PURMO GROUP

Annual Report 2022

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Purmo Group's fan convector Vido S2 has a sleek, compact design and it offers many installation options for optimal flexibility in interior design.

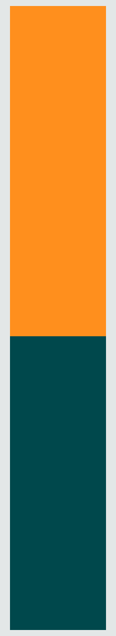
Stories

THIS IS PURMO GROUP

Purmo Group is a leader in sustainable indoor climate comfort solutions

Purmo Group is at the centre of the global sustainability journey, offering full solutions and sustainable ways of heating and cooling homes to mitigate global warming. We provide complete heating and cooling solutions to residential and non-residential buildings, including underfloor heating and cooling systems, a broad range of radiators, heat pumps, flow control and hydronic distribution systems, as well as smart products. Our mission is to be the global leader in sustainable indoor climate comfort solutions. Our 3,400 employees operate in 24 countries, manufacturing and distributing top quality products and solutions to our customers in more than 100 countries. Purmo Group's shares are listed on Nasdaq Helsinki with the ticker symbol PURMO.

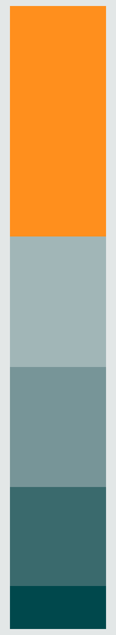
Net sales by division 2022



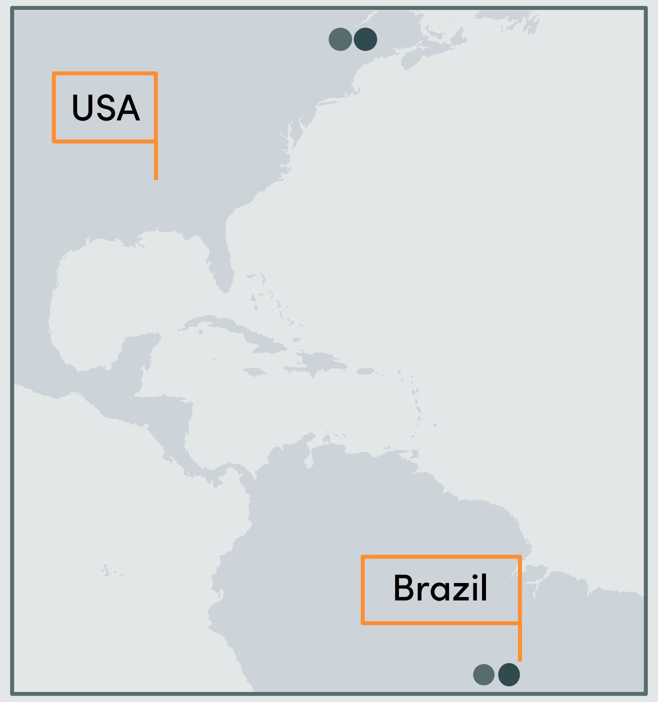
53%
Radiators

47%
Indoor Climate Systems (ICS)

Net sales by geographical area 2022



Central and Eastern Europe	37%
Western Europe	21%
Northern Europe	19%
Southern Europe	16%
Rest of the world	7%



- Manufacturing
- Warehouse
- Sales, support and office

Manufacturing in
12
countries

Customers in
100+
countries

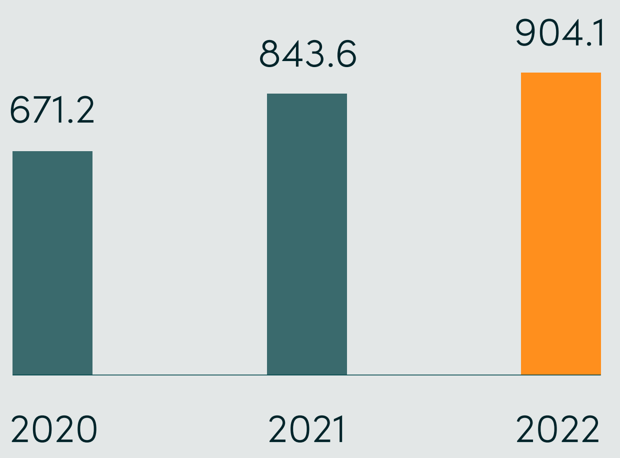
Operations in
24
countries

PURMO GROUP IN 2022

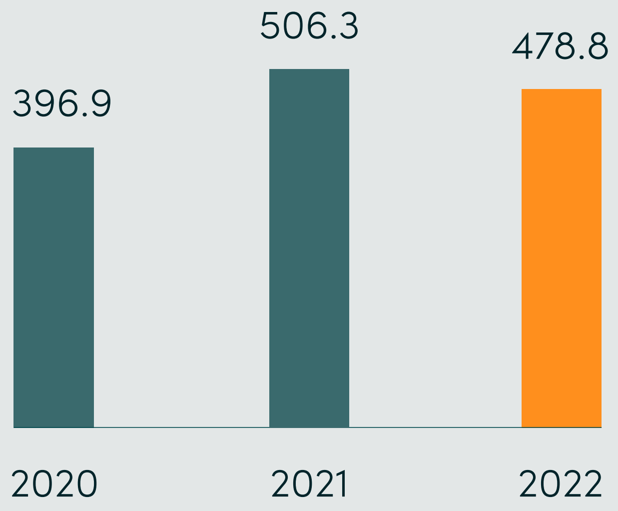
Purmo Group's year 2022

Strong earnings growth in the ICS business, Group performance impacted by weak demand in Radiators.

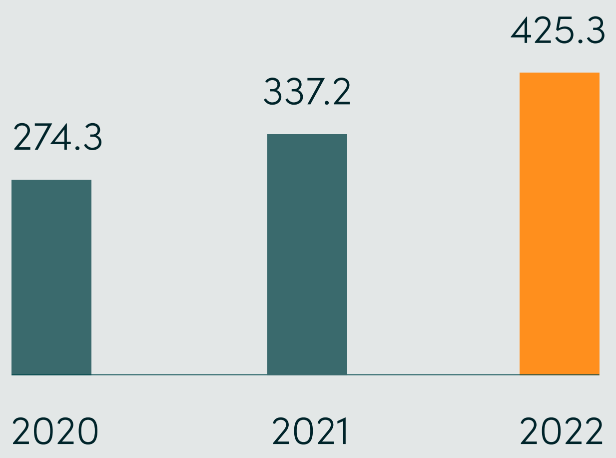
Net sales, EUR million



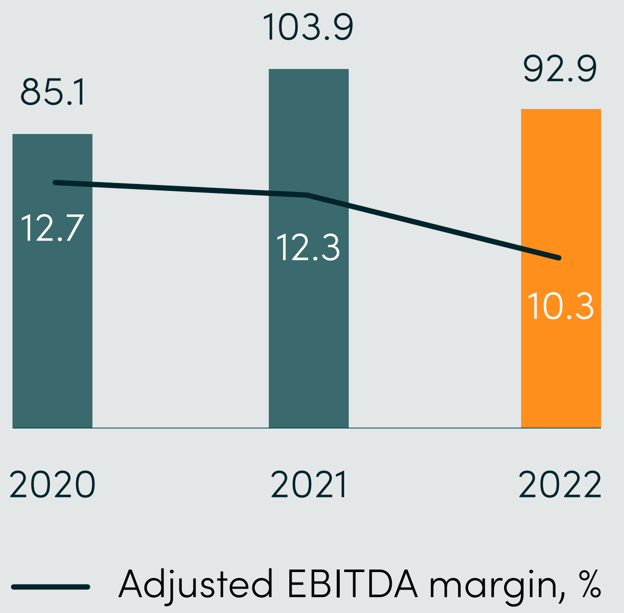
Radiators division: Net sales, EUR million



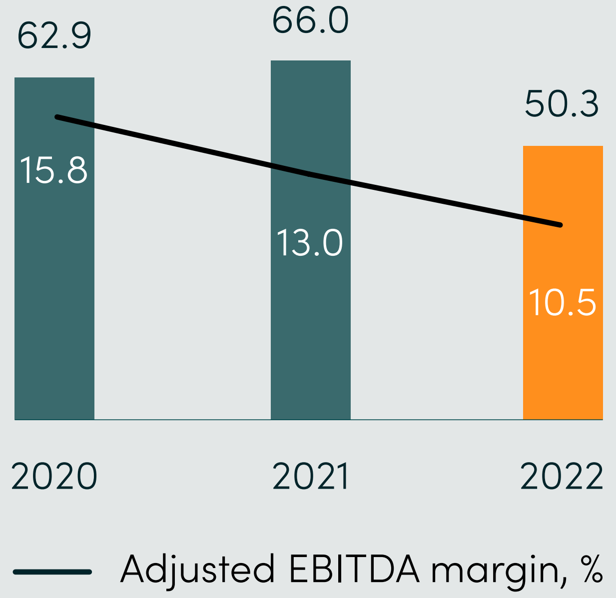
ICS division: Net sales, EUR million



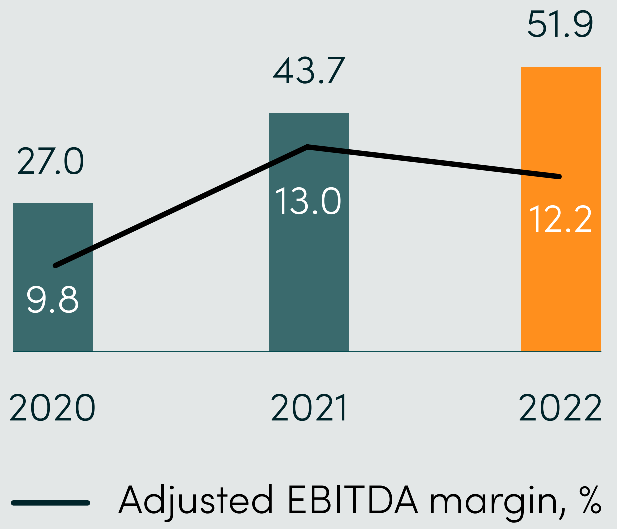
Adj. EBITDA, EUR million



Radiators division: Adj. EBITDA, EUR million

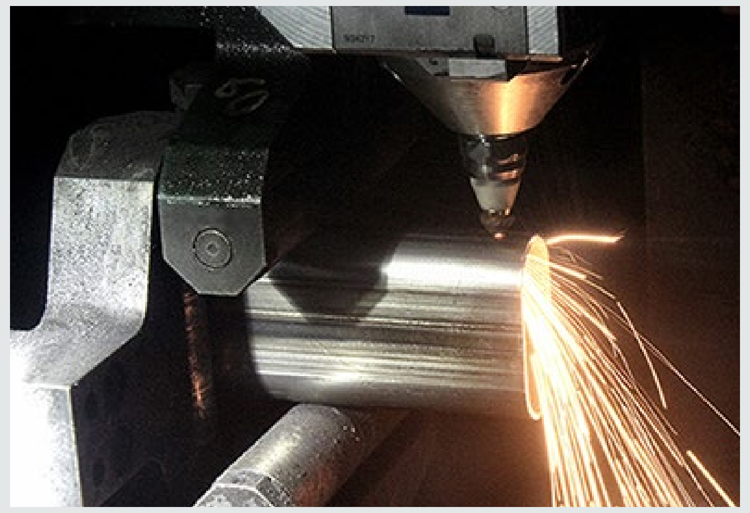


ICS division: Adj. EBITDA, EUR million



An automated furnace sealing the joints on a line of Purmo Group's luxury towel warmers.

PURMO GROUP IN 2022



Net sales development

Purmo Group's net sales amounted to EUR 904.1 million (843.6), an increase of 7 per cent. Organic growth was 3 per cent while contributions from the acquired Thermotech and Evroradiator businesses was 3 per cent to net sales growth. The Group's net sales in 2022 were supported by strong growth in the ICS division while weak demand in the Radiators division during the second half of the year reduced net sales growth in 2022. Italy had the highest contribution to net sales growth in ICS, but other regions also performed well, including Germany and the Nordics.

Profitability development

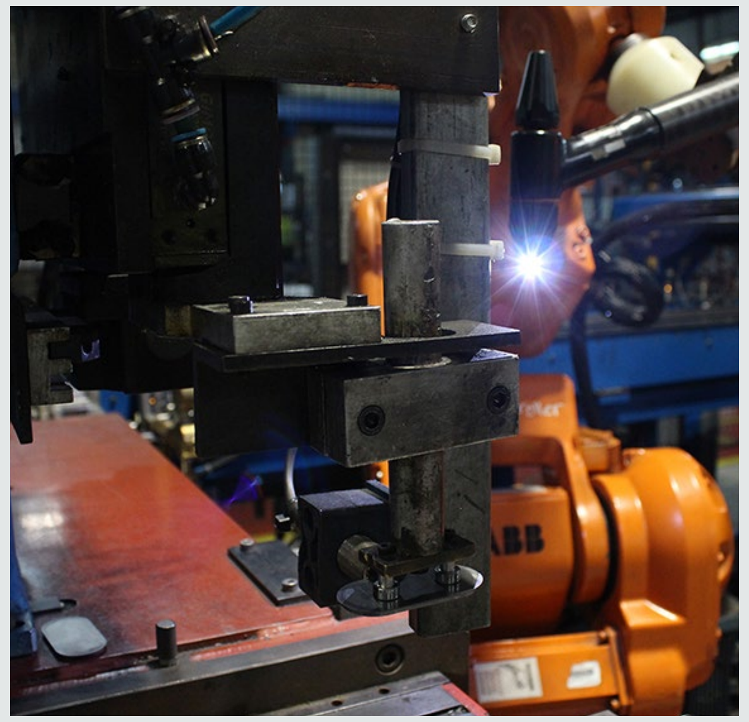
Purmo Group's adjusted EBITDA reached EUR 92.9 million (103.9), a decrease of 11 per cent for 2022. Adjusted EBITDA of the ICS division increased by 19 per cent to EUR 51.9 million (43.7) while adjusted EBITDA of the Radiators division declined by 24 per cent to EUR 50.3 million (66.0). Adjusted EBITDA decreased as a result of low production and sales volumes in the Radiators division. As a response to the weaker demand, Radiators division implemented significant price increases and introduced several cost-saving actions.

Balance sheet development

At the end of December 2022, net debt / adjusted EBITDA was 2.96 (2.31). The increase in the ratio was due to lower adjusted EBITDA and increase in net debt. The leverage ratio of Purmo Group is targeted not to exceed 3.0x, measured as interest bearing net debt / Adjusted EBITDA on a rolling twelve-month basis. However, leverage may temporarily exceed the target level, for example in conjunction with acquisitions or restructuring actions.

Strategy execution

To strengthen the execution of its strategy, Purmo Group announced a strategy acceleration programme in October 2022. The programme addresses a broad area of strategic and operational initiatives, with a focus on improving net sales growth, profitability and net working capital efficiency in order to support reaching the financial targets. The targeted adjusted EBITDA run-rate improvements are EUR 20 million by the end of 2023, and cumulatively EUR 40 million by the end of 2024. By the end of 2022, calculated run-rate EBITDA improvements amounted to EUR 1.4 million. In conjunction with the programme, the company also announced a new organisational structure with two business divisions: Climate Products & Systems and Climate Solutions.



Thermotech acquisition

Purmo Group expanded its offering in underfloor heating systems in March 2022 by acquiring Thermotech, which is located in Sweden. The acquisition supports Purmo Group's growth strategy by bringing smart technologies to the company's Indoor Climate System's (ICS) offering and supporting its solution-selling approach. It also strengthens the Group's position in the Nordic underfloor heating market. The acquisition was Purmo Group's first as a public listed company and was valued at SEK 265 million (EUR 25.0 million) on a cash and debt-free basis.

CEO'S GREETINGS

Good progress in our strategy execution during exceptional times

The year 2022 will be remembered as exceptional in terms of political and economic uncertainty. In Purmo Group we saw the impacts of the war in Ukraine on our supply chains, rising raw material and energy prices, and a decline in renovation and new-build market activity. Regardless of the headwinds in the market environment, we continued to support our customers in their transitions to more sustainable indoor climate comfort solutions, and made good progress in executing our strategy.

Our financial performance was challenged in the latter half of the year, but eventually the year 2022 was in line with our expectations. Net sales grew by 7 percent compared to the strong corresponding period last year and reached EUR 904.1 million. Net sales were supported by the strong development of the ICS division's net sales, which grew by 25 percent compared to 2021. This demonstrated the strength of Purmo Group's solution selling strategy well. Demand in ICS was especially strong for our climate solutions, including renewable energy sources and heat pumps – a clear indication that our customers are looking for more sustainable and modern ways to heat and cool their homes. Net sales in Radiators declined by 25 percent as a result of a market supply chain correction and resulting lower demand.

Adjusted EBITDA was EUR 92.9 million, a decrease of 11 percent compared to last year. The ICS division developed strongly, with adjusted EBITDA growing by 20 percent in 2022, driven by robust net sales growth. Adjusted EBITDA for Radiators declined by 24 percent in 2022. The profitability within both

> **"Net sales in 2022 grew with 7 percent compared to the strong corresponding period last year and reached EUR 904.1 million. Net sales was supported by the strong development of the ICS division's net sales, which grew by 25 percent compared to 2021. This demonstrated the strength of Purmo Group's solution-selling strategy.**

divisions was weighed down by supply chain constraints in the beginning of the year, which were followed by rising raw material prices caused by high inflation during the rest of the year. Purmo Group mitigated the impact of cost inflation through price increases.

We are all pursuing a common goal in that Europe aims to become the first carbon-neutral continent by 2050. To support this ambitious target, European governments have introduced several incentives which strive for energy efficiency – especially in residential buildings that require renovation. We are particularly excited that our Italian subsidiary Emmeti performed well supported by these incentives, but also that other green initiatives are being introduced all around the world. They are all supporting our business.

Strong development for Purmo Group's solution sales

Purmo Group's strategy is built upon three growth pillars: scaling up of solution selling, the launching of smart products and focusing on growth markets. In 2022, we saw clear progress in our solution business subsidiaries, especially in Italy. We introduced several new products, including Purmo Flex, a new panel radiator with multiple connection options, smart underfloor heating control Unisenza PLUS, and new versions of radiators including fan-assisted and low-cost units which are compatible with heat pumps.

Accelerate PG, a strategy acceleration programme, launched during the year

In October, we announced a strategy acceleration programme to strengthen the execution of our strategy and to support Purmo Group in reaching its financial targets. The programme addresses a broad range of strategic and operational initiatives focusing on improving sales growth, profitability and net working capital efficiency. The targeted adjusted EBITDA run-rate improvements are EUR 20 million by the end of 2023, and cumulatively EUR 40 million by the end of 2024.

During the year, we also executed improvements in our manufacturing footprint, in particular, through the relocation of our brass component production from Ireland to other facilities within the ICS division. We also made investments in our people and offered training to sales personnel, strengthening their sales and technical skills in solution selling.

Acquisition of Thermotech and exit from Russia

Acquisitions are a key enabler of our strategy. In March, the acquisition of Thermotech strengthened Purmo Group's solution selling offering and strengthening our position in the Nordic underfloor-heating market. We also took the decision to exit our business from Russia.

Several milestones in sustainability

Sustainability is one of the key megatrends that drives demand for Purmo Group's products. Our commitment to setting science-based targets, joining the United Nations Global Compact initiative and the completion of our very first Environmental Product Declaration (EPD) are just a few examples of our achievements during 2022. Our investments in people are also starting to realise results: we saw an improvement in our overall employee Net Promoter Score compared to 2021. Needless to say, we allocated resources to support Ukraine, with the help of a fund which was raised from donations from Purmo Group's employees.

As we close the chapter for 2022, we reflect upon a balance between progress made and lessons learned. We faced significant challenges from the geopolitical environment, but remained focused on executing our strategy, which resulted in a number of successful outcomes during 2022, including profitable growth in our ICS business. I am very proud of all our hard work and the progress we have made. We want to thank our shareholders, customers, suppliers, and employees for their strong support during these extraordinary times. We are looking forward to continuing the journey together in 2023.

John Peter Leesi
CEO, Purmo Group Plc

REASONS TO INVEST IN PURMO GROUP

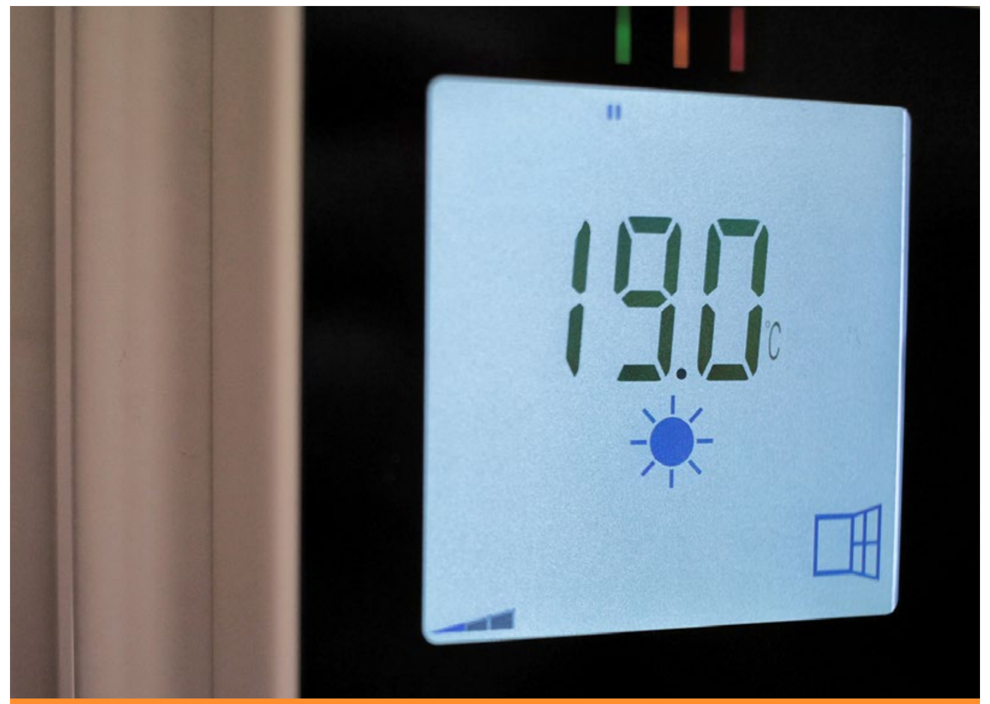
Megatrends

Sustainability

- As a result of global warming and rising energy prices, consumers show an increasing preference and need for combatting climate change and supporting sustainability. Consumers' preferences are moving towards sustainable solutions and products.
- Governments and local authorities are incentivising the shift to renewable energy sources, energy efficiency through low-temperature systems and well-insulated housing, and also by introducing energy performance requirements for new and renovated buildings.
- European countries are required to have long-term renovation strategies for achieving energy-efficient and decarbonised building stock by 2050, in particular for existing buildings, which have the biggest impact on global warming. In addition, countries are required to facilitate cost-effective transformation of existing buildings into nearly zero-energy buildings. One key action is to replace existing high-temperature systems with low-temperature systems, such as underfloor heating or radiators combined with a heat pump. Renovations of existing buildings continue to be popular, with radiators still being a good option as a heat emitter. As a result, the demand for a wide range of radiators should continue but with a higher focus on improved energy efficiency and low-temperature options.

Energy independence

- Impacts of the war in Ukraine have created the need for energy independence by decentralised the sourcing of energy, as well as reducing reliance on fossil fuels and the use of gas for heating and cooling homes. Governments in Europe have put further focus on electrification, investing in green energy sources and building incentive plans to improve energy efficiency. Households are consequently moving towards solutions that can support energy independency, including heating and cooling.
- The European Union's Commission's plans to expedite the roll-out of heat pumps in EU households is an example of a positive driver for Purmo Group. Plans were announced in March 2022 with targets requiring around 20 million heat pumps to be installed in the EU by 2026 and nearly 60 million by 2030.



Digitalisation

- Digitalisation is increasingly driving the building markets, offering better capabilities for smart controls, large data sets and Building Information Modelling (BIM).*
- The availability of data and Artificial Intelligence (AI) capabilities in data control systems have improved operational efficiency. This trend is also supporting decision-making online.

* Building Information Modelling (BIM) is the process of managing information for a building. Based on an intelligent model and enabled by a cloud platform, BIM integrates structured, multi-disciplinary data to produce a digital representation of an asset across its lifecycle, from planning and design to construction and operations.

REASONS TO INVEST IN PURMO GROUP

Vision, mission and strategy

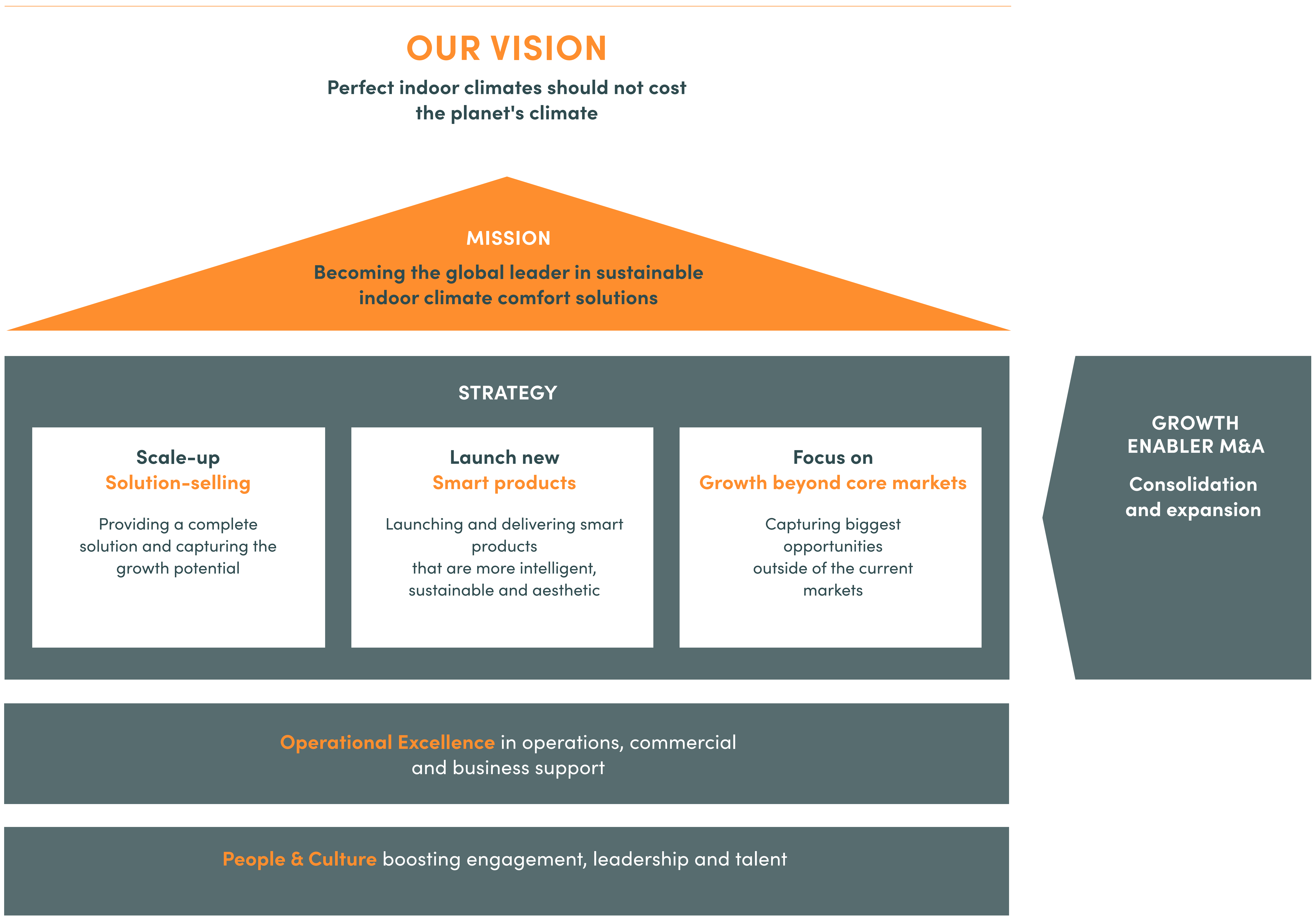
Vision

Care for the planet is driving everyone's agenda from government to business to consumers. As a result, people are rethinking how they heat and cool the places where they live, work and socialise.

17% of Europe's energy consumption goes in to heating or cooling residential building spaces. Purmo Group thinks that perfect indoor climates should not cost the planet's climate – it is our company vision and the foundation for our actions.

Mission

We are on a mission to be the world's leader in sustainable indoor climate comfort solutions.



Strategy

To achieve our vision, we have a strategy that is built on three growth pillars:

- scaling up solution-selling in order to provide complete solutions and to capture the organic and inorganic growth potential in underpenetrated markets;
- launching and delivering smart products that are more intelligent, sustainable and aesthetic; and
- focusing on growth markets to capture the biggest opportunities outside of the current markets.

M&A is an important enabler supporting the realisation of Purmo Group's strategy. The strategy is further supported by continuous improvement of operational excellence and by the investments in people and culture.

Strategy acceleration programme, "Accelerate PG"

In October 2022, Purmo Group announced a strategy acceleration programme, "Accelerate PG", to strengthen the execution of the strategy. The programme addresses a broad area of strategic and operational initiatives, with focus on improving net sales growth, profitability and net working capital efficiency to support reaching the financial targets communicated in conjunction with the stock listing in January 2022.

Annualised adjusted EBITDA run-rate improvements:

EUR 20 million
by the end of 2023

EUR 20 million
by the end of 2024

Cumulatively EUR 40 million by 2024

Key objectives of the strategy acceleration programme

In November 2022, Purmo Group announced that it would expand its strategy acceleration programme. The targeted adjusted EBITDA run-rate improvements increased to EUR 20 million by the end of 2023 (upgraded from EUR 15 million), and cumulatively to EUR 40 million by the end of 2024 (upgraded from EUR 35 million).

The upgraded profitability improvements will include both variable and fixed-cost savings, excluding areas where market growth is expected to continue. Additionally, the company is evaluating accelerating its footprint optimisation, covering both manufacturing and supply chains. The costs for the programme are expected to be approximately EUR 43 million (previously EUR 40 million), of which EUR 33 million (previously EUR 30 million) is expected to be incurred before the end of 2023 with the remainder in 2024.

Growth:

- Strengthened position as a provider of complete indoor climate solutions, including heat pumps
- Expansion of both direct and wholesaler channels
- Introduction of new products
- Increased sales in identified growth markets

Profitability:

- Improved efficiency in manufacturing, supply chain and sourcing
- Strengthened commercial execution
- Increased organisational effectiveness

Net working capital:

- Improved net working capital efficiency, particularly through enhanced inventory turnover

New organisational structure

To support the execution of the programme, align resources with the strategic direction and to strengthen customer focus, the company announced a new organisational structure, which has been effective from 1 January 2023.

The new organisation will consist of two business divisions: Climate Products & Systems, which will sell through the wholesaler channels; and Climate Solutions, which will sell integrated solutions directly to installers served by the company's Emmeti business in South Europe and Thermotech business in the Nordic region.

Costs of the programme:

EUR 43 million
of which EUR 33 million expected to incur before the end of 2023 and EUR 10 million by the end of 2024

From 1 January 2023, the management team of Purmo Group was updated to consists of three new roles and three existing roles. Senior Vice-President of the Indoor Climate Solutions business Mike Conlon was appointed President of the Climate Solutions Division. Senior Vice President of the Radiators business Barry Lynch was appointed President of the Climate Products & Systems division. Chief Financial Officer Erik Hedin was appointed Chief Operating Officer and leads also the strategy acceleration programme. Chief Executive Officer John Peter Leesi and Chief People Officer Linda Currie continue in their current roles. On 25 November 2022, Purmo Group announced that Matts Rosenberg has been appointed interim CFO of Purmo Group Plc, effective as of 1 January 2023. On 22 February 2023, Purmo Group announced that Jan-Elof Cavander had been appointed Chief Financial Officer of Purmo Group Plc and a member of the Management team. He will join Purmo Group on 22 June 2023 at the latest.

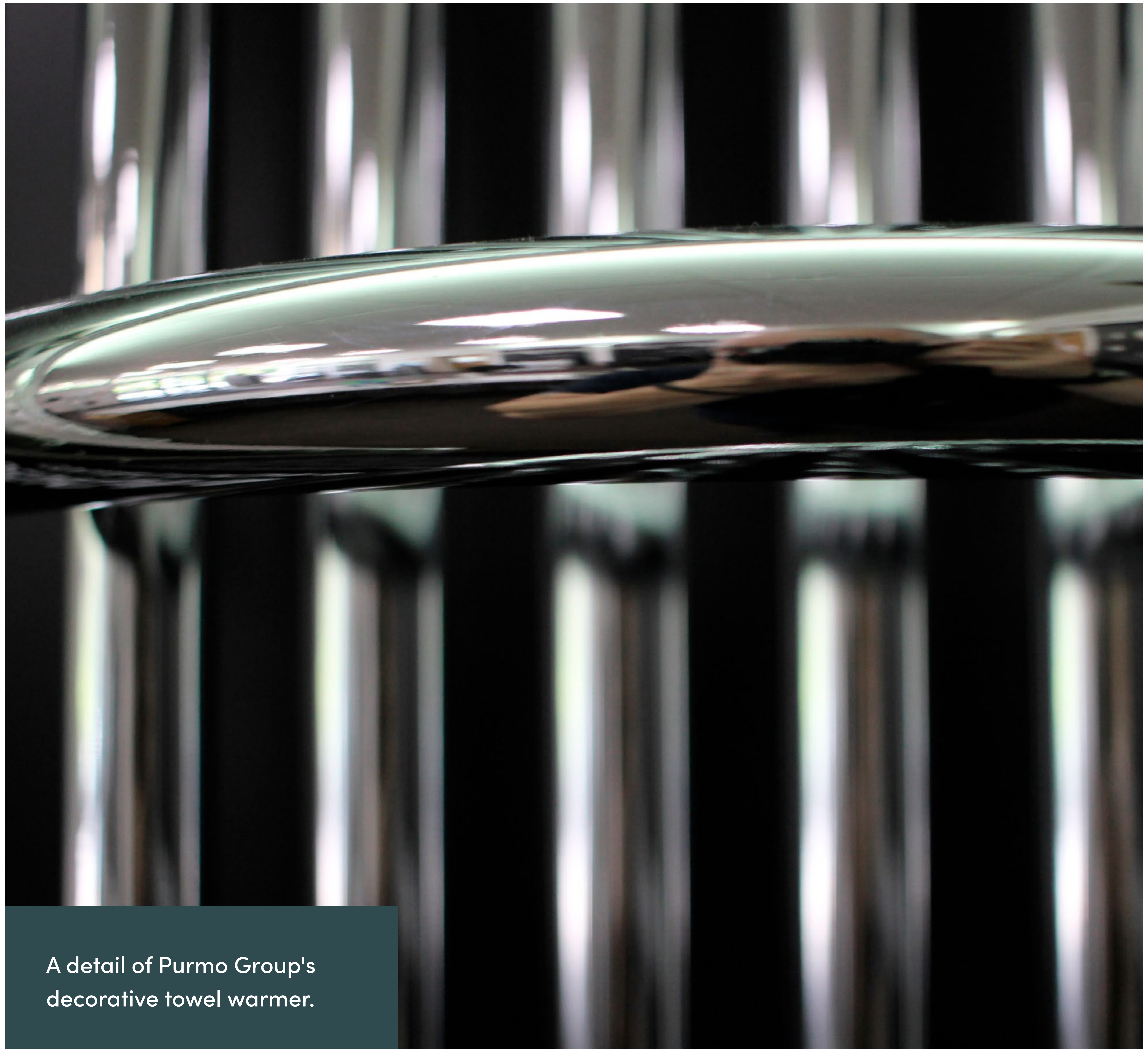
Progress of the acceleration programme in 2022

The programme is currently progressing according to plan. By the end of 2022, Purmo Group had already validated over 150 initiative roadmaps, which support the achievement of the targeted improvements. Implemented run-rate EBITDA improvements at the end of 2022 amounted to EUR 1.4 million, which is according to expectations given the phasing of the programme's initiatives.

Progress of the programme in 2022:

EUR 1.4 million

implemented run-rate EBITDA improvements and over 150 initiative roadmaps validated



A detail of Purmo Group's decorative towel warmer.

REASONS TO INVEST IN PURMO GROUP

Seven reasons to invest in Purmo Group

A flow-temperature gauge.

1

At the centre of the sustainability journey

Households make up 26 per cent of energy consumption in Europe, from which heating and cooling form 17 per cent of the total energy consumption of buildings in Europe. It is estimated that up to 75 per cent of Europe's building stock is not energy-efficient according to current and emerging building standards. As a provider of sustainable and energy-efficient heating and cooling solutions, Purmo Group stands to benefit greatly from its role in combatting climate change both in Europe and globally.

2

Broadest offering

Purmo Group is a leading European supplier of sustainable indoor climate solutions, that work with any kind of heating and cooling source. Our offering is sold primarily to the residential segment, is available in most of Europe and can be used in both new build and renovation projects. We are well-positioned to benefit from the megatrends of sustainability, energy independence and digitalisation.

3

Brand portfolio associated with quality and innovation

Purmo Group has a well-known brand portfolio with a focus on product quality, design, innovation and sustainability. Through the development of our own original Purmo brand and M&A activity, we have expanded that into a renowned portfolio of brands with a strong local presence and recognition among installers and specifiers. Based on volumes, we are the leader in radiators and have a top 4 position in Radiant Heating and Cooling (RHC).

4

Long-term relationships with wholesalers and installers

A key competitive advantage is our strong relationship with some of Europe's largest wholesalers in the Heating, Ventilation and Air Conditioning (HVAC) space. Wholesalers form a central distribution channel in our value chain, simplifying logistics by consolidating demand and managing credit risk, as well as ensuring the availability of products in the market. Brand-loyal technical installers are another important advantage in the Group's value chain that enables growth in solution-selling.

5

Clear strategy supported by key growth pillars

Purmo Group's aim is to grow both organically and through acquisitions in order to realise our mission to be the global leader in sustainable indoor climate comfort solutions. To achieve this mission, we have a well-defined strategy based on three key growth pillars: solution-selling, smart products and growth markets. It is supported by the continuous improvement of operational excellence and investment in people and culture.

6

Strong financial track record

Purmo Group has demonstrated a strong track record in terms of financial performance in 2019–2022, during which the adjusted EBITDA has grown by 12 per cent annually. Despite the market challenges of the prolonged war in Ukraine, increasing inflation and the year's high interest rates, Purmo Group was able to grow in its Indoor Climate Systems business by double digits and to increase sales in Italy, Germany and the Nordics in 2022.

7

Skilled workforce and customer-centric operating model

Purmo Group's management team consist of industry-experienced professionals with a focus on value creation and growth. With the support of a customer-centric operating model, the management team's ambition is on achieving operational excellence in the near-term and executing the company's long-term strategy of becoming the global leader in sustainable indoor climate comfort solutions. In addition, there are approximately 3,400 highly skilled experts at Purmo Group in Europe and across the globe.

RESEARCH AND DEVELOPMENT

Enabling the transition to sustainable indoor climate solutions

In global markets in 2022, sustainability, energy independence and digitalisation megatrends continued to drive the need for Purmo Group's products and solutions. The investments in residential and commercial construction for both new-build and renovation boosted the demand for our industry-leading breadth of indoor climate solutions. Rising energy prices and the transition to sustainable ways of heating and cooling spaces throughout the year also increased demand for Purmo Group's solution offering.

Purmo Group delivers the largest breath of energy efficient and sustainable solutions to its customers through 2 and 3 step models, directly to installers and via wholesalers. In 2022, we actively enabled our customers to adopt energy-efficient systems and to lower their energy consumption and carbon footprints, whether the primary energy source was electricity, natural gas or a combination of renewables, such as solar energy or geothermal. In 2022, we launched new smart products as well as systems especially for low temperature heating and cooling.

In 2022, we launched new smart products as well as systems especially for low temperature heating and cooling.

CASE

Febos 4.0 energy management control system

An exciting product launch in energy management systems in 2022 was the control platform Febos 4.0, which is offered to the Italian markets.

Febos is well suited for residential or small building customers who want to manage complete HVAC installations that use any heating and cooling emitters such as underfloor, radiant panels, radiators or fan coils, connected to multiple energy sources, including photovoltaic power and heat pumps.

The Febos 4.0 remote control system brings flexibility and control of energy consumption with various control options.

Febos Chrono is a simple wall-mountable control-interface module that allows users to manage temperature, humidity and the operation of the heat pump. The Febos Energy module allows the user to actively track energy generated from the solar photovoltaic installation and from the installed heat pump, allowing them to optimise the use of renewable free energy and proactively reduce energy consumption. The Febos 4.0 WiFi allows for remote management through a smart web app that allows access and control through smartphones, tablet PCs, laptops and other devices.

Low temperature heating and cooling

Purmo Group's range of heat emitters can heat indoor spaces with a variety of different energy sources, including renewables. Spaces can be heated at low supply temperatures, thereby enabling use of various heat sources and thus, reducing energy consumption. Purmo Group's underfloor heating systems and radiant ceiling and wall cooling systems offer an economical and sustainable choice for renovations as well as new houses and commercial buildings. They use our own manufactured plastic and multi-layer pipes in combination with heat pumps and renewable energy sources such as solar panels.


Heliusz radiant ceiling system in a padel hall.

Underfloor heating panels

Because underfloor heating systems run at low water flow temperatures on averaging between 25 and 40 degrees Celsius, they are ideal suited to heat pumps. Throughout 2022, Purmo Group's low temperature heating systems were widely installed into new and fully renovated houses. Typical projects included installations on ground floors and radiators on upper floors. In addressing the specific challenge of renovation, we introduced thin underfloor heating panels that allow reduced depth of screed, making underfloor heating a viable option even for buildings with interior constraints.

Heliusz radiant ceiling system

Another great addition to our product range was the Heliusz radiant ceiling system that uses 100% recycled materials and offers great installation flexibility. The hydronic suspended ceiling systems can radiate heat across multiple room surfaces and deliver significant energy savings compared to conventional heating systems.

Low-temperature radiators

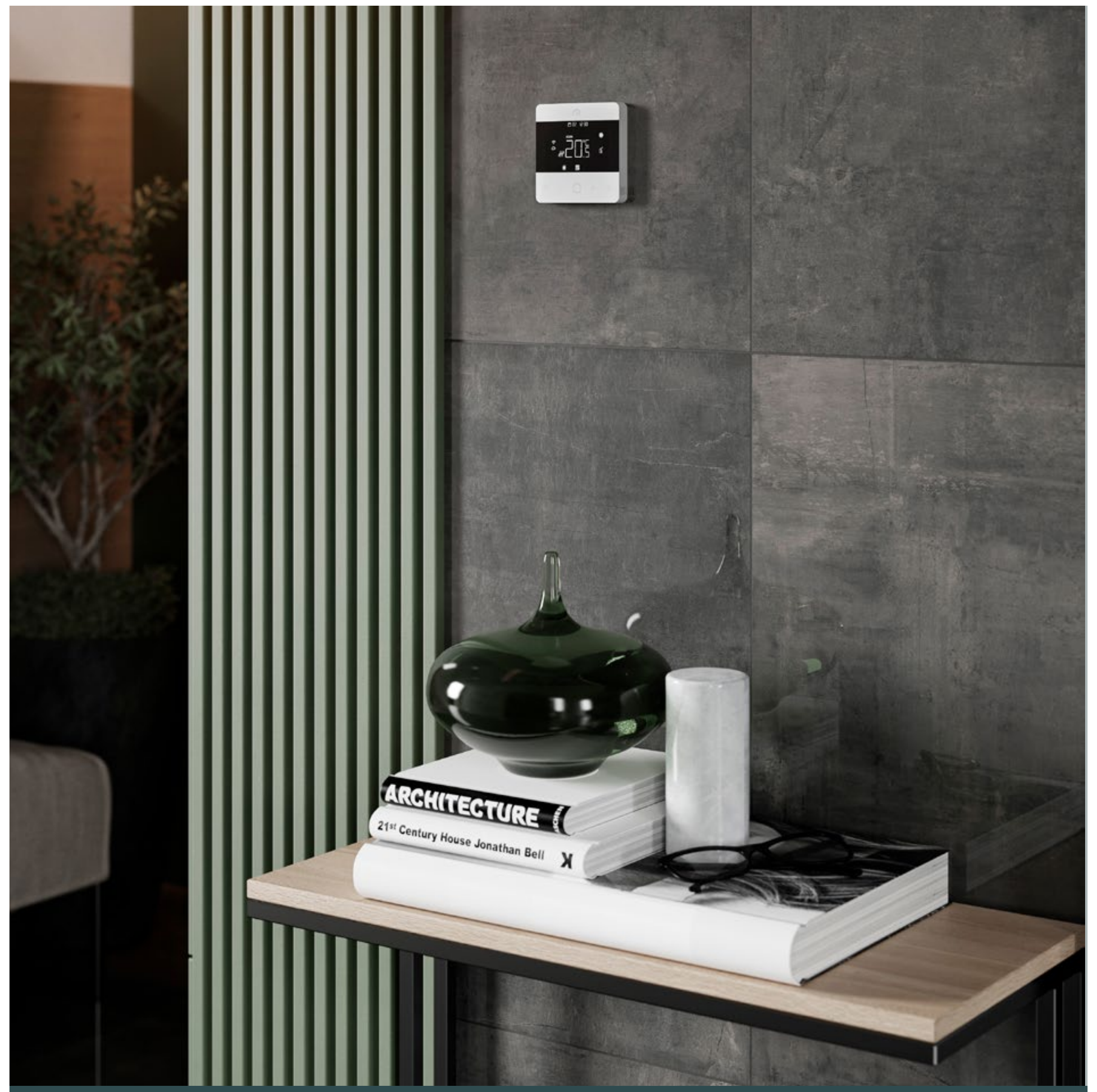
Purmo Group launched a range of U-low E2 fan-assisted heat pump radiators in Europe. This is an ultra-low temperature radiator system operating with water flow temperatures under 40 degrees Celcius, suitable for combining with any low temperature heating source such as heat pumps.

Air conditioners and ventilation

A new range of wall-mounted air conditioners with an elegant aesthetic design was launched under the Emmeti brand at the Mostra Convegno Milano expo in June 2022. Purmo Group made strides into ventilation through our mechanical ventilation units that provide fresh, filtered air in classroom environments.

Smart products

Even the most energy efficient systems require intelligent control and operation for consumers to reap the rewards of lower energy consumption, reduced lifecycle costs and all-round comfort. In 2022, Purmo Group launched a series of smart products, including controls ranging from simple wall-mounted units to those enabled for remote management.



Unisenza controls are made for underfloor heating and cooling systems.

Unisenza underfloor heating and cooling system control range

A major milestone in 2022 was the roll-out of the Unisenza range of underfloor heating and cooling system controls, which are currently available in the Italian market. Installation is flexible with wiring centres and actuators included in the package. Unisenza controls allow universal mounting possibilities and are compatible with heat pumps and conventional gas boilers.

PEOPLE

A professional growth story

Marco Martin, VP of sales for Purmo Group's southern sales cluster describes his professional journey in the heating and cooling industry starting in 2002, and his career at Purmo Group through the acquisition of Emmeti, a subsidiary located in Vigonovo, Italy, in 2015. Purmo Group's Emmeti subsidiary is a great example of building up solutions know-how, which other key market areas of Purmo can learn from.

You lead Purmo Group's sales in South Europe. What is your professional growth story within Purmo Group?

I have been a part of Purmo Group since 2015 when EMMETI Group, originally founded in 1976, was acquired. I started at EMMETI in 2002 in the technical sales support team after graduating as Mechanical Engineer from Padova University in Northern Italy. After very interesting years cooperating mostly with Italian sales representatives, I had the opportunity to train my colleagues and customers all around the world, particularly cooperating with our subsidiaries in Spain, Brazil, France, United Kingdom and China. I became responsible for the EMMETI subsidiaries in 2008, which was a great experience in understanding their details and also in how to develop new products. I was a product manager in the Italian EMMETI team during that time. After the acquisition, my role in EMMETI didn't change until 2018 when I took the lead of the South sales region which evolved into Cluster South. My professional journey in Purmo has been challenging and motivating and I have truly had an opportunity to develop my skills and knowledge during these seven years onboard.

Purmo Group provides various complete heating and cooling solutions, including heat pumps, through its Emmeti brand in Italy. How do you do this, and what other products do you provide through the subsidiary?

Since I started in 2002 in EMMETI, there has always been one clear focus area – the development of complete solutions in a synergic way. Thanks to this, we are today the only company in our sector offering so many systems and solutions. We

Picture: Marco Martin (first row, third from left) with his team in Italy.

manufacture most of the needed components, or at least sell them with unique characteristics, and together these things differentiate us from our competitors. Today we offer complete systems for potable water and gas distribution, radiant heating and cooling, heat metering, thermal and solar photovoltaic energy, air conditioning, air renovation and even a system for centralised vacuum cleaning, including many possible accessories.

How does the Italian market look like in terms of heating and cooling trends?

The Italian market has been influenced by boiler manufacturers for many years while today, European Union standards have created requirements for new buildings to reach nearly zero emissions by 2050. To receive the highest compensation of 90% with tax incentives for renovations in Italy, it is mandatory to significantly improve the energy efficiency of a renewed building. There is only one solution to be compliant with these requirements: the installation of a heat pump, which uses as much energy as possible produced by solar photovoltaic panels. I think this is now the trend going forward, and we at Purmo Group have the opportunity again to be the only market player offering and manufacturing the widest range of climate products and solutions.

PEOPLE

A professional growth story

Niclas Schubert, VP of Sales, Nordics at Purmo Group tells that a lot has happened since he started his career here in 2013. After almost ten years, he maintains the same excitement for contributing positively to climate change through Purmo Group's solutions. In the Nordic region, Purmo Group's position was especially strengthened through the acquisition of Thermotech completed in March 2022, which complemented solutions offering and solution-selling capabilities in the Group.

You lead Purmo Group's sales in the Nordics. What is your professional growth story at Purmo Group?

I have an education in engineering, specialising in energy and indoor climate. My journey at Purmo Group started in 2013 as a technical sales manager under the brand Markaryd Metall Armatur (MMA), founded in 1950, with the challenge of growing the sales of balancing valves.* After this opportunity, I ended up in a role of managing sales of the MMA brand across selected markets. In 2019, I was offered to lead Purmo Group sales in the Nordics, which is also my current role. Since 2019, we have rebranded the business, merged our branded sales organisations and started business in Norway. It has been an exciting journey with plenty of challenges, including taking us from a solely radiator brand to a wider system and solution selling brand. What really excites me about Purmo Group is that we can influence climate change by optimising the energy needed to create desired indoor climates. Purmo Group is the only company covering this landscape.

What is your approach to selling HVAC solutions?

It is important to me to make sure that my team of forty professionals are interacting with all stakeholders. It is equally essential to me to make sure that we meet the expectations of those stakeholders. Solution selling is all about understanding the real needs of the user of the building, and I am a strong believer in sharing insight and knowledge to bring our customers to the right HVAC solution. A solution contains products, systems and technical expertise which not only solve the short-term need, but also make sure that the indoor climate can be obtained over a long period of time with an easy-to-use, low-energy solution.

What products do you provide through the Swedish subsidiary of Purmo Group and in the Nordics more generally?

We have built an offering which covers most of our residential and commercial projects. We can solve heating demand with emitters, radiators, convectors and radiant panels. We make sure that distribution is optimal in hydronic systems through balancing valves, Thermostatic Radiator Valves (TRV's) and controls. We also offer electrical heating as a complement or a standalone where hydronic heating might not be the solution.

How does the Nordics market look like in terms of heating and cooling trends?

As all around the world, it's the same in the Nordic region – energy consumption needs to be reduced in order to mitigate climate change. The visible trend is in low temperature systems such as heat pumps; district heating also benefits from low temperatures. Additionally, as summers become warmer, people want to be able to work and live indoors with lower temperatures. This is primarily obtained by chilled beams – an emitter in the ceiling that emits cooling and ventilation, often seen in commercial buildings such as offices. We are already meeting the emerging demand for cooling residential buildings by offering special radiators and convectors.

Niclas Schubert in the picture.

* In order to get the right desired temperature in different rooms, the flow of water needs to be distributed evenly for every part of a system. This is done with balancing valves which have been produced in Purmo Group's subsidiary in Markaryd, Sweden since 2000.

Sustainability

Sustainability highlights in 2022

The longest journey starts with a single step. In 2021, we at Purmo Group launched a comprehensive and transparent sustainability strategy (Complete Care) demonstrating our ambition to embrace sustainability and putting it on every agenda of our business. From production lines to product design, from emissions to materials sourcing, from training to community engagement, sustainability runs through everything we do and forms part of our DNA.

We have made some significant changes in how we do business, from our indoor climate comfort solutions to our production facilities, and from our employees to the communities we live amongst. We are already starting to make a difference, but there is a long way to go, and we have even more ambitious plans for 2023.

2022 has been a year of significant progress in sustainability for Purmo Group in an increasingly uncertain and unpredictable world. We launched our sustainability strategy in 2021, and it is now a business priority, embedded in everything we do.

A significant amount of work has been completed in 2022 on embedding sustainability into every aspect of Purmo Group's business and laying the foundations for a more sustainable future. The fruits of these efforts will be seen over the coming years, with significant progress already in 2022.

Science-based targets

We announced our commitment to setting science-based targets in 2022. In 2023, we will submit near-term, long-term and net-zero by 2050 targets to the SBTi for validation, covering our own greenhouse gas emissions as well as those of our supply chain (referred to as scope 1, 2 and 3).

UN Global Compact

In 2022 we joined the UN Global Compact, which promotes activities that contribute to sustainable development goals for a better world. Joining the UNGC initiative demonstrates our commitment to taking responsible business action by aligning our strategies and operations with universal principles on human rights, labour, the environment and anti-corruption, for a more sustainable future.

First Environmental Product Declaration (EPD)

Our first Environmental Product Declaration (EPD), also known as a Product Environmental Profile (PEP), for The Thermopanel, V4 Plan and V4 Ramo ranges, was completed in 2022. Gaining EPDs for all new products by 2025 is one of the 24 KPIs in Purmo Group's Complete Care approach to sustainability.

Health and Safety

We are pleased to report an improvement in all Health and Safety KPIs in 2022 compared to 2021. In 2022, we recorded 20% more safety observations compared to 2021. In addition, the number of accidents deemed 'High Severity' declined by 57% compared to the previous year. Overall, we had 14% fewer lost time incidents in 2022 than in 2021. In Purmo Group, we have a groupwide zero-accident target, and safe working practices are embedded in our business. In addition, over 90% of all Purmo Group employees are now covered by ISO 45001 (occupational health and safety standard).

Global Reporting Initiative (GRI) Gap Analysis

During 2022, we completed a gap analysis on our Environmental & Social Governance progress in accordance with GRI reporting standards. A summary can be found on our website.

Packaging and Circularity Reviews

We completed in-depth reviews of our packaging and circularity. These have created a strong foundations to accelerate progress towards 100% recycled, recyclable or biodegradable packaging by 2030.

EU Taxonomy

EU Taxonomy regulation defines whether an economic activity carried out by a company can be classified as environmentally sustainable. In 2022, we carried out an alignment assessment for product groups already identified as being eligible in 2021. Whilst the portion of the aligned turnover is lower than that of the eligible products, we believe our strategic focus on solution selling will increase this through 2023 and beyond.

Ecovadis assessments

We have worked with EcoVadis to assess the sustainability of our plants, and invited over 115 of our suppliers to do the same. This assessment of Purmo Group and its top suppliers will continue into 2023 and beyond.

More information about each of the above initiatives can be found from our website.

Key indicators for sustainability

Indicator	2022	2021	% Change
Production			
Scope 1 & 2 GHG emissions (market based) tCO_2e, actual excluding fuels data[1]	79,035	86,780	-9%
Scope 3 GHG emissions from procured steel, tCO_2e[2]	279,578	381,166	-27%
Scope 1 & 2 GHG emissions carbon intensity[3]	87.4	102.9	-15%
Solutions			
EU taxonomy Revenue eligibility / alignment, %	84% / 5%	86% / N/A	
EU taxonomy Capex eligibility / alignment, %	81% / 3%	69% / N/A	
EU taxonomy Opex eligibility / alignment, %	93% / 2%	93% / N/A	
Customer Net Promoter Score[4]	33	N/A	N/A
Customer Sustainability Net Promoter Score[5]	8	N/A	N/A
People			
Lost Time Injury Frequency Rate (LTIFR)[6]	4.9	5.2	-6%
Number of safety observations	1,218	1,013	20%
Number of Lost Time Incidents	28	32	-13%
Proportion of women in senior management positions	27%	24%	
Employee Net Promoter Score (eNPS)	-8	-9	-11%
Anti-corruption policy training coverage[7]	94%	99%	
Communities			
Volunteering hours	6,680	N/A	

[1] Market based GHG emissions based on Purmo Group's procurement mix of electricity and gas in countries with manufacturing operations.
[2] 2021 World Steel Association data of 1.89 tCO_2e embodied carbon produced for every tonne of crude steel cast.
[3] tCO_2e/net sales in EUR million.
[4] Question asked: 'How likely is it that you would you recommend <Purmo brand> to a friend or colleague?'
[5] Question asked: 'How likely is it that you would recommend <Purmo brand> to a friend or colleague as a leader in sustainable indoor climate comfort?'
[6] Lost Time Injury Frequency Rate (LTIFR) is the number of lost time injuries occurring in a workplace per 1 million hours worked.
[7] Of Purmo Group people in position to make decisions on behalf of the company
[8] Certain data from the comparison periods are unavailable as the data collection for these sustainability focus areas began only after the comparison periods.

SUSTAINABILITY STRATEGY

Complete Care

Sustainability is on every agenda of our business. From production lines to product design, from emissions to materials sourcing, from training to community engagement, sustainability will run through everything we do and will form part of our DNA. We call this Complete Care.

We have four focus areas:

- Our production
- Our solutions
- Our people
- Our community

We have made commitments in each area, all of which were carefully considered following a landscape and materiality analysis in 2021. With over 24 targets and 40 actions identified, we have an ambitious plan for 2023 and beyond.

OUR SOLUTIONS

4.

Climate smart choices
We will help our customers 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 a pipeline of future workers.

9.

Health & Safety
Ensure 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

Our Production

We will fully align our business operations with a 1.5° future by improving energy efficiency and sourcing more energy from renewables. We strive to contribute to the Paris Agreement goal of limiting the global warming below 2 degrees.

Our Solutions

We will champion climate-friendly heating and cooling solutions. We will take every opportunity to inform and educate our stakeholders about energy efficiency and improve the way we make and deliver our products to enhance their performance and recyclability.

Our People

We will nurture and grow a future-fit and diverse workforce that has the skills and commitment to deliver our sustainability goals.

Our Communities

We will collaborate with external organisations to give greater access to energy-efficient indoor climates for all and enable climate resilience.

More detail on our four focus areas, 10 commitments, 24 targets and 40 actions can be found on our sustainability webpages.

The United Nations' Sustainable Development Goals

In 2021, we performed a UN Sustainable Development Goals (SDGs) materiality study to better understand how we could make the biggest contribution by tackling the SDGs most materially relevant to us at Purmo Group. We believe our business, products and solutions, strengthened by our ESG targets, can make a material difference to four of the UN's Sustainable Development Goals. These are:

SDG 8
Decent work and economic growth

SDG 11
Make cities and human settlements inclusive, safe, resilient and sustainable

SDG 12
Ensure sustainable consumption and production patterns

SDG 13
Climate action

The content of this report has been mapped against the SDGs.

SUSTAINABILITY FOCUS AREAS

Production

We are aligning ourselves with the actions needed to help limit global warming below 1.5 degrees. This includes improving the way we make and deliver our products to enhance their performance and recyclability, and making changes to our manufacturing and working environments to make them cleaner and greener. Within our production focus area, we have made three commitments to sustainability.

9%

reduction in Scope 1 & 2 emissions in 2022

Our key non-financial indicators

Our Commitment	Progress in 2022
Commitment 1 – We will align with a 1.5˚C future and target carbon neutrality in our Scope 1, 2 and 3 emissions	All of our manufacturing sites have clear and measurable sustainability action plans in place which are reviewed quarterly. All plants have ISO 14001-certified environmental management systems and we are aiming for ISO 50001 certification by 2025. Our CO_2 emissions declined by 9% in 2022 and we are continuing to improve our energy efficiency through measures, such as replacing equipment with more energy efficient alternatives, installing LED lighting, identifying heat recycling opportunities, and sourcing electricity from certified renewable sources. In 2023, we will carry out energy audits in all plants, install additional energy monitoring devices and invest in sustainability to improve energy efficiency.
Commitment 2 – We will use fewer resources to make products and eliminate waste	We completed a packaging review in 2022 and will be implementing an action plan in 2023 with a view to sourcing 100% of our packaging from recycled, recyclable or biodegradable packaging by 2030. In our plant in Brescia, Italy we are trialling bio-compostable plastic for packaging press fittings with encouraging early indications. The results of this trial will be reviewed in 2023 and, if implemented, will significantly reduce the use of single-use plastic packaging from this plant.
Commitment 3 – We will source our key materials responsibly	In 2022, we entered a non-binding agreement with H_2 Green Steel, agreeing to terms on the supply of 140,000 tonnes of steel between 2024 and 2031. Venturing into sourcing green steel is a significant step. According to H2 Green Steel, conventional steel production generates up to 25% of Europe's industrial CO_2 emissions. H_2 Green Steel is a pioneer in decarbonising the future production of steel. Its first plant is in the process of being built in Boden, Northern Sweden, producing green hydrogen from fossil-free electricity that is then used in its green steel making process.

" **The installation of the blowers has been a resounding success. The environmental benefits are huge, with a significant decrease in water usage, the amount of contaminated waste water we need to deal with, and also a reduction in the chemicals we need to use.**

Colin Wang, Environment & Safety Engineer at Yangzhou plant

On the Yangzhou production line in China exess water is blown from the radiators to be reused.

CASE STUDY

Water Recycling in Yangzhou, China

On the Yangzhou production line in China, approximately 340,000 units of H300, H600 and H900 radiators are manufactured each year. The radiators go through a pre-treatment tank (PT) and ultrafiltration flushing (UF), as it is essential that prior to painting they are completely clean and free from any oils or residues. Both processes consume and contaminate a lot of water, which must be treated carefully and safely before it is released back into the environment.

In order to reduce the environmental impact, the production team hit upon the idea of installing air blowers above the tanks, so as the radiators emerge from the water, the excess water is blown straight back again and can be re-used.

As a result, there is less dirty waste to treat and dispose of. Over a year, over 100,000 kg of water is directed back into the PT tank, and over 60,000 kg into the Ultrafiltration (UF) tank. The decrease in costs of treating the contaminated waste water means that the cost of installation was recouped within four months.

SUSTAINABILITY FOCUS AREAS

Solutions

We are driving and enabling climate-friendly heating and cooling solutions. With the broadest product offering in the industry, we have a unique ability to offer systems, end-to-end solutions and smart products that save more energy.

79%*

reduction in energy usage with Purmo Group's sustainable solutions for a family home in Italy

Our key non-financial indicators

Our Commitment	Progress in 2022
Commitment 4 – We will help our customers save energy and make sustainable choices	We recognise the responsibility we have to help homeowners save energy. We want to help them make informed choices about the efficiency and green credentials of the options they have. To better understand if we are achieving our goal of providing the right information at the right time, we need the feedback of our customers, and that is what led us to our latest initiative in 2022. As a company, we are accustomed to measuring our Net Promoter Score (NPS), which is a recognised metric for understanding customer perceptions. In 2022, we introduced a Sustainability NPS, with a view to understanding how customers perceive us specifically in relation to our commitment to informing and educating them about their options. We ran the survey across all nine territories that we operate in, and our goal was to reach a score of +6. We achieved a score of +8, an excellent base to build upon. The feedback will allow us to tailor our communications to individual markets, ensuring that all our customers are informed about the efficient, circular and integrated solutions available to them and the lifetime environmental impact of all our products.
Commitment 5 – We will apply circular design principles to all products. We will invest in new solutions where circularity is not immediately possible	Globally, only around 8% of materials are re-used or recycled at the end of their life. We are taking both a practical and academic approach to tackling this problem within Purmo Group. We have developed circular design recommendations in 2022 which will be embedded in our new product design protocols in 2023. We are investigating how our customers can return damaged or scratched but functioning radiators back to us for refurbishment and will run a trial in 2023.

* Case study: Holistic approach to sustainability, page 27, Annual Report 2022.

> " **Many people think that older properties aren't suitable for a 'green' makeover. This house proves that the results can be revolutionary, both in terms of ongoing fuel costs, and by drastically reducing energy consumption.**

Marco Martin, Vice President of Sales South

CASE STUDY

A holistic approach to sustainability

In Italy, a 140m² family home was ranked F on the A–G energy efficiency class scale. It consumed 270.5 kWh/m² of energy a year, and the fuel bills amounted to over EUR 5,000. We identified a combination of actions and products to transform the house. This included replacing a gas boiler with a heat pump, adding the energy management system FEBOS, and installing photo voltaic (PV) solar panels. The house had an existing underfloor heating system before the energy renovation.

The PV panels provide electricity to fuel the heat pump; this in turn creates the energy for the underfloor heating, which is stored in the concrete floor and released when needed. An intelligent energy management is provided by FEBOS. Any excess power produced is sold back to the electricity supplier, but at a much lower cost than any energy which needs to be bought, so maximising usage of the 'free' solar power is essential. FEBOS ensures that as much daytime energy as possible is stored in the floor for slow release.

The energy efficiency of the house has been transformed. Now, the house is energy efficient, with just 57.14 kWh of energy consumed each year, and annual fuel bills of around EUR 2,300, 54% less than before. What is more, over 2,500 kWh of electricity is being sold back to the grid each year, and the house now ranks at energy efficiency class A2, six classes above where it was.

SUSTAINABILITY FOCUS AREAS

People

Sustainability begins with each one of us, and we are asking our people to commit to finding sustainability solutions in all areas of work. In return, we are making pledges to them, for their development, well-being and happiness.

90%

of Purmo Group employees are covered by occupational health and safety standard, ISO 45001 certification

Our key non-financial indicators

Our Commitment	Progress in 2022
Commitment 6 – We will create a diverse and inclusive workplace culture	Companies with diverse, inclusive workforces and senior teams outperform less diverse competitors.* We are committed to a policy of equality, diversity and inclusion, with targets in place to increase the proportion of women in senior management roles, eliminate pay gaps and implement a zero-discrimination culture. **Joining the UN Global Compact** In 2022, we were proud to join the United Nations Global Compact initiative – a voluntary leadership platform for the development, implementation and disclosure of responsible business practices. By joining UN Global Compact, we're demonstrating our commitment to taking responsible business action by aligning our strategies and operations with universal principles on human rights, labour, the environment and anti-corruption, for a more sustainable future. The UN Global Compact is a call to companies all around the globe to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and take action in support of UN goals and issues embodied in the Sustainable Development Goals (SDGs). As a participant of the United Nations Global Compact, we are committed to reporting the progress against the ten guiding principles of the UN Global Compact starting from 2023.
Commitment 7 – We will ensure our employees are satisfied at work	Employee engagement is critical to our future growth and success. In 2022, we completed a company-wide employee survey. We achieved a 74% participation rate and an overall employee Net Promoter Score of -8, improved from -9 in 2021. In 2022, we launched an employee-wide idea submission scheme, enabling front line shop floor workers to submit ideas via QR codes on digital signage in our plants. In 2023, we will carry out further employee surveys and continue to address areas where we need to improve, with a view to increasing satisfaction and engagement levels year-on-year.

Our Commitment	Progress in 2022
Commitment 8 – We will help prepare a future-fit workforce to tackle the skills gap and build a pipeline of talented employees	There is an increased need for the reskilling and redeployment of workforces as a result of increased automation and digitalisation. Using a new Learning and Development online e-learning platform launched in 2022, we have developed a suite on online sustainability training materials to equip all employees with relevant information.
Commitment 9 – We will ensure Purmo Group is a safe place to work	The health and safety of our people is our top priority. We are promoting a culture of employee wellbeing and work-life balance, with resources available for team members to take care of their physical and mental wellbeing. We believe this will also help us as we strive towards a zero-accident rate across the business. We are pleased to report an improvement in all Health and Safety KPIs in 2022 compared to 2021, including a reduction in the number of accidents deemed 'High Severity', with a 57% decline compared to 2021. We also saw no significant machine failures in 2022. In addition, over 90% of all Purmo Group employees are now covered by occupational health and safety standard ISO 45001 certification. This focus has been helped by the implementation of a new Health and Safety organisational structure across Purmo Group in 2022. Every manufacturing plant now has a Health and Safety senior sponsor and manager who are the 'eyes & ears' of our focus to reduce accidents in the workplace and improve employee wellbeing. Our Health and Safety monitoring tool, Airsweb, continues to provide data on accident reporting throughout the business and we will continue to improve its reporting and analytical capabilities in 2023.

* McKinsey: Diversity wins: How inclusion matters. May 19, 2020 Report.

" **The new training will give our people the skills they need to excel in their roles now and into the future. It will both complement the soft skills training already in place, and ensure that their knowledge and expertise is relevant, consistent and sustainable.**

Lesia Gibbons, Head of Organisational Development

FH Burgenland University of Applied Sciences campus (picture: FH Burgenland).

CASE STUDY

A new approach to skills training

In the Heating Ventilation and Air Conditioning industry, there is constant innovation to improve efficiency, cost effectiveness and sustainability. We have teamed up with the Engineering Department at FH Burgenland in Burgenland University of Applied Sciences, to develop a new approach to training and keep the skills and knowledge of our commercial sales teams up-to-date and consistent.

The programme is made up of 10, 20 or 30 modules, and participants are expected to complete one 90-minute module per week. The content covers all aspects of indoor climate comfort, going beyond learning about products and solutions, from thermodynamics to how the human body reacts to changes in temperature. It also includes diverse subjects such as housing design, the needs of architects and how the environment is impacted by different technologies.

The training will be accessed through online modules that can be completed at any time and by video conferencing. All sales staff, new joiners and the senior team will take part.

SUSTAINABILITY FOCUS AREAS

Communities

Energy poverty means large segments of the global population are unable to afford proper indoor thermal comfort. We at Purmo Group are supporting communities with our time, our products and monetary donations.

6,680

volunteering hours in 2022

Our key non-financial indicators

Our Commitment	Progress in 2022
Commitment 10 – We will help the most vulnerable people access adequate shelter and indoor climate	In 2022, we have actively sought out opportunities to support local communities. Our employees used over 6,000 hours in volunteering activities during the year. The feedback we have had has been overwhelmingly positive, both from the causes being helped and the staff themselves, who have gained a sense of fulfilment from the activities. When war broke out in Ukraine, Purmo Group staff in Poland set up an assistance fund for refugees, and staff were invited to pay into it directly from their wages. All contributions were matched by the company. This fund pays for initial hotel accommodation, rent, clothes, supplies and help with job seeking. It is available for refugees from any country, wherever the need is greatest. Purmo Group is also funding many of the hours spent by individuals who volunteer to help, including time taken by many employees to give blood, as supplies are running low. This combination of time and financial assistance is making a real difference for those people displaced from their homes and forced to take shelter in Poland.

> " **Every Wednesday you will find Renate Mittelstädt, who works in customer services at the Lilienthal plant of Purmo Group, teaching refugees who have come to Germany to escape hardship, conflict or natural disaster.**

Sam Hodlin, Head of Sustainability & Corporate Social Responsibility

CASE STUDY

Teaching German to refugee families

Supporting the local community is a key element of Purmo Group's sustainability strategy. Staff from our plants in Germany and Austria have been leading the way, with a number of community-based initiatives.

Supporting the local community is a key element of Purmo Group's sustainability strategy.

Every Wednesday you will find Renate Mittelstädt, who works in customer services at the Lilienthal plant of Purmo Group, teaching refugees who have come to Germany to escape hardship, conflict or natural disaster. Often, they have no working knowledge of German, and the problem is compounded by the fact that many of them are unable to read or write, and have to be taught basic literacy as well as the spoken language.

There is a particular skill in teaching German to someone who has no knowledge of the language, and has literacy challenges. For this reason, Purmo Group paid for Renate to attend a course for the appropriate training. The company has also funded the purchase of books for the learning centre in Lilienthal and pays for the time she spends each week teaching.

Looking ahead

With strong foundations laid in 2022, we have clear focus areas and ambitions for 2023:

1. To fully align our business operations with a 1.5˚C future improving energy efficiency and moving to source more energy from renewable sources.
2. To increase the sales of sustainable solutions, and helping end consumers use our products to maintain a comfortable indoor climate whilst saving energy and money. We must capitalise on the need for energy-efficient, digitally literate buildings by offering more integrated HVAC solutions and systems.
3. To increase the engagement of employees. Our people are our greatest asset in delivering on our plans, and our new sustainability metrics and commitments will enable us to better support their, and our, success. With a new human capital management system to support them, we feel well placed to succeed sustainably and thrive together.
4. To increase our volunteering commitment in 2023 through local community activities, giving help to those who need it most, both through volunteering hours as well as donations and products to communities in need thereby empowering them to achieve climate resilience.

APPENDIX

Our sustainability commitments and targets

	Commitment	Target
1. Our production Sourcing and manufacturing for a low-carbon, resource-efficient world	**1. Emissions and energy:** We will align with a 1.5˚C future and target carbon neutrality in our Scope 1, 2 and 3 emissions.	**1. Scope 1, 2 and 3 emissions** We have the ambition to become a Scope 1, 2 and 3 carbon neutral business. We are assessing the results of our 2022 baselining activity to create science-based-targets in 2023 and submit science based targets for validation in 2023.
	2. Resource efficiency and waste: We will use less resources to make products and eliminate waste.	**2. Water and waste reduction** We are currently assessing the results of our baselining activity to set our % reduction in water consumption by 2030. Zero waste to landfill by 2030
		3. Recycled materials and packaging 100% packaging from recycled, recyclable and biodegradable materials by 2030
	3. Responsible sourcing: We will source our key materials responsibly.	**4. Sustainable materials** Key materials (steel, brass, plastic and packaging) sustainably sourced by 2030
		5. Transparency Trace all key materials (steel, brass, plastic and packaging) to source by 2030
2. Our solutions Smart, sustainable and healthy solutions for comfort, delivered	**4. Climate-smart choices:** We will help our customers save energy and make sustainable choices.	**6. Number one choice** We will be recognised as the number one choice for energy-efficient solutions.
		7. Environmental Product Declarations By 2025, we will publish Environmental Product Declarations for all new products.
		8. Climate-smart systems Increase sales of our smart, sustainable products
	5. Circularity and end of life: We will apply circular design principles to all products. We will invest in new solutions where circularity is not immediately possible.	**9. Product end of life** Apply circular design principles to all new products by 2025
		10. Circularity training Top 30 customers to be trained in circular economy and recyclability principles by 2025
		11. Partnerships Identify three thought leadership or academic partnerships by the end of 2023 to explore more sustainable and innovative systems and solutions
		12. Donation service By 2025, implement service to enable wholesale customer to return damaged radiators for rework

	Commitment	Target
3. Our people Future-fit workforce	**6. Diversity, equality and inclusion:** We will create a diverse and inclusive workplace culture.	**13. Diverse company** Increase the proportion of senior management positions filled by women from 27% in 2022 to 50% by 2030
		14. Pay equality Eliminate pay gaps where they exist, and ensure pay equity by 2025
		15. Partnering Partner with relevant organisation(s) with mission to support STEM education in young people/women/under-represented groups.
		16. Inclusive culture Implement a zero-discrimination culture
	7. Engagement at work: We will ensure our employees are satisfied at work.	**17. Employee engagement and wellbeing** Improve eNPS and engagement metrics year on year through to 2025. Improve our eNPS score from -8 in 2022 to -4 in 2023
	8. Employee training: We will help prepare a future-fit workforce to tackle the skills gap and build a pipeline of talented employees.	**18. Future skills for commercial roles** Train 100% of commercial sales team in sustainable and energy efficient solutions by 2025
		19. Future skills for all employees Enable 100% of our workforce to participate in relevant upskilling and reskilling programmes by 2030
		20. Future talent pipeline Increase our offer of apprenticeships & internships across the Group
	9. Health & Safety: We will ensure Purmo Group is a safe place to work.	**21. Zero harm** Target 0 accidents across our business
		22. Anti-corruption training Ensure all eligible employees complete anti-corruption training
4. Our communities Resilient communities	**10. Community engagement and education:** We will help the most vulnerable people access adequate shelter and indoor climate.	**23. Enable climate resilience for all** Devote 25,000 (eight hours per employee, per year) of employees' time to support our local communities in providing heating and cooling solutions for vulnerable groups by 2025
		24. Stakeholder collaboration Develop plans in all markets to collaborate with local governments and relevant organisations

Governance

Corporate Governance Statement 2022

This Corporate Governance Statement of Purmo Group Plc ("Purmo Group" or the "Company", and together with its subsidiaries, the "Group") is issued for the financial year 2022. The duties and responsibilities of Purmo Group's governing bodies are determined by Finnish law as well as Purmo Group's Articles of Association approved by the General Meeting of Shareholders and Purmo Group's Corporate Governance Principles approved by Purmo Group's Board of Directors.

Purmo Group's shares are listed on the Official List of Nasdaq Helsinki Ltd. The Company is the parent company of the Group and registered in Helsinki, Finland as a public limited liability company operating under Finnish law. Purmo Group's corporate headquarters are located in Helsinki, Finland.

This Corporate Governance Statement has been prepared in accordance with the Finnish Corporate Governance Code 2020 (the "Governance Code"). This statement is presented as a separate report from the Board of Directors' Report. The Audit Committee of Purmo Group's Board of Directors has reviewed this Corporate Governance Statement.

Purmo Group complied with all recommendations of the Governance Code in 2022.

The Governance Code is available on the website of the Securities Market Association's website at www.cgfinland.fi/en/.

1 Governing Bodies

The General Meeting of Shareholders, the Board of Directors and the Chief Executive Officer (the "CEO") are responsible for the management, control and supervision of the Company, and their duties are primarily determined in accordance with the Finnish Companies Act. The management and governance of the Company are also based on decisions made by the General Meeting of Shareholders and the Board of Directors.

1.1 General Meeting of Shareholders

The General Meeting of Shareholders is the ultimate decision-making authority of the Company. At the General Meeting of Shareholders, shareholders exercise their decision-making power. The matters to be dealt with in the General Meeting of Shareholders are defined in the Finnish Companies Act and Purmo Group's Articles of Association. The Annual General Meeting is convened by the Board of Directors annually within six months from the end of the previous financial year. An Extraordinary Meeting of Shareholders may be convened if the Board of Directors deems it necessary, or if one is legally required. The Annual General Meeting of Shareholders decides on the distribution of profits, adopts the financial statements and discharges the members of the Board of Directors and the CEO from liability. It elects the members of the Board of Directors, as well as decides on their remuneration. The Annual General Meeting also elects the auditor of the Company and decides on its remuneration. The General Meeting of Shareholders adopts the Company's remuneration policy and remuneration report in accordance with the provisions of the Finnish Companies Act. Decisions to amend the Articles of Association are also taken by a General Meeting of Shareholders.

1.2 The Board of Directors

The Board of Directors is responsible for the administration of the Company and the appropriate organisation of its operations. The Board of Directors is also responsible for the appropriate arrangement of the supervision of the Company's accounts and finances. The Board of Directors decides on Company and Group wide significant matters of principal importance. The Board of Directors appoints and dismisses the CEO, supervises their actions, and decides on their remuneration and other terms and conditions of service. The Board of Directors also makes decisions on the significant matters related to strategy, investments, organisation and financial affairs of the Company.

The Board of Directors deals with all matters pertaining to its area of responsibility in accordance with Finnish law, the Articles of Association, the Corporate Governance Code, the rules of Nasdaq Helsinki, as amended from time to time, as well as other rules and regulations applicable to publicly listed companies in Finland. The Board of Directors also ensures that good corporate governance is complied with throughout the Group. The Board of Directors has approved the Corporate Governance Principles of the Group.

According to the Company's Articles of Association, the Board of Directors comprises of a minimum of three and a maximum of ten ordinary members. The Annual General Meeting elects the members of the Board of Directors, including the Chair and the Vice Chair. The term of the members of the Board of Directors expires at the closing of the Annual General Meeting following the election. The Shareholders' Nomination Board prepares a proposal on the composition of the Board of Directors to the General Meeting for its decision.

The Board of Directors convenes in accordance with a schedule agreed in advance and as otherwise required. The Board of Directors also receives in its meetings current information on the operations, finances and risks of the Group. Board meetings are attended by the CEO, the CFO, and the person acting as secretary to the Board. Other representatives of the Company attend Board meetings at the invitation of the Chair of the Board of Directors. Minutes are kept of all meetings. An evaluation of the Board of Directors' performance and working methods shall be conducted annually.

The Annual General Meeting of the Company held on 25 April 2022 elected the following seven members to the Board of Directors of Purmo Group, and who were in the Board on 31 December 2022:

- Tomas von Rettig, Chair of the Board, b. 1980, BBA, CEFA,
- Matts Rosenberg, Vice Chair of the Board, b. 1977, Ph.D. (Econ.),
- Alexander Ehrnrooth, member of the Board, b. 1974, M.Sc. (Econ.) and MBA, Kellogg Executive Scholar,
- Carina Edblad, member of the Board, b. 1963, M.Sc. (Eng.),
- Carlo Grossi, member of the Board, b. 1956, Master in Engineering, Advanced Management Programme INSEAD,
- Jyri Luomakoski, member of the Board, b. 1967, MBA,
- Catharina Stackelberg, member of the Board, b. 1970, M.Sc. (Econ.).

The Board of Directors has assessed the independence of the Board members and concluded that all members of the Board of Directors are independent of the Company. Carina Edblad, Carlo Grossi, Jyri Luomakoski and Catharina Stackelberg are also independent of the significant shareholders of the Company. Alexander Ehrnrooth is not independent of a significant shareholder of the Company, Virala Corporation and Tomas von Rettig and Matts Rosenberg are not independent of a significant shareholder of the Company, Rettig Group Ltd.

1.3 Number of Board meetings and attendance rates in 2022

	Number of meetings	% of meetings
Alexander Ehrnrooth	18/18	100
Tomas von Rettig	18/18	100
Matts Rosenberg	18/18	100
Carina Edblad	17/18	94,4
Carlo Grossi	18/18	100
Jyri Luomakoski	18/18	100
Catharina Stackelberg	18/18	100

1.4 Diversity of the Board of Directors

In Purmo Group, the election and composition of the Board of Directors is guided by the principle of diversity to ensure that the Company has a skilled, competent, experienced and effective Board. Diversity is an essential quality of a well-functioning Board of Directors. The Board of Directors must at all times be able to react to the requirements of the Company's business and strategic objectives and support and challenge management in a proactive and constructive manner. A diverse composition of the Board of Directors supports and caters to the current and future needs in the successful development of the Company. A diverse composition of the Board of Directors includes complimentary education, competence, personal networks and experience of its members in different professional fields and management of business in different development phases as well as the personal qualities of each Board member, all of which add to the diversity of the Board of Directors. Diversity is also supported by relevant experience in fields and markets that are strategically significant for the Company, now and in the future, by strong and relevant acumen in international environments and businesses, and by a diverse age, term of office and gender distribution.

Both genders shall be represented in the Board of Directors, and the aim of the Company is to maintain a balanced gender distribution. As means to maintain a balanced gender distribution in the Board of Directors, the Shareholders' Nomination Board seeks to include representatives of both genders in the Board candidates search and evaluation process. The status of diversity and progress in achieving the aforesaid objectives will be monitored by the Shareholders' Nomination Board in its assessment discussions.

The members of the Board of Directors have international work experience in different managerial positions or have worked or are working in the Boards of Directors or in the management of listed or unlisted companies. In terms of gender distribution, the Board of Directors consists of two women and five men and in terms of age, the members of the Board of Directors are between 42 and 67 years of age. The members of the Board represent three different nationalities. All members of the Board hold a university-level degree and one member holds a doctoral degree.

1.5 Board Committees

The Board of Directors of Purmo Group has the following three Committees: the Audit Committee, the Remuneration Committee and the Mergers and Acquisition Committee. The Board committees do not have independent decision-making authority in matters within the authority of the Board of Directors, but they assist the Board of Directors by preparing such matters. The Board committees shall regularly report on their work to the Board of Directors. Minutes are kept of Committee meetings. The Board of Directors has approved the charters of the Board committees. In its constitutive meeting, the Board of Directors appoints annually, from among its members, the members and the chair of the Audit Committee, the Remuneration Committee and the Mergers and Acquisitions Committee.

In addition to the abovementioned committees, the Board of Directors may appoint ad hoc committees for the preparation of specific matters. Such ad hoc committees do not normally have Board-approved charters and the Board of Directors does not release information on their term, composition, the number of meetings or the members' attendance rates.

1.5.1 Audit Committee

The Audit Committee shall have a minimum of three members. The majority of the Committee members must be independent of the Company, and at least one must be independent of the Company's significant shareholders. The Audit Committee as a whole must have the expertise and experience required for the performance of the duties and responsibilities of the committee.

The primary duties of the Audit Committee are to assist the Board of Directors in fulfilling its oversight responsibilities of the Company's financial reporting process and in monitoring the statutory audit of the Company as well as to assist the Board of Directors in its oversight of matters pertaining to financial reporting, internal control, internal audit, risk management and related party transactions, and by making proposals on such matters to the Board of Directors. The Audit Committee's duties include monitoring the financial affairs and financial reporting of the Company, monitoring the quality and integrity of and reviewing the interim and half-yearly reports and the financial statements, and presenting them to the Board of Directors for approval, and monitoring and reviewing the financial reporting processes. The Audit Committee also assists the Board of Directors by monitoring and evaluating the nature of related party transactions and how agreements and other transactions between the Company and its related parties meet the requirements of ordinary course of business and customary terms. In addition, the duties of the Audit Committee include preparation of the decision on electing the auditor, the evaluation of the independence of the auditor, particularly the provision of non-audit services to the Company and carrying out other tasks assigned to it by the Board of Directors. The Audit Committee also monitors the efficiency of internal control, internal audit and risk management, and evaluates the auditor's work.

On 31 December 2022, the members of the Audit Committee were Jyri Luomakoski (Chair of the Audit Committee), Matts Rosenberg and Alexander Ehrnrooth.

Number of Audit Committee meetings in 2022

	Number of Audit Committee meetings	% of meetings
Jyri Luomakoski	9/9	100
Matts Rosenberg	9/9	100
Alexander Ehrnrooth	9/9	100

1.5.2 Remuneration Committee

The Remuneration Committee shall have a minimum of three members. The majority of the Committee members must be independent of the Company. The Company's CEO or any other executive director may not be a member of the Committee. The Committee members shall have the expertise and experience required for the performance of the duties and responsibilities of the Committee.

The Remuneration Committee assists the Board of Directors by preparing the remuneration policy and remuneration report of the Company's governing bodies and by preparing the matters pertaining to the remuneration of the CEO and other members of the Management Team, appointment of the CEO as well as the remuneration principles observed by the Company. The Remuneration Committee's main duties also include monitoring and evaluating the remuneration of the CEO and other members of the Management Team and ensuring that that the remuneration schemes are appropriate; monitoring the application of the Company's remuneration policy as well as the current remuneration structures and levels in the Company; assisting the Board in connection with major management reorganisations based on preparation and proposals by the CEO; and monitoring the Company's remuneration policies, schemes and plans. The Remuneration Committee shall also review the procedures and development strategies for senior level positions and succession plans for the CEO and other members of the Management Team and report to the Board of Directors on such matters.

On 31 December 2022, the members of the Remuneration Committee were Tomas von Rettig (Chair of the Remuneration Committee), Catharina Stackelberg and Carina Edblad.

Number of Remuneration Committee meetings in 2022

	Number of Remuneration Committee meetings	% of meetings
Tomas von Rettig	5/5	100
Catharina Stackelberg	5/5	100
Carina Edblad	5/5	100

1.5.3 Mergers and Acquisitions Committee

The Mergers and Acquisitions Committee shall have a minimum of three members. The Committee members shall have the expertise and experience required for the performance of the Committee duties and responsibilities.

Pursuant to its charter, the Mergers and Acquisitions Committee reviews with management and the Board of Directors the role of M&A within the Company' growth strategy, provides advice to management regarding the Company's various strategic alternatives and funding structures for relevant acquisitions, and reviews material mergers, acquisitions, dispositions or other potential transactions ("Strategic Transactions").

The duties of the Mergers and Acquisitions Committee also include maintaining familiarity with the status of the Company's acquisition pipeline as a whole; providing support and guidance to management with respect to the presentation of Strategic Transactions to the Board of Directors; assisting management and the Board of Directors with identification of acquisition, strategic investment and divestiture opportunities; ensuring management accountability for Strategic Transactions, and from time to time as appropriate, review with management whether the investment thesis for a specific Strategic Transaction was successfully achieved; overseeing management and the Board of Directors' due diligence process with respect to proposed Strategic Transactions. The Mergers and Acquisitions Committee is able to use expertise of the employees of the Company to carry out its responsibilities. Committee's activities are reported to the Board of Directors on a regular basis.

On 31 December 2022, the members of the Mergers and Acquisitions Committee were Matts Rosenberg (Chair of the Mergers and Acquisitions Committee), Alexander Ehrnrooth and Carlo Grossi.

Number of Mergers and Acquisitions Committee meetings in 2022

	Number of Mergers and Acquisitions Committee meetings	% of meetings
Matts Rosenberg	6/6	100
Alexander Ehrnrooth	6/6	100
Carlo Grossi	6/6	100

1.6 Shareholders' Nomination Board

The Shareholders' Nomination Board (the "Nomination Board") prepares, annually and otherwise when appropriate, proposals concerning the composition, election and the remuneration of the members of the Board of Directors to the following Annual General Meeting. The Nomination Board shall operate until abolished by the decision of the General Meeting of Shareholders of the Company.

Pursuant to the charter of the Nomination Board, the Nomination Board consists of three members nominated by the shareholders. The members shall represent the Company's three largest shareholders who represent the largest number of votes out of all shares in the Company on 30 May each year as determined on the basis of the shareholder register of the Company maintained by Euroclear Finland Oy.

The Chair of the Board of Directors acts as an expert member in the Nomination Board (the Chair of the Board of Directors is not an official member of the Nomination Board and does not have any voting right, but he/she has the right to attend the meetings of the Nomination Board and receive the relevant material for such meetings).

The term of the members of the Nomination Board shall end upon the appointment of the following Nomination Board. The members of the Nomination Board shall not be entitled to remuneration from the Company on the basis of their membership unless otherwise decided by the General Meeting of Shareholders.

The main purpose of the Nomination Board is to ensure that the Board of Directors and its members represent a sufficient level of expertise, knowledge and competence for the needs of the Company and have the possibility to devote sufficient amount of time to attending their duties as members of the Board of Directors. The Nomination Board shall pay attention to achieving a good and balanced gender distribution and diversity balance on the Board considering the competence of the Board as a whole. The Nomination Board shall in its work consider the diversity principles of the Company.

The Nomination Board has the power and authority to prepare and to present a proposal to the General Meeting of Shareholders concerning the number of members and composition of the Board of

Directors; and the remuneration of the members of the Board of Directors and the Board committees as well as seek prospective successor candidates for the members of the Board of Directors.

The Nomination Board shall submit its proposals to the Board of Directors at the latest on 31 January each year. The Proposals of the Nomination Board will be published through a release by the Company and included in the notice to the General Meeting of Shareholders.

Temporary deviation was made in 2021 from the Charter of the Shareholders' Nomination Board to the effect that, for the purposes of the next Annual General Meeting following the effective date of the merger of Purmo Group Oy Ab to Virala Acquisition Company Plc (on 31 December 2021), the members of the Nomination Board were based on the three largest shareholders in Purmo Group Plc on the 10th business day following the merger (7 January 2022).

The Company's three largest shareholders have been Rettig Group Ltd, Virala Corporation and Ahlström Invest B.V. both on 7 January and on 30 May 2022 and each have nominated one member to the Nomination Board.

On 31 December 2022, the members of the Shareholders Nomination Board were Matts Rosenberg (Chair of the Nomination Board) nominated by Rettig Group Ltd, Alexander Ehrnrooth nominated by Virala Corporation and Peter Seligson nominated by Ahlström Invest B.V.

Number of Shareholders Nomination Board meetings in 2022

	Number of Shareholders Nomination Board meetings	% of meetings
Matts Rosenberg	2/2	100
Alexander Ehrnrooth	2/2	100
Peter Seligson	2/2	100

1.7 Chief Executive Officer

The Board of Directors of Purmo Group appoints and dismisses the CEO and decides on the financial benefits within the framework of the valid Remuneration Policy presented to the General Meeting of the Shareholders. Board approved terms and conditions of the CEO's position are specified in a written service contract. The CEO of the Company is responsible for managing, supervising and controlling the business operations of the Company.

The CEO is responsible for the day-to-day executive management of the Company in accordance with the instructions and orders given by the Board of Directors. In addition, the CEO ensures that the accounting practices of the Company comply with Finnish law and that its financial affairs have been arranged in a reliable manner. The duties of the CEO are governed primarily by the Finnish Companies Act. The CEO shall provide the Board of Directors and its members with the information necessary for the performance of the duties of the Board of Directors.

The CEO prepares matters for decision by the Board of Directors, develops the Company in line with the targets approved by the Board of Directors and ensures the proper implementation of the decisions of the Board of Directors. The CEO is also responsible for ensuring that the Company is managed in compliance with applicable laws and regulations. The CEO is not a member of the Board of Directors but attends the meetings of the Board of Directors and has the right to speak at the meetings.

On 31 December 2022, John Peter Leesi (b. 1961, BBA with advanced studies in international finance) served as the CEO of Purmo Group.

1.8 Group Management Team

The Company's Board appoints the members of the Management Team. The Management Team comprises the CEO and the CFO as well as other members appointed by the Board. The Management Team meets regularly to address matters concerning the entire Group. The Management Team is not a decision-making body of the Company, but it assists the CEO in the implementation of the Group's strategy and in operational management. The Management Team is responsible for managing the Company's core business operations as a whole, which requires planning of various development processes, Group principles and Group practices, as well as monitoring the development of financial matters and Group's business plans. Board members are free to join the meetings of the Management Team in order to ensure a smooth cooperation between the Board of Directors and the Management Team. The Management Team convenes regularly at a schedule agreed in advance and also as required and minutes are kept of all meetings.

On 31 December 2022, the Management Team of Purmo Group comprised the following members:

- John Peter Leesi, CEO, (b. 1961, BBA with advanced studies in international finance)
- Erik Hedin, Chief Financial Officer, b. 1977, M.Sc. (Ind. Eng.), B.Sc. (Econ.)
- Mike Conlon, Senior Vice President, Indoor Climate Systems Division, b. 1966, BA (Hons)
- Linda Currie, Chief People Officer, b. 1973, BA (Hons) Business & Human Resource Management, CIPD
- Barry Lynch, Senior Vice President, Radiators Division, b. 1975, MBA, Post Graduate Diploma (Business Administration), BA Hons (Business Studies) from 4 July 2022.[1]

[1] Tomasz Tarabura acted as Senior Vice President, Radiators and a member of the Management team until 4 July 2022.

1.9 Shareholdings of Board of Directors’ and Management Team

The shareholdings of the members of the Board of Directors, the CEO, and the members of the Management Team as well as their controlled entities as on 31 December 2022 are presented in the following tables.

Board of Directors’ shareholdings on 31 December 2022

	Class C shares	Class F shares
Tomas von Rettig[1]	0	0
Matts Rosenberg[1]	2,496	0
Alexander Ehrnrooth[2]	5,560	0
Carina Edblad	1,784	0
Carlo Grossi	1,784	0
Jyri Luomakoski	1,970	0
Catharina Stackelberg	2,476	0

[1] Influence in Rettig Group Ltd which held 26,373,971 class C shares in Purmo Group on 31 December 2022.

[2] Influence in Virala Corporation which held 4,895,000 class C shares and 1,565,217 class F shares in Purmo Group on 31 December 2022.

Management Team shareholdings on 31 December 2022

	Class C shares	Class F shares
John Peter Leesi	408,927	0
Erik Hedin	245,356	0
Mike Conlon	31,770	0
Linda Currie	23,582	0
Barry Lynch	31,718	0

The CEO and Management Team have future share-based rights in Purmo Group through participation in long-term incentive plan launched in 2022, more information available in Remuneration Report 2022 and Company’s website.

2 Control

2.1 Internal Audit

Purmo Group’s internal audit assists the Company in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's governance, risk management and internal control. Internal Audit also assists the Board of Directors and senior management of the Company in creating an effective and reliable control environment.

The Chief Audit Executive (or otherwise titled highest level practicing Internal Auditor) will report functionally to the Audit Committee and administratively (i.e. day to day operations) to the CFO. The internal audit report may include management’s response and corrective actions taken or to be taken in regard to the specific findings and recommendations. The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations.

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation’s stated goals and objectives. The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee. The audit plan of the internal audit is adopted by the Audit Committee.

2.2 External Audit

Pursuant to the Articles of Association, the Company has one auditor, which shall be an Authorised Public Accountant company. The auditor is elected annually by the Annual General Meeting for a term that expires at the end of the next Annual General Meeting following the election. The task of the auditor is to audit the consolidated financial statements, the financial statements of the parent company, the accounting of the Group and the parent company and the administration of the parent company. The Company’s auditor submits the auditors’ report to the shareholders in connection with the annual financial statements, as required by law, and submits regular reports on its findings to the Audit Committee of the Board of Directors.

3 Related Party Transactions

The Board of Directors has defined the principles for monitoring and evaluating related party transactions.

The Company evaluates and monitors transactions concluded between the Company and its related parties and ensures that any conflicts of interest are taken into account appropriately in the decision-making process of the Company. The Company keeps a list of parties that are related to the Company.

Purmo Group can conduct with its related parties business transactions that constitute part of Purmo Group's ordinary course of business and are implemented on arm's length terms and abiding Purmo Group's internal decision-making guidelines. The Board of Directors decides, taking into consideration conflict of interest rules, on transactions with related parties that are not part of Purmo Group's ordinary course of business or that are not implemented under arm's length terms.

Purmo Group's Finance organisation monitors related party transactions through accounting, Board documentation and other available sources, and regularly conducts inquiries about related party transactions to managers and key management persons. In connection with quarterly reporting, the financial process ensures that related party transactions are properly reported to the related party transaction watch list compiled for financial reporting purposes. The watch list is regularly submitted to the Audit Committee for information.

In principle, all related party transactions must be reported in the notes to the financial statements and material related party transactions also in the interim reports. In addition, the Company publishes such related party transactions to the extent required pursuant to the applicable legislation and the rules of Nasdaq Helsinki.

4 Internal control procedures and main features of risk management systems

4.1 Internal control

Internal control ensures that the Company's business objectives can be achieved. Through efficient control, deviations from objectives can be prevented or detected as early as possible, so that corrective measures can be taken.

The purpose of internal control is to ensure the profitability, efficiency, continuity and freedom from disruptions of operations and that the Group's financial and operating reporting both externally and internally is reliable and compliant, and that internal principles, policies and guidelines are followed. Further, internal control ensures compliance with laws and regulations. Internal control measures cover all Group levels and functions. Information systems are of vital importance for effective internal control.

The planning of the control measures begins with the definition of business objectives and the identification and assessment of the risks that threaten the objectives. Control measures are targeted based on risks, and control measures are selected as appropriate so as to keep the risks under control.

The Board of Directors and the CEO are responsible for organising internal control. The CEO sets the ground for the internal control environment ("tone at the top") by providing leadership and direction to the executive management, and by reviewing the way they manage and control the business. The CEO is responsible for managing the business and administration in accordance with the applicable laws and regulations, and the direction of the Board of Directors.

The CEO is accountable for establishing sufficient internal control processes in the organisation. The CEO is assisted by the CFO and Purmo Group operative management in these duties. The business functions and the Group finance organisation are responsible for the financial reporting processes. The Audit Committee and the Board of Directors assess the financial reporting processes and monitor the financial situation of the Group. The Audit Committee and the Board review the interim and half-year reports and financial statements before their approval and publication.

4.2 Risk management

The primary objective of risk management in Purmo Group is to support the Company's strategy execution, continuity of operations and realisation of business objectives by anticipating any risks involved in the Company's operations and managing them in a proactive manner. Enterprise risk management emphasises the role of corporate culture and is an integrated part of operations, planning, and decision-making in Purmo Group. Risk is defined as an uncertain event, caused by external or internal factors, which may be either a threat or an opportunity. The Board of Directors has approved the Enterprise Risk Management Policy, which defines the framework, processes, governance and responsibilities of risk management in Purmo Group.

The Board of Directors and the Audit Committee monitor and are responsible for ensuring that Purmo Group's risk management process functions are comprehensive. The Board defines the risk appetite and tolerance, according to the current conditions. The Company's operative management is responsible for achieving the set objectives and controlling, managing and mitigating risks that threaten them. The operative management is also responsible for the risk management work, and for ensuring the performance of the risk management process and the availability of sufficient resources. The CFO is responsible for instructions and advice to the operations and functions concerning enterprise risk management, and for monitoring the practical implementation of the process. Risk management assessments are coordinated by the CFO together with Chief Risk Officer, who supports the management, operative business functions and other supportive functions in the risk management work. CFO reports key risks to the Board of Directors on an annual basis. The Board discusses Purmo Group's most significant risks and uncertainties and reports them to the market annually in the Board's Report. In addition, the Company describes the material short-term risks and uncertainties in half-yearly reports and interim reports. In Purmo Group, the business functions are responsible for risks related to their operations and their identification, assessment and mitigation means. The Company's internal audit is responsible for developing risk-based audit plan and conducting the audit procedures based on the plan and reports, as an independent function, directly to the Board and Audit Committee.

5 Insider Administration

In its insider administration, the Company follows the Market Abuse Regulation (EU No 596/2014) and the rules of Nasdaq Helsinki complemented by the Company's own Insider Policy. The Company maintains its own insider registers. The Company does not have permanent insiders.

Persons in managerial positions are prohibited to carry out transactions (on their own account or for the account of a third party), directly or indirectly, in the financial instruments of the Company during a closed period of 30 calendar days before the announcement of each of the interim reports or the year-end report (financial statement release). The Company applies the closed period of 30 calendar days immediately preceding the announcement of the interim report or financial statement release, as the case may be, including the date of publication of such report (the "Closed Window"). The prohibition is in force during the Closed Window regardless of whether or not such a person holds any inside information at that time. A project-specific insider list is maintained when required by law or regulations. Project-specific insiders are prohibited from trading in the Company's financial instruments until the termination of the project.

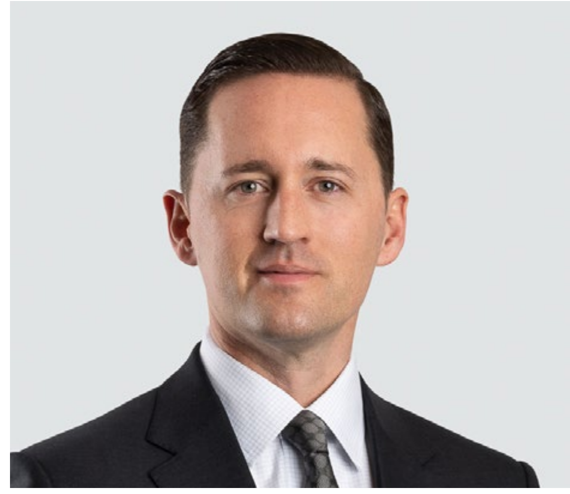
Persons in managerial positions (and their closely associated persons) are obligated to report transactions in the Company's financial instruments in line with applicable EU and domestic laws and regulations. The members of the Board and the Management team are the managers of the Company with an obligation to disclose their transactions.

6 External Audit in 2022

KPMG Oy Ab, Authorised Public Accountants, is Purmo Group's auditor. In 2022 Kim Järvi, Authorised Public Accountant, acted as the auditor with principal responsibility.

The audit fees paid to the auditor in 2022 totalled EUR 629 thousand. In addition, EUR 353 thousand was paid to KPMG for non-audit services.

BOARD OF DIRECTORS



Tomas von Rettig

Chair of the Board of Directors, Chair of the Remuneration Committee

b. 1980
BBA, CEFA

Independent of the Company. Dependent of its significant shareholder Rettig Group Ltd.

Matts Rosenberg

Vice Chair of the Board, Chair of the M&A Committee, Member of the Audit Committee

b. 1977
Ph.D. (Econ.)
CEO of Rettig Group Ltd

Independent of the Company and dependent of its significant shareholder Rettig Group.

Alexander Ehrnrooth

Member of the Board of Directors, Member of the Audit and M&A Committees

b. 1974
M.Sc. (Econ.), MBA
President and CEO of Virala Corporation

Independent of the Company and dependent of its significant shareholder Virala Oy Ab.

Carina Edblad

Member of the Board of Directors, Member of the Remuneration Committee

b. 1963
M.Sc. (Eng.)
CEO of Thomas Betong

Independent of the Company and its significant shareholders.

Carlo Grossi

Member of the Board of Directors, Member of the M&A Committee

b. 1956
Master in Engineering, Advanced Management Program INSEAD

Independent of the Company and its significant shareholders.

Jyri Luomakoski

Member of the Board of Directors, Chair of the Audit Committee

b. 1967
MBA

Independent of the Company and its significant shareholders.

Catharina Stackelberg

Member of the Board of Directors, Member of the Remuneration Committee

b. 1970
M.Sc. (Econ.)

Senior Advisor, member of the board, Marketing Clinic Group

Independent of the Company and its significant shareholders.

More information on the Board of Directors is available at investors.purmogroup.com.

MANAGEMENT TEAM

John Peter Leesi

Chief Executive Officer

b. 1961
BBA with advanced studies in international finance

Member of Purmo Group Leadership Team since 2020

Erik Hedin

Chief Financial Officer

b. 1977
M.Sc. (Ind. Eng.), B.Sc. (Econ.)

Member of Purmo Group Leadership Team since 2020

Linda Currie

Chief People Officer

b. 1973
BA (Hons) Business & Human Resource Management, CIPD

Member of Purmo Group Leadership Team since 2013

Mike Conlon

Senior Vice President, Indoor Climate Systems

b. 1966
BA (Hons)

Member of Purmo Group Leadership Team since 2015

Barry Lynch

Senior Vice President, Radiators Division

b. 1975
MBA, Post Graduate Diploma (Business Administration), BA Hons (Business Studies)

Member of Purmo Group Leadership Team since 2022

On 5 October 2022, Purmo Group Plc announced a new organisational structure which has been effective from 1 January 2023.

Purmo Group's management team within the new organisational structure is as follows:

- John Peter Leesi, Chief Executive Officer
- Erik Hedin, Chief Operating Officer; leading also the strategy acceleration programme
- Mike Conlon, President, Climate Solutions Division
- Barry Lynch, President, Products & System Division
- Linda Currie, Chief People Officer
- Matts Rosenberg, interim CFO, from 1 January 2023 until 22 June 2023, at the latest
- Jan-Elof Cavander, CFO, from 22 June 2023, at the latest

More information on the Management team is available at investors.purmogroup.com.

Purmo Group Remuneration Report 2022

This Remuneration Report 2022 has been prepared by the Remuneration Committee of Purmo Group Plc. The report describes the implementation of Purmo Group's Remuneration Policy, which was adopted by an unanimous advisory resolution of the shareholders at the Annual General Meeting of shareholders on 25 April 2022.

Remuneration Principles applied in Purmo Group in accordance with Remuneration Policy aim to:

- Divide remuneration in elements such as fixed base salary, variable performance based incentives and other payments such as pension, and fringe benefits
- Define clear key performance indicators linked to strategy execution
- Attract and retain top talent
- Enhance employee engagement through clarity and understanding

The Company's Remuneration Committee reviews annually the Remuneration Policy to ensure alignment with market practices, the Company strategy, and the long-term aspiration of the Company.

Remuneration Policy is available on our website.

The Remuneration Report 2021 was presented at the Annual General Meeting of shareholders on 25 April 2022 and supported in the unanimous advisory resolution.

The Remuneration Report presents the terms of the payments made and illustrates the alignment of the remuneration with Company performance and strategy.

This report contains information concerning Purmo Group Plc's remuneration for the financial year 2022. This report 2022 will be presented to the Annual General Meeting of shareholders planned on 12 April 2023.

The Remuneration Report 2022 follows the Finnish Corporate Governance Code 2020 and applicable legislation. The actual remuneration paid in 2022 to Board of Directors and reported here complies with the framework and principles set forth in the Remuneration Policy 2022. No temporary deviations from the Remuneration Policy were made and no remuneration of the Board nor the CEO has been reclaimed or restated during the financial year 2022.

Remuneration and company performance

The year of 2022 was Company's first year after Purmo Group Ltd merger to Virala Acquisition Company Plc (forming Purmo Group Plc), therefore the Company will use Purmo Group Ltd data for remuneration development comparison.

The table below presents the development of the Company's Board member's and CEO's remuneration compared to the development of the average remuneration of Purmo Group employees and Purmo Group's financial development. Comparable data is only available for the previous four years.

Compensation	2022	2021	2020	2019
Remuneration of BoD members, EUR	562,489	503,172	761,000	195,000
% of net sales	0.1%	0.1%	0.1%	0.0%
Remuneration of CEO, EUR	818,974	638,662	711,709[1]	589,449
% of net sales	0.1%	0.1%	0.1%	0.1%
Average Purmo Group employee, EUR[2]	37,130	38,835	36,526	36,655
Average number of personnel	3,476	3,360	3,287	3,297
Net sales, MEUR	904.1	843.6	671.2	696.8
Adjusted EBITDA, MEUR	92.9	103.9	85.1	65.4

[1] Includes previous CEO's salary and bonus until 31 August 2020 and current CEO's salary and bonus from 1 July 2020.
[2] Compensation includes all wages and salaries, including short-term incentive payments excluding employer costs (social security, pension costs, other benefits) divided by the average number of employees during the year.

Remuneration of Board of Directors

The Shareholders Nomination Board proposes to the Annual General Meeting the remuneration paid to the Board of Directors. In the Annual General Meeting on 25 April 2022, it was decided that the Board will be paid annual fee and additional meeting fee. The annual fees were decided as follows:

- EUR 92,000 for the Chair of the Board
- EUR 53,000 for the Vice Chair of the Board
- EUR 53,000 for each of the Chairs of the Board committees
- EUR 48,000 for each ordinary Board member.

Out of the annual remuneration approximately 40% of the annual fee was paid in Purmo Group's class C shares. The Board members are expected to keep such shares for the duration of their board assignment. Chair of the Board abstained from receiving the class C shares as part of the remuneration hence he was only paid 60% of the annual fee in cash.

In addition to the annual fee a meeting fee was paid to the members of the Board of Directors for each meeting of the Board and its committees as follows:

- EUR 600 per meeting held in Board members country of residence
- EUR 1,200 per meeting held outside of the Board members country of residence but on the same continent as the Board member's country of residence
- EUR 2,400 per meeting held on another continent than the Board members country of residence
- EUR 600 per meeting held by telephone or through virtual communication channels

An additional meeting fee of EUR 600 was paid to the Chair of the Board and the Chair of the Board Committees for each meeting of the Board and its committees.

In addition compensation for reasonable travel, accommodation and other expenses related to the Board of Directors and committee work were reimbursed according to the applicable polices of the company.

Remuneration of the CEO of Purmo Group Plc

In accordance with the remuneration policy, CEO's remuneration is built by elements, such as base salary, short-term and long-term incentive and other benefits so that the remuneration is attractive and linked to the strategy execution.

The remuneration paid out to Board members 2022, EUR

Board member	Fixed annual fee 2021[1]	Meeting fees 2021[1]	Fixed annual fee 2022	Meeting fees 2022	Share award 2022
Tomas von Rettig, Chair	–[2]	–	55,200	22,800	–[3]
Matts Rosenberg	–[2]	–	53,000	18,600	21,194
Carina Edblad	1,750	800	48,000	12,600	19,191
Catharina Stackelberg	1,750	–	48,000	10,200	19,191
Carlo Grossi	1,750	800	48,000	11,400	19,191
Alexander Ehrnrooth	1,800	1,750	48,000	15,600	19,191
Jyri Luomakoski	1,800	1,750	53,000	17,400	21,181
Total	**8,850**	**5,100**	**353,200**	**108,600**	**119,139**

[1] Paid in 2022 for Purmo Group Ltd Board.
[2] No remuneration was paid when Rettig Group Ltd ownership was 100% in Purmo Group Ltd.
[3] Tomas von Rettig used his right to abstain the share portion of the annual fee.

The remuneration paid to the CEO in 2022, EUR

Base salary	Short-term incentive[1]	Long-term incentive in cash	Long-term incentive in shares	Benefits	Pension allowance[2]	Total
486,308	267,620	–	–	2,789	62,257	818,974

[1] Earned based on performance in the financial year 2021, paid in Q1 2022.
[2] The CEO is normally eligible to become an active member of the company's defined contribution pension scheme. However, the CEO has reached the Life Time Pension Allowance and therefore a supplementary payment equivalent to 15% of the base salary is paid in lieu of a pension contribution. There is no specified retirement date for the CEO.

CEO's Short-Term Incentive Programme

The payment of short-term incentive is based on the Company targets set forth by the Board of Directors and based on performance in the financial year.

Short-Term Incentive performance period 2021 (paid in 2022)

The CEO's Short-Term Incentive for 2021 was based on the achievement of the pre-defined Purmo Group targets for the financial year January – December 2021. In 2021 the amount of the annual short-term incentive (STI) plan was a maximum of 60% of the CEO's annual base salary.

The Purmo Group targets for 2021 resulted in CEO's Short-Term Incentive achievement of 54% of annual base salary. The financial STI payment was paid in March 2022.

Performance metrics for 2021	Weight	Result
Adjusted EBITDA	50%	maximum
Free Cash Flow	10%	below target level
Achievement of Operational Excellence Programme	40%	maximum
Pay-out		**EUR 267,620[1]**

[1] Converted from GBP 223,832 using exchange ratio for March 2022.

Short-Term Incentive performance period 2022 (paid in 2023)

The CEO's Short-Term Incentive for 2022 was based on the achievement of the pre-defined company targets for the financial year January – December 2022. In 2022 the amount of the annual short-term incentive (STI) plan was a maximum of 60% of the CEO's annual base salary.

The Purmo Group targets for 2022 resulted in a CEO's STI achievement of 3.75% of annual base salary. The financial STI payment is paid in March 2023.

Performance metrics for 2022	Weight	Result
Adjusted EBITDA	60%	below target level
Free Cash Flow	30%	below target level
ESG Targets	10%	between target and maximum
Pay-out		**EUR 17,888[1]**

[1] Converted from GBP 223,832 using exchange ratio for March 2022.

CEO's Long-Term Incentive Programme

The CEO participated in long-term Performance-Based Matching Share Plan that was determined by the Board of Directors and launched in 6 July 2022. CEO invested a total of 32,258 of existing Purmo Group's class C shares in in the programme. CEO is entitled to a similar pay-out with all other participants in the long-term incentive plan.

The performance criterion of the plan is Total Shareholder Return (TSR) of the Purmo Group class C share as set by the Board of Directors. Achievement of set TSR targets will determine the proportion of the maximum reward payable to participants. The minimum threshold for reward pay-out is a share price of EUR 16.00 per share. The maximum reward is earned at a share price of EUR 24.00 per share. Accumulated dividends and return of capital from reserves distributed during 2022-2027 are added to the share market price when calculating the TSR. The new Performance-Based Matching Share Plan comprises one performance period from the financial year 2022 to 2025. The performance period is followed by a pay-out period covering the financial years 2026 and 2027. The reward will be paid in both Purmo Group class C shares and in cash to cover taxes and statutory social security contributions arising from receipt of the reward.

Plan	Plan name	Performance period	Pay-out year	Performance metrics	Weight	Result
Matching Share Plan	LTIP 2022	2022-2025	2026-2027	Total Shareholder Return (TSR)	100%	-

Financials

Report of the Board of Directors 2022

Purmo Group is a leader in sustainable indoor climate comfort solutions. The Group provides complete heating and cooling solutions to residential and non-residential buildings, including underfloor heating and cooling systems, a broad range of radiators, heat pumps, flow control and hydronic distribution systems, as well as smart products. Our mission is to be the global leader in sustainable indoor climate comfort solutions. Our 3,400 employees operate in 24 countries, manufacturing and distributing top-quality products and solutions to our customers in more than 100 countries globally. Purmo Group's shares are listed on Nasdaq Helsinki with the ticker symbol PURMO.

Key figures

EUR million	2022	2021	Change, %
Net sales	904.1	843.6	7%
Adjusted EBITDA	92.9	103.9	-11%
Adjusted EBITDA margin	10.3%	12.3%	
Adjusted EBITA	64.6	76.6	-16%
Adjusted EBITA margin	7.1%	9.1%	
EBIT	39.0	3.5	1025%
EBIT margin	4.3%	0.4%	
Profit for the period	13.1	-18.8	170%
Adjusted profit for the period	34.9	51.4	-32%
Earnings per share, basic, EUR	0.32	-0.65	149%
Adjusted earnings per share, basic, EUR	0.85	1.77	-52%
Cash flow from operating activities	31.1	35.4	-12%
Adjusted operating cash flow, last 12 months[1]	51.9	50.2[6]	3%
Cash conversion[2]	55.9%	48.3%[6]	
Operating capital employed[3]	305.0	271.8	12%
Return on operating capital employed[4]	12.8%	1.3%	
Net debt	275.2	239.5	15%
Net debt / Adjusted EBITDA[5]	2.96	2.31	29%

[1] Adjusted EBITDA on a rolling 12-month basis less 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 12-month calculation divided by operating capital employed. Return on operating capital employed without non-recurring items was 1.0% (22.0%).
[5] Adjusted EBITDA based on a rolling 12-month basis.
[6] Figures for 1–12/2021 restated for comparability reasons.

Group financial overview

Net sales

EUR million	2022	2021	Change, %
Net sales, by segment			
Radiators	478.7	506.3	-5%
ICS	425.3	337.2	26%
Total	904.1	843.6	7%

In January–December 2022, Purmo Group's net sales amounted to EUR 904.1 million (843.6), an increase of 7 per cent. Organic net sales growth was 3 per cent. Thermotech and Evroradiator acquistions contributed 3 per cent to net sales growth. The net currency effect was positive 1 per cent.

The Group's net sales in 2022 were supported by strong growth in the ICS division while weak demand in the Radiators division during the second half of the year reduced net sales growth in 2022.

Results and profitability

EUR million	2022	2021	Change, %
Adjusted EBITDA, by segment			
Radiators	50.3	66.0	-24%
ICS	51.9	43.7	19%
Other	-9.4	-5.8	62%
Total	**92.9**	**103.9**	**-11%**
Adjusted EBITDA margin, %	10.3%	12.3%	

In January–December 2022, Purmo Group's adjusted EBITDA reached EUR 92.9 million (103.9); a decrease of 11 per cent. The adjusted EBITDA margin was 10.3 per cent (12.3). Comparability adjustments amounted to EUR 21.7 million (70.2).

The ICS division generated strong growth in Adjusted EBITDA, driven by strong volume growth, pricing improvements, and cost control, while adjusted EBITDA declined for the Radiators division primarily due to low sales volumes and decreased the Group's Adjusted EBITDA for 2022.

Net financial items amounted to EUR -17.4 million (-8.6).

Profit before tax was EUR 21.6 million (-5.1). Income tax expenses were EUR -8.4 million (-13.7) corresponding to an effective tax rate of 39.1 per cent (29.1 without IFRS 2 merger impact). When excluding certain non-deductible items, the effective tax rate was 20.1 per cent (25.8).

Profit for the review period was EUR 13.1 million (-18.8) and adjusted profit for the period was EUR 34.9 million (51.4). Earnings per share were EUR 0.32 (-0.65) and adjusted earnings per share were EUR 0.85 (1.77). The earnings per share in the comparison period are based on Purmo Group Ltd shares amounting to 29,249,105 shares, using the 31 December 2021 conversion ratio. After the merger on 31 December 2021 between Virala Acquisition Company Plc and Purmo Group Ltd, the combined company's shares amounted to 40,374,531 class C shares and 1,565,217 class F shares. The directed share issue of 671,779 class C shares in March 2022 and the directed share issue of 66,403 class C shares in October 2022 also diluted the earnings per share in the review period. The share issues were related to the acquisition of Thermotech and the new share-based incentive plan for the key personnel.

Cash flow and financial position

In January–December 2022, cash flow from operating activities was EUR 31.1 million (35.4). The decrease was due to lower profitability despite positive development in net working capital.

The typical seasonal low point for net working capital is December, after which it builds up during the first and second quarters before reducing again during the third and fourth quarters.

Adjusted operating cash flow for the last 12 months increased by 3 per cent to EUR 51.9 million (50.2) and the cash conversion increased to 55.9 per cent (48.3). The change was a result of increased capex spend in the last 12 months of EUR -24.0 million (-14.8) mainly related to strategic projects but was offset by a favourable change in net working capital of EUR -16.9 million (-38.8). The adjusted EBITDA during the last 12 months decreased slightly to EUR 92.9 million (103.9).

Cash flow from investment activities was EUR -32.9 million (-18.6). The change was primarily attributable to the Thermotech acquisition of EUR -14.6 million (2021: EUR -4.5 million related to the acquisition of Evroradiator) as well as investments in property, plant and equipment, and intangible assets of EUR -24.0 million (-14.8). The increased investments were offset by EUR 3.1 million (0.7) proceeds from the sale of property, plant and equipment, and intangible assets mostly from the sale of the Irish production site as well as EUR 2.7 million (0.0) proceeds from the divestment of a discontinued Chinese subsidiary.

Cash flow from financing activities was EUR -110.8 million (105.4), mostly from the repayment of the EUR 95.0 million bridge-loan facility in January and an increase in short-term funding of EUR 10.0 million during the year. In May the first instalment of the return of capital of EUR 0.18 per class C share and EUR 0.03 per class F share was paid, totalling EUR 7.4 million. The second instalment of EUR 0.18 per class C share and EUR 0.04 per class F share was paid in October 2022, totalling EUR 7.5 million.

At the end of December 2022, the Group's net debt was EUR 275.2 million (239.5) and the equity ratio was 41.0 per cent (37.3). The net debt to adjusted EBITDA ratio, based on the last 12 months' adjusted EBITDA, was 2.96 (2.31).

At the end of 2022, the liquidity position in terms of cash and cash equivalents totalled EUR 56.3 million (177.6). The decline in cash and cash equivalents was driven by the repayment of the bridge loan facility of EUR 95.0 million at the beginning of the financial year. The company had a Finnish commercial paper programme totalling EUR 100.0 million of which EUR 10.0 million was outstanding at the end of 2022. As of 31 December 2022, Purmo Group also had EUR 80.0 million undrawn committed revolving credit facility and EUR 20.5 million of undrawn overdraft facilities with core financial institutions.

Equity attributable to owners of the parent company totalled EUR 403.3 million (390.6).

Radiators Division

EUR million	2022	2021	Change, %
Net sales	478.8	506.3	-5%
Adjusted EBITDA	50.3	66.0	-24%
Adjusted EBITDA margin, %	10.5%	13.0%	
Depreciations, amortisations and impairments	-28.1	-21.1	33%

Purmo Group's Radiators division is a leading manufacturer of premium-quality radiators with strong local brands around the world. Demand is driven by residential repair and maintenance (about 60 per cent of sales) and new construction (about 40 per cent of sales). The division manufactures panel, tubular and electrical radiators, which are sold mainly to installers through wholesalers, either as individual units or as part of complete indoor climate comfort solutions.

Market overview

For the full year 2022, the markets for radiators developed favourably in the first half, when wholesalers were increasing their inventories after the lifting of COVID-19 lockdowns. In the latter half of the year, a correction in the supply chain occurred, as high inventory levels were met by weaker demand. This led to a decline in sales and profitability in the Radiators division.

As a response of the weaker demand in the latter half of the year, Radiators division implemented significant price increases and introduced several, rapid cost-saving actions, including workforce reduction but also limiting operational expenses and relocating production to facilities with lower production cost.

Net Sales

In January–December 2022, net sales for the Radiators division decreased by 5 per cent to EUR 478.8 million (506.3), of which decline of organic net sales was of 7 per cent. An increase in sales prices of 17 per cent offset 22 per cent organic volume declines. Acquisitions contributed 1 per cent to the division's net sales growth. The currency impact was positive 1 per cent.

Profitability

In January–December 2022, adjusted EBITDA of the Radiators division declined by 24 per cent to EUR 50.3 million (66.0). The adjusted EBITDA margin was 10.5 per cent (13.0).

Adjusted EBITDA of the Radiators division for 2022 declined due to lower sales volumes, as a result of weak demand, especially in the latter half of the year.

Key activities during the year

The Radiators division completed several profitability actions, including the implementation of price increases, optimising the workforce, and moving production to facilities with lower production cost, as a response to the challenging market environment. The expansion of the division's largest manufacturing plant in Rybnik, Poland was completed during the year. The installation of machinery for the facility will be finalised in 2023. The exit from our business in Russia is ongoing. The Russian subsidiary operates as a stand-alone business with a separate, local brand (EVRA). The Radiators division introduced new products to the EU market in 2022: Purmo Flex, a panel radiator with middle connection, and Tinos H, the decorative radiator that was introduced to new markets.

ICS Division

EUR million	2022	2021	Change, %
Net sales	425.3	337.2	26%
Adjusted EBITDA	51.9	43.7	19%
Adjusted EBITDA margin, %	12.2%	13.0%	
Depreciations, amortisations and impairments	-11.4	-9.0	26%

Purmo Group's Indoor Climate Systems (ICS) division is one of the leading indoor climate comfort solution providers offering a broad range of components as well as products and systems to specifiers, developers, installers and wholesalers primarily in the residential and the non-residential sector. Demand is driven by new construction (about 70 per cent of sales) as well as repair, renovation and maintenance of buildings (about 30 per cent of sales). The division offers Radiant Heating and Cooling (RHC) including underfloor heating systems, Air Heating and Cooling (including air-conditioning), heat pumps, fan convectors, ventilation, water-distribution and connection systems, and HVAC system components such as hydronic and electronic controls and flow balancing technology.

Market overview

In the full year 2022, ICS business developed strongly, showing double-digit growth in every quarter. Italy had the highest contribution to net sales growth, but other regions also performed well, including Germany and the Nordics which was supported by Thermotech, acquired in the beginning of the year. The demand for heat pumps was strong in each quarter, demonstrating a customer behaviour towards modern and sustainable heating and cooling solutions. In the latter part of the year, the ICS division faced supply chain constraints and high raw material prices due to high inflation. These were compensated by several price increases.

Net sales

In January–December 2022, net sales for the ICS division increased by 26 per cent to EUR 425.3 million (337.2), of which 19 per cent was organic net sales growth. Thermotech contributed 6 per cent to the division's net sales growth and the net currency effect was 1 per cent. Net sales growth for full year 2022 was a result of successful and gradual price increases in the division. Furthermore, sales volumes were achieved in Italy, Benelux countries and Central Europe.

Profitability

In January–December 2022, adjusted EBITDA of the ICS division increased by 19 per cent to EUR 51.9 million (43.7). The adjusted EBITDA margin was 12.2 per cent (13.0). The strong growth in Adjusted EBITDA was driven by volume growth, price increases, and cost control.

Key activities during the year

On 1 March 2022, Purmo Group acquired TT Thermotech Intressenter AB (Thermotech), the Nordic heating-systems company. In line with Purmo Group's growth strategy, Thermotech strengthens the ICS division's offering of smart technologies, it improves focus on solution sales and it strengthens ICS's position in the Nordic underfloor heating market. In 2021 the company's total net sales were EUR 23.8 million. In June, ICS successfully completed the plant relocation of its brass site in Ireland. The efficiency in the production of brass components improved through the relocation of the production from Ireland, to other existing ICS sites in Italy and Sweden. The site in Ireland was closed in June and the property was sold to a third party. During 2022, the ICS division developed the Unisenza PLUS control range, built upon the original Unisenza underfloor heating platform solution. Unisenza PLUS is designed to allow multiple Purmo Group products to be inter-connected as part of a common indoor climate comfort control system. The new control range is available from Q1 2023.

Investments, acquisitions, structural changes and R&D

Investments

Capital expenditure for the full year, excluding business combinations and leased assets, totalled EUR 24.0 million (14.8). The investments were related primarily to strategic projects and maintenance.

Acquisitions and disposals

During the third quarter, a subsidiary of Purmo Group was divested to a third party. It owned real estate property and land area in Tianjin, China. The subsidiary was divested due to its discontinued use for production, sales and distribution.

On 1 March 2022, Purmo Group announced that it had acquired the entire share capital of the Nordic heating system company TT Thermotech Intressenter AB. The company manufactures and supplies customised and prefabricated underfloor heating systems to customers in the Nordic region. Thermotech is reported under the ICS segment. The acquisition supports Purmo Group's growth strategy by bringing smart technologies to the company's Indoor Climate System (ICS) offering, supporting its solution-selling approach and strengthening Purmo Group's position on the Nordic underfloor heating market.

Structural changes

At the end of March 2022, Purmo Group made the decision to exit its business in Russia. The company is seeking to divest and complete an orderly transfer of the business to a new owner in compliance with international and local laws in Russia. Upon completion of the divestment, the company will no longer have a manufacturing operation or sales in Russia. Purmo Group has classified its Russian business as assets held for sale, resulting in a non-recurring impairment and write-down of EUR 6.9 million in March 2022 and an additional write-down of EUR 6.0 million in December 2022, totalling EUR 12.9 million. For accounting purposes, the Russian business is presented as continuing operations as it does not meet the criteria for discontinued operations. Russia represented less than 4 per cent of Purmo Group's total net sales in 2022.

Research and development

Product development of Purmo Group focuses on connecting smart HVAC equipment from the energy source to thermal emitters in one unified and intelligent system. Additionally, the focus is on minimising material usage including product packaging, and on smart design that improves emitter system performance. Purmo Group also continues collaboration with its network in the field of control systems.

In line with its strategy, Purmo Group's Smart Products pipeline continued to focus on three clear strategic priorities during the fourth quarter: intelligence and connectivity, sustainability and aesthetics.

Purmo Group's research and development expenditure totalled EUR 6.1 million (5.9) in January–December 2022.

In 2022, the ICS division introduced panels for radiant floor systems in the Southern Europe. The panel is suitable for renovation purposes, offers an improved thermal output and is made partly from recycled materials. Furthermore, the ICS division developed the Unisenza PLUS control range which is built upon the original Unisenza underfloor heating platform solution. Unisenza PLUS is designed to allow multiple Purmo Group products, such as electronic radiator valves and wireless thermostats, to be inter-connected as part of a common indoor climate comfort control system. The hardware is adapted to future third-party home automation platforms. The new control range is available from Q1 2023.

In 2022, the Radiators division launched the Purmo Flex radiator, which offers flexibility in planning and installation due to a valve insert of choice. Purmo Flex is a high-quality product available in a wide range of dimensions, colours and designs (profiled, flat and fine-profiled). In addition, the Radiators division introduced a new vertical model of the ULOW E2 radiator, the energy-efficient ultralow temperature radiator by Purmo Group. The model is ideal in combination with underfloor heating for rooms in e.g., modern buildings with limited space under windows or in spaces that are not in continuous use and hence require short heat-up time. The radiator is fully compatible with heat pumps and Purmo Group's home automation system. During 2022, the division also focused on developing on new versions of radiators including fan-assisted and low-cost units which are compatible with heat pumps.

Strategy

The company's growth strategy is built on three pillars:

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

M&A is an important enabler supporting the realisation of Purmo Group's strategy.

The strategy is further supported by continuous improvement of operational excellence and by investments in people and culture.

Strategy acceleration programme

On 5 October 2022, Purmo Group announced a strategy acceleration programme, "Accelerate PG", to strengthen the execution of the strategy. The programme focuses on improving net sales growth, profitability and net working capital efficiency to support reaching its financial targets.

To support the execution of the programme, align resources with the strategic direction and to strengthen customer focus, the company announced a new organisational structure which came into effect on 1 January 2023.

The new organisation will consist of two business divisions: Climate Products & Systems, which will sell through the wholesaler channels; and Climate Solutions, which will sell integrated solutions directly to installers, served by the company's Emmeti business in South Europe and Thermotech business in the Nordic region.

Purmo Group's management team in the new organisational structure is:

- John Peter Leesi, Chief Executive Officer
- Erik Hedin, Chief Operating Officer; leading also the strategy acceleration programme
- Mike Conlon, President, Climate Solutions division
- Barry Lynch, President, Climate Products & Systems division
- Linda Currie, Chief People Officer

Matts Rosenberg was appointed interim CFO of Purmo Group Plc, effective as of 1 January 2023. On 22 February 2023, Purmo Group announced that Jan-Elof Cavander (MSc. Ind. Eng.) has been appointed Chief Financial Officer of Purmo Group Plc and a member of the Management team. He will join Purmo Group on 22nd of June 2023, the latest. Mr. Cavander will report to Chief Executive Officer John Peter Leesi and will be based in Helsinki, Finland.

On 8 November 2022, Purmo Group announced that due to the weak market environment, the company expands its earlier announced strategy acceleration programme. The targeted adjusted EBITDA run-rate improvements are EUR 20 million (upgraded from EUR 15 million) by the end of 2023, and cumulatively EUR 40 million (upgraded from EUR 35 million) by the end of 2024.

The upgraded profitability improvements will include both variable and fixed cost savings, excluding areas where market growth is expected to continue. Additionally, the company will continue to evaluate accelerating its footprint optimisation, covering both manufacturing and supply chain.

The costs for the programme are expected to be approximately EUR 43 million (previously EUR 40 million), of which EUR 33 million (previously EUR 30 million) is expected to be incurred before the end of 2023 and the remainder in 2024.

The programme is currently progressing according to plan. By the end of 2022, Purmo Group had already validated over 150 initiative roadmaps which support the achievement of the targeted improvements. Implemented run-rate EBITDA improvements at the end of 2022 amounted to EUR 1.4 million, which is according to expectations given the phasing of the programme's initiatives.

Financial targets and dividend policy

Purmo Group has set the following financial targets and dividend policy:

Growth

Purmo Group is targeting organic net sales growth in excess of market growth. In addition, Purmo Group aims for notable inorganic growth through acquisitions.

In January–December 2022, organic net sales grew by 3 per cent, while total net sales increased by 7 per cent to EUR 904.1 million (843.6). The Group's net sales in 2022 were supported by strong growth in the ICS division while a supply chain correction and weak demand in the Radiators division especially during the second half of the year decreased net sales growth during 2022.

Profitability

Purmo Group is targeting an adjusted EBITDA margin above 15 per cent in the medium- to long-term.

In January–December 2022, the adjusted EBITDA margin was 10.3 per cent (12.3). The Group's profitability was supported by the ICS division's solid performance throughout the year, while the high inventory levels of wholesalers and low market sentiment overall led to modest demand in the Radiators division, and decreased the Group's Adjusted EBITDA margin for 2022.

The strategic transition to a solutions business and the introduction of the strategy acceleration programme in the fourth quarter of 2022 are expected to expand the adjusted EBITDA margin towards the 15 per cent medium to long-term target.

Leverage

The leverage ratio is targeted not to exceed 3.0x, measured as interest-bearing net debt / Adjusted EBITDA on a rolling twelve-month basis. However, leverage may temporarily exceed the target level, for example in conjunction with acquisitions or restructuring actions.

At the end of December 2022, net debt / adjusted EBITDA was 2.96 (2.31). The increase in the ratio was due to lower adjusted EBITDA and an increase in net debt.

Dividend

Purmo Group's aim is to distribute at least 40 per cent of annual net profit as dividends or return of capital, intended to be paid out after considering earnings trends for the Group, its financial position and future growth potential.

For financial year 2022, the Board of Directors of Purmo Group Plc proposes to the Annual General Meeting planned to be held on 12 April 2023 that a return of capital of EUR 0.36 per class C share and EUR 0.07 per class F share shall be paid.

Financial guidance for 2023

Purmo Group's adjusted EBITDA in 2023 is expected to be on a similar level as in 2022 (EUR 92.9 million). Similar means being within +/- 5 per cent from the previous year.

Visibility for 2023 is limited due to the geopolitical and macroeconomic uncertainties impacting Purmo Group's addressable markets. The company continues to actively manage the situation and improve its financial performance through, for example, pricing and cost reduction initiatives. Purmo Group reiterates the previously communicated targets for the strategy acceleration programme – targeted adjusted EBITDA run-rate improvements of EUR 20 million by the end of 2023 and cumulatively EUR 40 million by the end of 2024.

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 makes embedded radiant-heating and cooling systems, air-based heating and cooling systems (including ventilation), hydronic and electric radiators, 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, but also directly to installers.

The company's strategy is to leverage its leadership position in sustainable indoor comfort climate solutions with a well-known brand portfolio and strong relationships with key technical wholesalers to increasingly provide integrated solutions.

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 to create a significant positive impact on the planet's future, which is why Purmo Group's aim is to create value for society by delivering smart, connectable, sustainable, and aesthetic solutions. Purmo Group's Complete Care sustainability strategy puts climate at the heart of its business and covers four key areas, our production, our solutions, our people, and our communities. These are enabled by strong governance, safe working practices, and ethical behaviour.

Material issues in sustainability

In 2021, Purmo Group founded its sustainability function and ran an extensive stakeholder engagement survey consisting of over 130 interviews, a landscape assessment and workshops for Purmo Group's employees, customers, peers, competitors and suppliers. The assessment was completed to analyse and define material issues for sustainability. Key issues were prioritised, targets were set, and roadmaps and governance were created for implementation. The implementation was developed together with reporting capabilities. All of which led up to the launch of the sustainability strategy, Complete Care.

Material issues identified in 2021:
- 301: Materials
- 302: Energy
- 303: Water and effluents
- 305: Emissions
- 306: Waste
- 308: Environmental compliance
- 403: Occupational Health and Safety
- 404: Training and education
- 405: Diversity and equal opportunity
- 406: Non-discrimination
- 408: Child labour
- 409: Forced or compulsory labour
- 413: Local communities
- 414: Supplier social assessment

Code of Conduct and policies

Purmo Group respects in all activities the International Labour Organisation's (ILO) Declaration on Fundamental Principles and Rights at Work and complies with local and international laws, regulations and guidelines to ensure the well-being and rights of Group personnel. The Purmo Group Code of Conduct sets the ethical principles that lead all activities in the Group. The Code of Conduct is aligned with the United Nations Global Compact. Purmo Group expects its employees, suppliers and other business partners to comply with the same ethical principles. In addition, specific policies have been established on Group and local levels where relevant to ensure sustainable compliance with the Code of Conduct.

Purmo Group has a whistleblowing channel for both internal and external parties where anyone can anonymously report any suspected wrongdoing via a link found in the Group intranet and corporate website. The channel provides the opportunity for personnel and external parties to report any suspected breach of laws or principles laid out in the Code of Conduct. All reports are treated as confidential and in accordance with legal requirements. Promoting the importance to report observations is part of continuous internal communication.

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

Governing 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 a bi-monthly basis.

Purmo Group's Head of Sustainability & Corporate Social Responsibility (CSR), with the support of the ESG steering 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 is responsible for defining detailed sustainability targets based on ambition defined by CLT and the Head of Sustainability & CSR, developing action plans in accordance with Group-level targets, and ensuring the inclusion of these in the business goals. The divisions compare their sustainability performance against the targets monthly or bi-monthly.

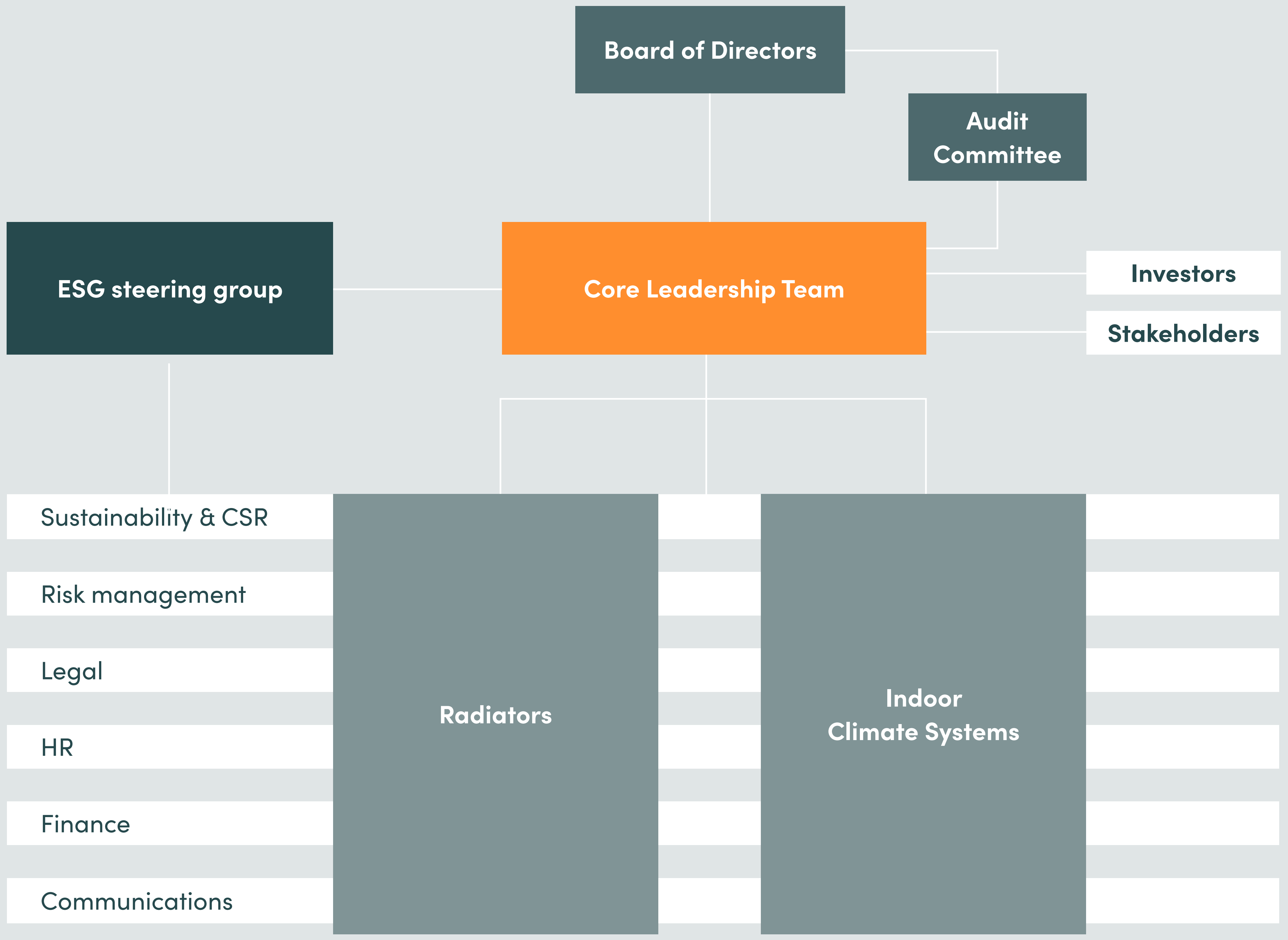
Environment

Purmo Group's environmental commitments are to align its operations to a 1.5 C future, 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 the manufacturing plants are ISO14001 certified. In addition, Purmo Group aims to achieve ISO 50001 energy management certification in all its plants.

ESG Governance model

ESG Governance model illustrates the relationship between management, ESG steering group, company functions and business divisions.



Environmental risks deal with increasing regulation on topics such as the energy efficiency of products and the EU's Carbon Border Adjustment Mechanism (CBAM) which enters its transitional phase from October 2023 with the permanent system in force from 1 January 2026, 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 to the planned operating model. The risk of a potential carbon tax is further diminished by the fact that Purmo Group's 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.

Taxonomy-eligibility describes if an economic activity is included in the scope of activities recognised in the Taxonomy Regulation. In the Annual Reports for 2022, published in 2023, companies are obligated to report also the share of Taxonomy-alignment in their operations.

Taxonomy-alignment describes if an economic activity is sustainable based on defined science based technical screening criteria specified for the activity.

During the first two reporting years of the EU Taxonomy, the focus is on activities contributing to climate objectives, climate change mitigation and adaptation, according to the EU Climate Delegated Act.

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;
- Is in alignment with the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights, including the International Labour Organisation's ('ILO') declaration on Fundamental Rights and Principles at Work, the eight ILO core conventions and the International Bill of Human Rights.

Minimum safeguards

Taxonomy Regulation specifies that in addition to substantial contribution and 'do nosignificant harm' criteria, an economic activity can be considered environmentally sustainable only if it is carried out in compliance with the minimum safeguards. The minimum safeguards prevent activities from being labelled sustainable if they violate human or labour rights, engage in corrupt, anti-competitive or non-compliant taxation practices. The compliance can be assessed by ensuring there are adequate processes and controls in place in the areas of human rights, corruption, taxation and fair competition and there are no breaches or violations existing

Purmo Group assessed compliance with minimum safeguards by reviewing the company processes for human rights, corruption, taxation and fair competition. Whilst we recognise the need to continuously improve Purmo Group considers its processes to be on a robust level and with no violations to meet the alignment with the minimum safeguards. Purmo Group expects formalised human rights due diligence process to be in place by the end of 2023.

EU taxonomy eligible products of Purmo Group based on 2021 assessment:

- **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.

EU taxonomy aligned products of Purmo Group based on 2022 assessment:

During 2022 Purmo Group formed a working group to assess if the eligible activities recognised in the EU Taxonomy are fulfilling the criteria for Taxonomy alignment. For each economic activity, Purmo Group conducted assessment for substantial contribution and 'do no significant harm' criteria to determine the alignment. The alignment was determined for the climate change mitigation objective. Minimum safeguards were assessed on the Group level.

Purmo Group's taxonomy aligned turnover consists mostly of solution sales (total package installations) under the activity 3.5. Manufacture of energy efficiency equipment for buildings. The total package deliveries include underfloor heating equipment, automation, control valves and in some cases also heat pumps.

Purmo group identified the following as EU taxonomy aligned products and carried out the assessments for Taxonomy-eligibility and Taxonomy-alignment based on the best interpretation of the Taxonomy Regulation and the Climate Delegated Act and the currently available guidelines from the European Commission.

- **Radiant heating and cooling:** underfloor heating systems under economic activity 3.5; underfloor heating systems specifically sold through the company's business Thermotech in the Nordics.
- **System components:** in particular solutions sold by the company's business Emmeti in Italy, which includes a FEBOS system.

The portion of the aligned turnover is lower than that of the eligible turnover, due to the fact that Purmo Group's radiator and underfloor heating product categories initially identified as eligible do not fulfill the substantial contribution criteria due to the fact that there is no required energy labeling currently available for these products.

Social and employee matters

Purmo Group is committed to building and maintaining a diverse workforce and inclusive work environments, opposing all forms of bullying and discrimination, and fostering 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 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, and all Purmo Group's operations are covered by health and safety policies and procedures implemented on the country level.

In 2022 the implementation of a new Health and Safety organisational structure across Purmo Group was completed. Every manufacturing plant now has a Health and Safety senior sponsor and manager who focus to reduce accidents in the workplace and improve employee wellbeing.

Loss of key people or inability to attract talent can have an adverse impact on Purmo Group's 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 2022 Purmo Group carried out a companywide employee survey achieving an eNPS score of -8, up from -9 in the previous year.

Human rights

Purmo Group is committed to respecting 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 sustainability programme will expand the human rights work under the topic of responsible sourcing.

Accordingly in 2022, Purmo Group continued 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, conduct mandatory training on the Code of Conduct's anti-corruption elements, and speak up and report concerns. Employees at greatest risk of facing corruption – especially those in the supply chain, international sales, contracting or procurement – are provided with additional training on avoiding, preventing, recognising, 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 in corruption and bribery 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 annual training to increase risk awareness, via internal procedures, implementation of prevention processes, and investigation of red flags.

Summary of key non-financial performance indicators

	2022	2021[8]	Change, %
Production			
Scope 1 and 2 GHG emissions, tCO_2e[1]	79,035	86,780	-9%
Scope 3 GHG emissions from procured steel, tCO_2e[2]	279,578	381,166	-27%
Scope 1 and 2 carbon intensity[3]	87.4	102.9	-15%
Solutions			
Customer Net Promoter Score, cNPS[4]	33	N/A	-3%
Customer Sustainability Net Promoter Score, sNPS[5]	8	N/A	N/A
People			
Lost Time Injury Frequency Rate, LTIFR[6]	4.9	5.2	-6%
Number of safety observations	1,218	1,013	20%
Number of accidents	28	32	-13%
Proportion women in senior management positions	27%	24%	
Employee Net Promoter Score (eNPS)	-8	-9	-11%
Anti-corruption policy training coverage[7]	94% completion 74% pass	99% completion 83% pass	
Communities			
Number of volunteering hours	6,680	N/A	N/A

[1] Market-based GHG emissions based on Purmo Group's procurement mix of electricity and gas in countries with manufacturing operations.
[2] 2021 World Steel Association data of 1.89 tCO2e embodied carbon produced for every tonne of crude steel cast.
[3] tCO2e/net sales in EUR million.
[4] Question asked: 'How likely is it that you would recommend <Purmo brand> to a friend or colleague?'
[5] Question asked: 'How likely is it that you would recommend <Purmo brand> to a friend or colleague as a leader in sustainable indoor climate comfort?'
[6] Lost Time Injury Frequency Rate (LTIFR) is the number of lost time injuries occurring in a workplace per 1 million hours worked.
[7] Of Purmo Group people in a position to make decisions on behalf of the company
[8] Certain data from the comparison periods are unavailable as the data collection for these sustainability focus areas began only after the comparison periods.

Proportion of Turnover from products or services associated with Taxonomy-aligned aconomic activities 2022

				Substantial Contribution criteria						DNSH criteria ("Does Not Significantly Harm")										
Economic activties	Codes	Absolute turnover, MEUR	Propor- tion of turnover, %	Climate Change Mitigati- on, %	Climate Change Adapta- tion, %	Water marine resource, %	Circular Econom, %	Pollution, %	Biodiver- sity and ecosys- tems, %	Climate Change Miti- gation, (Y/N)	Climate Change Adap- tation, (Y/N)	Water marine resources, (Y/N)	Circular Economy, (Y/N)	Pollution, (Y/N)	Biodi- versity and eco- systems, (Y/N)	Mini- mum safe- guards, (Y/N)	Taxonomy- aligned proportion of turnover year N, %	Taxonomy- aligned proportion of turnover year N-1, %*	Category (enabling activity (E)	Category (transi- tional activity) (T)
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmental sustainable activities (Taxonomy aligned)																				
Manufacture of energy efficiency equipment for buildings	3.5	51.7	6%	100%						N/A	Y	Y	Y	Y	Y	Y	3%		E	
Turnover of environmental sustainable activities (Taxonomy-aligned) (A.1.)		51.7	6%																	
A.2. Taxonomy-Eligible but not environmental sustainable activites (not Taxonomy-aligned activities)																				
Manufacture of energy efficiency equipment for buildings	3.5	710.5	79%																	
Turnover of Taxonomy-eligible but not environmental sustainable activities (not Taxonomy-aligned activities) (A.2.)		710.5	79%																	
Total (A.1. + A.2)		762.2	84%																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomy-non-eligible activities (B)		141.9	16%																	
Total (A+B)		904.1	100%																	

Proportion of CapEx from products or services associated with Taxonomy-aligned aconomic activities 2022

				Substantial Contribution criteria						DNSH criteria ("Does Not Significantly Harm")										
Economic activties	Codes	Absolute turnover, MEUR	Propor-tion of turnover, %	Climate Change Mitigati-on, %	Climate Change Adapta-tion, %	Water marine resource, %	Circular Econom, %	Pollution, %	Biodiver-sity and ecosys-tems, %	Climate Change Miti-gation, (Y/N)	Climate Change Adap-tation, (Y/N)	Water marine resources, (Y/N)	Circular Economy, (Y/N)	Pollution, (Y/N)	Biodi-versity and eco-systems, (Y/N)	Mini-mum safe-guards, (Y/N)	Taxonomy-aligned proportion of turnover year N, %	Taxonomy-aligned proportion of turnover year N-1, %*	Category (enabling activity (E)	Category (transi-tional activity) (T)
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmental sustainable activities (Taxonomy aligned)																				
Manufacture of energy efficiency equipment for buildings	3.5	0.6	3%	100%						N/A	Y	Y	Y	Y	Y	Y	3%		E	
Turnover of environmental sustainable activities (Taxonomy-aligned) (A.1.)		0.6	3%																	
A.2. Taxonomy-Eligible but not environmental sustainable activites (not Taxonomy-aligned activities)																				
Manufacture of energy efficiency equipment for buildings	3.5	15.1	78%																	
Turnover of Taxonomy-eligible but not environmental sustainable activities (not Taxonomy-aligned activities) (A.2.)		15.1	78%																	
Total (A.1. + A.2)		15.6	81%																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomy-non-eligible activities (B)		3.6	19%																	
Total (A+B)		19.3	100%																	

Proportion of OpEx from products or services associated with Taxonomy-aligned aconomic activities 2022

				Substantial Contribution criteria						DNSH criteria ("Does Not Significantly Harm")										
Economic activties	Codes	Absolute turnover, MEUR	Proportion of turnover, %	Climate Change Mitigation, %	Climate Change Adaptation, %	Water marine resource, %	Circular Econom, %	Pollution, %	Biodiversity and ecosystems, %	Climate Change Mitigation, (Y/N)	Climate Change Adaptation, (Y/N)	Water marine resources, (Y/N)	Circular Economy, (Y/N)	Pollution, (Y/N)	Biodiversity and eco-systems, (Y/N)	Minimum safeguards, (Y/N)	Taxonomy-aligned proportion of turnover year N, %	Taxonomy-aligned proportion of turnover year N-1, %*	Category (enabling activity (E)	Category (transitional activity) (T)
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmental sustainable activities (Taxonomy aligned)																				
Manufacture of energy efficiency equipment for buildings	3.5	0.4	2%	100%						N/A	Y	Y	Y	Y	Y	Y	2%		E	
Turnover of environmental sustainable activities (Taxonomy-aligned) (A.1.)		0.4	2%																	
A.2. Taxonomy-Eligible but not environmental sustainable activites (not Taxonomy-aligned activities)																				
Manufacture of energy efficiency equipment for buildings	3.5	17.6	91%																	
Turnover of Taxonomy-eligible but not environmental sustainable activities (not Taxonomy-aligned activities) (A.2.)		17.6	91%																	
Total (A.1. + A.2)		18.1	93%																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomy-non-eligible activities (B)		1.3	7%																	
Total (A+B)		19.4	100%																	

Shares and shareholders

Basic share information

	31 Dec 2022
Listed on	Nasdaq Helsinki
Trading code	PURMO
ISIN code	FI4000507488
Number of class C shares	41,112,713
Number of class F shares	1,565,217
High, EUR	15.65
Low, EUR	8.12
Volume-weighted average price	10.45
Closing price, EUR, 31 December 2022	8.22
Market capitalisation, class C share, EUR million, 31 December 2022	337.9
Number of shareholders	3,315 (31 Dec 2021: 3,095)
Number of traded shares	11,872

Purmo Group Plc has two share classes of which class C shares are listed and class F shares are held by Purmo Group Plc's 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 holder of class F shares has the right to demand conversion into class C shares subject to certain price hurdles calculated in accordance with the Articles of Association. Further class F shares carry a right to asset distribution equivalent to a certain proportion of assets distributed to class C shares in accordance with the Articles of Association.

Purmo Group Plc (former Virala Acquisition Company Plc) 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 the company's founding shareholder, Virala Corporation, have become eligible for conversion into class C shares starting from 28 June 2024.

The number of shares outstanding on 31 December 2022 was 41,112,713 class C shares and 1,565,217 class F shares. The company's registered share capital on 31 December 2022 was EUR 3,080,000. The company has no treasury shares. Trading in Purmo Group Plc's shares commenced in Nasdaq Helsinki on 3 January 2022.

On 31 December 2022, the five largest shareholders were Rettig Group Ltd (61.80 per cent of total shares), Virala Corporation (15.14 per cent), Ahlström Invest B.V. (2.81 per cent), Varma Mutual Pension Insurance Company (2.34 per cent) and Jussi Capital Oy (1.44 per cent).

Board authorisation regarding share issue and share repurchase

The Annual General Meeting of 25 April 2022 authorised the Board of Directors to resolve the issuance of a maximum of 8,000,000 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 proposed number of shares corresponds to approximately 20 per cent of all class C shares in the company. However, a maximum of 25 per cent of the authorisation, 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 Annual General Meeting authorised the Board of Directors to repurchase a maximum of 4,000,000 of the company's own class C shares as well as on the acceptance of them as a pledge. The shares shall be repurchased with funds from the company's unrestricted shareholders' equity. The number of shares corresponds to approximately 10 per cent of all class C shares in Purmo Group.

The authorisation may be used to improve Purmo Group's capital structure, to finance or carry out corporate acquisitions or other arrangements, for incentive arrangements and remuneration schemes or for other purposes resolved by the Board of Directors. The authorisations are effective until the end of the next Annual General Meeting, however, no longer than until 30 June 2023.

Flagging notifications

During 2022, Purmo Group received the following notifications from major shareholders:

Transaction day	Shareholder	Direct holding after the transaction	Direct holding before the transaction	Total holding
5 Jan 2022	Rettig Group Ltd.	66.64%	68.28%	66.64%
17 Aug 2022	Virala Corporation[1]	15.09%	12.32%	15.14%

[1] Virala Corporation held 4,895,000 class C and 1,565,217 class F shares of Purmo Group on 31 December 2022.

More information on flagging notifications is available on the company's website.

Managers' transactions

Purmo Group's managers' transactions are published as stock exchange releases, and they are available on the company's website.

Share price performance in 2022

Closing share price and daily trading volume 1 Jan 2022–31 Dec 2022, EUR

Largest shareholders on 31 December 2022

	Name	Shares	Change	% of shares	% of votes
1	Rettig Group Oy Ab	26,373,971	0	61.8%	61.8%
2	Virala Corporation	6,460,217	0	15.1%	15.1%
3	Ahlstrom Invest B.V.	1,200,700	0	2.8%	2.8%
4	Varma Mutual Pension Insurance Company	1,000,000	0	2.3%	2.3%
5	Jussi Capital Oy	616,077	0	1.4%	1.4%
6	Fennia Mutual Insurance Company	500,000	0	1.2%	1.2%
7	Svenska Litteratursällskapet i Finland	500,000	0	1.2%	1.2%
8	Oy Julius Tallberg Ab	442,000	0	1.0%	1.0%
9	John Peter Leesi	408,927	0	1.0%	1.0%
10	Aipa Invesco AB	337,208	0	0.8%	0.8%
	Total 10	37,839,100	0	88.7%	88.7%
	Others	4,838,830	0	11.3%	11.3%
	Total number of shares	42,677,930	0	100.0%	100.0%

Shareholders by type on 31 December 2022

Owner type	Number of shares	% of shares
Family-owned investment companies	36,043,763	84.46%
Private Individuals	2,060,841	4.83%
Pension & insurance	1,713,453	4.01%
Other	979,935	2.30%
Fund companies	779,627	1.83%
Foundation	717,770	1.68%
Unknown type	382,541	0.89%
Total number of shares	42,677,930	100.00%

Shareholders by holding on 31 December 2022

Owner distribution by holdings	Number of shares	% of shares
1-100	96,586	0.23%
101-500	295,502	0.69%
501-1,000	185,590	0.43%
1,001-5,000	393,338	0.92%
5,001-10,000	253,313	0.59%
10,001-50,000	850,164	1.99%
50,001-100,000	364,246	0.85%
100,001-500,000	4,205,685	9.86%
500,001-1,000,000	1,616,077	3.79%
1,000,001-	34,034,888	79.75%
Unknown holding size	382,541	0.89%
Total	42,677,930	100.00%

Shareholding by country on 31 December 2022

Country	Number of shares	% of shares
Finland	39,033,162	91.46%
Netherlands	1,201,678	2.82%
Sweden	1,000,757	2.35%
United Kingdom	728,347	1.71%
Denmark	229,989	0.54%
Luxembourg	51,000	0.12%
Poland	35,628	0.08%
Austria	3,960	0.01%
Estonia	2,804	0.01%
Belgium	2,603	0.01%
Germany	1,874	0.00%
Italy	1,784	0.00%
France	670	0.00%
South Africa	441	0.00%
India	202	0.00%
Russian Federation	150	0.00%
Czech Republic	100	0.00%
Thailand	100	0.00%
Vietnam	100	0.00%
Mexico	40	0.00%
Unknown country	382,541	0.89%
Total	42,677,930	100.00%

Board of Directors' shareholdings on 31 December 2022

	Class C shares	Class F shares
Tomas von Rettig[1]	0	0
Matts Rosenberg[1]	2,496	0
Alexander Ehrnrooth[2]	5,560	0
Carina Edblad	1,784	0
Carlo Grossi	1,784	0
Jyri Luomakoski	1,970	0
Catharina Stackelberg	2,476	0
Total	**16,070**	**0**
Out of total shares outstanding (class C shares)	0.04%	0.00%

[1] Influence in Rettig Group Ltd which held 26,373,971 class C shares in Purmo Group on 31 December 2022.
[2] Influence in Virala Corporation which held 4,895,000 class C shares and 1,565,217 class F shares in Purmo Group on 31 December 2022.

Management Team's shareholdings on 31 December 2022

	Class C shares	Class F shares
John Peter Leesi	408,927	0
Erik Hedin	245,356	0
Mike Conlon	31,770	0
Linda Currie	23,582	0
Barry Lynch	31,718	0
Total	**741,353**	**0**
Out of total shares outstanding (class C share)	1.80%	0.00%

Governance

A Corporate Governance Statement, required by the Corporate Governance Code 2020, is presented as a separate report in connection with the Financial Statements. In addition, it is publicly available on the company's website.

Personnel

The number of Group full-time-equivalent employees averaged 3,476 (3,360) in January–December. At the end of the period, the Group had 3,372 (3,471) full-time-equivalent employees. The decrease in full-time-equivalent employees was mainly due to organisational effectiveness related to Accelerate PG.

Personnel

	2022	2021	2020
Number of employees at the end of the period	3,372	3,471	3,262
Average number of employees	3,476	3,360	3,287

Personnel by region[1]

	2022	2021	2020
Northern Europe	678	661	627
Western Europe	950	927	938
Central and Eastern Europe	1,265	1,421	1,232
Southern Europe	329	317	325
Rest of the world	150	145	140
Total	**3,372**	**3,471**	**3,262**

[1] Figures for 2020–2021 restated for comparability reasons.

Wages and salaries

EUR million	2022	2021	2020
Wages and salaries total	127.6	128.2	120.1

Changes in the management team

On 5 October 2022, Purmo Group announced a new organisational structure effective from 1 January 2023. The management team within the new organisational structure is as follows:

- John Peter Leesi, Chief Executive Officer
- Erik Hedin, Chief Operating Officer; leading also the strategy acceleration programme
- Mike Conlon, President, Climate Solutions division
- Barry Lynch, President, Climate Products & Systems division
- Linda Currie, Chief People Officer

On 25 November 2022, Purmo Group announced that Matts Rosenberg had been appointed interim CFO of Purmo Group Plc, effective as of 1 January 2023. He reports to CEO John Peter Leesi. On 22 February 2023, Purmo Group announced that Jan-Elof Cavander (MSc. Ind. Eng.) has been appointed Chief Financial Officer of Purmo Group Plc and a member of the Management team. He will join Purmo Group on 22nd of June 2023, the latest. Mr. Cavander will report to Chief Executive Officer John Peter Leesi and will be based in Helsinki, Finland.

On 4 July 2022, Barry Lynch was appointed Senior Vice President of the Radiators division and member of the Management Team. He succeeded Tomasz Tarabura, who left the company.

Share-based incentive plans

On 20 July 2022, Purmo Group announced that the Board of Directors had decided to launch a new share-based incentive plan for management and key employees. The purpose of the plan is to align the targets of shareholders and key employees in order to increase the long-term value of the company, retain key employees and offer a competitive incentive plan that is based on company share ownership and successful performance.

On 27 September 2022, Purmo Group announced that the Board approved a total of 66,403 subscriptions of new class C shares in the share issue for management and key employees. The subscription price of EUR 10.23 per share was based on the trade volume weighted average price of the Company's share on Nasdaq Helsinki Ltd during 12 July–5 September 2022. The total subscription price of the new class C shares was EUR 679,302.69.

The performance criterion of the plan is the Total Shareholder Return (TSR) of the class C share. The minimum threshold for reward pay-out is a share price of EUR 16.00, and maximum reward shares are earned at a share price of EUR 24.00. Paid dividends and return on capital during the plan are added to the share price when calculating the TSR.

The reward will be paid in both Purmo Group class C shares and in cash to cover taxes and statutory social security contributions arising from receipt of the reward. The rewards payable according to the incentive plan, including the proportion to be paid in cash, correspond to the value of an approximate maximum total of 1,500,000 class C shares of Purmo Group Plc. The final number of reward shares is subject to each participant's personal share ownership and achievement of set TSR targets.

Purmo Group Plc has financed the subscriptions of the class C shares by offering interest-bearing loans to the participants to a maximum amount of 50 per cent of the subscription value of the subscribed shares. Participants have pledged the subscribed shares as security for performing their obligations under the concluded loan agreement.

The performance period covers the financial years of 2022–2025 and the payout period covers the financial years of 2026–2027. The plan has 29 participants in total.

Purmo Group Plc's Remuneration Policy is available on the company's website.

Annual General Meeting

The Annual General Meeting was held on 25 April 2022. The meeting adopted the Annual Accounts, including the Consolidated Annual Accounts for 2021, and discharged the members of the company's Board of Directors and the CEO from the liability for the financial year 2021. The Annual General Meeting also adopted the remuneration policy. All resolutions of the Annual General Meeting are available on the company's website.

Return of capital

The Annual General Meeting decided that a return of capital of EUR 0.36 per class C share is to be paid for the financial year 2021 in two instalments and that a return of capital for class F shares is to be paid in accordance with the Articles of Association of the company for the financial year 2021 in two instalments. The first instalment of the return of capital was EUR 0.18 per class C share and EUR 0.03 per class F share. The first instalment of the return on capital was paid on 4 May 2022. The second instalment of the return on capital was EUR 0.18 per class C share and EUR 0.04 per class F share. The second instalment was paid on 3 October 2022.

Remuneration of the members of the Board of Directors

The Annual General Meeting resolved that the following annual remuneration will be paid to the members of the Board of Directors: EUR 92,000 per year for the Chair of the Board, EUR 53,000 per year for the Vice Chair of the Board, EUR 53,000 per year for each of the Chairs of the Board Committees and EUR 48,000 per year for each ordinary board member.

Approximately 40 per cent of the remuneration is to be used to acquire class C shares and the remainder is to be paid in cash. The annual remuneration shall be paid to the members of the Board of Directors in proportion to the length of their term of office.

Board of Directors

The Annual General Meeting resolved that the number of members of the Board of Directors shall be seven. Tomas von Rettig, Matts Rosenberg, Alexander Ehrnrooth, Catharina Stackelberg, Carlo Grossi, Carina Edblad and Jyri Luomakoski were re-elected to the Board of Directors for a term of office ending at the conclusion of the next Annual General Meeting. The Annual General Meeting elected Tomas von Rettig as the Chairman of the Board and Matts Rosenberg as the Vice-Chairman.

Board authorisations

Board authorisations decided by the Annual General Meeting are presented in the section 'Shares and Shareholders'.

Committees nominated by the Board
Purmo Group Plc's Board of Directors appointed the following members to its committees at its constitutive meeting on 25 April 2022:

- Audit Committee: Jyri Luomakoski (Chair), Matts Rosenberg, Alexander Ehrnrooth
- M&A Committee: Matts Rosenberg (Chair), Alexander Ehrnrooth, Carlo Grossi
- Remuneration Committee: Tomas von Rettig (Chair), Catharina Stackelberg, Carina Edblad

Shareholders' Nomination Board

In June 2022, Purmo Group Plc's three largest shareholders nominated the following representatives to the Shareholders' Nomination Board:

- Matts Rosenberg (Chair)
- Alexander Ehrnrooth
- Peter Seligson

Risks and uncertainties in the near future

Purmo Group is affected by global supply chain disturbances which started during the COVID-19 pandemic. This involves uncertainties and may adversely affect the demand and delivery capability of the company's products as well as the availability of financing. Possible new COVID restrictions in China in particular might have an effect on Purmo Group's business. Purmo Group has been able to manage the adverse effect of the disturbances on its operations and hence, the impact of challenges in sourcing raw materials and components has been limited.

Purmo Group's costs have been affected by commodity and energy price increases caused, for example, by the sharp global increase in demand for commodities as well as other supply chain disturbances. The company has been able to manage profitability by implementing sales price increases with a reasonable delay. Inflation rates in Purmo Group's core markets are high and there is no certainty whether the inflation rates will decrease in the near future. Fluctuations in the prices of raw materials, consumables, energy, and freight rates as well as problems with 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 in new building. Volumes and profitability may vary as a result of economic conditions and the amount of investments in real estate.

Financial uncertainty in the global economy and rising inflation can increase volatility in foreign exchange rates as well as have an adverse effect on interest rates and the availability of funding. Due to Purmo Group's global presence, it is exposed to currency risks. Purmo Group's financial risk management approach is to hedge highly probable foreign currencies (Swedish krona, British pound, Polish zloty and Romanian leu) cash flows. Regardless of hedging activities, the Group may still encounter fluctuations in its financial position due to volatility in foreign exchange rates. The Central bank's actions to tackle inflation with tightening monetary policy have had an impact on the cost of funding for Purmo Group. The company has encountered financial derivatives to reduce and manage the impact of interest rate fluctuations. The Group has sufficient short- and long-term committed funding to meet its short- and long-term obligations.

Climate change-related impacts mean that Purmo Group must develop products that meet customer expectations and follow the changing regulations related to, for example, energy efficiency and product life cycle requirements. Purmo Group has a sustainability strategy and a function. Proactive, effective and right measures may mean that Purmo Group is able to use business opportunities relating to the expectations and requirements. The ongoing energy transition is expected to accelerate the demand for low-temperature systems and solutions which are compatible with energy sources other than fossil fuels. This is an opportunity for the execution of Purmo Group's solution-selling strategy. There are differences between markets in how the transition changes the product mix demand, however, Purmo Group is well-positioned to manage the change and capture opportunities with the support of its wide product portfolio.

The war in Ukraine has resulted in economic sanctions being imposed on Russia by many countries. Purmo Group has about 210 employees in Russia and two freelance sales representatives in Ukraine, based in Kyiv. The Group has been importing into both countries for several years and, in 2021, established sourcing, production and additional sales in Russia through its acquisition of 51 per cent of the shares in Euroradiators Holding B.V., a Dutch holding company holding all shares in the Russian Evroradiators LLC, from Bosch Group. Before suspending sales and operations in Russia, sales were generated both from Polish imports as well as an increasing portion of local production following the acquisition. Imports into Ukraine made up less than 1 per cent of total Group sales in 2022 and those into Russia, less than 4 per cent. On 31 March 2022, Purmo Group decided to exit its business in Russia.

The economic downturn in Ukraine continues to have a significant negative impact on demand for Purmo Group's products in the country. The company temporarily halted deliveries to Ukraine after the invasion but has later continued deliveries where arrangements have been possible. The health and safety of employees, customers and the business are, as always, a priority.

The impact of the war has started to materialise in markets other than Russia and Ukraine, with effects including high inflation and a decline in the construction market. There is a risk that private and commercial investment decisions will continue to be postponed or cancelled due to high inflation, increased interest rates and/or general economic uncertainty. The length of the decline in the construction markets in areas other than Russia and Ukraine is hard to estimate.

Events after the review period

On 22 February 2023, Purmo Group announced that Jan-Elof Cavander (MSc. Ind. Eng.) has been appointed Chief Financial Officer of Purmo Group Plc and a member of the Management team. He will join Purmo Group on 22 June 2023, the latest. Mr. Cavander will report to Chief Executive Officer John Peter Leesi and will be based in Helsinki, Finland.

On 16 February 2023, Purmo Group announced that it issues green capital securities of EUR 60 million in total (the "Capital Securities"). The Capital Securities will bear interest at a fixed rate of 9.5 per cent per annum until 23 February 2026 after which the Capital Securities will bear interest at a floating interest rate quarterly in arrears on each interest payment date. The Capital Securities do not have a specified maturity date, and Purmo Group is not under an obligation to repay, repurchase or redeem the Capital Securities at any specified date. Purmo Group has the possibility to redeem the Capital Securities on the reset date, 23 February 2026. Purmo Group's major shareholder, Rettig Group Oy Ab, and its affiliates are participating in the issuance by subscribing for the Capital Securities in an amount of EUR five (5) million. The rationale for the issuance of the Capital Securities is to ensure funding for Purmo Group's announced strategy acceleration programme. The net proceeds from the issue will be used in accordance with Purmo Group's Green Finance Framework announced on 13 February 2023. The issue date for Capital Securities will be 23 February 2023.

On 13 February 2023, Purmo Group announced that it has established a Green Finance Framework to integrate the company's sustainability ambitions into its funding. The Green Finance Framework is designed to support financing or refinancing Eligible Assets and Expenditures, in part or in full, that enable energy efficiency improvements, such as equipment for heating and cooling systems, and components enabling smart controlling and monitoring of heating and cooling systems.

Board of Director's proposal for the distribution of profit

The parent company's distributable equity on 31 December 2022 totalled EUR 407,036,848.65. The Board of Directors of Purmo Group Plc proposes to the Annual General Meeting convening on 12 April 2023 that a return of capital of EUR 0.36 per class C share be paid for the financial year 2022 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 2022 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.

According to the Company's dividend policy, at least 40% of annual net profit will be distributed as dividends or return of capital.

The return on capital is proposed to be paid in four instalments in Q2 2023, Q3 2023, Q4 2023 and Q1 2024.

Key figures

EUR million	1-12/2022	1-12/2021	1-12/2020
Net sales	904.1	843.6	671.2
EBITDA	78.5	33.6	71.9
EBITDA margin	8.7 %	4.0%	10.7%
Adjusted EBITDA	92.9	103.9	85.1
Adjusted EBITDA margin	10.3 %	12.3%	12.7%
EBITA	46.8	6.3	44.9
EBITA margin	5.2 %	0.8%	6.7%
Adjusted EBITA	64.6	76.6	58.1
Adjusted EBITA margin	7.1 %	9.1%	8.7%
EBIT	39	3.5	42.0
EBIT margin	4.3 %	0.4%	6.3%
Profit before tax	21.6	-5.1	31.9
Profit for the period	13.1	-18.8	25.3
Adjusted profit for the period	34.9	51.4	38.5
Earnings per share, basic, EUR	0.32	-0.65	0.86
Adjusted Earnings per share, basic, EUR	0.85	1.77	1.32
Cashflow from operating activities	31.1	35.4	68.9
Capex	24	14.8	11.6
Acquisitions	14.6	4.5	0.0
Adjusted Operating Cash Flow for the last 12 months	51.9	50.2[1]	94.2
Cash conversion	55.9 %	48.3%[1]	110.7%
Cash and cash equivalents	56.3	177.6	55.0
Net working capital	91.4	72.3	33.5
Operating capital employed	305	271.8	235.6
Return on operating capital employed	12.8 %	1.5%	17.8%
Net debt	275.2	239.5	75.1
Net debt / Adjusted EBITDA	2.96	2.3	0.9
Equity / Asset ratio	41.0 %	37.3%	61.7%
Return on Equity	3.3 %	-4.0%	4.8%

[1] Figures for 1-12/2021 restated for comparability reasons.

Information about the share

EUR million	31 Dec 2022	31 Dec 2021	31 Dec 2020
Share capital, at the end of the year, EUR million	3.1	3.1	0.0
Class C-shares outstanding at the end of the year[1]	41,112,713	40,374,531	28,846,195
Class F-shares outstanding at the end of the year	1,565,217	1,565,217	N/A
Weighted average adjusted number of shares, basic	41,244,426	29,124,487	28,787,686
Weighted average adjusted number of shares, diluted	41,244,426	29,124,487	28,964,881
Earnings per share, EUR	0.32	-0.65	0.86
Earnings per share, diluted, EUR	0.32	-0.65	0.86
Dividend payout per class C-share and return of capital, EUR[2]	0.36	0.36	N/A
Dividend payout per class F-share and return of capital, EUR[2]	0.07	0.07	N/A
Dividend and return of capital per earnings, class C-share, %	112.7%	-83.0%	N/A
Dividend and return on capital per earnings, class F-share, %	0.3%	-8.3%	N/A
Effective dividend yield, class C-share, %	4.4%	2.5%	N/A
Equity per share, EUR	9.45	9.31	18.94
Market capitalisation, class C-share, EUR million	337.9	413.6	N/A
Price to earnings ratio (P/E)	25.69	-21.85	N/A
Highest share price, EUR	15.65	14.50	N/A
Lowest share price, EUR	8.12	9.78	N/A
Volume-weighted average share price, EUR	10.45	11.40	N/A
Share price, 31 December, EUR	8.22	14.20	N/A

[1] 2019-2020 converted with merger consideration ratio class K share to class C share 2,600334506.
[2] The amount for 2022 is based on the Board of Directors' proposal to the AGM.

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	EBITA 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 impacting 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.	

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.	Acquisition 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 less 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 adjusting items.
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.
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.
Operating 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 basis 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	2022	2021	2020
Comparability adjustments			
IFRS 2 merger impact	–	52.3	–
M&A related transactions and integration costs	2.2	0.1	0.4
Restructuring costs and one-off costs related to efficiency programs	6.3[1]	8.9	7.8
Formation of Purmo group and standalone preparations	0.3	6.6	2.0
Management fee to owners and legacy Rettig Group incentive plans	0	2.4	2.9
Impairment and write-down	12.9	–	–
Other	0.2	0.0	0.1
Total adjustments	**21.7**	**70.2**	**13.2**
Net sales	904.1	843.6	671.2
EBIT	**39.0**	**3.5**	**42.0**
EBIT margin	4.3%	0.4%	6.3%
Amortisation and impairment	7.9	2.9	2.9
EBITA	**46.8**	**6.3**	**44.9**
EBITA margin	**5.2%**	**0.8%**	**6.7%**
Depreciation and impairment	31.6	27.3	27.0
EBITDA	**78.5**	**33.6**	**71.9**
EBITDA margin	**8.7%**	**4.0%**	**10.7%**
Adjusted EBITDA			
EBIT	39.0	3.5	42.0
Depreciation, amortisation and impairment excluding comparability adjustments	32.1	30.2	29.9
Adjustments	21.7	70.2	13.2
Adjusted EBITDA	**92.9**	**103.9**	**85.1**
Adjusted EBITDA margin	**10.3%**	**12.3%**	**12.7%**

[1] Includes EUR 5.7 million non-cash expenses

EUR million unless otherwise indicated	2022	2021	2020
Adjusted EBITA			
EBIT	39.0	3.5	42.0
Amortisation excluding comparability adjustments	3.9	2.9	2.9
Adjustments	21.7	70.2	13.2
Adjusted EBITA	**64.6**	**76.6**	**58.1**
Adjusted EBITA margin	**7.1%**	**9.1%**	**8.7%**
Adjusted profit/loss for the period			
Profit/loss for the period	13.1	–18.8	25.3
Adjustments	21.7	70.2	13.2
Adjusted profit/loss for the period	**34.9**	**51.4**	**38.5**
Adjusted Operating cash flow for the last 12 months			
Adjusted EBITDA in the last 12 months	92.9	103.9	85.1
Change in net working capital compared to previous year same period	–16.9	–38.8	20.7
Capex for last 12 months	–24.0	–14.8	–11.6
Adjusted Operating cash flow for the last 12 months	**51.9**	**50.2**	**94.2**
Cash conversion			
Adjusted Operating cash flow for the last 12 months	51.9	50.2[1]	94.2
Adjusted EBITDA	92.9	103.9	85.1
Cash conversion	**55.9%**	**48.3%**	**110.7%**
Net working capital			
Inventories	174.1	157.4	105.3
Operative receivables[1]	110.5	104.7	70.7
Operative liabilities[2]	193.1	189.7	142.5

[1] Includes trade receivables and EUR 21.3 million (31 Dec 2021: EUR 27.0 million and 31 Dec 2020: EUR 17.1 million) other current operative receivables included in other receivables and EUR 0.1 million (31 Dec 2021: EUR 0.5 million and 31 Dec 2020: EUR 0.5 million) non-current operative receivables in other receivables.

[2] Includes EUR 192.0 million (31 Dec 2021: EUR 188.6 million and 31 Dec 2020: EUR 141.3 million) included in current trade and other payables and EUR 1.1 million (31 Dec 2021: EUR 1.2 million and 31 Dec 2020: EUR 1.2 million) in non-current other payables.

EUR million unless otherwise indicated	2022	2021	2020
Operative capital employed			
Net working capital	91.4	72.3	33.5
Other intangible assets	47.0	36.3	38.0
Property, plant and equipment	127.3	131.9	133.3
Right-of-use assets	39.3	31.3	30.9
Operative capital employed	**305.0**	**271.8**	**235.6**
Return on operating capital employed			
Operative capital employed	305.0	271.8	235.6
EBIT for the last 12 months	39.0	3.5	42.0
Return on operating capital employed	**12.8 %**	**1.3%**	**17.8%**
Net debt			
Loans and borrowings (non-current)	278.1	285.7	0.0
Loans and borrowings (non-current)	11.3	95.0	94.5
Loans and borrowings, assets held for sale	7.2	–	–
Lease liabilities (non-current)	34.3	30.7	29.7
Lease liabilities (current)	9.4	5.6	5.9
Lease liabilities, assets held for sale	0.4		
Cash and cash equivalents	-56.3	-177.6	-55.0
Cash and cash equivalents, assets held for sale	-9.1	–	–
Net debt	**275.2**	**239.5**	**75.1**
Net debt/Adjusted EBITDA			
Net debt	275.2	239.5	75.1
Annualised adjusted EBITDA	92.9	103.9	85.1
Net debt/Adjusted EBITDA	**2.96**	**2.31**	**0.88**
Equity/Asset ratio			
Equity attributable to owners of the Company	403.3	390.6	515.5
Total assets	983.7	1,046.2	836.2
Equity/Asset ratio	**41.0%**	**37.3%**	**61.7%**
Return on equity			
The cumulative last 12 month profit attributable to owners of the company	13.1	-18.8	24.9
Equity attributable to owners of the company beginning of period	390.6	515.5	516.7
Equity attributable to owners of the company end of period	403.3	390.6	515.5
Equity attributable to owners of the company average	396.9	453.1	516.1

EUR million unless otherwise indicated	2022	2021	2020
Return on equity	**3.3%**	**-4.2%**	**4.8%**
Basic earnings per share			
Profit/loss attributable to shareholders of the parent company for class C shares (EUR million)	13.0	-18.7	24.9
Profit/loss attributable to shareholders of the parent company for class F shares (EUR million)	0.1	-0.1	–
Profit/loss attributable to the owners of the Company (EUR million)	13.1	-18.8	24.9
Weighted average number of shares outstanding (pcs)[2]	41,244,426	29,124,487	28,787,686[2]
Basic earnings per share, EUR	**0.32**	**-0.65**	**0.86**
Diluted earnings per share			
Profit/loss attributable to shareholders of the parent company for class C shares (EUR million)	13.0	-18.7	24.9
Profit/loss attributable to shareholders of the parent company for class F shares (EUR million)	0.1	-0.1	–
Profit/loss attributable to the owners of the company (EUR million)	13.1	-18.8	24.9
Diluted weighted average number of shares outstanding (pcs)[2]	41,244,426	29,124,487	28,964,881[3]
Diluted earnings per share, EUR	**0.32**	**-0.65**	**0.86**
Adjusted basic earnings per share			
Adjustments	21.7	70.2	13.2
Adjusted profit/loss attributable to shareholders of the parent company for class C shares (EUR million)	34.6	51.1	37.8
Adjusted profit/loss attributable to shareholders of the parent company for class F shares (EUR million)	0.2	0.4	0.3
Adjusted profit/loss attributable to the owners of the company (EUR million)	34.9	51.4	38.0
Weighted average number of shares outstanding (pcs)[2]	41,244,426	29,124,487	28,787,686[3]
Adjusted basic earnings per share, EUR	**0.85**	**1.77**	**1.32**
Adjusted diluted earnings per share			
Adjustments	21.7	70.2	13.2
Adjusted profit/loss attributable to shareholders of the parent company for class C shares (EUR million)	34.6	51.1	37.8
Adjusted profit/loss attributable to shareholders of the parent company for class F shares (EUR million)	0.2	0.4	0.3
Adjusted profit/loss attributable to the owners of the company (EUR million)	34.9	51.4	38.0
Diluted weighted average number of shares outstanding (pcs)[2]	41,244,426	29,124,487	28,964,881[3]
Adjusted diluted earnings per share, EUR	**0.85**	**1.77**	**1.32**

[1] Figures for 2021 restated for comparability reasons.
[2] Including 293,478 class F shares convertible to class C shares at the start of the conversion period on 28 June 2024.
[3] Converted with merger consideration ratio class K share to class C share 2,600334506.

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Consolidated financial statements

Consolidated statement of profit and loss

EUR million	Note	2022	2021
Net sales	2.2	904.1	843.6
Cost of sales	2.3	-700.8	-645.5
Gross profit		**203.3**	**198.1**
Sales and marketing expenses	2.3	-87.9	-78.3
Administrative expenses	2.3	-51.5	-42.0
Research and development expenses	2.3	-6.2	-5.9
Other income	2.3	4.9	2.6
Other expenses	2.3	-23.7	-71.0
Operational expenses		**-164.3**	**-194.6**
EBIT		**39.0**	**3.5**
Finance income	5.1	5.7	1.1
Finance expenses	5.1	-23.1	-9.7
Net financial items		**-17.4**	**-8.6**
Profit before tax		**21.6**	**-5.1**
Income tax expense	7.2	-8.4	-13.7
Profit for the period		**13.1**	**-18.8**
Profit for the period attributable to:			
Owners of the parent		13.1	-18.8
Non-controlling interests		-	-
Earnings per share for profit attributable to the ordinary equity holders of the parent company:			
Earnings per share basic, EUR	5.5	0.32	-0.65
Earnings per share diluted, EUR	5.5	0.32	-0.65

The Notes are an integral part of these financial statements.

Consolidated statement of comprehensive income

EUR million	2022	2021
Profit for the period	13.1	-18.8
Other comprehensive income		
Items that will never be reclassified to profit and loss		
Remeasurement of defined benefit liability (asset)	2.2	8.4
Related tax	-0.2	0.2
Total items that will not be reclassified to profit and loss	**1.9**	**8.6**
Items that are or may be reclassified to profit and loss		
Foreign operations – foreign currency translation differences	0.5	0.4
Reclassification of foreign currency translation differences through profit and loss	0.4	-
Cash flow hedges – effective portion of changes in fair value	3.4	-1.9
Cash flow hedges – reclassified to profit and loss	0.7	1.5
Related tax	-0.8	0.2
Total items that are or may be reclassified to profit and loss	**4.2**	**0.1**
Other comprehensive income, net of tax	**6.2**	**8.7**
Total comprehensive income for the period	**19.3**	**-10.1**
Total comprehensive income attributable to:		
Owners of the parent	19.3	-10.1
Non-controlling interests	-	-

The Notes are an integral part of these financial statements.

Consolidated balance sheet

EUR million	Note	2022	2021
Assets			
Non-current assets			
Goodwill	3.1,3.2	370.6	369.2
Other intangible assets	3.1	47.0	36.3
Property, plant and equipment	3.3	127.3	131.9
Right-of-use assets	3.4	39.3	31.3
Derivative assets	5.7	2.7	–
Other receivables	4.2	0.7	1.0
Deferred tax assets	7.2	29.2	26.5
Defined benefit assets	4.5	2.2	6.2
Total non-current assets		618.9	602.4
Current assets			
Inventories	4.1	174.1	157.4
Trade receivables	4.2	89.1	77.1
Derivative assets	5.7	2.7	0.7
Other receivables	4.2	25.6	29.7
Current tax asset	7.2	3.1	1.3
Cash and cash equivalents	5.7	56.3	177.6
Total current assets		350.7	443.8
Assets held for sale	6.2	14.0	–
Total assets		983.7	1,046.2
Equity and liabilities			
Equity			
Share capital	5.5	3.1	3.1
Reserve of invested unrestricted equity	5.5	380.8	385.9
Other reserves	5.5	-5.0	-9.3

EUR million	Note	2022	2021
Retained earnings		11.3	29.7
Profit for the period		13.1	-18.8
Equity attributable to owners of the company		403.3	390.6
Non-controlling interests		–	–
Total equity		403.3	390.6
Liabilities			
Non-current liabilities			
Loans and borrowings	5.6	278.1	285.7
Lease liabilities	3.4	34.3	30.7
Defined benefit liabilities	4.5	18.7	23.5
Other payables	4.3	1.4	1.2
Provisions	4.4	7.8	7.6
Deferred tax liabilities	7.2	5.4	2.6
Total non-current liabilities		345.6	351.3
Current liabilities			
Loans and borrowings	5.6	11.3	95.0
Lease liabilities	3.4	9.4	5.6
Trade and other payables	4.3	193.4	192.0
Derivative liabilities	5.7	1.5	2.0
Provisions	4.4	0.4	4.9
Current tax liabilities	7.2	8.8	4.8
Total current liabilities		224.8	304.3
Total liabilities		570.5	655.6
Liabilities directly attributed to assets held for sale	6.2	10.0	–
Total equity and liabilities		983.7	1,046.2

The Notes are an integral part of these financial statements.

Consolidated statement of cash flows

EUR million	Note	2022	2021
Cash flow from operating activities			
Profit for the period		13.1	-18.8
Adjustments			
Depreciation, amortisation and impairment losses		32.1	30.2
Gain on sale of property plant and equipment and intangible assets		–	-0.5
Gain and losses on sale of subsidiaries		-1.2	0.0
Share-based payments		–	1.9
Finance income and expenses		17.4	8.6
Income tax expenses		8.4	13.7
Reverse recapitalization		–	52.3
Other non-cash income and expenses		21.0	5.7
Cash flow before change in net working capital		90.9	93.1
Changes in net working capital			
Inventories, increase (-) / decrease (+)	4.1	-21.4	-48.7
Trade and other receivables, increase (-) / decrease (+)	4.2	25.4	-31.2
Trade and other payables, increase (+) / decrease (-)	4.3	-31.5	45.0
Provisions and employee benefits, increase (+) / decrease (-)	4.4	-4.1	-1.6
Changes in net working capital		-31.5	-36.5
Net cash flow from operating activities before financial items and taxes		59.4	56.7
Financial items, net		-17.4	-7.8
Income tax paid, net		-10.9	-13.5
Cash flow from operating activities		31.1	35.4

EUR million	Note	2022	2021
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		3.1	0.7
Proceeds from sale of subsidiaries		2.7	–
Purchases of property, plant and equipment and intangible assets		-24.0	-14.8
Acquisitions of subsidiaries, net of cash acquired		-14.6	-4.5
Long-term loan receivables granted		-0.2	–
Proceeds from long-term loan receivables		0.1	–
Cash flow from investing activities		-32.9	-18.6
Cash flow from financing activities			
Proceeds from long-term borrowings		–	279.0
Increase of equity		0.7	0.3
Proceeds from share issue		–	99.9
Dividends and group contributions paid to related party		–	-266.4
Return of capital paid		-14.9	–
Repayment of lease liabilities		-11.6	-9.6
Proceeds from short-term borrowings		197.9	95.0
Repayment of short-term borrowings		-282.9	-4.9
Proceeds from short-term borrowings from related party		–	10.2
Repayment of short-term borrowings to related party		–	-98.0
Cash flow from financing activities		-110.8	105.4
Change in cash and cash equivalents, increase (+) / decrease (-)		-112.6	122.2
Cash and cash equivalents at beginning of the period		177.6	55.0
Impact of change in exchange rates		0.3	0.4
Cash classified as assets held for sale		-9.1	–
Cash and cash equivalents at end of the period		56.3	177.6

The Notes are an integral part of these financial statements.

Consolidated statement of changes in equity

EUR million	Share capital	Reserve of invested unrestricted equity	Translation reserve	Fair value reserve	Share-based payments reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to owners of the parent company								
Balance as at 1 Jan 2022	3.1	385.9	-8.7	-0.6	–	10.9	390.6	–	390.6
Profit for the period						13.1	13.1		13.1
Other comprehensive income			0.9	3.3		1.9	5.2		6.2
Total comprehensive income for the period	–	–	0.9	3.3	–	15.1	19.3	–	19.3
Dividends and and return of capital paid		-14.9					-14.9		-14.9
Share issue		9.7					9.7		9.7
Share-based payments						0.2	0.2		0.2
Other changes						-1.7	-1.7		-1.7
Balance as at 31 Dec 2022	3.1	380.8	-7.8	2.7	–	24.4	403.3	–	403.3

EUR million	Share capital	Reserve of invested unrestricted equity	Translation reserve	Fair value reserve	Share-based payments reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to owners of the parent company								
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 return of capital paid		-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
Acqusition 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

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 principle 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 24
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
Assets held for sale	6.2 Assets held for sale	IFRS 5
Related party transactions	7.1 Related party transactions	IAS 24
Income taxes	7.2 Taxes	IAS 12

1.1 General information

Purmo Group Plc, "Purmo Group" or the "Company", business ID 2890898-5, is a public limited company domiciled in Helsinki. The registered address of Purmo Group is Bulevardi 46, 00120 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, 00120 Helsinki, Finland.

Purmo Group is a leader in sustainable indoor climate comfort solutions in Europe. The Group provides complete heating and cooling solutions to residential and non-residential buildings, including radiators, underfloor heating, heat pumps, towel warmers, valves and controls. Our mission is to be the global leader in sustainable indoor climate comfort solutions. Purmo Group has approximately 3,400 employees in 24 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
The merger of Virala Acquisition Company Plc ("VAC") and Purmo Group Ltd was completed on 31 December 2021 and the combined company was re-named Purmo Group Plc. Following the merger, the combined company continued the business operations of Purmo Group Ltd and as a listed company on the official list of Nasdaq Helsinki. As VAC didn't meet the definition of a business, ther merger was not accounted for as a business combination but as a reverse recapitalization. A result of the application to IFRS 3 reverse acquisition guidance by analogy to the merger, Purmo Group Ltd'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 2022 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 20 March 2023. 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.

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 judgements, assumptions and estimates that have a significant risk of resulting in a material change to reported results 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	Inventories
Note 4.4	Provisions
Note 4.5	Post-employment obligations
Note 7.2	Taxes

The Group's management has continued to assess the potential accounting implications of the COVID-19 pandemic. The Group's management has reviewed the carrying values of the balance sheet items and the review did not indicate need for asset impairments.

The Group's management has assessed the balance sheet impact of Russia's war in Ukraine and the decision to divest the business in Russia. The management has considered indicators of impairment of goodwill and intangible assets, the recoverable amount of property plant and equipment and right-of-use assets, the valuation of inventories, trade and other receivables and redemption liability. Due to the significant uncertainties related to the business in Russia and Ukraine the Group has recognised impairment charges and write-downs of EUR 12.9 million on goodwill, intangible assets, property, plant and equipment, right-of-use assets, inventories, other assets and redemption liability. See further information note 6.2 Assets held for sale.

The Group's management has assessed the impact of potential climate-related matters such as increased production costs as a result to reduce carbon emissions and site restoration provisions, that might have an impact on the fair value measurement of the assets and liabilities in the consolidated financial statements. The Group management also monitors changes in government legislation in climate-related matters. When preparing these consolidated financial statements the impact of related matters is not material to Purmo Group's condensed financial statements. The Group will adjust the key assumptions used in value-in-use calculations in future financial statements should a change be required.

1.4 New and amended IFRS standards and IFRIC interpretations

Amendments and annual improvements to IFRS standards

The amendments and annual improvements to IFRS standards published by IASB effective for financial reporting periods commening on 1 January 2022 has not had a material impact on the results, financial position or the presentation of Purmo Group's financial statements

New and amended standards to be applied

The Group has not applied any standards, amendments or interpretations published by IASB that will be effective for the financial reporting period commencing after 1 January 2022. Purmo Group does not expect any material impact on the financial statements from any published, but not yet effective, IFRS standard, IFRIC interpretation, IFRS annual improvement or change.

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.

The adjusted EBITDA has been derived from the reported EBITDA by deducting 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 mostly of salaries, rent and professional fees that are operated for the benefit of the whole group and are not allocated to the 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 but also in the rest of the world (including Brazil, China, Japan and the United States).

2022 EUR million	Radiators	ICS	Other	Group
Net sales	478.8	425.3	–	904.1
Adjusted EBITDA	50.3	51.9	-9.4	92.9
Adjusted EBITDA, % of sales	10.5%	12.2%		10.3%
Material items impacting period profit and loss				-14.4
Depreciation, amortisation and impairment charges				-39.5
EBIT				39.0
Net financial items				-17.4
Profit before tax				21.6
Additional information for segments				
Depreciation, amortisation and impairment charges by segment	-28.1	-11.4	–	-39.5

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, amortisation and impairment charges				-30.2
EBIT				3.5
Net financial items				-8.6
Profit before tax				-5.1
Additional information for segments				
Depreciation, amortisation and impairment charges by segment	-21.1	-9.0	–	-30.2

2.2 Net sales

ACCOUNTING PRINCIPLES

Sales of goods are recognised 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 recognised at the same time because the effect of the delay on the Group's net sales is deemed to be immaterial. A receivable is recognised 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 recognised (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 recognised 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 recognised 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	2022	2021
Northern Europe[1]	191.0	161.1
Western Europe	337.3	326.6
Central and Eastern Europe	174.6	201.5
Southern Europe	142.4	102.0
Rest of the world	58.9	52.4
Net Sales	**904.1**	**843.6**

[1] Net sales in Finland (company's country of domicile) totalled to EUR 17.8 million (14.0).

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.

2022 EUR million	Radiators	ICS	Group
Northern Europe	118.5	72.5	191.0
Western Europe	202.1	135.2	337.3
Central and Eastern Europe	126.3	48.3	174.6
Southern Europe	5.3	137.1	142.4
Rest of the world	26.7	32.3	58.9
Net Sales	478.7	425.4	904.1

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

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	2022	2021
Poland	45.8	39.7
Finland	27.2	21.3
UK	24.7	26.8
Germany	24.4	23.1
Italy	24.2	27.0
China	14.1	17.3
Belgium	12.3	14.1
Rest of the world	43.7	37.4
Goodwill	370.6	369.2
Deferred tax assets	29.2	26.5
Total	616.2	602.4

Assets and liabilities related to contracts with customers

The Group has no contract assets on the balance sheet. Contract liabilities include EUR 0.8 (6.1) 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 (please 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 profit and loss on a systematic basis over the estimated useful life of the underlying asset. Other government grants are recognised in the profit and loss 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 Plc (VAC) did not meet the definition of a business the merger between VAC and Purmo Group Ltd 31.12.2021 was not accounted for as a business combination but as a reverse recapitalization, in which no goodwill was 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	2022	2021
Gain on disposal of Group companies and business operations	1.2	–
Gain on disposal of intangible and tangible assets	0.8	0.2
Other income	2.9	2.4
Total	4.9	2.6

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.

Other expenses

EUR million	2022	2021
Net foregin exchange losses	1.5	1.1
Loss on disposal of intangible assets and property, plant and equipment	0.5	0.0
Loss on impairment of intangible assets and property, pland and equipment[1]	7.4	–
IFRS 2 merger impact	–	52.3
M&A related transaction and integration costs[2]	2.2	0.1
Restructuring costs and one-off costs related to efficiency programs[3]	7.5	8.9
Formation of Purmo Group and stand-alone preparations[4]	0.3	6.6
Other expenses	4.4	2.0
Total	23.7	71.0

[1] Impairment of the Russian entities classified as assets held for sale.
[2] M&A related transaction and integration costs consist mainly of professional fees for pre-deal support and M&A advisory.
[3] Restructuring costs and one-off costs related to efficiency programs consists of project management expenses and redundancy costs for Accelerate PG. In 2021 the costs mainly relate to 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.
[4] Formation of Purmo Group and standalone preparations costs consist of professional fees in relation to listing preparations in 2021.

Audit fees

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

EUR million	2022	2021
Audit	0.6	0.7
Audit related services	0.1	0.1
Tax advisory	0.2	0.3
Other services	0.0	–
Total	1.0	1.0

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	2022	2021
Wages and salaries	-127.6	-128.2
Social security contributions	-29.0	-27.8
Pension expenses - defined contribution plans	-6.1	-5.2
Pension expenses - defined benefit plans	-1.2	-1.2
Share-based payments	-0.2	-1.9
Total	**-164.1**	**-164.3**

Number of personnel

	2022	2021
Average number of personnel	3,476	3,360

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

On 20 June 2022 Purmo Group Plc's Board of Directors decided on the establishment of a share-based long-term incentive scheme for the company's management and key personnel. The Long-Term Incentive Plan 2022 (LTIP 2022) consists of an initial investment, followed by a performance period, whereafter a outcome determination period commences. The participants had the opportunity to receive reward shares depending on the company's performance. The Board of Directors decided separately the performance criteria, persons authorized to participate and the maximum amount invested into the plan per participant. The purpose of the plan is to align the targets of shareholders and key employees in order to increase the long-term value of the company, retain key employees and offer a competitive incentive plan that is based on company share owner-ship and successful performance. The performance criteria of the plan is total shareholder return (TSR) of the class C share. Paid dividend and return of capital during the plan are added to the share price when calculating the TSR. The potential reward will be paid during the years 2026-2027, depending on the achievement of the performance criteria and the service condition. Any reward earned for the LTIP will be paid partly in company shares and partly in cash. The purpose of the cash contribution is to cover taxes and tax-like payments incurred by the management and key personnel from the remuneration.

On 27 September 2022 Purmo Group announced that the Board approved a total of 66,403 subscriptions of new class C shares in the share issue for management and key employees. The subscription price EUR 10.23 per share was based on the trade-volume weighted average price of the Company's share on Nasdaq Helsinki Ltd during 12 July–5 September 2022. The total subscription price of the new class C shares was EUR 679,302.69.

Purmo Group Plc has financed the subscriptions of the class C shares by offering interest-bearing loans to the participants to a maximum amount of 50 per cent of the subscription value of the subscribed shares. Participants have pledged the subscribed shares as a security for performing their obligations under the concluded loan agreement.

Share based plan information

	LTIP 2022
Grant date	22 Sep 2022
Maximum number of class C shares	1,500,000
Dividend adjustment	Yes
Earning period start date	1.1.2022
Earning period end date	31.12.2025
Commitment period end	31.12.2027
Vesting conditions	Total Shareholder Return (TSR) of the Purmo Group class C share, continued employment
Maximum contractual life	5.3 years
Remaining contractual life	5 years
Description of shares	Gross share
Number of persons in the arrangement at the end of the period	29
Payment method	Cash and equity

Changes in plan during the period	
Outstanding in the beginning of the reporting period 1 Jan 2022	-
Changes during the period	
Granted	745,000
Forfeited	-
Exercised	-
Outstanding in the beginning of the reporting period 31 Dec 2022	**745,000**

Fair value determination

The fair value of share based incentives have been determined at grant date and the fair value is expensed until vesting. Market condition, in this case total shareholder return has been taken into account when determining the fair value at grant and it will not be changed during the plan. The pricing of the share based incentives granted during the period was determined by the following inputs and had the following effect:

	LTIP 2022
Share price at grant date, EUR	10.23
Share price at end of the reporting period, EUR	8.22
Expected volatility, %[1]	31.61 %
Maturity years	5.3
Risk free rate	2.23 %
Expected dividends, EUR	-
Valuation model	Monte Carlo
Total grant date fair value, MEUR	2.9

[1] Expected volatility was determined by calculationg the historical volatility of the Group's share using monthly observations over corresponding maturity.

The effect of share-based incentive plans on profit and loss has been presented in Note 2.4 Employment benefit expenses.

3. Goodwill, 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 , among others, 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. Other intangible assets acquired in connection with business acquisitions are recognised in the balance sheet if they fulfil the definition of other intangible assets: the asset will yield future economic benefit, they can be specified or are based on agreements or legal rights. Other intangible assets recognised in connection with business acquisitions include brands and trademarks, customer agreements and customer relationships.

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
Allocations from business acquisitions	10–20 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 capitalisdeted 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. Development projects are related to new or essentially improved technology.

Intangible assets

2022 EUR million	Goodwill	Trademarks	Development costs	Other intangible assets	Total
Acquisition cost					
1 Jan 2022	369.2	56.8	1.9	3.9	431.8
Effects of exchange rates	-0.1	-0.1	0.0	0.0	-0.2
Purchases of subsidiaries and business acquisitions	5.5	2.6	–	10.1	18.2
Additions	–	1.1	0.2	0.5	1.7
Disposals	–	-0.1	–	-0.1	-0.2
Transfers	0.0	-1.1	–	0.0	-1.0
Impairment charges	-4.0	–	–	–	-4.0
31 Dec 2022	370.6	59.3	2.1	14.3	446.3
Accumulated amortisation and impairment losses					
1 Jan 2022	–	-21.1	-1.9	-3.3	-26.4
Effects of exchange rates	–	0.1	0.0	0.0	0.1
Amortisation	–	-2.5	0.0	-1.3	-3.9
Transfers	–	1.3	–	–	1.3
31 Dec 2022	–	-22.3	-1.9	-4.5	-28.8
Carrying amount at 31 Dec 2022	370.6	37.0	0.2	9.8	417.5

2021 EUR million	Goodwill	Trademarks	Development costs	Other intangible assets	Total
Acquisition cost					
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	3.8	0.0	–	0.0	3.9
Additions	–	0.8	–	0.3	1.1
Disposals	–	–	–	0.0	0.0
31 Dec 2021	369.2	56.8	1.9	3.9	431.8
Accumulated amortisation and impairment losses					
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
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

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	2022	2021
Radiators	254.4	252.0
ICS	116.1	117.2
Total	370.6	369.2

Annual impairment test 2022

As at 31 December 2022 goodwill totalled EUR 370.6 million. Given that the recoverable amount of each CGU significantly exceeded the carrying value of goodwill, no indication of impairment was found in 2022. The value in use calculations were derived from estimates, forecasts and strategy figures reviewed by Purmo Group's management and approved by the Board of Directors.

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.

	2022			2021		
	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%	8.4%	10.7%	2.0%	7.5%	11.5%
ICS	2.0%	8.4%	15.3%	2.0%	7.9%	11.6%

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 2.3 per centage points
Residual growth	decrease more than 1.5 per centage points
ICS	
Forecasted EBITDA margin	decrease more than 5.5 per centage points
WACC	increase more than 6.9 per centage points
Residual growth	decrease more than 12.0 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 of 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

2022 EUR million	Land and water	Buildings	Machinery and equipment	Other tangible assets	Assets under construction	Total
Acquisition cost						
1 Jan 2022	8.4	118.8	465.3	10.2	9.5	612.1
Effects of exchange rates	0.0	-1.3	-5.6	-0.2	-0.1	-7.2
Purchases of subsidiaries and business acquisitions	–	–	0.6	–	0.5	1.1
Additions	–	0.6	15.4	0.4	7.2	23.7
Disposals	-0.1	-10.4	-15.1	-0.1	–	-25.8
Transfers	0.8	0.1	1.2	0.0	-1.5	0.7
Impairment charges	–	–	-3.0	–	–	-3.0
31 Dec 2022	9.1	107.8	458.8	10.4	15.7	601.7
Accumulated depreciation and impairment losses						
1 Jan 2022	0.3	-77.6	-394.8	-8.2	–	-480.1
Effects of exchange rates	0.0	0.7	4.6	0.1	–	5.4
Depreciation	–	-3.2	-15.2	-0.7	–	-19.1
Depreciation on disposals	–	5.7	14.7	–	–	20.4
Transfers	-0.9	–	–	–	–	-0.9
31 Dec 2022	-0.5	-74.4	-390.7	-8.7	–	-474.4
Carrying amount at 31 Dec 2022	8.6	33.4	68.0	1.6	15.7	127.3

2021 EUR million	Land and water	Buildings	Machinery and equipment	Other tangible assets	Assets under construction	Total
Acqusition cost						
1 Jan 2021	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
Disposals	-0.1	-0.6	-1.0	-0.1	-0.1	-1.9
Transfers	–	-0.1	3.6	–	0.1	3.6
31 Dec 2021	8.4	118.8	465.3	10.2	9.5	612.2
Accumulated depreciation and impairment losses						
1 Jan 2021	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
31 Dec 2021	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

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. The lease term varies between 1–70 years.

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

2022 EUR million	Land and water	Buildings	Machinery and equipment	Total
Acquisition cost				
1 Jan 2022	1.1	37.4	15.2	53.7
Effects of exchange rates	0.0	-0.7	-0.2	-0.9
Purchases of subsidiaries and business acquisitions	–	2.6	0.3	2.9
Classified as assets held for sale	–	–	0.0	0.0
Additions	–	11.2	3.2	14.4
Disposals	-0.2	–	–	-0.2
Impairment charges	–	0.4	0.0	0.4
31 Dec 2022	0.9	50.9	18.6	70.4
Accumulated depreciation and impairment losses				
1 Jan 2022	-0.1	-14.1	-8.2	-22.4
Effects of exchange rates	0.0	0.3	0.2	0.5
Depreciation	0.0	-5.6	-3.6	-9.2
31 Dec 2022	-0.1	-19.4	-11.6	-31.1
Carrying amount at 31 Dec 2022	0.8	31.5	7.0	39.3

2021 EUR million	Land and water	Buildings	Machinery and equipment	Total
Acquisition cost				
1 Jan 2021	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
31 Dec 2021	1.1	37.4	15.2	53.7
Accumulated depreciation and impairment losses				
1 Jan 2021	-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
31 Dec 2021	-0.1	-14.2	-8.2	-22.5
Carrying amount at 31 Dec 2021	1.0	23.2	7.0	31.3

Lease liabilities

EUR million	2022	2021
Non-current	34.3	30.7
Current	9.4	5.6
Total lease liabilities	43.7	36.4

Amounts recognised in profit or loss

EUR million	2022	2021
Depreciation of right-of-use assets	-9.2	-7.4
Interest on lease liabilities	-2.2	-2.1
Expense related to short-term leases	-1.2	-1.3
Expense related to leases of low-value assets	-0.5	-0.4
Total	-13.1	-11.2

Amounts recognised in statement of cash flows

EUR million	2022	2021
Total cash outflow for leases	-11.6	-9.6

3.5 Depreciation, amortisation and impairment

Depreciation, amortisation and impairment

EUR million	2022	2021
Amortisation and impairment on intangible assets	-7.9	-2.9
Tangible assets	-22.5	-19.9
Right-of-use assets	-9.2	-7.4
Total	-39.5	-30.2

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, directs 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 if 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	2022	2021
Raw materials and consumables	55.0	60.6
Work in progress	21.6	21.7
Finished goods	105.2	82.8
Inventory value - gross	181.7	165.1
Inventory write-down	-7.6	-7.7
Total	174.1	157.4

Write-downs of inventories to net realisable value amounted to EUR 7.6 (7.7) million. These were recognised as an expense and included in cost of sales in the profit and loss.

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 factoring agreements to sell trade receivables. Sold trade receivables are derecognised once significant related risks and rewards of ownership have been transferred to the factoring counterparty. The Group does not have any material trade receivables on the balance sheet, which will be subject to factoring. Please refer to Note 5.3 Financial Assets and Liabilities for further details.

Trade and other receivables

EUR million	2022	2021
Trade receivables	89.1	77.1
Prepayments and accrued income	6.5	8.5
Other receivables	19.7	22.2
Total	115.3	107.8
Non-current	0.7	1.0
Current	114.6	106.8
Total	115.3	107.8

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	2022	2021
Trade payables	102.1	116.8
Accruals and deferred income	92.6	76.4
Total	194.8	193.2
Non-current	1.4	1.2
Current	193.4	192.0
Total	194.8	193.2

4.4 Provisions

ACCOUNTING PRINCIPLES0

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

2022 EUR million	Warranties and guarantees	Restructuring	Other provisions	Total
Balance at 1 Jan 2022	1.5	4.8	6.2	12.5
Effects of exchange rates	-0.0	–	0.0	0.0
Increase of provisions	0.3	0.0	0.2	0.5
Provisions utilised	–	-4.4	-0.4	-4.7
Balance at 31 Dec 2022	1.7	0.5	6.0	8.2
Non-current	1.6	0.2	6.0	7.8
Current	0.1	0.3	–	0.4

2021 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	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

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 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.

Items recognised in the balance sheet

EUR million	2022	2021
Defined benefit asset	2.2	6.2
Total employee benefit asset	**2.2**	**6.2**
Defined benefit liability	15.9	20.5
Liability for long-service leave	2.6	2.9
Other employee benefits	0.2	0.0
Total employee benefits liabilities	**18.7**	**23.5**
Non-current	18.7	23.5
Current	–	–
Total	**18.7**	**23.5**

Movement in net defined benefit (asset) liability

	Defined benefit obligation		Fair value of plan assets		Net defined benefits liability (asset)	
EUR million	2022	2021	2022	2021	2022	2021
1 Jan	97.0	96.9	82.7	73.5	14.3	23.3
Included in profit or loss						
Current service cost	1.2	1.2	–	–	1.2	1.2
Interest income	–	–	1.4	0.9	-1.4	-0.9
Interest expense (income)	1.4	1.0	–	–	1.4	1.0
Settlements	-9.1	–	-12.8	–	3.7	–
Included in other comprehensive income						
Actuarial loss (gain) arising from change in demographic assumptions	-1.1	0.4	–	–	-1.1	0.4
Actuarial loss (gain) arising from change in financial assumptions	-26.8	-3.8	-26.5	5.2	-0.3	-9.1
Actuarial loss (gain) arising from experience adjustments	-0.9	0.7	–	–	-0.9	0.7
Translation differences	-2.4	4.5	-2.7	4.4	0.3	0.1
Other						
Contributions paid by the employer	0.0	0.0	1.9	1.9	-1.9	-1.8
Benefits paid	-5.0	-3.8	-3.2	-3.2	-1.7	-0.6
31 Dec	54.4	97.0	40.7	82.7	13.7	14.3

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).

	2022	2021
Discount rate	4.36%	1.42%
Expected salary growth	3.46%	2.50%
Expected future pension growth	2.58%	2.67%

At 31 December 2022, the weighted-average duration of the defined benefit obligation was 13.1 (16.1) years. In 2023 the Group expects to pay EUR 1.5 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.

	31 Dec 2022		31 Dec 2021	
EUR million	Increase	Decrease	Increase	Decrease
Discount rate (0.5% movement)	-6.2	6.2	-15.0	15.0
Future salary growth (0.5% movement)	1.0	-1.0	1.5	-1.5
Future pension growth (0.5% movement)	4.2	-4.2	10.9	-10.9

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

EUR million	2022	2021
Interest income on items measured at amortised cost	1.0	0.4
Interest income on foreign exchange derivatives	3.8	0.7
Exchange gains related to financial items	–	–
Exchange gains from foreign exchange derivatives	1.0	–
Other finance income	0.0	0.0
Financial income	5.7	1.1
Interest expense on items measured at amortised cost	-8.5	-3.2
Interest expense, lease liabilities	-2.2	-2.1
Interest expense on foreign exchange derivatives	-6.8	-1.6
Interest expense on interest rate derivatives	-0.4	–
Exchange loss related to financial items, net	-2.3	-0.3
Exchange loss from foreign exchange derivatives	–	-1.0
Other finance expense	-2.8	-1.5
Financial expenses	-23.1	-9.7
Net financial items recognised in profit or loss	-17.4	-8.6

5.2 Financial risk management

Principles and process

The nature of Purmo Group's global operations 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.

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.

The Group has also entered into several trade receivable factoring arrangements. These arrangements transfer the significant risks and rewards of to the factoring counterparty fulfilling the criteria of derecognition from balance sheet and further decreasing Group's credit risk related to trade receivables.

At the reporting date, the ageing of trade receivables, including the loss allowance, were as follows:

	31 Dec 2022			31 Dec 2021		
EUR million	Gross carrying amount	Loss allowance	Loss rate	Gross carrying amount	Loss allowance	Loss rate
Not overdue	80.2			66.4		
Overdue 1–30 days	4.5	0.0	1%	8.0	-0.1	1%
Overdue 31–60 days	1.7	-0.2	12%	1.9	-0.2	12%
Overdue 61–90 days	1.2	-0.5	40%	1.1	-0.4	40%
Overdue 91–179 days	4.7	-2.6	50%	3.6	-3.1	87%
More than 180 days	0.1	-0.1	90%	0.0	0.0	87%
Total trade receivables	92.4	-3.3	3.6%	81.0	-3.8	4.7%

Reconciliation of the loss allowance:

EUR million	2022	2021
1 Jan	3.8	3.7
Increase in loss allowance recognised in profit or loss during the year	-0.7	0.6
Receivables written off during the year as uncollectible	0.2	-0.5
31 Dec	3.3	3.8

Counterparty risk related to financing items

Purmo Group is exposed to credit risk when using derivative instruments and depositing its cash and 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. According to management assessment, no significant credit losses are anticipated on the liquidity reserves.

Derivatives are subject to netting agreements such as ISDA (Master agreement of International Swaps and Derivatives Association). 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 0.0 (1.4) million for the derivative liabilities and EUR 3.8 (0.1) million for derivative assets.

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.

31 December 2022 Group's cash and cash equivalents amounted to EUR 65.4 (177.6) million of which EUR 9.1 million classified as assets held for sale. In January 2022 the Group repaid an EUR 95 million bridge loan facility with the proceeds released from the escrow account related to the initial public offering of VAC.

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

- EUR 80.0 (80.0) million undrawn committed revolving credit facility maturing in 2024 with two one year extension options
- EUR 100.0 (0.0) million Finnish commercial paper program of which EUR 10 million was utilised
- EUR 20.5 (17.4) million undrawn overdraft facilities that are unsecured

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. 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's long term funding consists of a syndicated term loan facility of EUR 280.0 million, which is due on 2024, including two one year extension options. The facility is subject to customary financial covenants related to leverage and equity ratio. Purmo Group is in compliance with all covenants and other terms of its debt instruments.

The Group manages its liquidity also by having entered into several trade receivable factoring arrangements that provide for the accelerated receipt of approximately EUR 34.3 (35.5) million of cash at the financial year end 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 2022 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	279.4	308.2	14.7	293.5	–	–
Commercial papers	10.0	10.0	10.0	–	–	–
Lease liabilities	43.7	43.7	9.4	3.9	7.7	22.8
Trade payables	102.1	102.1	102.1	–	–	–
Total	435.2	464.0	136.2	297.3	7.7	22.8
Derivative financial liabilities						
Forward exchange contracts	1.5	-0.4	-0.4	–	–	–
Total	1.5	-0.4	-0.4	–	–	–

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[1]	36.4	36.4	7.4	5.8	12.3	11.0
Trade payables	116.7	116.7	116.7	–	–	–
Total	525.7	543.0	224.1	10.7	297.3	11.0
Derivative financial liabilities						
Forward exchange contracts	2.0	3.1	3.1	–	–	–
Total	2.0	3.1	3.1	–	–	–

[1] Maturity analysis restated compared to financial statements 2021.

The previous table shows maturity analysis for the Group's financial liabilities according to the contractual cash flows of the liabilities. The maturity table for derivatives shows the net cash flow amounts for derivatives because they are net cash-settled.

Foreign exchange risk

The Group operates globally and is exposed to foreign exchange risk arising from several different currencies. Foreign exchange risk arises mainly of receivables and payable, intra-group transactions, deposits and bank account balances. The currencies in which the transactions within the Group are primarily denominated are euro, Polish zloty, Sterling pound and Swedish krona.

Transaction risk

Foreign exchange transaction risk arises when a Group company has commercial or financial transaction and payments in other than its own functional currency and when related cash inflow and outflow amounts are not equal or concurrent. In Purmo Group these transaction risks arise mainly in Poland, the UK, Sweden and in the parent company Purmo Group Plc due to centralised Group Treasury.

According to Group Treasury Policy, Group companies forecast their foreign currency net cash flows quarterly. These foreign currency exposures denominated in other than the Group company's functional currency, are hedged with internal foreign exchange contracts with Group Treasury. Group Treasury hedges on average 40 to 70 per cent of the net foreign currency exposure for the time period of up to 15 months. All external hedging actions, foreign exchange forward contracts and foreign exchange options, are executed by Group Treasury. Due to the centralised risk management operated by Group Treasury, the parent company is exposed to foreign exchange transaction risk in various currencies mainly related to financial assets and liabilities. According to Group Treasury Policy, these net positions by currency pair are hedged 70–100% by using foreign exchange forwards contracts and options.

Translation risk

Foreign exchange translation exposure arises when the assets, liabilities and income of a subsidiary is denominated in a currency other than the functional currency of the parent company, please see Note 6.4 Exchange rates for further information. Translation risk is reduced by funding the assets with, whenever feasible, in the same currency as the asset itself. According to Group Treasury Policy, translation risk will only be hedged with approval from the Board of Directors. At reporting date, there was no translation risk hedging in place.

Exposure to foreign currency risk

Sensitivity to a -/+ 10 percent change in the exchange rates is shown for the net currency position per currency. The table below presents the exposures in main currencies translated to euro at foreign exchange rates of the reporting date. The balance sheet exposures are presented in accordance with IFRS 7 requirements including internal and external transactions.

Foreign currency risk

2022 EUR million	GBP	PLN	SEK	CNY	RON
Forecast transactions, net	14.0	-111.6	23.1	–	26.1
Balance sheet exposure, financing items	31.2	54.0	35.7	8.8	-3.8
Hedging instruments under hedge accounting, nominal amount	-9.0	77.1	-15.4	–	-17.3
Hedging instruments, no hedge accounting, nominal amount	-31.1	-54.0	-35.7	-8.8	3.8
Net balance sheet exposure	**-8.9**	**77.1**	**-15.4**	**0.1**	**-17.3**
Sensitivity analysis (+/- 10%)					
Profit and loss	-/+ 0.0	-/+ 0.0	-/+ 0.0	-/+ 0.0	-/+ 0.0
Equity (hedge reserve)	-/+ 0.5	-/+ 3.4	-/+ 0.8	-/+ 0.0	-/+ 0.9

2021[1] EUR million	GBP	PLN	SEK	CNY	RON
Forecast transactions, net	26.0	-46.4	31.9	–	25.7
Balance sheet exposure, financing items[1]	15.9	40.5	13.8	9.1	-2.1
Hedging instruments under hedge accounting, nominal amount	-13.4	30.8	-16.9	–	-15.6
Hedging instruments, no hedge accounting, nominal amount	-16.3	-40.5	-13.9	-9.0	2.1
Net balance sheet exposure	**-13.8**	**30.8**	**-16.9**	**0.2**	**-15.7**
Sensitivity analysis (-/+ 10%)					
Profit and loss	-/+ 0.0	-/+ 0.0	-/+ 0.0	-/+ 0.0	-/+ 0.0
Equity (hedge reserve)	-/+ 1.3	-/+ 1.6	-/+ 1.5	-/+ 0.0	-/+ 1.0

[1] Presentation of table restated compared to financial statement 2021.

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. Purmo Group's interest rate risk arises mainly from its interest-bearing assets and liabilities, such as loans, financial instruments and lease liabilities. 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.

Group Treasury manages and controls interest risk by following average months to interest fixing and ratio between fixed and floating rate loans. At the end of 2022 average interest fixing was 15 months for all interest bearing assets and liabilities excluding cash and cash equivalents and financial lease liabilities.

Cash flow sensitivity analysis for variable rate instruments

The basis for the interest sensitivity is a parallel shift of 1 percentage points up and down in interest rates on all interest bearing (non-current and current) variable rate instruments excluding lease liabilities and cash and cash equivalents during the financial year 2022 with all other variables being constant. For all the variable rate instruments the one percentage point change upwards or downwards would have had the following impact in financial expenses and trough change in the fair market value of the interest rate derivatives in hedge accounting in other comprehensive income.

	Profit and loss		Other comprehensive income	
2022 EUR million	1 percentage point increase	1 percentage point decrease	1 percentage point increase	1 percentage point decrease
Variable rate instruments	-3.0	0.0	–	–
Interest rate swaps	0.3	-0.3	2.4	-2.4
Cash flow sensitivity (net)	**-2.7**	**-0.2**	**2.4**	**-2.4**

	Profit and loss		Other comprehensive income	
2021 EUR million	1 percentage point increase	1 percentage point decrease	1 percentage point increase	1 percentage point decrease
Variable rate instruments	-0.4	0.0	–	–
Cash flow sensitivity (net)	**-0.4**	**0.0**	**–**	**–**

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

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.

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.

Impairment

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

	Carrying amount					
31 Dec 2022 EUR million	Fair value through OCI	Fair value through profit or loss	Amortised cost	Total	Fair value	Fair value hierarchy
Financial assets						
Forward foreign exchange contracts	2.0	0.7	–	2.7	2.7	Level 2
Interest rate derivatives	2.7	–	–	2.7	2.7	Level 2
Trade receivables	–	–	89.1	89.1	89.1	Level 2
Cash and cash equivalents	–	–	65.4[1]	65.4	65.4	
Total assets	4.7	0.7	154.5	159.8	159.8	
Financial liabilities						
Forward foreign exchange contracts	1.4	0.1	–	1.5	1.5	Level 2
Loans from financial institutions	–	–	279.4	279.4	279.4	Level 2
Commercial papers	–	–	10.0	10.0	10.0	Level 2
Redemption liability[2]	–	–	7.6	7.6	7.6	Level 3
Trade payables	–	–	102.1	102.1	102.1	Level 2
Total liabilities	1.4	0.1	399.1	400.6	400.6	

[1] Cash and cash equivalents include EUR 9.1 million classified as assets held for sale.
[2] The redemption liability has been classified as liabilities related to assets held for sale.

	Carrying amount					
31 Dec 2021 EUR million	Fair value through OCI	Fair value through profit or loss	Amortised cost	Total	Fair value	Fair value hierarchy
Financial assets						
Forward foreign exchange contracts	0.5[1]	0.1[1]	–	0.7	0.7	Level 2
Trade receivables	–	–	77.1	77.1	77.1	Level 2
Cash and cash equivalents	–	–	177.6	177.6	177.6	
Total assets	0.5	0.1	254.7	255.4	255.4	
Financial liabilities						
Forward foreign exchange contracts	1.4	0.6	–	2.0	2.0	Level 2
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	

[1] Comparative figures restated to correct figures.

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 in use, if any, are included in current liabilities in the consolidated statement of financial position.

Cash and cash equivalents

EUR million	31 Dec 2022	31 Dec 2021
Bank balances	56.3	177.6
Total	56.3	177.6

31 December 2022 Group had cash and cash equivalents by the amount of EUR 9.1 million classified as assets held for sale.

At the end of 2021 cash and cash equivalents included 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 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 equity, translation differences, fair value reserve, 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 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 recognised in accordance with the accounting policy adopted for share-based payments.

Profit distribution

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

Share capital and number of shares

The Company's registered share capital on 31 December 2022 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 Purmo Group Plc's founding shareholder, Virala Corporation. The shares have no nominal value. The Founder Shares are not publicly traded. The company has no treasury shares.

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 holder of class F shares have right to demand conversion into class C shares subject to certain price hurdles calculated in accordance with the Articles of Association. Further class F shares carry a right to asset distribution equivalent to a certain proportion of asset distributed to class C shares in accordance with the Articles of Association.

Purmo Group Plc (former Virala Acquisition Company Plc) 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 the company's founding shareholder, Virala Corporation, have become eligible for conversion into class C shares starting from 28 June 2024.

At the General Meeting of shareholders, one share of either class carries one vote. Class C shares carry 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 shares and class F shares carry equal right to dividends and to other distributions of assets unless otherwise stipulated in the Articles of Association of Purmo Group.

On 1 March 2022 Purmo Group announced a directed share issue of 671,779 class C shares to the sellers of TT Thermotech Intressenter AB in connection with the acquisition of the company. The subscription price was EUR 13.50 per class C share and the subscription price totalling EUR 671,779 has been recorded to the reserve of invested unrestricted equity.

On 27 September 2022 Purmo Group announced that the board approved a total of 66,403 subscriptions of new class C shares in the directed share issue to management and key employees. The sub-scription price was EUR 10.23 per class C share and the subscription price totalling EUR 671,302.69 has been recorded to the reserve of invested unrestricted equity and was entered in the Finnish Trade Register on 25 October 2022.

Changes in share capital

		Number of outstanding shares (pcs)		Share capital (EUR million)	Reserve of unrestricted equity (EUR million)
		Class C share	Class F share		
1 Jan 2022		**40,374,531**	**1,565,217**	**3.1**	**385.9**
1 Mar 2022	Directed share issue of class C shares	671,779	-	-	9.1
4 May 2022	Return of capital	-	-	-	-7.3
3 Oct 2022	Return of capital	-	-	-	-7.6
25 Oct 2022	Directed share issue of class C shares	66,403	-	-	0.7
31 Dec 2022		**41,112,713**	**1,565,217**	**3.1**	**380.8**

Authorisation of the Board of Directors to resolve on the issuance of shares as well as on the issuance of special rights entitling to shares

On 24 April 2022 the Annual General Meeting decided that the Board of Directors is authorised 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 authorisation 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 Purmo Group. The authorisation may be used to improve Purmo Group's capital structure, to finance or carry out corporate acquisitions or other arrangements, for incentive arrangements and remuneration schemes or for other purposes resolved by the Board of Directors. However, a maximum of 25 per cent of the authorisation, 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 Board of Directors shall decide on all the conditions of the issuance of shares and of special rights entitling to shares. The issuance of shares and of special rights entitling to shares may be carried out in deviation from the shareholders' pre-emptive rights (directed issue).

The authorisation is effective until the end of the next Annual General Meeting, however no longer than until 30 June 2023. The authorisation revokes the previous authorisation granted by the Extraordinary General Meeting on 13 December 2021 to resolve on the issuance of shares as well as on the issuance of special rights entitling to shares.

Authorisation to purchase own shares

On 24 April 2022 the Annual General Meeting decided that the Board of Directors is authorised 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 authorisation 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 Purmo Group, 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 shares may be repurchased or accepted as pledge in one or several instalments and either through a tender offer made to all shareholders on equal terms or otherwise than in proportion to the shares held by the shareholders (directed repurchase) in public trading at the prevailing market price or at a price otherwise formed on the market. The shares would be repurchased with funds from the Company's unrestricted shareholders' equity.

The shares will be repurchased to be used to improve Purmo Group's capital structure, to finance or carry out corporate acquisitions or other arrangements, for incentive arrangements and remuneration schemes or to be retained by the Company as treasury shares, transferred, cancelled or for other purposes resolved by the Board. The Board of Directors shall decide on all other terms and conditions regarding the repurchase of the Company's own shares and acceptance thereof as pledge.

The authorisation is effective until the end of the next Annual General Meeting, however no longer than until 30 June 2023. The authorisation revoked the previous authorisation granted.

Dividends and return of capital

After the balance sheet date, the Board of Directors proposed a payment of funds from the invested unrestricted equity reserve as a return of capital of EUR 0.36 per share 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 2022. The company paid EUR 0.36 per share for class C share and EUR 0.07 per share for class F share totalling approximately EUR 14.9 million from the invested unrestricted equity reserve as a return of capital for the financial year 2021.

Additional information on equity is presented in Notes to the parent company financial statements, in Note 8.

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.

Earnings per share, basic

	2022	2021
Profit/loss attributable to shareholders of the parent company for C shares, EUR million	13.0	-18.7
Profit/loss attributable to shareholders of the parent company for F shares, EUR million	0.1	-0.1
Profit/loss attributable to the owners of the Company, EUR million	13.1	-18.8
Weighted average number of shares outstanding, pcs[1]	41,244,426	29,124,487[2]
Basic earnings per share, EUR	**0.32**	**-0.65**

Earnings per share, diluted

	2022	2021
Profit/loss attributable to shareholders of the parent company for C shares, EUR million	13.0	-18.7
Profit/loss attributable to shareholders of the parent company for F shares, EUR million	0.1	-0.1
Profit/loss attributable to the owners of the Company, EUR million	13.1	-18.8
Weighted average number of shares outstanding, pcs[1]	41,244,426	29,124,487[2]
Diluted earnings per share, EUR	**0.32**	**-0.65**

[1] Including 293,478 class F shares convertible to class C shares at the start of the conversion period on 28 June 2024.
[2] The number of shares in the comparison period are those of Purmo Group Ltd. Before the merger 31 December 2021 Purmo Group Ltd shares amounted to 11,073,834 which have been converted using the 31 December 2021 merger consideration ratio 2.600334506.

The earnings per share for 2021 was 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 recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest method. The difference, between the debt amount recognised and the redemption amount, is recognised in profit and loss 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, recognised 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 derecognised only, if the contractual obligation is discharged, cancelled or expired. Fees paid on the establishment of loan facilities are recognised in profit and loss as other finance expenses over the period of the facility, or, if withdrawal of the loan is probable, as part of the transaction cost. Fees paid on the establishment of credit facilities are recognised in profit and loss as other finance expenses over the period of the facility, or, if withdrawal of the loan is probable, as part of the transaction cost.

Non-current liabilities

EUR million	31 Dec 2022	31 Dec 2021
Loans from financial institutions	278.1	277.7
Redemption liability[1]	–	8.1
Lease liabilities	34.3	30.7
Total	312.4	316.5

[1] In 2022 included in liabilities directly attributable to assets held for sale.

Current liabilities

EUR million	31 Dec 2022	31 Dec 2021
Loans from financial institutions	1.4	95.0
Commercial papers	10.0	–
Lease liabilities	9.4	5.6
Total	20.7	100.6
Total liabilities	333.1	417.1

Changes in financial liabilities arising from cash flow from financing activities

EUR million	Loans from financial institutions	Lease liabilities	Total
1 Jan 2022	372.7	36.4	409.1
Changes from financing cash flows			
Purchases of subsidiaries and business acquisitions	–	2.9	2.9
Classified as assets held for sale	–	-0.4	-0.4
Divestments	–	-0.2	-0.2
Proceeds from short-term borrowings	199.2	–	199.2
Repayment of short-term borrowings	-282.9	–	–
Repayment of lease liabilities	–	-7.7	-7.7
Total	-83.6	-5.4	191.5
New leases	–	13.4	13.4
Interest expense	0.4	–	0.4
Effects of exchange rates	0.0	-0.7	-0.7
31 Dec 2022	289.4	43.7	613.6

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[1]	–	–	-7.2	-7.2
Total	-90.0	370.1	-7.2	273.0
New leases	–	–	7.8	7.8
Interest expense	–	-2.3	–	-2.3
Effects of exchange rates	–	0.4	–	0.4
31 Dec 2021	0.0	372.7	36.4	409.1

[1] Comparability period restated.

Terms and repayment schedule

The terms and conditions of outstanding borrowings are as follows:

		31 Dec 2022		31 Dec 2021	
EUR million	Currency	Year of maturity	Carrying amount	Year of maturity	Carrying amount
Loans from financial institutions	EUR	2024	278.1	2024	372.7
Commercial papers	EUR	2023	10.0	–	–
Loans from financial institutions	CNY	2023	1.4	2023	–
Lease liabilities	EUR	2023–	43.7	2022–	36.4
Total borrowings			333.1		409.0

5.7 Derivative financial instruments

ACCOUNTING POLICIES

Derivative instruments, fair value and hedge accounting

Derivatives

Derivatives are initially recognised in the balance sheet at fair value and subsequently measured at their value at each balance sheet date. Derivatives are designated at inception either as hedges of firm commitments or forecasted transactions (cash flow hedges) or as derivatives at fair value through profit and loss that do not meet the criteria of hedge accounting. Interest component of all foreign exchange derivatives are included in financial items.

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.

Fair value

The fair value of foreign exchange forward contracts is determined using forward exchange market rates at the balance sheet date. The fair value of interest rate derivatives is calculated as the present value of the estimated future interest cash flows based on market yield curves.

Cash flow hedge

The Group applies cash flow hedging to interest rate swaps and certain foreign exchange forward contracts.

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.

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. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The hedging results of foreign exchange forward contracts are recycled from other comprehensive income and presented on a net basis either in other income or other expenses. The gain or loss related to the ineffective portion of hedging instruments is reported in other income or expenses, net or under financial items when related to interest rate swaps.

Derivatives at fair value through profit and loss
Certain hedging instruments do not qualify for hedge accounting regardless the proving to be effective in terms of risk management under Group Treasury Policy. The fair value change of these instruments is recognised in profit and loss. For non-hedge accounting derivatives hedging operative receivables or payables the changes in fair value is presented, in other income or expenses, and when hedging financial receivables or payables, in net 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 2022	31 Dec 2021
Foreign currency forward contracts		
Carrying amount, assets	2.0	0.5
Carrying amount, liabilities	1.4	1.4
Notional amount	160.8	114.1
Hedge ratio	1:1	1:1
Hedging results, recycled to other expenses	-0.5	-1.9
Weighted average hedged rates (FX rate)		
GBP	0.90	0.87
PLN	4.96	4.70
SEK	10.79	10.25
RON	5.31	5.08
Maturity breakdown of notional amounts		
Between 1 and 6 months	115.0	80.2
Between 6 and 12 months	101.3	73.5
Over 12 months	–	–
Total	216.3	153.7

The following table summarises the effects of the interest rate swaps, to which hedge accounting is applied, on the Group's financial position and performance. The fixed interest rate of the interest rate swaps varied between 1.3 and 3.0 percent as at 31 December 2022.

EUR million unless otherwise stated	31 Dec 2022	31 Dec 2021
Interest rate swaps		
Carrying amount, assets	2.7	–
Carrying amount, liabilities	–	–
Notional amount	100.0	–
Hedge ratio	1:1	–
Hedging results, recycled to other expenses	-0.4	–
Maturity breakdown of notional amounts		
Under 12 months	–	–
Over 12 months	100.0	–
Total	100.0	–

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 in the notes to the consolidated financial statements and recognises them also when the realisation of them is not probable.

Guarantees

EUR million	2022	2021
Bank guarantees	8.3	8.0
Parent guarantees	15.7	21.0
Total	24.0	29.0

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.

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.

6.1.1 Acqusitions

2022

TT Thermotech Intressenter AB

Purmo Group acquired the entire share capital of the Nordic heating system company TT Thermotech Intressenter AB on 1 March 2022. The preliminary consideration paid was EUR 9.2 million in cash and EUR 7.4 million in shares, and the amount of cash and cash equivalents obtained was EUR 0.2 million. The acquisition includes an earn-out of EUR 0.3 million payable in cash subject to achievement of certain objectives.

The preliminary identified other intangible assets relate to customer relationships, technology and trademarks amounting to EUR 8.5 million. The EUR 5.9 million goodwill arising from the acquisition reflects the synergies expected to be achieved in sales, purchasing, selections and operational efficiency. The goodwill is not tax deductible. The Group's profit and loss included EUR 0.4 million in acquisition-related costs under other operating expenses, presented as non-recurring items.

TT Thermotech Intressenter AB had a EUR 21.4 million impact on net sales for March–December 2022 and the impact on net profit was EUR 0.5 million. If the acquisition had taken place on 1 January 2022, according to management estimates, the impact on Group net sales would have been EUR 25.7 million and on the net profit EUR 0.7 million.

TT Thermotech Intressenter AB was merged into it's subsidiary TT Thermotech Scandinavia AB in December 2022.

Preliminary fair values of acquired assets and liabilities at time of acquisition:

2022 EUR million	
Purchase price	
Purchase price paid in cash	9.2
Purchase price paid in shares	7.4
Fair value of net identifiable assets acquired	
Goodwill	0.2
Other intangible assets	13.3
Tangible assets	1.3
Right-of-use assets	2.8
Inventories	5.9
Other current assets	3.9
Cash and cash equivalents	0.2
Total assets	**27.7**
Interest-bearing liabilities	9.4
Deferred tax liabilities	3.3
Current liabilities	3.7
Total liabilities	**16.5**
Net assets acquired	**11.2**
Less goodwill on acquired balance sheet[1]	-0.2
Net assets acquired excluding goodwill	**11.0**
Earn-out	0.3
Goodwill	**5.9**
Cash flow impact	
Purchase price paid in cash	-9.2
Cash and cash equivalents of the acquired company	0.2
Expenses related to the acquisition	-0.4
Impact on cash flow	**-9.4**

[1] Goodwill on the acquired entities balance sheet is deducted as it is not an identifiable asset of Purmo Group according to IFRS.

2021

Merger of Virala Acquisition Compand Plc and Purmo Group Ltd

On 31 December 2022 Virala Acqusition Company Plc ("VAC") and Purmo Group Ltd 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 recapitalisation, in which no goodwill was recognised 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 profit and loss 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.

Euroradiators Holding B.V.

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 is a factory that was established in 2014 for the production of radiators for the Russian market.

The provisional fair value of the net assets acquired at the acquisition date was EUR 7.1 million and accordingly Purmo Group recognised a provisional goodwill of EUR 4.0 million, which has been allocated to Radiators cash-generating unit for impairment testing purposes. End of March 2022 Purmo Group decided to exit its business in Russia and the goodwill was impaired. The Russian business has been measured at fair value less costs to sell and classified as assets held for sale and continuing operations at the balance sheet date; see Note 6.2 Assets held for sale.

The acqusition-related costs have been included under other operating expenses. 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. The redemption liability has been measured at fair value and classified as liabilities related to assets held for sale.

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

2021 EUR million	
Purchase price	
Purchase price paid in cash	5.5
Fair value of net identifiable assets acquired	
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**
Redemption liability	5.6
Goodwill	**4.0**
Cash flow impact	
Purchase price paid in cash	-5.5
Cash and cash equivalents of the acquired company	1.0
Expenses related to the acquisition	-0.0
Impact on cash flow	**-4.5**

6.1.2 Disposals

2022

In September 2022 Purmo Group divested the shares in Lampo Heating (Tianjin) Co., Ltd., to a third party. The company owned a real-estate property and a land area in Tianjin, China. The impact of the divestment on the profit for the financial period is approx. EUR 1.3 million.

EUR million	
Assets	2.9
Liabilities	0.3
Net assets disposed	**2.6**
Cash consideration received	4.3
Translation differences reclassified to profit and loss	-0.4
Net assets sold	-2.6
Sales gain	**1.3**
Cash flow impact	
Purchase price received in cash	4.3
Cash and cash equivalents of the disposed company	-1.5
Expenses related to the disposal	0.0
Impact on cash flow	**2.7**

2021

No disposals during the period.

6.2 Assets held for sale

ACCOUNTING PRINCIPLES

Non-current assets or disposal groups and liabilities are classified as held for sale if their carrying amounts are expected to be recovered primarily through sale rather than through continuing use. Classification as held for sale requires that the following criteria are met; the sale is highly probable, the asset is available for immediate sale in its present condition subject to usual and customary terms, the management is committed to the sale and the sale is expected to be completed within one year from the date of classification.

Prior to classification as held for sale, the assets or assets and liabilities related to a disposal are measured according to the respective IFRS standards. From the date of classification, non-current assets held for sale and liabilities are measured at the lower of the carrying amount and the fair value less costs to sell, and the recognition of depreciation and amortisation is discontinued. Non-current assets held for sale and liabilities are presented in the statement of financial position separately from other items.

End of March 2022 Purmo Group took the decision to exit its business in Russia. The Group will seek to divest and complete an orderly transfer of the business to a new owner, in compliance with international and local laws and considering the wellbeing of our employees in Russia. Upon completion of the divestment, the Group will no longer have a manufacturing operation or sales in Russia. The Russian business has been measured at fair value less costs to sell and classified as assets held for sale and continuing operations. The Group's management has assessed the balance sheet impact of the decision to divest the business in Russia.

The management has considered indicators of impairment of goodwill and intangible assets, the recoverable amount of property plant and equipment and right-of-use assets, the valuation of inventories, trade receivables and the redemption liability. Due to the significant uncertain-ties related to the business in Russia the Group has recognised impairment charges and write-downs of EUR 6.9 million in March 2022 on goodwill, intangible assets, property, plant and equipment, right-of-use assets, inventories and the redemption liability and an additional write-down of EUR 6.0 million in December 2022 on inventories and other assets.

EUR million	2022	2021
Assets held for sale[1]		
Tangible assets	0.0	-
Inventories	4.4	-
Other assets	0.6	-
Cash and cash equivalents	9.1	-
Total	**14.0**	**-**
Liabilities related to assets held for sale		
Interest-bearing liabilities	7.6	-
Other liabilities	2.4	-
Total	**10.0**	**-**

[1] Amounts are presented net of internal balances with other Purmo Group subsidiaries.

6.3 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 de-recognises 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 2022 are set out below. Unless otherwise stated the portion of ownership interest held equals the voting rights held by the Purmo Group.

Company	Country of incorporation	Activities	% Equity interest
Purmo Group Oyj	Finland	Parent company	100
Purmo Group Finland Oy Ab	Finland	Sales	100
Purmo Group Latvia SIA	Latvia	Sales	100
Purmo Group Estonia AS	Estonia	Sales	100
ZAO EVRA Varme RUS	Russia	Sales	100
Purmo Group Denmark ApS	Denmark	Sales	100

Company	Country of incorporation	Activities	% Equity interest
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
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	Dormant	100
PG Ceska s.r.o	Czech Republic	Sales	100
Purmo Group USA Inc	United States	Sales	100
Purmo Group Turkey Ticaret 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
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
Euroradiators Holding B.V.	Netherlands	Holding	51
Evroradiators LLC Russia[1]	Russia	Production and sales	51
TT Thermotech Management Services AB	Sweden	Holding	100
TT Thermotech Scandinavia AB	Sweden	Production and sales	100
Thermotech Scandinavia Finland Oy	Finland	Sales	100
Thermotech Pipeline Oy	Finland	Dormant	100

[1] 100% owned by Euroradiators Holding B.V

6.4 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.

		Average rates		Closing rates	
		2022	2021	31 Dec 2022	31 Dec 2021
CNY	Chinese yuan	7.0789	7.6298	7.3582	7.1947
GBP	Pound sterling	0.8528	0.8598	0.8869	0.8403
HUF	Hungarian forint	391.30	358.54	400.87	369.19
PLN	Polish zloty	4.6861	4.5652	4.6808	4.5969
RON	Romanian leu	4.9313	4.9213	4.9495	4.9490
RUB	Russian ruble	71.87	87.17	77.30	85.30
SEK	Swedish krona	10.6294	10.1459	11.1218	10.2503
USD	US dollar	1.0530	1.1827	1.0666	1.1326

7. Other notes

7.1 Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence on the other party, or if the parties exercise joint control in making financial and operating decisions. Purmo Group's related parties include subsidiaries as well as the members of the Board of Directors and the 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.

Until the merger of Virala Acquisition Company Plc and Purmo Group Ltd 31 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.

Rettig Group Ltd held 61.80% of the Company's shares and voting rights on 31 December 2022 and 68.28% in 31 December 2021, respectively.

Parent and ultimate controlling party

EUR million	2022	2021
Items in profit and loss		
Interest income	0.0	0.1
Interest expenses	–	-2.2
Purchases	-0.1	-0.5
Derivative instruments, gain	–	-0.0
Items in the balance sheet		
Non-current receivables	0.2	0.0
Current liabilities	–	0.0
Current receivables	–	–
Items recognised in equity		
Dividend and repayment of capital	-9.8	-266.4
Merger	–	152.1

Transactions with key management personnel

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. The information presented in the tables below are on an accruals basis.

Remuneration to the members of the Board of Directors

EUR thousand	2022	2021
Fees	475.8	168.2
Management incentive program (share-based payment)	–	335.0
Total	475.8	503.2

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

2022 EUR thousand	CEO	Members of the Management team
Salaries and other short-term employee benefits	486.3	1,119.1
Short term incentives	267.6	403.0
Post-employment benefits	62.3	112.1
Management incentive program (share-based payment)	–	–
Termination benefits	–	454.9
Total	816.2	2,076.2

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	2,151.1[1]

[1] Comparative figure restated

Purmo Group has outstanding loan receivables from Group management of EUR 0.2 (0.2) million at the financial year end.

In July 2022 Purmo Group announced that the Board of Director's had decided to launch a new share-based incentive plan directed for management and key employees. Based on the share-based incentive plan the Company's CEO and management team subscribed a total of 10,752 new class C shares and tied 72,514 previously owned class C shares to the plan during 2022. For more information about the share-based incentive plan, please see Note 2.5 Share-based payments.The company provided the participants a possibility to finance 50 per cent of the subscription value through an interest-bearing loan from the company, which some of the Group management utilised. The loans were withdrawn in October 2022 and will be repaid in full on 30 May 2028, at the latest. The participants have pledged subscribed shares as a security for performing the obligations under the concluded loan agreement. The Annual General Meeting has authorised the Board of Director's to accept the Company's class C shares as a pledge, see Note 5.5 Equity. As a result, Purmo Group had 5,376 class C shares as a pledge at the end of the reporting period. 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 (0.0) million at the financial year end.

Purmo Group has also granted loans to the Group management during 2018 and 2020 to make the initial personal investment to subscribe the Company's former class K shares in connection of participants becoming eligible for the 2018 and 2020 incentive plans. he shares subscribed by the borrowers are pledged as security for the repayment of loan balance. The Annual General Meeting has authorised the Board of Director's to accept the Company's class C shares as a pledge, see Note 5.5 Equity. 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 (0.0) million at the financial year end. 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.

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 recognised on the balance sheet. Deferred tax assets are recognised 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	2022	2021
Income tax expense		
For the financial period	-14.8	-13.4
For previous financial periods	1.9	0.4
Change in deferred taxes	4.5	-0.8
Total	-8.4	-13.7

Amounts recognised in other comprehensive income

EUR million	2022	2021
Items that will never be reclassified to profit or loss		
Tax related to post-employment defined benefit plans	-0.2	0.2
Items that are or may be reclassified to profit or loss		
Cash flow hedges	-0.8	0.2
Total	-1.1	0.3

Reconciliation of effective tax rate

EUR million	2022	2021
Profit before tax	21.6	-5.1
Tax using the Company's domestic tax rate	-4.3	1.0
Effect of tax rates in foreign jurisdictions	-0.7	-1.8
Non-deductible expenses	-5.9	-3.5
IFRS 2 merger impact	-	-10.5
Tax-exempt income	1.4	2.5
Current year losses for which no deferred tax asset was recognised	-0.2	-0.5
Change in unrecognised temporary differences (tax losses)	0.4	1.3
Prior year taxes	1.9	0.4
Effect of tax consolidation/tax group in one country	0.0	0.0
Other	-0.9	-2.7
Tax in profit and loss statement	-8.4	-13.7
Effective tax rate	39.1%	-269.7%[1]

[1] Without the non-cash IFRS 2 merger impact the comparable tax rate would have been 29.1%

The total income tax expense of the Group for 2022 was EUR -14.8 million. Defining effective tax rate or comparing it to previous periods is not meaningful for 2022 as the 2021 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 39.1% (29.1%). 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

2022 EUR million	1 Jan	Recognised in profit and loss	Exchange differences	Recognised in OCI	Acquisitions and other	31 Dec
Property, plant and equipment	1.7	0.4	0.0	–	-0.0	2.1
Financial assets	0.6	0.4	0.0	-0.1	–	0.9
Inventories	2.4	-0.3	0.0	–	-0.3	1.8
Post-employment benefit obligations/assets	3.5	0.1	0.0	-0.3	–	3.3
Provisions	4.4	-0.4	0.0	–	-0.0	4.0
Tax losses carried forward	19.2	–	5.2	–	1.7	26.1
Other temporary differences	3.0	-0.1	-0.0	–	-0.2	2.6
Deferred tax assets, total	**34.9**	**-0.1**	**5.2**	**-0.4**	**1.0**	**40.7**
Offset against deferred tax liabilities	-8.4	–	–	–	-3.2	-11.6
Total deferred tax	**26.5**	**-0.1**	**5.2**	**-0.4**	**-2.1**	**29.1**

Deferred tax liabilities

2022 EUR million	1 Jan	Recognised in profit and loss	Exchange differences	Recognised in OCI	Acquisitions and other	31 Dec
Intangible assets	0.8	-0.3	0.5	–	2.6	3.7
Property, plant and equipment	6.5	-0.3	0.5	–	0.4	7.1
Financial assets	0.4	-0.5	1.0	0.7	–	1.7
Inventories	-0.0	0.2	-0.3	–	0.1	-0.1
Post-employment benefit obligations/assets	-0.1	0.1	0.3	-0.0	0.4	0.6
Provisions	0.1	0.0	0.0	–	–	0.1
Other temporary differences	3.3	-0.0	0.0	–	0.5	3.8
Deferred tax liabilities, total	**11.0**	**-0.9**	**2.0**	**0.7**	**4.0**	**16.9**
Offset against deferred tax assets	-8.4	–	–	–	-3.2	-11.6
Total deferred tax	**2.6**	**-0.9**	**2.0**	**0.7**	**0.9**	**5.3**

Deferred tax assets

2021 EUR million	1 Jan	Recognised in profit and loss	Exchange differences	Recognised in OCI	Acquisitions 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 EUR million	1 Jan	Recognised in profit and loss	Exchange differences	Recognised in OCI	Acquisitions 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 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 2022, Purmo Group had EUR 10.0 (36.0) 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. For these tax losses EUR 0.0 (3.0) million will expire during the next five years and EUR 10.0 (33.0) 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

As of 1 January 2023 Purmo Group's segment reporting will be changed based on the new organisation structure announced 5 October 2023. The new organisation will consist of two business divisions: Climate Products & Systems, which will sell through the wholesaler channels; and Climate Solutions, which will sell integrated solutions directly to installers served by the company's Emmeti business in South Europe and Thermotech business in the Nordic region. The third reporting segment will be Other and unallocated items. The company will provide adjusted comparison figures for the new segments before the publication of the January–March 2023 interim report.

On 16 February 2023 Purmo Group announced the issue of green capital securities of EUR 60.0 million. The Capital Securities will bear interest at a fixed rate of 9.5 percent per annum until 23 February 2026 after which the Capital Securities will bear interest at a floating interest rate quarterly in arrears on each interest payment date. The Capital Securities do not have a specified maturity date, and Purmo Group is not under an obligation to repay, repurchase or redeem the Capital Securities at any specified date. Purmo Group has the possibility to redeem the Capital Securities on the reset date, on 23 February 2026. Purmo Group's major shareholder, Rettig Group Oy Ab, and its affiliates are participating in the issuance by subscribing for the Capital Securities in an amount of EUR 5.0 million. The rationale for the issuance of the Capital Securities is to ensure funding for Purmo Group's announced strategy acceleration programme. The net proceeds from the issue will be used in accordance with Purmo Group's Green Finance Framework announced on 13 February 2023. The issue date for the Capital Securities will be 23 February 2023. The Capital Securities are instruments that are subordinated to the company's other debt obligations and will be treated as equity in Purmo Group's consolidated financial statements prepared in accordance with IFRS. The Capital Securities do not confer to its holders the rights of a shareholder and does not dilute the holdings of the current shareholders. An application will be made to have the Capital Securities listed on the official list of the Helsinki Stock Exchange maintained by Nasdaq Helsinki Ltd within three months from the issue date.

On 22 February 2023 Purmo Group announced that Jan-Elof Cavander (MSc. Ind. Eng.) has been appointed Chief Financial Officer of Purmo Group Plc and a member of the Management team. He will report to Chief Executive Officer John Peter Leesi and will be based in Helsinki, Finland. Mr. Cavander will join Purmo Group on 22 June 2023, the latest.

8. Parent company financial statements

Parent company income statement

EUR thousand	Note	2022	2021
Other operating income	8.2	22,068	–
Employee benefit expenses	8.3	-2,222	-137
Depreciations and amortisations	8.4	-3,712	–
Other operating expenses	8.5	-32,968	-9,926
Operating profit/loss		**-16,834**	**-10,063**
Financial income and expenses	8.6	48,503	0
Profit/loss before appropriations and taxes		**31,669**	**-10,063**
Appropriations	8.7	630	–
Income tax expense	8.8	2,011	2,013
Profit/loss for the period		**34,310**	**-8,050**

Parent company balance sheet

EUR thousand	Note	2022	2021
Assets			
Non-current assets			
Intangible assets	8.9	25,682	28,933
Tangible assets	8.10	3	3
Investments	8.11	559,148	559,634
Total non-current assets		**584,833**	**588,570**
Current assets			
Long-term receivables	8.12	65,144	29,179
Short-term receivables	8.13	143,368	111,393
Cash and cash equivalents		46,189	163,304
Total current assets		**254,701**	**303,876**
Total assets		**839,534**	**892,446**
Equity and liabilities			
Equity			
Share capital	8.14	3,080	3,080
Unrestricted equity reserve	8.14	380,779	385,917
Retained earnings	8.14	-8,052	-2
Profit/loss for the fiscal period		34,310	-8,050
Total equity		**410,117**	**380,945**
Liabilities			
Long-term liabilities	8.15	278,052	277,654
Short-term liabilities	8.16	151,365	233,847
Total current liabilities		**429,417**	**511,501**
Total equity and liabilities		**839,534**	**892,446**

Parent company cash flow statement

EUR thousand	2022	2021
Cash flows from operating activities		
Profit before appropriations and taxes	31,669	-10,063
Depreciations	3,712	-
Finance income and expenses	-48,503	0
Other adjustments	9,523	0
Operating profit before change in working capital	**-3,599**	**-10,063**
Change in working capital		
Increase (-) / decrease (+) of current receivables	-4,104	-532
Increase (+) / decrease (-) of current non-interest bearing liabilities	21,624	2,660
Cash flows from operating activities before financial items and taxes	**13,920**	**-7,936**
Interests paid and other finance costs	-14,379	0
Interests received	7,962	-
Dividends received	53,689	-
Direct income taxes paid	-265	-
Net cash from operating activities	**60,927**	**-7,936**
Cash flows from investing activities		
Purchases of property, plant, equipment and intangible assets	-460	-
Change in long-term loan receivables	-115	-
Acquisition of subsidiaries	-2,339	63,434
Sale of subsidiaries	4,226	-
Net cash from investing activities	**1,312**	**63,434**

EUR thousand	2022	2021
Cash flows from financing activities		
Capital returns paid	-14,886	-
Proceeds from share capital increase	-	77
Proceeds from share issues	679	226
Proceeds from offering	-	107,500
Change in short-term loans	-85,000	-
Change in subsidiary long-term loans	-35,139	-
Change in subsidiary short-term loans	-45,008	-
Net cash fom financing activities	**-179,354**	**107,803**
Change in cash and cash equivalents	**-117,115**	**163,302**
Cash and cash equivalents at the beginning of the period	163,304	2
Cash and cash equivalents at the end of the period	46,189	163,304

Notes to the Parent Company Financial Statements

8.1 Accounting principles

The financial statements of the parent company, Purmo Group, have been prepared in accordance with the Finnish Generally Accepted Accounting Principles. The financial statements are presented in thousand euros.

Foreign currency translations and derivatives
Transactions in foreign currencies are recorded in euro at the exchange rate prevailing at the date of the transaction. At the end of the accounting period, monetary items are valued at the exchange rate prevailing at the end of period.

Company uses derivatives to hedge its foreign exchange and interest rate risk. The fair value of derivative instruments is presented as off-balance sheet liability in note 8.14 Derivative contracts.

Tangible and intangible assets
Tangible and intangible assets are valued at historical cost, less accumulated depreciation according to plan.

Depreciation and amortisation 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 intangible assets	20 years
Machinery and equipment	3–5 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 and return of capital
Dividends and return of capital proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the Annual General Meeting.

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.

8.2 Other operating income

EUR thousand	2022	2021
Service income	22,068	–
Total	22,068	0

8.3 Employee benefit expenses

EUR thousand	2022	2021
Salaries and fees	-1,912	-135
Social security costs	-44	-2
Pension costs	-267	–
Total	-2,222	-137
Salaries and fees to the management		
Chief Executive Officer	–	–
Board of Directors	-496	-135
Personnel on average	14	-

8.4 Depreciations and amortisations

EUR thousand	2022	2021
Other intangible assets	-3,707	–
Machinery and equipment	-4	–
Total	-3,712	0

8.5 Other operating expenses

EUR thousand	2022	2021
Expenses related to the share issue	–	-6,114
Administration	–	-3,654
Loss on sale of subsidiary shares	-1,744	–
Write-down of subsidiary shares	-7,754	–
Other expenses	-23,469	-158
Total	-32,968	-9,926

Auditors' fees

EUR thousand	2022	2021
Authorised Public Accountants KPMG		
Audit	-171	-34
Audit related services	-79	-22
Tax consultation	-52	-2
Other services	-0	-346
Total	-302	-404

8.6 Financial income and expenses

EUR thousand	2022	2021
Dividend income		
From Group companies	53,689	–
Interest income		
From Group companies	10,396	–
From others	2,710	–
Other financial income		
From Group companies	8,981	–
From others	25,005	–
Total	100,781	–
Interest expenses		
To Group companies	-2,221	–
To others	-14,042	0
Other financial expenses		
To Group companies	-12,331	–
To others	-23,684	–
Total	-52,278	0
Financial income and expenses total	48,503	0

8.7 Approriations

EUR thousand	2022	2021
Group contributions received	630	–
Total	630	–

8.8 Income taxes

EUR thousand	2022	2021
Income tax for prior financial years	-265	–
Change in deferred taxes	2,276	2,013
Total	2,011	2,013

8.9 Intangible assets

EUR thousand	2022	2021
Other intangible assets		
Acquisition cost 1 Jan	36,377	–
Additions	0	
Additions coming from the merger		36,377
Acquisition cost 31 Dec	36,833	36,377
Accumulated amortisation 1 Jan	-7,443	–
Accumulated amortisation of the merger	–	-7,443
Amortisations for the financial year	-3,707	
Accumulated amortisation 31 Dec	-11,151	-7,443
Book value 31 Dec	25,682	28,933

8.10 Tangible assets

EUR thousand	2022	2021
Machinery and equipment		
Acquisition cost 1 Jan	46	–
Additions	4	–
Additions coming from the merger	–	46
Acquisition cost 31 Dec	**50**	**46**
Accumulated depreciation 1 Jan	-43	–
Accumulated depreciation of the merger	–	-43
Depreciations for the financial year	-4	–
Accumulated amortisation 31 Dec	**-47**	**-43**
Book value 31 Dec	**3**	**3**

8.11 Investments

EUR thousand	2022	2021
Investments in Group companies		
Acquisition cost 1 Jan	559,634	–
Increases	13,239	–
Increases coming from the merger	–	559,634
Decreases	-13,724	–
Acquisition cost 31 Dec	**559,148**	**559,634**

8.12 Long-term receivables

Long-term receivables

Receivables from Group companies

EUR thousand	2022	2021
Loan receivables	60,687	26,754
Total	**60,687**	**26,754**

Receivables from others

EUR thousand	2022	2021
Loan receivables	529	413
Total	**529**	**413**

Deferred tax assets

EUR thousand	2022	2021
Deferred tax assets 1 Jan	2,012	-
From result for the financial year	1,916	2,012
Deferred tax assets 31 Dec	**3,929**	**2,012**
Long-term receivables total	**65,144**	**29,179**

8.13 Short-term receivables

Receivables from Group companies

EUR thousand	2022	2021
Loan receivables	125,296	101,558
Interest receivables	3,957	428
Trade receivables	1,253	2,970
Other receivables	9,828	3,448
Total	140,334	108,403

Receivables from others

EUR thousand	2022	2021
Interest receivables	6	–
Income tax receivables	490	–
Value added tax receivables	127	2,124
Loan receivables	–	233
Other receivables	598	–
Prepayments and accrued income	1,813	633
Total	3,034	2,989
Short-term receivables total	143,368	111,393

8.14 Equity

EUR thousand	Share capital	Unrestricted equity reserve	Retained earnings	Equity total
Equity 1 Jan 2022	3,080	385,917	-8,052	380,945
Capital return		-14,886		-14,886
Share issue		9,748		9,748
Result for the financial year			34,310	34,310
Equity 31 Dec 2022	3,080	380,779	26,258	410,117
Equity 1 Jan 2021	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	385,917	-8,052	380,945

Distributable equity

EUR thousand	2022	2021
Reserve for invested unrestricted equity	380,779	385,917
Retained earnings	-8,052	-2
Net result for the financial period	34,310	-8,050
Total	407,037	377,865

8.14 Long-term liabilities

Liabilities to others

EUR thousand	2022	2021
Loans from financial institutions	278,052	277,654
Total	278,052	277,654
Long-term liabilities total	278,052	277,654

8.16 Short-term liabilities

Liabilities to Group companies

EUR thousand	2022	2021
Loan payables	3,816	43,147
Interest payables	4	30
Trade payables	2,006	1,444
Cash pool payables	131,153	67,645
Other accruals and deferred income	302	18,475
Total	137,282	130,741

Liabilities to others

EUR thousand	2022	2021
Loans from financial institutions	–	95 000
Commercial papers	9 960	–
Interest payables	137	–
Trade payables	1 155	3 425
Other liabilities	–	983
Accruals and deferred income	2 832	3 698
Employee benefit expenses	463	–
Incom tax payables	105	–
Other accruals and deferred income	2 264	3 698
Total	14 083	103 106
Short-term liabilitites total	151 365	233 847

8.17 Collaterals

Commitments and contingencies

EUR thousand	2022	2021
Guaranties given on behalf of group companies	28,079	21,006
Total	28,079	21,006

Lease commitments

EUR thousand	2022	2021
Payments in the following year	139	65
Payments later	23	13
Total	162	78

8.18 Derivative contracts

EUR thousand	2022	2021
Foreign exchange derivatives		
Foreign exchange forward contracts, nominal value	365,821	276,751
Interest rate derivatives		
Interest rate swaps, nominal value	100,000	-

Proposal of the Board of Directors

Purmo Group Plc's distributable funds on 31 December 2022 total EUR 407,036,848.65 which includes EUR 34,309,926.59 in net profit 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 2022 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 2022 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 four instalments. The first instalment of EUR 0.09 per class C share and EUR 0.02 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 14 April 2023. The payment day proposed by the Board for this instalment is 21 April 2023.

The second instalment of EUR 0.09 per class C share and EUR 0.02 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 15 September 2023 and the dividend payment day 22 September 2023.

The third instalment of EUR 0.09 per class C share and EUR 0.02 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 12 December 2023 and the dividend payment day 19 December 2023.

The fourth instalment of EUR 0.09 per class C share and EUR 0.01 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 15 March 2023 and the dividend payment day 22 March 2024.

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, 20 March 2023

Tomas von Rettig
Chair of the Board

Alexander Ehrnrooth

Carina Edblad

Carlo Grossi

Jyri Luomakoski

Catharina Stackelberg-Hammarén

Matts Rosenberg

John Peter Leesi
CEO

Our auditor's report has been issued today.

Helsinki, 20 March 2023

KPMG Oy Ab
Authorized Public Accountant Firm

Kim Järvi
APA

Auditor’s report

This document is an English translation of the Finnish auditor’s report. Only the Finnish version of the report is legally binding.

To the Annual General Meeting of Purmo Group Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Purmo Group Plc (business identity code 2890898-5) for the year ended 31 December 2022. 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 3.1)	
• At the end of the financial year, the group had EUR 371 million of goodwill. The goodwill amounts to 92 % of the group equity and 38 % of the group's total assets on 31 December 2022. • 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.	• 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)	
• 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.	• 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.

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)	
• The value of inventories amounted to EUR 174 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.	• 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.

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 Plc (formerly Virala Acquisition Company Plc) 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, 20 March 2023
KPMG Oy Ab

Kim järvi
Authorised Public Accountant, KHT

Information for shareholders

Information for shareholders

Annual General Meeting 2023

Notice is given to the shareholders of Purmo Group Plc of the Annual General Meeting to be held on Wednesday, 12 April 2023, starting at 1:00 p.m. (EEST) at Studio Eliel at Sanomatalo, Töölönlahdenkatu 2, Helsinki, Finland. The reception of persons who have registered for the meeting and the distribution of voting tickets will commence at the meeting venue at 12:30 p.m. (EEST). The Company's shareholders may also exercise their voting rights by voting in advance.

It is possible for the Company's shareholders to follow the Annual General Meeting through a webcast. Instructions regarding the webcast will be available on the Company's website at https://investors.purmogroup.com/governance/general-meetings/.

Each shareholder registered in the Company's register of shareholders kept by Euroclear Finland Ltd on the record date of the Annual General Meeting, 29 March 2023, has the right to participate in the Annual General Meeting. Notification of participation in the Annual General Meeting and advance voting will commence on 22 March 2023. A shareholder registered in the Company's register of shareholders wishing to participate in the Annual General Meeting shall register for the Annual General Meeting no later than on 3 April 2023 at 4:00 p.m. (EEST), by which time the notice of participation must be received.

It is possible to register for the Annual General Meeting:

a) through the Company's website at https://investors.purmogroup.com/governance/general-meetings/
b) By mail or email: By mail to the address Innovatics Ltd, Annual General Meeting/Purmo Group Plc, Ratamestarinkatu 13 A, 00520 Helsinki or by email to the address agm@innovatics.fi.

A holder of nominee registered shares has the right to participate in the Annual General Meeting by virtue of such shares, based on which the holder of nominee registered shares on the record date of the Annual General Meeting, 29 March 2023, is entitled to be registered in the shareholders' register of the Company held by Euroclear Finland Oy. In addition, the right to participate requires that the holder of nominee registered shares be temporarily entered into the shareholders' register held by Euroclear Finland Oy based on these shares at the latest by 5 April 2023 at 10.00 a.m. (EEST). As regards nominee registered shares, this constitutes due registration for the Annual General Meeting.

Financial calendar 2023

Purmo Group Plc will publish its financial reports in 2023 as follows:

- 9 February 2023: Financial statements review 2022
- 26 April 2023: Interim report, January–March 2023
- 19 July 2023: Half-year financial report, January–June 2023
- 25 October 2023: Interim report, January–September 2023

All financial reports are published in English and Finnish and will be available at https://investors.purmogroup.com/ after the publication.

Dividend 2022

Purmo Group's aim is to distribute at least 40 per cent of annual net profit as dividends or return of capital, intended to be paid out after considering earnings trends for the Group, its financial position and future growth potential.

For financial year 2022 The Board of Directors of Purmo Group Plc proposes to the Annual General Meeting to be held on 12 April 2023 that a return of capital of EUR 0.36 per class C share and EUR 0.07 per class F share shall be paid.

The return of capital is proposed to be paid in four instalments in Q2 2023, Q3 2023, Q4 2023 and in Q1 2024.

Investor calendar

The times and locations of Purmo Group's investor events can be found on the website at: https://investors.purmogroup.com/contact/financial-calendar/.

Investor relations contact

Investor inquiries, flagging notifications and managers' transactions may be send to: investors@purmogroup.com.

PURMO

GROUP

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