NELES

Interim Review January–September 2021

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Solid profitability driven by good sales volumes

- Strong market situation continued in the Pulp, Paper and Bioproducts project business. Services demand continued on a good level
- Still slow development in Chemicals and Oil & Gas projects
- In the third quarter, Sales up by 12% and adjusted EBITA strong at 15.5%
- Acquisition of Flowrox valves and pumps business signed to strengthen Neles' position in growing Metals and Mining markets

In this Interim Review, a comparable cash flow statement is disclosed in addition to IFRS financial information. Figures in parentheses refer to the corresponding period of the continuing operations in 2020 unless otherwise stated. Neles Group has been reported as one segment since June 30, 2020.

Summary of key figures

Operative key figures	7–9/21	7–9/20	Change, %	1–9/21	1–9/20	Change, %	2020
EUR million							
Orders received[1]	149.6	133.8	12	454.8	455.6	0	590.1
Order backlog at end of period	292.0	292.8	0	292.0	292.8	0	270.3
Sales[2]	161.5	144.0	12	436.8	421.5	4	576.3
Adjusted EBITA, continuing operations	25.0	22.8	10	59.9	62.4	-4	85.0
% of sales	15.5	15.8		13.7	14.8		14.8
Adjustment items[3]	4.4	2.4		5.3	8.0		11.3
Operating profit	19.8	19.5	2	52.2	51.8	1	70.3
% of sales	12.3	13.5		11.9	12.3		12.2
Earnings per share, continuing operations, EUR	0.09	0.09	-	0.24	0.24	2	0.32
Free cash flow	15.0	17.2	-12	42.8	31.9	34	68.7

Balance sheet key figures, IFRS	9/21	9/20	2020
Balance sheet total, EUR million	664.6	624.6	643.8
Net debt, EUR million	73.7	117.9	81.4
Net debt/EBITDA, rolling 12 months	0.8	1.3	0.9
Gearing, %	26.6	46.5	30.9
Personnel at end of period, continuing operations	2,812	2,840	2,840

[1] Of which EUR 102.6 million in 7–9/2021 and EUR 321.4 million in 1–9/2021 (EUR 85.2 million in 7–9/20 and EUR 269.4 million in 1–9/20) were for Services and MRO-driven businesses, including EUR 35.1 million in 7–9/2021 and EUR 117.5 million in 1–9/2021 (EUR 29.7 million in 7–9/20 and EUR 98.5 million in 1–9/20) for Services orders received. Orders received in comparable currencies increased by 10% in 7–9/2021 and by 3% in 1–9/2021.

[2] Of which EUR 104.6 million in 7–9/2021 and EUR 291.8 million in 1–9/2021 (88.6 million in 7–9/20 and 272.0 million in 1–9/20) were for Services and MRO-driven businesses, including EUR 39.9 million in 7–9/2021 and EUR 109.6 million in 1–9/2021 (EUR 32.5 million in 7–9/20 and EUR 93.3 million in 1–9/20) for Services sales. Sales in comparable currencies increased by 11% in 7–9/2021 and by 7% in 1–9/2021.

[3] Adjustment items amounted to EUR 4.4 million in 7–9/2021 and to EUR 5.3 million in 1–9/2021 (EUR 2.4 million in 7–9/2020 and EUR 8.0 million in 1–9/2020). See Note 5.

President and CEO Olli Isotalo:

The market situation in the third quarter stayed mainly the same as in the second quarter of 2021. Pulp, Paper and Bioproducts project business continued to be strong, and we continued to win new projects, as well as additions to the existing projects. In Chemicals and Oil & Gas and projects, the market was slow. The decisions of the projects in the funnel are being postponed to the fourth quarter or early 2022.

The Services and MRO-driven businesses' orders received were slightly down from the second quarter of 2021, but 20% up compared to the comparison period. The Services market situation continues to be good; the decline in services orders sequentially was mainly due to seasonality. The MRO-driven business developed positively in the third quarter and orders were 22% higher than in the 2020 comparison period. However, the MRO-driven business is still clearly below pre-Covid levels. This is due to persistent Covid-19-related issues and tight customer demand in APAC and EMEIA, while in North and South America demand is already at pre-Covid levels.

Thanks to good sales volumes, we were able again to achieve more than 15% adjusted EBITA in the third quarter. This was despite the continuing challenges in logistics and availability of electronics components. These challenges create risks also for fourth quarter deliveries.

Diversification to growing new industries is a cornerstone of our strategy. The acquisition of the valve and pump businesses of Flowrox is an important milestone in strengthening our position in the growing Metals and Mining markets. Neles has been providing solutions in these markets, but we have lacked certain important products from our own portfolio. With the acquisition, we not only incorporate these missing products in our offering, but also strengthen our knowledge of the metals and mining applications, broaden our sales channels for these sectors and get a brand that is well known and respected in Metals and Mining flow control. Integration planning is progressing well, and we will close the transaction in November.

Mergers and acquisitions

Asset purchase agreement of Flowrox valve and pump businesses

On July 27, 2021, Neles signed an asset purchase agreement to acquire the valve and pump businesses of the Finland-based technology company Flowrox. The acquisition complements Neles' offering and improves its market positioning the mining and metals industry. It also enables Neles to better leverage growth opportunities in minerals processing applications.

In 2020, Flowrox's valve and pump businesses had sales of about EUR 30 million. The profitability of the carved-out businesses is comparable to Neles' profitability in terms of the adjusted EBITA margin. The acquired businesses employ approximately 110 people, with manufacturing in Finland, Australia, South Africa, and the United States, as well as well-established sales channels in more than 80 countries.

The debt-free purchase price of EUR 40.9 million is payable in cash at closing, with an additional orders received-based earn-out consideration of up to EUR 3 million for a one-year period after closing, also payable in cash. The transaction is expected to be positive for Neles' earnings per share already in 2022. The closing of the acquisition will take place in November 2021.

Merger of Neles and Valmet

On July 2, 2021, Neles announced that the Boards of Directors of Valmet Oyj and Neles Corporation 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 planned closing date of the merger is January 1, 2022. The planned closing date may be delayed due to the regulatory processes ongoing. Should the closing be delayed from January 1, 2022, Valmet will issue a stock exchange release on the matter and the prospectus will be supplemented once there is more clarity on the timetable of the regulatory processes. Until the completion of the merger Valmet and Neles will carry out their respective businesses as separate and independent companies.

The shareholders in Neles will receive 0.3277 new shares in Valmet for each share they hold in Neles as merger consideration. 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 shareholders in Neles prior to the completion of the merger.

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/.

Market outlook

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

Market activity in Chemicals and Oil & Gas projects was weak in the first nine months of 2021. The market activity is expected to return to a satisfactory level during the next 6 months. Postponements of projects and global uncertainties continue to reduce visibility in the Chemicals and Oil & Gas project businesses.

Market activity was satisfactory for the Services and the customer Maintenance, Repair and Operations-driven (MRO) businesses during the first nine months of 2021. These markets are expected to continue to improve, reaching a good level at the beginning of 2022.

The ongoing challenges in global logistics, availability of electronic components and 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.

Covid-19 pandemic update

The global logistics situation continued to be challenging during the third 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. These challenges are also expected to continue in the fourth quarter of 2021.

During 2021, Neles’ Brazilian supply center was temporarily closed due to Covid-19 cases. The supply center reopened more quickly than initially expected due to the attentive management of the situation. There were similar challenges in Neles’ Indian factories at the beginning of the second quarter, leading to temporary closures.

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 as those experienced earlier. Currently, all Neles factories are operational, and the Covid-19 situation is being followed closely by management, prioritizing the health and safety of Neles’ employees and partners.

In 2020, the Services and other MRO-driven businesses were negatively impacted by pandemic-related mobility restrictions and our customers’ tight cash management. Especially large maintenance shutdowns were postponed. The global situation in the Services and MRO-driven businesses has been improving clearly in 2021, but uncertainties and risks in certain regions are expected to continue.

Since the second quarter of 2020, Neles has taken proactive measures to ensure the safety of employees, control costs and preserve cash flow to protect the company’s financial position. The measures have included a variety of enforced safety procedures at manufacturing sites, remote working, travel restrictions, cuts to external spending across the organization, as well as cost-saving and optimization activities. Travel restrictions, cuts to external spending across the organization, as well as cost-saving and optimization activities have continued in 2021. Covid-19-related personnel cost-saving actions were mostly discontinued at the end of 2020.

Increased attention has also been paid to managing net working capital. There have been no material credit losses or order cancellations.

Neles' Interim Review January–September 2021

Operating environment

The overall market activity was largely unchanged during the third quarter of 2021. The Pulp, Paper and Bioproducts project business remained active and at a good level during the third quarter and throughout the reporting period. Neles won new projects, as well as additional orders for ongoing projects.

Chemicals and Oil & Gas project activity has been weak throughout the reporting period, and orders received were clearly below the 2020 comparison period. The expected recovery in this business is being postponed to the next six months.

The Services and MRO-driven businesses environment in the third quarter of 2021 remained similar to the first half of the year: Services demand was good and comparable to the pre-Covid level; MRO-driven business demand was still below the 2019 level, although clearly better than in 2020.

The market sentiment in the North American Market Area continued to be good in the third quarter, and orders received grew by 24% compared to the comparison period. The sequential drop in orders received from the second quarter of 2021 was mainly due to the timing of orders between the second and third quarters.

Services and MRO-driven businesses in the EMEIA Market Area was stronger than in the comparison period, but still below the pre-Covid level. Project orders, supported by a good Pulp, Paper and Bioproducts order intake, were at the same level as in the third quarter in 2020.

APAC orders received grew by 12% in the third quarter from comparison period. Pulp, Paper and Bioproducts project orders were particularly strong. Services and MRO-driven businesses, while above last year, were still impacted by Covid-19-related issues, as well as tight demand from customers.

In South America Market Area, the Services and MRO-driven businesses have developed well compared to the comparison period, but project orders were low in the third quarter of 2021.

Orders and Sales

Orders by market area

EUR million	7–9/21	7–9/20	1–9/21	1–9/20	2020
EMEIA	56.9	51.8	168.0	169.8	224.9
North America	47.5	38.4	162.0	131.0	168.5
South America	10.6	12.6	31.9	51.8	64.6
Asia Pacific	34.7	31.0	93.0	103.0	132.2
Neles total	**149.6**	**133.8**	**454.8**	**455.6**	**590.1**

In the third quarter, orders received increased from the comparison period due to growth in Services and MRO-driven businesses. In the third quarter, orders received in Services and MRO-driven businesses totaled EUR 102.6 million in 7–9/21 (EUR 85.2 million in 7–9/20), of which Services orders were EUR 35.1 million in 7–9/21 (EUR 29.7 million in 7–9/20).

In the reporting period, orders received were at the comparison period's level. While Services and MRO-driven businesses grew strongly, project orders were clearly lower, especially in the Chemicals and Oil & Gas sector, whose orders were at a high level in the comparison period. In the reporting period, orders received in the Services and MRO-driven businesses totaled EUR 321.4 million in 1–9/21 (EUR 269.4 million in 1–9/20), of which Services orders were EUR 117.5 million in 1–9/21 (EUR 98.5 million in 1–9/20). The order backlog on September 30, 2021, was EUR 292.0 million (EUR 292.8 million).

Sales by market area

EUR million	7–9/21	7–9/20	1–9/21	1–9/20	2020
EMEIA	65.5	56.5	171.9	160.9	223.0
North America	50.5	38.4	141.5	130.1	166.5
South America	12.4	12.9	40.9	36.4	56.9
Asia-Pacific	33.2	36.1	82.5	94.1	130.0
Neles total	**161.5**	**144.0**	**436.8**	**421.5**	**576.3**

In the third quarter, sales in Services and MRO-driven businesses totaled EUR 104.6 million in 7–9/21 (EUR 88.6 million 7–9/20), of which Services sales were EUR 39.9 million (EUR 32.5 million in 7–9/20). In the reporting period, sales in the Services and MRO-driven businesses totaled EUR 291.8 million 1–9/21 (EUR 272.0 million 1–9/20), of which Services sales were EUR 109.6 million (EUR 93.3 million in 1–9/20).

FX impact on orders received and sales

	Orders received		Sales	
	7–9/21	1–9/21	7–9/21	1–9/21
2020, EUR million	**133.8**	**455.6**	**144.0**	**421.5**
Organic growth in constant currencies	10%	3%	11%	7%
Impact of changes on exchange rates	2%	-3%	1%	-4%
Total change	**12%**	**0%**	**12%**	**4%**
2021, EUR million	**149.6**	**454.8**	**161.5**	**436.8**

In the third quarter, orders received grew by 10% and sales by 11% at constant currencies. Overall, the reported Orders received and Sales grew by 12%. The currency exchange rate impacts were mainly due to the Brazilian real and US dollar.

Financial performance

EUR million	7–9/21	7–9/20	1–9/21	1–9/20	1–12/20
Adjusted EBITA	**25.0**	**22.8**	**59.9**	**62.4**	**85.0**
% of sales	15.5	15.8	13.7	14.8	14.8
Amortizations	-0.8	-1.0	-2.4	-2.6	-3.4
Adjustments	-4.4	-2.4	-5.3	-8.0	-11.3
Operating profit	**19.8**	**19.5**	**52.2**	**51.8**	**70.3**
% of sales	12.3	13.5	11.9	12.3	12.2
Financial expenses, net	-1.4	-1.2	-4.0	-4.3	-6.5
Income taxes	-4.5	-4.5	-11.8	-12.0	-15.6
Effective tax rate %	-	-	24.5	25.2	24.4
Net profit for the period	13.9	13.8	36.3	35.5	48.2
Earnings per share	0.09	0.09[1]	0.24	0.24[1]	0.32[1]

[1] *Earnings per share, continuing operations*

The adjusted EBITA in the third quarter was 9.7% higher than in the comparison period, while the adjusted EBITA margin was close to the comparison period. Sales volume was clearly higher, and the gross profit was 15.2% better than in the comparison period. SGA costs excluding adjustment items were EUR 3.3 million higher than in the comparison period. Neles continued tight control of the SGA costs in the third quarter of 2021, and e.g., travel costs were very low. In the third quarter of 2020, more extensive cost-saving actions were in place, including temporary layoffs and shortened working time arrangements. Other operating income and expenses were EUR -2.1 million compared to EUR -0.6 million in the third quarter of 2020. Other operating income and expenses reflect the impact of non-deductible withholding taxes, currency fluctuations and hedging results.

Despite the higher sales volumes, the reporting period's adjusted EBITA is behind the comparison period due to a lower gross margin and higher other operating income and expenses (EUR -4.7 million compared to EUR -2.0 million in the first three quarters of 2020). SGA excluding adjustment items was at the same level during January–September in 2021 and 2020. The savings related to the tighter Covid-19 situation during the second and third quarters of 2020 contributed to the lower SGA in these periods but were offset by higher SGA in the first quarter of 2020.

There were EUR 4.4 million adjustment items in the third quarter of 2021 and EUR 5.3 million in the reporting period, compared to EUR 2.4 million and EUR 8.0 million in the comparison periods. In the reporting period, the adjustment items were related to merger- and acquisition-related advisory costs and modification of the long-term incentive plans relating to the Neles and Valmet merger. In the comparison period, adjustment items consisted of carve out, IT, rebranding, and establishing and restructuring costs for setting up the independent Neles.

Cash flow and investments

EUR million	1–9/21	1–9/20	1–12/20
Cash flow from operating activities	48.3	42.4	81.1
Capital expenditures, net	-5.5	-10.5	-12.4
Free cash flow	**42.8**	31.9	**68.7**
Cash conversion, %	118	90	142

The free cash flow for the reporting period was good and developed well during the third quarter, totaling EUR 15.0 million (EUR 17.2 million). Capex consisted of R&D projects, ERP harmonization, and investments in manufacturing capacity. Some of the planned investments for 2021 have been delayed.

Financial position

EUR million	9/21	9/20	12/20
Inventory	179.1	166.4	160.3
Trade receivables	80.4	96.1	88.9
Trade payables	-54.9	-50.7	-59.9
Advances received	-25.2	-24.0	-26.7
Other	-23.0	-20.8	-19.0
Net working capital	**156.3**	**167.0**	**143.6**
Interest bearing liabilities	216.5	220.6	217.3
Other interest bearing assets	-1.8	-	-
Cash and cash equivalents	-141.0	-102.7	-135.9
Net debt	**73.7**	**117.9**	**81.4**
Gearing, %	26.6	46.5	30.9
Equity	276.5	253.4	263.1
Total assets	664.6	624.6	643.8
Equity to assets ratio, %	43.2	42.2	42.6

Neles' balance sheet and liquidity position remained solid. Interest bearing liabilities on September 30, 2021 were EUR 216.5 million (EUR 217.3 million at the end of December 2020), including EUR 46.8 million in lease liabilities (EUR 51.5 million at the end of December 2020).

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 an 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.

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.

R&D- and IP-related expenditure

EUR million	1–9/21	1–9/20	2020
R&D expenditure	11.6	13.8	17.6
of sales, %	2.7	3.3	3.1
Of which expensed	10.7	10.9	14.2
of sales, %	2.5	2.6	2.5

Product launches and new inventions

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.

The first valve with a 3D printed valve body has been 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.

Mergers and acquisitions

Asset purchase agreement of Flowrox valve and pump businesses

On July 27, 2021, Neles signed an asset purchase agreement to acquire the valve and pump businesses of the Finland-based technology company Flowrox. The acquisition complements Neles' offering and improves its market position in the mining and metals industry. It also enables Neles to better leverage growth opportunities in minerals processing applications.

In 2020, Flowrox's valve and pump businesses had sales of about EUR 30 million. The profitability of the carved-out businesses is comparable to Neles' profitability in terms of the adjusted EBITA margin. The acquired businesses employ approximately 110 people, with manufacturing in Finland, Australia, South Africa, and the United States, as well as well-established sales channels in more than 80 countries.

The debt-free purchase price of EUR 40.9 million is payable in cash at closing, with an additional orders received-based earn-out consideration of up to EUR 3 million for a one-year period after closing, also payable in cash. The transaction is expected to be positive for Neles' earnings per share already in 2022. The closing of the acquisition will take place in November 2021.

Merger of Neles and Valmet

On July 2, 2021, Neles announced that the Boards of Directors of Valmet Oyj and Neles Corporation 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 planned closing date of the merger is January 1, 2022. The planned closing date may be delayed due to the regulatory processes ongoing. Should the closing be delayed from January 1, 2022, Valmet will issue a stock exchange release on the matter and the prospectus will be supplemented once there is more clarity on the timetable of the regulatory processes. Until the completion of the merger Valmet and Neles will carry out their respective businesses as separate and independent companies.

The shareholders in Neles will receive 0.3277 new shares in Valmet for each share they hold in Neles as merger consideration. 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 shareholders in Neles prior to the completion of the merger.

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/.

Personnel

At the end of September 2021, Neles had 2,812 employees (September 30, 2020: 2,840; December 30, 2020: 2,840 employees). The number of personnel was reduced after the end of the second quarter of 2021, mainly due to the termination of summer trainees' agreements.

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.

Safety

Neles is committed to the continuous improvement of safety with the goal of zero harm.

In April, Neles Finland's operations, for the second time in a row, scored the best rating in the Vision Zero Forum's review in the Level 1 category for occupational safety. This is at the forefront of occupational safety in the world. The Forum's decision criteria include an improvement in safety KPIs, especially Lost Time Incident Frequency.

One of the greatest achievements in terms of Neles global safety improvement was a decline of LTIF to a level of 1.3 at the end of 2020, which is the best in Neles' history. In addition to the safety KPIs, the severity of accidents and the level of safety hazard reporting practices play a key role in the forum's decision making. Some 450 Finnish companies participated in the rating.

Injuries in Neles operations, rolling 12 months	9/21	12/20
Lost time incident frequency, LTIF	1.1	1.3

Share-based long-term incentive schemes for key personnel

In relation to Neles' merger with Valmet, the Board of Directors has decided to adjust the structure of Neles' long-term incentive schemes. All 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. As a result, Neles has recognized an accelerated cost of EUR 3.0 million in the third quarter of 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.

Shares and share trading

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

A total of 56,055,461 Neles shares was traded on Nasdaq Helsinki in January–September 2021, and the value of the shares traded was approximately EUR 653 million. Neles' market capitalization at the end of September 2021, excluding shares held by the Parent Company, was EUR 1,780 million.

Neles share performance on Nasdaq Helsinki, January 1–September 30, 2021

	1–9/2021
Closing price, Sep 30, 2021	11.85
Highest share price	14.02
Lowest share price	10.03
Volume-weighted average trading price	11.64

Flagging notifications in the reporting period

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

Extraordinary General Meeting, September 22, 2021

Neles' extraordinary general meeting approved the merger of Neles and Valmet in accordance with the Merger Plan and authorized the board 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.

The planned effective date of the merger is January 1, 2022, but the effective date may change, as described in the Merger Plan, depending inter alia on the satisfaction of the conditions for completion of the merger.

One shareholder, representing 3,000 shares and votes, made a demand at the General Meeting for the redemption of its shares in Neles, in accordance with Chapter 16, Section 13 of the Finnish Companies Act.

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

Based on the Combination Agreement and Merger Plan between Neles and Valmet, Neles may at any time prior to the execution of the merger resolve to distribute to its shareholders an extra distribution of funds in the amount of up to EUR 2.00 per share. The 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 its Board of Directors' resolution 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.

Annual General Meeting, March 26, 2021

Neles Corporation’s virtual 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

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.

Remuneration of members of the Board 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.

Composition of the Board of Directors

The AGM decided, in accordance with the proposal of the Shareholders' Nomination Board, that the number of members of the Board of Directors 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.

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

Election of Auditor and their remuneration

In accordance with the proposal of the Board of Directors, the AGM resolved to re-elect Ernst & Young Oy, authorized public accountants, as auditor for a term ending at the end of the 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.

Authorizing the Board of Directors to decide on the repurchase of 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 October 27, 2021.

Authorizing the Board of Directors to decide on the issuance of shares and the issuance of 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 October 27, 2021.

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."

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.

Further details and the minutes of the AGM can be found on Neles’ website at https://www.neles.com/investors/governance/agm/.

Other main events in Q1-Q3 2021

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 has signed an asset purchase agreement to acquire the valve and pump businesses of the Finland-based technology company Flowrox. The acquisition will complement Neles' offering and exposure to the mining and metals industry. The closing of the acquisition is 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 an 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 is to finance extraordinary dividend payment prior to the closing of the merger with Valmet. The facility tenor, if executed, is 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 has delivered its first valve with a 3D printed valve body for field testing. Except for the body, the valve is a standard T5-series ball valve made of stainless steel. 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 pandemic 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 estimated 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.

Covid-19 pandemic update

The global logistics situation continued to be challenging during the third 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. These challenges are also expected to continue in the fourth quarter of 2021.

During 2021, Neles' Brazilian supply center was temporarily closed due to Covid-19 cases. The supply center reopened more quickly than initially expected due to the attentive management of the situation. There were similar challenges in Neles' Indian factories at the beginning of the second quarter, leading to temporary closures.

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 as those experienced earlier. Currently, all Neles factories are operational, and the Covid-19 situation is being followed closely by management, prioritizing the health and safety of Neles' employees and partners.

In 2020, the Services and other MRO-driven businesses were negatively impacted by pandemic-related mobility restrictions and our customers' tight cash management. Especially large maintenance shutdowns were postponed. The global situation in the Services and MRO-driven businesses has been improving clearly in 2021, but uncertainties and risks in certain regions are expected to continue.

Since the second quarter of 2020, Neles has taken proactive measures to ensure the safety of employees, control costs and preserve cash flow to protect the company's financial position. The measures have included a variety of enforced safety procedures at manufacturing sites, remote working, travel restrictions, cuts to external spending across the organization, as well as cost-saving and optimization activities. Travel restrictions, cuts to external spending across the organization, as well as cost-saving and optimization activities have continued in 2021. Covid-19-related personnel cost-saving actions were mostly discontinued at the end of 2020.

Increased 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, 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 third quarter, the challenging situation in global logistics continued and is expected to continue during the fourth quarter of 2021. In certain regions, the availability of electricity may be disrupted and create interruptions especially for the metal industry. In addition, there were shortages of electronics components. These issues continue to cause delivery delay risks. There is a risk that cost inflation related to production factors accelerates more than Neles is able to compensate with cost savings and other measures, which causes pressure on the gross margin.

Uncertain market conditions could adversely affect our customers' payment behavior and increase the risk of lawsuits, claims, and disputes against Neles in various countries in relation to Neles' 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 Chemicals and Oil & Gas projects was weak in the first nine months of 2021. The market activity is expected to return to a satisfactory level during the next 6 months. Postponements of projects and global uncertainties continue to reduce visibility in the Chemicals and Oil & Gas project businesses.

Market activity was satisfactory for the Services and the customer Maintenance, Repair and Operations-driven (MRO) businesses during the first nine months of 2021. These markets are expected to continue to improve, reaching a good level at the beginning of 2022.

The ongoing challenges in global logistics, availability of electronic components and 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.

Vantaa, October 27, 2021
Neles Corporation's Board of Directors

Neles' Interim Review: tables

Content

Consolidated statement of income, IFRS

EUR million	7–9/21	7–9/20	1–9/21	1–9/20	1–12/20
Continuing operations					
Sales	161.5	144.0	436.8	421.5	576.3
Cost of goods sold	-107.1	-96.8	-294.3	-280.2	-386.1
Gross profit	54.4	47.2	142.5	141.3	190.2
Selling and marketing expenses	-14.9	-14.3	-44.8	-46.7	-65.3
Research and development expenses	-3.5	-3.1	-10.7	-10.9	-14.2
Administrative expenses	-14.2	-9.8	-30.0	-29.8	-38.6
Other operating income and expenses, net	-2.1	-0.6	-4.7	-2.0	-1.8
Operating profit	19.8	19.5	52.2	51.8	70.3
Financial income and expenses, net	-1.4	-1.2	-4.0	-4.3	-6.5
Profit before taxes	18.4	18.3	48.1	47.5	63.8
Income taxes	-4.5	-4.5	-11.8	-12.0	-15.6
Profit for the period, continuing operations	13.9	13.8	36.3	35.5	48.2
Profit for the period, discontinued operations	-	-	-	2,149.6	2,149.6
Profit for the period	13.9	13.8	36.3	2,185.1	2,197.8
Profit attributable to, continuing operations					
Shareholders of the parent company	13.9	13.8	36.3	35.5	48.2
Non-controlling interests	-	-	-	-	-
Profit attributable to, discontinued operations					
Shareholders of the parent company	-	-	-	2,149.1	2,149.1
Non-controlling interests	-	-	-	0.5	0.5
Profit attributable to					
Shareholders of the parent company	13.9	13.8	36.3	2,184.6	2,197.3
Non-controlling interests	-	-	-	0.5	0.5
Earnings per share, EUR					
Basic and diluted, continuing operations	0.09	0.09	0.24	0.24	0.32
Basic and diluted, discontinued operations	-	-	-	14.31	14.31
Basic and diluted	0.09	0.09	0.24	14.55	14.63

Consolidated statement of comprehensive income, IFRS

EUR million	7–9/21	7–9/20	1–9/21	1–9/20	1–12/20
Continuing operations					
Profit for the period	13.9	13.8	36.3	35.5	48.2
Other comprehensive income					
Measurement at fair value, net of tax	-	0.0	-	0.0	-
Currency translation on subsidiary net investments	4.1	-8.8	11.3	-8.5	-15.6
Items that may be reclassified to profit or loss in subsequent periods	4.1	-8.8	11.3	-8.5	-15.6
Defined benefit plan actuarial gains and losses, net of tax	0.0	0.0	0.0	0.0	2.2
Items that will not be reclassified to profit or loss	0.0	0.0	0.0	0.0	2.2
Other comprehensive income total	4.1	-8.8	11.3	-8.5	-13.4
Total comprehensive income, continuing operations	18.0	5.0	47.7	27.0	34.8
Profit attributable to, continued operations					
Shareholders of the parent company	18.0	5.0	47.7	27.0	34.8
Non-controlling interests	-	-	-	-	-
Total comprehensive income, discontinued operations	-	-	-	2,098.3	2,098.3
Profit attributable to, discontinued operations					
Shareholders of the parent company	-	-	-	2,097.9	2,097.9
Non-controlling interests	-	-	-	0.5	0.5
Total comprehensive income	18.0	5.0	47.7	2,125.4	2,133.2
Profit attributable to					
Shareholders of the parent company	18.0	5.0	47.7	2,124.9	2,132.7
Non-controlling interests	-	-	-	0.5	0.5

Consolidated Balance Sheet – Assets, IFRS

EUR million	9/21	9/20	12/20
Non-current assets			
Intangible assets			
Goodwill	59.3	59.2	57.3
Other intangible assets	16.5	17.4	16.6
Total intangible assets	75.9	76.6	73.9
Tangible assets			
Land and water areas	5.6	5.6	5.5
Buildings and structures	22.0	22.6	22.1
Machinery and equipment	31.4	29.4	30.5
Assets under construction	1.1	6.1	4.2
Total tangible assets	60.2	63.7	62.3
Right-of-use assets	45.4	52.4	50.5
Other non-current assets			
Non-current financial assets	2.0	0.2	0.2
Deferred tax asset	19.8	20.7	17.9
Other non-current receivables	12.3	1.7	12.0
Total other non-current assets	34.2	22.7	30.6
Total non-current assets	215.6	215.4	217.3
Current assets			
Inventories	179.1	166.4	160.3
Trade receivables	80.4	96.1	88.9
Derivative financial instruments	-	0.0	0.0
Income tax receivables	4.6	5.3	4.0
Other current receivables	43.9	38.6	37.4
Cash and cash equivalents	141.0	102.7	135.9
Total current assets	449.0	409.2	426.5
TOTAL ASSETS	664.6	624.6	643.8

Consolidated Balance Sheet – Equity and liabilities, IFRS

EUR million	9/21	9/20	12/20
Equity			
Share capital	51.0	51.0	51.0
Treasury shares	-3.3	-3.3	-3.3
Cumulative translation adjustments	47.4	43.2	36.1
Fair value and other reserves	30.0	31.2	31.3
Retained earnings	151.3	131.2	148.0
Equity attributable to shareholders	276.4	253.3	263.0
Non-controlling interests	0.1	0.1	0.1
Total equity	276.5	253.4	263.1
Liabilities			
Non-current liabilities			
Interest bearing liabilities	149.6	149.7	149.7
Lease liabilities	36.2	42.6	40.7
Post-employment benefit obligations	21.7	14.2	20.7
Provisions	1.5	1.4	2.4
Derivative financial instruments	0.0	0.6	-
Deferred tax liability	3.6	3.0	2.7
Other non-current liabilities	0.4	0.3	0.3
Total non-current liabilities	212.8	211.8	216.4
Current liabilities			
Interest bearing liabilities	20.1	17.6	16.1
Lease liabilities	10.7	10.6	10.8
Trade payables	54.9	50.7	59.9
Provisions	10.0	9.4	8.6
Advances received	25.2	24.0	26.7
Derivative financial instruments	2.4	0.3	1.4
Income tax liabilities	8.6	11.5	5.4
Other current liabilities	43.4	35.5	35.4
Total current liabilities	175.3	159.4	164.3
Total liabilities	388.1	371.2	380.7
TOTAL EQUITY AND LIABILITIES	664.6	624.6	643.8

Net interest-bearing liabilities

EUR million	9/21	9/20	12/20
Interest bearing liabilities	169.7	167.3	165.9
Lease liabilities	46.8	53.2	51.5
Other interest bearing assets	-1.8	-	-
Cash and cash equivalents	-141.0	-102.7	-135.9
Net interest-bearing liabilities	73.7	117.9	81.4

Consolidated statement of changes in shareholders' equity, IFRS

EUR million	Share capital	Treasury shares	Cumulative translation adjustments	Fair value and other reserves	Retained earnings	Equity attributable to shareholders	Non-controlling interests	Total equity
Jan 1, 2021	51.0	-3.3	36.1	31.3	148.0	263.0	0.1	263.1
Profit for the period	-	-	-	-	36.3	36.3	-	36.3
Other comprehensive income								
Currency translation on subsidiary net investments	-	-	11.3	-	-	11.3	0.0	11.3
Total comprehensive income	-	-	11.3	-	36.3	47.7	0.0	47.7
Dividends	-	-	-	-	-33.1	-33.1	-	-33.1
Share-based payments, net of tax	-	-	-	-1.2	0.0	-1.2	-	-1.2
Other items	-	-	-	-	0.1	0.1	0.0	0.1
Sep 30, 2021	51.0	-3.3	47.4	30.0	151.3	276.4	0.1	276.5

EUR million	Share capital	Treasury shares	Cumulative translation adjustments	Fair value and other reserves	Dis-continued operations	Retained earnings	Equity attributable to share-holders	Non-controlling interests	Total equity
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 period, continuing operations	-	-	-	-	-	35.5	35.5	-	35.5
Profit for the period, discontinued operations	-	-	-	-	-	2,149.6	2,149.6	0.5	2,150.0
Other comprehensive income									
Currency translation on subsidiary net investments	-	-	-8.5	-	-52.8	-	-61.3	0.0	-61.3
Discontinued operations	-	-	-	1.1	-	-	1.1	-	1.1
Total comprehensive income	-	-	-8.5	1.1	-52.8	2,185.1	2,124.9	0.5	2,125.4
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, net of tax	-	2.9	-	-1.2	-	-5.1	-3.4	-	-3.4
Other items	-	-	-	1.0	-	1.0	2.0	-0.5	1.4
Equity financing, Metso Group	-	-	-	-	-	-0.9	-0.9	-	-0.9
Sep 30, 2020	51.0	-3.3	43.2	31.2	-	131.5	253.5	0.1	253.6

Consolidated statement of cash flows, IFRS

EUR million	7–9/2021	7–9/2020	1–9/2021	1–9/2020	1–12/20
Operating activities					
Profit for the period, continuing operations	13.9	13.8	36.3	35.5	48.2
Profit for the period, discontinued operations	-	-	-	2,149.6	2,149.6
Adjustments					
Depreciation and amortization	6.1	6.2	18.2	18.2	24.5
Financial expenses, net	1.4	1.2	4.0	15.3	17.5
Income taxes	4.5	4.5	11.8	59.3	62.9
Fair value of distributed net assets in the demerger	-	-	-	-2,022.2	-2,022.2
Other items	0.2	0.8	2.9	5.5	5.4
Change in net working capital	-3.7	21.4	-9.7	179.7	202.6
Net cash flow from operating activities before financial items and taxes	22.5	47.8	63.7	440.9	488.4
Financial income and expenses paid, net	-1.6	-3.0	-4.1	-18.8	-21.4
Income taxes paid	-4.0	-4.3	-11.3	-45.0	-51.4
Net cash flow from operating activities	16.9	40.6	48.3	377.1	415.7
Investing activities					
Capital expenditures on intangible and tangible assets	-1.7	-2.6	-5.5	-52.4	-54.3
Proceeds from sale of intangible and tangible assets	-0.2	0.0	0.1	1.0	1.1
Business acquisitions, net of cash acquired	0.0	-	0.0	0.9	0.9
Net cash flow from investing activities	-1.9	-2.5	-5.5	-50.4	-52.3
Financing activities					
Dividends paid	0.0	-26.0	-33.1	-220.8	-220.8
Investments in financial assets	0.0	0.0	0.5	0.0	-0.5
Change in loan receivables, net	0.0	-	-1.8	-	-
Proceeds from debt	150.4	-	153.7	143.1	142.4
Repayment of debt	-150.0	-4.0	-150.0	-	-
Repayments of lease liabilities	-2.7	-4.0	-8.3	-20.5	-23.4
Financing, Metso Group	-	-13.5	-	-13.5	-13.9
Net cash flow from financing activities	-2.2	-47.4	-39.0	-111.5	-116.2
Net change in cash and cash equivalents	12.8	-9.4	3.8	215.5	247.6
Effect from changes in exchange rates	0.3	-2.2	1.3	-13.5	-12.4
Cash and cash equivalents transferred in demerger	-	-	-	-312.4	-312.4
Cash and cash equivalents at beginning of period	127.9	114.3	135.9	213.1	213.1
Cash and cash equivalents at end of period	141.0	102.7	141.0	102.7	135.9

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

Analysis of consolidated statement of cash flows of continued Neles operations

This analysis table shows the continuing Neles cash flow statements for the 1–9/2020 and 1–12/2020 periods in this January 1–June 30, 2021 half-year report, in addition to IFRS financial information.

EUR million	1–9/21	1–9/20	1–12/20
Operating activities			
Profit for the period	36.3	35.5	48.2
Adjustments			
Depreciation and amortization	18.2	18.2	24.5
Financial expenses, net	4.0	4.3	6.5
Income taxes	11.8	12.0	15.6
Other items	2.9	-12.5	-12.6
Change in net working capital	-9.7	-5.8[1]	17.1[1]
Net cash flow from operating activities before financial items and taxes	63.7	51.7	99.2
Financial income and expenses paid, net	-4.1	-3.9	-6.4
Income taxes paid	-11.3	-5.4	-11.8
Net cash flow from operating activities	48.3	42.4	81.1
Investing activities			
Capital expenditures on intangible and tangible assets	-5.5	-10.6	-12.6
Proceeds from sale of intangible and tangible assets	0.1	0.1	0.2
Acquisitions/divestments, Metso Group	-	-	-
Net cash flow from investing activities	-5.5	-10.5	-12.4
Financing activities			
Dividends paid	-33.1	-44.2	-44.2
Investments in financial assets	0.5	-	-0.5
Change in loan receivables, net	-1.8	-	-
Proceeds from debt	153.7	-	-
Repayment of debt	-150.0	-1.2	-2.1
Financing, Metso group	-	71.0[1]	70.6[1]
Lease payments	-8.3	-8.4	-11.3
Net cash flow from financing activities	-39.0	17.3	12.6
Net change in cash and cash equivalents	3.8	49.2	81.3
Effect from changes in exchange rates	1.3	-3.2	-2.1
Cash and cash equivalents at beginning of period	135.9	56.7	56.7
Cash and cash equivalents at end of period	141.0	102.7	135.9

Free cash flow

EUR million	1–9/21	1–9/20	1–12/20
Cash flow from operating activities	48.3	42.4	81.1
Capital expenditures on intangible and tangible assets	-5.5	-10.6	-12.6
Proceeds from sale of intangible and tangible assets	0.1	0.1	0.2
Free cash flow	42.8	31.9	68.7

[1] For the 1–9/2020 and 1–12/2020 period, carve out related items are excluded from *Change in net working capital* and presented in *Financing*, *Metso Group.*

Notes to the Interim Review

Contents

1. Basis of preparation

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

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.

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. However, alternative performance measures, should not be considered a substitute for measures of performance in accordance with the IFRS.

All figures presented have been rounded, and the sum of individual figures may therefore differ from the presented total figure.

2. 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. These amendments have not had a material impact on the reported figures.

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

3. Key figures

	1–9/21	1–9/20	1–12/20
EUR million			
Sales	436.8	421.5	576.3
Services sales	109.6	93.3	128.6
% of sales	25.1	22.1	22.3
Adjusted EBITA	59.9	62.4	85.0
% of sales	13.7	14.8	14.8
Operating profit	52.2	51.8	70.3
% of sales	11.9	12.3	12.2
Profit for the period, continuing operations	36.3	35.5	48.2
Profit for the period, discontinued operations	-	2.149.6	2,149.6
Profit for the period	36.3	2.185.1	2,197.8
Earnings per share			
Continuing operations:			
Earnings per share, basic, EUR	0.24	0.24	0.32
Earnings per share, diluted, EUR	0.24	0.24	0.32
Discontinued operations:			
Earnings per share, basic, EUR	-	14.31	14.31
Earnings per share, diluted, EUR	-	14.31	14.31
Total:			
Earnings per share, basic, EUR	0.24	14.55	14.63
Earnings per share, diluted, EUR	0.24	14.55	14.63
Cash flow			
Free cash flow, continuing, EUR million	42.8	31.9	68.7
Free cash flow/share, continuing, EUR	0.29	0.21	0.46
R&D expenditure, EUR million	11.6	13.8	17.6
% of sales	2.7	3.3	3.1
Gross capital expenditure, EUR million	5.5	10.6	12.6
% of sales	1.3	2.5	2.2
Amortization, EUR million	2.4	2.6	3.4
Depreciation of tangible assets, EUR million	7.1	6.7	9.1
Depreciation of right-of-use assets, EUR million	8.8	8.9	11.9
Adjustment items, EUR million [1]	5.3	8.0	11.3
Balance sheet			
Balance sheet total, EUR million	664.6	624.6	643.8
Equity attributable to shareholders, EUR million	276.4	253.3	263.0
Equity per share, EUR	1.84	1.69	1.72
Equity-to-assets ratio, %	43.2	42.2	42.6
Net debt, EUR million	73.7	117.9	81.4
Gearing, %	26.6	46.5	30.9
Net debt / EBITDA	0.8	1.3	0.9
Debt to capital ratio, %	43.9	46.5	45.2
Number of outstanding shares at end of period (thousands)	150,197.9	150,197.9	150,197.9
Average number of shares (thousands)	150,197.9	150,173.0	150,179.3
Average number of diluted shares (thousands)	150,197.9	150,173.0	150,179.3
Personnel at the end of period	2,812	2,840	2,840

[1] *In the reporting period, adjustment items are related to mergers and acquisitions. In the comparison period, adjusting items were attributable to advisory, brand, IT and other costs related to the creation and rebranding of independent Neles, or restructuring costs, outcome of material intellectual property rights disputes, gains and losses on business disposals, and other infrequent events.*

Formulas for key figures

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

4. Disaggregation of sales

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

External sales by product type

EUR million	7–9/21	7–9/20	1–9/21	1–9/20	1–12/20
Products/equipment	121.7	111.5	327.2	328.2	447.8
Services	39.9	32.5	109.6	93.3	128.6
Sales total	161.5	144.0	436.8	421.5	576.3

External sales by geographical area

EUR million	7–9/21	7–9/20	1–9/21	1–9/20	1–12/20
EMEIA	65.5	56.5	171.9	160.9	223.0
North America	50.5	38.4	141.5	130.1	166.5
South America	12.4	12.9	40.9	36.4	56.9
Asia-Pacific	33.2	36.1	82.5	94.1	130.0
Sales total	**161.5**	**144.0**	**436.8**	**421.5**	576.3

5. Reconciliation of adjusted EBITA and operating profit

EUR million	7–9/21	7–9/20	1–9/21	1–9/20	1–12/20
Adjusted EBITA	**25.0**	**22.8**	**59.9**	**62.4**	**85.0**
% of sales	15.5	15.8	13.7	14.8	14.8
Amortizations	-0.8	-1.0	-2.4	-2.6	-3.4
Adjustments					
- Restructuring costs	-	-0.9	-	-1.4	-1.4
- Rebranding and establishing costs	-	-1.5	-	-6.6	-9.9
- Merger and acquisition costs	-4.4	-	-5.3	-	-
Adjustments, total	-4.4	-2.4	-5.3	-8.0	-11.3
Operating profit	**19.8**	**19.5**	**52.2**	**51.8**	**70.3**
% of sales	12.3	13.5	11.9	12.3	12.2

6. Fair value estimation

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

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

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

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

Level 3 A financial instrument is categorized into Level 3 if the calculation of the fair value cannot be based on observable market data. Neles had no such instruments.

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

	9/21			12/20		
EUR million	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Financial assets at fair value through profit and loss						
Derivatives not under hedge accounting	-	2.3	-	-	1.2	-
Total	-	2.3	-	-	1.2	-
Liabilities						
Financial liabilities at fair value through profit and loss						
Derivatives not under hedge accounting	-	2.6	-	-	1.5	-
Total	-	2.6	-	-	1.5	-

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

7. Notional amounts of derivative instruments

EUR million	9/21	12/20
Nickel swap contracts	0.3	0.4

The notional amounts are 256 tons (360 tons in 2020), which indicate the volumes in the use of derivatives, but not the exposure to risk.

8. Contingent liabilities and other commitments

EUR million	9/21	12/20
Guarantees		
External guarantees given by parent and group companies	44.4	43.8
Other commitments		
Repurchase commitments	18.6	16.4*
Other contingencies	6.9	1.4
Total	69.9	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 Q3 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.

9. 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 with related party are made on terms equivalent to other external customers and on arm's length basis.

EUR million	1–9/21	8–12/20[1]
Sales	9.5	6.6
Rental income	0.1	0.1
Receivables	5.5	6.5

[1] *Valmet became a related party entity on August 12, 2020, when its shareholding exceeded 20%.*

10. Quarterly information

EUR million, %	7–9/21	4–6/21	1–3/21	10–12/20	7–9/20	4–6/20	1–3/20	10–12/19	7–9/19
Orders received	149.6	151.3	153.9	134.5	133.8	130.9	190.9	154.2	171.4
Order backlog	292.0	303.9	298.4	270.3	292.8	305.3	337.4	279.8	295.5
Sales	161.5	146.2	129.1	154.9	144.0	140.6	136.8	166.2	170.5
Adjusted EBITA	25.0	19.0	15.9	22.7	22.8	22.9	16.7	18.1	28.3
% of sales	15.5	13.0	12.3	14.6	15.8	16.3	12.2	10.9	16.6
Amortization	-0.8	0.8	0.8	0.9	1.0	0.8	0.8	0.9	1.1
Adjustment items	4.4	1.0	-	3.3	2.4	4.3	1.3	-	-
Operating profit	19.8	17.3	15.1	18.5	19.5	17.8	14.5	17.2	27.3
% of sales	12.3	11.8	11.7	12.0	13.5	12.6	10.6	10.4	16.0
Earning per share, EUR	0.09	0.08	0.07	0.08	0.09	0.08	0.07	0.08	0.15

11. Exchange rates

Currency		1–9/21	1–9/20	1–12/20	9/21	9/20	12/20
USD	(US dollar)	1.1972	1.1293	1.1452	1.1579	1.1708	1.2271
BRL	(Brazilian real)	6.3660	5.7015	5.8847	6.2631	6.6308	6.3735
INR	(Indian rupee)	88.0683	83.4016	84.5785	86.0766	86.2990	89.6605
CNY	(Chinese yuan)	7.7422	7.8872	7.8916	7.4847	7.9720	8.0225
SGD	(Singapore dollar)	1.6011	1.5635	1.5735	1.5760	1.6035	1.6218
SEK	(Swedish krona)	10.1436	10.5648	10.4789	10.1683	10.5713	10.0343
GBP	(Pound sterling)	0.8663	0.8823	0.8864	0.8605	0.9124	0.8990
CAD	(Canadian dollar)	1.4999	1.5246	1.5320	1.4750	1.5676	1.5633

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

Such factors include, but are not limited to:
(1) general economic conditions, including fluctuations in exchange rates and interest levels that influence the operating environment and profitability of customers and thereby the orders received by the company and their margins,
(2) the competitive situation, especially significant technological solutions developed by competitors,
(3) the company's own operating conditions, such as the success of production, product development and project management and their continuous development and improvement,
(4) the success of pending and future acquisitions and restructuring.

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