,956
Interest income from investments from		
Group companies	549	1,689
Others	0	2
Total	549	1,690
Other interest and financial income from		
Others	5	29
Exchange rate differences	51	62
Interest and financial income, total	605	76,738
Interest expenses to		
Group companies	-111	-454
Others	-1,031	-3,046
Other financial expenses		
Fair value change in derivatives	-	-
Interest and other financial expenses, total	-1,142	-3,501
Financial income and expenses, net	-537	73,237

7 Appropriations

EUR thousand	1-3/2022	1-12/2021
Group contributions received	-	22,156

8 Income taxes

EUR thousand	1-3/2022	1-12/2021
Income taxes on operating activities	-	-394
Income taxes for prior years	31	-
Total	31	-394

9 Fixed assets

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	**Total**
2022							
Acquisition cost Jan 1	3,281	0	12	15	54	82	3,363
Additions	359	-	-	-	-	-	359
Decreases	-379	-	-	-	-	-	-379
Acquisition cost Mar 31	3,261	0	12	15	54	82	3,343
Accumulated depreciation Jan 1	-1,387	-	-12	-7	-30	-49	-1,436
Accumulated depreciation of decreases	379	-	-	-	-	-	379
Depreciation for the period	-154	-	-	-1	-	-1	-155
Accumulated depreciation Mar 31	-1,162	-	-12	-8	-30	-50	-1,212
Net carrying value Mar 31	2,099	0	0	7	24	32	2,131

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	**Total**
2021							
Acquisition cost Jan 1	1,423	0	12	6	54	72	1,496
Additions	1,858	-	-	9	-	10	1,867
Decreases	-	-	-	-	-	-	-
Acquisition cost Dec 31	3,281	0	12	15	54	82	3,363
Accumulated depreciation Jan 1	-1,012	-	-12	-5	-30	-47	-1,059
Accumulated depreciation of decreases	-	-	-	-	-	-	0
Depreciation for the period	-375	-	-	-2	0	-2	-376
Accumulated depreciation Dec 31	-1,387	-	-12	-7	-30	-49	-1,436
Net carrying value Dec 31	1,894	0	0	8	24	32	1,927

10 Investments

EUR thousand	Shares in Group companies	Other shares	Receivables from Group companies	Other investments total
2022				
Acquisition cost at Jan 1	464,952	143	5,419	5,562
Additions	-	-	6,224	6,224
Decreases	-	-58	-8,349	-8,408
Acquisition cost at Mar 31	464,952	85	3,294	3,379
2021				
Acquisition cost at Jan 1	464,952	143	9,201	9,344
Additions	-	-	7,763	7,763
Decreases	-	-	-11,545	-11,545
Acquisition cost at Dec 31	464,952	143	5,419	5,562

11 Shareholdings

Subsidiaries at March 31, 2022

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

12 Specification of receivables

Long-term receivables

EUR thousand	31.3.2022	31.12.2021
Loan receivables	1,784	1,784
Long-term receivables from others	42	11
Long-term receivables total	1,826	1,795

Short-term receivables

EUR thousand	31.3.2022	31.12.2021
Trade receivables from		
Group companies	13,550	14,374
Others	-	248
Total	13,550	14,622
Loan receivables from		
Group companies	115,851	91,725
Total	115,851	91,725
Prepaid expenses and accrued income from		
Group companies	-398	21,710
Others	11,893	8,722
Total	11,496	30,432
Other receivables		
VAT receivable	-	-
Other receivables	-	1
Total	-	1
Short-term receivables total	140,987	136,780

Specification of prepaid expenses and accrued income

EUR thousand	31.3.2022	31.12.2021
Prepaid expenses and accrued income from Group companies		
Group contribution receivables	-	22,156
Accrued interest income	476	334
Other accrued items	-874	-779
Total	-398	21,710
Prepaid expenses and accrued income from others		
Accrued derivatives	3,618	1,180
Other accrued items	8,275	7,542
Total	11,893	8,722

13 Statement of changes in shareholders' equity

EUR thousand	31.3.2022	31.12.2021
Share capital at beginning of financial year	50,983	50,983
Change	-	-
Share capital at end of financial year	50,983	50,983
Invested non-restricted equity fund at beginning of financial year	39,408	39,408
Distribution of funds	-39,051	-
Invested non-restricted equity fund at end of financial year	357	39,408
Retained earnings at beginning of financial year	371,137	323,510
Dividend distribution	-301,297	-33,119
Loss / Profit for the period	-2,111	80,746
Retained earnings at end of financial year	67,730	371,137
Total shareholders' equity at end of financial year	119,069	461,528

Statement of distributable funds at end of financial year

EUR	31.3.2022	31.12.2021
Invested non-restricted equity fund	356,617.86	39,408,070.56
Retained earnings	67,729,661.99	371,137,390.74
Total	68,086,279.85	410,545,461.30

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

14 Long-term liabilities

EUR thousand	31.3.2022	31.12.2021
Loans from financial institutions	-	149,611
Group companies	8,145	7,983
Total	8,145	157,594

Debt maturing later than in five years

EUR thousand	31.3.2022	31.12.2021
Loans from financial institutions	-	149,611

15 Short-term liabilities

EUR thousand	31.3.2022	31.12.2021
Short-term interest bearing debt		
Group companies	826	1,816
Group pool accounts	48,807	51,421
Loans from financial institutions	364,625	-
Loan from Valmet Oyj	88,830	-
Total	503,089	53,237
Trade payables to		
Group companies	263	719
Others	2,492	4,549
Total	2,755	5,267
Accrued expenses and deferred income to		
Group companies	257	147
Others	13,071	9,172
Total	13,327	9,319
Other short-term non-interest bearing debt to		
Others	29,981	227
Total	29,981	227
Short-term liabilities total	549,152	68,051
Short-term liabilities to Group companies total	50,153	54,103

Specification of accrued expenses and deferred income

EUR thousand	31.3.2022	31.12.2021
Accrued expenses and deferred income to the Group companies		
Accrued interest expenses	257	145
Other accrued items	-	2
Total	257	147
Accrued expenses and deferred income to others		
Accrued interest expenses	163	435
Accrued derivatives	-	558
Accrued salaries, wages and social costs	4,869	5,314
Other accrued items	8,039	2,866
Total	13,071	9,172

16 Other contingencies

Guarantees and mortgages

EUR thousand	31.3.2022	31.12.2021
Guarantees on behalf of subsidiaries	36,624	36,822

Lease commitments

EUR thousand	31.3.2022	31.12.2021
Payments in the following year	254	240
Payments later	176	167
Total	429	406

NELES

Signatures of the Final Accounts 31.3.2022

Vantaa, May 30, 2022

Jaakko Eskola

Jaakko Eskola
Chair of the Board

Anu Hämäläinen

Anu Hämäläinen
Vice Chair of the Board

Niko Pakalén

Niko Pakalén
Member of the Board

Teija Sarajärvi

Teija Sarajärvi
Member of the Board

Jukka Tiitinen

Jukka Tiitinen
Member of the Board

Mark Vernon

Mark Vernon
Member of the Board

Simo Sääskilahti

Simo Sääskilahti
Interim President and CEO

THE AUDITOR'S NOTE

Our auditor's report has been issued today.

Vantaa, May 31, 2022
Ernst & Young Oy
Authorized Public Accountant Firm

Toni Halonen

Toni Halonen
APA