

NELES

Half-Year Review
H1/2020

Neles' Half-year Review January 1 – June 30, 2020

Solid performance in a varying market

- Solid underlying operative margins in the second quarter despite challenging Covid-19 pandemic situation
- Oil and Gas as well as Pulp and Paper projects remained active, the Services business and Maintenance, Repairs and Operations-driven (MRO) business affected by mobility restrictions and lockdowns
- Partial demerger of Metso was completed on June 30th, share trading continuing under Neles name on Nasdaq Helsinki on July 1st
- Neles Board of Directors confirmed growth strategy and mid-term financial targets on July 1st

The partial demerger of the Metso Group took place on June 30, 2020, and the continuing operations renamed the Neles Group. Until the end of 2020, Neles Group will be reported as continuing operations and the demerged Metso Minerals business as discontinued operations (for the period January 1 – June 30, 2020).

In this Half-year Review, in addition to IFRS financial information, a comparable balance sheet and a cash flow statement are disclosed. Figures in parentheses refer to the corresponding period in 2019, unless otherwise stated.

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

Summary of key figures

Operative key figures, Neles, continuing operations	Q2/20	Q2/19	Change, %	H1/20	H1/19	Change, %	2019
EUR million							
Orders received	131	165	-21	322	356	-10	681
Order backlog at end of period	305	298	2	305	298	2	280
Sales	141	168	-16	277	323	-14	660
Service sales ¹	31	36	-13	60	70	-14	152
% of sales	22	21		22	22		23
Adjusted EBITA, continuing operations ²	23	27	-15	40	50	-20	97
% of sales	16.3	16.2		14.3	15.4		14.7
Adjustment items ³	4	-		6	-		-
Operating profit	18	26	-31	32	48	-33	93
% of sales	12.6	15.7		11.7	14.8		14.0
Earnings per share, continuing operations, EUR	0.08	0.12	-33	0.14	0.23	-39	0.46
Free cash flow	39	14	179	15	36	-58	34

Balance sheet key figures, IFRS	Neles H1/20	Metso H1/19	Metso 2019
Return on capital employed (ROCE) before taxes, %	14.2	20.9	19.2
Balance sheet total	632	3,540	3,887
Net debt	99	400	798
Equity to assets ratio, %	41.4	43.4	42.3
Net debt / EBITDA, rolling 12 months	1.0	-	-
Gearing, %	39.1	28.7	52.3
Personnel at end of period, continuing operations	2,950	2,903	2,866

¹ Services sales include the sales volume from the Services business

² Includes HQ and support function cost effect of EUR +1 million in Q2/20 (Q2/2019: -1 million), EUR -1 million in H1/20 (H2/2019: -1 million)

-2 million) and EUR -7 million in 2019.

³ Adjustment items amounted to EUR 5.6 million in H1/2020. Q2/2019 and full-year 2019 did not include any adjustment items. Adjustment items consist of carve out, rebranding, and establishing and restructuring costs for setting up independent Neles. See Note 10.

Creation of Neles on June 30, 2020

Metso's Extraordinary General Meeting on October 29, 2019, approved the partial demerger of the company. The registration of the completion of the partial demerger was executed on June 30, 2020. According to the demerger plan, the Metso Minerals businesses were carved out and combined with Outotec Group. Metso's valves business forms the continuing operations and on July 1, 2020, Metso Group was renamed the Neles Group. Metso's shareholders continue as shareholders of Neles Corporation. Additionally, shareholders received 4.3 new Outotec shares for one old Metso share as consideration for the distributed net assets of the Minerals business. In IFRS reporting, a gain of EUR 2,022 million has been recorded on the distribution of the Minerals net assets at fair value and is included in *Profit for the period, discontinued operations*.

President and CEO Olli Isotalo:

During the first half of the year, the market activity was varied. We were successful in winning many important Pulp and Paper projects as well as Oil and Gas projects as evidenced in our increased order backlog. Our Services and MRO-driven business was negatively impacted by postponements in customers' planned maintenance shut-downs, mobility restrictions and lockdowns.

In the second quarter, our profitability was negatively affected by a low sales volume, but we swiftly took actions to reduce our fixed costs and thus were able to deliver a solid adjusted EBITA margin. We paid increased attention to managing our net working capital, but due to low delivery volumes our inventories stayed high; however, we achieved solid cash flow for the second quarter. As part of the adjustment actions we looked at our cost base. Our actions included temporary lay-offs, salary reductions and permanent personnel reductions in e.g. the USA and Finland as well as measures to limit our external spending globally. We also optimized our cost base for our new independent status, for instance, by reallocating resources.

We completed the demerger activities and the launch of Neles during the second quarter. In addition to carve-out activities, we launched Neles' new brand and values. Our customer promise, Reinventing reliability, emphasizes Neles' values and our continuous commitment in supporting our customers as they improve the reliability of their operations and achieve better profitability and improved sustainability. This customer promise is underpinned by our deep knowledge of valve and valve control applications in customer processes, our services capabilities and our commitment to maintaining the market-leading quality and technologies in our products.

We defined Neles' growth strategy and mid-term financial targets, and they were approved by our Board on July 1st. Our target is to be among the leaders in the valve and valve automation industry by surpassing EUR 1 billion in orders received around 2025. This goal is supported by our plans and target to reach over 5 percent annual organic growth in the mid-term as well as targeted acquisitions to expand our product offering and market reach. We emphasize profitable growth by targeting an EBITA margin above 15 percent of sales. In addition, we are aiming to distribute 40 percent of our underlying net earnings as dividends, while investing in growth.

Market outlook

We expect the market activity in Pulp and Paper projects to continue on a good level.

Market activity in Oil and Gas projects is expected to decline from the good level in the first half of the year, due to overall economic concerns.

Market activity for Services and customer Maintenance, Repair and Operations-driven (MRO) business is expected to gradually improve from the suppressed levels in the first half of the year, as the mobility restrictions are expected to ease and customers' operations to normalize.

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

Covid-19 pandemic update

The Covid-19 pandemic poses significant short-term risks and uncertainties to the markets. The spread and severity of the pandemic continue to be difficult to predict. Abrupt measures taken by various national and local governments to restrict the spread of the virus increase the unpredictability of the demand for Neles' products and services. The pandemic-related mobility restrictions have impacted Neles' operations by restricting Neles' ability to provide services at customer sites as well as the running of manufacturing sites when lockdowns are imposed. These uncertainties are expected to continue in the second half of 2020 although, for the time being, mobility restrictions are being eased on many markets.

The situation has caused some slow-down in customer acceptances and deliveries of goods, hence keeping inventories high. So far, Neles has not experienced any material credit losses or cancellations of orders in the order backlog. During the first half of year, management took proactive measures to ensure safety of the employees and to control costs and preserve cash flow to protect Neles' financial position. The measures included variety of enforced safety procedures in manufacturing sites, remote working and strict traveling restrictions, cuts on spending across the organization as well as cost saving and optimization activities. Increased attention was paid also to managing net working capital.

There is an increased risk that the pandemic will significantly deteriorate global economic growth, which together with uncertain political and trade-related developments, could affect Neles' customer industries, reduce the investment appetite and customer spending, and thus weaken the demand for Neles' products and services as well as affect the company's business operations and profitability. There are also other market- and customer-related risks that could cause planned and ongoing projects to be postponed, delayed or discontinued.

Neles' Half-year Review 2020

Orders, Sales and Operating environment, Neles continuing operations

Market activity was varied during the reporting period. On one hand, investment projects in the Oil and Gas and the Pulp and Paper industries remained active throughout the reporting period. On the other hand, towards the end of the first quarter and during the second quarter, mobility restrictions lead to cancellations and postponements of customers' planned site work and maintenance shutdowns. This decreased order intake and sales for the Services and MRO-driven business.

The North American Market Area was particularly impacted in the second quarter both by Covid-19 pandemic-related issues as well as fluctuations in oil price and overall market sentiment. EMEIA (Europe, Middle East, India and Africa) and APAC were also affected by Covid-19 pandemic-related slow-downs in the Services and MRO-driven business. South America had a very strong first half of 2020, mainly due to success in the Pulp and Paper project business.

Orders received in H1/2020 decreased by 10% to EUR 322 million (EUR 356 million) and orders received in Q2 decreased by 21% to EUR 131 million (EUR 165 million). Currency exchange rate changes had a negative impact of 2% in H1/2020 and a negative impact of 4% in Q2/2020 on orders received.

The order backlog at June 30, 2020, was EUR 305 million (June 30, 2019: EUR 298 million).

Sales in H1/2020 decreased by 14% to EUR 277 million (EUR 323 million) and sales in Q2 decreased by 16% to EUR 141 million (EUR 168 million). The decline in sales was mainly attributable to slow-downs in the Services and MRO-driven business. Currency exchange rate changes had a negative impact of 1% in H1/2020 and a negative impact of 2% in Q2/2020. The currency exchange rate impact relates mainly to the Brazilian real.

Orders by market area

	Q2/20	Q2/19	H1/20	H1/19	2019
EMEIA	53	70	117	150	284
North America	35	54	93	113	214
South America	21	13	39	23	47
Asia Pacific	22	29	73	69	136
Neles total	131	165	322	356	681

Sales by market area

	Q2/20	Q2/19	H1/20	H1/19	2019
EMEIA	52	59	104	115	251
North America	39	63	92	123	235
South America	16	10	23	19	37
Asia Pacific	34	36	58	65	137
Neles total	141	168	277	323	660

FX impact on orders received and sales

	Orders received		Sales	
	Q2/2020	H1/2020	Q2/2020	H1/2020
2019, EUR million	165	356	168	323
Organic growth in constant currencies, %	-16	-7	-14	-13
Impact of changes in exchange rates, %	-4	-2	-2	-1
Structural changes, %	0	0	0	0
Total change, %	-21	-10	-16	-14
2020, EUR million	131	322	141	277

Financial performance

Neles, continuing operations

In the second quarter, April 1 – June 30, 2020, Neles adjusted EBITA totaled EUR 23 million, or 16.3% of sales (EUR 27 million, or 16.2%). Profitability was negatively affected by a lower sales volume than the previous year, particularly in the Services and MRO-driven business due to the Covid-19 pandemic-related mobility restrictions and lockdowns and postponements of customers' maintenance shut-downs. In order to offset the negative volume impact on profitability, actions to manage fixed costs were taken. In the second quarter of 2020, Group head office and other costs had a EUR 1 million positive impact (EUR 1 million negative impact) due to final adjustments at the partial demerger date.

Operating profit totaled EUR 18 million, or 12.6% of sales (EUR 26 million, or 15.7%). Adjustment items of EUR 4 million had a negative impact on operating profit in the second quarter (EUR 0 million).

The adjustments were attributable to costs related to the creation and rebranding of Neles, as well as IT and other costs related to setting up a new operating structure.

In the reporting period January 1 – June 30, 2020, Neles adjusted EBITA totaled EUR 40 million, or 14.3% of sales (EUR 50 million, or 15.4%). Adjustment items of EUR 5.6 million had a negative impact on operating profit in the reporting period (EUR 0 million). The adjustments were attributable to costs related to the creation and rebranding of Neles, as well as IT and other costs related to setting up a new operating structure. Operating profit totaled EUR 32 million, or 11.7% of sales (EUR 48 million, or 14.8%). Head quarter and support functions' costs in the reporting period amounted to EUR 1 million (EUR 2 million).

Financial net expenses in the reporting period amounted to EUR 3 million (EUR 1 million). The increase was caused by loan facilities allocated to Neles and other finance expenses related to funding arrangements at the partial demerger.

Earnings per share for continuing Neles operations amounted to EUR 0.08 for the second quarter and EUR 0.14 for the reporting period.

Discontinued operations

Profit for discontinued operations amounted to EUR 2,150 million for the period January 1 – June 30, 2020. The reported amount includes net profit of EUR 127 million for the Minerals operations, without depreciations and amortizations, and a EUR 2,022 million gain recorded on the distribution of Minerals net assets at fair value. Accordingly, earnings per share for discontinued operations were EUR 14.32. See more in Note 10.

Cash flow

Free cash flow, including both the continuing and discontinued operations, was EUR 288 million in the reporting period. A new EUR 100 million term loan for the Minerals business was raised in May 2020 and dividends, net of withholding taxes, of EUR 195 million were paid on June 25, 2020. At the end of June, liquid funds amounted to EUR 427 million, of which EUR 312 million were transferred to the Metso Minerals business at the partial demerger.

During the reporting period, free cash flow for the continuing Neles operations amounted to EUR 15 million (EUR 36 million).

In the continuing operations, investments amounted to EUR 5 million in Q2/2020 and EUR 8 million in H1/2020. After the demerger, liquid funds for Neles amounted to EUR 114 million.

Financial position as at June 30, 2020

At the partial demerger of the Metso Minerals business on June 30, 2020, assets of EUR 3,229 million and liabilities of EUR 2,079 million were transferred to Metso Outotec Oyj. After the partial demerger, the Neles balance sheet as at June 30, 2020, amounted to EUR 632 million, equity EUR 253 million, borrowings EUR 173 million and liquid funds EUR 114 million.

A EUR 150 million loan facility was allocated to the continuing Neles Group, while all the other loan facilities, including the senior unsecured notes, were transferred to Metso Outotec Oyj. Neles lease liabilities amounted to EUR 41 million. At June 30, 2020, gearing was 39.1% and the equity-to-asset ratio 41.4%. On July 13, 2020 Neles paid EUR 26 million in withholding taxes on the dividend distribution paid to shareholders on June 25, 2020.

Neles' available funding consists of an undrawn, committed syndicated revolving credit facility of EUR 200 million and EUR 200 million Finnish commercial paper program. Neles Group does not have a public rating in any ratings agency.

Creation of Neles on June 30, 2020

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Capital expenditure and investments

In the reporting period, gross capital expenditure for continuing Neles operations, excluding business acquisitions, was 8 million (EUR 6 million). EUR 3 million (EUR 2 million in H1/2019) of the investments are related to the new manufacturing site in Jiaxing, China.

Research and development

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

R&D and IP related expenditure

EUR million	H1/20	H1/19	12/19
R&D expenditure	10	10	18
of sales, %	3.6	3.1	2.7
Of which expensed	8	9	17
of sales, %	2.9	2.8	2.6

Personnel

At the end of June 2020, Neles had 2,950 employees. As a result of the partial demerger of Metso, 112 persons migrated to Neles and 12,479 persons were transferred to Metso Outotec as part of the Minerals business. Personnel in the Group Head Office and support functions totaled 237 at the end of June 2020.

Neles employee negotiations in Finland were finalized on June 23, 2020; as a result, 32 permanent positions, out of the maximum of 45 initially estimated, will be terminated by the end of 2020. In the US, 49 permanent positions were terminated in the second quarter. Temporary layoffs, as announced on March 25, 2020, included most of the personnel in Finland, excluding some employees in manufacturing at the Vantaa factory and in IT. Similar arrangements were implemented globally. Cost saving actions were related to structural changes and Covid-19 pandemic.

Personnel, end of reporting period

	6/2020	6/2019	12/2019
Neles total	2,950	2,903	2,868
June 30, 2020 discontinued operations	-	11,773	12,955
Metso total	-	14,676	15,821

Shares and share trading

Neles' share capital was reduced by EUR 90,000,000.00 in accordance with the partial demerger plan. After the transaction, Neles' share capital was EUR 50,982,843.80 and the number of shares 150,348,256. This included 150,361 treasury shares held by the Parent Company, which represented 0.1% of all Neles shares and votes. The Neles share's closing price was EUR 8.91 on the first day of trading on July 1, 2020.

In preparation of the demerger, Metso decided to terminate its American Depositary Receipts (ADR) facility that was traded on the International OTCQX market in the United States under the ticker symbol 'MXCY', with four ADRs representing one Metso share. The closing price of the Metso ADR was USD 7.78 when termination became effective on May 21, 2020.

A total of 92,128,115 Metso shares were traded on Nasdaq Helsinki in January – June 2020, and the value of shares traded was EUR 2,523 million. Metso's market capitalization at the end of June 2020, before the demerger and excluding shares held by the Parent Company, was EUR 4,381 million (EUR 5,280 million at the end of 2019).

Valmet Corporation announced on June 17, 2020, that it had signed a share purchase agreement, effective July 1, 2020, after the registration of Metso's partial demerger. After the purchase was realized, Valmet's ownership in Neles totaled 22,374,869 shares, which represents 14.88% of Neles' total shares.

Metso share performance on Nasdaq Helsinki January 1 – June 30, 2020

EUR	H1/2020	July 1, 2020
Closing price	29.17	8.91
Highest share price	36.95	-
Lowest share price	17.92	-
Volume-weighted average trading price	27.38	-

Flagging notifications in the reporting period

In the reporting period, Metso received the following shareholders' flagging notifications.

Date	Shareholder	Threshold	Direct, %	Indirect, %	Financial instruments	Total, %	Total shares
June 30	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
June 22	BlackRock Inc.	above 5%	below 5%	5.14%	0.09%	5.23%	7,874,142
June 19	BlackRock Inc.	below 5%	below 5%	4.96%	0.11%	5.07%	7,631,495
June 17	Valmet Oyj	-	-	-	14.88%	14.88%	22,374,869
June 11	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
June 9	BlackRock Inc.	above 5%	below 5%	4.80%	0.41%	5.21%	7,846,244
June 5	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
June 4	BlackRock Inc.	above 5%	below 5%	4.62%	0.45%	5.07%	7,634,987
May 28	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
May 25	BlackRock Inc.	above 5%	below 5%	4.97%	0.11%	5.09%	7,654,876
May 22	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
May 13	BlackRock Inc.	above 5%	below 5%	5.03%	0.11%	5.15%	7,748,004
May 12	BlackRock Inc.	below 5%	below 5%	4.91%	0.12%	5.03%	7,571,465
May 11	BlackRock Inc.	above 5%	below 5%	5.22%	0.15%	5.37%	8,079,571
May 6	BlackRock Inc.	above 5%	below 5%	4.66%	0.40%	5.06%	7,621,397
May 4	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
April 29	BlackRock Inc.	above 5%	below 5%	4.84%	0.23%	5.08%	7,643,511
April 21	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
April 20	BlackRock Inc.	above 5%	below 5%	4.69%	0.31%	5.01%	7,541,725
April 17	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
April 6	BlackRock Inc.	above 5%	below 5%	4.48%	0.52%	5.01%	7,535,311
April 3	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
March 26	BlackRock Inc.	above 5%	below 5%	4.51%	0.48%	5.00%	7,522,000
March 18	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
March 17	BlackRock Inc.	above 5%	below 5%	4.93%	0.10%	5.04%	7,582,849
March 16	BlackRock Inc.	above 5%	below 5%	5.00%	0.06%	5.07%	7,630,846
March 13	BlackRock Inc.	above 5%	below 5%	4.94%	0.10%	5.04%	7,591,558
March 12	BlackRock Inc.	above 5%	below 5%	5.09%	0.10%	5.20%	7,818,872
March 11	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
March 10	BlackRock Inc.	above 5%	below 5%	5.02%	0.03%	5.06%	7,615,237
Feb 26	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
Feb 25	BlackRock Inc.	above 5%	below 5%	4.86 %	0.15%	5.01%	7,541,236
Feb 20	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
Feb 18	BlackRock Inc.	above 5%	below 5%	4.70%	0.34%	5.04%	7,582,200
Feb 17	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
Feb 12	BlackRock Inc.	above 5%	below 5%	4.78%	0.33%	5.11%	7,689,364
Feb 10	BlackRock Inc.	below 5%	below 5%	below 5%	below 5%	below 5%	below 5%
Feb 6	BlackRock Inc.	above 5%	below 5%	4.71%	0.31%	5.03%	7,562,914

Annual General Meeting

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

Dividend for 2019

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

Composition of the Boards of Directors

Metso Corporation (effective June 16-30, 2020)

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

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

Future Neles Corporation (effective July 1, 2020)

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

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

Remuneration of the Boards of Directors

Metso Corporation (effective June 16-30, 2020)

The AGM decided that the Metso Board members shall be paid the same fixed annual remuneration as in the previous term. The remuneration to be paid will be calculated pro rata to the length of the term of office based on the following annual remuneration:

Chair: EUR 120,000

Vice Chair: EUR 66,000

Other members: EUR 53,000 each

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

Chair of the Audit Committee: EUR 20,000

Members of the Audit Committee: EUR 10,000 each

Chair of the Remuneration and HR Committee: EUR 10,000

Members of the Remuneration and HR committee: EUR 5,000 each

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

Future Neles Corporation (effective July 1, 2020)

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

Chair: EUR 115,000

Vice Chair: EUR 65,000

Other members: EUR 50,000 each

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

Chair of the Audit Committee: EUR 15,000

Members of the Audit Committee: EUR 7,500 each

Chair of the Remuneration and HR Committee: EUR 7,500

Members of the Remuneration and HR Committee: EUR 3,750 each

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

Meeting fees

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

Auditor

Authorized Public Accountant Ernst & Young Oy was elected as the company's Auditor until the end of the next AGM. Ernst & Young Oy has designated Mikko Järventausta, APA, as the responsible auditor. In addition, Mr. Toni Halonen, APA, will act as responsible auditor of the future Neles Corporation thereafter. The remuneration to the Auditor was decided to be paid against the invoice approved by the Audit Committee.

Authorization to repurchase the company's own shares

The AGM approved the proposal of the Board of Directors to authorize the Board to decide on the repurchase of Metso's own shares. The number of own shares to be repurchased may not exceed 5,000,000 shares, which corresponds to approximately 3.3 percent of all Metso's shares. The authorization is effective until June 30, 2021, and it cancels the previous authorization. This authorization has not been exercised as of August 5, 2020.

Authorization to issue shares and special rights entitling to shares

The AGM approved the proposal of the Board of Directors to decide on the issuance of shares and the issuance of special rights entitling to shares. The number of new shares that may be issued based on decision(s) of the Board of Directors pursuant to the authorization may not exceed 10,000,000 shares, which corresponds to approximately 6.7 percent of all Metso's shares. The number of Metso's own shares that may be transferred pursuant to the authorization may not exceed 5,000,000 shares, which corresponds to approximately 3.3 percent of all Metso's shares. The authorization is effective until June 30, 2021, and it cancels the previous authorization. This authorization has not been exercised as of August 5, 2020.

Operating model and management appointments

Neles' operating model consists of three business lines, four market areas, operations and corporate functions. The business lines are Equipment, Services, and Valve Controls & Actuators. The market areas are North America, South America, EMEIA and Asia-Pacific. The main corporate functions are Finance, Human Resources, and Communications and Marketing.

Neles Corporation's Executive Management Team consists of President and CEO Olli Isotalo and the heads of business lines, market areas, operations and corporate functions. The members of the Executive Management Team are:

- Olli Isotalo, President and CEO

Heads of business lines:

- Timo Hänninen, Equipment
- Sami Nousiainen, Services
- Kalle Suurpää, Valve Controls & Actuators

Heads of market areas:

- Patrick Dunn, North America
- Fabio Maia, South America
- Jon Jested-Rask, EMEIA
- Tan HangPheng, Asia-Pacific

Head of operations:

- Kevin Tinsley

Heads of corporate functions:

- Simo Sääskilahti, Finance (CFO), deputy CEO as of July 1
- Hanne Peltola, Human Resources
- Kaisa Voutilainen, Communications and Marketing

Other main events during the reporting period

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

Events after the reporting period

July 30: BlackRock, Inc. notified that on July 28, 2020, its total holding in Neles shares and in financial instruments entitling to shares fell below 5 percent.

July 29: At the request of Valmet Corporation, the shareholders of Neles were notified of the Extraordinary General Meeting to be held on Thursday, October 29, 2020, at 2:00 p.m. local time at the Hilton Helsinki Airport hotel, at the address of Lentäjänkuja 1, 01530 Vantaa, Finland. The reception of persons who have registered for the meeting and the distribution of voting tickets will commence at 1:00 p.m.

July 28: Neles Corporation received notification, pursuant to Chapter 9, Section 5 and 6 of the Finnish Securities Markets Act, about a change in the holding of mutual funds managed by BlackRock, Inc. of the total amount of shares and financial instruments entitling to shares of Neles Corporation fell below 5%, on July 27, 2020.

July 28: Neles Corporation received notification, pursuant to Chapter 9, Section 5 and 6 of the Finnish Securities Markets Act, about a change in the holding of mutual funds managed by BlackRock, Inc. of the total amount of shares and financial instruments entitling to shares of Neles Corporation exceeded 5%, on July 24, 2020.

July 28: Neles Corporation received notification, pursuant to Chapter 9, Section 5 and 6 of the Finnish Securities Markets Act, from Société Générale SA (SG SA) that on July 23, 2020, their total holding in Neles shares and financial instruments fell below 5 percent.

July 24: Neles Corporation received notification, pursuant to Chapter 9, Section 5 and 6 of the Finnish Securities Markets Act, about a change in the holding of mutual funds managed by BlackRock, Inc. of the total amount of shares and financial instruments entitling to shares of Neles Corporation fell below 5%, on July 23, 2020..

July 24: Neles Corporation has received a notification, pursuant to Chapter 9, Section 5 and 6 of the Finnish Securities Markets Act, about a change in the holding of mutual funds managed by BlackRock, Inc. of the total amount of shares and financial instruments entitling to shares of Neles Corporation exceeded 5%, on July 22, 2020.

July 24: Neles Corporation received notification, pursuant to Chapter 9, Section 5 and 6 of the Finnish Securities Markets Act, from Société Générale SA (SG SA) that on July 21, 2020, their total holding in Neles shares and financial instruments exceeded 5 percent.

July 17: Moody's Investors Service (Moody's) withdrew the Baa2 long-term Issuer rating and (P)Baa2 senior unsecured MTN rating of Metso Corporation that was renamed to Neles. Moody's states that it has decided to withdraw the unsolicited rating for its own business reasons. The full notification is available at Moody's website. Neles does not require the credit rating since the senior unsecured notes that the rating was related to were transferred to Metso Outotec at the closing of the partial demerger of Metso on June 30, 2020.

July 15: Valmet Corporation announced on July 14, 2020, its direct shareholding in Neles exceeded the 15 percent threshold and amounted to 23 304 869 shares, or 15.50 percent of Neles' shares and votes.

July 13: Alfa Laval AB (publ) ("Alfa Laval" or the "Offeror"), a Swedish public limited liability company, and Neles Corporation ("Neles" or the "Company") have, on July 13, 2020, entered into a combination agreement (the "Combination Agreement") pursuant to which Alfa Laval will make a voluntary recommended public cash tender offer for all issued and outstanding shares in Neles that are not held by Neles or any of its subsidiaries (the "Tender Offer"). In the Tender Offer, Neles' shareholders will be offered a cash consideration of EUR 11.50 for each issued and outstanding share in Neles (the "Offer Price"), valuing Neles' total equity at approximately EUR 1,727 million. The members of the Board of Directors of Neles who participated in the decision-making have unanimously decided to recommend that the shareholders of Neles accept the Tender Offer.

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

July 2: The Board of Directors of Neles received a request from Valmet in accordance with Chapter 5 Section 4 of the Finnish Companies Act to convene an Extraordinary General Meeting. In connection with its request, Valmet has proposed that the Extraordinary General Meeting resolve that the Board of Directors of Neles shall have eight (8) members. Further, Valmet has proposed that, for a term of office expiring at the end of the next Annual General Meeting of the company, in addition to incumbent members of the Board of Directors, Jukka Tiitinen, currently Valmet's Area President, Asia Pacific, be elected as a member of the Board of Directors of Neles.

July 2: Solidium representative Petter Söderström notified Neles that he has resigned from Neles' Shareholders' Nomination Board, as Solidium is no longer among the four largest shareholders of Neles.

July 2: The holding of mutual funds managed by BlackRock, Inc. of the total amount of shares and financial instruments entitling to shares of Neles Corporation fell below 5%, on June 30, 2020.

July 1: The Board of Directors of Neles Corporation decided on the establishment of a new share-based long-term incentive scheme for company management and selected key employees. The decision includes a Performance Share Plan (also "PSP") for top management, a deferred share unit plan (also "DSUP") for other management and selected key employees, and a Restricted Share Plan (also "RSP") as a complementary structure for specific situations. The objectives of the share-based long-term incentive scheme are to align the interests of Neles' management and key employees with those of the company's shareholders and, thus, to promote shareholder value creation in the long term, to commit management and key employees to achieving Neles' strategic targets and to promote the retention of Neles' key resources.

July 1: Neles Corporation's Board of Directors made the following decisions in its organization meeting:

- Appointments of the Board's committees and deputy CEO
 - Audit Committee: Anu Hämäläinen (Chair), Britta Giesen, Niko Pakalén, and Petter Söderström
 - Remuneration Committee: Jukka Moisio (Chair), Mark Vernon, and Teija Sarajärvi
 - Chief Financial Officer Simo Sääsikiilä appointed as Deputy CEO
- Confirmation and approval of the company's profitable growth strategy
- Confirmation and approval of the company's mid-term financial targets
- Update to the company's Disclosure Policy

Strategy for profitable growth and mid-term financial targets

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

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

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

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

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

Update to the Disclosure Policy

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

July 1: According to Solidium Oy's notification, on July 1, 2020, they completed the sale of their entire 14.88% stake (in total 22,374,869 shares and votes) in Neles Oyj. As a consequence of the sale, Solidium Oy's ownership of shares and votes in Neles Oyj fell below the 5% flagging threshold. The sale constitutes a consummation of the binding, unconditional sale and purchase agreement entered into on June 17, 2020.

July 1: Neles Corporation received notification, pursuant to Chapter 9, Section 5 and 6 of the Finnish Securities Markets Act, about ownership in Neles Corporation. The share purchase was executed based on Valmet Corporation's share purchase agreement announcement published on June 17, 2020. After the share purchase, Valmet's ownership in Neles is 22,374,869 shares, which represents 14.88% of Neles' total shares.

Short-term business risks and market uncertainties

The Covid-19 pandemic poses significant short-term risks and uncertainties to the markets. The spread and severity of the pandemic are difficult to predict. Abrupt measures taken by various national and local governments to restrict the spread have further increased the unpredictability of the pandemic on the demand for Neles' products and services as well as on Neles' operations by restricting the company's ability to provide services at customer sites, due to the restrictions on the mobility of people, and to run our manufacturing sites when lockdowns are imposed.

There is an increased risk that the pandemic will significantly deteriorate global economic growth, which, together with uncertain political and trade-related developments, could affect Neles' customer industries, reduce the investment appetite and customer spending, and thus weaken the demand for Neles' products and services as well as affect the company's business operations and profitability. There are also other market- and customer-related risks that could cause planned and on-going projects to be postponed, delayed or discontinued.

Tightening trade relations, continued market growth and inflation, as well as the impact of tariffs or other trade barriers could pose challenges to Neles' supply chain and price management, impacting the company's growth capability and margins.

Exchange rate fluctuations and changes in commodity prices could affect our orders received, sales and financial position. Neles hedges currency exposure linked to firm delivery and purchase agreements. Uncertain market conditions could adversely affect our customers' payment behavior and increase the risk of lawsuits, claims and disputes taken against Neles in various countries related to, among other things, Neles' products, projects and other operations.

Market outlook

We expect the market activity in Pulp and Paper projects to continue on a good level.

Market activity in Oil and Gas projects is expected to decline from the good level in the first half of the year, due to overall economic concerns.

Market activity for Services and customer Maintenance, Repair and Operations-driven (MRO) business is expected to gradually improve from the suppressed levels in the first half of the year, as the mobility restrictions are expected to ease and customers' operations to normalize.

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

Vantaa, August 5, 2020
Neles Corporation's Board of Directors

Neles' Half-year Review: tables

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Consolidated statement of income, IFRS

EUR million	4-6/20	4-6/19	1-6/20	1-6/19	1-12/19
Continuing operations					
Sales	141	168	277	323	660
Cost of goods sold	-94	-109	-183	-212	-435
Gross profit	46	59	94	111	225
Selling and marketing expenses	-18	-20	-36	-38	-78
Research and development expenses	-4	-4	-8	-9	-17
Administrative expenses	-9	-8	-16	-15	-34
Other operating income and expenses, net	1	-1	-1	-1	-4
Share in profits of associated companies	-	-	-	-	-
Operating profit	18	26	32	48	93
Financial income and expenses, net	-2	0	-3	-1	-2
Profit before taxes	15	26	28	47	91
Income taxes	-4	-8	-7	-13	-22
Profit for the period, continuing operations	11	18	22	34	69
Profit for the period, discontinued operations	2,091	71	2,150	119	230
Profit for the period	2,103	89	2,171	154	299
Profit attributable to, continuing operations					
Shareholders of the parent company	11	18	22	34	69
Non-controlling interests	-	-	-	-	-
Profit attributable to, discontinued operations					
Shareholders of the parent company	2,091	71	2,150	119	232
Non-controlling interests	0	0	0	0	-1
Profit attributable to					
Shareholders of the parent company	2,103	89	2,171	153	301
Non-controlling interests	0	0	0	0	-1
Earnings per share, EUR					
Basic and diluted, continuing operations	0.08	0.12	0.14	0.23	0.46
Basic and diluted, discontinued operations	13.93	0.47	14.32	0.79	1.54
Basic and diluted	14.00	0.59	14.46	1.02	2.00

Consolidated statement of comprehensive income, IFRS

EUR million	4-6/20	4-6/19	1-6/20	1-6/19	1-12/19
Continuing operations					
Profit for the period	11	18	22	34	69
Other comprehensive income					
Measurement at fair value, net of tax	0	0	0	0	0
Currency translation on subsidiary net investments	0	0	0	0	0
Items that may be reclassified to profit or loss in subsequent periods	0	0	0	0	0
Defined benefit plan actuarial gains and losses, net of tax	0	0	0	0	2
Items that will not be reclassified to profit or loss	0	0	0	0	2
Total comprehensive income, continuing operations	11	18	22	34	70
Profit attributable to, continued operations					
Shareholders of the parent company	11	18	22	34	70
Non-controlling interests	-	-	-	-	-
Discontinued operations					
Profit for the period	2,091	-	2,150	-	230
Other comprehensive income					
Cash flow hedges, net of tax	0	-	1	-	3
Measurement at fair value, net of tax	0	-	0	-	0
Currency translation on subsidiary net investments	0	-	-53	-	2
Items that may be reclassified to profit or loss in subsequent periods	2,091	-	-52	-	4
Other items	0	-	-1	-	-3
Total comprehensive income, discontinued operations	2,091	-	2,097	-	231
Profit attributable to, discontinued operations					
Shareholders of the parent company	2,091	-	2,097	-	232
Non-controlling interests	0	-	0	-	-1
Total comprehensive income	2,102	-	2,119	-	301
Profit attributable to					
Shareholders of the parent company	2,103	-	2,121	-	303
Non-controlling interests	-1	-	-2	-	-1

Consolidated Balance Sheet – Assets, IFRS

EUR million	Neles 6/20	Continuing and discontinued operations 6/19	Continuing operations 12/19
Non-current assets			
Intangible assets			
Goodwill	60	545	62
Other intangible assets	17	84	18
Total intangible assets	78	629	81
Tangible assets			
Land and water areas	6	40	6
Buildings and structures	19	96	21
Machinery and equipment	26	140	28
Assets under construction	13	46	11
Total tangible assets	64	322	67
Right-of-use assets	41	115	46
Other non-current assets			
Investments in associated companies	0	5	0
Non-current financial assets	0	3	0
Loan and other interest bearing receivables	-	5	-
Derivative financial instruments	-	4	-
Deferred tax asset	17	109	13
Other non-current receivables	2	41	1
Total other non-current assets	19	167	14
Total non-current assets	201	1,233	208
Current assets			
Inventories	181	1,028	181
Trade receivables	96	633	95
Customer contract assets	-	127	-
Interest bearing receivables	-	1	-
Derivative financial instruments	0	16	0
Income tax receivables	2	36	2
Other current receivables	37	138	40
Deposits and securities, maturity more than three months	1	50	-
Cash and cash equivalents	114	279	57
Liquid funds	114	330	57
Total current assets	430	2,307	374
Assets, discontinued operations	-	-	3,305
TOTAL ASSETS	632	3,540	3,887

Consolidated Balance Sheet – Equity and liabilities, IFRS

EUR million	Neles 6/20	Continuing and discontinued operations 6/19	Continuing operations 12/19
Equity			
Share capital	51	141	141
Cumulative translation adjustments	52	-95	52
Fair value and other reserves	28	292	298
Discontinued operations	-	-	-155
Retained earnings	121	1,045	1,187
Equity attributable to shareholders	252	1,384	1,523
Non-controlling interests	1	11	3
Total equity	253	1,394	1,526
Liabilities			
Non-current liabilities			
Interest bearing liabilities	150	388	36
Lease liabilities	32	87	37
Post-employment benefit obligations	14	71	9
Provisions	1	33	3
Derivative financial instruments	-	3	-
Deferred tax liability	4	39	4
Other non-current liabilities	0	2	0
Total non-current liabilities	201	622	89
Current liabilities			
Interest bearing liabilities	22	233	20
Lease liabilities	9	29	10
Trade payables	54	437	63
Provisions	11	66	12
Advances received	24	252	24
Customer contract liabilities	-	79	-
Derivative financial instruments	0	18	1
Income tax liabilities	7	70	2
Other current liabilities	51	340	39
Total current liabilities	178	1,523	171
Total liabilities	379	2,146	259
Liabilities, discontinued operations	-	-	2,102
TOTAL EQUITY AND LIABILITIES	632	3,540	3,887

Net interest-bearing liabilities

EUR million	Neles 6/20	Continuing and discontinued operations 6/19	Continuing operations 12/19
Interest bearing liabilities	172	620	56
Lease liabilities	41	116	47
Liquid funds	-114	-330	-57
Other interest bearing assets	-	-6	-
Net interest bearing liabilities	99	400	46

Consolidated statement of changes in shareholders' equity, IFRS

EUR million	Share capital	Cumulative translation adjustments	Fair value and other reserves	Discontinued operations	Retained earnings	Equity attributable to shareholders	Non- controlling interests	Total equity
Jan 1, 2019	141	-101	302	-	1,061	1,403	10	1,413
Profit for the period, continuing operations	-	-	-	-	34	34	0	34
Profit for the period, discontinued operations	-	-	-	-	119	119	0	119
Other comprehensive income								
Cash flow hedges, net of tax	-	-	0	-	-	0	-	0
Currency translation on subsidiary net investments	-	6	-	-	-	6	-	6
Total comprehensive income	-	6	0	-	153	159	-	159
Dividends	-	-	-	-	-180	-180	-	-180
Share-based payments, net of tax	-	-	3	-	1	3	-	3
Other items	-	-	-12	-	10	-2	-	-1
Jun 30, 2019	141	-95	292	-	1,045	1,384	11	1,394

EUR million	Share capital	Cumulative translation adjustments	Fair value and other reserves	Discontinued operations	Retained earnings	Equity attributable to shareholders	Non- controlling interests	Total equity
Jan 1, 2020	141	52	298	-155	1,187	1,523	3	1,526
Profit for the period, continuing operations	-	-	-	-	22	22	0	22
Profit for the period, discontinued operations	-	-	-	-	2,150	2,150	-	2,150
Other comprehensive income								
Cash flow hedges, net of tax	-	-	0	-	-	0	-	0
Measurement at fair value, net of tax	-	-	0	-	-	0	-	0
Currency translation on subsidiary net investments	-	0	0	-53	0	-53	0	-53
Discontinued operations	-	0	1	0	-	1	-	1
Total comprehensive income	-	0	1	-53	0	-52	0	-52
Dividends	-	-	-	-	-221	-221	-	-221
Distributed assets in the demerger at fair value	-	-	-	-	-3,171	-3,171	-	-3,171
Effect of demerger	-90	-	-273	208	156	0	-2	-2
Share-based payments, net of tax	-	-	2	-	-4	-3	-	-3
Other items	-	-	1	-	3	4	0	4
Jun 30, 2020	51	52	28	0	121	252	1	253

Consolidated statement of cash flows, IFRS

EUR million	Continuing and discontinued operations				
	4-6/20	4-6/19	1-6/20	1-6/19	1-12/19
Operating activities					
Profit for the period, continuing operations	12	18	22	34	69
Profit for the period, discontinued operations	68	71	127	119	230
Adjustments					
Depreciation and amortization	6	23	12	45	82
Financial expenses, net	12	10	14	20	38
Income taxes	32	15	55	41	95
Other items	4	-1	5	-	-2
Change in net working capital	141	-105	158	-160	-254
Net cash flow from operating activities before financial items and taxes	275	31	393	99	258
Financial income and expenses paid, net	-12	-11	-16	-16	-30
Income taxes paid	-16	-34	-41	-52	-137
Net cash flow from operating activities	247	-14	336	31	91
Investing activities					
Capital expenditures on intangible and tangible assets	-23	-21	-50	-41	-107
Proceeds from sale of intangible and tangible assets	0	0	1	1	8
Proceeds from and investments in financial assets, net	-	-	-	31	31
Business acquisitions, net of cash acquired	-	-35	1	-35	-214
Proceeds from sale of businesses, net of cash sold	-	-	-	9	9
Other items	-	-	-	-	-3
Net cash flow from investing activities	-24	-56	-48	-35	-276
Financing activities					
Dividends paid	-195	-90	-195	-90	-180
Transactions with non-controlling interests	-	-	-	-	-13
Proceeds from and repayment of debt, net	-4	20	148	13	198
Repayments of lease liabilities	-8	-18	-17	-18	-34
Net cash flow from financing activities	-206	-89	-64	-95	-29
Net change in liquid funds	17	-158	225	-99	-215
Effect from changes in exchange rates	-4	-2	-11	0	2
Cash and cash equivalents transferred in demerger	-312	-	-312	-	-
Liquid funds equivalents at beginning of period	413	488	213	426	426
Liquid funds at end of period	114	328	114	328	213
Liquid funds at end of period, continuing operations	-	93	-	93	57
Liquid funds at end of period, discontinued operations	-	234	-	234	156

Free cash flow

EUR million	Continuing and discontinued operations		
	1-6/20	1-6/19	1-12/19
Cash flow from operating activities	337	31	91
Capital expenditures on intangible and tangible assets	-50	-41	-107
Proceeds from sale of intangible and tangible assets	1	1	8
Free cash flow	288	-9	-9

Analysis of consolidated balance sheet - Assets

This analysis table is showing a comparable balance sheet for continuing Neles for the comparative period 6/2019 in addition to IFRS financial information.

EUR million	Neles	Continuing operations	
	6/20	6/19	12/19
Non-current assets			
Intangible assets			
Goodwill	60	63	62
Other intangible assets	17	19	18
Total intangible assets	78	82	81
Tangible assets			
Land and water areas	6	6	6
Buildings and structures	19	21	21
Machinery and equipment	26	28	28
Assets under construction	13	4	11
Total tangible assets	64	59	67
Right-of-use assets	41	47	46
Other non-current assets			
Deferred tax asset	17	21	13
Other non-current receivables	2	1	1
Total other non-current assets	19	22	14
Total non-current assets	201	210	208
Current assets			
Inventories	181	179	181
Trade receivables	96	91	95
Derivative financial instruments	0	0	0
Income tax receivables	2	1	2
Other current receivables	37	32	40
Deposits and securities, maturity more than three months	1	10	-
Cash and cash equivalents	114	85	57
Liquid funds	114	95	57
Total current assets	430	399	374
TOTAL ASSETS	632	609	582

Analysis of consolidated balance sheet – Equity and liabilities

This analysis table is showing a comparable balance sheet for continuing Neles for the comparative period 6/2019 in addition to IFRS financial information.

EUR million	Neles 6/20	Continuing operations	
		6/19	12/19
Equity			
Share capital	51	141	141
Cumulative translation adjustments	52	-95	-103
Fair value and other reserves	28	292	298
Retained earnings	121	1,045	1,187
Equity attributable to shareholders	252	1,384	1,523
Non-controlling interests	1	11	3
Total equity	253	1,394	1,526
Equity for discontinued operations	-	-1,027	-1,203
Total equity, continuing operations	253	367	324
Liabilities			
Non-current liabilities			
Interest bearing liabilities	150	-	36
Lease liabilities	32	35	37
Post-employment benefit obligations	14	13	9
Provisions	1	2	3
Deferred tax liability	4	4	4
Other non-current liabilities	0	0	0
Total non-current liabilities	201	54	89
Current liabilities			
Interest bearing liabilities	22	16	20
Lease liabilities	9	12	10
Trade payables	54	63	63
Provisions	11	12	12
Advances received	24	25	24
Derivative financial instruments	0	0	1
Income tax liabilities	7	5	2
Other current liabilities	51	56	39
Total current liabilities	178	188	171
Total liabilities	379	242	259
TOTAL EQUITY AND LIABILITIES	632	609	582

Net interest bearing liabilities

EUR million	Neles 6/20	Continuing operations	
		6/19	12/19
Interest bearing liabilities	172		56
Lease liabilities	41		47
Liquid funds	-114		-57
Interest bearing receivables	-		-
Net interest bearing liabilities	99		46

Analysis of consolidated statement of cash flows

This analysis table is showing the cash flow statements for continuing Neles for the periods in this interim report Q2/2020, addition to IFRS financial information.

EUR million	Continuing operations		
	1–6/20	1–6/19	1–12/19
Operating activities			
Profit for the period	22	34	69
Adjustments			
Depreciation and amortization	12	12	25
Financial expenses, net	3	1	2
Income taxes	7	13	22
Other items	-13	2	5
Change in net working capital	-6 ¹	-3	-30
Net cash flow from operating activities before financial items and taxes	25	-1	92
Financial income and expenses paid, net	-1	-1	0
Income taxes paid	-1	-17	-38
Net cash flow from operating activities	23	43	54
Investing activities			
Capital expenditures on intangible and tangible assets	-8	-6	-20
Proceeds from sale of intangible and tangible assets	0	0	0
Acquisitions/divestments, Metso Group	-	-	-50
Net cash flow from investing activities	-8	-7	-70
Financing activities			
Dividends paid	-39	-18	-36
Proceeds from/repayments of short-term debt, net	3	7	13
Proceeds from/repayment of long-term debt, net	-	-	36
Financing, Metso group	84 ¹	-30	-34
Lease payments	-4	-4	-10
Net cash flow from financing activities	44	-44	-31
Net change in liquid funds	59	-8	-46
Effect from changes in exchange rates	-1	2	2
Liquid funds at beginning of period	57	101	101
Liquid funds at end of period	114	95	57

Free cash flow

EUR million	Continuing operations		
	1–6/20	1–6/19	1–12/19
Cash flow from operating activities	23	43	54
Capital expenditures on intangible and tangible assets	-8	-6	-20
Proceeds from sale of intangible and tangible assets	0	0	0
Free cash flow	15	36	34

¹ For the period 1-6/2020, carve out related items are excluded from *Change in networking capital* and presented in *Financing, Metso Group*.

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13. Events after reporting period

1. Basis of preparation

This Half-year review has been prepared in accordance with IAS 34 *Interim Financial Reporting*, applying the accounting policies published in the Financial Statements 2019 of Metso group. Neles Group will continue to apply these IFRS accounting policies, as applicable to Neles operations. New accounting standards have been adopted as described in note 2. This Half-year Review is unaudited.

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

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

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

2. New accounting standards

New and amended standards adopted in 2020

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

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

3. Key figures

	1–6/20	1–6/19	1–12/19
EUR million			
Sales	277	323	660
Services sales	60	70	152
% of sales	21.8	21.6	23.0
Adjusted EBITA	40	50	97
% of sales	14.3	15.4	14.7
Operating profit	32	48	93
% of sales	11.7	14.8	14.0
Profit for the period, continuing operations	22	34	69
Profit for the period, discontinued operations	2,150	119	230
Profit for the period	2,171	154	299
Earnings per share			
Continuing operations:			
Earnings per share, basic, EUR	0.14	0.23	0.46
Earnings per share, diluted, EUR	0.14	0.23	0.46
Discontinued operations:			
Earnings per share, basic, EUR	14.32	0.79	1.54
Earnings per share, diluted, EUR	14.32	0.79	1.54
Total:			
Earnings per share, basic, EUR	14.46	1.02	2.00
Earnings per share, diluted, EUR	14.46	1.02	2.00
Cash flow			
Free cash flow, continuing, EUR million	15	36	34
Free cash flow/share, continuing, EUR	0.10	0.24	0.23
R&D expenditure, EUR million	10	10	18
% of sales	3.6	3.1	2.7
Gross capital expenditure, EUR million	8	6	20
% of sales	2.9	1.9	3.0
Amortization, EUR million	2	2	4
Depreciation of tangible assets, EUR million	5	5	10
Depreciation of right-of-use assets, EUR million	6	5	11
Adjustment items, EUR million ¹	6	-	-
Balance sheet			
Balance sheet total, EUR million	632	3,540	3,887
Equity attributable to shareholders, EUR million	252	1,383	1,523
Equity per share, EUR	1.68	9.22	10.15
Equity-to-assets ratio, %	41.4	43.4	42.3
Net debt, EUR million	99	400	798
Gearing, %	39.1	28.7	52.3
Net debt / EBITDA	1.0	-	-
Debt to capital ratio, %	45.7	-	-
Number of outstanding shares at end of period (thousands)	150,198	150,076	150,076
Average number of shares (thousands)	150,160	150,038	150,057
Average number of diluted shares (thousands)	150,215	150,167	150,200
Personnel at the end of period	2,950	14,676	15,281

¹ Adjusting items comprise of costs related to the demerger and setting up Neles business area as an independent company, restructuring costs, outcome of material intellectual property rights disputes, gains and losses on business disposals, and other infrequent events.

Formulae for key figures

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

4. Disaggregation of sales

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

External sales by product type

EUR million	4-6/20	4-6/19	1-6/20	1-6/19	1-12/19
Products/ equipments	110	132	217	253	508
Services	31	36	60	70	152
Sales total	141	168	277	323	660

External sales by geographical area

EUR million	4-6/20	4-6/19	1-6/20	1-6/19	1-12/19
EMEIA	52	59	104	115	251
North America	39	63	92	123	235
South America	16	10	23	19	37
Asia-Pacific	34	36	58	65	137
Sales total	141	168	277	323	660

5. Reconciliation of adjusted EBITA and operating profit

EUR million	4-6/20	4-6/19	1-6/20	1-6/19	1-12/19
Adjusted EBITA	23	27	40	50	97
% of sales	16.3	16.2	14.3	15.4	14.7
Amortizations	-1	-1	-2	-2	-4
Adjustments					
- Restructuring costs	-1	-	-1	-	-
- Rebranding and establishing costs	-3	-	-5	-	-
Adjustments , total	-4	-	-6	-	-
Operating profit	18	26	32	48	93
% of sales	12.6	15.7	11.7	14.8	14.0

6. Fair value estimation

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

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

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

EUR million	6/20			6/19		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Financial assets at fair value through profit and loss						
Derivatives not under hedge accounting	-	1	-	-	0	-
Financial assets at fair value through other comprehensive income						
Derivatives under hedge accounting	-	0	-	-	0	-
Total	-	1	-	-	0	-
Liabilities						
Financial liabilities at fair value through profit and loss						
Derivatives not under hedge accounting	-	0	-	-	1	-
Total	-	0	-	-	1	-

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

7. Notional amounts of derivative instruments

EUR million	6/20	6/19	12/19
Forward exchange rate contracts	0	0	0

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

8. Contingent liabilities and other commitments

EUR million	6/20	12/19
Guarantees		
External guarantees given by parent and group companies	35	39
Other commitments		
Repurchase commitments	9	11
Other contingencies	3	4
Total	47	55

9. Borrowings

In the demerger as at June 30, 2020, EUR 150 million term loan was transferred to Neles. Loan has a floating interest rate base and matures on July 2022. The covenant of the loan is related to the debt to capital ratio and is clearly covered at the end of the period.

Neles has lease liabilities EUR 42 million at the end of period, which mainly relates to plant and office leases.

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

10. Discontinued operations

Result of discontinued operations

EUR million	1–6/20	1–12/19
Sales	1,447	2,976
Expenses	-1,272	-2,673
Result from operating activities	175	303
Income taxes	-47	-72
Result from operating activities, net of tax	127	230
Fair value gain from valuation of net assets of discontinued operations	2,022	-
Profit from discontinued operations, net of tax	2,150	230
Earnings per share, EUR	14.32	1.54
Earnings per share, diluted, EUR	14.32	1.54

Profit from discontinued operations include demerger expenses of EUR 11 million in H1/2020 and EUR 22 million in 2019. Profit from discontinued operations of EUR 2,150 million (EUR 230 million) is attributable to the owners of the parent company.

Cash flows from discontinued operations

EUR million	1–6/20	1–12/19
Net cash flow from operating activities	314	36
Net cash flow from investing activities	-40	-207
Net cash flow from financing activities	-108	2
Net cash flow for the period	166	-169

Net assets of discontinued operations

EUR million	6/20
Goodwill	551
Other intangible assets	173
Tangible assets	337
Right-of-use assets	97
Deferred tax assets	101
Investments	8
Loan receivables	6
Financial assets	35
Other non-current receivables	35
Inventories	886
Trade receivables	485
Customer contract assets	94
Income tax receivables	29
Other receivables	79
Liquid funds	312
Assets total	3,229

EUR million	6/20
Borrowings	857
Lease liabilities	83
Deferred tax liabilities	62
Post-employment benefit obligations	58
Trade payables	351
Provisions	94
Advances received	185
Customer contract liabilities	79
Income tax liabilities	47
Financial liabilities	20
Other current liabilities	244
Liabilities total	2,079
Net assets and liabilities	1,150

11. Quarterly information

EUR million, %	4–6/20	1–3/20	10–12/19	7–9/19	4–6/19	1–3/19
Orders received	131	191	154	171	165	191
Order backlog	305	337	280	295	298	311
Sales	141	137	167	170	168	155
Adjusted EBITA	23	17	18	29	27	23
% of sales	16.3	11.7	11.0	17.1	16.2	14.2
Amortization	1	1	1	1	1	1
Adjustment items	4	1	-	-	-	-
Operating profit	18	15	17	28	26	22
% of sales	12.6	10.9	10.4	16.5	16.1	14.0
Earning per share, EUR	0.08	0.07	0.09	0.14	0.13	0.09

12. Exchange rates

Currency	1–6/20	1–6/19	1–12/19	6/20	6/19	12/19
USD (US dollar)	1.1061	1.1334	1.1809	1.1198	1.1380	1.1234
SEK (Swedish krona)	10.6435	10.4782	10.2591	10.4948	10.5633	10.4468
GBP (Pound sterling)	0.8735	0.8761	0.8861	0.9124	0.8966	0.8508
CAD (Canadian dollar)	1.5040	1.5120	1.5307	1.5324	1.4893	1.4598
BRL (Brazilian real)	5.3983	4.3580	4.3020	6,1118	4.3511	4.5157
CNY (Chinese yuan)	7.7808	7.6891	7.8148	7.9219	7.8185	7.8205
AUD (Australian dollar)	1.6708	1.6015	1.5795	1.6344	1.6244	1.5995

13. Events after reporting period

July 29: Notice to Extraordinary General Meeting to be held on October 29, 2020 based on Valmet's request to extend the number of members in Neles' Board of Directors.

July 15: Valmet Corporation announced that its direct shareholding in Neles exceeded on July 14, 2020, the 15 percent threshold with 15.50% of Neles' shares and votes.

July 13: Alfa Laval AB announced their recommended public cash tender offer for all issued and outstanding shares in Neles that are not held by Neles or any of its subsidiaries. The Board members who participated in the decision-making have unanimously decided to recommend the offer.

July 1: The share purchase was executed based on Valmet Corporation's share purchase agreement announcement published on June 17, 2020. After the share purchase, Valmet's ownership in Neles represents 14.88% of Neles' total shares.

It should be noted that certain statements herein which are not historical facts, including, without limitation, those regarding expectations for general economic development and the market situation, expectations for customer industry profitability and investment willingness, expectations for company growth, development and profitability and the realization of synergy benefits and cost savings, and statements preceded by "expects", "estimates", "forecasts" or similar expressions, are forward-looking statements. These statements are based on current decisions and plans and

currently known factors. They involve risks and uncertainties that may cause the actual results to materially differ from the results currently expected by the company.

Such factors include, but are not limited to:

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

Neles' financial information in 2020

Interim Review for January–September 2020 on October 28

NELES

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