

Financial review

The year 2021 was a great success for Purmo Group with strong net sales growth and record adjusted EBITDA. We are proud of what the entire company achieved including the listing on the Nasdaq Helsinki.



Board of Directors' Report

Operating environment

Purmo Group operates as a leading player in the market for sustainable indoor climate comfort solutions. Residential construction activity in Purmo Group's key markets was favourable throughout 2021, both inside and outside of Europe. The market benefitted from favourable monetary policies and high household spending on home improvements. The development was also driven by rising energy costs, EU's directives for renovation and new construction of properties, including the EU Green Deal, and various government incentive schemes especially for renovation.

The COVID-19 pandemic increased emphasis on homes and the comfort of the time spent there, causing a strong increase in do-it-yourself as well as deep renovation. Renovations were generally less severely impacted by COVID-19 and continued to grow throughout the crisis, whereas new build was adversely affected by the uncertainty of the crisis mainly in 2020. However, in 2021 new build construction markets rebounded and reached pre-pandemic levels for residential segments.

In Germany, the largest market for Purmo Group, demand remained solid throughout the year, but supply challenges caused constraints in meeting the demand. In Italy demand surged during the year as the market recovered from last year's restrictions, and new build and renovation activities benefitted from governmental incentives linked to improved

energy solutions. In other markets in Europe, as well as China and Brazil, construction activity continued on a good level.

During 2021 raw material prices rose well above historical levels, especially steel but also other materials such as aluminum, brass and plastics. Furthermore, supply chain challenges in terms of availability of raw materials, transportation and lack of skilled labor in the market created headwinds that restrained full output during the year.

Strategy

Purmo Group's growth strategy is built on three pillars:

- (i) scaling-up of solution-selling in order to provide complete solutions and capture white space in underpenetrated markets;
- (ii) launching of smart products to deliver products that are more intelligent, more sustainable and more aesthetic; and
- (iii) focusing on growth markets to capture biggest opportunities outside of current markets.

The strategy is supported by a continuous improvement of operational excellence and investment in people and culture.

In addition, Purmo Group has a positive approach towards growth through M&A opportunities for consolidation, expansion and diversification.

Financial results – Group

Key figures and financial position

EUR million	2021	2020	Change, %
Net sales	843.6	671.2	26%
Adjusted EBITDA	103.9	85.1	22%
Adjusted EBITDA margin, %	12.3%	12.7%	
Adjusted EBITA	76.6	58.1	35%
Adjusted EBITA margin, %	8.4%	7.8%	
EBIT	3.5	42.0	-92%
EBIT margin, %	0.4%	6.3%	
Profit for the period	-18.8	25.3	-174%
Adjusted Profit for the period	51.4	38.5	34%
Earnings per share, basic, EUR	-0.65	0.86	-175%
Adjusted Earnings per share, basic, EUR	1.77	1.32	33%
Cash flow from operating activities	35.4	68.9	-48%
Adjusted Operating cash flow, last 12 months ¹	53.1	94.2	-44%
Cash conversion ²	51.1%	110.7%	
Operating capital employed ³	271.8	235.6	15%
Return on operating capital employed, % ⁴	1.3%	17.8%	
Net debt	239.5	75.1	219%
Net debt / Adjusted EBITDA	2.3	0.9	161%

¹ Adjusted EBITDA on a rolling 12 month basis deducted by the change in net working capital and capex on a rolling 12 month basis.

² Adjusted operating cash flow divided by Adjusted EBITDA, both on a rolling 12 month basis.

³ Net working capital, other intangible assets, property, plant and equipment, and right-of-use-assets.

⁴ EBIT based on a rolling twelve-month calculation divided by operating capital employed.

Return on operating capital employed without non-recurring items was 27.1% (23.4%).

Net sales

EUR million	2021	2020	Change, %
Net sales, by segment			
Radiators	506.3	396.9	28%
ICS	337.2	274.3	23%
Total	843.6	671.2	26%

In 2021, net sales reached EUR 843.6 million (671.2), an increase of 26 per cent. The good performance was driven by sales price increases, strong customer demand and successful supply chain management despite global shortage of certain raw materials and components throughout majority of the period. Sales price increases were implemented to compensate for the very strong increase in raw material prices, well above historical levels. Despite general raw material shortages, both divisions were able to fulfil customer orders at a satisfactory level for most parts of the review period.

Net sales in the Western Europe region, Purmo Group's largest region, grew by 18 per cent. The second largest region, Central and Eastern Europe, grew by 32 per cent, followed by Northern Europe which grew by 22 per cent, and Southern Europe, which grew by 44 per cent. The Rest of the World grew by 41 per cent.

The comparison period 2020 includes an exceptional second quarter when the most extensive COVID-19 related restrictions were in place, resulting in temporarily weaker demand and operational disturbances.

Results and profitability

EUR million	2021	2020	Change, %
Adjusted EBITDA, by segment			
Radiators	66.0	62.9	5%
ICS	43.7	27.0	62%
Other	-5.8	-4.7	22%
Total	103.9	85.1	22%
Total adjusted EBITDA margin, %	12.3%	12.7%	

In 2021, adjusted EBITDA reached EUR 103.9 million (85.1), an increase of 22 per cent. While both divisions performed well in 2021, adjusted EBITDA of the ICS division increased significantly by almost 63 per cent. The comparability adjustments in January–December 2021 were EUR 70.2 million (13.2), comprising mainly of the EUR 52.3 million one-time, non-cash IFRS 2 merger impact, EUR 6.6 million relating to the merger and standalone preparations and EUR 8.9 million of restructuring costs. The adjusted EBITDA margin for the full year 2021 was 12.3 per cent (12.7).

The strong performance was supported by strong demand in all main markets and proactive sales prices increases to compensate for the higher raw material costs. However, the timing of the implementation of sales price increases varied by market and some delays had an adverse impact on 2021 profitability.

Permanent cost reductions achieved through the PGUp operational excellence program contributed further to the good performance in adjusted EBITDA. The program, implemented at the end of 2020 and

the beginning of 2021, mitigated higher operating expenses in 2021 which related to sales volume increase and lower costs as a result of the lock down the previous year.

Net financial expenses during full year 2021 decreased by 15 per cent from EUR -8.6 million (-10.1). Income tax increased to EUR -13.7 million (-6.6) as a result of higher taxable profit. The effective tax rate was - 269.7 per cent (20.8) due to the one-time, non-cash IFRS 2 merger impact of 52.3 million. The comparable effective tax rate without the one-time, non-cash IFRS 2 merger impact was 29.1 per cent. The tax cost was burdened by significant profits in the countries with higher corporate income tax rate than Finland (especially Italy and Germany), tax rate based devaluation of deferred tax assets in France and Ireland as well as merger related real estate tax in Germany. Adjusted profit for the period was EUR 51.4 million (38.5), and adjusted earnings per share were EUR 1.77 (1.32).

Cash flow and financial position

Cash flow from operating activities was EUR 35.4 million (68.9). The decrease was mainly due to a negative change in net working capital. The change in net working capital was adversely impacted by unusually low levels of working capital at the end of year 2020 in combination with high levels of cash tied up in working capital during the period 2021 following high sales activity. In addition, higher raw material costs, sales prices, and trade and other payables also increased net working capital balances compared to the previous year.

Adjusted operating cash flow decreased by

44 per cent to EUR 53.1 million (94.2) in 2021. The decrease was mainly driven by an unfavourable change in net working capital of EUR -38.8 million (20.7), due to unusually low levels of working capital in the comparison period, and increased capital expenditure of EUR 14.8 million (11.6). This was partly offset by an improved adjusted EBITDA of EUR 103.9 million (85.1).

Cash flow from investing activities was EUR 18.6 million (-10.9). The change from the previous year was mainly attributable to higher investments in property, plant and equipment and intangible assets capital expenditure (EUR 14.8 million) and the Evrorad acquisition (EUR 4.5 million) which were partially offset by proceeds from a warehouse building sale of EUR 0.7 million.

In 2021, the cash flow used in financing activities was EUR 105.4 million (-14.5), comprising mainly of proceeds from the VAC initial public offering share issue EUR 99.9 million transferred at the merger, repayment of related party loan EUR 90 million financed with bridge loan EUR 95 million and merger financing EUR 280 million offset by return of capital to shareholders of EUR 266.4 million. Net debt was EUR 239.5 million on 31 December 2021 (75.1 million). The equity ratio as of 31 December 2021 was 37.3 percent (61.7). The net debt to EBITDA ratio, based on the last 12 month's EBITDA, was 2.3 (0.9) at the end of the period. In September 2021, Purmo Group signed a merger financing agreement consisting of a EUR 280 million committed term loan facility to refinance the merger related distribution prior to the completion of the merger, and a EUR 95 million bridge loan facility to refinance the existing related

party loan. Both facilities were withdrawn in full in December 2021 with a tenure of 3 years with two one year options for the term loan facility and one week for the bridge loan facility.

The liquidity position of the Group was good at the end of the reporting period: cash funds and undrawn committed credit facilities totalled EUR 275.1 million (122.5 million). Cash funds included initial public offering proceeds of EUR 96.8 million, which were released within 5 business days after the merger. Undrawn credit facilities include a EUR 80 million revolving credit facility, which was signed in September 2021 and became available in December 2021, and overdraft facilities totalling EUR 17.4 million.

Equity attributable to owners of the parent company totalled EUR 390.6 (515.5) million.

Financial results – Divisions

Radiators

EUR million	2021	2020	Change, %
Net sales	506.3	396.9	28%
Adjusted EBITDA	66.0	62.9	5%
Adjusted EBITDA margin, %	13.0%	15.8%	
Depreciations and amortisations	-21.1	-20.6	3%

The European radiator market grew strongly in 2021 driven by growth in construction activities, in both residential newbuilds and repair. Following exceptionally strong demand in the first half of the

year, traditionally a low season, the sector faced longer delivery times as it was unable to build up inventory levels of finished products ahead of the peak winter. Distributors started to normalize their inventory levels during the fourth quarter of the year resulting in more normalized demand for the Radiator division.

During the year, the Radiator division launched new products in the panel and tubular radiator segments respectively. A decision was taken to start the expansion the manufacturing plant in Rybnik, Poland.

In 2021, net sales reached EUR 506.3 million (396.9), an increase of 28 per cent. After the 2020 pandemic year, which was burdened by lockdowns and production constraints, the Radiator division experienced robust recovery in 2021. The good sales development was primarily due to higher volumes driven by strong demand, successful management of steel supply constraints, and sales price increases, which were implemented to compensate increasing raw material prices of primarily cold rolled steel. Russian Evrorad, acquired in April 2021 contributed with approximately 2 per cent of inorganic net sales growth.

In 2021, the adjusted EBITDA of the Radiators division improved to EUR 66.0 million (62.9), an increase of 5 per cent. Adjusted EBITDA margin was 13.0 per cent (15.8). The increase in adjusted EBITDA compared to the previous year was mainly a result of strong organic growth driven by marked improvement in demand on all targeted markets, and the company's ability to introduce sales price increases to compensate for the sharp and rapid

increase in cost of input materials especially steel. However, the timing of the sales price implementation varied by market and there were some delays that adversely impacted 2021 profitability. The control of fixed costs and the continuation of the PGUp operational excellence program initiated in 2020, contributed to the improvement in adjusted EBITDA of the Radiator division.

ICS

EUR million	2021	2020	Change, %
Net sales	337.2	274.3	23%
Adjusted EBITDA	43.7	27.0	62%
Adjusted EBITDA margin, %	13.0%	9.8%	
Depreciations and amortisations	-9.0	-9.3	-3%

The European ICS market, predominantly the Radiant Heat and Cooling sector (RHC), continued to show growth with generally strong demand, in some markets above pre-pandemic levels. Constructing activity, mainly new build but also renovation supported by government incentives, had a favorable impact on market demand for ICS product categories whereas pockets of material shortages slowed down growth in some countries.

Overall ICS products linked to renewable energy and sustainable energy solutions continued to enjoy good demand. Government incentives in Italy and Germany drove a significant amount of additional activity during 2021. Demand was particularly strong in Italy as the market recovered from the 2020

pandemic related restrictions and as new build and renovation activities improved, and further governmental incentives were introduced to promote projects linked to enhanced energy efficiency of buildings. Despite good demand in general, supply constraints resulted in slightly weaker sales in Germany during the fourth quarter.

Several investment projects were started in the last few months of 2021 primarily aiming to increase capacity in the pipe and brass production, but also to enable growth in other areas. In September 2021, it was agreed that Purmo Group's brass production facility in Newcastle West, Ireland, will be relocated to other existing sites, in Italy and Sweden, and outsourced. The restructuring is expected to bring efficiency gains from consolidation of production and selective outsourcing. A restructuring provision of EUR 4.5 million and non-recurring items were incurred in September 2021. The estimated future capital expenditure for the relocation is EUR 1.3 million. The entire investment is financed with Purmo Group's own cash flow and the investment project is estimated to be completed during the first half of 2022.

In 2021, net sales amounted to EUR 337.2 million (274.3), an increase of 23 per cent. The strong sales growth was mainly due to higher sales volumes but also increased sales prices. The higher sales prices were proactively implemented to compensate the impact of increasing raw material prices. While sales were enhanced by several price increases during the year, it was predominantly volume growth that contributed to the good sales development, in particular the first half of the year as several key markets recovered from the 2020 pandemic.

Adjusted EBITDA improved by 62 per cent to EUR 43.7 million (27.0) in 2021. Adjusted EBITDA margin was 13.0 per cent (9.8). The significant growth in adjusted EBITDA was attributable to higher sales volumes, and price increases together with improved product performance. Total operating expenses were higher than in 2020, due to the volume growth during 2021. This was also impacted by lower costs due to pandemic lock downs in 2020.

Investments and acquisitions

Capital expenditure for the full year 2021, excluding business combinations and leased assets, totalled EUR 15.8 million (10.9). Investments during 2021 related mainly to strategic projects and maintenance.

In April, the acquisition of a majority share in Evroradiators LLC (Evrerad) including its Russian radiator production capacity was completed. The acquisition was valued at EUR 5.5 million. A sale and purchase agreement had been signed between Purmo Group Ltd, Robert Bosch Holding Nederland B.V. and Robert Bosch Investment Nederland B.V. in November 2020. According to the agreement Purmo Group Ltd acquired 51 per cent of Evroradiators Holding B.V., which holds 100 per cent of Evroradiators LLC, the radiator factory in Engels in Russia. Robert Bosch Holding Nederland B.V. retained a 49 per cent stake in the company.

Structural changes

In September 2021, the Irish subsidiary of the Group, Purmo Group Ireland Ltd, agreed with a local union on certain restructuring actions with related costs reduction of approximately EUR 4.5 million. The restructuring actions also entailed the relocation of brass production in Newcastle West, Ireland, to other existing sites in Italy and Sweden, as well as production outsourcing. The estimated capital expenditure for the relocation of production is limited to EUR 1.3 million. The entire investment is financed with Purmo Group's own cash flow and the investment project is estimated to be completed during the first half of 2022.

Operational excellence program

During the second half of 2020 and into 2021, Purmo Group carried out a clearly defined operational excellence program, PGUp, aimed at achieving operational excellence step-change and improving cost competitiveness across Purmo Group. The program supports growth, capabilities in managing raw material price fluctuations, and funding of future investments. Further, PGUp aimed to replace the temporary cost measures taken to manage the COVID-19 crisis with recurring savings. The program generated recurring annualised run-rate cost savings of approximately EUR 20 million as of June 2021, which exceeded the upper end of the targeted run-rate savings to be achieved by that time, replacing temporary savings during the COVID-19 pandemic.

Research and development

Research and development (R&D) expenditure in January- December totalled EUR 5.9 million (5.2). During 2021, Purmo Group reformed and centralized its R&D function within both divisions to capitalize on changing market trends, to support smart products and to strengthen Purmo Group's competitive position. This has improved Purmo Group's capacity to respond to key market trends, such as sustainability and digitalization, which sets new requirements on HVAC systems. It has also strengthened Purmo Group's end-to-end offering to accelerate solution sales.

In line with the Group strategy, Purmo Group's Smart Products pipeline focused on three clear strategic priorities during 2021: Intelligence, sustainability and aesthetics. Product development focused on connecting all smart HVAC equipment from energy source to thermal emitters into one unified and intelligent system. During 2021, Purmo Group expanded its collaboration network in the field of common controls.

During the year, focus was also on improving products sustainability features to minimise material input while maintaining the technical features. This was achieved through use of thinner high-grade steel in the steel panel radiators and by smart design improving radiator heat output performance. Another focus area, which is expected to span over the next few years, was reduction of product packaging including plastics.

A new and improved fan convector portfolio called iVECTOR MK II was also launched during 2021. The fan

convector is compatible to work with low-temperature systems such as heat pumps and it offers improved features in terms of intelligence, efficiency and reduced noise levels. It is a popular choice within the commercial sector such as schools, universities, care homes and retail facilities and can also be integrated in Building Management Systems (BMS). The new range was first launched in Austria during 2021 and is expected to be launched in all important European Purmo Group markets during 2022.

In terms of aesthetics, a completely new product family called "Figuresse" and a decorative radiator called "Tinos H" were launched during 2021. Figuresse radiators are decorative hydronic, electric and mixed radiators that are built on round and flat tubes as well as flat steel and aluminum components. This portfolio expansion meets market demand in terms of colour, user friendly controls and easy installation.

Non-Financial Information

This section describes Purmo Group's non-financial information as required in Chapter 3a of the Finnish Accounting Act on non-financial information (NFI).

Business model

Purmo Group, headquartered in Finland, is a leading manufacturer and supplier of sustainable indoor climate comfort solutions, specialising in heating and cooling solutions. Purmo Group make hydronic and electric radiators, embedded radiant-heating and cooling, air-based heating and cooling systems

(including ventilation), dedicated hydronic and electronic controls and piping distribution systems.

Purmo Group products are manufactured for residential buildings (both new-builds and renovations), commercial buildings, industrial buildings, and public spaces such as airports, schools, and hospitals. The products are mainly sold via sanitary and heating wholesalers.

Purmo Group's promise is to deliver comfort by doing things smarter, by always moving forward and by staying ahead of the competition. The company strategy is to leverage its leadership position in sustainable indoor comfort climate, with a well-known brand portfolio and strong relationship to key technical wholesalers to increasingly provide integrated system solutions. Purmo Group is also set to participate in and drive consolidation of the radiator market.

With heating and cooling of household buildings making up 17% of total energy consumption in Europe the company's vision is that indoor climates should not cost the planet's climate. The industry can help create a significant positive impact on the planet's future, which is why Purmo Group's aim is to create value to society by delivering smart, sustainable, and healthy solutions for comfort. Purmo Group's sustainability strategy puts climate at the heart of its business, and covers four key areas: our solutions, our production, our people, and our communities. These are enabled by strong governance, safe working practices, and ethical behavior.

In 2021, Purmo Group developed and strengthened its sustainability function. Extensive stakeholder engagement consisting of over 130 interviews, a landscape assessment, and workshops was completed to analyse and define material issues. Key issues were prioritised, targets were set, and roadmaps and governance for implementation

OUR SOLUTIONS

4.

Climate smart choices
We will help our customers to save energy and make sustainable choices

5.

Circularity & end of life
All products will have circular design principles applied and invest into new solutions where circularity is not immediately possible

OUR PRODUCTION

1.

Emissions and energy
We will align with a 1.5° future and target carbon neutrality

2.

Resource efficiency and waste
We will use less resource to make products and eliminate waste

3.

Responsible sourcing
We will source our key materials responsibly

OUR PEOPLE

6.

Diversity, equality and inclusion
Create a diverse and inclusive culture within Purmo Group

7.

Engagement at work
Ensure our employees are satisfied at work

8.

Employee upskilling
Inspire a future-fit workforce to tackle the skills gap and build pipeline of future workers.

9.

Health & Safety
Ensuring Purmo Group is a safe place to work

OUR COMMUNITIES

10.

Community engagement
We will support the most vulnerable people to have access to adequate shelter and indoor climate



were developed together with reporting capabilities. All of which led up to the strategy launch culminating in internal and external communications.

Policies

Purmo Group respects the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, and complies with local and international laws and regulations. The key policies on Group level governing the non-financial topics are Code of Conduct, Whistleblowing policy and Enterprise Risk Management Policy. The Code of Conduct is aligned with the United Nations Global Compact, and Purmo Group expects its suppliers and business partners to share the same ethical principles. In addition, topic specific policies have been established on Group and country levels where relevant.

Due Diligence

Purmo Group has implemented a whistleblowing channel in 2021 for both internal and external parties. The channel provides the opportunity to report any suspected wrongdoing, whether it relates to bribery, fraud, health and safety risks, damage to the environment, or any suspected breach of the ethical principles laid out in Purmo Group Code of Conduct. All reports are treated as confidential, and concerns can be raised anonymously via Purmo Group intranet and corporate website. Onboarding and communication about the channel are ongoing.

Risk management

Purmo Group's risk management approach is a Group wide process that is guided by the Enterprise Risk Management Policy and encompasses all business units. The risk management process maps Group wide risks annually. The process is monitored by the Core Leadership Team and reviewed by the Board of Directors. The Group's short-term risks and uncertainties are described on **page 10**.

ESG issues are assessed as their own risk category, which is the responsibility of the Head of Sustainability.

Governance of sustainability

Purmo Group's Board of Directors approves the Sustainability Policy and decides on the group level sustainability strategy and target-setting that will guide the annual business planning. They also review Purmo Group's sustainability performance and reporting.

Purmo Group's Management Team ("CLT") is responsible for setting the sustainability objectives and proposing Purmo Group's sustainability targets for approval by the Board of Directors. The CLT monitors the sustainability performance on regular bi-monthly basis.

Purmo Group's Head of Sustainability & Corporate Social Responsibility (CSR), with the support of the ESG Co-ordination Group, is responsible for coordinating and developing sustainability at the Purmo Group level. This includes the Sustainability Policy and related Group-level instructions and manuals. The Head of Sustainability & CSR is also responsible for monitoring the policy implementation

and for performance reporting to CLT on a bi-monthly basis. Purmo Group's Head of Sustainability & CSR leads sustainability in the development of common goals, targets, instructions, and procedures in the whole company.

Purmo Group's Extended Leadership Team are responsible for defining detailed sustainability targets based on ambition defined by CLT and Head of Sustainability & CSR, develop action plans in accordance with Group-level targets, and ensure inclusion of these in the business goals. The divisions compare their sustainability performance against the targets (monthly/bi-monthly).

Environment

Purmo Group's environmental commitments are to align its operations to a 1,5 °C future, to increase resource efficiency, reduce waste, and source key materials responsibly.

All Purmo Group's manufacturing plants manage environmental impacts through environmental management systems that have locally determined procedures in place to monitor and continuously promote its environmental performance. All these systems are ISO14001 certified including its plant in Yangzhou, China, which was the latest to receive this certification in 2021. In addition, Purmo Group is looking to achieve ISO 50001 energy management certification in all its plants.

Environmental risks deal with increasing regulation on topics such as energy efficiency of products and the EU's potential new carbon tax, which may negatively impact Purmo Group's business operations and investments. To mitigate

these risks Purmo Group aims to develop and source products that comply with the highest energy efficiency ranking in their category. Purmo Group also plans to take the possibility of a carbon tax into consideration in the Group's investment activities, where the carbon tax would be relevant for the planned operating model. The risk of a potential carbon tax is further diminished by the fact that Purmo Group's most business units primarily serve their home region, mainly to and from Europe.

EU taxonomy assessment

Purmo Group is subject to the Non-Financial Reporting Directive (NFRD) and is required, under EU Taxonomy Regulation 2020/852, to disclose the extent to which its economic activities have a substantial positive environmental impact. These activities are referred to as taxonomy eligible.

EU Taxonomy Regulation defines whether an economic activity carried out by a company can be classified as environmentally sustainable, i.e. taxonomy aligned. An economic activity is classified as taxonomy aligned if it:

- Contributes substantially to one or more of the taxonomy's six environmental objectives: climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems;

- Does not do any significant harm to any other environmental objective;
- Complies with minimum safeguards related to UNGP, OECD Guidelines and ILO Conventions.

During 2021, the company conducted an EU taxonomy eligibility assessment under the Climate Change Mitigation and Climate Change Adaptation Environmental Objectives which form part of the EU taxonomy regulations. This involved identifying EU taxonomy eligible business areas and calculating the share of taxonomy eligible turnover, capital expenditure, and operating expenses that contribute towards climate change mitigation and adaptation. The outcome of the eligibility assessment was as follows:

- **Radiators:** Radiators are included under economic activity 3.5 Manufacture of energy efficiency equipment, where the description refers to, among others, NACE** code C25 (including C25.21 Manufacture of central heating radiators and boilers as defined in chapter 1.1.3.1. in Annex I to the Taxonomy regulation Delegated Act.). Electric radiators have been excluded as they are not part of central heating.
- **Heating and cooling:** Cooling and ventilation systems are included under economic activity 3.5 where the technical screening criteria refers in particular to 3.5 (i) cooling and ventilation systems, 3.5(k) heat pumps
- **Convectors:** Included under economic activity 3.5 (Manufacture of central heating radiators and boilers)

- **Radiant heating and cooling:** Underfloor heating systems (UFH) are included under economic activity 3.5 Manufacture of energy efficiency equipment as they are part of central heating systems.
- **System components:** Included under economic activity 3.5, in particular 3.5(m) energy-efficient building automation and control systems, 3.5(n) zoned thermostats and devices for the smart monitoring of the main electricity loads and heat loads, 3.5(o) products for heat metering and thermostatic controls for individual homes, and for central heating systems.
- **Water distribution systems:** The product category mainly includes generic pipes and related equipment, which are not listed as relevant economic activities.
- **Chimneys:** Chimneys are not listed as a relevant economic activity.

To calculate business line specific taxonomy eligible operating expenses and capital expenditure, the net sales eligibility percentage for 2021 was used to calculate EU taxonomy eligibility. 86% of our turnover, 69% of capital expenditures and 93% of taxonomy-specific operating expenditures were identified as EU taxonomy-eligible economic activities. Taxonomy specific operating expenditure consists of expenses relating directly to maintaining and servicing assets, as well as R&D expenses. Of the total taxonomy specific operating expenditure, the part supporting taxonomy-eligible economic activities has been considered eligible.

KPI	Total	Proportion of Taxonomy-eligible economic activities, %	Proportion of Taxonomy non-eligible economic activities, %
Turnover, MEUR	843,9	86%	14%
Net CapEx ¹ , MEUR	14,8	69%	31%
Net OpEx ² , MEUR	17,6	93%	7%

¹ As defined in chapter 1.1.2.1. in Annex I to the Taxonomy regulation Delegated Act

² As defined in chapter 1.1.3.1. in Annex I to the Taxonomy regulation Delegated Act

For all three KPIs, double counting was avoided by classifying external revenue streams into taxonomy-eligible economic activities only once.

Further EU guidance on taxonomy alignment is expected in 2022. Taxonomy related reporting including taxonomy aligned activities will continue in 2022.

Social and employee matters

Purmo Group is committed to building and maintaining a diverse workforce and inclusive work environments, to oppose all forms of bullying and discrimination, and to foster equal opportunities in recruitment, learning and development, and remuneration, where decisions are made against objective selection criteria. These commitments are outlined in our global Equality, Diversity, and Inclusion Policy. Other global policies specific to social and employee-related matters include Health and Wellbeing Policy as well as policies on recruitment and onboarding, learning and development, and employee engagement, for which implementation is ongoing. All these global

policies are complemented with local policies and, where relevant, with additional global guidelines. The Human Resources Department is responsible for monitoring and updating the global policies, whereas local policies and procedures are subject to monitoring and continuous improvement at the country level.

Purmo Group operates many factories and warehouses with heavy equipment and materials that can pose risks on employees' health if proper procedures and processes are not followed. To tackle this risk, safe working practices have been embedded in the sustainability strategy's foundation, and all Purmo Group's operations are covered by health and safety policies and procedures implemented on the country level. During the year a new health and safety reporting system was also implemented to better enable the tracking of safety incidents and observations, also on Group level.

In addition to health and safety risks, loss of key people or inability to attract talent can have an adverse impact on our business and operations. To continue to attract and retain top talent, Purmo Group aims to offer a mix of interesting career opportunities and employee benefits at an industry-leading and fast-developing company.

Employee turnover and satisfaction are monitored regularly, and in 2021 employee engagement surveys were carried out on several plants. Employee turnover and satisfaction are monitored regularly, and in 2021 we carried out a companywide employee survey achieving an eNPS score of -9, up from -12 in the previous year.

The year 2021 also included the launch of our new company motto as well as a human capital management system to further develop our reporting capabilities.

Human rights

Purmo Group is committed to respecting the internationally acknowledged human rights and has so far focused on human rights matters in its own operations such as labour rights and health and safety. The implementation of the new sustainability program will expand the human rights work under the topic of responsible sourcing. Accordingly, in 2021, Purmo Group made a decision to evaluate and improve supplier evaluation, and the target is that all major suppliers will be on-boarded and audited against responsible sourcing standards by 2024.

Purmo Group complies with all relevant local and international regulations, such as the Modern Slavery Act 2015 in the United Kingdom, and has prepared and published the Modern Slavery Statement accordingly.

Anti-corruption and bribery

Ethical behaviour and strong governance are part of the foundation for Purmo Group's sustainability strategy. Purmo Group has zero tolerance towards bribery and corruption. The Code of Conduct outlines the approach for ethical business conduct and

is complimented by global policies such as Anti-Corruption and Anti-Bribery Policy, Competition Law Compliance Policy, and Financial Crime Risks Policy.

All Purmo Group employees are expected to familiarise themselves with the Anti-Corruption and Anti-Bribery Policy, to conduct mandatory training on Code of Conduct's anti-corruption elements, and to speak up and report concerns. Employees at greatest risk of facing corruption – especially those in supply chain, international sales, contracting or procurement – are provided with additional training on avoiding, preventing, recognizing, and reporting bribery and corruption. All business units are also expected to reasonably investigate intermediaries and to include anti-corruption clauses in contracts.

Purmo Group's most significant risks on corruption and bribery have been identified to deal with corrupt arrangements that may involve extortion or collusion by Purmo Group's employees and other individuals to steal, falsify, or destroy company assets or business information for personal gain. Purmo Group mitigates these risks through training to increase risk awareness, via internal control procedures, implementation of prevention processes, and investigation of red flags. In 2021, the Board of Directors approved a new group-wide Anti-Corruption and Anti-Bribery Policy and training on anti-bribery and anti-crime policies was organized for specific employee groups.

Summary of key non-financial performance indicators

Indicator	2021	2020
GHG emissions (market based) ¹	86,780 tCO ₂ e	83,260 tCO ₂ e
Carbon emissions from procured steel ²	377,698 tCO ₂ e	308,578 tCO ₂ e
Customer NPS ³	No data available	No data available
Employee Net Promoter Score (eNPS)	-9	-12
Proportion of women in senior management positions	24%	16%
Incident rate (LTIFR) ⁴	5.2	4
Anti-corruption policy training coverage ⁵	99% completion 83% pass	No data available

¹ Location based: 73,950 (2021); 74,640 (2020).

² Based on World Steel Data and our consumption in tonnes.

³ Surveys planned for 2022, no NPS survey conducted in 2020 or 2021.

⁴ LTIFR refers to Lost Time Injury Frequency Rate, the number of lost time injuries occurring in a workplace per 1 million hours worked

⁵ Of Purmo Group people in position to make decisions on behalf of the Company

In April 2021 Purmo Group acquired 51 per cent of Euroradiators Holding B.V. from two of Bosch Group's Dutch companies. The acquired company owns 100 per cent of a Russian subsidiary establishing sourcing, production and sales in Russia. This increase in sales contributed to an overall net increase in both Green House Gases and steel consumption. However, our carbon intensity as calculated by total revenue over gross emissions (tCO₂e) improved by 17% year on year.

Carbon intensity

	2021	2020
Total GHG emissions, tCO ₂ e	86,780	83,260
Total net sales, MEUR	843.6	671.2
Carbon intensity ratio ¹	102.9	124.1
Improvement in %	17.1%	

¹Total GHG emissions, tCO₂e / Total net sales, MEUR

Short-term risks and uncertainties

Purmo Group is affected by the global supply chain disturbances, which started during the COVID-19 pandemic. This involves uncertainties and may adversely affect the demand for and the delivery capability of the company's products and availability of financing. During 2021, Purmo Group was able to manage the adverse effect on its operations, the impact of challenges in getting raw materials and components in fulfilling customers' orders has been limited. The negative impact of the COVID-19 pandemic on Purmo Group's operations has also at least partly been offset by other favourable consequences emerging from the pandemic situation, such as the positive private home renovation trend.

Purmo Group's costs have been affected by commodity, energy and logistics services price increases, caused for example by the global sharp increase in demand for commodities combined with supply chain disturbances. The company has been able to manage profitability by implementing sales price increases. Inflation rates in Purmo Group's core markets are currently higher than for a long time and there is no clear guidance on whether the inflation rates will decrease in near future. Fluctuations in prices of raw materials and supplies, including energy, and in freight rates as well as problems in the availability of raw materials, supplies, labour and freight shipping may have a negative impact on profitability and operations in general.

The short term demand for Purmo Group's products depends on fluctuations in demand in the construction industry which is cyclical in nature, especially new building, and the volumes and profitability of which vary as a result of, inter alia, economic conditions and the amount of investments in real estate.

Due to Purmo Group's international operations, unfavourable fluctuations in exchange rates of especially the Polish Zloty, Swedish Krona, Romanian Leu and British Pound could have an adverse effect on the company's business, financial position, results of operations, future prospects, or share price. In accordance with Purmo Group's treasury policy, at any point in time, Purmo Group hedges on average 40 to 70 per cent of its estimated foreign currency exposure in respect of forecasted sales and purchases over the following 15 months.

Climate change related impacts mean that Purmo Group must develop products that meet customer expectations and are in compliance with the changing regulations concerning for example energy efficiency and product life cycle requirements. Proactive, effective and right measures may mean that Purmo Group is able to use business opportunities relating to the expectations and requirements. Purmo Group has a sustainability strategy and function.

The geopolitical situation became more uncertain towards the end of 2021. Volatility in financial markets also increased due to increased focus on decisions concerning monetary policy. Uncertain global economic, political and financial market conditions

and economic sanctions in Purmo Group's operating countries as well as trade policies may have a negative impact on performance, financial position and availability of financing.

Risk update related to the Russian invasion of Ukraine

The Russian invasion of Ukraine has resulted in severe economic sanctions on Russia as well as supply chain disruptions and raw material price increases, and an unprecedented European humanitarian crisis.

Purmo Group has about 248 employees in Russia. Purmo Group has been importing into Russia and Ukraine for many years. In 2021, imports into Ukraine made up less than 1 per cent of total Group sales and sales within Russia less than 5 per cent. Sales within Russia have been generated both from imports, mainly from Poland, as well as an increasing portion of local production. In 2021, Purmo Group established sourcing, production and sales in Russia through the acquisition of a majority stake in a Dutch Euroradiators Holding B.V., which owns Evroradiators LLC, a Russian entity manufacturing radiators for the Russian market. Robert Bosch Holding Nederland B.V. retained a 49 per cent stake in the company.

On 4 March 2022 Purmo Group announced that it suspends all sales and operations in Russia until further notice. While the future of the situation is hard to estimate, we expect a significant impact on our business in both Russia and Ukraine. This would

come from the conflict itself and from increased custom duties as well as supply constraints or altered demand.

A dedicated team has been set up to monitor the situation. Further appropriate action will be taken if there is a need to do so.

Purmo Group is shocked and saddened by the invasion, and the humanitarian crisis that has followed. The health and safety of Purmo Group's people, customers and business are, as always, a priority.

Resolutions of the Annual General Meeting 2021

The Extraordinary General Meeting of Purmo Group Plc (former Virala Acquisition Company Plc) was held on 13 December 2021. The Extraordinary General Meeting resolved in accordance with the proposal of the Board of Directors and the merger plan, to approve the merger of Purmo Group Ltd into Virala Acquisition Company Plc (name changed to Purmo Group Plc).

As members of the Board of Directors were elected, conditional on the completion of the merger, Tomas von Rettig (Chairman), Matts Rosenberg (Vice Chairman), Alexander Ehrnrooth, Jyri Luomakoski, Catharina Stackelberg, Carina Edblad and Carlo Grossi.

Changes in management team

Virala Acquisition Company Plc's Management Team consisted of CEO Johannes Schulman and CFO Mia Alholm. The chairman of the Board of Directors, Alexander Ehrnrooth, participated actively in the duties of the Management Team in addition to his duties as a chairman of the Board of Directors. Virala Acquisition Company Plc had no employees and the Company's CEO Johannes Schulman and CFO Mia Alholm worked in these positions under a service agreement with Virala Corporation Ltd.

On 31 December 2021, the Board of Directors appointed John Peter Leesi as the CEO of Purmo Group Plc. The Board of Directors resolved to appoint the following persons to the management team of Purmo Group Plc:

- Erik Hedin, Chief Financial Officer
- Mike Conlon, Senior Vice President, Indoor Climate Systems Division
- Linda Currie, Chief People Officer
- Tomasz Tarabura, Senior Vice President, Radiators Division

Personnel

The number of Group full-time-equivalent employees averaged 3,360 (3,287) in January–December. At the end of the period, the Group had 3,471 (3,262) employees.

Personnel	1 Jan–31 Dec 2021	1 Jan–31 Dec 2020	1 Jan–31 Dec 2019
Number of employees at the end of the period	3,471	3,262	3,328
Average number of employees	3,360	3,287	3,297

Personnel by region	31 Dec 2021	31 Dec 2020	31 Dec 2019
Northern Europe	205	211	240
Western Europe	834	792	788
Central and Eastern Europe	1,848	1,683	1,696
South Europe	318	326	376
Rest of the world	266	250	228
Total	3,471	3,262	3,328

Wages and salaries	1 Jan–31 Dec 2021	1 Jan–31 Dec 2020	1 Jan–31 Dec 2019
Wages and salaries total, EUR million	128.2	120.1	120.9

Remuneration

The remuneration of Purmo Group is described in the Remuneration Report, published in accordance with the Consolidated Financial Statements and the Board of Directors' Report, and the Remuneration Policy available on investors.purmogroup.com.

Share capital, number of shares and shareholders

Purmo Group Plc has two share classes of which class C shares are listed and class F shares (Founder Shares) are held by former Virala Acquisitions Company Plc's (VAC) founding shareholder, Virala Corporation. The Company's class F shares are subject to redemption and consent clauses in accordance with the articles of association, which restrict the rights to transfer or acquire Class F shares. The number of outstanding shares on 31 December 2021 was 40,374,531 class C shares and 1,565,217 class F shares. The Company's registered share capital on 31 December 2021 was EUR 3,080,000. Trading in the new shares on the official list of Nasdaq Helsinki commenced on 3 January 2022. The Company has no treasury shares.

Before the merger of VAC and Purmo Group Ltd was completed Virala Acquisition Company Plc (VAC) had 10,780,000 class C shares, 627,826 class E shares and 937,391 class F shares with no nominal value. The class E shares were converted to class F shares at the merger. On 31 December 2021, as the merger

was completed, the shareholders of Purmo Group Ltd received as merger consideration 2.600334506 new class C shares in VAC for each class K share and class K1 share, and 4089.270894510 new class C shares for each class P share they hold in Purmo Group Ltd. This merger consideration was issued to the shareholders of Purmo Group Ltd in proportion to their existing shareholding of each class of shares in Purmo Group Ltd.

The aggregate number of new class C shares in VAC issued in connection with the merger was 29,594,531 shares, resulting in 40,374,531 class C shares in total in the combined company. The VAC and Purmo Group Ltd merger led to an increase in share capital of EUR 3.0 million and reserve of invested unrestricted equity of EUR 285.9 million.

Basic share information

Listed on	Nasdaq Helsinki
Trading code	PURMO
ISIN code	FI4000507488
Industry	Construction and Materials
Number of C-shares 31 December 2021	40,374,531
Number of F-shares 31 December 2021	1,565,217
Market value on 31 December 2021, MEUR	413.6
Return of capital proposal per class C-share, EUR	0.36
Return of capital proposal per class F-share, EUR	0.07
Listing date	29 June 2021
Start of trading with new C-shares	3 January 2022

Share price 29 June–31 December 2021

EUR	29 June–31 December 2021
Closing price 31 December 2021	14.20
Highest share price	14.50
Lowest share price	9.78
Trade weighted average price	11.41

Shareholders by sector 31 December 2021

Shareholders by sector	Number of shareholders	% of shares
Investment & PE	36,161,839	86.2%
Other	2,226,319	5.3%
Private individuals	200,000	0.5%
Fund company	1,204,910	2.9%
Pension & Insurance	700,485	1.7%
Rest of the world	1,064,569	2.5%
Issuer account	381,626	0.9%
Number of shares total	41,939,748	100.0%

Largest shareholders 31 December 2021

Shareholders	C-share	F-share	% of shares	% of votes
1 Rettig Group Oy Ab	28,638,547	-	68.28%	68.28%
2 Virala Oy Ab	3,601,198	1,565,217	12.32%	12.32%
3 Ahlstrom Invest B.V	990,700	-	2.36%	2.36%
4 Jussi Capital Oy	685,000	-	1.63%	1.63%
5 Fennia Mutual Insurance Company	500,000	-	1.19%	1.19%
6 Svenska litteratursällskapet i Finland	500,000	-	1.19%	1.19%
7 John Peter Leesi	408,927	-	0.98%	0.98%
8 Oy Julius Tallberg AB	400,000	-	0.95%	0.95%
9 Alcur Fonder	334,137	-	0.80%	0.80%
10 Ålandsbanken Nordiska småbolag placering	252,050	-	0.60%	0.60%
10 largest shareholders total	36,310,559	1,565,217	90.31%	90.31%
Others	4,063,972	-	9.69%	9.69%
Total	40,374,531	1,565,217	100.00%	100.00%

Shareholders by holding 31 December 2021

Owner distributions by holding	Number of shares	% of shares	% of votes	Number of known owners
1-100	101,319	0.24%	0.24%	1,616
101-1,000	434,977	1.04%	1.04%	1,248
1,001-10,000	522,731	1.25%	1.25%	160
10,001-50,000	1,158,476	2.76%	2.76%	48
50,001-100,000	308,000	0.73%	0.73%	4
>100,000	39,021,132	93.04%	93.04%	16
Total	41,546,635	99.06%	99.06%	3,092
In the issuer account	393,113	0.94%	0.94%	
Total number of shares issued	41,939,748	100.00%	100.00%	

Flagging notifications

Transaction date	Shareholder	Direct holding	Indirect holding	Total holding
31.12.2021	Jussi Capital Oy	1.63%	0%	1.63%
31.12.2021	Ahlström Invest B.V.	Below 5%	0%	Below 5%
31.12.2021	Virala Corporation ¹	12.32%	0%	12.32%
31.12.2021	Rettig Capital Ltd	68.28%	0%	68.28%

¹ Corporation holds an option to acquire 689,576 shares or 1,64% of shares and voting rights. The option had not been exercised on the day of the flagging notification. The option expires on 31 December 2022.

Board of Directors and Management shareholding in Purmo Group Plc, 31 December 2021

Information on Board of Directors and Management shareholdings is presented in the Corporate Governance Statement.

Board authorisations regarding share issue and share repurchase

On 13 December 2021, the Extraordinary General Meeting of VAC (subsequently Purmo Group Plc) resolved in accordance with the proposal of the Board of Directors to resolve on the issuance of class C shares as well as the issuance of special rights entitling to class C shares referred to in Chapter 10, Section 1 of the Finnish Companies Act in one or several tranches. The number of class C shares to be issued based on this authorization shall not exceed 8,000,000 shares (including shares to be received based on special rights), which corresponds to approximately 20 per cent of all of class C shares in the company. However, a maximum of 25 per cent of the authorization, i.e. a maximum of 2,000,000 class C shares (including shares to be received

based on special rights) may be used for incentive arrangements and remuneration schemes. The authorization is effective until the end of the next Annual General Meeting, however, no longer than until 30 June 2022. The authorization revokes previous authorizations granted by a unanimous resolution of the shareholders to the Board of Directors on 13 June 2021 to resolve on the issuance of shares as well as on the issuance of special rights entitling to shares.

The Extraordinary General Meeting resolved in accordance with the proposal of the Board of Directors to authorize the Board of Directors to resolve on the repurchase of the company's own class C shares as well as on the acceptance of them as pledge. The number of class C shares to be repurchased or accepted as pledge by virtue of this authorization shall not exceed 4,000,000 own class C shares in the company, which corresponds to approximately 10 per cent of all of class C shares in the company, subject to the provisions of the Finnish Companies' Act on the maximum amount of own shares owned by or pledged to the Company and its subsidiaries. The authorization is effective until the end of the next Annual General Meeting, however no longer than until 30 June 2022.

Events after the financial year

Trading in the merger consideration shares and the existing class C shares on the official list of Nasdaq Helsinki Ltd commenced on 3 January 2022 under the trading code PURMO (ISIN code: FI4000507488).

Purmo Group Plc (formerly Virala Acquisition Company Plc) obtained EUR 96.8 million of proceeds in the initial public offering in blocked bank accounts. On the basis of escrow agreement the funds were released to Purmo Group Plc's bank account on 3 January 2022. As the terms and conditions of the escrow agreement were met by the end of the reporting period, funds were already booked to cash and equivalents. The funds were used to repay the EUR 95.0 million bridge loan facility. As announced by VAC on 8 September 2021, Virala Corporation has had an option to acquire further 689,576 class C shares from Rettig Group Ltd following the completion of the merger. Virala Corporation has on 5 January 2022 exercised the option and Rettig Group Ltd has therefore disposed 689,576 class C shares in Purmo Group Plc held by it to Virala Corporation.

The Extraordinary General Meeting, held on 13 December 2021, resolved that the members of the Nomination Board will be based on the three largest shareholders in Purmo Group Plc on the tenth business day following the effective date. In a stock exchange release on 20 January 2022 Purmo Group announced that the three largest shareholders nominated the following representatives to the

Nomination Board; Matts Rosenberg (appointed by Rettig Group Ltd), Alexander Ehrnrooth (appointed by Virala Corporation, and Peter Seligson (appointed by Ahlstrom Invest B.V.). Matts Rosenberg has been elected Chairman of the Nomination Board. Tomas von Rettig, Chairman of the Company's Board of Directors, acts as an expert member in the Nomination Board.

In a stock exchange release on 25 January 2022 Purmo Group announced that the Shareholders' Nomination Board proposes to the Annual General Meeting, planned be held on 25 April 2022, that the number of members of the Board of Directors, the composition of the Board of Directors and the remuneration of the Board of Directors are kept unchanged and in line with the resolutions of the Extraordinary General Meeting of Virala Acquisition Company Plc held on 13 December 2021, as follows:

- The Shareholders' Nomination Board proposes that the number of members of the Board of Directors is seven.
- The Shareholders' Nomination Board proposes that Tomas von Rettig, Matts Rosenberg, Carina Edblad, Alexander Ehrnrooth, Carlo Grossi, Jyri Luomakoski and Catharina Stackelberg are re-elected as members of the Board of Directors.
- The Shareholders' Nomination Board proposes that Tomas von Rettig is re-elected as the Chairman of the Board of Directors and Matts Rosenberg is re-elected as the Vice Chairman of the Board of Directors.

- The Shareholders' Nomination Board proposed also on the remuneration of the Board of Directors and Board Committees.

On 3 February 2022 Purmo Group completed the syndication of the EUR 280 million term loan and EUR 80 million revolving credit facility that were signed in September 2021.

In a stock exchange release on 1 March 2022 Purmo Group announced that it has acquired the entire share capital of TT Thermotech Intressenter AB, the Nordic heating systems company. The acquisition was valued at SEK 265 million (EUR 25 million) on a cash and debt free basis. In 2021, the company's total turnover was SEK 252 million (EUR 23.8 million) and EBITDA SEK 38 million (EUR 3.6 million) in accordance with Swedish GAAP.

Given the uncertainty and risk arising from the geopolitical situation in Ukraine and Russia, including imposed sanctions and possible future sanctions and counter sanctions and their consequences, there may be impact to the fair values and economic lives of assets, as well as on the commodity prices. The direct exposure to the Russian and Ukrainian markets are not material for the Group. Purmo Group's net sales to Ukraine account for less than 1 per cent and to Russia for less than 5 per cent of total net sales, and total assets in these countries represents less than 3 per cent of the Group's assets. The indirect impacts on other markets that Purmo Group operates in are difficult to assess at this stage. The Company announced 3 March 2022 that it suspends all sales

and operations in Russia until further notice. Purmo Group actively monitors the situation in order to ensure continued compliance with prevailing rules and applicable sanctions laws.

2022 financial guidance

In its initial outlook for 2022, Purmo Group expected both net sales and adjusted EBITDA, both excluding impact from acquisitions, to increase from 2021 (EUR 843.6 million and EUR 103.9 million, respectively). Both net sales and adjusted EBITDA in January and February were consistent with this full year outlook.

With the recent escalation of the geopolitical situation in Ukraine, visibility has weakened. The direct exposure to the Russian and Ukrainian markets are not material. Purmo Group's net sales to Ukraine accounts for less than 1 per cent and to Russia for less than 5 per cent of total net sales, and total assets in these countries represents less than 3 per cent of Purmo Group's assets. The indirect impacts on other markets that Purmo Group operates in are difficult to assess at this stage.

Board of Directors proposal for profit distribution and return of capital

The parent company's distributable equity on 31 December 2021 totaled EUR 377,864,962.16. The Board of Directors of Purmo Group Plc proposes to the Annual General Meeting convening 25 April 2022 that a return of capital of EUR 0.36 per class C share be paid for the financial year 2021 and that a return of capital for class F shares be paid in accordance with the Articles of Association of the Company for the financial year 2021 from the reserve for invested unrestricted equity of the Company. All the class C shares in the Company are entitled to a return of capital except for treasury shares held by the Company on the return of capital record date. In accordance with the Articles of Association of the Company and as a consequence of the first share price hurdle for conversion of class F shares into class C shares having been exceeded in September 2021, class F shares currently carry a right to asset distribution equivalent to 0.69 per cent of the return of capital proposed to be distributed to class C shares, which corresponds to a return of capital of EUR 0.07 per class F share.

The Company's dividend policy states that at least 40% of annual net profit will be distributed as dividend or return of capital. In its proposal, the Board has considered the significant effect of the one-time, non-cash IFRS 2 merger impact related to the merger of Virala Acquisitions Company Plc and Purmo Group Ltd on the annual net profit.

The return of capital is proposed to be paid in two instalments. The first instalment, EUR 0.18 per Class C share and EUR 0.03 per Class F share based on the Class F shares' current right to asset distribution in accordance with the Articles of Association shall be paid to a shareholder who is registered in the shareholders' register maintained by Euroclear Finland Oy on the return of equity record date, i.e. on 27 April 2022. The Board of Directors proposes that this instalment be paid on 4 May 2022.

The second instalment of the return of capital is EUR 0.18 per Class C share and EUR 0.04 per Class F share, based on the Class F shares' current right to asset distribution in accordance with the Articles of Association. The second instalment shall be paid to a shareholder who is registered in the shareholders' register maintained by Euroclear Finland Oy on the return of capital record date i.e. on 26 September 2022. The Board of Directors proposes that this instalment be paid on 3 October 2022.

Key figures

EUR million	1-12/2021	1-12/2020	1-12/2019
Net sales	843.6	671.2	696.8
EBITDA	33.6	71.9	54.2
EBITDA, %	4.0%	10.7%	7.8%
EBITDA, adjusted	103.9	85.1	65.4
EBITDA, adjusted %	12.3%	12.7%	9.4%
EBIT	3.5	42.0	27.9
EBIT, %	0.4%	6%	5.6%
Profit before tax	-5.1	31.9	15.9
Profit for the period	-18.8	25.3	14.2
Adjusted Profit for the period	51.4	38.5	25.3
Earnings per share, basic, EUR	-0.65	0.86	0.53
Adjusted Earnings per share, basic, EUR	1.77	1.32	0.96
Cashflow from operating activities	35.4	68.9	51.0
Capex	14.8	11.6	31.2
Acquisitions	4.5	0.0	3.4
Adjusted Operating Cash Flow for the last 12 months	53.1	94.2	55.0
Cash conversion	51.1%	110.7%	84.2%
Return on operating capital employed	1.5%	17.8%	10.0%

EUR million	31 Dec 2021	31 Dec 2020	31 Dec 2019
Cash and cash equivalents	177.6	55.0	12.6
Operating capital employed	271.8	235.6	278.0
Net debt	239.5	75.1	167.2
Net debt / Adjusted EBITDA	2.3	0.9	2.6
Equity / Asset ratio	37.3%	61.7%	58.1%
Return on Equity	-4.0%	4.8%	2.8%

Information about the share

EUR million	31 Dec 2021	31 Dec 2020	31 Dec 2019
Share capital, at the end of the year, EUR million	3.1	0.0	0.0
C class shares outstanding at the end of the year ¹	40,374,531	28,846,195	26,101,014
F class shares outstanding at the end of the year	1,565,217	n.a.	n.a.
Weighted average adjusted number of shares, basic	29,124,487	28,787,686	26,342,299
Weighted average adjusted number of shares, diluted	29,124,487	28,964,881	26,390,541
Earnings per share, EUR	-0.65	0.86	0.53
Earnings per share, diluted, EUR	-0.65	0.86	0.53
Dividend payout per C-share and return of capital, EUR ²	0.36	n.a.	n.a.
Dividend payout per F-share and return of capital, EUR ²	0.07	n.a.	n.a.
Dividend and return of capital per earnings, class C-share, %	-83.0 %	n.a.	n.a.
Dividend and return on capital per earnings, class F-share, %	-8.3 %	n.a.	n.a.
Effective dividend yield, class C-share, %	2.5 %	n.a.	n.a.
Equity per share, EUR	9.31	18.94	19.80
Market capitalisation, class C-share, EUR million	413.6	n.a.	n.a.
Price to earnings ratio (P/E)	-21.85	n.a.	n.a.
Highest share price, EUR	14.50	n.a.	n.a.
Lowest share price, EUR	9.78	n.a.	n.a.
Volume-weighted average share price, EUR	11.40	n.a.	n.a.
Share price, 31 December, EUR	14.20	n.a.	n.a.

¹ Converted with merger consideration ratio K-share to C-share 2,600334506

² Board proposal

Calculation of key figures

Key figure	Definition	Reason for use
EBIT	Profit before tax and net financial items (Operating profit).	EBIT is used to measure profitability generated by operating activities of the Group.
EBIT margin	EBIT as per centage of net sales.	
EBITDA	Operating profit before depreciation, amortisation and impairment.	EBITDA is an indicator to measure the operating performance of the Group, before depreciation, amortisation and impairment.
EBITDA margin	EBITDA as per centage of net sales.	
EBITA	Operating profit before the amortisation of intangibles including trademarks.	EBITA is an indicator to measure the operating performance of the Group, before amortisation of intangibles including trademarks.
EBITA margin	EBITA as per centage of net sales.	
Gross profit	Net sales less cost of sales.	
Comparability adjustments	Comparability adjustments comprise of direct transaction and integration costs on M&A activities, restructuring costs and costs incurred in connection with performance improvement programmes, costs that have been incurred in connection with the formation of Purmo Group and costs incurred to achieve stand-alone readiness which will not continue post-Merger as well as costs incurred as a result of Rettig Group's ownership comprising of management fees and Rettig Group's legacy incentive plans in addition to other one-off costs such as legal claims or significant out-of-period adjustments and exceptional gains and losses on sale of fixed assets.	Comparability adjustments account for items that have been adjusted due to specific events that otherwise affect comparability between different periods. Provides a better understanding to management and investors of the comparable operating activities. Adjusted EBITDA, adjusted EBITDA margin, Adjusted EBITA and Adjusted EBITA margin are presented in addition to EBIT, EBITDA and EBITA to reflect the underlying business performance by adjusting for items that the Group considers to impact comparability ("Comparability adjustments").
Adjusted EBITDA	EBITDA before comparability adjustments	
Adjusted EBITDA margin	Adjusted EBITDA as per centage of net sales	
Adjusted EBITA	EBITA before comparability adjustments	
Adjusted EBITA margin	Adjusted EBITA as per centage of net sales	
Adjusted Profit for the period	Profit before the period before comparability adjustments	
Net working capital	Purmo Group's inventories, operative receivables less trade and other operative liabilities.	Net working capital is a useful measure to monitor the level of direct net working capital tied to the operations and changes therein.

Key figure	Definition	Reason for use
Capex	Capex is a measure of capital expenditure for the period which comprises the Group's investments in property plant and equipment and intangible assets derived from the consolidated cash flow statement.	Capex is an indicator of the Group's investments in property plant and equipment and intangible assets
Acquisitions (M&A)	Acquisitions of subsidiaries and investments in associates derived from the consolidated cash flow statement for the period.	Acquisitions capex is an indicator for investments in acquisition of businesses that are intended to grow the Group's product or service offering, assets or technologies, productive capacity or performance
Adjusted operating cash flow for the last 12 months	Adjusted EBITDA on a rolling twelve-month basis deducted with the change in net working capital and capex on a rolling twelve-months basis.	Adjusted operating cash flow provides information on the Group's operating cash flow on an annualised basis, excluding a
Cash conversion	Adjusted operating cash flow divided by Adjusted EBITDA based on a rolling twelve-month calculation.	Cash conversion is used to assess Purmo Group's efficiency to convert its operating results into cash. The ratio indicates the Group's capacity to pay dividends and / or generate funds for acquisitions or other transactions.
Operative capital employed	Net working capital, other intangible assets, property, plant, equipment and right-of-use assets	Capital employed presents the total investment in the Group's business operations.
Return on operating capital employed	EBIT based on a rolling twelve-month calculation divided by operating capital employed.	Measures the return on the capital tied up in the business.
Net debt	Non-current and current borrowings (including shareholder loan) and non-current and current lease liabilities less cash and cash equivalents.	To show the net of interest bearing assets and interest bearing liabilities
Net debt/Adjusted EBITDA	Net debt divided by Adjusted EBITDA based on a rolling twelve-month calculation	The ratio indicates how fast the Group can repay its net debt using adjusted EBITDA (expressed in years), and it is a useful measure to monitor the level of the Group's indebtedness.
Equity to Asset ratio	Total equity attributed to the owners of the company divided by total assets derived from the IFRS consolidated financial statements.	The ratio is a useful indicator to measure how much of the Group's assets are funded by issuing shares rather than through external borrowings.
Return on equity	Group's profit for the period attributable to the owners of the Parent based on a rolling twelve-month calculation divided by the average total equity attributable to owners of the Company.	Shows owners the return on their invested capital

Reconciliation of Alternative Performance Measures

EUR million unless otherwise indicated	2021	2020	2019
Comparability adjustments			
IFRS 2 merger impact	52.3	-	-
M&A related transactions and integration costs	0.1	0.4	1.5
Restructuring costs and one-off costs related to efficiency programs	8.9	7.8	3.8
Formation of Purmo group and standalone preparations	6.6	2.0	1.3
Management fee to owners and legacy Rettig Group incentive plans	2.4	2.9	4.6
Other	0.0	0.1	0.0
Total adjustments	70.2	13.2	11.2
Net sales	843.6	671.2	696.8
Adjusted EBIT			
EBIT	3.5	42.0	27.9
EBIT margin	0.4%	6.3%	4.0%
Adjustments	70.2	13.2	11.2
Adjusted EBIT	73.7	55.2	39.1
Adjusted EBIT margin	8.7%	8.2%	5.6%
Adjusted EBITA			
EBIT	3.5	42.0	27.9
Amortisation	2.9	2.9	1.3
EBITA	6.3	44.9	29.2
EBITA margin	0.8%	6.7%	4.2%
Adjustments	70.2	13.2	11.2
Adjusted EBITA	76.6	58.1	40.4
Adjusted EBITA margin	9.1%	8.7%	5.8%

EUR million unless otherwise indicated	2021	2020	2019
Adjusted EBITDA			
EBITA	6.3	44.9	29.2
Depreciation	27.3	27.0	25.0
EBITDA	33.6	71.9	54.2
EBITDA margin	4.0%	10.7%	7.8%
Adjustments	70.2	13.2	11.2
Adjusted EBITDA	103.9	85.1	65.4
Adjusted EBITDA margin	12.3%	12.7%	9.4%
Adjusted profit/loss for the period			
Profit/loss for the period	-18.8	25.3	14.1
Adjustments	70.2	13.2	11.2
Adjusted profit/loss for the period	51.4	38.5	25.3
Adjusted Operating cash flow for the last 12 months			
Adjusted EBITDA in the last 12 months	103.9	85.1	65.4
Change in net working capital compared to previous year same period	-35.9	20.7	20.8
Capex for last 12 months	-14.8	-11.6	-31.2
Adjusted Operating cash flow for the last 12 months	53.1	94.2	55.0
Cash conversion			
Adjusted Operating cash flow for the last 12 months	53.1	94.2	55.0
Adjusted EBITDA	103.9	85.1	65.4
Cash conversion	51.1%	110.7%	84.2%
Net working capital			
Inventories	157.4	105.3	114.4
Operative receivables	104.7	70.7	85.0
Operative liabilities	189.7	142.5	145.2
Net working capital	72.3	33.5	54.1

EUR million unless otherwise indicated	2021	2020	2019
Operative capital employed			
Net working capital	72.3	33.5	54.1
Other intangible assets	36.3	38.0	39.6
Property, plant and equipment	131.9	133.3	148.4
Right-of-use assets	31.3	30.9	35.8
Operative capital employed	271.8	235.6	278.0
Return on operating capital employed			
Operative capital employed	271.8	235.6	278.0
EBIT for the last 12 months	3.5	42.0	27.9
Return on operating capital employed	1.3%	17.8%	10.0%
Net debt			
Loans and borrowings (non-current)	285.7	0.0	30.2
Loans and borrowings (current)	95.0	94.5	110.1
Lease liabilities (non-current)	30.7	29.7	33.5
Lease liabilities (current)	5.6	5.9	6.0
Cash and cash equivalents	-177.6	-55.0	-12.6
Net debt	239.5	75.1	167.2
Net debt/Adjusted EBITDA			
Net debt	239.5	75.1	167.2
Annualised adjusted EBITDA	103.9	85.1	65.4
Net debt/Adjusted EBITDA	2.3	0.9	2.6
Equity/Asset ratio			
Equity attributable to owners of the Company	390.6	515.5	516.7
Total assets	1,046.2	836.2	888.7
Equity/Asset ratio	37.3%	61.7%	58.1%
Return on equity			
The cumulative last 12 month profit attributable to owners of the Company	-18.8	24.9	14.0
Equity attributable to owners of the Company beginning of period	515.5	516.7	475.6
Equity attributable to owners of the Company end of period	390.6	515.5	516.7
Equity attributable to owners of the Company average	453.1	516.1	496.2
Return on equity	-4.2%	4.8%	4.8%

EUR million unless otherwise indicated	2021	2020	2019
Basic earnings per share			
Profit/loss attributable to shareholders of the parent company for C shares (EUR million)	-18.7	24.9	14.0
Profit/loss attributable to shareholders of the parent company for F shares (EUR million)	-0.1	-	-
Profit/loss attributable to the owners of the Company (EUR million)	-18.8	24.9	14.0
Weighted average number of shares outstanding (pcs)	29,124,487	28,787,686	26,342,299
Basic earnings per share, EUR	-0.65	0.86	0.53
Diluted earnings per share			
Profit/loss attributable to shareholders of the parent company for C shares (EUR million)	-18.7	24.9	14.0
Profit/loss attributable to shareholders of the parent company for F shares (EUR million)	-0.1	-	-
Profit/loss attributable to the owners of the Company (EUR million)	-18.8	24.9	14.0
Diluted weighted average number of shares outstanding (pcs)	29,124,487	28,964,881	26,390,541
Diluted earnings per share, EUR	-0.65	0.86	0.53
Adjusted basic earnings per share			
Adjustments	70.2	13.2	11.2
Adjusted profit/loss attributable to shareholders of the parent company for C shares (EUR million)	51.1	37.8	25.2
Adjusted profit/loss attributable to shareholders of the parent company for F shares (EUR million)	0.4	0.3	0.2
Adjusted profit/loss attributable to the owners of the Company (EUR million)	51.4	38.0	25.2
Weighted average number of shares outstanding (pcs)	29,124,487	28,787,686	26,342,299
Adjusted basic earnings per share, EUR	1.77	1.32	0.96
Adjusted diluted earnings per share			
Adjustments	70.2	13.2	11.2
Adjusted profit/loss attributable to shareholders of the parent company for C shares (EUR million)	51.1	37.8	25.0
Adjusted profit/loss attributable to shareholders of the parent company for F shares (EUR million)	0.4	0.3	0.2
Adjusted profit/loss attributable to the owners of the Company (EUR million)	51.4	38.0	25.2
Diluted weighted average number of shares outstanding (pcs)	29,124,487	28,964,881	26,342,299
Adjusted diluted earnings per share, EUR	1.77	1.32	0.96

Table of Contents

CONSOLIDATED FINANCIAL STATEMENTS 21

Consolidated statement of profit and loss 21

Consolidated statement of comprehensive income 21

Consolidated statement of financial position 22

Consolidated Statement of cash flows 23

Consolidated statement of changes in equity 24

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 25

PROPOSAL OF THE BOARD OF DIRECTORS 75

AUDITOR'S REPORT 76

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 25

1. Accounting principles for the consolidated financial statement 25

1.1 General information 25

1.2 Basis of preparation 26

1.3 Management judgement and use of estimates 26

1.4 New and amended IFRS standards and IFRIC interpretations 27

2. Group performance 27

2.1 Segment information 27

2.2 Net sales 29

2.3 Other income and expenses 30

2.4 Employment benefit expenses 32

2.5 Share-based payments 33

3. Intangible and tangible assets 35

3.1 Goodwill and other intangible assets 35

3.2 Impairment testing of goodwill 36

3.3 Property, plant and equipment 38

3.4 Right-of-use assets 39

3.5 Depreciation and amortization 41

4. Operational assets and liabilities 41

4.1 Inventories 41

4.2 Trade and other receivables 41

4.3 Trade and other payables 42

4.4 Provisions 42

4.5 Post-employment obligations 44

5. Capital structure and financial instruments 45

5.1 Financial income and expenses 45

5.2 Financial risk management 46

5.3 Financial assets and liabilities 49

5.4 Cash and cash equivalents 51

5.5 Equity 51

5.6 Interest-bearing liabilities 55

5.7 Derivative financial instruments 57

5.8 Commitments and contingent assets and liabilities 59

6. Group structure 59

6.1 Business combinations 59

6.2 Subsidiaries 61

6.3 Exchange rates 62

7. Other notes 62

7.1 Related party transactions 62

7.2 Taxes 64

7.3 Events after the balance sheet date 67

8. Parent company financial statements 68

Parent company income statement 68

Parent company balance sheet 68

Parent company cash flow statement 69

Notes to the parent company financial statements 70

Consolidated financial statements

Consolidated statement of profit and loss

EUR million	Note	2021	2020
Net sales	2.2	843.6	671.2
Cost of sales	2.3	-645.5	-498.4
Gross profit		198.1	172.8
Sales and marketing expenses	2.3	-78.3	-75.2
Administrative expenses	2.3	-42.0	-38.8
Research and development expenses	2.3	-5.9	-5.2
Other income	2.3	2.6	1.6
Other expenses	2.3	-71.0	-13.2
Operating expenses		-194.6	-130.8
EBIT		3.5	42.0
Finance income	5.1	1.1	2.6
Finance expenses	5.1	-9.7	-12.7
Net financial items		-8.6	-10.1
Profit before tax		-5.1	31.9
Income tax expense	7.2	-13.7	-6.6
Profit for the period		-18.8	25.3
Profit for the period attributable to:			
Owners of the Parent		-18.8	24.9
Non-controlling interests		-	0.4
Earnings per share for profit attributable to the ordinary equity holders of the parent company:			
Earnings per share basic, EUR	5.5	-0.65	0.86
Earnings per share diluted, EUR	5.5	-0.65	0.86

The Notes are an integral part of these financial statements.

Consolidated statement of comprehensive income

EUR million	2021	2020
Profit for the period	-18.8	25.3
Other comprehensive income		
Items that will never be reclassified to profit or loss		
Remeasurement of defined benefit liability (asset)	8.4	-3.2
Related income tax	0.2	0.1
Total items that will not be reclassified to profit or loss	8.6	-3.2
Items that are or may be reclassified to profit or loss		
Foreign operations – foreign currency translation differences	0.4	-8.0
Cash flow hedges – effective portion of changes in fair value	-1.9	-0.8
Cash flow hedges – reclassified to profit or loss	1.5	0.4
Related income tax	0.2	0.1
Total items that are or may be reclassified to profit or loss	0.1	-8.3
Other comprehensive income, net of tax	8.7	-11.5
Total comprehensive income for the period	-10.1	13.8
Total comprehensive income attributable to:		
Owners of the parent	-10.1	13.4
Non-controlling interests	-	0.4

The Notes are an integral part of these financial statements.

Consolidated statement of financial position

EUR million	Note	2021	2020
Assets			
Non-current assets			
Goodwill	3.1, 3.2	369.2	365.4
Other intangible assets	3.1	36.3	38.0
Property, plant and equipment	3.3	131.9	133.3
Right-of-use assets	3.4	31.3	30.9
Other receivables	4.2	1.0	1.0
Deferred tax assets	7.2	26.5	25.5
Employee benefits	4.5	6.2	2.1
Total non-current assets		602.4	596.1
Current assets			
Inventories	4.1	157.4	105.3
Trade receivables	4.2	77.1	53.1
Related party vendor note	5.2, 7.1	0.1	4.5
Derivative assets	5.7	0.7	1.2
Other receivables	4.2	29.6	20.5
Current tax asset	7.2	1.3	0.5
Cash and cash equivalents	5.4	177.6	55.0
Total current assets		443.8	240.0
Total assets		1,046.2	836.2
Equity and liabilities			
Equity			
Share capital	5.5	3.1	0.0
Reserve of invested unrestricted equity	5.5	385.9	497.5
Other reserves	5.5	-5.0	-7.0
Retained earnings		25.4	0.2
Net profit for the period		-18.8	24.9
Equity attributable to owners of the Company		390.6	515.5

EUR million	Note	2021	2020
Non-controlling interests		-	1.8
Total equity		390.6	517.3
Liabilities			
Non-current liabilities			
Loans and borrowings	5.6	285.7	-
Lease liabilities	3.4	30.7	29.7
Defined benefit liabilities	4.5	23.5	28.5
Other payables	5.3	1.2	1.2
Provisions	4.4	7.6	7.3
Deferred tax liabilities	7.2	2.6	3.9
Total non-current liabilities		351.3	70.7
Current liabilities			
Loans and borrowings	5.6	95.0	94.5
Lease liabilities	3.4	5.6	5.9
Trade and other payables	4.3	192.0	141.6
Derivative liabilities	5.7	2.0	1.0
Provisions	4.4	4.9	1.2
Current tax liabilities	7.2	4.8	4.0
Total current liabilities		304.3	248.2
Total liabilities		655.6	318.9
Total equity and liabilities		1,046.2	836.2

The Notes are an integral part of these financial statements.

Consolidated Statement of cash flows

EUR million	Note	2021	2020
Cash flow from operating activities			
Profit for the period		-18.8	25.3
Adjustments			
Depreciation, amortisation and impairment losses		30.2	29.7
Gain on sale of property plant and equipment		-0.5	-0.1
Share-based payments		1.9	2.1
Finance income and expenses		8.6	10.1
Income tax expenses		13.7	6.7
Reverse recapitalization		52.3	-
Other non-cash expenses		5.7	-
Cash flow before change in net working capital		93.1	73.7
Changes in net working capital			
Inventories, increase (-) / decrease (+)	4.1	-48.7	4.9
Trade and other receivables, increase (-) / decrease (+)	4.2	-31.2	9.4
Trade and other payables, increase (+) / decrease (-)	4.3	45.0	2.9
Provisions and employee benefits, increase (+) / decrease (-)	4.4	-1.6	-1.1
Changes in net working capital		-36.5	16.1
Net cash flow from operating activities before financial items and taxes			
		56.7	89.8
Interest paid		-8.7	-12.5
Interest received		0.9	1.6
Income tax paid, net		-13.5	-10.0
Cash flow from operating activities		35.4	68.9

EUR million	Note	2021	2020
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets	3.1, 3.2	0.7	0.7
Purchases of property, plant and equipment and intangible assets	3.1, 3.2	-14.8	-11.6
Payment of deferred consideration for business acquisition	6.1	-4.5	-
Cash flow from investing activities		-18.6	-10.9
Cash flow from financing activities			
Repayment of long-term borrowings to related party	5.3, 7.1	-	-30.2
Proceeds from long-term borrowings	5.3	279.0	-
Increase of equity	5.5	0.3	-
Proceeds from share issue	5.5	99.9	-
Dividends and group contributions paid to related party	5.5, 7.1	-266.4	-15.0
Repayment of lease liabilities	3.3	-9.6	-9.4
Proceeds from short-term borrowings	5.6	95.0	1.2
Repayment of short-term loans	5.6	-4.9	-
Proceeds from short-term borrowings from related party	5.6, 7.1	10.2	89.0
Repayment of short-term borrowings to related party	5.6, 7.1	-98.0	-50.1
Cash flow from financing activities		105.4	-14.5
Change in cash and cash equivalents, increase (+) / decrease (-)			
		122.2	43.5
Cash and cash equivalents at beginning of the period			
		55.0	12.6
Impact of change in exchange rates		0.4	-1.1
Cash and cash equivalents at end of the period	5.4	177.6	55.0

The Notes are an integral part of these financial statements.

Consolidated statement of changes in equity

EUR million	Attributable to owners of the parent company						Total	Non-controlling interest	Total equity
	Share capital	Reserve of invested unrestricted equity	Translation reserve	Fair value reserve	Share-based payments reserve	Retained earnings			
Balance as at 1 Jan 2021	0.0	497.5	-9.1	-0.3	2.4	25.1	515.5	1.8	517.3
Profit for the period						-18.8	-18.8		-18.8
Other comprehensive income			0.4	-0.3		8.6	8.7		8.7
Total comprehensive income for the period			0.4	-0.3		-10.3	-10.1		-10.1
Dividend and capital repayments		-15.0				-251.5	-266.4		-266.4
Long term incentive plan		0.4			2.0		2.3		2.3
Reverse recapitalization	3.1	-97.0			-4.3	250.3	152.1		152.1
Acquisition of minority						-2.8	-2.8	-1.8	-4.6
Balance as at 31 Dec 2021	3.1	385.9	-8.7	-0.6	-	10.9	390.6	-	390.6

EUR million	Attributable to owners of the parent company						Total	Non-controlling interest	Total equity
	Share capital	Reserve of invested unrestricted equity	Translation reserve	Fair value reserve	Share-based payments reserve	Retained earnings			
Balance as at 1 Jan 2020	0.0	514.0	-1.1	-	0.5	3.4	516.7	1.3	518.0
Profit for the period						24.9	24.9	0.4	25.3
Other comprehensive income			-8.0	-0.3		-3.2	-11.5		-11.5
Total comprehensive income for the period			-8.0	-0.3		21.7	13.4	0.4	13.8
Dividend and capital repayments		-15.0					-15.0		-15.0
Long term incentive plan					1.9		1.9		1.9
Acquisition of treasury shares		-1.5					-1.5		-1.5
Balance as at 31 Dec 2020	0.0	497.5	-9.1	-0.3	2.4	25.1	515.5	1.8	517.3

The Notes are an integral part of these financial statements.

Notes to the consolidated financial statements

1. Accounting principles for the consolidated financial statement

How should Purmo Group's accounting principles be read?

The accounting principles used for the financial statements of Purmo Group are described at the beginning of each note to help understand each area of the financial statements. The following table summarizes the notes to each accounting policy and the relevant IFRS standard related to the note.

Accounting principle	Note	IFRS standard
Segment information	2.1 Segment information	IFRS 8
Revenue recognition	2.2 Net sales	IFRS 15
Employment benefit expenses	2.4 Employment benefit expenses	IAS 19
Share-based payments	2.5 Share-based payments	IFRS 2
Reverse recapitalization	2.3 Other income and expenses	IFRS 3, IFRS 2
Other intangible assets	3.1 Goodwill and other intangible assets, 3.2 Impairment testing of goodwill	IAS 36, IAS 38
Property, plant and equipment	3.3 Property, plant and equipment	IAS 16, IAS 36
Leases	3.4 Right-of-use assets	IFRS 16
Inventory	4.1 Inventories	IAS 2
Financial risk management	5.2 Financial risk management	IAS 32, IFRS 7, IFRS 9, IFRS 13
Financial assets and liabilities	5.3 Financial assets and liabilities	IAS 32, IFRS 7, IFRS 9, IFRS 13
Equity	5.5 Equity	IAS 1
Business combinations	6.1 Business combinations	IFRS 3
Related party transactions	7.1 Related party transactions	IAS 24
Income taxes	7.2 Taxes	IAS 12

1.1 General information

Purmo Group Plc (formerly Virala Acquisition Company Plc), "Purmo Group" or the "Company", business ID 2890898-5, is a public limited company domiciled in Helsinki, Finland. The registered address of Purmo Group

is Bulevardi 46, 00121 Helsinki, Finland. These consolidated financial statements comprise the parent company Purmo Group Plc and its subsidiaries (collectively the "Group" and individually "Group companies"). The Company's class C shares are listed on the NASDAQ OMX Helsinki Ltd as of 3 January 2022. The copies of the consolidated financial statements are available at www.purmogroup.com or the parent company's head office, Bulevardi 46, 00121 Helsinki, Finland.

Purmo Group is an international leader in sustainable indoor climate comfort solutions. Purmo Group specialises in heating and cooling solutions and has a complete product and solution offering in hydronic heating and cooling, including radiators, towel warmers, underfloor heating, convectors, valves and controls. Purmo Group's comprehensive product offering includes products manufactured for homes and commercial buildings and products are mainly sold via sanitary and heating wholesalers. Purmo Group's vision is that perfect indoor climate should not cost the planet's climate and Purmo Group's mission is to be the world's leader in sustainable indoor climate comfort solutions. Purmo Group has approximately 3,500 industry professionals operating in 46 locations in 21 countries, manufacturing and distributing top quality products and solutions to customers in more than 100 countries globally.

Merger of Virala Acquisition Company Plc and Purmo Group Ltd

On 8 September 2021 Virala Acquisition Company Plc ("VAC", the first company listed on the SPAC segment of the regulated market of Nasdaq Helsinki Ltd "Nasdaq Helsinki") and Purmo Group Ltd (a Finnish private limited liability company), announced they had signed a merger agreement (the "Merger") to combine the two companies. On 13 December 2021 the Extraordinary General Meetings of VAC and Purmo Group Ltd approved the Merger. The Merger was completed on 31 December 2021 and the combined company was re-named Purmo Group Plc. Following the contemplated Merger, the combined company has continued the business operations of Purmo Group Ltd as a listed company on the official list of Nasdaq Helsinki.

The shareholders of Purmo Group Ltd received 31 December 2021 as merger consideration 2.600334506 new class C shares in VAC for each class K share and class K1 share, and 4089.270894510 new class C shares for each class P share they hold in Purmo Group Ltd (the "Merger Consideration"), that is, the Merger Consideration was issued to the shareholders of Purmo Group Ltd in proportion to their existing shareholding of each class of shares in Purmo Group Ltd. The aggregate number of new class C shares in VAC issued in connection with the Merger was 29,594,531 shares, resulting in 40,374,531 class C shares in total in the

combined company. Further, as a result of the merger, all Virala Acquisition Company Plc’s class E shares were converted automatically into class F shares upon completion of the merger. The share capital of the combined company was increased by EUR 3,000,000 in connection with the registration of the execution of the merger. The merger consideration shares were registered at the Finnish Trade Register on 31 December 2021. Trading in the Merger Consideration Shares and the existing class C shares of VAC on the official list of Nasdaq Helsinki is begun on 3 January 2022 under the trading code PURMO (ISIN code: FI4000507488).

The merger is accounted for under IFRS within scope of IFRS 2 Share-based payments by analogy to IFRS 3 Business Combinations whereby Purmo Group acquires a public special purpose acquisition company VAC in a reverse acquisition but there is no acquisition accounting and no recognition of goodwill, as VAC is not a business as defined by IFRS 3. Accordingly, the shares issued as merger consideration are recognized at fair value and recorded as consideration for the acquisition of VAC by Purmo Group as an increase in equity. The difference in the fair value of equity instruments held by VAC shareholders over the fair value of identifiable net assets of VAC represents a service of listing of Purmo Group’s shares and is accounted for as a share-based payment in accordance with IFRS 2 and recorded as an expense through the income statement with a corresponding entry in equity post-Merger. As a result of the application to IFRS 3 by analogy to the Merger and application of the reverse acquisition guidance, Purmo Group’s operating history and financial performance forms the basis for the comparative financial information for the combined company.

1.2 Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs, using the IAS and IFRS standards and SIC and IFRIC interpretations, as applicable at 31 December 2021 and adopted by the European Union. The International Financial Reporting Standards refer to the standards implemented in the EU by Regulation (EC 1606/2002, and the related interpretations. The notes to the consolidated financial statements also comply with the Finnish accounting and corporate legislation that supplements the IFRSs.

The Board of Directors of Purmo Group Plc has approved the financial statements for publication on 25 March 2022. Under the Finnish Limited Liability Companies Act, the shareholders may accept or reject the financial statement in the Annual General Meeting of the shareholders held after the publication. The Annual General Meeting is also entitled to amend the consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis unless otherwise specified in the significant accounting policies section below.

The consolidated financial statements are prepared as a continuation of the financial statements of Purmo Group Ltd, the accounting acquirer, adjusted to reflect the legal capital structure of the legal parent/ accounting acquiree Purmo Group Plc (former Virala Acquisition Company Plc). The comparative financial years included herein are operations of Purmo Group Ltd prior to the merger.

Items included in the financial statements of each of Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). These consolidated financial statements are presented in EUR, which is the Company’s functional currency. The consolidated financial statements are presented in EUR millions. As result of rounding differences, the figures presented in the tables may not add up to the total.

1.3 Management judgement and use of estimates

The preparation of consolidated financial statements under IFRSs requires the use of judgements, estimates and assumptions affecting the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management’s best view of current events and actions, the actual results may ultimately differ from these estimates. These estimates and assumptions are reviewed on an ongoing basis.

Information about management judgements, assumptions and estimates that have a significant effect on the financial statements and estimates that may cause material adjustments to the financial statements are described below.

Note	Accounting estimates and management judgement
Note 2.2	Net sales
Note 2.5	Share-based payments
Note 3.2	Impairment testing of goodwill
Note 3.3	Property, plant and equipment
Note 3.4	Right-of-use assets
Note 4.1	Inventory
Note 4.4	Provisions
Note 4.5	Post-employment obligations
Note 7.2	Taxes

The Group’s management has assessed the potential accounting implications of the Covid-19 pandemic. The management has reviewed the carrying values of the balance sheet items and the review did not indicate need for asset impairments

1.4 New and amended IFRS standards and IFRIC interpretations

Amendments annual improvements to IFRS standards

The Group has applied the following amendments to IFRS standards published by IASB that are relevant for its operations and are effective for the first time for financial reporting periods commencing on 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures, and IFRS 16 Leases
- COVID-19 related rent concessions – Amendments to IFRS 16 Leases

The application of the amendments did not have material impact on the results or financial position or the presentation of Purmo Group's financial statements.

New and amended standards to be applied

At the date of authorization of these financial statements, Purmo Group has not yet applied the following new and revised IFRS standards that have been issued but are not yet effective:

- Classification of Liabilities as Current or Non-current – Amendments to IAS 1
- Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to IAS 1 Presentation of Financial Statements, IFRS Practice Statement 2 and IAS 8 Accounting Policies, Changes in Accounting Policies and Errors: Disclosure of Accounting policies and Definition of Accounting Estimates
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The application of the standards listed above is not expected to have a material impact on Purmo Group's financial statements in future periods.

2. Group performance

2.1 Segment information

ACCOUNTING POLICIES

Operating segments are reported in a manner consistent with Purmo Group's internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as Purmo Group's Board of Directors, assisted by the CEO. The operating segments are defined based on the information that the Board of Directors uses to make decisions about the resources to be allocated to the divisions and to assess their performance.

In September 2021 the Group changed its cost allocation method in relation to allocating corporate and other Group level shared costs to its divisions. The divisions form the Group's operating and reportable segments. The change impacted the key operating measure, Adjusted EBITDA, which is reported for the divisions. As a result, certain corporate and other Group level costs are now reported under Other and unallocated. As a result of the change in the determination of the divisional Adjusted EBITDA, Purmo Group has restated the comparative financial periods to reflect the new measurement and reporting basis for division profitability.

The adjusted EBITDA has been derived from the reported EBITDA by removing material and unexpected items outside the ordinary course of business that are considered to impact comparability of the underlying business operations and excludes costs and income incurred in the group functions as described above. Such items comprise of direct transaction and integration costs on M&A activities, restructuring costs and costs incurred in connection with performance improvement programs, the IFRS 2 merger impact, costs that have been incurred in connection with the formation of Purmo Group, exceptional gains and losses on sale of fixed assets, and costs incurred to achieve stand-alone readiness which will not continue post-merger.

Group's divisions

Purmo Group's business operations are run through two divisions: Radiators and ICS, which form Purmo Group's segments.

The Radiator division manufactures two broader product categories: panel radiators comprising of horizontal and decorative panel radiators and vertical decorative radiators, and other radiators comprising of towel warmers, decorative tubular radiators and electric radiators.

ICS division provides a comprehensive range of components or full systems to wholesalers, specifiers and installers comprising of four product categories; radiant heating and cooling, air heating and cooling, water distribution systems and system components and controls.

Other and unallocated comprises of corporate headquarter functions and other Group level costs including Group Finance, Group Legal, Group Sustainability, Group Communications and Group Human Resources and M&A. The head office costs comprise mainly of salaries, rent and professional fees that are operated for the benefit of the whole group and whose costs are not allocated to divisions.

Group's main products include panel radiators, tubular and electric radiators, underfloor heating and piping systems, system components and air conditioners. Purmo Group sells its products mainly to wholesalers and national merchants in both residential and non-residential sectors in northern, western, southern and eastern Europe (including Russia) but also in the rest of the world (including Brazil, China, Japan and the United States).

2021

EUR million	Radiators	ICS	Other	Group
Net sales	506.3	337.2	-	843.6
Adjusted EBITDA	66.0	43.7	-5.8	103.9
Adjusted EBITDA % of sales	13.0%	13.0%	-	12.3%
Management fee to owners and legacy Rettig incentive plans				-2.4
Material items impacting period profit and loss				-67.9
Depreciation, amortization and impairment				-30.2
EBIT				3.5
Net financial items				-8.6
Profit before tax				-5.1
Additional information for segments				
Depreciation, amortization and impairment by segment	-21.1	-9.0	-	-30.2

2020

EUR million	Radiators	ICS	Other	Group
Net sales	396.9	274.3	-	671.2
Adjusted EBITDA	62.9	27.0	-4.7	85.1
Adjusted EBITDA % of sales	15.8%	9.8%	-	12.7%
Management fee to owners and legacy Rettig incentive plans				-2.9
Material items impacting period profit and loss				-10.3
Depreciation, amortization and impairment				-29.9
EBIT				42.0
Net financial items				-10.1
Profit before tax				31.9
Additional information for segments				
Depreciation, amortization and impairment by segment	-20.6	-9.3	-	-29.9

2.2 Net sales

ACCOUNTING PRINCIPLES

Sales of goods are recognized when the control is transferred to the customer. This is when the goods have been delivered to the customer, typically based on delivery terms. Delivery is deemed to have taken place when the products have been delivered to the agreed location and the risk of obsolescence and damage of products has been transferred to the customer. In addition, for certain contract terms, a transportation service is considered to be a separate performance obligation when control to the goods is transferred to the buyer before the goods are delivered. However, transportation service is typically performed during the same day as control is transferred to the customer, and therefore the revenue from goods and transportation service is recognized at the same time because the effect of the delay on the Group's net sales is deemed to be immaterial. A receivable is recognized when the goods are delivered. This is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Amounts disclosed as net sales are net of discounts, annual rebates, bonuses and sanctions as well as other variable elements effecting revenue. The Group grants its customers different discounts, of which some are granted on invoicing, like cash discounts and different volume-based and customer related discounts. Goods are often sold with annual rebates based on aggregate sales. The level or the percentage on annual discounts might also depend on the sales volume, in which case the amount increases when the sales increases. A refund liability is recognized (included in trade and other payables for the expected volume-based discounts payable to customers in relation to the sales made until the end of the reporting period. Advance payments from customers, if any, are included in trade and other payables.

The Group provides warranties for its products and typical warranty period is between 2 -10 years depending on the product. Provision has been made for estimated warranty claims in respect of the products sold, see Note 4.4 Provisions.

ACCOUNTING ESTIMATES AND JUDGEMENTS

Recognition of sales may require judgement and transfer of control is mainly assessed based on the terms of delivery in accordance with IFRS 15. Revenue from sales is recognized based on the price specified in the contract, net of the estimated volume-based discounts, the estimates are updated each reporting date. Accumulated experience is used to estimate and provide for the discounts, annual rebates and other items effecting revenue, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

Group's main products include panel radiators, tubular and electric radiators, underfloor heating and piping systems, system components and air conditioners. Purmo Group sells its products mainly to wholesalers and national merchants.

Entity wide information

Net sales by market area

Net sales to external customers by market area is based on the location in which the net sales has originated.

EUR million	2021	2020
Northern Europe ¹	161.1	131.9
Western Europe	326.6	277.4
Central and Eastern Europe	201.5	152.5
Southern Europe	102.0	72.1
Rest of the world	52.4	37.3
Net Sales	843.6	671.2

¹ Net sales in Finland (Company's country of domicile) totalled to EUR 12.8 million (EUR 12.5 million).

Net sales by market area for divisions

The division sales divided into geographical areas is the primary aggregation criteria of sales that is monitored by the company.

2021			
EUR million	Radiators	ICS	Group
Northern Europe	112.3	48.8	161.1
Western Europe	213.5	113.1	326.6
Central and Eastern Europe	150.6	50.9	201.5
Southern Europe	5.7	96.3	102.0
Rest of the world	24.3	28.1	52.4
Net Sales	506.3	337.2	843.6

2020			
EUR million	Radiators	ICS	Group
Northern Europe	89.6	42.3	131.9
Western Europe	177.2	100.1	277.4
Central and Eastern Europe	111.3	41.2	152.5
Southern Europe	3.5	68.6	72.1
Rest of the world	15.3	22.0	37.3
Net Sales	396.9	274.3	671.2

Non-current assets by country

Non-current assets by country excludes financial instruments and deferred tax assets. Goodwill has not been allocated to geographical areas

EUR million	2021	2020
Poland	39.7	42.0
Finland	21.3	20.0
UK	26.8	23.7
Germany	23.1	23.3
Italy	27.0	27.4
China	17.3	17.2
Belgium	14.1	16.9
Rest of the world	37.4	34.7
Goodwill	369.2	365.4
Total	575.9	570.7

Assets and liabilities related to contracts with customers

The Group has no contract assets on the balance sheet. Contract liabilities include EUR 6.1 million (EUR 3.7 million) of advance payments from customers and they are presented in Trade and other payables in the balance sheet. Prepayments recognised as liabilities in the balance sheet are recognised as revenue during the following financial year (see also Note 4.3 Trade and other payables).

2.3 Other income and expenses

ACCOUNTING PRINCIPLES

Other income and expenses are such items that are not derived from other than Group's actual operations. Other income includes disposal gain of sold tangible and intangible assets, grants and rental income.

Government grants relating to the purchase of property, plant and equipment or intangible assets are recognised as deferred income. This deferred income is recognised in income statement on a systematic basis over the estimated useful life of the underlying asset. Other government grants are recognised in

the income statement on a systematic basis over the period in which the entity recognises the related costs that the grants are compensating.

Net foreign exchange gains and losses are presented in other income or other expenses unless they relate to financing items or to qualifying cash flow hedges.

As Virala Acquisition Company Ltd (VAC) did not meet the definition of a business the merger between VAC and Purmo Group Ltd hasn't been accounted for as a business combination but as a reverse recapitalization, in which no goodwill has been recognized and Purmo Group Ltd obtained a public company status. The difference in the value in accordance with IFRS 2 of VAC's listed C shares and unlisted F shares over the fair value of identifiable net assets of VAC represents a service of listing of Purmo Group's shares and is accounted for as a share-based payment in accordance with IFRS 2 and recorded as a one-time, non-cash impact in other operating expenses.

Other income

EUR million	2021	2020
Disposal gain for fixed assets	0.2	0.1
Grants	0.1	0.4
Material items impacting period profit and loss	0.5	0.2
Other	1.9	1.0
Total	2.6	1.6

Other expenses

EUR million	2021	2020
Net exchange losses	1.1	0.5
Disposal loss for fixed assets	0.0	0.1
Management fees to related party	0.4	0.6
Material items impacting period profit and loss	68.4	10.5
Other	1.1	1.5
Total	71.0	13.2

The Group has identified a number of items that are material due to the significance of their nature or amount which are listed below to provide a better understanding of the operating performance for the Group.

Material items impacting period profit and loss

EUR million	2021	2020
IFRS 2 merger impact	52.3	-
M&A related transaction and integration costs ¹	0.1	0.4
Restructuring costs and one-off costs related to efficiency programs ²	8.9	7.8
Formation of Purmo Group and stand-alone preparations ³	6.6	2.0
Other	0.5	0.3
Total	68.4	10.5

¹ M&A related transaction and integration costs consist mainly of professional fees for pre-deal support and M&A advisory.

² Restructuring costs and one-off costs related to efficiency programs consists of professional fees for project management expenses and redundancy costs for the PGUP programme and a restructuring provision for the closure of the production facility in Newcastle West Ireland. In 2020 the costs mainly relate to professional fees for project management expenses and redundancy costs for the PGUP programme.

³ Formation of Purmo Group and standalone preparations costs consist of professional fees in relation to listing preparations and for 2020 for Purmo rebranding and cost for one-time payment related to exit arrangements for former CEO /Leadership team.

The following table discloses the expenses by nature:

Expenses by nature

EUR million	2021	2020
Energy	18.9	16.4
Raw materials	444.0	311.2
Employee benefits	164.3	153.8
Sub-contracting services	9.2	7.4
Maintenance	12.7	12.0
Depreciation and amortisation	30.2	29.9
Research and development expenses	1.5	1.0
External transportation	39.0	34.5
Other expenses	71.0	13.2
Other	51.9	51.4
Total	842.7	630.8

Reverse recapitalization

The value in accordance with IFRS 2 of VAC's listed class C shares and unlisted F shares has been determined using VAC's closing price on 13 December 2021, of EUR 13.80. The value of class F shares has been determined based on the right to convert an F share into class C share depending on the development of class C share price. The thresholds of the right to convert are determined in the Articles of Association. In accordance with IFRS 2, a one-time, non-cash impact of EUR 52.3 million from the merger has been recognized in other operating expenses against retained earnings.

The table below presents the accounting treatment of the merger:

	Number of shares	Total fair value, EUR million
Listed C shares and unlisted F shares value	10,780,000	152.7
VAC's identifiable net assets		100.3
Value of IFRS 2 listing service		52.3

Audit fees

The following table includes the fees paid to the Company's statutory auditor KPMG:

EUR thousand	2021	2020
Audit	0.7	0.6
Audit related services	0.1	0.0
Tax advisory	0.3	0.2
Other services	-	0.1
Total¹	1.0	0.9

¹ The audit fees of Virala Acquisition Company Plc's are presented in note 8.3.

2.4 Employment benefit expenses

ACCOUNTING PRINCIPLES

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Under the defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. Contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans are pension plans that are not defined contribution plans. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

Defined benefit obligations are calculated annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest and the effect of the asset ceiling (if any, excluding interest, are recognised immediately in other comprehensive income. The Group determines the net interest expense (income for the net defined benefit liability (asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset, taking into account any changes in the net defined benefit liability (asset during the period as a result of contributions and benefit payments. Net interest expense relating to defined benefit plans are recognised in profit or loss within finance income or expense.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled within 12 months of the end of the reporting period, then they are discounted.

Personnel expenses

EUR million	2021	2020
Wages and salaries	128.2	120.1
Social security contributions	27.8	28.0
Pension expenses – defined contribution plans	5.2	2.6
Pension expenses – defined benefit plans	1.2	0.9
Share-based payments	1.9	2.3
Total	164.3	153.8

Number of personnel

	2021	2020
Average number of personnel	3,360	3,287

2.5 Share-based payments

ACCOUNTING PRINCIPLES

The Group has share-based incentive programs that are accounted for as equity-settled share-based payment transactions. The Group's share-based payment arrangements include different conditions, i.e. non-vesting conditions, market and non-market performance conditions as well as service conditions. The fair value of the equity-settled share-based payment is determined at the grant date and not revalued after the grant date. Market conditions as well as non-vesting conditions are taken into account when estimating the fair value of the equity instruments granted. Therefore, the expense is recognized irrespectively of whether the conditions are satisfied. Non-market performance conditions and the requirement to stay in service are not factored into the grant date fair value. If the non-marked performance condition or the service condition is not met, the cumulative share-based payment cost will be trued-up accordingly. The total cost is determined by reference to the fair value at grant-date multiplied by the estimated amount of equity instrument expected to be vested. At each balance sheet date, the Group revises the cumulative share-based cost expected to be paid out based on the likelihood of achieving non-market performance criteria and the service condition at the end of the performance period.

The expenses related to the equity settled share-based incentive programs are recognised in the profit and loss statement as employee benefit expenses over the vesting period with a corresponding adjustment to equity. For share-based incentive programs in which awards vest in stages, the expense is calculated in award tranches and recognised over the various vesting periods.

ACCOUNTING ESTIMATES AND JUDGEMENTS

At each balance sheet date, management reviews its estimates for the number of shares that are expected to vest. As part of this evaluation, Purmo Group takes into account changes in the forecasted performance of the Group and its reporting segments, expected turnover of the personnel part of the incentive plan, and other pertinent information impacting the number of shares to be vested.

Long-term incentive plan

In 2018 Purmo Group implemented a long-term incentive plan to key management. The plan consisted of two equity-settled compensation schemes, restricted matching shares and performance shares, and was conditional on the participant making an initial personal investment in the Company.

Restricted matching shares were earned based on continuation of employment and holding of personal initial investment. Restricted matching shares were paid upon initial investment. The restricted matching shares had a tranche vesting pattern that followed the performance periods and were to vest gradually in four equal instalments.

Restricted matching shares	
Grant date(s)	31 May 2018, 31 Jul 2019
Vesting conditions	service condition
Vesting date(s)	awards vest gradually during 2020-2023, 2021-2024
Payment method	shares
Number of participants	12
Maximum amount of matching shares (gross), pcs	8,456

All matching shares outstanding in December 2021, amounting to 6,019 shares, vested early due to the merger. The share-based payment expense recognised in 2021 related to the restricted matching shares was EUR 0.5 million (EUR 0.1 million for 2020).

Performance shares were earned based on continuation of employment, holding of initial personal investment and subject to the fulfilment of predetermined performance criteria over the performance period. The plan included four individual three-year performance periods: 2018-2020, 2019-2021, 2020-2022 and 2021-2023. The performance criterion for the performance periods was the majority shareholder's theoretical annualised Internal Rate of Return (IRR) for its investment in Purmo Group. The IRR was treated as a non-market condition and was based on a theoretical valuation of Purmo Group at the beginning and at the end of each performance period. At the end of each reporting period, the cumulative share-based cost expected to be paid out was revised based on the estimated IRR at the end of the performance period at that point in time.

	Performance shares 2018-2020	Performance shares 2019-2021	Performance shares 2020-2022
Grant date(s)	31 May 2018	31 May 2018, 31 Jul 2019	31 May 2018, 31 Jul 2019
Vesting conditions	service condition, IRR	service condition, IRR	service condition, IRR
Vesting date(s)	31 Dec 2020	31 Dec 2021	31 Dec 2022
Payment method	shares	shares	shares
Number of participants	11	12	12
Maximum number of performance shares, pcs	28,401	38,055	38,055

The Board of Directors decided to accelerate the vesting of the long-term share-based incentive plans as a result of the merger. At the reporting date, 7 957 Performance shares 2018-2020, 7 635 Performance shares 2019-2021 and 5 090 Performance shares 2020-2022 had vested. For other participants, these periods were settled by Rettig Group Ltd as a pass-through cost. The performance period 2021-2023 did not give any pay-out.

The share-based payment expense recognised in 2021 related to the performance shares was EUR 1.4 million (EUR 2.0 million in 2020).

During 2020, the employment of some participants in the long-term incentive plan ended and the Group exercised its option right and redeemed the shares held by such participants. At that time the company re-estimated whether all awards are settled in shares and estimated the number of potential leavers and recognised a liability accordingly. In addition, the initial personal investment of the potential leavers was reclassified from the equity as a liability. After the initial recognition the liability was revalued at the end of each reporting period. In 2020 the fair value changes recognised in the profit and loss statement amounted to EUR 0.1 million which are included in the share-based payment expense. At the end of 2020 the liability was EUR 0.2 million. The remaining liability of EUR 0.2 million was fully settled during 2021, with no additional fair value change recognised in the profit and loss statement in 2021.

Management incentive plan

In 2020, the Company implemented a new management incentive plan for certain key employees. The participants were offered a right to invest in the Company's new K1 common shares and MIP shares (class P shares). The participants subscribed for 19,088 K1 common shares and 160 MIP shares with a total subscription price of EUR 0.8 million. As K1 shares were subscribed at fair value, there was no fair value benefit to be recognised as share-based compensation. However, if a participant had left the Company, the Company's majority shareholder had the right to purchase all or a portion of the participant's shares. Therefore, the arrangement was considered as an equity-settled share-based payment transaction, even though there was no expense to be recognised.

Equity incentive instruments, i.e. MIP shares (class P shares), included a service condition and the shares were initially meant to vest in tranches from 1 July 2020 to 31 December 2024. However, they were to vest immediately and fully if an exit (including a listing) took place. The incentive amount was dependent on the total fair market value at the exit event. If no exit had occurred by December 2022, the incentive amount based on the fair market value would have decreased annually. After 1 July 2028, each participant had the right to sell all the shares he/she held at fair value to the Company's majority shareholder. If a participant left the Company before the shares had vested (or as a bad leaver thereafter), the majority shareholder had the right to redeem the shares at the original subscription price. This arrangement was treated as equity-settled share-based compensation arrangement.

As a result of the merger triggering the exit clause of the Management incentive plan, the awards vested earlier than initially estimated resulting in all class P shares having vested fully by the end of 2021 with EUR 0.4 million recognised as expense in 2021 (EUR 0.1 million in 2020).

Fair value determination

The fair value of the share-based incentives was determined at the grant date. The grant date fair value of the equity instruments (i.e. MIP shares) granted during the period was determined using the Monte Carlo simulation model. The inputs to the model were in addition to equity value as follows:

	MIP 2020
Expected volatility	28%
Risk free rate	0%

3. Intangible and tangible assets

3.1 Goodwill and other intangible assets

ACCOUNTING PRINCIPLES

Goodwill and other intangible assets with and indefinite useful life

Goodwill represents the excess of acquisition cost over the fair values of identified acquired assets and liabilities of acquired companies. Goodwill arises typically in connection with a major acquisition, and represents the value of the acquired market share, business knowledge and the synergies obtained in connection with the acquisition. Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and tested annually for impairment. The Group is not considered to have other intangible assets with indefinite useful lives.

Other intangible assets

Other intangible assets include trademarks, patents and software licences that are acquired by Purmo Group and have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated so as to write off the cost of intangible assets less their estimated residual values applying the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

The estimated useful lives for current and comparative periods are as follows:

Trademarks	25 years
Capitalised development costs	5 years
Other intangible assets	5–10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Amortisation of the trademarks are included in sales and marketing expenses. Amortisation of patents and development costs is included in research and development costs.

Research and development costs

Research costs are recognised in profit or loss as incurred. Expenditure on development, in which research findings or other knowledge is applied to produce new or improved products or processes, is recognised as an asset in the balance sheet if the product or process is technically and commercially feasible and the company has intention as well as sufficient resources to complete development and then use or sell the intangible asset, the intangible asset will generate probable future economic benefits and the company is able to measure reliably the expenditure attributable to the intangible asset. Capitalised development costs are presented in the balance sheet and are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised from the time when the asset is ready for use. Capitalised development costs for an asset that is not yet ready for use are tested for impairment annually. The estimated useful lives of development costs are reviewed at each reporting date and if these estimates differ significantly from previous estimates, the amortisation periods are adjusted accordingly. The amortisation period for capitalised development costs is 5 years.

Development costs are capitalized when a development project is likely to generate economic benefits for the company and the products are assessed to be technically feasible and commercially viable. Currently Purmo Group does not capitalize development costs.

Intangible assets

2021 EUR million	Goodwill	Trademarks	Development costs	Other intangible assets	Total
Balance at 1 Jan 2021	365.4	56.0	1.9	3.6	426.8
Effects of exchange rates	-0.1	0.0	0.0	0.0	0.0
Purchases of subsidiaries and business acquisitions	-	-	-	0.0	0.0
Increases	-	0.8	-	0.3	1.1
Decreases	-	-	-	0.0	0.0
Transfers	3.8	0.0	-	0.0	3.9
Balance at 31 Dec 2021	369.2	56.8	1.9	3.9	431.8
Accumulated amortisation and impairment losses					
Balance at 1 Jan 2021	-	-18.7	-1.8	-3.0	-23.5
Effects of exchange rates	-	0.0	0.0	0.0	0.0
Amortisation	-	-2.5	-0.1	-0.3	-2.9
Transfers	-	-	-	0.0	0.0
Balance at 31 Dec 2021	-	-21.2	-1.9	-3.3	-26.4
Carrying amount at 31 Dec 2021	369.2	35.6	0.0	0.6	405.5

2020 EUR million	Goodwill	Trademarks	Development costs	Other intangible assets	Total
Balance at 1 Jan 2020	365.1	54.6	2.5	3.2	425.4
Effects of exchange rates	0.3	-0.1	-0.1	0.0	0.2
Increases	-	1.5	-	0.3	1.8
Decreases	-	0.0	-0.6	0.0	-0.6
Transfers	0.0	-0.1	-	0.2	0.1
Balance at 31 Dec 2020	365.4	56.0	1.9	3.6	426.8
Accumulated amortisation and impairment losses					
Balance at 1 Jan 2020	-	-16.3	-1.7	-2.7	-20.6
Effects of exchange rates	-	0.0	0.0	0.0	0.1
Amortisation	-	-2.5	-0.1	-0.3	-2.9
Transfers	-	0.0	0.0	0.0	0.0
Balance at 31 Dec 2020	-	-18.7	-1.8	-3.0	-23.5
Carrying amount at 31 Dec 2020	365.4	37.3	0.1	0.6	403.4

Other intangible assets include other long-term capital expenditures and advance payments.

3.2 Impairment testing of goodwill

ACCOUNTING PRINCIPLES

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than, inventories and deferred tax assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing purposes, Purmo Group's goodwill is allocated to cash-generating units ('CGU'), which are also the divisions of the Group. The divisions represent the Group's operating segments before aggregation determined in accordance with IFRS 8 Operating Segments. Impairment is measured at the level of cash generating units, which are the smallest groups of assets that independently generate cash flows and whose cash flows can be distinguished from other cash flows.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating units.

An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its recoverable amount.

Impairment losses are recognised in profit or loss and initially allocated to reduce the carrying amount of any goodwill attributable to the cash generating unit, and then to reduce the carrying amounts of the other assets in the cash generating unit on a pro rata basis.

At the end of each reporting period, the Group assesses whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Group estimates the recoverable amount of that asset, impairment losses in respect of goodwill are not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

ACCOUNTING ESTIMATES AND JUDGEMENTS

The goodwill and other intangible assets not yet available for use are subject to impairment testing on an annual basis, or more frequently, if events or changes in circumstances indicate that the assets might need to be impaired. In addition, the Group reviews the carrying amounts of its non-financial assets at each reporting date to determine whether there is any indication of impairment. If any such indications exist, then the asset's recoverable amount is estimated. In the Group's goodwill impairment testing, the recoverable amount of a cash generating unit (CGU) is determined based on fair value less costs of disposal calculations which require the use of assumptions. Estimation and judgment are required

in determining the components of the recoverable amount calculation, including the discount rate, the terminal growth rate and development of the net sales and EBITDA (which is for impairment testing purposes defined as earnings before interest, taxes and depreciation and amortization). The discount rates reflect current assessments of the time value of money and relevant market risk premiums reflecting risks and uncertainties for which the future cash flow estimates have not been adjusted. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates. These terminal growth rate assumptions are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

Impairment testing

The amount of goodwill allocated to each CGU is presented in the following table.

Carrying amount of goodwill allocated to cash generating unit:

EUR million	2021	2020
Radiators	252.0	248.2
ICS	117.2	117.2
Total	369.2	365.4

Annual impairment test 2021

As at 31 December 2021 goodwill totalled EUR 369.2 million. Given that the recoverable amount of each CGU significantly exceeded the carrying value of goodwill, no indication of impairment was found in 2021. The value in use calculations were derived from estimates, budgets and strategy figures reviewed by Purmo Group's management and approved by the Board of Director's.

The calculations are prepared using a fair value less costs of disposal model. In the impairment testing, the cash flows for the cash generating units were forecast for five years, based on operative plans. The financial plan is conducted annually and is approved by management. Cash flows beyond this forecast period were extrapolated using a constant 2% long-term growth rate, which reflects the sustainable long-term level of the operations.

The forecasts in the financial plans for both CGU's are based on management's estimate of the sustainable profit margins. The forecasts take into account anticipated changes in market demand, sales prices and costs based on management's past experience and are in line with available external market data and research. The terminal growth rate after the forecast period reflects an estimate of long-term inflation.

Discount rates

Discount rates represent the current market assessment of the risks specific to each cash generating unit and are determined using the weighted average cost of capital, based on industry peers. The components of the discount rate are:

- Market-specific risk-free rate, based on a weighted average for the largest market
- Market risk premium, based on a weighted average for the largest markets
- Industry-specific risk, which is incorporated by applying asset beta factors that are annually derived from publicly available market data for peer companies
- Required return of debt, based on market information
- Debt-to-equity ratio, based on industry peers

The discount rates determined are a post-tax rates as the company is using a fair value model to estimate the recoverable amounts. Below are presented the sales growth rate beyond the five-year period, the average EBITDA level and the post-tax discount rate, by CGU.

	2021			2020		
	Long term growth rate, %	Post-tax discount rate, %	Average EBITDA level, %	Long term growth rate, %	Post-tax discount rate, %	Average EBITDA level, %
Radiators	2.0	7.50	11.50	1.0	8.5	13.7
ICS	2.0	7.90	11.60	1.0	8.5	9.7

Sensitivity analysis

A sensitivity analysis was carried out by Purmo Group management using downside scenarios. The scenarios involved raising the applied discount rate and reducing the forecasted EBITDA margin level for the forecast and terminal periods. A change in an assumption that would cause the recoverable amount to equal the carrying amount is presented in the table below separately for each CGU.

	Change
Radiators	
Forecasted EBITDA margin	decrease more than 3.0 per centage points
WACC	increase more than 3.1 per centage points
Residual growth	decrease more than 3.0 per centage points
ICS	
Forecasted EBITDA margin	decrease more than 5.0 per centage points
WACC	increase more than 4.6 per centage points
Residual growth	decrease more than 6.0 per centage points

In management's opinion, the changes in the basic assumptions shall not be seen as an indication that these factors are likely to materialise. The sensitivity analyses are hypothetical and should therefore be treated with caution.

3.3 Property, plant and equipment

ACCOUNTING PRINCIPLES

Recognition and measurement

Items property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are recognised as separate items (major components of property, plant and equipment).

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Major repairs and renovations of property, plant and equipment are capitalized and depreciated over the useful lives of the underlying asset. Ordinary expenses for repairs and maintenance are expensed as incurred.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values applying the straight-line method over their estimated useful lives and is recognised in profit or loss. Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

Buildings	10–40 years
Machinery and equipment	3–10 years
Large processing machines	15–25 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

ACCOUNTING ESTIMATES AND JUDGEMENTS

Assessing the probability of expected future economic benefits and useful lives of property, plant and equipment require management judgement. The estimated useful lives and residual values are reviewed at least at the end of each reporting period, and if they differ significantly from previous estimates, the depreciation periods are adjusted accordingly. Also, assessing any indication of impairment requires management judgement.

Property, plant and equipment

2021	Land and water	Buildings	Machinery and equipment	Other tangible assets	Assets under construction	Total
EUR million						
Acquisition cost at 1 Jan	8.5	118.5	451.7	9.9	5.0	593.5
Effects of exchange rates	0.0	0.4	2.1	-0.2	-0.1	2.3
Purchases of subsidiaries and business acquisitions	-	0.4	2.5	0.0	0.0	2.9
Additions	-	0.2	6.4	0.6	4.6	11.9
Transfers	-	-0.1	3.6	-	0.1	3.6
Disposals	-0.1	-0.6	-1.0	-0.1	-0.1	-1.9
Acquisition cost at 31 Dec	8.4	118.8	465.3	10.2	9.5	612.2
Accumulated depreciation at 1 Jan	0.4	-74.0	-379.1	-7.4	-	-460.2
Effects of exchange rates	0.0	-0.2	-0.8	0.1	-	-1.0
Depreciation	-	-3.7	-15.3	-0.9	-	-19.9
Depreciation on disposals	-	0.4	0.4	0.0	-	0.8
Transfers	-	0.0	-	-	-	0.0
Accumulated depreciation at 31 Dec	0.3	-77.6	-394.8	-8.2	0.0	-480.3
Carrying amount at 31 Dec	8.7	41.3	70.4	2.0	9.5	132.0

2020	Land and water	Buildings	Machinery and equipment	Other tangible assets	Assets under construction	Total
EUR million						
Acquisition cost at 1 Jan	4.8	123.1	449.3	10.2	9.4	596.8
Effects of exchange rates	0.0	-2.6	-8.6	-0.5	-0.5	-12.3
Additions	0.0	1.6	10.2	0.7	-2.4	10.1
Transfers	3.7	-3.6	1.5	0.0	-1.2	0.4
Disposals	-	-	-0.7	-0.5	-0.3	-1.5
Acquisition cost at 31 Dec	8.5	118.5	451.7	9.9	5.0	593.5
Accumulated depreciation at 1 Jan	0.4	-71.3	-370.6	-6.8	0.0	-448.4
Effects of exchange rates	0.0	1.1	6.1	0.4	-	7.6
Depreciation	-	-3.9	-15.1	-0.9	-	-20.0
Depreciation on disposals	-	-	0.6	0.0	-	0.6
Accumulated depreciation at 31 Dec	0.4	-74.0	-379.1	-7.4	0.0	-460.2
Carrying amount at 31 Dec	8.8	44.4	72.6	2.5	5.0	133.3

3.4 Right-of-use assets

ACCOUNTING PRINCIPLES

In accordance with IFRS 16 the Group assess at contract inception whether a contract is, or contains, a lease. The Group leases production equipment, real estate, vehicles and other equipment used in its operations. The Group recognises lease liabilities representing the obligation to make lease payments and right-of-use assets representing the right to use the underlying asset. For leases with lease terms of 12 months or less or leases of low-value assets the Group uses the short-term and low-value lease recognition exemptions.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, comprising the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any direct costs incurred and an estimate of cost to

dismantle the underlying asset, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Lease liabilities

The Group recognises a lease liability measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any receivable lease incentives, amounts expected to be paid under residual value guaranties, and variable lease payments dependent on a rate or index. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The present value is calculated by discounting the payments with the interest rate implicit in the lease. If the interest rate implicit for the lease is not readily determinable, the incremental borrowing rate applicable for the lease is used. Lease payments are allocated between the principal repayment and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less and the low-value assets recognition exemption to leases where the leased asset value is below EUR 5 thousand. The lease payments on short-term leases and low-value asset leases are recognised as expense on a straight-line basis over the lease term.

ACCOUNTING ESTIMATES AND JUDGEMENTS

The management also applies judgement in determining the lease term. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination

options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The following factors are normally the most relevant:

- If there are significant penalty payments to terminate (or not extend), the group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend (or not terminate).

Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Right-of-use assets

2021				
EUR million	Land and water	Buildings	Machinery and equipment	Total
Acquisition cost at 1 Jan	1.1	33.8	11.2	46.1
Effects of exchange rates	0.0	0.6	0.0	0.6
Purchases of subsidiaries and business acquisitions	-	0.5	-	0.5
Additions	0.0	2.6	4.0	6.5
Acquisition cost at 31 Dec	1.1	37.4	15.2	53.7
Accumulated depreciation at 1 Jan	-0.1	-9.7	-5.5	-15.2
Effects of exchange rates	0.0	0.0	0.1	0.1
Depreciation	0.0	-4.5	-2.8	-7.4
Accumulated depreciation at 31 Dec	-0.1	-14.2	-8.2	-22.5
Carrying amount at 31 Dec	1.0	23.2	7.0	31.3

2020

EUR million	Land and water	Buildings	Machinery and equipment	Total
Acquisition cost at 1 Jan	1.2	33.9	9.0	44.1
Effects of exchange rates	-0.1	-0.8	-0.1	-1.0
Additions	-	0.7	2.2	2.9
Acquisition cost at 31 Dec	1.1	33.8	11.2	46.1
Accumulated depreciation at 1 Jan				
Effects of exchange rates	0.0	0.1	0.1	0.2
Depreciation	0.0	-4.1	-2.9	-7.0
Accumulated depreciation at 31 Dec	-0.1	-9.7	-5.5	-15.2
Carrying amount at 31 Dec	1.1	24.1	5.7	30.9

Lease liabilities

EUR million	2021	2020
Non-current	30.7	29.7
Current	5.6	5.9
Total lease liabilities	36.4	35.7

Amounts recognised in profit or loss

EUR million	2021	2020
Depreciation of right-of-use assets	-7.4	-7.0
Interest on lease liabilities	-2.1	-2.5
Expense related to short-term leases	-1.3	-1.5
Expense related to leases of low-value assets	-0.4	-0.3
Total	-11.2	-11.3

Amounts recognised in statement of cash flows

EUR million	2021	2020
Total cash outflow for leases	-9.6	-9.4

3.5 Depreciation and amortization

Depreciation and amortization

EUR million	2021	2020
Amortization of intangible assets	-2.9	-2.9
Tangible assets	-19.9	-20.0
Right-of-use assets	-7.4	-7.0
Total	-30.2	-29.9

4. Operational assets and liabilities

4.1 Inventories

ACCOUNTING PRINCIPLES

Purmo Group's inventories consist of raw materials and consumables, work-in-progress and finished goods. Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out (FIFO) method or weighted average cost formula and includes expenditure incurred in acquiring the inventory items and bringing them to their existing location and condition. The cost of purchased inventory are determined after deducting rebates and discounts. In the case of manufactured inventories and work in progress, cost includes direct materials, direct labour and an appropriate share of production overheads based on normal operating capacity.

The Group recognises an allowance for obsolete inventory items at the end of the reporting period based on the latest information. The allowance is based on a systematic and continuous monitoring of the inventory. The nature, state, and age structure of the inventory is taken into consideration when estimating the amount of allowance for the obsolescence.

ACCOUNTING ESTIMATES AND JUDGEMENTS

Inventory valuation requires management to make estimates and judgments particularly relating to obsolescence and expected selling prices in different market conditions. It also entails management's assessment of the general market trends in global markets.

Inventories

EUR million	2021	2020
Raw materials and consumables	60.6	29.7
Work in progress	21.7	14.7
Finished goods	82.8	68.0
Inventory value - gross	165.1	112.3
Inventory write-down	-7.7	-7.1
Total	157.4	105.3

Write-downs of inventories to net realisable value amounted to EUR 7.7 (EUR 7.1) million. These were recognised as an expense and included in cost of sales in the income statement.

4.2 Trade and other receivables

ACCOUNTING PRINCIPLES

Trade and other receivables are recognized in the balance sheet at fair value which can be subsequently written down due to impairment. The impairment is expensed under sales and marketing expenses.

Non-recourse factoring

Purmo Group has entered into non-recourse factoring agreements to sell trade receivables in order to manage working capital. Sold trade receivables are derecognised once significant related risks and rewards of ownership have been transferred to the buyer. The Group does not have any material trade receivables on the balance sheet, which will be subject to recourse factoring. Please refer to Note 5.3 Financial Assets and Liabilities for further details.

Trade and other receivables

EUR million	2021	2020
Trade receivables	77.1	53.1
Prepayments and accrued income	8.5	5.8
Other receivables	22.2	20.1
Total	107.8	79.0
Non-current	1.0	1.0
Current	106.8	78.0
Total	107.8	79.0

Credit risk and impairment losses

Information about the Group's exposure to credit risks and impairment losses for trade and other receivables is included in Note 5.2 Financial risk management.

4.3 Trade and other payables

ACCOUNTING PRINCIPLES

Accruals and deferred income consist mainly of personnel-related accruals, sales adjustments and other accrued liabilities.

Trade and other payables

EUR million	2021	2020
Trade payables	116.8	80.2
Accruals and deferred income	76.4	62.5
Liabilities to related parties	0.0	0.2
Total	193.2	142.9
Non-current	1.2	1.2
Current	192.0	141.6
Total	193.2	142.9

4.4 Provisions

ACCOUNTING PRINCIPLES

Recognition and measurement of provisions

A provision is recognized when a present legal or constructive obligation exists as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Actual outflows can differ from estimates due to changes in law, regulations, technology, prices and conditions. The carrying amounts of provisions are regularly reviewed and adjusted to take into account any such changes. The unwinding of the discount is recognised as a finance cost.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is calculated based on historical experience of levels of repairs and replacements. Provisions for warranties cover the estimated costs to repair or replace products that are still under warranty on the balance sheet date. Group provides warranties for its products and typical warranty periods is between 2 – 10 years depending on the product.

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. The Group provides for the estimated cost to restructure when a detailed formal plan of restructuring has been completed, approved by management, and announced. Restructuring costs consist primarily of personnel restructuring charges. The other components are costs associated with costs of terminating certain other contracts directly linked to the restructuring. The majority of the restructuring cash outflows are expected to occur within 12 months.

Site restoration

Estimated future expenses for the site or area restoration are capitalised. Capitalised amounts comprise estimated expenses, calculated at current value, which are simultaneously reported as provisions. Effects of subsequent events that result in costs that exceed the provision are discounted, capitalised, and added to the provisions, and then written off over the remaining life of the asset.

Other provisions

Other provisions consist mainly of legal provisions, agent leaving indemnity provisions and a tax liability recorded in accordance with IFRIC 23 for an uncertain tax position arising from the Group's global operations. Provisions also include a regulatory Commercial agents indemnity risk provision in Italy. Other provisions are expected to be realised during the next five years.

ACCOUNTING ESTIMATES AND JUDGEMENTS

Provisions for present obligations require management judgment. Estimation is required in determining the value of the obligation as the amount recognised as a provision is based on the best estimate of unavoidable costs required to settle the obligation at the end of the reporting period. When estimating unavoidable costs, management may be required to consider a range of possible outcomes and their associated probabilities, risks and uncertainties surrounding the events and circumstances as well as making assumptions of the timing of payment. Estimation is also required in determining the rate used to discount provisions to present value.

Provisions

EUR million	Warranties and guarantees	Restructuring	Other provisions	Total
Balance at 1 Jan 2021	1.5	0.6	6.4	8.5
Effects of exchange rates	0.0	-	0.0	0.0
Increase of provisions	0.1	4.4	0.2	4.8
Provisions utilised	-0.1	-0.2	-0.5	-0.8
Balance at 31 Dec 2021	1.5	4.8	6.2	12.5
Non-current	1.4	0.0	6.2	7.6
Current	0.1	4.8	-	4.9

EUR million	Warranties and guarantees	Restructuring	Other provisions	Total
Balance at 1 Jan 2020	1.2	1.1	4.8	7.1
Effects of exchange rates	0.0	-	0.0	0.0
Increase of provisions	0.3	0.3	2.2	2.9
Provisions utilised	-	-0.9	-0.6	-1.4
Balance at 31 Dec 2020	1.5	0.6	6.4	8.5
Non-current	1.3	-	6.0	7.3
Current	0.2	0.6	0.4	1.2

4.5 Post-employment obligations

ACCOUNTING PRINCIPLES

The Group has a number of pension plans covering its operations in various countries, all of which comply with the relevant country's rules and obligations. The Group operates defined contribution and defined benefit pension plans. The major defined benefit plans are located in the United Kingdom, Ireland, Austria and Germany. Together these plans account for 90 per cent of the Group's total defined benefit obligation and 98 per cent of the total plan assets.

The present value of pension obligations depends on a number of factors determined on an actuarial basis by using a number of financial and demographic assumptions, and changes in these assumptions impact the carrying amount of pension obligations. The key financial assumption used in determining the net cost (income for pensions is the discount rate. The appropriate discount rate is determined at the end of each reporting period and is used in calculating the present value of estimated cash outflows to settle the pension obligation. In determining the appropriate discount rate, the Group considers the yields of high-quality corporate or government bonds, depending on the country, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. Other key assumptions related to pension obligations include financial assumptions such as estimated increases in salaries and pensions, and demographic assumptions such as mortality rates.

ACCOUNTING ESTIMATES AND JUDGEMENTS

The defined benefit obligation is calculated by independent authorised actuaries. The discount rate for actuarial calculations is determined by reference to market yields on high-quality corporate bonds or government bonds taking into account the duration of the defined benefit obligation. The applied discount rates are country-specific. Pension benefits are normally based on the number of years' service and salary. The Group is exposed to a number of risks through its defined benefit plans. A decrease in bond yields would increase plan liabilities. Some of the Group's pension obligations are linked to inflation, an increase in which would lead to higher liabilities. The majority of the plans' obligations are to provide benefits over the lifetime of the plan member, which means that increases in life expectancy will increase the plan liabilities.

Employee benefits

EUR million	2021	2020
Defined benefit asset	6.2	2.1
Total employee benefit asset	6.2	2.1
Defined benefit liability	20.5	25.4
Liability for long-service leave	2.9	3.1
Other employee benefits	0.0	0.0
Total employee benefits liabilities	23.5	28.5
Non-current	23.5	28.5
Current	0.0	0.0
Total	23.5	28.5

Movement in net defined benefit (asset) liability

EUR million	Defined benefit obligation		Fair value of plan assets		Net defined benefits liability (asset)	
	2021	2020	2021	2020	2021	2020
Balance at 1 Jan	96.9	90.9	73.5	69.7	23.3	21.2
Included in profit or loss						
Current service cost	1.2	0.8	0.0	0.0	1.2	0.8
Interest income	0.0	0.0	0.9	1.2	-0.9	-1.2
Past service cost (credit)	0.0	0.1	0.0	0.0	0.0	0.1
Interest cost (income)	1.0	1.4	0.0	0.0	1.0	1.4
Included in other comprehensive income:						
• Actuarial loss (gain) arising from change in demographic assumptions	0.4	0.6	0.0	0.0	0.4	0.6
• Actuarial loss (gain) arising from change in financial assumptions	-3.8	10.6	5.2	7.9	-9.1	2.4
• Actuarial loss (gain) arising from experience adjustments	0.7	0.8	0.0	0.0	0.7	0.8
Effect of movements in exchange rates	4.5	-3.3	4.4	-3.2	0.1	-0.2

Movement in net defined benefit (asset) liability

EUR million	Defined benefit obligation		Fair value of plan assets		Net defined benefits liability (asset)	
	2021	2020	2021	2020	2021	2020
Other						
Contributions paid by the employer	0.0	0.0	1.9	1.7	-1.8	-1.7
Benefits paid	-3.8	-4.7	-3.2	-3.9	-0.6	-0.9
Business combinations and disposals	0.0	0.0	-	0.0	0.0	0.0
Other		0.0	-	0.0	0.0	0.0
Balance at 31 Dec	97.0	96.9	82.7	73.5	14.3	23.3

Plan assets

The Group's post-employment benefits plan assets mainly consist of equity and debt instruments. Plan assets don't include the Group's own financial instruments or assets which are occupied by the Group. Approximately 98 % of plan assets have a quoted market price.

Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	2021	2020
Discount rate	1.42%	1.00%
Expected salary growth	2.50%	2.19%
Expected future pension growth	2.67%	2.32%

At 31 December 2021, the weighted-average duration of the defined benefit obligation was 16.1 years (2020: 16.1 years). In 2022 the Group expects to pay EUR 1.6 million to the defined benefit plans.

Sensitivity analysis

Reasonably probable changes at the reporting date to one of the relevant actuarial assumptions, all other assumptions remaining unchanged, would have affected the defined benefit obligation by the amounts shown below.

EUR million	31 Dec 2021		31 Dec 2020	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	-15.0	15.0	-14.9	14.9
Future salary growth (1% movement)	1.5	-1.5	1.5	-1.5
Future pension growth (1% movement)	10.9	-10.9	9.8	-9.8

While the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

5. Capital structure and financial instruments

5.1 Financial income and expenses

ACCOUNTING PRINCIPLES

Net financial items comprises net interest expenses, foreign exchange gains and losses and other financial income and expenses mainly arising from interest-bearing assets and liabilities.

EUR million	2021	2020
Interest income on items measured at amortised cost		
- from related party	0.1	0.9
- other parties	0.4	0.4
Interest income on foreign exchange derivatives	0.7	0.4
Exchange gains related to financing items	-	-
Exchange gains from foreign exchange derivatives		
- from related party	-	0.3
- other parties	-	0.6
Other finance income	0.0	0.0
Finance income	1.1	2.6
Interest expense on items measured at amortised cost		
- loans from related party	2.2	8.0
- loans from financial institutions	0.4	0.0
- other	0.6	0.3
Interest expense, lease liabilities	2.1	2.5
Interest expense on foreign exchange derivatives	1.6	0.5
Exchange loss related to financing items	0.3	0.3
Exchange loss from foreign exchange derivatives		
- from related party	-	-
- other parties	1.0	-
Other finance expense	1.5	1.1
Finance costs	9.7	12.7
Net financial items recognised in profit or loss	-8.6	-11.1

The treasury function at Purmo Group was established in November 2020. All financial risk management actions were operated from the ultimate parent company, Rettig Group until November 2020, which explains the change in financial income and expenses.

5.2 Financial risk management

Principles and process

The nature of Purmo Group's business exposes the Group to a variety of business and financial risks. Financial risks are managed centrally by the Group Treasury (Treasury) under annually reviewed Group Treasury Policy approved by the Board of Directors. The objective of financial risk management is to mitigate potential adverse effects of financial risks on Group's financial performance. Treasury identifies, evaluates and hedges financial risks in close co-operation with the subsidiaries. Treasury operates as counterparty to the subsidiaries, manages centrally external funding and is responsible for the management of financial assets and appropriate hedging measures. Treasury uses only hedging instruments whose market value can be reliably monitored and are in line with the Group Treasury Policy. In addition Treasury provides consultation and services to Group companies in all financing related matters. The Group's risk management policy is essentially risk averse. Until the establishment of Group Treasury at Purmo Group, financial risks were managed centrally by the parent company Rettig Group Oy Ab. In November 2020 all Purmo Group related financial instruments were novated from Rettig Group Oy Ab to Purmo Group Plc. In connection with the novation, the Company settled the fair values of the outstanding derivatives with the parent.

Credit and counterparty risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises mainly from the Group's receivables due from customers. It also relates to cash and cash equivalents, derivative financial assets and other related party receivables. The objective of the credit risk management is to mitigate the Group's credit risk exposure.

Trade receivables

The Group's exposure to credit risk stems mainly from the individual characteristics of each customer. However, management also considers the factors that could influence the credit risk of its customer base, including the default risk of the industry and country in which customers operate.

The Group has processes in place to mitigate credit risk under which each new customer is analysed individually for creditworthiness, before the Group's standard payment and delivery terms and conditions are offered to the customer. The Group's review includes external ratings, when available, and in some cases bank references. If the analysis results in that credit could not be granted to a customer, the Group may request advance payments before shipment.

Most of the Group's customers have been trading with the Group for years, and no major credit losses have occurred with these customers. Credit risk is monitored by grouping customers according to their credit characteristics, including whether they are individuals or legal entities and whether they are wholesale, retail or end-user customers, as well as by geographic location, industry and the existence of previous financial difficulties. The Group has one customer that amounts to more than 10 per cent of the Group's net sales.

The Group applies the provision matrix to assess the expected credit losses for trade receivables. The expected credit loss is based on historical and forward-looking information and is estimated at the end of each reporting period. In the provision matrix, loss rates are determined separately for the aging categories of the trade receivables, based on the experienced historical credit losses and management's future expectations. At the reporting date, the ageing of trade receivables, including the loss allowance, were as follows:

EUR million	31 Dec 2021			31 Dec 2020		
	Gross carrying amount	Loss allowance	Loss rate	Gross carrying amount	Loss allowance	Loss rate
Not overdue	66.4			47.6		
Overdue 1–30 days	8.0	-0.1	1%	3.9	0.0	1%
Overdue 31–60 days	1.9	-0.2	12%	1.1	-0.1	12%
Overdue 61–90 days	1.1	-0.4	40%	0.8	-0.3	40%
More than 90 days	3.6	-3.1	87%	3.3	-3.2	97%
Total trade receivables	81.0	-3.8	4.7%	56.8	-3.7	6.6%

Reconciliation of the loss allowance:

EUR million	2021	2020
1 Jan	3.7	3.7
Increase in loss allowance recognised in profit or loss during the year	0.6	0.7
Receivables written off during the year as uncollectible	-0.5	-0.7
31 Dec	3.8	3.7

Counterparty risk related to financing items

Purmo Group is exposed to credit risk when using derivative instruments and depositing its cash and cash equivalents. Financial credit risk is managed actively by limiting counterparties to a sufficient number of major banks and financial institutions, and by monitoring the creditworthiness and the size of exposures continuously.

31 December 2021 the maximum credit risk related to cash and cash equivalents corresponds to their carrying amount of EUR 177.6 million (EUR 55.0 million). According to management assessment, no significant credit losses are anticipated on the liquidity reserves. Additionally, the Group enters into netting arrangements with all major counterparties, which give the right to offset in the event that the counterparty would not be able to fulfil its obligations (see Note 5.7 Derivative financial instruments).

Liquidity and refinancing risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting the obligations associated with its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to settle its liabilities when these become due, under both normal and stressed conditions. Treasury monitors bank account structures, cash balances and forecasts of the subsidiaries and manages the utilisation of the consolidated cash resources.

In 2021 the Group refinanced EUR 90 million related party loan with a bridge loan with maturity of 2 weeks. The bridge loan is planned to be repaid with the funds released from the escrow account of VAC. The Group also agreed on a EUR 280 million term loan with maturity in 2024 including two one year options. The EUR 280 million term loan was used to pay the extra ordinary dividend of EUR 251 million before the Merger and for general corporate purposes.

To secure its short term liquidity, the Group maintains the following lines of credit:

- EUR 80 million undrawn committed revolving credit facility maturing in 2024 with two one year options (EUR 140 million from related party of which EUR 90 million was drawn)
- EUR 17.4 million undrawn overdraft facilities that are unsecured (EUR 17.4 million)

Refinancing risk, or the risk that maturing debt is not refinanced in the markets, is mitigated by Purmo Group's target of maintaining an even maturity profile of outstanding debt with no more than 20% of the outstanding debt to mature within the following 12 months. At the reporting date the percent is higher due to the bridge loan of EUR 95 million, which is to be paid with the funds released from the VAC escrow accounts on 3rd January 2022. Diversification of funding among different markets and an adequate number of financial institutions are used to safeguard the availability of liquidity at all times.

The Group manages its liquidity also by having entered into several trade receivable factoring arrangements that provide for the accelerated receipt of approximately EUR 35.5 million and EUR 31.8 million of cash for the years ended 31 December 2021 and 2020, respectively, on available trade accounts receivable. Under the factoring agreements, the Group sells, on a revolving and non-recourse basis, certain of its trade receivable to a financial institution. These factored trade receivables are derecognised from the balance sheet because the Group has transferred the significant risks and rewards to the counterparty and the Group does not maintain any continuing involvement with the sold receivables. The Group incurs commission and interest expenses for the transferred receivables balance which are recognised as other finance expenses in the period in which they are incurred, to the extent the fee exceeds the fair value loss related to the transferred trade receivables.

Exposure to liquidity risk

31 Dec 2021						
EUR million	Carrying amount	Total	1–12 months	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities						
Loans from financial institutions	372.7	390.0	100.0	5.0	285.0	
Lease liabilities	36.4	68.8	7.4	5.8	12.3	43.4
Trade payables	116.7					
Total	525.7	458.8	107.3	10.7	297.3	43.4
Derivative financial liabilities						
Forward exchange contracts	2.0	3.1	3.1			
Total	2.0	3.1	3.1	-	-	-

31 Dec 2020						
EUR million	Carrying amount	Total	1–12 months	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities						
Loans and liabilities from related party	90.0	90.2	90.2			
Loans from financial institutions	4.5	4.6	4.6			
Lease liabilities	35.7	67.9	10.3	20.7	12.7	24.1
Trade payables	80.2	80.2	80.2			
Total	210.4	242.9	185.4	20.7	12.7	24.1
Derivative financial liabilities						
Forward exchange contracts	1.0	1.3	1.3			
Total	1.0	1.3	1.3	0.0	0.0	0.0

The table above shows maturity analysis for the Group's contractual financial liabilities classified under principal headings based on the remaining period to contractual maturity at the reporting date. Forward interest rates as at the year-end were used for estimating contractual finance charges for the upcoming years. The maturity table for derivatives shows the net cash flow amounts for derivatives because they are net cash-settled.

Currency risk

The Group operates globally and is exposed to a foreign-currency risk arising from exchange rate fluctuations. Foreign exchange risk arises mainly of currency-denominated accounts receivables and payable, intra-group transactions, deposits and bank account balances. Group companies with functional currency other than euro are also exposed to a foreign-currency transaction risk arising from EUR denominated net cash flows in their local currencies. These EUR exposures mainly arise from subsidiaries located in Poland and the UK. The currencies in which the transactions within the Group are primarily denominated are EUR, PLN, SEK and GBP. The largest currency risk arises from PLN, SEK and GBP denominated transactions. During the comparative period, one of the significant currencies was also Romanian Leu (RON).

According to Group Treasury Policy, Group companies forecast their foreign currency flows quarterly for the following 15 months. The Group hedges on average 40 to 70 per cent of the net foreign currency exposure. The Group uses forward exchange contracts to hedge its currency risk, with a maturity of up to 15 months from the forecast date. Borrowings are, with a few exceptions, denominated in the subsidiaries'

domestic currencies and Purmo Group Plc as the lender. The Group's policy is to hedge 90-100% of the net financing position denominated in foreign currency by using foreign exchange loans, borrowings, forward contracts or options.

Interest rate risk

The Group is exposed to an interest rate risk that is the risk of fluctuating interest rates affecting the interest expense of the Group and value of its assets and liabilities. The Group has mainly financed its operations through loans from the Rettig Group during 2021 and through the use of group cash pool account. The Group is exposed to cash flow interest rate risk mainly through its variable rate loans. The Group has defined thresholds to interest fixing maturity to manage interest rate risk. At the end of 2021 interest fixing period was within the policy with 6 months, bridge loan of EUR 95 million excluded due to the temporary nature of the loan. According to Group Treasury Policy Purmo Group may use interest-rate swaps, cross-currency swaps or options to manage the interest-rate risk either by synthetically converting floating-rate loans into fixed-rate loans through the use of derivatives or buying an option or options to set limits to interest rate fluctuation. At the reporting date the Group had no interest rate hedging in place.

Cash flow sensitivity analysis for variable rate instruments

Had interest rates been 100 basis points higher/lower during the year, profit before tax for the period would have been EUR 0.4 million lower / EUR 0.0 million higher (EUR 2.0 million lower / EUR 1.2 higher) mainly due to the change in the interest rate of the variable rate related party loans. This sensitivity simulation calculates the interest effect of a 100 basis point parallel shift in interest rates on all floating rate instruments excluding cash equivalents from their next reset date to their original maturity date. The impact of the decrease of interest rate is smaller than the impact of the interest increase, due to that the majority of the loans had interest floored to zero.

5.3 Financial assets and liabilities

ACCOUNTING PRINCIPLES

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss and amortised cost. The classification of financial assets is based on the cash flow characteristics and the business model the asset is managed in.

The Group classifies financial liabilities into the following categories: financial liabilities at fair value through profit or loss and amortised cost.

Financial assets and financial liabilities – recognition and derecognition

The Group initially recognises financial assets and financial liabilities when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group has entered into factoring arrangements, whereby significant risks and rewards are transferred to the counterparty.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets – measurement

Financial assets at amortised cost

A financial asset is classified and subsequently measured at amortised cost if its cash flows consist solely payments of principal and interest, in other words, meets the SPPI criterion, and is managed within a held to collect business model. Trade and other receivables, which are not subject to factoring, and vendor note receivable from the ultimate parent company are included in this category. Interest income on these items is recognised using effective interest method and presented as finance income.

Financial assets at fair value through profit or loss

Financial assets that do not meet the criteria for classification as subsequently measured at either amortised cost or fair value through other comprehensive income are classified and subsequently measured at fair value through profit or loss. In Purmo Group derivative assets and such trade receivables which are subject to non-recourse factoring arrangement but not yet derecognised on the balance sheet date are classified within this category.

Financial assets

The Group recognises a loss allowance for the expected credit losses for financial assets not classified as fair value through profit or loss. The loss allowance is estimated as the full lifetime expected credit loss if the credit risk of the instrument has increased significantly since initial recognition, otherwise the loss allowance is estimated as the 12 months expected credit loss at the reporting date. Possible increase in credit risk for said assets is assessed at the end of each reporting period.

The loss allowance for trade receivables is estimated using the simplified method and measured as life time expected credit losses. The expected credit loss is based on historical and forward-looking information and is estimated at the end of each reporting period.

Financial liabilities – measurement

Financial liabilities are classified as at fair value through profit or loss or amortised cost.

Financial liabilities measured at amortised cost are initially recognised at fair value less any directly attributable transaction costs. After initial recognition, these liabilities are measured at amortised cost using the effective interest method. Loans and trade and other payables are included in this category.

Only derivative liabilities are classified at fair value through profit and loss.

Carrying amounts and fair values of financial instruments

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair-value hierarchy. It does not include fair value information for trade receivables and payables or other current financial assets and financial liabilities, as their carrying amount is a reasonable approximation of fair value.

Items where the carrying amount equates to the fair value are categorised to three levels:

- Level 1. Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2. Fair value determined by observable parameters
- Level 3. Fair value determined by non-observable parameters

Balance at 31 Dec 2021

EUR million	Carrying amount			Total	Fair value	Fair value hierarchy
	Fair value – hedge accounting	Fair value through profit or loss	Amortised cost			
Financial assets						
Forward foreign exchange contracts	0.1	0.5		0.7	0.7	Level 2
Related party vendor note receivable			-	-		
Trade receivables			77.1	77.1	77.1	Level 2
Cash and cash equivalents			177.6	177.6		
Total assets	0.1	0.5	254.7	255.4	77.8	
Financial liabilities						
Forward foreign exchange contracts	1.4	0.6		2.0	2.0	Level 2
Loans and other liabilities from related party			-	-		
Loans from financial institutions			372.7	372.7	372.7	Level 2
Redemption liability			8.1	8.1	8.1	Level 3
Trade payables			116.7	116.7	116.7	Level 2
Total liabilities	1.4	0.6	497.5	499.4	499.4	

Balance at 31 Dec 2020

EUR million	Fair value – hedge accounting	Carrying amount		Total	Fair value	Fair value hierarchy
		Fair value through profit or loss	Amortised cost			
Financial assets						
Forward foreign exchange contracts	0.7	0.4		1.2	1.2	Level 2
Related party vendor note receivable			4.2	4.2	4.2	Level 2
Trade receivables			53.1	53.1	53.1	Level 2
Cash and cash equivalents			55.0	55.0		
Total assets	0.7	0.4	112.3	113.4	58.4	
Financial liabilities						
Forward foreign exchange contracts	0.1	0.8		1.0	1.0	Level 2
Loans and other liabilities from related party			90.0	90.0	90.0	Level 2
Loans from financial institutions			4.5	4.5	4.5	Level 3
Trade payables			80.2	80.2	80.2	Level 2
Total liabilities	0.1	0.8	174.7	175.7	175.7	

The Group does not have any material trade receivables on the balance sheet, which will be subject to factoring.

5.4 Cash and cash equivalents

ACCOUNTING PRINCIPLES

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other highly liquid investments with original maturities of three months or less. These are readily convertible to a known amount of cash and the risk of changes in value is low. Bank overdrafts, if any, are included in current liabilities in the consolidated statement of financial position.

Cash and cash equivalents

EUR million	2021	2020
Bank balances	177.6	55.0
Total	177.6	55.0

Purmo Group Plc (formerly Virala Acquisition Company Plc) obtained EUR 96.8 million of proceeds in the initial public offering in blocked bank accounts. As the terms and conditions of the escrow agreement were met at the end of 2021, funds were already booked to bank balances. On the basis of escrow agreement the funds were released to Purmo Group Plc's bank account on 3 January 2022.

5.5 Equity

ACCOUNTING PRINCIPLES

The Group's equity consists of share capital, reserve of invested unrestricted, translation differences, fair value reserve, reserve of share based payments and retained earnings.

Other reserves

The Company's other reserves include fair value reserve, cumulative translation difference reserve and share-based payments reserve. The fair value reserve includes fair value changes of the spot component of derivative instruments used for cash flow hedging. The translation difference reserve comprises all

foreign exchange differences arising from the translation of the financial statements of foreign operations. The share-based payments reserve represents the portion of the grant date fair value of share-based incentive plans granted to the key management personnel of the Group that has been recognized in accordance with the accounting policy adopted for share-based payments.

Profit distribution

Profit distribution includes dividends, group contributions and capital repayments. Dividends and capital repayments proposed by the Board of Directors are recognized in the consolidated financial statements when they were approved by the shareholders at the General Meeting.

Share capital and number of shares

In this note the shares, share capital and reserve of unrestricted equity has been presented as of the accounting acquiree Virala Acquisition Company Plc ("VAC"). The combined company's registered share capital on 31 December 2021 was EUR 3,080,000. The Company has two share classes of which class C shares are listed and class F shares are held by VAC's founding shareholder, Virala Corporation. The number of outstanding shares at the end of the year was 40,374,531 C-shares and 1,565,217 F-shares. The Company has no treasury shares.

Changes in share capital and invested unrestricted equity reserve

	Number of outstanding shares (pcs)			Share capital (EUR million)	Unrestricted equity reserve (EUR million)
	E-share (earlier A-share)	F-share (earlier B-share)	C-share		
1 Jan 2021	330	0	0	0.0	-
7 May 2021	Bonus issue of class A (later class E) shares	869,235			
7 May 2021	Share issue of class B (later class F share) shares		695,652	0.1	0.1
10 May 2021	Share issue of class C shares		30,000		0.2
28 Jun 2021	Bonus issue of class B (later class F) shares		241,739		

		Number of outstanding shares (pcs)			Share capital (EUR million)	Unrestricted equity reserve (EUR million)
		E-share (earlier A-share)	F-share (earlier B-share)	C-share		
28 Jun 2021	Redemption of class A (later class E) shares	-241,739				
28 Jun 2021	Offering of class C shares net of EUR 4.7 million transaction costs			10,750,000		102.8
31 Dec 2021	Merger consideration and increase of share capital	-627,826	627,826	29,594,531	3.0	255.9
31 Dec 2021		0	1,565,217	40,374,531	3.1	358.9

Prior to the merger VAC had three share classes, which carried different voting rights in VAC's and different rights to distributions of funds. Prior to admitting VAC's class C shares to trading, VAC's share classes were renamed so that class A shares were renamed as class E shares and class B shares were renamed as class F shares. class C shares were not renamed.

On 7 May 2021 VAC issued 869,235 new Class A shares to VAC's sole shareholder Virala Corporation in a directed bonus issue.

In addition, on 7 May 2021 VAC issued 695,652 new class B shares for subscription at consideration to VAC's sole shareholder Virala Corporation in a directed share issue with a subscription price of EUR 0.22/share. Total proceeds from the subscription were EUR 0.2 thousand. VAC's share capital increased to EUR 0.1 million so that EUR 0.1 million of the total subscription price of Class B Shares was recorded to the share capital. The remaining balance of EUR 0.1 million was recorded to the reserve for invested unrestricted equity of VAC. With the proceeds from the share issue, VAC covered the costs incurred in analysing and investigating the expansion of its operations.

On 10 May 2021, VAC directed a total of 30,000 new class C shares for subscription with consideration to Jaakko Eskola, Makai Holding Oy (a company controlled by Mammu Kaario) and Seico Investments Oy (a company controlled by Kai Seikku). The subscription price was EUR 5.00/share and total proceeds from the subscription were EUR 0.2 million. Total subscription price was recorded to the reserve for invested unrestricted equity of VAC. With the proceeds from the share issue, VAC covered the costs incurred in analysing and investigating the expansion of its operations. Class C shares subscribed in the directed share issue are subject to the terms of consent that restrict the right to transfer or dispose them during a period of three years from the listing becoming effective. These class C share subscriptions are transactions within the scope of IFRS 2 Share-based Payment, but as the subscription price is considered to reflect the fair value of the shares at the subscription date no compensation expense will be recognized.

On 28 June 2021, a technical bonus issue of the class B shares and a redemption of the class A share was carried out, in which the number of class B shares were increased by 241,739 shares to a total of 937,391 shares, which is equivalent to 8 % of the number of class C and F shares issued by the VAC.

In VAC's IPO that was completed on 28 June 2021, 10,750,000 class C shares were issued at a subscription price of EUR 10. Of the subscription price, a total of EUR 0.1 million was netted against transaction costs of EUR -4,7 million and the remaining amount of EUR 102,8 million was recorded in VAC's reserve for invested unrestricted equity.

On 20 September 2021 it was announced that subsequent to the positive market reaction of the merger announcement between Virala Acquisition Company Plc and Purmo Group Ltd, the first share price hurdle of EUR 12.00 set out in the articles of association had been exceeded, pursuant to which 18.75 per cent of class F shares held by VAC's founding shareholder, Virala Corporation, have become eligible for conversion into class C shares at the start of the conversion period on 28 June 2024.

On the merger acquisition date 31 December 2021, Virala Acquisition Company Plc had 10,780,000 class C shares, 627,826 class E shares and 937,391 class F shares with no nominal value. The VAC and Purmo Group Ltd merger led to an increase in share capital of EUR 3.0 million, and an increase in the reserve of unrestricted equity of EUR 255,9 million. The shareholders of Purmo Group Ltd received 31 December 2021 as merger consideration 2.600334506 new class C shares in VAC for each class K share and class K1 share, and 4089.270894510 new class C shares for each class P share they held in Purmo Group Ltd (the "Merger Consideration"), that is, the Merger Consideration was issued to the shareholders of Purmo Group Ltd in proportion to their existing shareholding of each class of shares in Purmo Group Ltd. The aggregate number of new class C shares in VAC issued in connection with the Merger was 29,594,531 shares, resulting in 40,374,531 class C shares in total in the Combined Company.

The shares have no nominal value. The Company's Class F shares ("Founder Shares") are subject to redemption and consent clauses in accordance with the articles of association, which restrict the rights to transfer or acquire Founder Shares. The Founder shares are not publicly traded.

Share classes

According to the Articles of Association of Purmo Group the rights of share classes to dividends and to other distributions of assets shall be the following:

VAC announced on 20 September 2021 that the first share price hurdle as set out in the Company's articles of association had been exceeded, pursuant to which 18.75 per cent of class F shares held by VAC's founding shareholder, Virala Corporation, have become eligible for conversion into class C shares at the start of the conversion period on 28 June 2024.

1. Class C Share carries a preferential right to dividends and to other distributions of assets until an aggregate amount of EUR 60,000,000 has been distributed to Class C Shares whereafter Class C Share and Class F Share carry equal right to dividends and to other distributions of assets unless otherwise stipulated herein;

2. Prior to the fulfilment of the aggregate amount referred to in item 1 above, Class F Shares carry a right to dividends and other distributions of assets in accordance with the following:

(i) If the Share Price Hurdle (as defined in section 10 § of the Articles of Association taking into account possible adjustments thereto) referred to in section 10 §, item 3, sub-item (i) of the Articles of Association has been satisfied at any point in time but at the latest two weeks prior to a General Meeting resolving on a dividend payment or other distribution of assets and provided that the Class F Shares eligible for conversion referred to in section 10 §, item 3, sub-item (i) of the Articles of Association have not been converted into Class C Shares referred to in section 10 § of the Articles of Association, Class F Shares carry a right to such asset distribution equivalent to 0.70 per cent of the assets resolved to be distributed;

(ii) If the Share Price Hurdle referred to in section 10 §, item 3, sub-item (ii) of the Articles of Association has been satisfied at any point in time but at the latest two weeks prior to a General Meeting resolving on a dividend payment or other distribution of assets and provided that the Class F Shares eligible for conversion referred to in section 10 §, item 3, sub-item (ii) of the Articles of Association have not been converted into Class C Shares referred to in section 10 § of the Articles of Association, Class F Shares carry a right to such asset distribution equivalent to 0.93 per cent of the assets resolved to be distributed in addition to the right to distribution referred to in sub-item (i) above;

(iii) If the Share Price Hurdle referred to in section 10 §, item 3, sub-item (iii) of the Articles of Association has been satisfied at any point in time but at the latest two weeks prior to a General Meeting resolving on a dividend payment or other distribution of assets and provided that the Class F Shares eligible for conversion referred to in section 10 §, item 3, sub-item (iii) of the Articles of Association have not been converted into Class C Shares referred to in section 10 § of the Articles of Association, Class F Shares carry a right to such asset distribution equivalent to 0.93 per cent of the assets resolved to be distributed in addition to the rights to distribution referred to in sub-items (i) and (ii) above;

(iv) If the Share Price Hurdle referred to in section 10 §, item 3, sub-item (iv) of the Articles of Association has been satisfied at any point in time but at the latest two weeks prior to a General Meeting resolving on a dividend payment or other distribution of assets, Class F Shares carry a right to such asset distribution equivalent to 1.17 per cent of the assets resolved to be distributed in addition to the rights to distribution referred to in sub-items (i)-(iii) above.

The determination of whether the Share Price Hurdles have been met for the purposes of sub-items (i)–(iv) above shall be made based on the Average Share Price referred to in section 10 §, item 3 of the Articles of Association in the same manner as the determination of whether the Share Price Hurdles have been met for the purposes of the conversion right referred to in section 10 §, item 3 of the Articles of Association.

If the company decides to issue Class C Shares or any rights entitling to Class C Shares (including Class C Shares held by the company or its subsidiaries) in a directed issue, where pre-emptive rights of shareholders are not afforded to the holders of Class F Shares (the “Dilution Event”), the percentages set out in sub-items (i)–(iv) above shall be decreased, effective immediately following the registration of such Class C Shares or rights entitling to Class C Shares, to reflect such dilution of the number of Class F Shares compared to the number of Class C Shares.

Each Class C Share and Class F Share is assigned one vote.

Authorization to purchase own shares

On 13 December 2021, the Extraordinary General Meeting of VAC (subsequently Purmo Group Plc) resolved in accordance with the proposal of the Board of Directors to resolve on the issuance of class C shares as well as the issuance of special rights entitling to class C shares referred to in Chapter 10, Section 1 of the Finnish Companies Act in one or several tranches. The number of class C shares to be issued based on this authorization shall not exceed 8,000,000 shares (including shares to be received based on special rights), which corresponds to approximately 20 per cent of all of class C shares in the company. However, a maximum of 25 per cent of the authorization, i.e. a maximum of 2,000,000 class C shares (including shares to be received based on special rights) may be used for incentive arrangements and remuneration schemes. The authorization is effective until the end of the next Annual General Meeting, however, no longer than until 30 June 2022. The authorization revokes previous authorizations granted by a unanimous resolution of the shareholders to the Board of Directors on 13 June 2021 to resolve on the issuance of shares as well as on the issuance of special rights entitling to shares.

The Extraordinary General Meeting resolved in accordance with the proposal of the Board of Directors to authorize the Board of Directors to resolve on the repurchase of the company’s own class C shares as well as on the acceptance of them as pledge. The number of class C shares to be repurchased or accepted as pledge by virtue of this authorization shall not exceed 4,000,000 own class C shares in the company, which corresponds to approximately 10 per cent of all of class C shares in the company, subject to the provisions of the Finnish Companies’ Act on the maximum amount of own shares owned by or pledged to the Company and its subsidiaries. The authorization is effective until the end of the next Annual General Meeting, however no longer than until 30 June 2022.

Parent company distributable funds

After the balance sheet date, the Board of Directors proposed that a payment of funds from the invested unrestricted equity reserve as a return of capital of EUR 0.36 per share be paid for class C share and EUR 0.07 per share for class F share totalling approximately EUR 14.9 million and that no dividend will be paid for the financial year 2021. No dividend has been distributed from the 2020 results.

Additional information on equity is presented in Notes to the parent company financial statements, in Note 8.10.

Earnings per share

The basic earnings per share are calculated by dividing the profit attributable to the equity owners of the parent company by the weighted average number of shares outstanding during the period. The diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares with the dilutive effect of all the potential dilutive shares, such as shares from share-based payments.

Comparative earnings per share (basic and diluted) have been restated for the effect of the merger for comparability purposes. The weighted average number of shares outstanding prior to the merger has been adjusted by reflecting the exchange ratio of number of shares as merger consideration.

Earnings per share, basic

	2021	2020
Profit/loss attributable to shareholders of the parent company for C shares (EUR million)	-18.7	24.9
Profit/loss attributable to shareholders of the parent company for F shares (EUR million)	-0.1	-
Profit/loss attributable to the owners of the Company (EUR million)	-18.8	24.9
Weighted average number of shares outstanding (pcs)	29,124,487	28,787,686
Basic earnings per share (EUR)	-0.65	0.86

Earnings per share, diluted

	2021	2020
Profit/loss attributable to shareholders of the parent company for C shares (EUR million)	-18.7	24.9
Profit/loss attributable to shareholders of the parent company for F shares (EUR million)	-0.1	-
Profit/loss attributable to the owners of the Company (EUR million)	-18.8	24.9
Weighted average number of shares outstanding (pcs)	29,124,487	28,787,686
Adjustments:		
Average number of treasury shares it is possible to be issued on the basis of the share-based payments (pcs)	-	177,195
Weighted average number of shares outstanding (pcs)	29,124,487	28,964,881
Diluted earnings per share (EUR)	-0.65	0.86

The earnings per share for 2021 is negative due to the EUR 52.3 million non-cash IFRS 2 merger impact which was recognised in other operating expenses and equity.

5.6 Interest-bearing liabilities

ACCOUNTING PRINCIPLES

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. The fair value changes in borrowings covered by fair value hedge are, in respect of hedged risk, recognized through profit and loss. 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 expenses over the period of the facility, or, if withdrawal of the loan is probable, as part of the 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 gains or losses are recognized in the income statement at the time of non-substantial modification.

Non-current liabilities

EUR million	2021	2020
Related party loans	277.7	-
Other loans	8.1	-
Lease liabilities	30.7	29.7
Total	316.5	29.7

Current liabilities

EUR million	2021	2020
Related party loans	-	90.0
Loan from financial institutions	95.0	4.5
Lease liabilities	5.6	5.9
Total	100.6	100.4
Total liabilities	417.1	130.2

Changes in financial liabilities arising from cash flow from financing activities

EUR million	Loans from related party	Loans from financial institutions	Lease liabilities	Total
1 Jan 2021	90.0	4.5	35.7	130.2
Changes from financing cash flows				
Proceeds from long-term borrowings		280.0		280.0
Proceeds from short-term borrowings from related party	8.0			8.0
Proceeds from short-term borrowings		95.0		95.0
Repayment of short-term borrowings		-4.9		-4.9
Repayment of short-term borrowings from related party	-98.0			-98.0
Repayment of lease liabilities			-7.8	-7.8
Total	-90.0	370.1	-7.8	272.3
New leases			7.8	7.8
Interest expense		-2.3		-2.3
Interest paid		0.4		0.4
31 Dec 2021	0.0	372.7	35.7	408.3

Changes in financial liabilities arising from cash flow from financing activities

EUR million	Loans from related party	Loans from financial institutions	Lease liabilities	Total
1 Jan 2020	137.1	3.3	39.5	179.9
Changes from financing cash flows				
Repayment of long-term borrowings to related party	-30.2			-30.2
Proceeds from short-term borrowings from related party	89.0			89.0
Proceeds from short-term borrowings		1.4		1.4
Repayment of short-term borrowings from related party	-105.4			-105.4
Repayment of lease liabilities			-7.0	-7.0
Total	-46.6	1.4	-7.0	-52.2
New leases			3.1	3.1
Exchange differences and other	-0.4	-0.1		-0.6
31 Dec 2020	90.0	4.5	36.7	130.2

Terms and repayment schedule

The terms and conditions of outstanding loans are as follows:

EUR million	Currency	Year of maturity	Carrying amount	
			31 Dec 2021	31 Dec 2020
Loans from related party	EUR	2021	-	90.0
Loans from financial institutions	EUR	2021-2024	372.7	-
Loan from financial institutions	CNY	2021	-	4.5
Lease liabilities	EUR	2021-	36.4	35.7
Total borrowings			409.0	130.2

5.7 Derivative financial instruments

ACCOUNTING POLICIES

Derivative financial instruments and hedge accounting

The Group holds derivative forward contracts to hedge its foreign currency exposures. Derivatives are initially measured at fair value. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument.

Since November 2020, Purmo Group designates the spot component of foreign exchange forward contracts hedging the operative cash flows as hedges of highly probable forecast transactions (cash flow hedges). At inception of the hedge relationship, the group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The group documents its risk management objective and strategy for undertaking its hedge transactions.

Until November 2020, all derivative contracts were made with the Group's ultimate parent, Rettig Group Ltd. The Group's policy was not to apply hedge accounting, but rather recognise the fair value changes in profit or loss. Upon establishment of Purmo Group's stand-alone treasury function in November 2020, the management decided to start to apply hedge accounting to derivatives hedging the Group's forecasted operative cash flows.

The Group has designated the forward contracts as hedges of the foreign currency risk arising from the net position of highly probable forecast sales and purchases. The hedging results hedging the net fx-position are recycled from other comprehensive income and presented on a net basis either in other income or other expenses.

Derivatives are presented as assets when the fair value is positive and as liabilities when the fair value is negative. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The interest component of the hedging instruments is presented in financial items. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. When the hedged transaction results in recognition of inventory, the amount accumulated on hedging reserve directly adjusts the value of the inventory.

Changes in fair value of economic hedging derivatives, for which hedge accounting is not applied, are recognised in profit or loss and presented in finance income and finance expenses when they hedge finance items, and in other income or other expenses when they hedge operating items, such as future forecasted sales and purchases. Interest component of all derivatives are included in financial items.

Derivatives and hedge accounting

The following table summarises the effects of the foreign-currency related hedging instruments on the Group's financial position and performance, including amounts recycled to profit or loss during the year.

EUR million unless otherwise stated	31 Dec 2021
Foreign currency forward contracts	
Carrying amount, assets	0.5
Carrying amount, liabilities	1.4
Notional amount	114.1
Hedge ratio	1:1
Hedging results, recycled to other expenses	-1.9
Weighted average hedged rates (FX rate)	
GBP	0.87
PLN	4.70
SEK	10.25
RON	5.08
Maturity breakdown of notional amounts	
Total	153.7
Between 1 and 6 months	80.2
Between 6 and 12 months	73.5
Between 12 and 15 months	-

Derivatives are subject to netting agreements. Netting agreement allows for settling on a net basis all outstanding items within the scope of the agreement, such as in the event of default. As the Company does not meet IFRS right of set-off, these amounts are presented gross on the balance sheet. At the reporting

date, the remaining net settlement, as allowed by the netting arrangements, was EUR 1.4 (0.4) million for the derivative liabilities and EUR 0.1 (0.4) million for derivative assets.

The Group is also exposed to equity translation risk through its investments in foreign operations. The Group's policy is not to hedge this risk.

Exposure to currency risk

Currency risk sensitivity to a +/- 10 per cent change in the exchange rate is shown for the net currency position per currency. The summary of quantitative data relating to the Group's exposure to currency risk as reported to the Group management is as follows.

Currency risk

2021

EUR million	GBP	PLN	SEK	CNY	RON
Forecast transactions, net	26.0	-46.4	31.9	-	25.7
Balance sheet exposure, financing items	-15.9	-40.5	-13.8	-9.1	2.1
Hedging instruments under hedge accounting, nominal amount	-13.4	30.8	-16.9	-	-15.7
Hedging instruments, no hedge accounting, nominal amount	16.3	40.5	13.9	9.0	-2.1
Net balance sheet exposure	-13.0	30.8	-16.8	-0.2	-15.7
Sensitivity analysis (+/- 10%)					
EUR million					
Income statement	0.0	0.0	0.0	0.0	0.0
Equity (hedge reserve)	1.3	-1.6	1.5	-	1.0

Currency risk

2020

EUR million	GBP	PLN	SEK	CNY	RON
Forecast transactions, net	22.0	-24.9	17.9	0.0	12.5
Balance sheet exposure, financing items	-0.3	2.6	14.5	9.2	1.8
Hedging instruments under hedge accounting, nominal amount	-13.4	12.2	6.1	0.0	-6.6
Hedging instruments, no hedge accounting, nominal amount	0.0	-23.7	-19.9	-9.2	0.0
Net balance sheet exposure	-13.7	-8.9	0.7	0.0	-4.8
Sensitivity analysis (+/- 10%)					
EUR million					
Income statement	0.0	-2.1	-0.5	0.0	0.2
Equity (hedge reserve)	1.3	1.2	0.6	0.0	-0.7

5.8 Commitments and contingent assets and liabilities

ACCOUNTING PRINCIPLES

Purmo Group has guaranteed obligations arising in the ordinary course of business. Typically, guarantees given to secure commercial contractual obligations, or received advance payments. The Group discloses contingent liabilities and commitments as off-balance sheet liabilities and recognises them only when the realisation of them is probable.

Guarantees

EUR million	2021	2020
Guarantees		
Bank guarantees	8.0	4.3
Parent guarantees	21.0	10.2
Total	29.0	14.5

Off-balance sheet leases include low-value leases, and leases that have not yet commenced. The Group does not have material lease agreements not yet commenced as at the balance sheet dates. Information on leases is disclosed in Note 3.4 Right-of-use assets.

Disputes and legal proceedings

Purmo Group is involved in some minor legal actions, claims and proceedings. The final outcome of these matters cannot be predicted. Considering all available information to date the outcome is not expected to have material impact on the financial position of the Group.

6. Group structure

6.1 Business combinations

ACCOUNTING PRINCIPLES

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred. The consideration transferred does not include amounts relating to the settlement of pre-existing relationships. Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

2021

On 31 December Purmo Group Ltd and Virala Acquisition Company Plc were merged according to the merger plan approved 13 December 2021. As VAC didn't meet the definition of a business, the merger was not accounted for as a business combination but as a reverse recapitalization, in which no goodwill was recognized and Purmo Group obtained a public company status. The difference of the fair value of the equity instruments issued by VAC and the fair value of VAC's net assets was accounted for as a non-cash share-based payment in accordance with IFRS 2 Share-Based Payments and recorded as an expense through the income statement and was considered to represent a service for listing of Purmo Group's shares.

As a result of the application to IFRS 3 reverse acquisition guidance by analogy to the merger, Purmo Group's operating history and financial performance forms the basis for the comparative consolidated financial information for the combined company.

On 4 November 2020 Purmo Group signed an agreement to acquire 51% of the issued share capital of Euroradiators Holding B.V from Bosch Group. The closing date of the acquisition was 30 April 2021 when Purmo Group gained control over Euroradiators. Euroradiators holds all shares in Euroradiators LLC, a Russian limited liability company operating a radiator factory in Engels, Russia. The factory has

approximately 110 employees. The purchase price for the 51% share was EUR 5.5 million, fully paid in cash at the acquisition date and the acquisition date net present value for the put and call option was EUR 5.6 million, which has been recognized as a redemption liability. The redemption liability is calculated based on a fixed amount of EUR 4.8 million, adjusted with estimated net cash, capital expenditure, and changes in net working capital levels. This redemption liability forms part of the provisional purchase consideration, amounting to approximately EUR 11.1 million. The redemption liability is fair valued through profit and loss at each subsequent reporting date.

The provisional fair value of the net assets acquired at the acquisition date was EUR 7.1 million and accordingly Purmo Group recognized a provisional goodwill of EUR 4.0 million, which has been allocated to Radiators cash-generating unit for impairment testing purposes. Goodwill is considered to comprise of acquired assembled workforce and enhancing the Company's position in the Russian market creating synergies in servicing its Russian clients. The acquisition did not have a material impact on the Group's revenue or profit for the period.

The redemption liability to redeem the 49% minority has been increased by EUR 2.2 million post-acquisition, which corresponds to the cash injection to the investee by the minority shareholder. In accordance with the put and call option terms, the redemption liability is increased with a corresponding amount.

Fair values of acquired assets and liabilities at time of the acquisition:

	EUR million
Intangible assets	0.0
Tangible assets	2.9
Right-of-use assets	0.5
Inventories	2.8
Other current assets	2.7
Total assets	8.9
Interest bearing liabilities	1.0
Deferred tax liabilities	0.1
Current liabilities	0.7
Total liabilities	1.8
Net assets acquired	7.1
Provisional consideration	
Cash consideration	5.5
Redemption liability	5.6
Provisional consideration transferred	11.1
Net assets acquired	7.1
Goodwill	4.0
Cash flow of acquisition:	
Consideration, paid in cash	5.5
Cash and cash equivalents in the acquiree	-1.0
Direct transaction costs ¹	-0.0
Net cash flow	4.5

¹ Costs incurred in previous financial periods amount to EUR 422 thousand.

2020

The Group had no business acquisitions during 2020.

6.2 Subsidiaries

ACCOUNTING PRINCIPLES

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. Changes in the Group's interest in a subsidiary that do not result in a loss of control are recognised as equity transactions.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

All intercompany transactions, receivables, liabilities, unrealised profits and distribution of profits within the Group are eliminated in the consolidated financial statements.

Purmo Group's subsidiaries as at 31 December 2021 are set out below. Unless otherwise stated the portion of ownership interest held equals the voting rights held by the Purmo Group.

	Country of incorporation	Activities	% Equity interest
Purmo Group Oyj	Parent	Holding	100
Purmo Group Finland Oy Ab	Finland	Sales	100
Purmo Group Latvia SIA	Latvia	Sales	100
Purmo Group Estonia AS	Estonia	Sales	100
ZAO Rettig Varme RUS	Russia	Sales	100
Purmo Group Denmark ApS	Denmark	Sales	100
Rettig Heating Equipment (Jiangsu) Co. Ltd	China	Production and sales	100
Purmo Group Poland Sp. z o.o	Poland	Production and sales	100
Purmo Group Sweden AB	Sweden	Production and sales	100

	Country of incorporation	Activities	% Equity interest
Emmeti S.p.A	Italy	Production and sales	100
Emmeti Iberica S.L.	Spain	Sales	100
Fabricca Italiana Valvole S.r.l	Italy	Production and sales	100
SFERA Comercial e Importadora	Brazil	Sales	100
Sigarth GmbH	Germany	Sales	100
Sigarth Sp. z o.o.	Poland	Production and sales	100
PG Austria GmbH	Austria	Production and sales	100
PG Hungary Kft	Hungary	Production and sales	100
PG Hrvatska d.o.o.	Croatia	Sales	100
PG Slovenija d.o.o.	Slovenia	Sales	100
PG Germany GmbH	Germany	Production and sales	100
Hewing GmbH	Germany	Production and sales	100
NORAL Beteiligungs GmbH & Co. KG	Germany	Services	100
Rettig Heating Group UK Ltd	United Kingdom	Dormant	100
Purmo Group Belgium NV	Belgium	Production and sales	100
Purmo Group Ireland Limited	Ireland	Production and sales	100
PG Ceska s.r.o	Czech Republic	Sales	100
Purmo Group USA Inc	United States	Sales	100
Lampo Heating (Tianjin) Co. Ltd	China	Dormant	100
Purmo Group TurkeyTicaret ve Sanayi A.S.	Turkey	Production and sales	100
Purmo Group Romania srl	Romania	Sales	100
CAN Sp. z o.o	Poland	Services	100
Purmo Group France SAS	France	Production	100
Finimétal SASU	France	Production and sales	100
Purmo Group (UK) Ltd	United Kingdom	Production and sales	100
Purmo Group UK Pension Trustee Limited	United Kingdom	Dormant	100
Vogel & Noot Products Ltd	United Kingdom	Dormant	100
Emmeti UK Ltd	United Kingdom	Dormant	100
Euroradiators Holding B.V.	Netherlands	Holding	51
Evroradiators LLC Russia ¹	Russia	Production and sales	51

¹100% owned by Euroradiators Holding B.V.

6.3 Exchange rates

ACCOUNTING PRINCIPLES

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate at the date when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not retranslated. Foreign exchange gains and losses, net that relate to operating items are presented in other income or expenses, depending of the net position. Foreign exchange gains and losses, net, that relate to financing items are presented in finance income or expenses, depending of the net position.

Foreign operations

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro, which is the Company's functional and presentation currency. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the exchange rates at the dates of the transactions. Foreign currency differences arising from the translation of foreign entities are recognised in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to a non-controlling interest.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve relating to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

7. Other notes

7.1 Related party transactions

Purmo Group's related parties include subsidiaries as well as the members of the Board and CEO and members of the Group management. In addition, the immediate parent company Rettig Group Ltd and the ultimate controlling party Rettig Capital Ltd and their subsidiaries, associated companies and joint ventures are related parties. All transactions and outstanding balances with these related parties are priced on an arm's length basis. Tomas von Rettig and Maria von Rettig have significant influence over Rettig Capital Ltd. All transactions and outstanding balances with the related parties are made on an arm's length basis.

Until merger 31 of December 2021, Purmo Group's related parties also included Purmo Group Ltd's Board of Directors and the members of the management team, including the CEO, as well as their family members.

During the reporting period Purmo Group acquired the 10% minority of PG Germany GmbH from Rettig Group Ltd through converting the EUR 4.2 million vendor note receivable. The acquisition didn't have a material impact on the Group.

Rettig Group Ltd held 68.28% of the Company's shares and voting rights on 31 December 2021 and 99.23% in 31 December 2020, respectively.

Parent and ultimate controlling party

	2021	2020
Items in the income statement		
Interest income	0.1	0.9
Interest expense	-2.2	-8.0
Purchases	-0.5	-0.6
Derivative instruments, gain	-0.0	0.4
Sales	-	-0.0
Items in the balance sheet		
Vendor note receivable	-	4.2
Loans	-	90.0
Current liabilities	0.0	0.1
Current receivables	0.1	0.0
Items recognised in equity		
Dividend and repayment of capital	-266.4	-15.0
Merger	152.1	-

Transactions with key management personnel

Key management personnel compensation

The information of the key management personnel compensation and remuneration is disclosed only for the key management of Purmo Group. Purmo Group did not have any transactions with the key management personnel of Rettig Group Ltd or Rettig Capital Ltd.

Remuneration to the members of the Board of Directors

EUR thousand	2021	2020
Fees	168.2	383.0
Management incentive program (share-based payment)	335.0	378.0
Total	503.2	761.0

Compensation and remuneration to the CEO and the members of the Management team

2021 EUR thousand	CEO	Members of the Management team
Salaries and other short-term employee benefits	498.7	946.7
Short term incentives	352.7	477.5
Post-employment benefits	63.5	67.5
Management incentive program (share-based payment)	247.0	660.3
Termination benefits	-	-
Total	1,161.9	1,384.6

Compensation and remuneration to the CEO and the members of the Leadership team

2020 EUR thousand	CEO ¹	Members of the Management team
Salaries and other short-term employee benefits	574.5	1,724.5
Short term incentives	117.2	551.7
Post-employment benefits	118.0	226.0
Management incentive program (share-based payment)	83.0	1,623.0
Termination benefits	720.0	877.0
Total	1,612.8	5,002.2

¹ Includes the remuneration to current CEO John Peter Leesi for the period of 1 July-31 December 2020 and the remuneration of Purmo Group's former CEO for the period of 1 January-30 June 2020.

In 2018 Purmo Group Ltd implemented a long-term incentive plan to key management and in 2020 the Company implemented an incentive plan for certain key employees. For more information of incentive plans see note 2.5 Share-based payments. In 2020, the key management personnel of the Company subscribed in total 19 088 of former class K1 shares and 160 of former class P shares based on the terms of the incentive plans.

Purmo Group has outstanding loan receivables from key management personnel of EUR 0.2 million at 31 December 2021 (31 December 2020: EUR 0.2 million). The loans were granted during 2018 and 2020 to make the initial personal investment to subscribe the Company's former class K in connection of participants becoming eligible for the 2018 and 2020 incentive plans. The loans are subject to 12-month Euribor plus a margin of 1.00 per cent. The interest is due annually and interest payable by key management personnel totals to EUR 0.0 million at 31 December 2021 (31 December 2020: EUR 0.0 million). The loans and any accrued interest thereon are repayable on 30 June 2024 at the latest, or earlier if the borrower's employment with the Group ends. The shares subscribed by the borrowers are pledged as security for the repayment of loan balance.

In 2021 Purmo Group has purchased 7 741 (34 219) former class K shares from the key management with a total consideration of EUR 0.4 million, (EUR 1.5 million in 2020). The treasury shares were acquired from the key management personnel based on the terms and the leaver conditions outlined in the Minority shareholders agreement dated 30 May 2018. Further, the key management personnel have received a total of dividends and repayments of capital by the amount of EUR 0.4 million in 2021 and EUR 0.1 million in 2020.

7.2 Taxes

ACCOUNTING PRINCIPLES

Income tax

The income tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty relating to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

ACCOUNTING ESTIMATES AND JUDGEMENTS

Management judgement is required in assessing whether certain deferred tax assets and deferred tax liabilities are recognized on the balance sheet. Deferred tax assets are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised for tax losses carried forward.

Amounts recognised in profit and loss

EUR million	2021	2020
Income tax expense		
For the financial period	-13.4	-12.6
For previous financial periods	0.4	-0.2
Change in deferred taxes	-0.8	6.1
Total	-13.7	-6.6

Amounts recognised in other comprehensive income

EUR million	2021	2020
Items that will never be reclassified to profit or loss		
Tax related to post-employment defined benefit plans	0.2	0.1
Items that are or may be reclassified to profit or loss		
Cash flow hedges	0.2	0.1
Total	0.3	0.2

Reconciliation of effective tax rate

EUR million	2021	2020
Profit before tax	-5.1	31.9
Tax using the Company's domestic tax rate	1.0	0.0
Effect of tax rates in foreign jurisdictions	-1.8	0.3
Non-deductible expenses	-3.5	-2.5
IFRS 2 merger impact	-10.5	-
Tax-exempt income	2.5	1.1
Current year losses for which no deferred tax asset was recognised	-0.5	-2.2
Utilization of tax losses for which no deferred tax has been recognised	-	2.0
Change in unrecognised temporary differences (tax losses)	1.3	3.7
Prior year taxes	0.4	-0.2
Effect of tax consolidation/tax group in one country	0.0	0.0
Other	-2.7	-2.4
Tax in profit and loss statement	-13.7	-6.6
Effective tax rate	-269.7%¹	20.82%

¹ Without the one-time, non-cash IFRS 2 merger impact the comparable tax rate would have been 29.1%

The total income tax expense of the Group for 2021 was EUR 13.7 million. Defining effective tax rate or comparing it to previous periods is not meaningful for 2021 as the Group result before taxes was negative due to the non-cash IFRS 2 merger impact of EUR 52.3 million. The comparable effective tax rate without the IFRS 2 listing expense was 29.1% (20.8%). The tax cost was burdened by significant profits in the countries with higher corporate income tax rate than Finland (especially Italy and Germany), tax rate based devaluation of deferred tax assets in France and Ireland as well as merger related real estate tax in Germany. The cost side was balanced by positive profit outlook in e.g. Austria and Sweden allowing recognising of deferred tax asset on losses for previous fiscal periods.

Deferred tax assets

2021		Recognised	Exchange	Recognised	Acquisitions	
EUR million	1 Jan	in income	differences	in OCI	and other	31 Dec
Property, plant and equipment	1.9	-0.1	0.0		-	1.7
Financial assets	0.5	-0.1	0.0	0.2	-	0.6
Inventories	1.7	0.8	-		-	2.4
Post-employment benefit obligations /assets	3.7	-0.1	0.0	0.0	-0.1	3.5
Provisions	3.9	0.5	0.0		0.0	4.4
Tax losses carried forward	17.7	-2.3	0.3		3.5	19.2
Other temporary differences	3.6	0.7	0.1		-1.5	3.0
Deferred tax assets, total	33.0	-0.6	0.4	0.1	2.0	34.9
Offset against deferred tax liabilities	-7.6				-0.8	-8.4
Total deferred tax	25.5	-0.6	0.4	0.1	1.1	26.5

Deferred tax liabilities

2021		Recognised	Exchange	Recognised	Acquisitions	
EUR million	1 Jan	in income	differences	in OCI	and other	31 Dec
Intangible assets	0.5	0.4	-		0.0	0.8
Property, plant and equipment	8.1	-1.1	0.0		-0.4	6.5
Financial assets	0.6	-0.2	0.1	0.0	0.0	0.4
Inventories	0.0	0.0	0.0		0.0	0.0
Post-employment benefit obligations /assets	0.2	0.0	-	-0.2	-0.1	-0.1
Provisions	0.1	0.0	0.0			0.1
Other temporary differences	2.1	1.1	0.0		0.1	3.3
Deferred tax liabilities total	11.4	0.2	0.0	-0.2	-0.5	11.0
Offset against deferred tax liabilities	-7.6				-0.8	-8.4
Total deferred tax	3.9	0.2	0.0	-0.2	-1.3	2.6

Deferred tax assets

2020		Recognised	Exchange	Recognised	Acquisitions	
EUR million	1 Jan	in income	differences	in OCI	and other	31 Dec
Property, plant and equipment	0.8	1.1	0.0			1.9
Financial assets	0.1	0.3	0.0	0.1		0.5
Inventories	1.8	-0.1	-0.1			1.7
Post-employment benefit obligations /assets	2.7	0.8	0.0	0.2		3.7
Provisions	3.8	0.2	-0.1			3.9
Tax losses carried forward	13.9	3.9	0.0			17.7
Other temporary differences	2.4	1.3	-0.1			3.6
Deferred tax assets, total	25.4	7.7	-0.3	0.3	-	33.0
Offset against deferred tax liabilities	-6.0	-1.6				-7.6
Total deferred tax	19.5	6.0	-0.3	0.3	-	25.5

Deferred tax liabilities

2020		Recognised	Exchange	Recognised	Acquisitions	
EUR million	1 Jan	in income	differences	in OCI	and other	31 Dec
Intangible assets		0.5				0.5
Property, plant and equipment	8.2	0.0	-0.2			8.1
Financial assets	0.1	0.4	0.0	0.0		0.6
Inventories	0.0	0.0	0.0			0.0
Post-employment benefit obligations /assets	0.1	0.0		0.1		0.2
Provisions	0.1	0.0	0.0			0.1
Other temporary differences	1.4	0.7	0.0			2.1
Deferred tax liabilities total	9.9	1.1	-0.2	0.1	-	11.4
Offset against deferred tax liabilities	-6.0	-1.6				-7.6
Total deferred tax	4.0	-0.5	-0.2	0.1	-	3.9

Deferred tax assets have been booked on the losses to the extent that it is probable that taxable profits will be available against which to utilise the benefits.

On 31 December 2021, Purmo Group had EUR 36.0 (31 Dec 2020: 17.2) million of tax losses carried forward for which no deferred tax assets were recognised because it is not probable that future taxable profits will be available against which to utilise the benefits. Tax losses of EUR 3.0 (31 Dec 2020: 5.0) million will expire during the next five years and EUR 33.0 (31 Dec 2020: 12.2) million have no expiry date or will expire after five years.

The Group does not provide for deferred taxes on the distributable earnings of non-Finnish subsidiaries, to the extent that such earnings are intended to be permanently reinvested in those operations and repatriation would give rise to tax expenses.

7.3 Events after the balance sheet date

Trading in the merger consideration shares and the existing class C shares on the official list of Nasdaq Helsinki Ltd commenced on 3 January 2022 under the trading code PURMO (ISIN code: FI4000507488).

Purmo Group Plc (formerly Virala Acquisition Company Plc) deposited EUR 96.8 million of proceeds in the initial public offering in blocked bank accounts. On the basis of escrow agreement the funds were released to Purmo Group Plc's bank account on 3 January 2022. As the terms and conditions of the escrow agreement were met during Q4 2021, funds were already booked to cash and equivalents. The funds were used to repay the EUR 95.0 million bridge loan facility.

As announced by former Virala Acquisition Company Plc on 8 September 2021, Virala Corporation had an option to acquire further 689,576 class C shares from Rettig Group Ltd following the completion of the merger. Virala Corporation has on 5 January 2022 exercised the option and Rettig Group Ltd has therefore disposed 689,576 class C shares in Purmo Group Plc held by it to Virala Corporation.

The Extraordinary General Meeting, held on 13 December 2021, resolved that the members of the Nomination Board will be based on the three largest shareholders in Purmo Group Plc on the tenth business day following the effective date. In a stock exchange release on 20 January 2022 Purmo Group announced that the three largest shareholders nominated the following representatives to the Nomination Board; Matts Rosenberg (appointed by Rettig Group Ltd), Alexander Ehrnrooth (appointed by Virala Corporation, and Peter Seligson (appointed by Ahlstrom Invest B.V.). Matts Rosenberg has been elected Chairman of the Nomination Board. Tomas von Rettig, Chairman of the Company's Board of Directors, acts as an expert member in the Nomination Board.

In a stock exchange release on 25 January 2022 Purmo Group announced that the Shareholders' Nomination Board proposes to the Annual General Meeting, planned be held on 25 April 2022, that the number of members of the Board of Directors, the composition of the Board of Directors and the remuneration of the Board of Directors are kept unchanged and in line with the resolutions of the Extraordinary General Meeting of Virala Acquisition Company Plc held on 13 December 2021, as follows:

- The Shareholders' Nomination Board proposes that the number of members of the Board of Directors is seven.
- The Shareholders' Nomination Board proposes that Tomas von Rettig, Matts Rosenberg, Carina Edblad, Alexander Ehrnrooth, Carlo Grossi, Jyri Luomakoski and Catharina Stackelberg are re-elected as members of the Board of Directors.
- The Shareholders' Nomination Board proposes that Tomas von Rettig is re-elected as the Chairman of the Board of Directors and Matts Rosenberg is re-elected as the Vice Chairman of the Board of Directors.
- The Shareholders' Nomination Board proposed also on the remuneration of the Board of Directors and Board Committees.

On 3 February 2022 Purmo Group completed the syndication of the EUR 280 million term loan and EUR 80 million revolving credit facility that were signed in September 2021.

In a stock exchange release on 1 March 2022 Purmo Group announced that it has acquired the entire share capital of TT Thermotech Intressenter AB, the Nordic heating systems company. The acquisition was valued at SEK 265 million (EUR 25 million) on a cash and debt free basis. In 2021, the company's total turnover was SEK 252 million (EUR 23.8 million) and EBITDA SEK 38 million (EUR 3.6 million) in accordance with Swedish GAAP.

Given the uncertainty and risk arising from the geopolitical situation in Ukraine and Russia, including imposed sanctions and possible future sanctions and counter sanctions and their consequences, there may be impact to the fair values and economic lives of assets, as well as on the commodity prices. The direct exposure to the Russian and Ukrainian markets are not material for the Group. Purmo Group's net sales to Ukraine account for less than 1 per cent and to Russia for less than 5 per cent of total net sales, and total assets in these countries represents less than 3 per cent of the Group's assets. The indirect impacts on other markets that Purmo Group operates in are difficult to assess at this stage. The Company announced 3 March 2022 that it suspends all sales and operations in Russia until further notice. Purmo Group actively monitors the situation in order to ensure continued compliance with prevailing rules and applicable sanctions laws.

8. Parent company financial statements

Parent company income statement

EUR thousand	Note	2021	2020
Employee benefit expenses	8.2	-137	-
Other operating expenses	8.3	-9,926	-1
Operating profit/loss		-10,063	-1
Financial expenses	8.4	0	-
Profit/loss before appropriations and taxes		-10,063	-1
Income tax expense	8.5	2,013	-
Profit/loss for the period		-8,050	-1

Parent company balance sheet

EUR thousand	Note	2021	2020
Assets			
Non-current assets			
Intangible assets	8.6	28,933	-
Tangible assets	8.7	3	-
Investments	8.8	559,634	-
Total non-current assets		588,570	-
Current assets			
Long-term receivables	8.9	29,179	-
Short-term receivables	8.9	111,393	-
Cash and cash equivalents		163,304	2
Total current assets		303,876	2
Total assets		892,446	2
Equity and liabilities			
Equity			
Share capital	8.10	3,080	3
Reserve of invested unrestricted equity	8.10	385,917	-
Retained earnings	8.10	-2	-1
Profit/loss for the fiscal period		-8,050	-1
Total equity		380,945	2
Liabilities			
Non-current liabilities	8.11	277,654	-
Current liabilities	8.11	233,847	-
Total current liabilities		511,501	-
Total equity and liabilities		892,446	2

Parent company cash flow statement

EUR thousand	2021	2020
Cash flows from operating activities		
Profit before appropriations and taxes	-10,063	-1
Finance income and expenses	0	-
Other adjustments	0	-
Operating profit before change in working capital	-10,063	-1
Change in working capital		
Increase (-) / decrease (+) of current receivables	-532	0
Increase (+) / decrease (-) of current non-interest bearing liabilities	2,660	-
Cash flows from operating activities before financial items and taxes	-7,936	0
Interests paid and other finance costs	0	-
Net cash from operating activities	-7,936	0
Cash flows from investing activities		
Business acquisition - transferred assets and liabilities from Purmo Group	63,434	-
Net cash fom investing activities	63,434	0

EUR thousand	2021	2020
Cash flows from financing activities		
Proceeds from share capital increase	77	-
Proceeds from share issues	226	-
Proceeds from offering	107,500	-
Net cash fom financing activities	107,803	0
Change in cash and cash equivalents	163,302	0
Cash and cash equivalents at the beginning of the period	2	2
Cash and cash equivalents at the end of the period	163,304	2

Notes to the parent company financial statements

8.1 Accounting principles

The financial statements of the parent company, Purmo Group Plc (formerly Virala Acquisition Company Plc), have been prepared in accordance with the Finnish Generally Accepted Accounting Principles. The financial statements are presented in thousand euros.

Acquisitions

The merger of Virala Acquisition Company Plc and Purmo Group Ltd was completed on 31 December 2021. Virala Acquisition Company Plc continues as the Parent Company changing its name to Purmo Group Plc. The received assets and liabilities were recorded in book values. The published merger plan agreed on 13 December 2021 lists details of the transferred assets and liabilities.

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 the accounting period, monetary items are valued at the rate of exchange prevailing at the end of period.

Derivatives

Derivatives are measured at fair value on the balance sheet date. Changes in the fair value of derivatives under hedge accounting against external counterparties are recognised in the other comprehensive income. Changes in the fair value of derivatives, to which hedge accounting is not applied and internal counterparties are recognised in financial income or expense in profit and loss. More information about risk management and derivatives in Notes 5.2 Financial risk management and 5.7 Derivative financial instruments in the Group's consolidated financial statements.

Tangible and intangible assets

Tangible and intangible assets are valued at historical cost, less accumulated depreciation according to plan. Depreciation and amortization is calculated on a straight-line basis over the expected useful lives of the assets as follows:

Trademarks	5–10 years
Computer software	3–5 years
Other tangible assets	20 years

Receivables

Receivables are valued to acquisition cost or to a lower probable value.

Loan arrangement fee

The loan arrangement fee is recognised at amortised cost using the effective interest method.

Leases

Lease payments are treated as rentals.

Income taxes

Income tax expense includes taxes calculated for the financial year, adjustments to prior year taxes, and changes in the deferred taxes. Deferred tax assets and liabilities have been recognized in the financial statements.

Dividends

Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the Annual General Meeting.

8.2 Employee benefit expenses

EUR thousand	2021	2020
Salaries and fees	-135	-
Social security costs	-2	-
Total	-137	-
Salary and bonus expenses of Chief Executive Officer and Members of the Board of Directors		
Chief Executive Officer	-	-
Board of Directors	-135	-
Personnel on average	-	-

8.3 Other operating expenses

EUR thousand	2021	2020
Expenses related to the share issue	-6,114	-
Administration	-3,654	-
Other expenses	-158	-1
Total	-9,926	-1

Auditors' fees

EUR thousand	2021	2020
Authorised Public Accountants KPMG		
Audit	-34	-
Audit related	-22	-
Tax consultation	-2	-
Other services	-346	-
Total	-404	-

8.4 Financial income and expenses

EUR thousand	2021	2020
Interest and other financial expenses		
To others		
Interest expenses	0	-
Total	0	-
Financial income and expenses total	0	-

8.5 Income taxes

EUR thousand	2021	2020
Change in deferred taxes	2,013	-
Total	2,013	-

8.6 Intangible assets

EUR thousand	2021	2020
Intangible rights		
Acquisition cost 1 Jan	-	-
Additions	-	-
Additions coming from the merger	36,377	-
Disposals	-	-
Acquisition cost 31 Dec	36,377	0
Accumulated amortisation 1 Jan	-	-
Accumulated amortisation of the merger	-7,443	-
Amortisations for the financial year	-	-
Accumulated amortisation 31 Dec	-7,443	0
Book value 31 Dec	28,933	0

8.7 Tangible assets

EUR thousand	2021	2020
Intangible rights		
Acquisition cost 1 Jan	-	-
Additions	-	-
Additions coming from the merger	46	-
Disposals	-	-
Acquisition cost 31 Dec	46	0
Accumulated depreciation 1.10.	-	-
Accumulated depreciation of the merger	-43	-
Depreciations for the financial year	-	-
Accumulated amortisation 31 Dec	-43	0
Book value 31 Dec	3	0

8.8 Investments

EUR thousand	2021	2020
Investments in Group companies		
Acquisition cost 1 Jan	-	-
Increases coming from the merger	559,634	-
Acquisition cost 31 Dec	559,634	0

8.9 Receivables

Long-term receivables

Receivables from Group companies

EUR thousand	2021	2020
Loan receivables	26,754	-
Total	26,754	0

Receivables from others

EUR thousand	2021	2020
Interest receivables	413	-
Total	413	0

Deferred tax assets

EUR thousand	2021	2020
Deferred tax assets 1 Jan		
From result for the financial year	2,012	-
Deferred tax assets 31 Dec	2,012	-
Long-term receivables total	29,179	0

Short-term receivables

Receivables from Group companies

EUR thousand	2021	2020
Loan receivables	101,558	
Interest receivables	428	
Trade receivables	2,970	
Other receivables	3,448	
Total	108,403	0

Receivables from others

EUR thousand	2021	2020
Value added tax receivables	2,124	
Other receivables	233	
Prepayments and accrued income	633	
Total	2,989	0
Short-term receivables total	111,393	0

8.10 Equity

EUR thousand	Share capital	Reserve of invested unrestricted equity	Retained earnings	Equity total
Equity 1 Jan 2020	3	0	-2	2
Merger		278,191		278,191
Share issue	3,077	107,726		110,803
Result for the financial year			-8,050	-8,050
Equity 31 Dec 2021	3,080	358,917	-8,050	380,945
Equity 1 Jan 2019	3	0	-1	2
Result for the financial year			-1	-1
Equity 31 Dec 2020	3	0	-2	2

Distributable equity

EUR thousand	2021	2020
Reserve for invested unrestricted equity	385,917	0
Retained earnings	-2	-1
Net result for the financial period	-8,050	-1
Total	377,865	-2

8.11 Non-current liabilities

EUR thousand	2021	2020
Loans from financial institutions	277,654	-
Total	277,654	0
Non-current liabilities total	277,654	0

8.12 Current liabilities

Liabilities to Group companies

EUR thousand	2021	2020
Loan payables	43,147	-
Interest receivables	30	-
Trade payables	1,444	-
Cash pool payables	67,645	-
Other accruals and deferred income	18,475	-
Total	130,741	0

Liabilities to others

EUR thousand	2021	2020
Loans from financial institutions	95,000	-
Trade payables	3,425	-
Other liabilities	983	-
Accruals and deferred income	3,698	-
Total	103,106	0
Current liabilities total	233,847	0

8.13 Collaterals

Pledges

EUR thousand	2021	2020
Pledges given on behalf of group companies	21,006	-
Total	21,006	0

Lease commitments

EUR thousand	2021	2020
Payments in the following year	65	-
Payments later	13	-
Total	78	0

8.14 Derivative contracts

EUR thousand	2021	2020
Foreign currency derivatives		
Foreign exchange contracts, nominal value	276,751	-

Proposal of the Board of Directors

Purmo Group Plc's distributable funds on 31 December 2021 total EUR 377,864,962.16, which includes EUR -8,050,436.89 in net profit/loss for the year. The Board of Directors proposes to the Annual General Meeting convening that a return of capital of EUR 0.36 per class C share be paid for the financial year 2021 and that a return of capital for class F shares be paid in accordance with the Articles of Association of the Company for the financial year 2021 from the reserve for invested unrestricted equity of the Company. All the class C shares in the Company are entitled to a return of capital except for treasury shares held by the Company on the return of capital record date. In accordance with the Articles of Association of the Company and as a consequence of the first share price hurdle for conversion of class F shares into class C shares having been exceeded in September 2021, class F shares currently carry a right to asset distribution equivalent to 0.69 per cent of the return of capital proposed to be distributed to class C shares, which corresponds to a return of capital of EUR 0.07 per class F share.

The dividend shall be paid in two instalments. The first instalment of EUR 0.18 per class C share and EUR 0.03 EUR per class F share, based on the class F shares right to asset distribution in accordance with the Articles of Association shall be paid to the shareholders who are registered in the list of shareholders maintained by Euroclear Finland Ltd on the dividend record date of 27 March 2022. The payment day proposed by the Board for this instalment is 4 May 2022.

The second instalment of EUR 0.18 per class C share and EUR 0.04 per class F share, based on the class F shares right to asset distribution in accordance with the Articles of Association. The dividend record day for the second instalment as per the current rules of the Finnish book-entry system would be 26 September 2022 and the dividend payment day 3 October 2022.

No significant changes have taken place in the company's financial position since the end of the financial year. The company's liquidity is good and in the opinion of the Board of Directors the proposed return of capital will not put the company's solvency at risk.

Helsinki, 25 March 2022

Tomas von Rettig
Chairman of the Board

Carina Edblad

Jyri Luomakoski

Matts Rosenberg

Alexander Ehrnrooth

Carlo Grossi

Catharina Stackelberg-Hammarén

John Peter Leesi
CEO

Auditor's note

Our auditor's report has been issued today.

Helsinki, 25 March 2022

KPMG Oy
Authorized Public Accountant Firm

Kim Järvi
APA

Auditor's report

To the Annual General Meeting of Purmo Group Oyj

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Purmo Group Oyj (business identity code 2890898-5) for the year ended 31 December 2021. The financial statements comprise the consolidated balance sheet, 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, financial performance and 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 the 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 2.3 to the consolidated financial statements.

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

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

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. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

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.

The key audit matter

How the matter was addressed in the audit

Valuation of goodwill (refer to accounting principles for the consolidated financial statements and note 4.1)

- | | |
|--|--|
| <ul style="list-style-type: none"> • At the end of the financial year, the group had EUR 369 million of goodwill. The goodwill amounts to 95 % of the group equity and 35 % of the group's total assets on 31 December 2021. • Goodwill is tested for impairment when indicators of impairment exist, or at least annually. Goodwill impairment testing is conducted by comparing the carrying value with the recoverable amount using a discounted cash flow model. • Determining the key assumptions used in the cash flow forecasts requires management judgement and estimates especially relating to long term growth, profitability, and discount rates. • Valuation of goodwill is considered a key audit matter due to the significant carrying value and high level of management judgement involved. | <ul style="list-style-type: none"> • We assessed the impairment tests prepared by the Company. • Our detailed audit work with the involvement of KPMG valuation specialists included testing the integrity of the calculations and the technical model. We challenged the assumptions used by management in respect of forecasted growth rates and profitability as well as the appropriateness of the discount rates used. We also validated the assumptions used in relation to market and industry information. • We also compared the cash flows used in the testing to the group's business plans to our views. • Furthermore, we have considered the adequacy of the group's disclosures in respect of the impairment testing. |
|--|--|

Revenue recognition (refer to note 2.2 of the consolidated financial statements)

- | | |
|--|--|
| <ul style="list-style-type: none"> • Revenue is mainly generated through the sale of manufactured goods. The revenue is generated by subsidiaries in different countries. The revenue earned from the sale of goods is recognised when the control associated with ownership is transferred to the buyer in accordance with the terms of delivery. • In general, revenue recognition within the group is not complex but the large volumes of transactions and the fact that the revenue is generated through subsidiaries in different countries makes revenue recognition an area of focus in the audit and is therefore determined as a key audit matter. | <ul style="list-style-type: none"> • Auditors of subsidiaries have performed testing of controls related to revenue recognition and performed substantive procedures such as testing of sales agreements and year-end transactions. • On group level we have assessed the revenue recognition principles and based on the work performed by the auditors in the subsidiaries evaluated compliance with group revenue recognition principles. |
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The key audit matter

How the matter was addressed in the audit

Valuation of Inventories (refer to note 4.1 of the consolidated financial statements)

- | | |
|---|--|
| <ul style="list-style-type: none"> • The value of inventories amounted to EUR 157 million at the end of the financial year. It is essential from an accounting perspective that the internal control related to inventory accounting and valuation is appropriately organized. • The valuation of inventories is based on management estimates in respect of slow moving and obsolescence assessment. • Due to the significant carrying amount and management judgement involved, valuation of inventories is determined as a key audit matter that our audit is focused on. | <ul style="list-style-type: none"> • In our audit the key focus has been on the pricing and valuation of inventories. Our component auditors carried out controls testing and substantive testing in relation to inventory costing and obsolescence provisions including monitoring of inventory levels. • On group level we have assessed the work performed by the auditors in the subsidiaries and on group level made an overall assessment of the valuation of inventories. |
|---|--|

Merger transaction of Virala Acquisition Company Plc and Purmo Group Ltd (refer to accounting principles, notes 2.3 and 6.1)

- | | |
|---|--|
| <ul style="list-style-type: none"> • Virala Acquisition Company Plc ("VAC", the first company listed on the SPAC segment of the regulated market of Nasdaq Helsinki Ltd ("Nasdaq Helsinki") and Purmo Group Ltd, merged on December 31, 2021. • The merger is accounted for under IFRS within scope of IFRS 2 Share-based payments by analogy to IFRS 3 Business Combinations. Goodwill is not recognized, as VAC is not a business as defined by IFRS 3. The difference of EUR 52 million in the fair value of equity instruments held by VAC shareholders over the fair value of net assets of VAC represents a service of listing and is recorded as an expense through the income statement with a corresponding entry in equity. • The transaction is complex and as such determined as a key audit matter that our audit has focused on. | <ul style="list-style-type: none"> • We have considered the accounting treatment of the merger transaction in relation to the requirements set under IFRS 2 and IFRS 3. • Our testing has focused on the merger transaction. • We involved KPMG IFRS and financial instruments specialists in the audit of the transaction. • Furthermore, we considered the appropriateness of the disclosures in respect of the merger transaction |
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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 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 for the financial period ended 31.12.2018. Purmo Group Oyj (formerly Virala Acquisition Company Oyj) has become a public interest entity on 29.6.2021.

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 the 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.

Helsinki, 25 March 2022
KPMG OY AB

Kim järvi

Authorised Public Accountant, KHT

