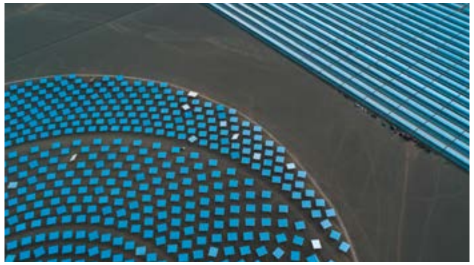
NELES

Annual report 2021

We deliver reliable performance

Neles delivers mission-critical flow control innovations, technologies, and services for the continuously evolving needs of global process industries. We help our customers to improve their process performance and ensure the safe flow of materials. We drive profitable growth and sustainable productivity across our customer industries.

Welcome to Neles Annual Report 2021



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Neles in brief

Leading brands

Neles™ Jamesbury™
Flowrox™ Easyflow by Neles™

Sales, MEUR

610.9

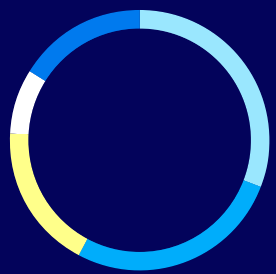
Employees

2,934

65

years of innovation

Sales by industry, %



- Pulp, Paper & Bio 31%
- Oil 27%
- Chemicals 18%
- Gases 8%
- Other industries* 16%

* Incl. Mining & Metals, Power, Water treatment, Food & Bev, Pharma

Sales by Market Area, %

- EMEIA 40%
- North America 32%
- APAC 20%
- South America 8%

Delivering flow control performance that helps meet growing demand

Improving safety and environmental performance

Leading the way towards increased digitalization

2021 Highlights

Strategy implementation

- Strengthening position in mining & metals industry by acquisition of Flowrox valve and pump businesses
- High temperature globe valve trim range expansion for more demanding applications
- Exploring and testing new materials and manufacturing methods
- Advances in green hydrogen business
- Continued progress in developing service concepts

Financial performance

- Adjusted EBITA: EUR 86.8 (85.0) million
- Adjusted EBITA %: 14.2 (14.8) of sales
- Free cash flow, continuing operations: EUR 77.5 (68.7) million
- EPS, continuing operations: EUR 0.38 (0.32)
- Board of Directors dividend proposal: EUR 0.266 per share

Achievements in sustainability

- Next generation versatile butterfly valves: longer lifetime and peak process efficiency with minimal environmental impact
- LTIF milestones in several locations: Safety records at Vadodara Supply Center and the Ambernath and Helsinki plants
- 100% renewable energy: used at the headquarters and Helsinki plant
- Joining Carbon Disclosure Project (CDP) to advance transparency

Board of Directors' Report

Board of Directors' Report

Financial year 2021

Operating environment

The Pulp, Paper and Bioproducts project business remained active and at a good level throughout 2021. Neles won new projects as well as additional orders for ongoing projects. Chemicals and Oil & Gas project activity was weak throughout 2021, and orders received were notably below 2020. However, toward the end of the year, Chemicals, Oil & Gas projects in the funnel began to progress and project orders are expected during the first half of 2022.

In 2021, services demand was good throughout the year and comparable to the pre-Covid level. Services orders grew in all market areas and achieved 15% growth from the comparison period. Maintenance, repair and operations (MRO) business demand improved and was well above the previous year's level. There was positive development across market areas for the MRO-driven business orders, which grew by 29%.

In 2021, the market sentiment in the North American Market Area improved rapidly in the first quarter and continued to be good throughout the year. The Market Area's orders grew by 32% from the comparison period. The EMEIA (Europe, Middle East, India and Africa) Market Area's orders received grew by 3% from the previous year. Project orders were weak compared to 2020, while Services and MRO-driven businesses improved notably. Orders received in the APAC Market Area declined by 5% from the previous year. Project orders were satisfactory, but clearly lower than in the comparison period, which was a strong year for projects. Growth in the Services and MRO-driven businesses was not enough to offset the decline in project orders. The decline in South America Market Area's orders received in 2021 is explained by a strong project order intake during 2020. The Services and MRO-driven businesses developed well in the South America Market Area.

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

Key figures

The figures in brackets refer to the corresponding year 2020, Neles continuing operations.

EUR million	2021	2020	Change, %
Continuing operations			
Orders received	625.2	590.1	6
Order backlog at the end of period	294.4	270.3	9
Sales	610.9	576.3	6
Sales by services business	148.1	128.6	15
% of sales	24.2	22.3	
Adjusted EBITA [1]	86.8	85.0	2
% of sales	14.2	14.8	
Operating profit	75.8	70.3	8
% of sales	12.4	12.2	
Earnings per share, EUR	0.38	0.32	17
Free cash flow	77.5	68.7	13
Return on capital employed (ROCE) before taxes, %	15.4	15.6	

[1] Adjustment items amounted to EUR 7.2 (11.3) 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. The adjustments in 2020 were attributable to advisory, brand, IT and other costs related to the creation and rebranding of Neles, establishing a new operating structure and developments around Neles' shareholding.

EUR million	2021	2020
Discontinued operations		
Profit for the year, discontinued operations	–	2,149.6
Earnings per share, EUR	–	14.31
Neles total		
Profit for the year	56.7	2,197.8
Earnings per share, EUR	0.38	14.63
Net debt	81.4	81.4
Equity to assets ratio, %	45.2	42.6
Net debt/ EBITDA, rolling 12 months	0.8	0.9
Gearing, %	26.8	30.9
Personnel at end of period	2,934	2,840

Orders and Sales

Orders by market area

EUR million	2021	2020
EMEIA	230.7	224.9
North America	222.4	168.5
South America	46.4	64.6
Asia-Pacific	125.7	132.2
Neles total	**625.2**	**590.1**

In 2021, orders received increased from the comparison period due to growth in the Services and MRO-driven businesses. Orders received in the Services and MRO-driven businesses totaled EUR 442.0 (357.8) million, of which Services orders were EUR 153.5 (133.5) million.

The order backlog on December 31, 2021, was EUR 294.4 (270.3) million.

Sales by market area

EUR million	2021	2020
EMEIA	245.3	223.0
North America	195.8	166.5
South America	51.3	56.9
Asia-Pacific	118.6	130.0
Neles total	**610.9**	**576.3**

In 2021, the growth in sales was attributable to increased sales in the Services and MRO-driven businesses. Sales in the Services and MRO-driven businesses totaled EUR 403.8 (368.7) million, of which Services sales were EUR 148.1 (128.6) million.

FX impact on orders received and sales

	Orders received	Sales
2020, EUR million	590.1	576.3
Organic growth in constant currencies	7%	7%
Acquisitions	1%	1%
Impact of changes in exchange rates	–2%	–2%
Total change	6%	6%
2021, EUR million	**625.2**	**610.9**

In 2021, growth in orders received and sales was 6% and resulted mainly from organic growth. Changes in currency exchange rates had a negative impact on orders received and sales.

Currency exchange rate impacts were mainly due to the US dollar and Brazilian real.

Financial performance

In 2021, adjusted EBITA grew by 2.1% from 2020 to EUR 86.8 (85.0) million. The positive impact came from sales volume growth. Profitability was negatively impacted by decline in gross margin of 32.5% (33.0%), 3.5% growth in SGA costs without adjustment items of EUR 111.1 (107.3) million, and a decline in other operating income and expenses of EUR –4.6 (–1.8) million. Other operating income and expenses reflect the impact of non-deductible withholding taxes, currency fluctuations and hedging results.

Adjustment items amounted to EUR 7.2 (11.3) 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. The adjustment items in 2020 were attributable to advisory, brand, IT and other costs related to the creation and rebranding of Neles, establishing a new operating structure and developments around Neles' shareholding.

In 2021, the effective tax rate was 20.0% and it was impacted by the previous year's taxes and deferred tax adjustments. The comparative operative tax rate was approximately 24.1% (24.4%).

Earnings per share for 2021 amounted to EUR 0.38 (EUR 0.32, continued operations).

Cash flow and Capital expenditure

The free cash flow for the full year 2021 was good and amounted to EUR 77.5 million (EUR 68.7 million). Cash generation was good during the fourth quarter of 2021. An increase in sales and active net working capital management supported the good cash flow development.

In 2021, gross capital expenditure for Neles was EUR 10.9 (12.4) million. Some of the planned investments for 2021 have been delayed. The capital expenditures consisted mainly of R&D projects, ERP harmonization, and investments in manufacturing capacity and equipment. In 2020, EUR 5 million of the investments were associated with the manufacturing site in Jiaxing, China.

Cash and cash equivalents at the end of 2021 were EUR 132.4 (135.9) million. Cash outflow in 2021 included a dividend payment of EUR 33.1 million and acquisition payment of EUR 40.3 million.

Financial position

At the end of 2021, net working capital amounted to EUR 150.2 (143.6) million. Continued challenges in global logistics and acquisition of Flowrox contributed to the inventory increase. See note 5.4 for additional information regarding the acquisition's impact on the increase in inventory. The increase in other receivables and liabilities was caused by accrued merger-related expenses and recognized contingent consideration of the acquisition.

Neles' balance sheet and liquidity position remained solid. Interest bearing liabilities on December 31, 2021 were EUR 215.6 million (EUR 217.3 million at the end of December 2020), including EUR 47.5 million in lease liabilities (EUR 51.5 million at the end of December 2020). A dividend of EUR 33.1 million was paid on April 8, 2021.

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

In July, Neles signed a EUR 150 million bilateral Term Loan, which was drawn down in August to refinance the existing EUR 150 million Term Loan, with maturity in July 2022. The tenor of the new loan is seven years.

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

Neles Group has no public rating in any ratings agency.

Research and development

Neles' research and development activities focus on the renewal and expansion of certain product platforms to ensure the future competitiveness of its offerings. Neles' research and development efforts also continuously aim to improve customers' processes in terms of sustainability, efficiency, and reliability.

In the fourth quarter, Neles launched second phase of new metal seat ball valve platform. The platform will improve product performance and manufacturing efficiency in class 600 trunnion ball valves. Neles also launched expansion in globe valve product line with new capabilities in high temperature applications. The temperature range was expanded up to 540°C a d this new high temperature option allows Neles to offer globe valves to even more demanding applications e.g., in refineries, petrochemical plants and power industry.

In the third quarter, Neles launched a new version of Expertune PlantTriage software. It continually monitors customers' plant to identify issues whenever they occur. It diagnoses issues, helps find the root cause, prioritizes according to economic and technical factors, and provides a complete set of analysis tools to resolve the problem at its source.

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

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

Research and Development as well as IP-related expenditure

EUR million	2021	2020
Research and Development expenditure	16.6	17.6
of sales, %	2.7	3.1
Of which expensed	15.3	14.2
of sales, %	2.5	2.5

Inventions and patents

Pieces	2021	2020
Invention disclosures	105	78
Priority patent applications	1	2
Inventions protected by patents, as of December 31	41	42

Corporate governance and remuneration

Annual General Meeting, March 26, 2021

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

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

Dividend for 2020

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

Composition of the Boards of Directors

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

In the organizing meeting Anu Hämäläinen was appointed Chair of the Audit Committee, and Perttu Louhiluoto and Jukka Tiitinen as members of the Audit Committee. Jaakko Eskola was appointed as Chair of the Remuneration Committee, and Niko Pakalén, Teija Sarajärvi and Mark Vernon as members of the Remuneration Committee.

On July 26, 2021, Perttu Louhiluoto resigned from the Board of Directors and Anu Hämäläinen was appointed as Vice Chair, and Niko Pakalén was appointed as a member of the Audit Committee.

Board members during January 1 – March 26, 2021: Jukka Moisio (Chair), Mark Vernon (Vice Chair), Britta Giesen, Anu Hämäläinen, Niko Pakalén, Teija Sarajärvi, Petter Söderström and Jukka Tiitinen.

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 annual remuneration payable to the members of the Board of Directors for the upcoming term would remain unchanged as follows:

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

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

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

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

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

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

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

Auditor

In accordance with the proposal of the Board of Directors, the AGM resolved to re-elect Ernst & Young Oy, authorized public accountants, as auditor for a term ending at the end of the following AGM. Ernst & Young Oy has notified that Toni Halonen, APA, will act as the principal auditor of the Company. The remuneration for the auditor will be paid against the invoice approved by the Audit Committee.

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 the Company's own shares. The authorization is effective until June 30, 2022, and it cancels the authorization given by the AGM on June 16, 2020 to decide on the repurchase of the Company's own shares. This authorization has not been exercised as of February 4, 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, 2022, and it cancels the authorization given by the AGM on June 16, 2020 to decide on the issuance of shares and the issuance of special rights entitling to shares. This authorization has not been exercised as of February 4, 2022.

Amendment of the Articles of Association

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

8 § Place of the shareholders' meeting and advance notice

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

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

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

Extraordinary General Meeting, September 22, 2021

Neles' Extraordinary General Meeting approved the merger of Neles and Valmet Oyj ("Valmet") in accordance with the Merger Plan and authorized the Board of Directors to resolve the distribution of funds.

Resolution on the merger

The General Meeting resolved to approve the Merger Plan regarding the merger between Neles and Valmet and the merger of Neles into Valmet in accordance with the Merger Plan. Pursuant to the Merger Plan, Neles would be merged into Valmet through an absorption merger, so that all assets and liabilities of Neles would be transferred without a liquidation procedure to Valmet in a manner described in more detail in the Merger Plan. The merger has been described in more detail in the stock exchange release published by Neles on July 2, 2021. Pursuant to the Merger Plan, the shareholders of Neles shall receive as merger consideration 0.3277 new shares of Valmet for each share they hold in Neles.

The completion of the merger is conditional upon the satisfaction of the conditions for completion set out in the Merger Plan, or the waiver thereof by Valmet and Neles. In addition to the approvals of the Extraordinary General Meetings of both companies, these conditions include, among others, that necessary merger control and other regulatory approvals have been obtained and that the extra distribution of funds by Neles referred to in the Merger Plan has been executed prior to the completion of the merger, as well as the completion or waiver of other conditions set forth in the Merger Plan.

Extraordinary General Meeting resolved to authorize the Board of Directors of Neles to resolve, before the completion of the merger, on an extra distribution of funds not exceeding EUR 2.00 per share to be paid either as dividend from the company's retained earnings or as a return of equity from the company's fund for invested unrestricted equity, or a combination of the two. The authorization is in force until the opening of the next Annual General Meeting of the company.

Neles will separately publish the resolution of the Board of Directors to distribute funds based on the authorization and will simultaneously confirm the applicable record and payment dates. Funds paid on the basis of the authorization will be paid to shareholders who are registered as shareholders in Neles' shareholders' register on the record date of the distribution of funds.

The planned effective date of the merger is on or before April 1, 2022.

Neles Executive Team

The composition of the Neles Executive Team in 2021 was: Olli Isotalo, President and CEO (until December 31, 2021); Timo Hänninen, Head of Valves Equipment; Sami Nousiainen, Head of 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 EMEIA; Tan HangPheng, Head of Asia-Pacific; Kevin Tinsley, Head of Global Operations; Simo Sääskilahti, Finance (CFO and deputy CEO, on November 30, 2021, appointed as interim President and CEO starting January 1, 2022); Hanne Peltola, Head of Human Resources and Kaisa Voutilainen, Communications and Marketing and Elisa Erkkilä, General Counsel and Chief Compliance Officer.

On November 30, 2021, the Board of Directors appointed Simo Sääskilahti as interim President and CEO of Neles starting January 1, 2021. President and CEO Olli Isotalo retired on December 31, 2021.

Up-to-date information regarding the Neles executive team at https://www.neles.com/investors/governance/.

Composition of the Neles' Shareholders Nomination Board

The composition of the Shareholders' Nomination Board on December 31, 2021 was as follows: Pasi Laine, President and CEO, Valmet Oyj; Philip Ahlgren, Vice President, Cevian Capital AB; 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; Mikko Mursula, Deputy CEO, Investments, Ilmarinen Mutual Pension Insurance Company and Mr. Jaakko Eskola, Chair of Neles Board.

Personnel

At the end of December 2021, Neles had 2,934 employees (December 31, 2020: 2,840 employees). Due to the Flowrox acquisition on November 1, 2021, 101 employees transferred to Neles. 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.

Employee engagement

Employee engagement is measured by the Neles' global employee survey, PeoplePulse, which was conducted in April 2021 and showed that Neles employees in global comparison were highly committed, had a strong feeling of being able to contribute and a good level of competences in performing in their work. Main development areas will be opportunities to influence and receive the latest information concerning own work. PeoplePulse response rate was 83.4% (75.5%) and it provided information for practical and positive development actions. Neles employee net promoter score (eNPS) in 2021 was 24.2 (28.3).

Adopting new ways of working

During 2021 Neles employees in different countries continued working in new hybrid ways that have been adopted during the Covid-19 pandemic. New virtual tools and team practices were introduced, and lot of focus was put on training managers both locally and globally on how to lead teams virtually in the changed environment. Building virtual communities and nurturing the sense of belonging were main focus areas in leadership development.

Neles as an employer

In 2021, Neles employed more than 100 summer trainees in Finland. Neles placed first in the "Responsible summer job" campaign as the most responsible summer job provider in Finland. Winners were selected based on the feedback given by the summer trainees themselves. Neles competed in the "corporations employing 1,000+ employees" group. The study was conducted by the recruitment web channel Oikotie and included 500 Finnish companies.

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 6–12 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. The final execution of these modifications is subject to the closing of the merger. The payments of the cash rewards are scheduled for 2022 and 2023.

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

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 January 1, 2021, Elisa Erkkilä, LL.M, joined Neles Executive Team. She has worked at Neles as General Counsel and Chief Compliance Officer since the launch of Neles Corporation in July 2020.

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.

Mergers and acquisitions

Acquisition of Flowrox valve and pump businesses

On November 1, 2021, Neles completed the acquisition of 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. It enables Neles to better leverage growth opportunities in minerals processing applications. In 2020, the sales of the acquired businesses amounted to approximately EUR 30 million. As a result of the acquisition, 101 employees transferred to Neles.

On November 1, 2021, a EUR 40.3 million cash consideration was paid for the acquired businesses. Additionally, an earn-out of up to EUR 3 million will be paid as a cash consideration, subject to set orders received criteria for a one-year period after closing. The acquisition generated a goodwill of EUR 25.1 million. For additional details of the acquisition, see note 10.

Merger of Neles and Valmet

On July 2, 2021, Neles announced that the Boards of Directors of Neles Corporation and Valmet Oyj have signed a combination agreement and a merger plan to combine the two companies through a merger. Both companies held an Extraordinary General Meeting on September 22, 2021, and both EGMs approved the merger. The completion of the merger was expected to occur on January 1, 2022, subject to all conditions for completion being fulfilled.

On November 5, 2021, Valmet announced that due to the regulatory review processes taking longer than previously estimated, the completion of the merger was targeted to occur on or before April 1, 2022. As the completion has not yet taken place, the next possible date under the Combination Agreement for the completion to take place is April 1, 2022. The planned closing date may be delayed due to the regulatory processes ongoing. Should the closing be delayed from April 1, 2022, Valmet will issue a stock exchange release on the matter and the merger prospectus will be supplemented once there is more clarity on the timetable of the regulatory processes. Until the completion of the merger Neles and Valmet will carry out their respective businesses as separate and independent companies.

As a merger consideration, Neles shareholders will receive 0.3277 new shares in Valmet for each share they hold in Neles. Among other conditions, the combination is subject to, the obtaining of merger control and other regulatory approvals, and an extra distribution of funds in the amount of a maximum of EUR 2.00 per share to the Neles shareholders prior to the merger's completion.

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

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

Other main events in 2021

November 30: Neles announced that Neles' Board of Directors had appointed CFO Simo Sääskilahti as Neles' interim President and CEO as of January 1, 2022. President and CEO, Olli Isotalo continued in his role until December 31, 2021.
November 17: Neles announced that Neles and Thyssenkrupp Uhde Chlorine Engineers had signed a frame agreement for the delivery of valve solutions for green hydrogen applications. Within the scope of the agreement, Neles will deliver Neles™ segment valves to be used in electrolysis plant modules supplied by Thyssenkrupp Uhde Chlorine Engineers.
November 8: Neles announced Neles™ Eurohub, a centralized warehouse and logistics concept catering to the needs of its European channel partners. The new concept enables fast and reliable delivery of off-the-shelf Neles products and parts from a conveniently located hub. Eurohub opens with a wide selection of valve automation products, as well as selected valve types.
November 5: Neles and Valmet announced that the length of the regulatory review processes had been impacted by third-party statements submitted to competition authorities and would take longer than previously estimated. The target now is that the merger's completion will occur on or before April 1, 2022.
November 1: Neles announced that its acquisition of the valve and pump businesses of the Finland-based technology company Flowrox had been successfully completed. With this acquisition, Neles expands its offering and exposure to the mining and metals industry.
September 22: Neles' extraordinary general meeting approved the merger in accordance with the Merger Plan of Neles and Valmet and authorized the board to resolve on the distribution of funds.
September 2: Neles announced that the Finnish Supervisory Authority had approved the merger prospectus concerning the combination of Neles Corporation and Valmet Oyj published on July 2, 2021.
September 2: Neles announced the members of its Shareholders' Nomination Board. On September 1, 2021, the four largest registered shareholders of Neles were Valmet Corporation (29.54% of shares and votes), Cevian Capital Partners Ltd. (10.88% of shares and votes), Alfa Laval Ab (publ) (8.46% of shares and votes) and Ilmarinen Mutual Pension Insurance Company (2.99% of shares and votes).

The members of Neles' Shareholders' Nomination Board are:

- Pasi Laine, President and CEO, Valmet Corporation
- Philip Ahlgren, Vice President, Cevian Capital AB
- Emma Adlerton, Senior Vice President & Group General Counsel, Alfa Laval Ab (publ)
- Mikko Mursula, Chief Investment Officer, Ilmarinen Mutual Pension Insurance Company
- Jaakko Eskola, Chair of Neles' Board of Directors

The Shareholders' Nomination Board shall submit its proposals for candidates to succeed the members of the Board of Directors to Neles' Board of Directors by January 31, 2022. Further information on the Nomination Board is available at www.neles.com/investors/governance/nomination-board/.
July 27: Neles announced that it had signed an asset purchase agreement to acquire the valve and pump businesses of the Finland-based technology company Flowrox. The acquisition would complement Neles' offering and exposure to the mining and metals industry. The closing of the acquisition was expected in November 2021.
July 26: Neles announced the resignation of Vice Chair of the Neles Board of Directors Perttu Louhiluoto. Anu Hämäläinen was appointed as the new Vice Chair, and Niko Pakalén was appointed as a member of the Audit Committee.
July 9: In July, Neles signed a EUR 150 million bilateral Term Loan which was drawn down in August to refinance the existing EUR 150 million Term Loan with maturity in July 2022. The tenure of the new loan is seven years.
July 2: Valmet and Neles announced the plan to merge, creating a leading company with a unique global offering for process industries.

July 2: Neles signed a EUR 301 million bridge-to-bond facility, the purpose of which was to finance an extraordinary dividend payment prior to the closing of the merger with Valmet. If executed, the facility tenor will be 12 months, with two 6-month extension options.
June 14: Neles is optimizing its production operations and will commission a new production unit at its valve factory in Vantaa, Finland. The project will enable Neles to improve the availability and delivery times of its valve solutions, and further develop the environmental performance of the Vantaa technology center. The new unit is scheduled to start operations in early 2022.
June 7: Neles is introducing a new versatile butterfly valve product range that enables easy valve configuration for an extensive range of applications in all process industries. With its proven technology and state-of-the-art functionality, the product range offers superior process efficiency with a minimized environmental footprint.
May 5: Neles delivered its first valve with a 3D printed valve body for field testing. Except for the body, the valve was a standard T5-series stainless steel ball valve. It will be tested at Teollisuuden Voima's power plant in Finland. The project is being carried out in cooperation with Teollisuuden Voima and Fortum.
April 19: Neles Corporation received a tax decision and payment request of EUR 1.8 million from the Finnish Tax Authority regarding withholding taxes related to the 2015 and 2016 dividend payments. Neles considers the decision of the Finnish Tax Authority to be unfounded and has appealed against it. However, Neles made the required payment in April 2021 to avoid incurring additional interest costs and increases during the appeals process.
March 24: Neles gave notification of a temporary closure of its Brazilian supply center due to Covid-19 cases at the location. The temporary closure of the Brazilian supply center and the consequent delay in sales recognition in subsequent quarters, the timing of other deliveries in the order backlog, and exchange rate fluctuations were expected to have a negative impact on first quarter sales. Sales were estimated to have declined by approximately EUR 10 million or more compared to the first quarter of 2020. Delays in sales will be recovered during the rest of the year.

Events after 2021 reporting period

January 25: Neles Corporation has 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. 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.

Proposal for the composition of the Board of Directors

The Shareholders' Nomination Board proposes the following composition:

- the number of Board members will be six
- Jaakko Eskola will be re-elected as Chair of the Board
- Anu Hämäläinen will be re-elected as Vice Chair of the Board, and
- Niko Pakalén, Teija Sarajärvi, Jukka Tiitinen and Mark Vernon will be re-elected as Board members.

The proposed members of the Board of Directors are presented on Neles' website at https://www.neles.com/investors/governance/board/.

The proposed Board members have all given their consent to be elected.

All proposed Board members have been assessed to be independent of the company. Apart from Jukka Tiitinen and Niko Pakalén, the proposed Board members are independent of significant shareholders. Jukka Tiitinen has been assessed to be dependent on Valmet Oyj due to his position of Area President, North America of Valmet Oyj. Niko Pakalén has been assessed to be dependent on Cevian Capital Partners Ltd due to his position of Partner at Cevian Capital AB.

Proposal for the remuneration of the Board of Directors

The Shareholders' Nomination Board proposes the same fixed annual remuneration to the Board members 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:

- The Chair of the Board will be paid EUR 115,000, the Vice Chair EUR 65,000 and each member the Board EUR 50,000
- The Chair of the Audit Committee will be paid EUR 15,000 and each member of Audit Committee EUR 7,500
- The Chair of the Remuneration Committee will be paid EUR 7,500 and each member of the Remuneration Committee EUR 3,750

The Shareholders' Nomination Board further proposes that a meeting fee of EUR 800 will be paid for each virtual Board and Committee meeting. If physical presence of the Board member is required, the meeting fees will be paid as follows:

- a fee of EUR 800 will be paid to the Board members who reside in the Nordic countries
- a fee of EUR 1,600 will be paid to the Board members who reside in other European countries
- a fee of EUR 3,200 will be paid to the Board members who reside outside Europe

The fixed annual remuneration and meeting fees will be paid in cash. Possible travel expenses will be reimbursed according to the travel policy of the company.

Composition of the Shareholders' Nomination Board

Members of the Shareholders' Nomination Board are Mikko Mursula, Deputy CEO, Investments, Ilmarinen Mutual Pension Insurance Company; Pasi Laine, CEO, Valmet Oyj; Philip Ahlgren, Vice President, Cevian Capital AB, and Jaakko Eskola, Chair of Neles' Board of Directors. Further information about Shareholders' Nomination Board can be found at https://www.neles.com/investors/governance/nomination-board/.

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.

Covid-19 pandemic update

In the first quarter of 2021, Neles' Brazilian supply center was temporarily closed. At the beginning of the second quarter, there were also temporary closures in Neles' Indian factories. The Covid-19 situation is being followed closely by management, prioritizing the health and safety of Neles' employees and partners. At the end of 2021, all Neles factories were operational.

The global logistics situation continued to be challenging during the fourth quarter of 2021. The availability of transportation and difficulties in arranging logistics by Neles or its customers has caused delays in Neles' deliveries. In addition, delays have occurred due to a shortage of electronic components.

Neles has operations in several regions where the Covid-19 pandemic continues to cause disruptions. There continue to be risks of similar temporary closures of local Neles operations, challenges in global logistics and availability of electronic components. These above challenges are expected to continue at least in the first half of 2022.

Travel restrictions, cuts to external spending across the organization, and cost-saving and optimization activities have continued in 2021. Ever more attention has also been paid to managing net working capital. There have been no material credit losses or order cancellations.

Short-term business risks and market uncertainties

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

Exchange rate fluctuations and changes in commodity prices could affect Neles' orders received, sales, and financial position. Neles hedges currency exposure linked to firm delivery and purchase agreements. Other market- and customer-related risks could also cause planned and ongoing projects to be postponed, delayed, or discontinued.

During the fourth quarter, the challenging situation in global logistics continued. In addition, there were shortages of electronics components. These issues are expected to continue to cause delivery delay risks during the first half of 2022. There is a risk that cost inflation related to production factors will accelerate more than Neles can compensate with cost savings and other measures, which will cause pressure on the gross margin.

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

Market outlook

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

Market activity in the Chemicals and Oil & Gas project business was weak during 2021. The market activity is expected to return to a satisfactory level during the next 6 months.

Market activity was satisfactory/good for the Services and the Maintenance, Repair and Operations-driven (MRO) businesses during the fourth quarter of 2021. Positive development is expected to continue in these markets and reach a good level in the first half of 2022.

The ongoing challenges in global logistics, availability of electronic components and the Covid-19 pandemic continues to create uncertainty and risks of abrupt changes in all markets important to Neles.

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

Corporate Governance Statement and Remuneration Report 2021

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 and Remuneration Report are published as part of Annual Report 2021.

Non-financial information

Neles Non-financial Report 2021

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 for 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 in 2021 was EUR 16.6 (17.6) million.

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 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. In 2021, Neles conducted a total of 21 sustainability assessments including social and environmental aspects. 18 suppliers were assessed internally and three (3) by a third party on behalf of Neles. 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 2021

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 in 2021 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 of 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 this year's survey 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. In 2021, three sites were visited as part of the assurance process 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 2021	Result 2020
Environmental:			
Emission reduction in production	25% CO_2 reduction by 2030 since 2019 baseline	–12% [1]	–2%
Emission reduction in logistics	20% CO_2 reduction by 2025 since 2019 baseline	–18%	–20%
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%	–
Personnel and safety:			
Lost time incident frequency (LTIF)	Solid safety culture towards zero harm	1.3	1.3
Global employee engagement survey score (eNPS)		24.2	28.3
Anticorruption and bribery:			
Code of Conduct training completed	All employees trained biannually	87%	88%
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%	67%

Activity	EU taxonomy KPI definition	Result 2021[2]	
Sales	Proportion of sales derived from products or services that are EU taxonomy eligible	5%	–
Operating expenditures (Opex)	Proportion of operating expenditures that are EU taxonomy eligible	8%	–
Capital expenditures (Capex)	Proportion of capital expenditures that are EU taxonomy eligible	2%	–

[1] The change is mainly due to the transition to use of renewable energy in Neles' Vantaa (Finland) plant
[2] Eligibility with climate change mitigation or climate change adoption in 2021

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 totaling EUR 27 million, and EU taxonomy eligible capitalized expenditures divided by reported total capitalized expenditures, less capitalized costs related to real estates.

Shares, trading and shareholders

Neles has one share series, and each share entitles its holder to one vote at a General Meeting and to an equal amount of dividend. Neles' shares are registered in the Finnish book-entry system maintained by EuroClear.

Basic share information

Listed on	Nasdaq Helsinki
Trading code	NELES
ISIN code	FI4000440664
Industry	Industrials
Number of shares on December 31, 2021	150,348,256
Share capital on December 31, 2021	EUR 50,982,843.80
Market value on December 31, 2021, excl. treasury shares	EUR 2,056 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 73,082,380 Neles shares was traded on Nasdaq Helsinki in January–December 2021, and the value of shares traded was approximately EUR 872 million. Neles' market capitalization at the end of December 2021, excluding shares held by the Parent Company, was EUR 2,056 million.

On May 24, 2021, was the last day to surrender Metso's American Depositary Receipts (ADR) for conversion to shares. ADR facility was traded on the International OTCQX market in the United States under the ticker symbol MXCYY, with four (4) ADRs representing one (1) Metso share. The closing price was USD 7.78 when termination became effective on May 21, 2020. Neles does not have sponsored ADR programs.

At the end of 2021, Neles had 46,847 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 2021, the members of the Neles Board of Directors and President and CEO Olli Isotalo held a total of 20,541 Neles shares, corresponding to 0.014% of the total number of shares and votes. More information about management holdings is available in Note 5.3 of the Consolidated Financial Statements.

Share performance and trading on Nasdaq Helsinki January 1–December 31, 2021

EUR	1–12/2021
Closing price, Dec 31, 2021	13.69
Highest share price	14.02
Lowest share price	10.03
Volume-weighted average trading price	11.94

Share key figures 2017–2021

	2021	2020	2019	2018	2017
Share capital, at the end of year, EUR million	51	51	141	141	141
Number of shares, at the end of year					
Number of outstanding shares	150,197,895	150,197,895	150,076,168	149,997,128	149,997,128
Own shares held by the Parent Company	150,361	150,361	272,088	351,128	351,128
Total number of shares	150,348,256	150,348,256	150,348,256	150,348,256	150,348,256
Average number of outstanding shares	150,197,895	150,179,270	150,057,328	149,997,128	149,995,127
Average number of diluted shares	150,197,895	150,179,270	150,200,101	150,186,841	150,151,338
Earnings/share, basic [1], EUR	0.38	14.63	2.00	1.53	0.68
Earnings/share, diluted, EUR	0.38	14.63	2.00	1.53	0.68
Free cash flow/share [2], EUR	0.52	0.46	0.26	0.97	1.05
Dividend/share [3], EUR	0.266	0.18	1.47	1.20	1.05
Dividend [3], EUR million	40	27	221	180	157
Dividend/earnings [1], %	70.3	1.2	73.5	78.4	154.0
Effective dividend yield, %	1.9	1.7	4.2	5.2	3.7
P/E ratio [1]	36.0	0.74	17.6	15.0	41.9
Equity/share, EUR	2.02	1.72	10.15	9.37	8.96

[1] In 2020 for continuing operations earnings per share was EUR 0.32, dividend/earnings 56.3% and P/E ratio 33.9.
[2] Share of continuing operations in 2020.
[3] Board proposal to the AGM. The dividend for 2020 was EUR 0.2205 per share in accordance with the decision of the Annual General Meeting.

Largest shareholders December 31, 2021

	Shareholders	Shares	% of shares
1	Valmet Oyj	44,415,207	29.54
2	Alfa Laval Ab (publ) [1]	7,151,579	4.76
3	Ilmarinen Mutual Pension Insurance Company	4,499,733	2.99
4	Elo Mutual Pension Insurance Company	2,096,735	1.39
5	OP Funds	1,776,383	1.18
	OP-Finland	1,640,054	1.09
	OP-Finland Index Fund	136,329	0.09
6	OP-Finland Small Cap	1,220,041	0.81
7	The State Pension Fund	1,150,000	0.76
8	Sigrid Jusélius Foundation	662,465	0.44
9	SEB Finland Small Cap Fund	660,000	0.44
10	Danske Invest Funds	525,000	0.35
	Danske Invest Finnish Equity Fund	525,000	0.35
	10 largest shareholders total	**64,157,143**	**42.67**
	Nominee registered	**60,557,038**	**40.28**
	Others	**25,634,075**	**17.05**
	Total	**150,348,256**	**100.00**

[1] On January 14, 2022, Alfa Laval AB (publ.) has informed Neles Corporation that it has sold all shares it held in Neles.

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 December 31, 2021:
Valmet Corporation

Shareholders exceeding 10% ownership in Neles on December 31, 2021:
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 December 31, 2021

Number of shares	Shareholders	% of shareholders	No. shares and votes	% of share capital and voting rights
1–100	23,572	50.32	1,082,453	0.72
101–1,000	19,780	42.22	6,927,097	4.61
1,001–10,000	3,247	6.93	8,020,807	5.34
10,001–50,000	187	0.40	3,532,390	2.35
50,001–100,000	27	0.06	1,976,914	1.32
> 100,000	34	0.07	128,800,615	85.67
Total	**46,847**	**100.00**	**150 340 276**	**100.00**
Nominee registered	11	0.02	60,557,038	40.28
In the joint book-entry account			7,980	0.01
Number of shares issued			**150,348,256**	**100.00**

Breakdown by shareholder category

	Shareholders		Shares	
Sector	No. of shares	%	No. of shares	%
Foreign and nominee registered	343	0.73	67,935,701	45.19
Households	44,488	94.96	16,105,283	10.71
Public sector organizations	43	0.09	8,614,556	5.73
Financial and insurance institutions	42	0.09	6,852,312	4.56
Non-profit instit serving households	569	1.22	3,640,068	2.42
Private companies	1,373	2.93	47,192,356	31.39
In the joint book-entry account	0	0	7,980	0.01
Number of shares issued	**46,847**	**100**	**150,348,256**	**100.00**

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	2021	2020	2019	2018
Orders received	625.2	590.1	681	628
Order backlog, December 31	294.4	270.3	280	276
Sales	610.9	576.3	660	593
Exports from Finland and international operations	560.0	541.1	629	560
% of sales	91.7	93.9	95.3	94.6
Operating profit	75.8	70.3	93	83
% of sales	12.4	12.2	14.0	14.1
Profit before taxes	70.8	63.8	91	85
% of sales	11.6	11.1	13.8	14.3
Profit for the year, continuing operations	56.7	48.2	69	65
% of sales	9.3	8.4	10.4	10.9
Profit for the year, discontinued operations	–	2,149.6	230	164
Profit attributable to shareholders of the company	56.7	2,197.8	301	230
Amortization	3.7	3.4	4	2
Depreciation	9.4	9.1	10	10
Depreciation of right-of-use assets	11.9	11.9	11	–
Depreciation and amortization, total	25.0	24.5	25	12
EBITA	79.5	73.8	97	86
% of sales	13.0	12.8	14.7	14.5
EBITDA	100.9	94.8	117	95
% of sales	16.5	16.4	17.8	16.1
Adjustment items [1)	7.2	11.3	–	–
EBITA, adjusted	86.8	85.0	97	86
% of sales	14.2	14.8	14.7	14.5
EBITDA, adjusted	108.1	106.0	117	95
% of sales	17.7	18.4	17.8	16.1
Financial expenses, net	5.0	6.5	2	–1
% of sales	0.8	1.1	0.2	–0.2
Interest expenses	4.6	5.7	n/a	n/a
% of sales	0.7	1.1	n/a	n/a
Interest cover (EBITDA)	20.1×	14.6×	n/a	n/a
Gross capital expenditure	10.9	12.6	20	8
% of sales	1.8	2.2	3.1	1.4
Business acquisitions, net of cash acquired	–40.3	-	–	–
Net capital expenditure	10.7	12.4	20	8
% of sales	1.7	2.2	3.0	1.3
Net cash flow from operating activities	88.3	81.1	54	81
Free cash flow	77.5	68.7	34	73
Cash conversion, %	136.7	142.4	52	123
Research and development	16.6	17.6	19	16
% of sales	2.7	3.1	2.8	2.7

[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	2021	2020	2019	2018[1]
Balance sheet total [2]	700.2	643.8	3,887	3,279
Equity attributable to shareholders [2]	303.8	263.0	1,523	1,406
Total equity [2]	304.0	263.1	1,526	1,416
Interest bearing liabilities	215.6	217.3	103	598
Net interest bearing liabilities	81.4	80.9	46	165
Net working capital (NWC)	150.2	143.6	166	633
% of sales	24.6	24.9	25.2	20.0
Capital employed	519.5	480.0	425	2,015
Return on equity (ROE) [2], %	20.0	18.7	20.4	16.5
Return on capital employed (ROCE) before taxes [2], %	15.4	15.6	19.2	16.9
Return on capital employed (ROCE) after taxes [2], %	12.5	12.1	15.1	12.5
Equity to assets ratio [2], %	45.2	42.6	39.5	47.7
Gearing [2], %	26.8	30.9	52.3	11.7
Debt to capital [2], %	41.5	45.2	40.0	29.7
Average number of personnel	2,858	2,840	14,331	12,605
Personnel, December 31	2,934	2,840	15,821	13,150

[1] Key figures for year 2018 are presenting total Metso Group including discontinued operations.
[2] Key figure for year 2019 is presenting total Metso Group including discontinued operations.

The Income statement and Balance sheet of discontinued operations are presented in more detail in the note 5.5 of the financial statements.

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

$$\frac{\text{Profit attributable to shareholders}}{\text{Average number of outstanding shares during the period}}$$

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), %

$$\frac{\text{Profit for the period}}{\text{Total equity (average for the period)}} \times 100$$

Return on capital employed (ROCE) before taxes, %

$$\frac{\text{Profit before tax + financial expenses}}{\text{Capital employed (average for the period)}} \times 100$$

Return on capital employed (ROCE) after taxes, %

$$\frac{\text{Profit for the period + financial expenses}}{\text{Capital employed (average for the period)}} \times 100$$

Net gearing, %

$$\frac{\text{Net interest bearing liabilities}}{\text{Total equity}} \times 100$$

Debt to capital, %

$$\frac{\text{Interest bearing liabilities}}{\text{Total equity + interest bearing liabilities}} \times 100$$

Equity to assets ratio, %

$$\frac{\text{Total equity}}{\text{Balance sheet total – advances received}} \times 100$$

Free cash flow
Net cash provided by operating activities – maintenance investments + proceeds from sale of intangible and tangible assets

Free cash flow/share

$$\frac{\text{Free cash flow}}{\text{Average number of outstanding shares during the period}}$$

Cash conversion, %

$$\frac{\text{Free cash flow}}{\text{Profit for the period}} \times 100$$

Interest cover (EBITDA)

$$\frac{\text{EBITDA (Earnings before financial expenses, net, taxes, depreciation and amortization}}{\text{Financial income and expenses, net}}$$

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

$$\frac{\text{Net interest-bearing liabilities}}{\text{EBITDA}} \times 100$$

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

On December 31, 2021, the distributable equity of Neles Corporation was:

Invested non-restricted equity fund	EUR	39,408,070.56
Retained earnings	EUR	290,391,076.10
Profit for the period	EUR	80,746,314.64
Distributable equity, total	EUR	410,545,461.30

The Board of Directors proposes that a dividend of EUR 0.266 per share be paid based on the balance sheet to be adopted for the financial year, which ended December 31, 2021.

Dividend payment	EUR	39,952,640.07
Distributable equity after dividend payment	EUR	370,592,821.23

These financial statements were authorized for issue by the Board of Directors on February 3, 2022 after which, in accordance with Finnish Company Law, the financial statements are either approved, amended, or rejected in the Annual General Meeting.

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Consolidated Statement of Income, IFRS

EUR million	Note	2021	2020
Continuing operations			
Sales	1.1	610.9	576.3
Cost of goods sold	1.4, 3.3	–412.1	–386.1
Gross profit		198.8	190.2
Selling and marketing expenses	1.2, 1.4, 3.3	–62.2	–65.3
Administrative expenses	1.2, 1.4, 3.3	–40.8	–38.6
Research and development expenses	1.2, 1.4, 3.3	–15.3	–14.2
Other operating income and expenses, net	1.3	–4.6	–1.8
Operating profit		75.8	70.3
Financial income	1.6	1.0	1.0
Foreign exchange gains/losses	1.6	0.0	–0.8
Financial expenses	1.6	–6.0	–6.7
Financial income and expenses, net		–5.0	–6.5
Profit before taxes		70.8	63.8
Income taxes	1.7	–14.1	–15.6
Profit from continuing operations		56.7	48.2
Profit from discontinued operations [1]		–	2,149.6
Profit for the year		56.7	2,197.8

EUR million	Note	2021	2020
Profit from continuing operations attributable to			
Shareholders of the parent company		56.7	48.2
Non-controlling interests		–	–
Profit from discontinued operations attributable to			
Shareholders of the parent company		–	2,149.6
Non-controlling interests		–	0.0
Profit attributable to			
Shareholders of the parent company		56.7	2,197.8
Non-controlling interests		0.0	0.0
Earnings per share continuing operations	1.8		
Basic, EUR		0.38	0.32
Diluted, EUR		0.38	0.32
Earnings per share discontinued operations	1.8		
Basic, EUR		–	14.31
Diluted, EUR		–	14.31
Earnings per share	1.8		
Basic, EUR		0.38	14.63
Diluted, EUR		0.38	14.63

[1] The result for the period from discontinued operations is described in more detail in the note 5.5.

Consolidated Statement of Comprehensive Income, IFRS

EUR million	Note	2021	2020
Continuing operations			
Profit for the year		56.7	48.2
Other comprehensive income			
Currency translation on subsidiary net investments	4.4	17.5	–15.6
Items that may be reclassified to profit or loss in subsequent periods		17.5	–15.6
Defined benefit plan actuarial gains and losses	2.7	1.3	2.7
Tax from previous		–0.3	–0.5
Items that will not be reclassified to profit or loss		1.0	2.2
Other comprehensive income		18.4	–13.4
Total comprehensive income from continuing operations		75.1	34.8
Profit from continuing operations attributable to			
Shareholders of the parent company		75.1	34.8
Non-controlling interests		–	–
Discontinued operations			
Profit for the year		–	2,149.6
Other comprehensive income		–	–51.7
Total comprehensive income from discontinued operations		–	2,097.9
Profit from discontinued operations attributable to			
Shareholders of the parent company		–	2,097.9
Non-controlling interests		–	0.0
Total comprehensive income		75.1	2,132.7
Attributable to			
Shareholders of the parent company		75.1	2,132.7
Non-controlling interests		–	0.0

Consolidated Balance Sheet, IFRS – Assets

EUR million	Note	2021	2020
Non-current assets			
Intangible assets	3.1, 3.3		
Goodwill		85.6	57.3
Other intangible assets		25.8	16.6
Total intangible assets		111.5	73.9
Tangible assets	3.2, 3.3		
Land and water areas		5.8	5.5
Buildings and structures		22.3	22.1
Machinery and equipment		31.7	30.5
Assets under construction		3.9	4.2
Total tangible assets		63.6	62.3
Right-of-use assets	3.3, 3.4	45.8	50.5
Other non-current assets			
Non-current financial assets	4.2	2.0	0.7
Deferred tax asset	2.8	16.0	17.9
Other non-current receivables	2.3, 2.7, 4.2	13.7	12.0
Total other non-current assets		31.7	30.6
Total non-current assets		252.6	217.3
Current assets			
Inventories	2.4	187.0	160.3
Trade receivables	2.2	84.2	88.9
Income tax receivables	1.7	5.0	4.0
Other current receivables	2.3	38.9	37.4
Cash and cash equivalents	4.3	132.4	135.9
Total current assets		447.6	426.5
TOTAL ASSETS		700.2	643.8

Consolidated Balance Sheet, IFRS – Equity and Liabilities

EUR million	Note	2021	2020
Equity	4.4		
Share capital		51.0	51.0
Treasury shares		−3.3	−3.3
Cumulative translation adjustments		53.5	36.1
Fair value and other reserves		30.0	31.3
Retained earnings		172.6	148.0
Equity attributable to shareholders		303.8	263.0
Non-controlling interests		0.1	0.1
Total equity		304.0	263.1
Liabilities			
Non-current liabilities			
Interest bearing liabilities	4.2, 4.5	149.6	149.7
Lease liabilities	4.2, 4.5	36.0	40.7
Post-employment benefit obligations	2.7	21.3	20.7
Provisions	2.6	2.0	2.4
Deferred tax liability	2.8	3.5	2.7
Other non-current liabilities	2.5	0.3	0.3
Total non-current liabilities		212.7	216.4
Current liabilities			
Interest bearing liabilities	4.2, 4.5	18.5	16.1
Lease liabilities	4.2, 4.5	11.5	10.8
Trade payables	2.5	62.8	59.9
Provisions	2.6	11.2	8.6
Advances received		27.3	26.7
Derivative financial instruments	4.8	0.5	1.4
Income tax liabilities	1.7	3.0	5.4
Other current liabilities	2.5	48.8	35.4
Total current liabilities		183.6	164.3
Total liabilities		396.3	380.7
TOTAL EQUITY AND LIABILITIES		700.2	643.8

Consolidated Statement of Changes in Shareholders' Equity, IFRS

EUR million	Share capital	Treasury shares	Cumulative translation adjustments	Fair value and other reserves	Discontinued operations	Retained earnings	Equity attributable to shareholders	Non-controlling interests	Total equity
Jan 1, 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
Jan 1, 2020	141.0	−6.2	51.7	303.8	−154.8	1,187.5	1,522.9	2.8	1,525.7
Profit for the year, continuing operations	–	–	–	–	–	48.2	48.2	–	48.2
Profit for the year,discontinued operations	–	–	–	–	–	2,149.6	2,149.6	0.0	2,149.6
Other comprehensive income									
Currency translation on subsidiary net investments	–	–	−15.6	–	−52.8	–	−68.4	0.0	−68.4
Defined benefit plan actuarial gains and losses	–	–	–	–	–	2.7	2.7	–	2.7
Tax effect from previous	–	–	–	–	–	−0.5	−0.5	–	−0.5
Discontinued operations	–	–	–	1.1	–	–	1.1	–	1.1
Total comprehensive income	–	–	−15.6	1.1	−52.8	2,200.0	2,132.7	0.0	2,132.7
Dividends	–	–	–	–	–	−220.8	−220.8	–	−220.8
Distributed assets in the demerger at fair value	–	–	–	–	–	−3,171.1	−3,171.1	–	−3,171.1
Effect of demerger	−90.0	–	–	−273.5	207.6	155.8	–	−2.6	−2.6
Share-based payments	–	3.6	–	−1.5	–	−8.4	−6.3	–	−6.3
Tax effect from previous	–	−0.7	–	0.3	–	2.6	2.2	–	2.2
Prior year corrections [1]	–	–	–	–	–	2.5	2.5	–	2.5
Other items	–	–	–	1.0	–	0.8	1.8	0.0	1.8
Equity financing, Metso Group	–	–	–	–	–	−0.9	−0.9	–	−0.9
Dec 31, 2020	51.0	−3.3	36.1	31.3	–	148.0	263.0	0.1	263.1

[1] Corrections to deferred taxes after demerger.

Consolidated Statement of Cash Flows, IFRS

EUR million	Note	2021	2020[1]
Operating activities			
Profit for the year, continuing operations		56.7	48.2
Profit for the year, discontinued operations		–	2,149.6
Adjustments			
Depreciation and amortization	3.3	25.0	24.5
Financial expenses, net	1.3	5.0	17.5
Income taxes		14.1	62.9
Fair value of distributed net assets in the demerger	1.6	–	–2,022.2
Other items	1.7	2.0	5.4
Change in net working capital		7.2	202.6
Net cash flow from operating activities before financial items and taxes		110.1	488.4
Interest paid		–4.5	–21.4
Interest received		0.5	1.2
Other financial items, net		–0.6	–1.1
Income taxes paid		–17.1	–51.4
Net cash flow from operating activities		88.3	415.7
Investing activities			
Capital expenditures on intangible and tangible assets	3.1, 3.2	–10.9	–54.3
Proceeds from sale of intangible and tangible assets	3.1, 3.2	0.1	1.1
Business acquisitions, net of cash acquired	5.4	–40.3	0.9
Net cash flow from investing activities		–51.1	–52.3

EUR million	Note	2021	2020[1]
Financing activities			
Dividends paid		–33.1	–220.8
Change in financial assets		0.5	–0.5
Increase in loan receivable	4.6	–1.8	–0.3
Proceeds from / repayment of short-term debt, net	4.6	1.8	2.9
Proceeds from issuance of long-term debt	4.6	150.0	139.8
Repayments of long-term debt	4.6	–150.0	–
Repayments of lease liabilities	4.6	–11.0	–23.4
Equity financing, Metso Group		–	–13.9
Net cash flow from financing activities		–43.7	–116.2
Net change in cash and cash equivalents		–6.5	247.6
Effect from changes in exchange rates		2.9	–12.4
Cash and cash equivalents transferred in demerger		–	–312.4
Cash and cash equivalents at beginning of year, continuing operations	4.3, 4.6	135.9	56.7
Cash and cash equivalents at beginning of year, discontinued operations	5.5	–	156.4
Cash and cash equivalents at beginning of period		135.9	213.1
Cash and cash equivalents at end of period		132.4	135.9

[1] Discontinued operations' cash flows are described in more detail in the Note 5.5.

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 is a publicly quoted company with its shares listed on Nasdaq Helsinki under the trading symbol NELES. Neles Corporation is domiciled in Finland and the address of the Group Head Office is Vanha Porvoontie 229, 01380 Vantaa, Finland.

These financial statements have been prepared for the period from January 1 to December 31, 2021. These consolidated financial statements were authorized for issue by Neles Corporation's Board of Directors on February 3, 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 partial demerger of Metso Group was effective on June 30, 2020 and the continuing group was renamed the Neles Group. Neles Group is reported as continuing operations and separated Metso Minerals operations and a proportioned share of Group Head office and other for the January 1–June 30, 2020 period as discontinued operations in the income statement. From June 30, 2020, Neles Group is reported as one segment.

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 continued Covid-19 pandemic has kept risks on global markets at high level. In 2021 the global logistics situation has been challenging. The availability of transportation and difficulties in arranging logistics by Neles or its customers has caused some delays in Neles' deliveries. In addition, delays have occurred due to a shortage of electronic components. During 2021, supply center in Brazil and factories in India were temporarily closed. At the year-end all Neles factories are operational. As the pandemic situation is expected to continue in 2022, risks of similar temporary difficulties continue, and these may affect negatively actual and projected Neles financial performance, liquidity and cash flows. Long term impacts from Covid-19 pandemic are still unclear. We are seeing public sector infrastructure packages accelerating demand in several areas, for example renewal energy. As a challenge, increasing inflation is causing concerns for Neles, its customers and suppliers.

Neles' financial statements for the year 2021 are prepared on going concern basis. Significant financial risks caused by the Covid-19 pandemic situation have not realized during 2021. Neles liquidity is at a good level and Management has continued to take actions to ensure profitability in the uncertain environment. Management has re-evaluated all estimates and judgements used in the financial statements for the year 2021 to reflect the continued higher risk in the general market conditions, inflation and other possible future implications to Neles. Specific description of Covid-19 pandemic implications is disclosed in each relevant note.

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

Sales, MEUR

610.9

Employees

2,934

EPS, continuing operations, EUR

0.38

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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 2021 grew compared to 2020. Covid-19 pandemic only had an impact on distribution of sales during the year. During the first half, 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 during 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

Continuing operations EUR million	2021	2020
Sales from services	148.1	128.6
Sales of equipment and goods	462.8	447.8
Total	610.9	576.3

Contract balances

Continuing operations EUR million	2021	2020
Trade receivables	84.2	88.9
Advances received	27.3	26.7

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 2021 and 2020, 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

Continuing operations EUR million	2021	2020
Finland	50.9	35.2
EMEIA	194.3	187.8
North America	195.8	166.5
South America	51.3	56.9
Asia-Pacific	118.6	130.0
Sales	610.9	576.3

1.2 Selling, general and administrative expenses

Continuing operations EUR million	2021	2020
Marketing and selling expenses	–62.2	–65.3
Research and development expenses, net	–15.3	–14.2
Administrative expenses	–40.8	–38.6
Selling, general and administrative expenses	–118.4	–118.1

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

Continuing operations EUR million	2021	2020
Research and development expenses, total	–16.6	–17.6
Capitalized development costs	1.0	2.3
Capital expenditure	0.2	0.7
Grants received	0.7	0.8
Depreciation and amortization	–0.6	–0.3
Research and development expenses, net	–15.3	–14.2

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.

Continuing operations EUR million	2021	2020
Other operating income		
Gain on sale of intangible and tangible assets	0.1	0.2
Rental income	0.0	0.1
Foreign exchange gains [1]	5.5	9.2
Other income	4.0	3.1
Other operating income, total	9.6	12.6
Other operating expenses		
Loss on sale of intangible and tangible assets	–0.3	–0.2
Impairment of intangible and tangible assets	–0.1	–0.2
Foreign exchange losses [1]	–7.7	–10.8
Other expenses	–6.1	–3.3
Other operating expenses, total	–14.2	–14.4
Other operating income and expenses, net	–4.6	–1.8

[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

Continuing operations EUR million	2021	2020
Salaries and wages	−127.8	−118.8
Pension costs, defined contribution plans	−9.2	−10.1
Pension costs, defined benefit plans [1]	−1.2	−1.3
Other post-employment benefits [1]	−1.5	−0.2
Share-based payments [2]	−4.8	−0.6
Other indirect employee costs	−25.0	−23.3
Total	−169.6	−154.3

[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

	2021		2020	
	At end of year	Average	At end of year	Average
Continuing operations, total	2,934	2,858	2,840	2,840

1.5 Share-based payments

Accounting policy

Neles has 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. In 2021, management judgment was required on deciding on the modification of market based and service conditions as well as cash-settlements on share-based incentive plans.

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. The final execution of these modifications is subject to the closing of the merger. 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.

Share-based payments 2020, continuing operations

At the year-end 2020, Neles has two share-based long-term incentive programs in operation: a Deferred Share Unit Plan ("DSUP") for the senior management and a Performance Share Plan ("PSP") for the Neles executive team members. The plans are designed to align the interest of Neles management with those of its shareholders to increase the value of Neles in a long-term and to commit the key personnel to the company by offering them a competitive reward plan. Continued employment to Neles is a basic requirement in the plans, if an employment terminates during the plan the participant will lose the right to the reward.

The rewards in the Deferred Share Plans have been initially earned from individual and company level performance during the one-year performance periods in 2018 and 2019 in Metso group. In the demerger on June 30, 2020, each Metso share unit earned was converted into Neles share unit based on the average share prices of July 2020 with the objective that the value of the reward will not be affected by the conversion. The reward will be paid after a two-year retention period in 2021 and 2022, respectively in net shares and as a cash payment for taxes arising from the reward to the employee. Board of Directors has the right to decide to pay the reward in full in cash.

In July 2020, the Performance Share Plan 2020–2022 was launched by the Board of Directors of Neles for Neles Executive Team. The potential reward will be paid based on the performance targets set for relative total shareholder return (TSR) of Neles' share and earnings per share (EPS) during the three-year performance period. Potential reward earned will be paid after the performance period in 2023 in net shares and as a cash payment for taxes arising from the reward to the employee. Board of Directors has the right to decide to pay the reward in full in cash.

2021	Deferred Share Unit Plan 2018	Deferred Share Unit Plan 2019	Deferred Share Unit Plan 2021	PSP 2020–2022	PSP 2021–2023
Type of the plan	Cash	Cash	Cash	Cash	Cash
Grant date	Mar 15, 2018	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	Jun 26, 2021	May 13, 2022	May 15, 2022	Dec 31, 2022	Dec 31, 2022
Number of beneficiaries 31.12	–	19	36	12	13
Neles Executive Team members	–	9	–	12	13
Other beneficiaries		10	36	–	–

Costs recognized

EUR thousand	Deferred Share Unit Plan 2018	Deferred Share Unit Plan 2019	Deferred Share Unit Plan 2021	PSP 2020–2022	PSP 2021–2023	Total 2021	Total 2020
Expenses for the financial period							
Neles Executive Team members	362.5	358.9	–	1,867.5	1,472.6	4,061.5	500.5
Other beneficiaries	194.4	276.0	294.1	–	–	764.5	116.8
Expenses for continuing operations	556.9	634.9	294.1	1,867.5	1,472.6	4,826.0	617.3
Expenses for discontinuing operations						–	2,900.0

1.6 Financial income and expenses

Continuing operations EUR million	2021	2020
Financial income		
Interest income on cash and cash equivalents	0.5	0.6
Other financial income	0.5	0.4
Gain from foreign exchange	0.0	0.0
Financial income total	1.0	1.0
Financial expenses		
Interest expenses from financial liabilities at amortized cost	−2.9	−4.2
Interest expenses on leases	−1.9	−1.6
Other financial expenses	−1.2	−0.8
Financial expenses total	−6.0	−6.7
Financial income and expenses, net	−5.0	−6.5

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

Continuing operations EUR million	2021	2020
Income taxes for current year	−18.4	−16.1
Income taxes for prior years	7.1	−1.3
Change in deferred tax asset and liability	−2.8	1.8
Income taxes	−14.1	−15.6

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

Continuing operations EUR million	2021	2020
Profit before taxes	70.8	63.8
Income tax at Finnish statutory tax rate of 20.0%	−14.2	−12.8
Effect of different tax rates in foreign subsidiaries	−4.2	−2.0
Non-deductible expenses	−1.0	−0.9
Tax exempt income or tax incentives	0.8	1.5
Foreign non-creditable withholding taxes	−0.4	−0.1
Deferred tax liability on undistributed earnings	−1.1	–
Effect of enacted change in tax rates	−0.4	−0.1
Reassessment of deferred taxes for prior years	−2.8	0.0
Income tax for prior years	7.1	−1.3
Use of carry-forward tax losses	1.9	–
Other	0.1	–
Income taxes	−14.1	−15.7

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 December 31, 2021, Neles does not have any dilutive arrangements in force.

Basic

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

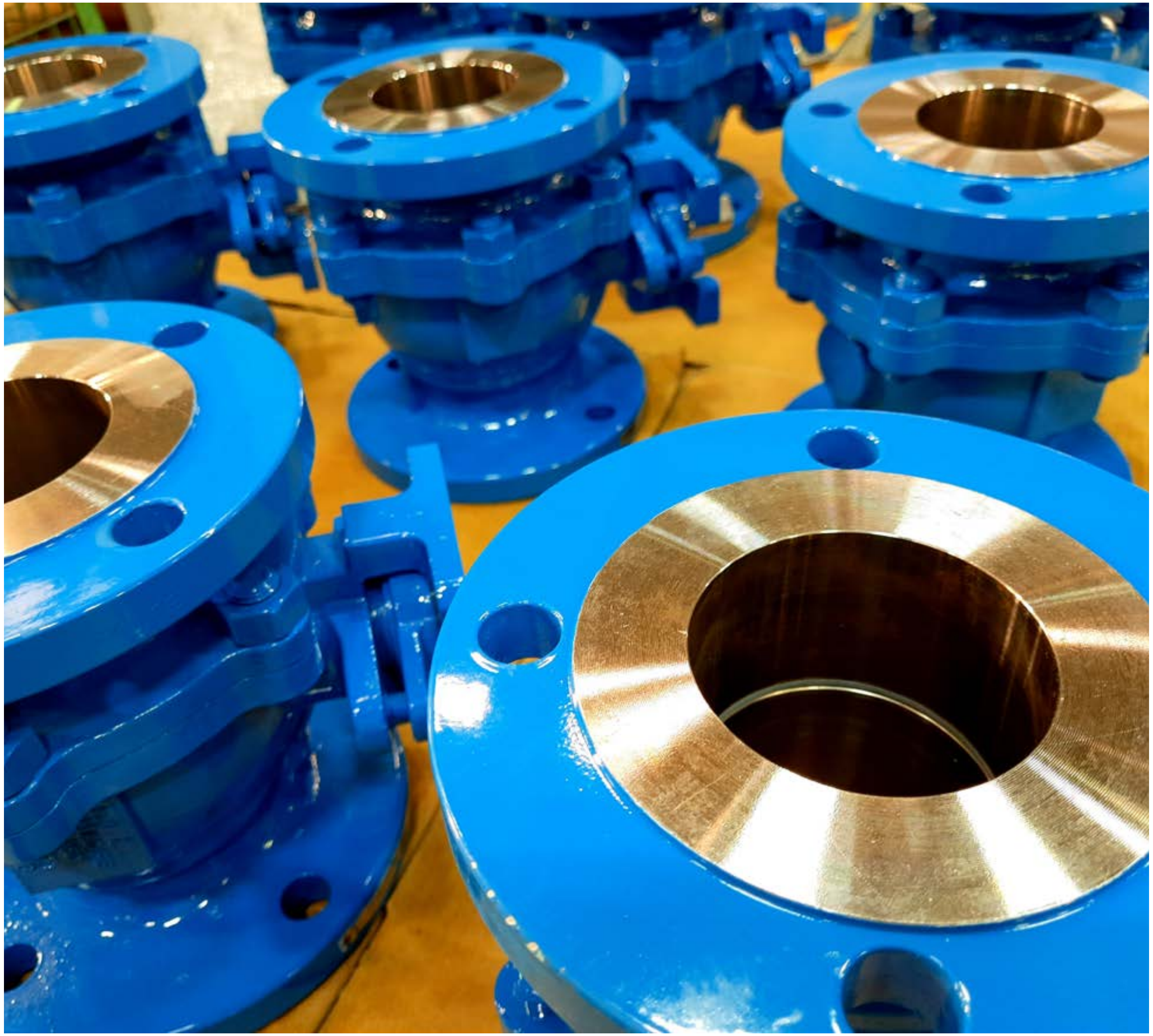
2020	Continuing operations	Discontinued operations	Total
Profit attributable to shareholders of the company, EUR million	48.2	2,149.6	2,197.8
Weighted average number of shares issued and outstanding (in thousands)	150,179.3	150,179.3	150,179.3
Earnings per share, basic, EUR	0.32	14.31	14.63

Diluted

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

2020	Continuing operations	Discontinued operations	Total
Profit attributable to shareholders of the company, EUR million	48.2	2,149.6	2,197.8
Weighted average number of shares issued and outstanding (in thousands)	150,179.3	150,179.3	150,179.3
Weighted average number of diluted shares issued and outstanding (in thousands)	150,179.3	150,179.3	150,179.3
Earnings per share, diluted, EUR	0.32	14.31	14.63

2 Operational assets and liabilities



Net working capital, MEUR

150.2

Capital empoyed, MEUR

519.5

Return on capital employed, before taxes %

15.4

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2.1 Net working capital and capital employed

Net working capital, balance sheet value

Continuing operations EUR million	2021	2020
Inventories	187.0	160.3
Trade receivables	84.2	88.9
Other non-interest bearing receivables	52.6	49.4
Trade payables	–62.8	–59.9
Advances received	–27.3	–26.7
Other non-interest bearing liabilities	–83.6	–68.4
Net working capital	150.2	143.6

Net working capital, cash flow effect

Continuing operations EUR million	2021	2020
Inventories	–12.1	12.2
Trade receivables	5.8	0.4
Other non-interest bearing receivables	0.2	–0.8
Trade payables	2.5	–0.7
Advances received	–0.7	4.5
Other non-interest bearing liabilities	11.5	1.5
Net working capital	7.2	17.1

More information on the cash flow statement from continuing operations can be found in the note 4.3.

Capital employed

Continuing operations EUR million	2021	2020
Net working capital	150.2	143.6
Intangible assets	111.5	73.9
Tangible assets	63.6	62.3
Right-of-use assets	45.8	50.5
Non-current investments	0.2	0.2
Interest bearing receivables	1.8	–
Cash and cash equivalents	132.4	135.9
Tax receivables, net	14.4	13.8
Interest payables, net	–0.4	–0.2
Capital employed	519.5	480.0

Continuing operations EUR million	2021	2020
Total capital employed, average	499.8	452.6
Profit before taxes + interest and other financial expenses	76.8	70.5
Profit after taxes + interest and other financial expenses	62.7	54.9
Return on capital employed (ROCE) before taxes, %	15.4	15.6
Return on capital employed (ROCE) after taxes, %	12.5	12.1

Longer time series is presented in Key figures section.

Non-current assets by location

Continuing operations EUR million	2021	2020
Finland	82.9	56.0
Other European countries	10.5	12.4
North America	46.0	41.7
South and Central America	3.0	2.5
Asia-Pacific	36.3	37.3
Africa and Middle East	17.7	17.0
Non-allocated	38.4	31.9
Total	234.9	198.9

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.

Covid-19 pandemic impact

There were no increases in realized credit losses in 2021 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	2021	2020
Trade receivables	84.2	88.9

Provision on trade receivables by ageing category

	2021		2020	
EUR million	Gross	of which provided	Gross	of which provided
Undue	61.8	0.2	66.0	0.3
Overdue 1–30 days	11.8	0.1	14.5	0.0
Overdue 31–180 days	9.6	0.5	8.3	0.5
Overdue 181–360 days	2.0	0.6	1.2	0.4
Overdue 360 days or more	2.5	2.0	3.2	3.0
Total	87.7	3.5	93.1	4.2

Write-offs totaled EUR 0.6 million (EUR 0.2 million in 2020). Reservation percentage scale used for expected credit loss provision made in 2021 were 0.4% for undue, 0.7% for overdue 1–30 days, 5.1% for overdue 31–180 days, 30.4% for overdue 181–360 days and 81.4% for overdue 361 or more.

Provision for impairment of trade receivables

EUR million	2021	2020
Accumulated provision January 1	4.2	4.0
Impact in income statement	–0.6	–0.2
Currency rate differences	0.0	0.0
Other change	0.0	0.3
Accumulated provision December 31	3.5	4.2

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.

	2021			2020		
EUR million	Non-current	Current	Total	Non-current	Current	Total
Prepaid expenses and accrued income	–	18.5	18.5	–	17.0	17.0
VAT, payroll tax and social charge receivables	–	10.9	10.9	–	11.1	11.1
Pension assets	12.5	–	12.5	10.4	–	10.4
Other receivables	1.2	8.4	9.7	1.6	8.1	9.7
Non-interest bearing receivables total	13.7	37.8	51.5	12.0	36.2	48.2

Other current non-interest bearing receivables included EUR 3.8 million in 2021 (EUR 3.1 million in 2020) 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 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	2021	2020
Materials and supplies	63.6	53.0
Work in process	26.1	26.7
Finished products	97.3	80.6
Inventories	187.0	160.3

The cost of inventories recognized as expense totaled EUR 403.6 million in 2021 (EUR 378.1 million in 2020).

Changes in provision for inventory obsolescence

EUR million	2021	2020
Balance at beginning of year	13.1	13.8
Impact of exchange rates	0.6	0.2
Additions charged to expense	2.9	2.9
Acquisitions	0.6	–
Used reserve	−1.7	−1.6
Deductions / other additions	−1.3	−2.2
Balance at end of year	14.2	13.1

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.

	2021			2020		
EUR million	Non-current	Current	Total	Non-current	Current	Total
Trade payables	–	62.8	62.8	–	59.9	59.9
Other payables						
Accrued interests	–	0.5	0.5	–	0.3	0.3
Accrued personnel costs	–	24.0	24.0	–	18.2	18.2
Accrued project costs	–	0.3	0.3	–	2.3	2.3
VAT, payroll tax and social charge payables	–	6.1	6.1	–	6.0	6.0
Other payables	0.3	18.0	18.2	0.3	8.6	8.8
Other payables	0.3	48.8	49.1	0.3	35.4	35.6

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

	2021			2020		
EUR million	Non-current	Current	Total	Non-current	Current	Total
Warranty and guarantee provision	–	6.6	6.6	–	5.7	5.7
Restructuring provision	0.1	0.9	0.9	0.3	0.4	0.7
Environmental remedial provision	–	–	–	–	–	–
Other provisions [1]	1.9	3.7	5.6	2.1	2.5	4.6
Total	2.0	11.2	13.1	2.4	8.6	10.9

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

Changes in provisions

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	–

2020 EUR million	Warranty and guarantee provision	Restructuring provision	Environmental remediation provision
Carrying value on January 1	5.4	1.2	0.7
Impact of exchange rates	–0.1	–0.1	–0.1
Addition charged to expense	3.9	0.5	–
Used reserve	–3.5	–0.9	0.0
Reversal of reserve / other changes	–	–	–0.6
Carrying value on December 31	5.7	0.7	–

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. 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	2021 Defined benefit obligation	2021 Fair value of plan assets	2021 Net defined benefit liability (asset–/liability+)	2020 Defined benefit obligation	2020 Fair value of plan assets	2020 Net defined benefit liability (asset–/liability+)
January 1	91.5	–81.3	10.3	91.9	–84.2	7.7
Adjustments due to business combinations	–	–	–	3.7	1.1	4.8
Change in consolidation scope	–	–	–	0.3	–	0.3
Included in income statement						
Current service cost	1.3	–	1.3	0.4	–	0.4
Past service cost	–	–	–	–	–	–
Settlements	–0.1	0.1	–	–	–	–
Administration costs	–	–	–	–	–	–
Net interest expense	1.7	–1.8	–0.1	2.3	–2.3	–
Gains/losses recognized in income statement	0.2	–0.2	–	–	–	–
Total in Income statement	3.1	–1.9	1.2	2.7	–2.3	0.4
Included in Other comprehensive income						
Remeasurement gains (-)/ losses (+)						
Actuarial gains/losses arising from changes in financial assumptions	–3.5	–	–3.5	5.7	–	5.7
Actuarial gains/losses arising from changes in demographical assumptions	0.3	–	0.3	–0.6	–	–0.6
Actuarial gains/losses arising from experience adjustments	0.1	–	0.1	–	–	–
Return on plan assets (excluding amounts included in interest expenses)	–	1.8	1.8	–	–7.7	–7.7
Exchange rate differences	6.4	–6.4	0.0	–6.8	6.8	0.0
Total in Other comprehensive income	3.3	–4.6	–1.3	–1.7	–0.9	–2.6
Contributions paid by the employer	–	–1.4	–1.4	–	–0.4	–0.4
Benefits paid by the employer	–1.5	1.5	–	–0.4	0.4	–
Benefits paid from plan assets	–4.8	4.8	–	–5.1	5.1	–
December 31	91.6	–82.8	8.8	91.5	–81.3	10.3
Present value of funded defined obligation	70.5	–	70.5	70.9	–	70.9
Fair value of plan assets	–	–82.8	–82.8	–	–81.3	–81.3
Funded obligations, net	70.5	–82.8	–12.4	70.9	–81.3	–10.3
Present value of unfunded obligation	21.2	–	21.2	20.6	–	20.6
Defined benefit net liability	91.6	–82.8	8.8	91.5	–81.3	10.3
of which in balance sheet assets			–12.5			–10.4
of which in balance sheet liabilities			21.3			20.6

Net liability in Germany amounted to EUR 11.0 million (EUR 11.2 million) and the net surplus in the United States EUR 4.0 million (EUR 2.3 million). Average duration of defined benefit obligation in Germany is 29 years and in the US 9 years at the end of 2021.

Neles paid contributions of EUR 1.4 million to defined benefit plans in 2021, substantially in respect of direct benefit payments in the US deferred compensation plan. The estimated contributions to plans in 2022 are EUR 0.2 million.

Fair values of plan assets

EUR million	2021	2020
Quoted		
Equity securities	8.9	17.0
Bonds	73.3	63.4
Unquoted		
Property	0.2	0.4
Cash	0.4	0.4
Total	82.8	81.3

At December 31, 2021 there were no plan assets invested in affiliated or property occupied by affiliated companies.

The principal actuarial assumptions

	2021		2020	
%	Germany	US	Germany	US
Discount rate	0.80%	2.60%	0.52%	2.20%
Future salary increase	2.50%	3.50%	2.50%	3.50%
Future pension increase	1.75%	3.00%	1.60%	3.00%
Rate of inflation	1.75%	3.00%	1.60%	3.00%

The life expectancy used

	2021	
Longevity at age 65	Germany	US
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 (–)

	2021	
EUR million	Germany	US
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.

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

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, continuing operations

2021 EUR million	January 1	Charged to income statement	Charged to share-holders' 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

2020 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	0.0	7.3	–	0.0	7.2
Intangible and tangible assets	3.5	–0.6	–	–1.2	2.2
Inventory	3.6	0.2	–	2.2	5.3
Provisions	0.4	0.4	0.1	1.1	2.0
Accruals	0.0	0.7	0.0	1.0	1.3
Pension related items	2.5	–0.3	1.5	–3.5	0.6
Other	3.5	–1.9	2.3	–1.0	3.1
Total deferred tax assets	13.6	5.9	4.0	–2.0	21.7
Offset against deferred tax liabilities	–1.0	–	–	–	–3.8
Net deferred tax assets	12.6	5.9	4.0	–2.0	17.9
Deferred tax liabilities					
Purchase price allocations	3.5	–0.6	–	–1.4	2.1
Intangible and tangible assets	0.5	0.3	–	2.1	2.3
Other	1.0	5.3	–0.1	–3.8	2.1
Total deferred tax liabilities	5.0	4.0	–0.1	–3.0	6.5
Offset against deferred tax assets	–1.0	–	–	–	–3.8
Net deferred tax liabilities	4.0	4.0	–0.1	1.0	2.7
Deferred tax assets, net	8.6	1.9	4.0	0.0	15.2

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 year 2021 there are no substantial undistributed earnings in subsidiaries from which deferred tax liability is not booked.

3 Intangible and tangible assets

Goodwill, MEUR

85.6

Other intangible assets, MEUR

25.8

Tangible assets, MEUR

63.6

Right-of-use asets, MEUR

45.8

Amortizations, MEUR

3.4

Depreciations, MEUR

21.6

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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

2021

EUR million	Goodwill	Patents and licenses	Capitalized software	Other intangible assets	Intangible assets total
Acquisition cost at beginning of year	57.3	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 end of year	85.6	0.7	22.0	39.8	148.1
Accumulated amortization at beginning of year	–	−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 end of year	–	−0.2	−18.6	−17.8	−36.7
Net book value at end of year	85.6	0.5	3.3	22.0	111.5

2020

EUR million	Goodwill	Patents and licenses	Capitalized software	Other intangible assets	Intangible assets total
Acquisition cost at beginning of year	62.3	0.0	20.6	27.6	110.5
Translation differences	−2.8	0.2	−0.6	−2.8	−6.1
Capital expenditure	–	0.4	0.3	3.3	4.1
Reclassifications	–	–	0.5	−0.5	0.0
Effect of demerger	−2.3	0.0	0.2	0.0	−2.0
Acquisition cost at end of year	57.3	0.7	21.0	27.6	106.5
Accumulated amortization at beginning of year	–	0.0	−16.3	−13.4	−29.6
Translation differences	–	0.0	0.0	0.1	0.1
Other changes	–	0.0	0.4	−0.1	0.4
Amortization for the year	–	−0.2	−1.6	−1.6	−3.4
Accumulated amortization at end of year	–	−0.2	−17.5	−15.0	−32.6
Net book value at end of year, continuing operations	57.3	0.5	3.5	12.6	73.9

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. In 2021 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.

Annual impairment test in 2021

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:

	2021	2020
Sales growth in four years estimate period	9.0%	9.4%
EBITDA % range in four years estimate period	16.2%–19.5%	15.6%–18.9%
Growth rate in the terminal period	1.7%	1.7%
WACC after tax	9.7%	10.1%
WACC before tax	12.2%	12.5%

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

	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

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

2020 EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Tangible assets total
Acquisition cost at beginning of year	6.1	48.3	128.0	11.4	193.8
Translation differences	–0.4	–3.0	–4.9	–0.3	–8.5
Capital expenditure	–	4.9	2.7	2.0	9.6
Reclassifications	0.0	0.0	8.9	–8.9	0.0
Other changes	–0.2	–0.9	0.6	0.0	–0.4
Acquisition cost at end of year	5.5	49.4	135.3	4.2	194.4
Accumulated depreciation at beginning of year	–	–27.5	–100.0	–	–128.1
Translation differences	–	1.5	4.0	0.0	5.6
Other changes	–	0.5	–1.1	–	–0.1
Impairment losses	–	0.0	–0.4	0.0	–0.4
Depreciation for the year	–	–1.8	–7.4	–	–9.1
Accumulated depreciation at end of year	0.0	–27.3	–104.8	0.0	–132.2
Net book value at end of year	5.5	22.1	30.5	4.2	62.3

3.3 Depreciation and amortization

Depreciation and amortization

EUR million	2021	2020
Intangible assets from acquisitions	–0.2	0.0
Other intangible assets	–3.4	–3.4
Tangible assets		
Buildings and structures	–1.8	–1.8
Machinery and equipment	–7.6	–7.4
Right-of-use assets		
Buildings	–10.6	–10.3
Machinery and equipment	–1.3	–1.5
Total	–25.0	–24.5

Depreciation and amortization by function

EUR million	2021	2020
Cost of goods sold	–17.9	–17.2
Selling, general and administrative expenses	–7.1	–7.3
Total	–25.0	–24.4

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

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	–	43.3	2.5	45.8

2020 EUR million	Land and water areas	Buildings	Machinery and equipment	Right-of-use assets total
Acquisition cost at beginning of year	0.0	52.5	4.9	57.4
Additions	–	18.1	1.2	19.3
Derecognition	–	–4.5	–1.3	–5.8
Acquisition cost at end of year	0.0	66.1	4.8	70.9
Accumulated depreciation at beginning of year	0.0	–9.7	–1.5	–11.2
Translation differences	–	0.1	0.0	0.1
Derecognition	–	0.9	0.4	1.2
Other changes	–	0.9	0.4	1.3
Depreciation for the year	0.0	–10.3	–1.5	–11.9
Accumulated depreciation at end of year	0.0	–18.2	–2.2	–20.4
Net book value at end of year	0.0	47.9	2.6	50.5

Amounts recognized in profit and loss

Continuing operations EUR million	2021	2020
Operating profit		
Depreciation expense on right-of-use assets	–11.9	–11.9
Rental expense relating to leases of low-value assets	–1.1	–0.5
Rental expense relating to leases of short-term assets	–0.4	0.1
Finance expenses		
Interest expense on lease liabilities	–1.9	–1.6
Total amount recognized in profit and loss	–15.3	–13.9

The total cash outflow for leases including short-term leases and leases of low value assets in 2021 was EUR 14.7 million and in 2020 it was EUR 13.4 million.

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

4 Capital structure and financial instruments

Net debt, MEUR

81.4

Gearing, %

26.8

Free cash flow, MEUR

77.5

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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.

The liquidity position of the Group remained good supported by the available back up credit facilities and maturity structure of the funding. During the year existing EUR 150.0 million bilateral term loan was refinanced with a new bilateral EUR 150 million term loan with seven-year tenor. At the end of 2021 cash and cash equivalents amounted to EUR 132 million (EUR 136 million in 2020).

At the end of 2021 Neles had a fully drawn term loan of EUR 150 (EUR 150 million in 2020) million which matures in 2028. Additionally, Neles has a committed syndicated revolving credit facility of EUR 200 million (EUR 200 million in 2020) This syndicated revolving credit facility is fully undrawn and matures in 2024 and has one one-year extension option. In 2021 Neles signed a EUR 301 million Bridge-to-bond facility, the purpose of which is to finance the extraordinary distribution of funds prior to the completion of the merger. If executed, the facility term is 12 months, with two 6-month extension options. Additionally, the uncommitted Finnish Commercial Paper program totaling EUR 200 million can be utilized for funding.

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

	Dec 31, 2021			Dec 31, 2020		
EUR million	<1 year	1–5 years	>5 years	<1 year	1–5 years	>5 years
Long-term debt						
Repayments	–	–	150.0	–	150.0	–
Interests	1.2	5.2	2.1	1.8	1.2	–
Other liabilities	–	0.3	–	–	–	–
Short-term debt						
Repayments	18.5	–	–	16.1	–	–
Interests	0.1	–	–	0.1	–	–
Trade payables	62.8	–	–	59.9	–	–
Other liabilities	1.7	–	–	0.9	–	–
Total	84.2	5.5	152.1	78.8	151.2	–

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

Capital structure is assessed regularly by the Board of Directors and managed operationally by the Group Treasury.

Capital structure management in Neles comprises both equity and interest-bearing debt. As of December 31, 2021, the equity attributable to shareholders was EUR 304 million (EUR 263 million in 2020) and the amount of interest-bearing debt was EUR 168 million (EUR 166 million in 2020). The objectives are to safeguard the ongoing business operations and to optimize the cost of capital.

Covenants included in some loan agreements refer to Neles' capital structure. Neles is in compliance with all covenants and other terms of its debt instruments.

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. The average maturity of long-term interest-bearing debt was 6.5 years as at December 31, 2021 (1.5 years in 2020).

At the end of 2021 the balance sheet items exposed to interest rate risk were interest bearing assets of EUR 134 million (EUR 136 million in 2020) and interest-bearing debt of EUR 168 million (EUR 166 million in 2020). Of the total interest-bearing debt 89 percent (90 percent in 2020) 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 +/– 2.0 million (EUR +/– 1.7 million in 2020).

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 73 percent of Neles' sales originate from outside the euro zone; the main currencies being euro, US dollar, SG dollar, Brazilian real and Indian rupee.

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 on December 31

Continuing operations EUR million	2021	2020
Operational items affecting to operating profit	25.1	13.7
Financial items	43.0	0.1
Hedges	–58.3	–6.8
Total exposure	9.8	7.0

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 +/– 0.2 million in 2020). Transaction exposure is spread in about 25 currencies and as of December 31, 2021, the biggest open exposures were in USD, 22 percent, and CNY, 21 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:

	2021				2020			
EUR million	USD	CNY	Others	Total	USD	SGD	Others	Total
Effects in								
Income statement	+/– 0.3	+/– 0.4	–/+ 0.2	–/+ 0.5	+/– 0.3	+/– 0.3	–/+ 0.1	–/+ 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 December 31, 2021, Neles had outstanding nickel swaps amounting to 312 tons (360 tons in 2020).

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 +/– 0.4 million to income statement in year 2021 (EUR +/– 0.3 million to income statement in year 2020).

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 2021 or in 2020.

Financial assets and liabilities measured at fair value

	2021			2020		
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	–	1.2	–	–	1.2	–
Derivatives not under hedge accounting, liabilities	–	0.5	–	–	1.5	–

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 as of December 31

2021 EUR million	At fair value through profit and loss	At fair value through other comprehen-sive income	At amor-tized 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

2020 EUR million	At fair value through profit and loss	At fair value through other comprehen-sive income	At amor-tized cost	Carrying value	Fair value
Non-current financial assets					
Equity investments	0.2	–	–	0.2	0.2
Other receivables	–	–	1.5	1.5	1.5
Total	0.2	–	1.5	1.7	1.7
Current financial assets					
Trade receivables	–	–	88.9	88.9	88.9
Derivatives	1.2	–	–	1.2	1.2
Other receivables	–	–	37.2	37.2	37.2
Deposits and securities, maturity three months or less	–	–	6.7	6.7	6.7
Cash at hand and on bank accounts	–	–	129.2	129.2	129.2
Total	1.2	–	262.0	263.2	263.2
Non-current liabilities					
Loans from financial institutions	–	–	149.7	149.7	149.7
Lease liabilities	–	–	40.7	40.7	40.7
Other liabilities	–	–	0.3	0.3	0.3
Total	–	–	190.7	190.7	190.7
Current liabilities					
Lease liabilities	–	–	10.8	10.8	10.8
Loans from financial institutions	–	–	16.1	16.1	16.1
Trade payables	–	–	59.9	59.9	59.9
Derivatives	1.4	–	–	1.4	1.4
Other liabilities	–	–	35.4	35.4	35.4
Total	1.4	–	122.2	123.6	123.6

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	2021	2020
Cash and cash equivalents		
Deposits and securities, maturity three months or less	7.7	6.7
Cash on hand and bank accounts	124.7	129.2
Cash and cash equivalents	**132.4**	**135.9**

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 14 million in year 2021 (EUR 15 million in 2020).

Average returns for deposits and securities

EUR million	2021	2020
With maturity three months or less	4.70%	0.53%

Analysis of Consolidated Statement of Cash Flows

Continuing operations, carve-out EUR million	2021	2020
Operating activities		
Profit for the year	56.7	48.2
Adjustments		
Depreciation and amortization	25.0	24.5
Financial expenses, net	5.0	6.5
Income taxes	14.1	15.6
Other items	2.0	–12.6
Change in net working capital [1]	7.2	17.1
Net cash flow from operating activities before financial items and taxes	110.1	99.2
Financial income and expenses, net	–4.7	–6.4
Income taxes paid	–17.1	–11.8
Net cash flow from operating activities	88.3	81.1
Investing activities		
Capital expenditures on intangible and tangible assets	–10.9	–12.6
Proceeds from sale of intangible and tangible assets	0.1	0.2
Acquisitions/disposals, Metso group	–40.3	–
Net cash flow from investing activities	–51.1	–12.4
Financing activities		
Dividends paid	–33.1	–44.2
Change in financial assets	0.5	–0.5
Increase in loan receivable	–1.8	–
Proceeds from / repayments of short-term debt, net	1.8	–2.1
Proceeds from issuance of long-term debt	150.0	–
Repayments of long-term debt	–150.0	–
Net borrowing / payment, Metso Group [1]	–	70.6
Repayments of lease liabilities	–11.0	–11.3
Net cash flow from financing activities	–43.7	12.6
Net change in cash and cash equivalents	–6.5	81.3
Effect from changes in exchange rates	2.9	–2.1
Cash and cash equivalents at beginning of year	135.9	56.7
Cash and cash equivalents at end of year	132.4	135.9

[1] For the period 1–12/2020 carve-out related items are excluded from Change in networking capital and presented in Financing, Metso Group.

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 December 31, 2021 (50,982,843.80 as at December 31, 2020).

A reduction of share capital of EUR 90,000,000.00 was recorded at the partial demerger in June 2020.

At December 31, 2020 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	2021	2020
Number of outstanding shares at beginning of year	150,197,895	150,076,168
Shares granted from share ownership plans	–	121,727
Number of outstanding shares at end of year	150,197,895	150,197,895
Own shares held by the Parent Company	150,361	150,361
Total number of shares on December 31	150,348,256	150,348,256

Dividends

The Board of Directors proposes that a dividend of EUR 0.266 per share be paid based on the balance sheet to be adopted for the financial year, which ended December 31, 2021. These financial statements do not reflect this dividend payable of EUR 40.0 million.

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 (see note 1.5).

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.

Changes in fair value and other reserves

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	0.0	1.2	28.8	30.0

EUR million	Fair value reserve	Legal reserve	Other reserves	Total
January 1, 2020	9.2	1.2	293.4	303.8
Share-based payments, net of tax	–1.2	–	–	–1.2
Other	0.0	–	1.0	1.0
Demerger	–6.8	0.0	–265.6	–272.3
December 31, 2020	1.2	1.2	28.8	31.3

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.

	2021		2020	
EUR million	Carrying values	Fair values	Carrying values	Fair values
Loans from financial institutions	149.6	149.6	149.7	149.7
Lease liabilities	36.0	36.0	40.7	40.7
Total long-term interest bearing debt	185.6	185.6	190.4	190.4
Loans from financial institutions	18.5	18.5	16.1	16.1
Lease liabilities	11.5	11.5	10.8	10.8
Total short-term interest bearing debt	30.0	30.0	26.9	26.9
Total interest bearing debt	215.6	215.6	217.3	217.3

The average interest rate of total loans was 0.70% on December 31, 2021 (1.15% in 2020). The average maturity of long-term interest bearing debt was 6.5 years on December 31, 2021 (2.5 years in 2020).

Short term loans from financial institutions consists of bank loans withdrawn by Neles subsidiaries to fund local operations. The subsidiary loans are mainly Indian rupee and South Korean won denominated. The weighted average interest rate applicable to the short-term borrowing at December 31, 2021 was 4.9% (4.3% in 2020).

At the end of 2021 Neles had a fully drawn term loan of EUR 150 (EUR 150 million in 2020) million which has maturity date in 2028. Additionally, Neles has a syndicated revolving credit facility of EUR 200 million with four banks, maturing in 2024 (EUR 200 million in 2020) with one one-year extension options.

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

Neles also has a Finnish commercial paper program amounting to EUR 200 million. Both revolving credit facility and commercial paper program were undrawn at the end of 2021.

Contractual maturities of interest bearing debt

2021 EUR million	Repayments of borrowings	Of which interests	Repayments of lease liabilities [1]
2022	18.5	1.2	13.1
2023	–	1.3	11.3
2024	–	1.3	9.8
2025	–	1.3	8.5
2026	–	1.3	3.6
Later	150.0	2.1	6.5
Total	168.5	8.5	52.8

[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	2021	2020
Non-current interest bearing liabilities [1]	149.6	149.7
Lease liabilities	47.5	51.5
Current interest bearing liabilities	18.5	16.1
Loan and other interest bearing receivables	–1.8	–
Liquid funds	–132.4	–135.9
Net interest bearing liabilities	**81.4**	**81.4**

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

Changes in net interest bearing liabilities

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

2020

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	35.9	113.9	–	–	–	149.7
Lease liabilities	47.0	–11.3	–	–0.6	16.4	51.5
Current interest bearing liabilities	19.7	–2.0	–	–1.6	–	16.1
Liquid funds	–56.9	–81.3	–	2.1	–	–135.9
Net interest bearing liabilities	45.8	19.3	–	–0.1	16.4	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	2021	2020
Guarantees		
External guarantees given by parent and group companies	39.4	43.8
Other commitments		
Repurchase commitments	22.8	16.4*
Other contingencies	2.2	1.4
Total	64.4	61.6

* Repurchase commitments from 2020 was restated to amount of EUR 16.4 million. Restatement of EUR 6.7 million has been made to present the repurchase commitments comparable to 2021.

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

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 year

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

2020 EUR million	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts	159.2	0.8	1.4	–0.6
Nickel swap contracts [1]	360.0	0.4	0.0	0.4
Total	–	1.2	1.5	–0.3

[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 year

	2021		2020	
EUR million	Assets	Liabilities	Assets	Liabilities
Forward exchange contracts - non-qualifying hedges	0.4	0.5	0.8	1.4
Nickel swaps - non-qualifying hedges	0.7	–	0.4	0.0
Total	1.2	0.5	1.2	1.5

Maturities of financial derivatives as at December 31, 2021 (expressed as notional amounts)

EUR million	2022	2023	2024
Forward exchange contracts	109.4	–	–
Nickel swap contracts [1]	252.0	60.0	–

[1] Notional amount in tons.

5 Consolidation

Neles subsidiaries in

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countries

Flowrox acquisition on November 1, 2021

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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.

Discontinued operations

Neles classified assets, debts and liabilities belonging to Metso Minerals business as discontinued operations, related to the partial demerger of Metso and disposal of the net assets, which became effective on June 30, 2020. In the Neles' income statement for the year 2020, Metso Minerals business' profit for the period has been included in line Profit from discontinued operations for the period January 1–June 30, 2020. See more on Note 5.5 Discontinued operations.

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 2021 or 2020.

5.2 Subsidiaries

Company name and ownership	Dec 31, 2021
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	Dec 31, 2021
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[3]	2021	2020
President and CEO Olli Isotalo		
Salaries, bonuses and fringe benefits	783,528	233,445[1)]
Post-employment benefits	100,422	50,425[1)]
Total	883,950	283,870
President and CEO Pekka Vauramo [2)]		
Salaries, bonuses and fringe benefits	–	771,463
Post-employment benefits	–	103,125
Total	–	874,588

[1)] From July 1, 2020 onwards
[2)] Year 2020 for the period January 1–June 30, 2020
[3)] On a cash basis

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 0.3 (0.1) million in 2021.

Other executive team members

EUR	2021	2020
Neles executive team		
Salaries, bonuses and fringe benefits	2,736,598	945,450[1)]
Post-employment benefits	253,295	110,822[1)]
Share-based payments	889,637	–
Total	3,879,530	1,056,272
Metso executive team [2)]		
Salaries, bonuses and fringe benefits	–	2,222,352
Post-employment benefits	–	134,627
Share-based payments	–	789,462
Total	–	3,146,441

[1)] From July 1, 2020 onwards
[2)] Year 2020 for the period January 1–June 30, 2020

Continuing and discontinued operations

EUR million	2021	2020
Executive remuneration, continued operations	4.8	2.1
Executive remuneration, discontinued operations	–	3.2
Total	4.8	5.4

Remuneration of Board members

Board of Directors'

EUR thousand	2021	January 1–June 30, 2020	July 1–December 31, 2020
Serving Board members			
Jaakko Eskola	–102.3	–	–
Anu Hämäläinen	–95.4	–	–44.5
Niko Pakalén	–76.3	–	–36.5
Teija Sarajärvi	–72.2	–	–36.2
Jukka Tiitinen	–64.8	–	–30.7
Mark Vernon	–102.0	–	–78.9
Former Board members			
Britta Giesen	–30.5	–	–45.6
Jukka Moisio	–42.3	–	–73.3
Petter Söderström	–20.9	–	–36.5
Perttu Louhiluoto	–27.9	–	–
Mikael Lilius	–	–52.8	–
Christer Gardell	–	–32.9	–
Peter Carlsson	–	–25.1	–
Lars Josefsson	–	–28.5	–
Antti Mäkinen	–	–30.2	–
Kari Stadigh	–	–25.0	–
Arja Talma	–	–33.6	–
Raimo Brand	–	–3.4	–
Total	–634.7	–231.4	–382.3

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

Continuing and discontinued operations

EUR million	2021	2020
Board remuneration, continued operations	–0.6	–0.6
Board remuneration, discontinued operations	–	–0.2
Total	–0.6	–0.8

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.

According to the decision of the Annual General Meeting, 40 percent of the Board's annual fees were used to buy Neles shares from the market. The shares were acquired within the two weeks following the publication of the Half Year Review for Neles in 2021.

Transactions and balances with related parties

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

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

Transactions and balances with the related party

EUR million	2021	2020
Sales [1)]	10.7	6.6
Rental income	0.1	0.0
Receivables	1.6	6.5

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. Sales reported here for the period January 1, 2021–December 31, 2021 and August 1, 2020–December 31, 2020, receivables as at December 31 2021 and 2020.

5.4 Acquisitions and business disposals

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 are expensed and included in administrative expenses in the income statement and in operating cash flow in the statement of cash flows.

Acquisitions 2020

There were neither acquisitions nor business disposals in financial year 2020.

5.5 Discontinued operations

Demerger on June 30, 2020

The Metso Minerals businesses were carved out from the Metso group and to be combined with Outotec Group. The registration of the completion of the partial demerger was executed on June 30, 2020. From July 1, 2020, valves business formed the continuing operations and Metso Group was renamed the Neles Group.

The net result of Metso Minerals business for the period January 1, – June 30, 2020, was reported in the income statement under "Profit from discontinued operations" separately from continuing operations. Also, the gain, on the distribution of the Minerals net assets at fair value, are reported in Profit from discontinued operations.

The demerger was accounted for as a disposal to owners in accordance with *IFRIC 17 Distribution of non-cash assets to owners*. The difference between the fair value of Metso Minerals business and it's carrying value in Metso's consolidated balance sheet has been recorded as a distribution gain.

In the transaction, Metso's shareholders continued as shareholders of Neles Corporation. Shareholders received 4.3 new Outotec shares for one old Metso share as consideration for the distributed net assets of the Minerals business. Accordingly, the fair value of Metso Minerals business at the demerger date has been calculated by multiplying share price EUR 4.91 for Outotec Oyj on June 30, 2020 by the number of shares issued by Outotec, 645,850,948. The calculated fair value of Metso Minerals business amounted to EUR 3,171 million, the carrying value of distributed net assets EUR 1,150 million and consequently the distribution gain EUR 2,022 million.

Result of discontinued operations in 2020

EUR million	1–6/20
Sales	1,447
Expenses	–1,272
Result from operating activities	175
Income taxes	–47
Result from operating activities, net of tax	127
Fair value gain from valuation of net assets of discontinued operations	2,022
Profit from discontinued operations, net of tax	2,150
Earnings per share, EUR	14.31
Earnings per share, diluted, EUR	14.31

Profit from discontinued operations include partial demerger expenses of EUR 11 million in 1–6/2020.

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
Net cash flow from operating activities	314
Net cash flow from investing activities	–40
Net cash flow from financing activities	–108
Net cash flow for the period	166

Net assets of discontinued operations

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

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

5.6 New accounting standards

New and amended standards adopted in 2021

Neles has applied the following revised IFRS Standards that have been effective since January 1, 2021.

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

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
- Amendments to IAS 1: Classification of Liabilities as Current or Non-Current
- Amendment to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use
- Amendment to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract
- IFRS 9 Financial instruments – Fees in the 10 per cent test for derecognition of financial liabilities
- 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
- Amendments to IAS 8: Definition of Accounting Estimates

The amendments are not expected to have material impact on the Neles Group.

5.7 Exchange rates used

		Average rates 2021	Year-end rates 2021	Average rates 2020	Year-end rates 2020
USD	(US dollar)	1.1851	1.1326	1.1452	1.2271
BRL	(Brazilian real)	6.3782	6.3101	5.8847	6.3735
INR	(Indian rupee)	87.4940	84.2292	84.5785	89.6605
CNY	(Chinese yuan)	7.6388	7.1947	7.8916	8.0225
SGD	(Singapore dollar)	1.5891	1.5279	1.5735	1.6218
SEK	(Swedish crown)	10.1469	10.2503	10.4789	10.0343
GBP	(Pound sterling)	0.8615	0.8403	0.8864	0.8990
CAD	(Canadian dollar)	1.4868	1.4393	1.5320	1.5633

6 Other notes

6.1 Audit fees

EUR million	2021	2020
Audit services	−1.2	−0.9
Tax services	0.0	0.0
Other services	−0.1	0.0
Total	−1.4	−0.9

Ernst & Young Oy has provided non-audit services to entities of Neles Group in total of 142 thousand euros during the financial year 2021. These services included 3 thousand euros of tax advisory and 138 thousand euros of other 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 December 31, 2021, the number of pending litigation cases filed was 207 (138 on December 31, 2020). 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.

Financial Statements of the Parent Company, FAS

Statement of Income of the Parent Company

EUR	Note	2021	2020
Sales		34,588,772.96	25,954,967.82
Other operating income	2	115,821.09	10,729.08
Personnel expenses	3	−13,658,606.86	−15,097,816.26
Depreciation and amortization	4	−376,340.20	−495,095.00
Other operating expenses		−34,923,172.49	−57,283,515.37
Operating profit/(loss)		-14,253,525.50	−46,910,729.73
Financial income and expenses, net	6	73,237,449.17	412,821,765.59
Profit before appropriations and taxes		58,983,923.67	365,911,035.86
Appropriations	7	22,156,000.00	20,701,000.00
Profit before taxes		81,139,923.67	386,612,035.86
Income taxes	8		
Current tax expense		−393,609.03	−527,011.26
Profit for the year		80,746,314.64	386,085,024.60

Balance Sheet of the Parent Company

Assets

EUR	Note	2021	2020
Non-current assets			
Intangible assets	9	1,894,279.16	411,441.39
Tangible assets	9	32,758.07	24,438.07
Investments			
Shares in Group companies	10	464,951,822.01	464,951,822.01
Other investments	10	5,562,472.73	9,344,447.82
Total non-current assets		472,441,331.97	474,732,149.29
Current assets			
Long-term receivables	12	1,794,581.19	10,646.21
Short-term receivables	12	136,780,371.09	89,453,938.83
Bank and cash		76,156,392.83	101,673,519.57
Total current assets		214,731,345.11	191,138,104.61
Total assets		687,172,677.08	665,870,253.90

Shareholders' equity and liabilities

EUR	Note	2021	2020
Shareholders' equity	13		
Share capital		50,982,843.80	50,982,843.80
Invested non-restricted equity fund		39,408,070.56	39,408,070.56
Retained earnings		371,137,390.74	323,509,711.95
Total shareholders' equity		461,528,305.10	413,900,626.31
Liabilities			
Long-term liabilities	14	157,593,798.54	149,743,440.00
Current liabilities	15	68,050,573.44	102,226,187.59
Total liabilities		225,644,371.98	251,969,627.59
Total shareholders' equity and liabilities		687,172,677.08	665,870,253.90

Cash Flow Statement of the Parent Company

EUR thousand	2021	2020
Cash flows from operating activities		
Profit for the year	80,746	386,085
Adjustments to operating profit (loss)		
Depreciation and amortization	376	495
Financial income and expenses, net	–73,237	–412,821
Group contributions	–22,156	–20,701
Taxes	394	527
Total adjustments to operating profit (loss)	–94,623	–432,500
Increase / decrease in short-term non-interest bearing trade receivables	–1,436	28,345
Increase / decrease in short-term non-interest bearing debt	–16,515	–9,915
Change in working capital	–17,951	18,430
Interest and other financial expenses paid	–2,136	–17,267
Dividends received	74,956	115,580
Interest received	393	0
Income taxes paid	–394	3,063
Net cash provided by operating activities	40,991	73,391

EUR thousand	2021	2020
Cash flows from investing activities		
Investments in tangible and intangible assets	–1,867	–860
Investments in subsidiary shares	–	–
Long-term loans granted	–7,763	–292,519
Repayments of long-term loans	11,545	325,234
Short-term loans granted	–	–31,657
Repayments of short-term loans	2,514	–
Increase in loan receivables	–1,784	–
Interest received from investments	1,327	13,293
Dividends received from investments	0	0
Net cash used in investing activities	3,961	13,491
Cash flows from financing activities		
Investments in unrestricted equity	–	3,641
Withdrawal of long-term loans	157,850	139,750
Repayments of long-term loans	–150,000	–
Dividends paid	–33,119	–220,791
Financial transactions of the demerger	–	–56,780
Change in Group pool accounts	–65,902	–
Group contributions	20,701	61,385
Net cash provided by / used in financing activities	–70,469	–72,795
Net increase / decrease in bank and cash	–25,517	14,087
Bank and cash at beginning of year	101,674	87,596
Bank and cash at end of year	76,156	101,674

Notes to the Financial Statements of the Parent Company

1 Accounting principles

The parent company financial statements have been prepared in accordance with the Finnish Generally Accepted Accounting Principles for the period January 1–December 31, 2021. The financial statements are presented in euros. The previous year 2020 financial information is not fully comparable, because of the partial demerger of the company on June 30, 2020.

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	2021	2020
Other	116	11
Total	116	11

3 Personnel expenses

EUR thousand	2021	2020
Salaries and wages	–10,872	–12,615
Pension costs	–1,683	–1,640
Other indirect employee costs	–1,104	–843
Total	–13,659	–15,098

EUR thousand	2021	2020
Fringe benefits	278	1,133

Remuneration paid to CEO and Board members

EUR thousand	2021	2020
Chief Executive Officer	–884	–1,158
Board members [1]	–635	–613
Total	–1,519	–1,771

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

Number of personnel

	2021	2020
Personnel at end of year	89	82
Average number of personnel during the year	89	87

4 Depreciation and amortization

EUR thousand	2021	2020
Machinery and equipment	–2	–71
Intangible assets	–375	–425
Total	–376	–495

5 Audit fees

EUR thousand	2021	2020
Audit	–647	–396
Other services	–138	–63
Total	–785	–459

6 Financial income and expenses

EUR thousand	2021	2020
Dividends received from		
Group companies	74,954	415,208
Others	2	1
Total	74,956	415,209
Interest income from investments from		
Group companies	1,689	14,553
Others	2	110
Total	1,690	14,663
Other interest and financial income from		
Others	29	119
Exchange rate differences	62	–37
Interest and financial income, total	76,738	429,954
Interest expenses to		
Group companies	–454	–513
Others	–3,046	–16,543
Other financial expenses		
Fair value change in derivatives	–	–76
Interest and other financial expenses, total	–3,501	–17,132
Financial income and expenses, net	73,237	412,822

7 Appropriations

EUR thousand	2021	2020
Group contributions received	22,156	20,701

8 Income taxes

EUR thousand	2021	2020
Income taxes on operating activities	–394	–329
Income taxes for prior years	–	–198
Total	–394	–527

9 Fixed assets

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

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2020							
Acquisition cost Jan 1	4,502	156	747	927	103	1,932	6,435
Additions	860	–	–	–	–	–	860
Decreases	–778	–	–	–9	–16	–25	–803
Decreases/demerger	–3,161	–156	–733	–912	–63	–1,864	–5,025
Acquisition cost Dec 31	1,423	0	12	6	24	42	1,465
Accumulated depreciation Jan 1	–3,843	–	–747	–569	0	–1,316	–5,159
Accumulated depreciation of decreases	647	–	–	9	–	9	656
Accumulated depreciation of decreases/demerger	2,593	–	733	625	–	1,358	3,951
Depreciation for the period	–409	–	–	–71	0	–71	–480
Accumulated depreciation Dec 31	–1,012	–	–12	–6	0	–18	–1,030
Net carrying value Dec 31	411	0	0	0	24	24	435

10 Investments

EUR thousand	Shares in Group companies	Other shares	Receivables from Group companies	Other investments total
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
2020				
Acquisition cost at Jan 1	1,042,186	2,673	407,093	409,766
Additions	299,628	–	292,519	292,519
Decreases	–	−88	−328,250	−328,338
Decreases/demerger	−876,862	−2,442	−362,161	−364,603
Acquisition cost at Dec 31	464,952	143	9,201	9,344

11 Shareholdings

Subsidiaries at December 31, 2021

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	2021	2020
Loan receivables	1,784	–
Long-term receivables from others	11	11
Long-term receivables total	1,795	11

Short-term receivables

EUR thousand	2021	2020
Trade receivables from		
Group companies	14,374	12,787
Others	248	93
Total	14,622	12,881
Loan receivables from		
Group companies	91,725	47,407
Total	91,725	47,407
Prepaid expenses and accrued income from		
Group companies	21,710	20,545
Others	8,722	8,258
Total	30,432	28,803
Other receivables		
VAT receivable	0	363
Other receivables	1	0
Total	1	363
Short-term receivables total	136,780	89,454

Specification of prepaid expenses and accrued income

EUR thousand	2021	2020
Prepaid expenses and accrued income from Group companies		
Group contribution receivables	22,156	20,701
Accrued interest income	334	215
Other accrued items	−779	−371
Total	21,710	20,545
Prepaid expenses and accrued income from others		
Accrued interest income	0	0
Accrued derivatives	1,180	1,192
Other accrued items	7,542	7,065
Total	8,722	8,258

13 Statement of changes in shareholders' equity

EUR thousand	2021	2020
Share capital at Jan 1	50,983	140,983
Decrease in demerger	–	−90,000
Share capital at Dec 31	50,983	50,983
Invested non-restricted equity fund at Jan 1	39,408	368,263
Change	–	876
Decrease in demerger	–	−329,731
Invested non-restricted equity fund at Dec 31	39,408	39,408
Retained earnings at Jan 1	323,510	528,704
Dividend distribution	−33,119	−220,791
Other change	–	2,765
Profit for the year	80,746	386,085
Decrease in demerger	–	−373,253
Retained earnings at Dec 31	371,137	323,510
Total shareholders' equity at Dec 31	461,528	413,901

Statement of distributable funds at December 31

EUR	2021	2020
Invested non-restricted equity fund	39,408,070.56	39,408,070.56
Retained earnings	371,137,390.74	323,509,711.15
Total	410,545,461.30	362,917,781.71

At the end of the year, 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	2021	2020
Loans from financial institutions	149,611	149,743
Group companies	7,983	–
Total	157,594	149,743

Debt maturing later than in five years

EUR thousand	2021	2020
Loans from financial institutions	149,611	–

15 Short-term liabilities

EUR thousand	2021	2020
Short-term interest bearing debt		
Group companies	1,816	20,993
Group pool accounts	51,421	68,715
Total	53,237	89,707
Trade payables to		
Group companies	719	1,474
Others	4,549	4,702
Total	5,267	6,176
Accrued expenses and deferred income to		
Group companies	147	256
Others	9,172	5,861
Total	9,319	6,118
Other short-term non-interest bearing debt to		
Others	227	225
Total	227	225
Short-term liabilities total	68,051	102,226
Short-term liabilities to Group companies total	54,103	91,438

Specification of accrued expenses and deferred income

EUR thousand	2021	2020
Accrued expenses and deferred income to the Group companies		
Accrued interest expenses	145	116
Other accrued items	2	141
Total	147	256
Accrued expenses and deferred income to others		
Accrued interest expenses	435	273
Accrued derivatives	558	1,414
Accrued salaries, wages and social costs	5,314	3,037
Other accrued items	2,866	1,137
Total	9,172	5,861

16 Other contingencies

Guarantees and mortgages

EUR thousand	2021	2020
Guarantees on behalf of subsidiaries	36,822	36,429

Lease commitments

EUR thousand	2021	2020
Payments in the following year	240	444
Payments later	167	244
Total	406	688

Signatures of the Board of Directors' Report and Financial Statements 2021

Vantaa, February 3, 2022

Jaakko Eskola
Chair of the Board

Anu Hämäläinen
Vice Chair of the Board

Niko Pakalén
Member of the Board

Teija Sarajärvi
Member of the Board

Jukka Tiitinen
Member of the Board

Mark Vernon
Member of the Board

Simo Sääskilahti
Interim President and CEO

The auditor's note

Our auditor's report has been issued today.

Vantaa, February 3, 2022
Ernst & Young Oy
Authorized Public Accountant Firm

Toni Halonen
APA

Auditor's report

(Translation of the Finnish original)

To the Annual General Meeting of Neles Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Neles Corporation (business identity code 1538032-5) for the year ended 31 December 2021. The financial statements comprise the consolidated balance sheet, statement of income, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 6.1 to the consolidated financial statements and note 5 to the parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition *We refer to note 1.1 of the consolidated financial statements* Neles Group's turnover in 2021 amounted to 610,9 million euros consisting of sale of valves equipment and wear or spare parts and providing services to customers. Revenue from sale of valves equipment and wear or spare parts is recognized at a point in time, when control of the goods is transferred to customer, typically at the time of delivery of the goods or after commissioning. Revenue from services is recognized when the services are rendered. Revenue is a key performance indicator for Neles, which may be an incentive for premature revenue recognition. Revenue recognition was a key audit matter and a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2) due to the risk related to incorrect timing (cut-off) of revenue recognition.	Our audit procedures, which take into account the significant risk of material misstatement in revenue recognition, included among others: • assessment of the compliance of Neles Group's accounting policies over revenue recognition and comparison with applicable accounting standards; • assessing the revenue recognition process and -methodologies and testing controls where applicable; • obtaining confirmations of accounts receivable balances from customers and analyzed credit invoices issued after the balance sheet date; • testing revenue recognition including cut-off with analytical procedures and by substantive sales transactions testing and; • assessment of the adequacy of disclosures related to revenues.
Valuation of inventories *We refer to note 2.4 of the consolidated financial statements* At the balance sheet date 31.12.2021, the value of inventories amounted to 187 million euros representing 27% of total assets. Inventories are measured at historical cost or net realizable value if lower. Costs are measured on a weighted average cost basis and include purchase costs as well as transportation and processing costs. Net realizable value is the sales price in the ordinary course of business less sales costs and the costs needed to finish the production of the goods. Impairment due to obsolescence is considered when assessing the valuation of inventories. Obsolescence provision is based on the best estimate at the balance sheet date and requires judgement from management. Valuation of inventories is a key audit matter due to the size of the account balance and because inventory valuation involves management judgement.	Our audit procedures, included among others: • assessment of the compliance of Neles Group's accounting policies on inventory valuation and comparison with applicable accounting standards; • assessment of the processes and practices related to inventory valuation; • testing of the controls related to processes where applicable; • test of details related to inventory costing; • evaluation of the analyses, calculations and judgement made by management with respect to slow-moving and obsolete stock and; • assessment of the disclosures related to inventories.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 29.3.2012, and our appointment represents a total period of uninterrupted engagement of 10 years.

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions based on assignment of the Audit Committee

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the distribution of dividends is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the President and CEO of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 3rd February, 2022

Ernst & Young Oy
Authorized Public Accountant Firm

Toni Halonen
Authorized Public Accountant

Independent Auditor's Report on Neles Oyj's ESEF Consolidated Financial Statements

To the Board of Directors of Neles Oyj

We have performed a reasonable assurance engagement on the iXBRL tagging of the consolidated financial statements included in the digital files neles-2021-12-31-fi.zip of Neles Oyj for the financial year 1.1.–31.12.2021 to ensure that the financial statements are tagged with iXBRL mark ups in accordance with the requirements of Article 4 of EU Commission Delegated Regulation (EU) 2018/815 (ESEF RTS).

Responsibilities of the Board of Directors and Managing Director

The Board of Directors and Managing Director are responsible for the preparation of the Report of Board of Directors and financial statements (ESEF financial statements) that comply with the ESEF RTS. This responsibility includes:

- preparation of ESEF financial statements in accordance with Article 3 of ESEF RTS
- Tagging the consolidated financial statements included within the ESEF financial statements by using the iXBRL mark ups in accordance with Article 4 of ESEF RTS
- Ensuring consistency between ESEF financial statements and audited financial statements

The Board of Directors and Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of ESEF financial statements in accordance the requirements of ESEF RTS.

Auditor's Independence and Quality Control

We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to the engagement we have performed, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The auditor applies International Standard on Quality Control (ISQC) 1 and therefore maintains a comprehensive quality control system including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's Responsibilities

In accordance with the Engagement Letter we will express an opinion on whether the electronic tagging of the consolidated financial statements complies in all material respects with the Article 4 of ESEF RTS. We have conducted a reasonable assurance engagement in accordance with International Standard on Assurance Engagements ISAE 3000.

The engagement includes procedures to obtain evidence on:

- whether the tagging of the primary financial statements in the consolidated financial statements complies in all material respects with Article 4 of the ESEF RTS
- whether the ESEF financial statements are consistent with the audited financial statements

The nature, timing and extent of the procedures selected depend on the auditor's judgement including the assessment of risk of material departures from requirements sets out in the ESEF RTS, whether due to fraud or error.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our statement.

Opinion

In our opinion the tagging of the consolidated financial statement included in the ESEF financial statements of Neles Oyj for the year ended 31.12.2021 complies in all material respects with the requirements of ESEF RTS.

Our audit opinion on the consolidated financial statements of Neles Oyj for the year ended 31.12.2021 is included in our Independent Auditor's Report dated 3.2.2022. In this report, we do not express an audit opinion or any other assurance on the consolidated financial statements.

Helsinki 23.2.2022
Ernst & Young Oy
Authorized Public Accountant Firm

Toni Halonen
Authorized Public Accountant

Corporate governance

Neles Corporate Governance Statement 2021

Regulatory framework

Neles Corporation ("Neles") is a public company domiciled in Vantaa. Neles' Corporate Governance Statement has been prepared in accordance with the current regulation. Neles complies with the Finnish Corporate Governance Code 2020, issued by the Securities Market Association. Financial reports, including consolidated financial statements, are prepared in accordance with the International Financial Reporting Standards, IFRIC Interpretations as adopted by the European Union, and the Financial Supervisory Authority's regulations and Nasdaq Helsinki's rules. This statement has been reviewed by the Audit Committee.

Regulatory framework for Corporate Governance at Neles

External framework

- Finnish Companies Act
- Finnish Accounting Act
- Finnish Securities Markets Act
- Market Abuse Regulation (EU) No. 596/2014 ("MAR")
- Finnish Corporate Governance Code 2020, rules, regulations and guidelines of Nasdaq Helsinki and the Finnish Financial Supervisory Authority

Internal framework

- Articles of Association
- Code of Conduct
- Board charter and Board Committee charters
- Internal Audit Charter
- Neles' internal policies and instructions

Updated information about our governance is available on our website.

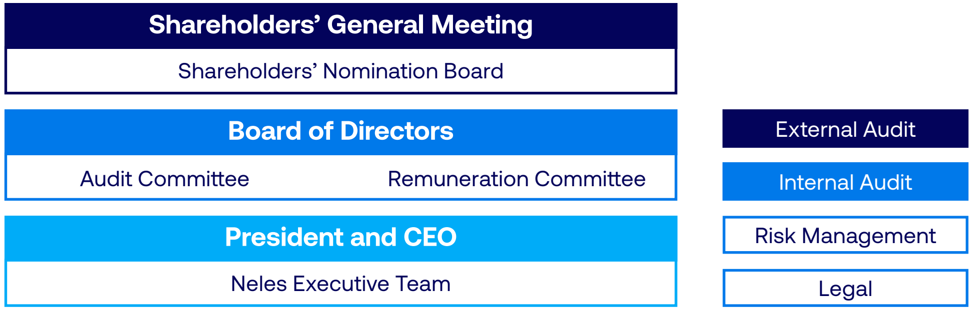
The Finnish Corporate Governance Code 2020 is available on the website of the Securities Market Association: https://cgfinland.fi/en/corporate-governance-code/.

Governance structure

The management and control of Neles is divided between the shareholders' General Meeting, the Board of Directors ("Board"), and the President and Chief Executive Officer ("President and CEO"). The Annual General Meeting of the shareholders is the ultimate decision-making authority. Every shareholder has the right to attend the General Meeting and participate in decision making by voting. Each share entitles the holder to one vote. Decisions at the General Meetings are primarily made by a simple majority of votes, except in certain cases specified by the Companies Act (e.g. amending the Articles of Association).

Neles' Annual General Meeting is to be held in Vantaa, Helsinki or Espoo within six months of the close of the fiscal year. The Annual General Meeting is usually held at the end of March.

Neles' Governance bodies



Shareholders' General Meetings

Two shareholders' General Meetings were held in 2021.

Annual General Meeting 2021

The Annual General Meeting ("AGM") 2021 was held at the Neles headquarters in Vantaa on March 26, 2021. The AGM was held without the presence of the shareholders and their proxy representatives at the meeting venue pursuant to the temporary legislative act to limit the spread of the Covid-19 pandemic (677/2020).

The AGM elected Jaakko Eskola as the Chair, Perttu Louhiluoto as the Vice Chair, and re-elected Anu Hämäläinen, Niko Pakalén, Teija Sarajärvi, Jukka Tiitinen and Mark Vernon as members of the Board.

The AGM re-elected Ernst & Young Oy as the company's external auditor, with Toni Halonen, APA, the principal auditor for Neles, for a term ending at the end of the following AGM.

The minutes of the meeting are available on the Neles website.

Extraordinary General Meeting 2021

Neles' Extraordinary General Meeting ("EGM") was held on September 22, 2021, at the Hilton Helsinki Airport Hotel in Vantaa. The EGM resolved to approve the merger plan and the merger of Neles into Valmet Oyj in accordance with the merger plan and the proposal of the Board.

The minutes of the meeting are available on the Neles website.

Shareholders' Nomination Board

The Shareholders' Nomination Board is a permanent governance body that was established by the AGM in 2011. The purpose of the Shareholders' Nomination Board is to prepare and present to the General Meeting proposals on the composition and members of the Board and Board remuneration.

The Shareholders' Nomination Board consists of five members, nominated annually. Four members are appointed by the company's four largest shareholders, who appoint one member each. The Chair of the Neles Board serves as the fifth member. The four largest shareholders entitled to appoint members to the Shareholders' Nomination Board are determined based on their registered holdings as of September 1 each calendar year. The Shareholders' Nomination Board presents its proposals to the AGM by January 31 each calendar year.

On September 1, 2021, the four largest registered shareholders of Neles were Valmet Oyj (29.54% of shares and votes), Cevian Capital Partners Ltd. (10.88% of shares and votes), Alfa Laval Ab (publ.) (8.46% of shares and votes) and Ilmarinen Mutual Pension Insurance Company (2.99% of shares and votes).

The composition of Shareholders' Nomination Board on December 31, 2021, was as follows:

- **Mikko Mursula**, Deputy CEO, Investments, Ilmarinen Mutual Pension Insurance Company (Chair)
- **Pasi Laine**, President and CEO, Valmet Oyj
- **Philip Ahlgren**, Vice President, Cevian Capital AB
- **Emma Adlerton**, Senior Vice President & Group General Counsel, Alfa Laval Ab (publ.)
- **Jaakko Eskola**, Chair of Neles Board

The Shareholders' Nomination Board held three virtual meetings, with an attendance rate of 100%.

The composition of Neles Shareholders' Nomination Board prior to September 1, 2021, was as follows:

- **Mikko Mursula**, Deputy CEO, Investments, Ilmarinen Mutual Pension Insurance Company (Chair)
- **Pasi Laine**, President and CEO, Valmet Oyj
- **Philip Ahlgren**, Vice President, Cevian Capital AB
- **Jukka Moisio**, Chair of Neles Board

The members of the Shareholders' Nomination Board are not remunerated by Neles for their representation. The members' expenses are reimbursable in accordance with the company's expense policy. The costs of using external experts by the Shareholders' Nomination Board are borne by the company.

More information about the Shareholders' Nomination Board, including its Charter, is available on the Neles website.

Board of Directors and Board committees

The Chair and the members of the Board are elected by the shareholders' General Meeting. According to its Articles of Association, Neles shall have at least five and at most eight Board members. The Board's duties are set out in the Charter of the Board of Directors which is available on the Neles website.

Neles Board on December 31, 2021

Jaakko Eskola, Chair of the Board
- nationality: Finnish
- born: 1958
- education: M.Sc., Engineering
- main occupation: board professional
- key positions of trust: Chair of the Board of Directors of Suominen Oyj (2021–), Enersense International Oyj (2021–) and Noctucon Oy (2021–), Deputy Chair of the Board of Varma Mutual Pension Insurance Company (2021–), Member of the Board of Directors of Cargotec Oyj and Virala Acquisition Company Oy (2021–)
- shareholding as of December 31, 2021: 3,690 shares

Anu Hämäläinen, Vice Chair of the Board (from July 26, 2021)
- nationality: Finnish
- born: 1965
- education: M.Sc., Economics
- main occupation: Kesko Oyj, Vice President, Group Treasury and Financial Services
- key positions of trust: Member of the Board of Directors of Finnish Fund for Industrial Cooperation Ltd (Finnfund) (2019–)
- shareholding as of December 31, 2021: 3,870 shares

Niko Pakalén, Member of the Board
- nationality: Finnish and Swedish
- born: 1986
- education: M.Sc., Economics
- main occupation: Cevian Capital AB, Partner
- key positions of trust: Member of the Board of Directors of TietoEVRY Oyj (2019–)
- shareholding as of December 31, 2021: 3,195 shares

Teija Sarajärvi, Member of the Board
- nationality: Finnish
- born: 1969
- education: MA
- main occupation: Huhtamäki Oyj, Executive VP, HR and Safety (until December 31, 2021), Wärtsilä Oyj, Executive VP, HR (starting January 1, 2022)
- shareholding as of December 31, 2021: 2,947 shares

Jukka Tiitinen, Member of the Board
- nationality: Finnish and U.S.
- born: 1965
- education: M.Sc., Engineering
- main occupation: Valmet Oyj, Area President, North America
- shareholding as of December 31, 2021: 2,656 shares

Mark Vernon, Member of the Board
- nationality: U.S.
- born: 1953
- education: B.Sc. Physical Chemistry
- main occupation: board professional
- key positions of trust: Chair of the Board of Directors of LiqTech International Inc. (2018–)
- shareholding as of December 31, 2020: 3,318 shares

Jukka Moisio
- Chair of the Board until March 26, 2021

Britta Giesen
- Member of the Board until March 26, 2021

Petter Söderström
- Member of the Board until March 26, 2021

Perttu Louhiluoto
- Vice Chair of the Board from March 26 until July 26, 2021

Perttu Louhiluoto, Vice Chair of the Board, resigned from the Board on July 26, 2021, due to his election as the President and CEO of a UK-based flow control company. The Shareholders' Nomination Board assessed that the Board remained functional after Perttu Louhiluoto's resignation, and that the Board's composition continued to meet the requirements set out in the Articles of Association.

Independence of the members of the Board on December 31, 2021

The Board considered all its members to be independent of the company. The Board further considered all members to be independent of major shareholders except:

- Jukka Tiitinen, who was considered to be dependent on Valmet Oyj. Jukka Tiitinen was the Area President, North America of Valmet Oyj.
- Niko Pakalén, who was considered to be dependent on Cevian Capital Partners Ltd. Niko Pakalén was a Partner of Cevian Capital AB.

Board Committees

The Board has delegated some of its functions to the Audit Committee and Remuneration Committee. The Board appoints the members to the Committees from among its members.

Each Committee meets regularly and reports on its work to the Board. The Committees have no decision-making authority independent of the Board, except where expressly authorized by the Board.

Audit Committee

After the AGM 2021, the Board elected Anu Hämäläinen as Chair and Perttu Louhiluoto and Jukka Tiitinen as members of the Audit Committee. Niko Pakalén was elected as a member of the Audit Committee following Perttu Louhiluoto's resignation from the Board on July 26, 2021.

Prior to the AGM 2021, the Audit Committee comprised Anu Hämäläinen (Chair), Niko Pakalén and Jukka Tiitinen.

The Audit Committee met eight times in 2021, and the attendance rate was 100%.

The main duties of the Audit Committee are set out in its Charter, which is available on the Neles website.

Remuneration Committee

After the AGM 2021, the Board elected Jaakko Eskola as Chair and Niko Pakalén, Teija Sarajärvi and Mark Vernon as members of the Remuneration Committee.

Prior to the AGM 2021, the Remuneration Committee was comprised of Jukka Moisio (Chair), Teija Sarajärvi and Mark Vernon.

The Remuneration Committee met six times in 2021, and the attendance rate was 100%.

The main duties of the Remuneration Committee are set out in its Charter, which is available on the Neles website.

Members of the Board of Directors, meeting attendance in 2021

Members	Board	Audit Committee	Remuneration Committee
Jaakko Eskola (since March 26, 2021)	12/12	–	5/5
Anu Hämäläinen	13/13	8/8	
Niko Pakalén	13/13	5/5	5/5
Teija Sarajärvi	13/13	–	6/6
Jukka Tiitinen*	9/13	8/8	–
Mark Vernon	13/13	–	6/6
Perttu Louhiluoto (March 26 – July 26, 2021)	9/9	3/3	–
Jukka Moisio (until March 26, 2021)	1/1	–	1/1
Britta Giesen (until March 26, 2021)	1/1	1/1	–
Petter Söderström (until March 26, 2021)	1/1	1/1	–

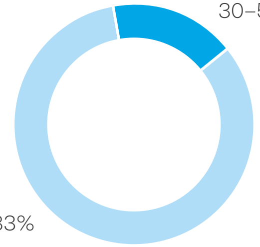
* Jukka Tiitinen recused himself from meetings which were related to Valmet Oyj's merger proposal.

Diversity of the Board of Directors

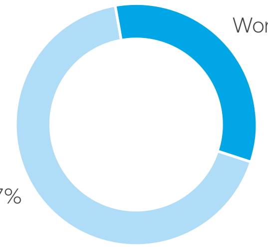
When planning the Board composition, the Shareholders' Nomination Board considers the needs and development phases of Neles' businesses, and the competence areas required by the Board and its Committees. In addition, individuals must be qualified for the position, be a good fit with the Board's competence profile and be able to allocate sufficient time to carry out their responsibilities. To achieve a balanced representation of genders within the Board, the Shareholders' Nomination Board seeks to include representatives of both genders in the Board candidate search and evaluation process. The status and progress of diversity of the Board is monitored by the Shareholders' Nomination Board. There is no specific order of appointment of Board members. In the nomination process, the Shareholders' Nomination Board also takes into consideration the requirements of the Finnish Corporate Governance Code 2020 concerning the relevant and adequate competence of Audit Committee members. More about Board diversity is available on the Neles website.

Board diversity (December 31, 2021)

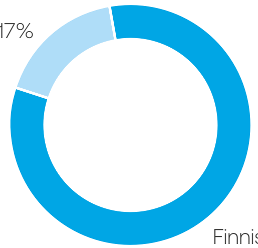
Age group



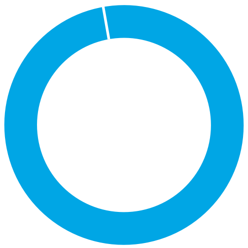
Gender



Nationality



Tenure



Neles Management

President and CEO

The President and CEO is appointed by the Board, and he holds the position of Managing Director under the Companies Act. The President and CEO manages the company's operations in accordance with the law and the guidance and instructions given by the Board. Under the law, the President and CEO is responsible for ensuring that the accounts of the company comply with the applicable laws, and that its financial affairs have been arranged reliably.

The Board determines the compensation and sets the short- and long-term incentive targets for the President and CEO. The main terms of the President and CEO's compensation and benefits are set out in the Remuneration Report, which is available on the Neles website.

Neles Executive Team

The Neles Executive Team is chaired by the President and CEO, and it is comprised of senior management leading:

- three Business Lines: Valves Equipment, Valve Controls & Actuators, and Valves Services responsible for business strategy, product management, and research and development
- four Market Areas: North America, South and Central America, EMEIA, and Asia-Pacific responsible for customers and the competitive situation in their respective market areas
- Valve Operations, responsible for procurement, supply chain management and manufacturing
- CFO Office, responsible for financial and group control, treasury, tax, business development, legal and compliance, investor relations and IT
- Human Resources, responsible for developing all personnel matters in cooperation with the Business Lines, Market Areas and group functions
- Communications and Marketing, responsible for external and internal communications, marketing and brand.

Neles Executive Team assists the President and CEO in strategy implementation, coordinates groupwide development projects and defines policies that guide the company's activities. Neles Executive Team members report to the President and CEO (except for General Counsel, who administratively reports to the CFO), and their main task is to lead the daily operations of their respective unit or group function. Executive Team members are approved by the Board.

Following the decision of Olli Isotalo to retire from his position as the President and CEO, the Board appointed Simo Sääskilahti as Neles' interim President and CEO as of January 1, 2022. Isotalo continued in the role of President and CEO until December 31, 2021.

Members of Neles Executive Team

Olli Isotalo, President and CEO (until December 31, 2021)
- born: 1959
- education: M.Sc., Engineering
- President and CEO since July 2020
- shareholding as of December 31, 2021: 865 shares

Simo Sääskilahti, CFO and Deputy to CEO (interim President and CEO starting January 1, 2022)
- born: 1971
- education: M.Sc., Engineering, M.Sc., Economics
- member of Neles Executive Team since July 2020
- shareholding as of December 31, 2021: 4,387 shares

Elisa Erkkilä, General Counsel
- born: 1967
- education: LLM, trained on the bench, MCL
- member of Neles Executive Team since January 2021
- shareholding as of December 31, 2021: 571 shares

Timo Hänninen, Head of Valves Equipment Business Line
- born: 1961
- education: B.Sc. and eMBA
- member of Neles Executive Team since July 2020
- shareholding as of December 31, 2021: –

Kalle Suurpää, Head of Valve Controls Business Line
- born: 1974
- education: M.Sc., Technology
- member of Neles Executive Team since July 2020
- shareholding as of December 31, 2021: 115 shares

Sami Nousiainen, Head of Valves Services
- born: 1972
- education: M.Sc., Engineering
- member of Neles Executive Team since July 2020
- shareholding as of December 31, 2021: –

Jon Jested-Rask, Head of EMEIA Market Area
- born: 1975
- education: M.Sc., Economics and Business Administration
- member of Neles Executive Team since July 2020
- shareholding as of December 31, 2021: 899 shares

Patrick Dunn, Head of North America Market Area
- born: 1967
- education: BA, Social Rehabilitation & Sociology
- member of Neles Executive Team since July 2020
- shareholding as of December 31, 2021: 2,095 shares

Hang Pheng Tan, Head of Asia-Pacific Market Area
- born: 1968
- education: MBA, Bachelor of Electrical Engineering
- member of Neles Executive Team since July 2020
- shareholding as of December 31, 2021: –

Fabio da Silva Maia, Head of South and Central America Market Area
- born: 1974
- education: MBA, Business Management
- member of Neles Executive Team since July 2020
- shareholding as of December 31, 2021: –

Kevin Tinsley, Head of Global Operations
- born: 1962
- education: MBA
- member of Neles Executive Team since July 2020
- shareholding as of December 31, 2021: 3,178 shares

Hanne Peltola, Head of HR
- born: 1969
- education: M.Soc.Sc., eMBA
- member of Neles Executive Team since July 2020
- shareholding as of December 31, 2021: 1,021 shares

Kaisa Voutilainen, Head of Communications and Marketing
- born: 1982
- education: MA, International Business Communication
- member of Neles Executive Team since July 2020
- shareholding as of December 31, 2021: –

Main features of the internal control and risk management systems

Neles' internal control and risk management operating model is designed to provide sufficient assurance regarding the reliability of financial reporting, and to ensure that the financial statements are prepared in accordance with applicable laws and regulations, generally accepted accounting principles (IFRS), and other requirements for listed companies.

Risk management

The Board approves the Corporate Risk Management Policy that defines the objective, main principles and features, and division of responsibilities for risk management. Risk assessment related to financial reporting aims to identify and evaluate the most significant threats in Neles, and its Business Lines, Market Areas, group functions and process levels. This includes risks related to fraud and unlawful activities, as well as the risk of loss or misappropriation of assets. Risk assessments result in control targets through which Neles seeks to ensure that the fundamental requirements placed on financial reporting are fulfilled.

Internal controls related to financial reporting

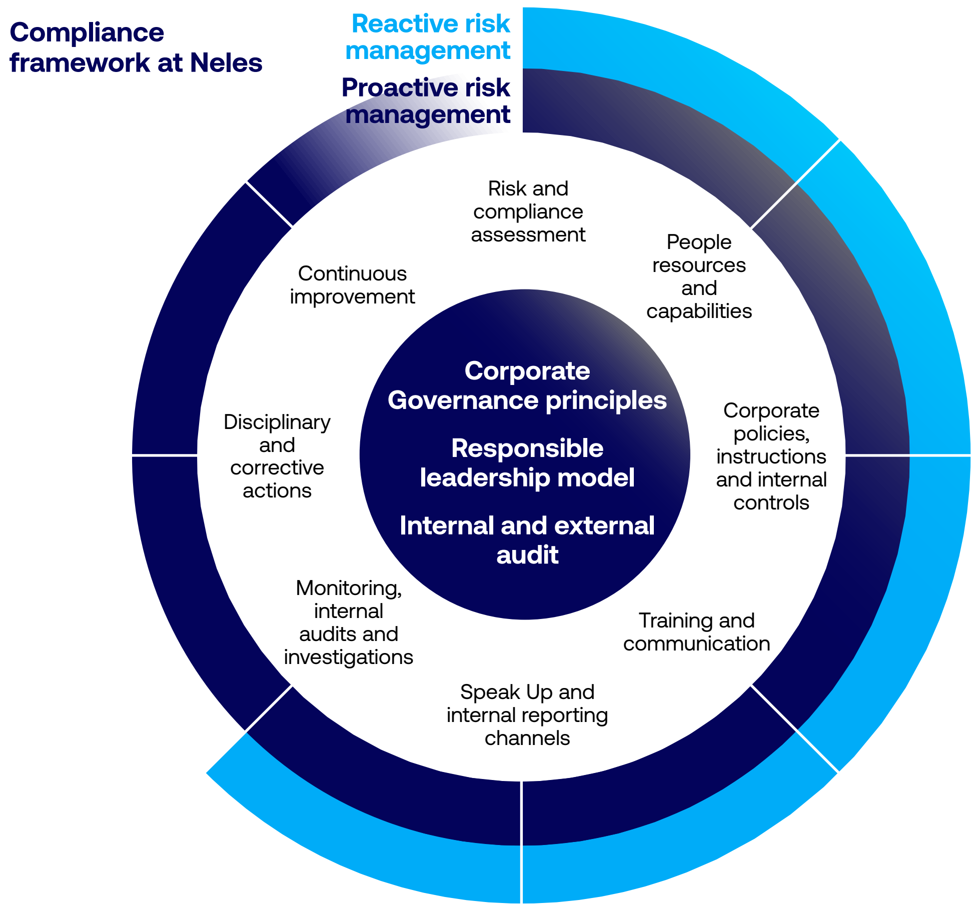
Neles' control standards are regularly updated in line with the Committee of Sponsoring Organizations (COSO) framework and Neles' business control environment. The controls, including financial reporting controls, have been defined based on the main risks in the process. Internal controls are one of the key elements of Neles' compliance framework, which also covers business ethics and regulatory compliance.

Control environment

Neles' control activities are based on corporate standards, policies and instructions, and Neles' responsible leadership model, which ensures that management directives are carried out, and that necessary actions are taken to address risks related to the achievement of financial reporting objectives. Neles' compliance framework seeks to ensure the accuracy of its financial reporting, as well as compliance with governance principles, business ethics and regulatory compliance in all units. The framework is designed to create a coherent control environment by implementing proper internal control mechanisms for different business processes and sharing internal control-related best practices.

The control standards define the minimum level for internal controls that all units must achieve. All units are required to perform an annual self-assessment to ensure they are compliant with the minimum control standards. In addition, Internal Audit is responsible for evaluating the operating effectiveness of these controls according to the annual audit plan.

The Audit Committee's task is to ensure that the established principles for financial reporting, risk management and internal control are followed. The President and CEO, with assistance from Internal Audit, is responsible for maintaining an effective control environment and the ongoing work on internal control regarding financial reporting. Internal Audit reports all relevant issues to the Audit Committee, the President and CEO, the CFO and the responsible members of the Neles Executive Team.



Information and communication

CFO Office is responsible for ensuring that the financial reporting manuals and instructions are up-to-date, and that changes are communicated to the relevant units and functions. The process owners of the main finance processes are responsible for providing information about upcoming changes in International Accounting Standards, new accounting principles and other changes in reporting requirements, and organizing training as necessary. Internal Audit reports the results of the evaluation of internal controls regularly to the Audit Committee. The results of the Audit Committee's work in the form of observations, recommendations, and proposed decisions and measures are reported to the Board after every Audit Committee meeting.

The Audit Committee is regularly informed about the financial reporting control environment, including:

- information on the development of fundamental risk areas
- activities planned and executed for these risk areas
- other measures to mitigate risks.

Monitoring

The effectiveness of internal control related to financial reporting is monitored by the Board and the Audit Committee. The President and CEO, CFO Office, Internal Audit and the Heads of Business Lines and Neles subsidiaries are responsible for compliance and maintaining an effective control environment. This includes a follow-up of monthly financial reports, a review of monthly estimates and plans, and Internal and External Audit reports.

Internal Audit assesses annually the effectiveness of Neles' operations and the adequacy of risk management, and reports the risks and weaknesses related to the internal control processes to management and the Audit Committee.

Reporting of suspected financial misconduct

Neles' policies and instructions on the prevention of financial and other misconduct define how suspected misconduct should be reported, how it is investigated, and how it is solved. All employees are encouraged to report suspected misconduct via the Speak Up or internal reporting channels. The Speak Up channel is a reporting tool maintained by an external service provider. The report can be submitted anonymously in several languages via the Internet or by email. Suspected misconduct is investigated confidentially without undue delay. Legal & Compliance, in cooperation with Internal Audit, decides how the matter will be investigated and reports the alleged misconduct to the Audit Committee. With Human Resources, Legal & Compliance implements any measures consequential to possible misconduct.

Audit

Internal Audit

The role of Internal Audit is to provide independent objective assurance and consulting services that add value by contributing to the improvement of operations. Internal Audit offers a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control.

Internal Audit's operating principles have been defined in the Internal Audit Charter approved by the Board. The Audit Committee approves the annual internal audit plan. The internal audit plan is developed taking into consideration the corporate risk assessment and plans and input of Business Lines and Market Areas, Neles Executive Team and other senior management. Functionally, Internal Audit reports to the Audit Committee and administratively, to the CFO.

Internal audit 2021

Neles has outsourced the internal audit function to KPMG Oy Ab.

During 2021, nine internal audits were conducted. According to the 2021 Neles' audit plan, the main areas covered were access management and segregation of duties in the ERP system, master data management, procurement, inventory management, and internal control environment reviews in Finland, USA, China and India.

External Audit

According to the Articles of Association, Neles has one auditor, which must be a firm of authorized public accountants. The aggregate duration of the consecutive terms of a principal auditor may not exceed seven years.

The auditor's statutory obligation is to audit the company's accounting, financial statements and administration for the financial year. The parent company's auditor is required to audit the company's consolidated financial statements. In conjunction with the annual financial statements, the external auditor gives Neles' shareholders an Auditor's Report, which is attached to the Neles financial statements.

The auditor reports primarily to the Audit Committee, and at least once a year to the Board. The Audit Committee evaluates the performance and services of the independent auditor and decides if it is necessary to arrange an open tender process.

The Audit Committee approves the purchase of non-audit services from the auditor in accordance with Neles' Corporate Pre-approval Policy.

External Audit in 2021

The AGM 2021 elected the Authorized Public Accountant Ernst & Young Oy as the auditor, with Toni Halonen as the principal auditor.

The fees associated with auditing work in 2021 amounted to EUR 1.4 million.

Auditors' fees, EUR million	2021	2020
Audit services	-1.2	-0.9
Tax services	0.0	0.0
Other services	-0.1	0.0
Total	-1.4	-0.9

In addition to Internal and External Audit, several other auditing measures are in place to secure efficient risk management.

Related party transactions

Neles maintains a list of its related parties (IAS24). Neles has adopted a monitoring process to identify and evaluate transactions eventually concluded with its related parties. The Neles Board approves agreements and other transactions to be carried out with related parties if they are not part of the ordinary course of Neles' business, or if they are not made at arm's length. Related party transactions are set out in the notes to the financial statements.

Insider management

Neles manages its inside information matters in accordance with the Market Abuse Regulation ("MAR") and Nasdaq Helsinki's Insider Guidelines. Neles' Insider Management Policy is based on this regulation.

Persons discharging managerial responsibilities in the company

Persons discharging managerial responsibilities and their closely associated persons have a duty to disclose transactions on Neles' financial instruments. The persons discharging managerial responsibilities at Neles are the members of the Board, the President and CEO, and the CFO.

Neles maintains a list of persons discharging managerial responsibilities and their closely associated persons, and issues a stock exchange release of their transactions made on Neles' financial instruments in accordance with MAR.

In 2021, a total of seven notifications on transactions by persons discharging managerial responsibilities were published. These are available on the Neles website.

Closed Period

Neles Board, Neles Executive Team, and selected employees ("Closed Period Employees") may not trade on Neles' financial instruments during a minimum period of 30 days prior to the publication of interim reports and financial statements, or on the date of publication ("Closed Period"). The Closed Period Employees have better or more information about the company than the market. These individuals are typically those who prepare the company's Interim Reports and Financial Statements, persons responsible for the company's finances, financial reporting or communication, or persons who have access to said information, as well as certain individuals in executive positions.

Silent Period

Neles observes a 30-day silent period prior to the publication of its interim reports and financial statements ("Silent Period"). During this time, Neles does not comment on the financial performance, markets or outlook, and does not meet with capital markets representatives or the financial media.

Insider projects

Neles maintains only project-based insider lists. Inside information and decisions regarding the disclosure or delay of disclosure are identified by the Board or the President and CEO in consultation with the General Counsel. The coordination and control of insider issues is the responsibility of the General Counsel.

Remuneration Report

Dear shareholder

The year 2021 was the first full year as independent Neles, including full reported remuneration for Neles' Board of Directors ("Board") and the President and CEO ("CEO"). Pursuant to the Remuneration Policy, the remuneration was linked to the successful execution of Neles' strategy and long-term shareholder value creation. There were no changes in the base compensation or benefits of the Board or the CEO. Neles performed well, improving toward the end of the year, and the annual short-term targets for 2021 were well met in most of the target areas.

On July 2, 2021 Valmet Oyj ("Valmet") and Neles announced the plan to merge the two companies. In this context the Board decided to partly discontinue the long-term incentive ("LTI") programs and convert the LTI rewards into cash payments. .

On November 30, 2021, in relation to the planned merger with Valmet, it was announced that the President and CEO Olli Isotalo would relinquish his duties as the CEO of Neles, and Simo Sääskilahti, the Chief Financial Officer and Deputy CEO, would take over as the interim President and CEO on January 1, 2022 until the planned closing of the merger.

Remuneration principles and implementation

Adherence to Remuneration Policy. Neles adhered to its Remuneration Policy, with no deviations made in 2021. Neles' main remuneration principles are to offer compensation which considers relevant market and industry practices and supports performance differentiation. Short-term incentive ("STI") targets are determined to reflect key performance indicators, which measure the successful execution of Neles' strategy. The key performance indicators were common for the President and CEO, Neles Executive Team and employees participating to the STI plan. In view of the planned merger, the treatment of LTI programs was benchmarked against market practice with external advisors.

The aim of the board remuneration is to attract and retain board members who possess relevant skills, competence, and experience to exercise their duties and responsibilities in the best interests of the company and its stakeholders. The board remuneration for 2021 remained at the same level as in 2020.

Remuneration and company performance

The following historical evaluation data on the remuneration and company performance is based on the consolidated numbers from 2017 until June 30, 2020 (i.e. before the partial demerger of Metso Corporation), and the data therefore also includes Metso Corporation's Minerals Business. The reported numbers do not include indirect employment costs. The performance metrics used in measuring the company performance were also used in the company's short-term incentive plans.

Average compensation €	2021	2020	2019	2018	2017
Chairman of the Board	137,798	116,000[1)]	140,000	139,000	126,000
Board of Directors (total)	560,743	558,000[1)]	631,000	668,000	582,000
President and CEO	883,950	1,158,533[1)]	752,574	819,238	706,173
Employee	48,041	47,283	44,798	46,172	47,766
Orders (EUR m)	625	590[2)]	3,690	3,499	2,982
Sales (EUR m)	611	576[2)]	3,635	3,173	2,706
Adj. EBITA (EUR m)	87	85[2)]	474	369	244
Free Cash Flow (EUR m)	78	63[2)]	39	146	158

1) Includes Metso data from January 1 to June 30 and Neles data from July 1 to December 31
2) Company performance metrics of the continuing business only

Remuneration of the Board of Directors

The remuneration of the Board was approved by the Annual General Meeting on March 26, 2021 based on the proposal made by the Shareholders' Nomination Board.

The board remuneration includes a fixed annual remuneration based on the duties in the Board and its Committees (e.g. Chair, Vice Chair and Committee member), and an additional meeting fee for each meeting attended. The fixed annual remuneration remained unchanged in 2021. The members of the Board were obliged to use 40% of the fixed annual remuneration to purchase Neles' shares. The board remuneration does not include the company's bonus plans, share-based incentive schemes or pension plans.

Neles Board remuneration 2021

	Share reward €	Cash reward €	Meeting fees €	Total €
Jaakko Eskola, chair	49,874	72,724	13,600	136,198
Mark Vernon	21,882	31,911	16,800	70,593
Anu Hämäläinen	30,600	44,625	16,800	92,025
Niko Pakalén	23,977	34,960	17,600	76,537
Teija Sarajärvi	21,882	31,911	15,200	68,993
Jukka Tiitinen	23,410	34,136	18,400	75,946
Jukka Moisio, Chair until March 26, 2021	0	0	1,600	1,600
Britta Giesen, member until March 26, 2021	0	0	3,200	3,200
Petter Söderström, member until March 26, 2021	0	0	1,600	1,600
Perttu Louhiluoto, member between March 26–July 26, 2021	9,948	14,503	9,600	34,051
Total	**181,573**	**264,770**	**114,400**	**560,743**

Remuneration of the President and CEO

The compensation of the President and CEO is decided by the Board in accordance with the Remuneration Policy. The compensation includes a base salary, benefits, supplementary pension, and short- and long-term incentives paid during the evaluation period. There were no changes in the CEO's base salary, benefits, or incentive plans during 2021.

Base salary and fringe benefits. The President and CEO, Mr. Olli Isotalo, was paid the base salary including fringe benefits (mobile phone and medical insurance) and annual bonus from 2020, but no long-term incentives.

Supplementary contribution-based pension plans. The CEO's supplementary pension contribution amounted to 20% of his annual base salary. Olli Isotalo's retirement age was 64 years and 4 months.

Annual Bonus 2021. The short-term incentive measures were all financial, i.e., Sales (30% weight), EBITA (50% weight) and Free Cash Flow (20% weight).

The President and CEO achieved 57.73% of his targets, where Sales ended to 51.3% of maximum, EBITA to 44.7% of maximum and Free Cash Flow to maximum 100%. This translates to an annual bonus of 46.18% of the CEO's annual salary, i.e., EUR 221,775. The annual bonus for 2021 will be paid in March 2022.

Neles Performance Share Plans ("PSP") 2020–2022 and 2021–2023. The key performance measures in both plans were relative TSR (weight 50%) and EPS (weight 50%). The maximum allocation for the President and CEO in both plans is 75,750 Neles shares (value of 150% of his annual base salary).

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 partly discontinue the PSP plans. Potential earnings would be paid to key employees in cash after a retention period of 6–12 months from closing. The PSP plans were discontinued as follows:

- The performance measurement of relative TSR (total shareholder return) was discontinued in the announcement of the merger plan, i.e., July 2, 2021. It was considered that Neles shares would not trade as independent shares after the merger announcement. TSR measurement ended to maximum 200% for both PSPS plans and
- The performance measurement of EPS (earnings per share) was discontinued on December 31, 2021. EPS measurement for PSP 2020–2022 plan ended to 92% and PSP 2021-2023 plan to 88% (maximum being 200%).

The final earnings were calculated and banked until the expiry of the defined retention periods. The PSP 2020–2022 reward will be paid out in full, and the PSP 2021–2023 reward will be paid prorated to 2/3. All rewards will be paid in cash.

Neles President and CEO paid remuneration 2021

2021 (€)	Annual salary and benefits	Short-term incentive	Long-term incentive in cash	Long-term incentive in shares	Pension plan	Total	Share of fixed remuneration
Olli Isotalo, President and CEO	502,107	281,421[1]	0	0	100,422	883,950	68%

[1] Includes the customary one-off retention bonus of €240k (equivalent to 6 months' salary), which was granted by the Board of Directors to the President and CEO in 2020 in connection with the public tender offer for Neles, and any potential competing bids arising therefrom, including any subsequent corporate transactions. Reported as a deviation to the Remuneration Policy in the 2020 report.

Termination of the CEO Agreement

On November 30, 2021 it was announced that the CEO agreement with Olli Isotalo had been terminated, to expire on May 31, 2022, and Olli Isotalo was released from his duties on January 1, 2022. The CFO and Deputy CEO Simo Sääskilahti was appointed by the Board as interim President and CEO starting from the same date.

In addition to his base salary and holiday pay until May 31 2022 and annual bonus for 2021, Olli Isotalo will be entitled to the remuneration to be paid in 2022 as detailed below.

- EUR 1,318,812 LTI rewards (PSP 2020–2022 and PSP 2021–2023) after the successful closing of the merger with Valmet
- EUR 480,240 as severance pay (equivalent to 12 months' salary)

Olli Isotalo will also be entitled to his additional pension contribution savings.

Neles head office

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