2018

Financial Statements Review

January 1 – December 31

Metso's Financial Statements Review January 1 – December 31, 2018

All figures relating to 2017 have been restated to reflect the adoption of IFRS 15 and the revision in the reporting of the Flow Control segment's services business. The restated figures were published on April 16, 2018. Figures in brackets refer to the corresponding period in 2017, unless otherwise stated.

Fourth-quarter 2018 in brief

- Market activity continued to be healthy
- Orders received increased 38% in constant currencies
    - Reported orders received increased 32% to EUR 904 million (684 million)
- Sales increased 32% in constant currencies
    - Reported sales increased 27% and totaled EUR 897 million (709 million)
- Adjusted EBITA was EUR 98 million, or 10.9% of sales (64 million, or 9.1%)
- Operating profit (EBIT) was EUR 93 million, or 10.4% of sales (60 million, or 8.4%)
- Earnings per share improved to EUR 0.42 (0.08)
- Free cash flow was EUR 57 million (57 million)
- Two acquisitions were completed: one in the valves business in India and another in the UK related to pyro processing solutions in mining
- Pekka Vauramo started as President and CEO on November 1

Full-year 2018 in brief

- Orders received increased 23% in constant currencies
    - Reported orders received increased 17% to EUR 3,499 million (2,982 million)
- Sales increased 23% in constant currencies
    - Reported sales increased 18% and totaled EUR 3,173 million (2,699 million)
- Adjusted EBITA was EUR 369 million, or 11.6% of sales (244 million, or 9.0%)
- Operating profit (EBIT) totaled EUR 351 million, or 11.1% of sales (218 million, or 8.1%)
- Earnings per share improved to EUR 1.53 (0.68)
- Free cash flow was EUR 146 million (158 million)
- Three acquisitions were completed
- Metso will transition to semi-annual dividend payments. The Board will propose a dividend of EUR 1.20 per share for 2018 (EUR 1.05), of which EUR 0.60 will be paid in May and EUR 0.60 in November 2019

Market outlook

Metso has changed the structure of its market outlook statement. Going forward, the market outlook will describe the expected sequential development in market activity during the following six-month period. Expected development will be described using three categories: grow, remain at the current level, or decline.

Metso's market outlook:

Market activity in Minerals is expected to continue to grow in both equipment and services business.
Market activity in Flow Control is expected to continue to grow in both equipment and services business.

Key figures

EUR million	Q4/2018	Q4/2017	Change %	2018	2017	Change %
Orders received	**904**	684	32	**3,499**	2,982	17
Orders received by services business	**498**	393	27	**1,913**	1,717	11
% of orders received	**55**	57		**55**	58	
Order backlog at end of year				**1,686**	1,439	17
Sales	**897**	709	27	**3,173**	2,699	18
Sales by services business	**473**	412	15	**1,773**	1,595	11
% of sales	**53**	58		**56**	59	
Adjusted EBITA	**98**	64	53	**369**	244	51
% of sales	**10.9**	9.1		**11.6**	9.0	
Operating profit (EBIT)	**93**	60	55	**351**	218	61
% of sales	**10.4**	8.4		**11.1**	8.1	
Earnings per share, EUR	**0.42**	0.08	425	**1.53**	0.68	125
Free cash flow	**57**	57	0	**146**	158	-8
Return on capital employed (ROCE) before taxes, %				**16.9**	10.3	
Equity to assets ratio at end of year, %				**47.7**	44.5	
Net gearing at end of year, %				**11.7**	1.8	
Personnel at end of year				**13,150**	12,037	9

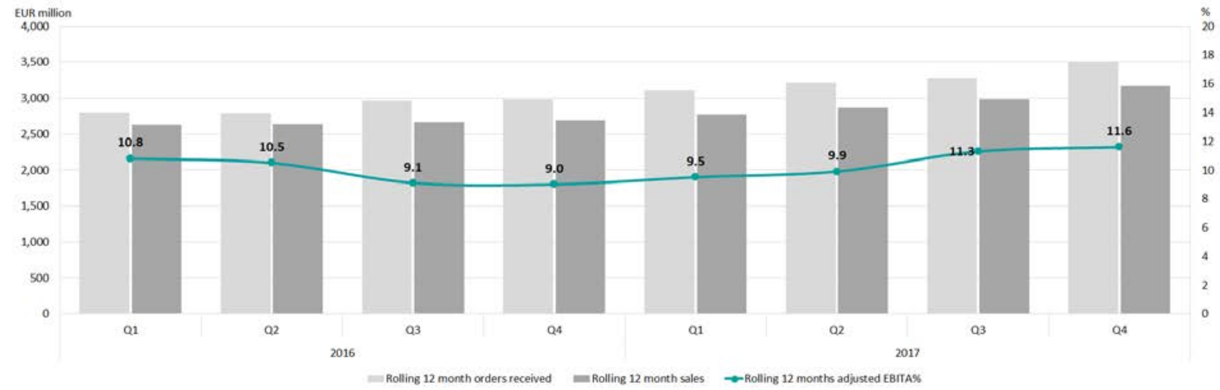
President and CEO Pekka Vauramo:

We had a strong fourth quarter. Orders received increased in both Minerals and Flow Control year-on-year and sequentially. Our top-line growth was also solid and resulted from improved delivery capability in all businesses. The sales mix continued to tilt towards higher share of equipment than services, which had an effect on our profitability. Most importantly, both our segments grew and improved their profitability year-on-year.

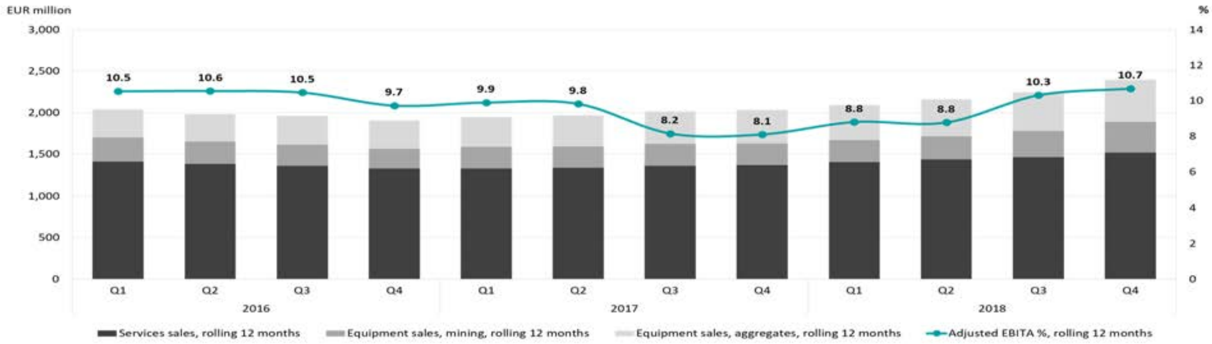
Since joining Metso on November 1, I have been pleased to see the positive developments throughout the company during 2018. The organizational changes made have proven to support the implementation of Metso's profitable growth strategy, and results can be seen in strong volume growth and improved performance across all our seven business areas. I would like to thank Metso personnel who has put a lot of effort into better customer service, capitalizing on organic and inorganic growth opportunities, driving innovations and improving sustainability in our offering and operations.

Going forward, Metso has a solid position to further improve its performance. We are in a strong position to create value for customers, shareholders and other stakeholders. People, technological know-how and global presence are our most important assets and we will continue to leverage them. Working together with our customers opens new business opportunities. I am excited to be part of the Metso team and look forward to working together to start a new chapter for the company.

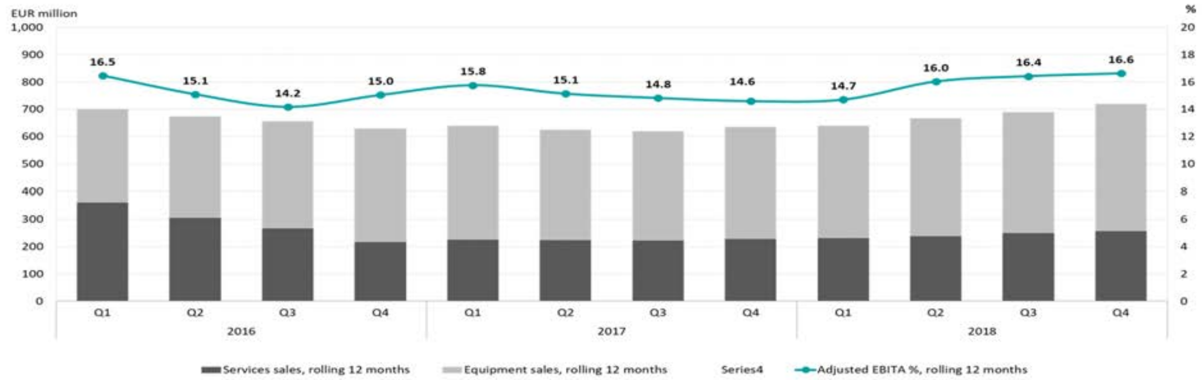
Metso Group: Orders, sales and profitability (rolling 12 months)



Minerals: Sales and profitability (rolling 12 months)



Flow Control: Sales and profitability (rolling 12 months)



Operating environment

Healthy market activity continued in all our businesses during the fourth quarter. Demand for mining equipment remained high. Majority of projects were related to replacements and brownfield projects. Demand for aggregates equipment was strong, and was backed by infrastructure-related activity especially in the US and India. The demand for services was healthy both from mining and aggregates customers. This was supported by high production rates at mines and the customers' appetite for productivity improvements. Activity in the valves business was strong in day-to-day business, projects and in services, driven by Asia and North America. The pumps and recycling businesses also saw good demand.

Orders and sales

Fourth-quarter orders received increased 32% compared to the same quarter in 2017, and totaled EUR 904 million (EUR 684 million). Orders grew 35% in the Minerals segment and 19% in the Flow Control segment. In both segments, the equipment and services businesses posted strong order growth.

Quarterly sales totaled EUR 897 million (EUR 709 million), which represents an increase of 27 % from the comparison period. Sales in Minerals increased 29% to EUR 695 million, while Flow Control's sales increased 18% to EUR 201 million. Equipment sales grew faster than services sales in both segments.

Orders received in January-December totaled EUR 3,499 million, which is 17% higher than in the corresponding period of 2017. Orders increased 19% in Minerals to EUR 2,742 million and 12% in Flow Control to EUR 758 million. Growth in both segments is attributable to the healthy market activity in all main markets and the competitiveness of the offering focusing on efficiency and productivity.

The order backlog at the end of December 2018 totaled EUR 1,686 million (EUR 1,439 million at the end of 2017).

January-December sales totaled EUR 3,173 million, which is 18 % higher than in 2017. Minerals' sales increased 19% year-on-year to EUR 2,453 million and Flow Control's sales increased 13% to EUR 720 million. Sales in 2018 growth is attributable to healthy market activity and successful ramp-up in the supply chain to improve delivery capability from the previous year.

Impacts from currency and structural changes on orders received

	Minerals		Flow Control		**Metso total**	
EUR million, %	Q4	Q1-Q4	Q4	Q1-Q4	**Q4**	**Q1-Q4**
2017	**527**	**2,308**	**157**	**675**	**684**	**2,982**
Organic growth in constant currencies, %	39%	23%	20%	16%	35%	22%
Impact of changes in exchange rates, %	-7%	-6%	-4%	-4%	-6%	-6%
Structural changes, %	3%	1%	3%	1%	3%	1%
Total change, %	**35%**	**19%**	**19%**	**12%**	**32%**	**17%**
2018	**714**	**2,742**	**187**	**758**	**904**	**3,499**

Impacts from currency and structural changes on sales

	Minerals		Flow Control		**Metso total**	
EUR million, %	Q4	Q1-Q4	Q4	Q1-Q4	**Q4**	**Q1-Q4**
2017	**540**	**2,064**	**170**	**635**	**709**	**2,699**
Organic growth in constant currencies, %	33%	24%	21%	17%	30%	22%
Impact of changes in exchange rates, %	-6%	-6%	-4%	-4%	-6%	-5%
Structural changes, %	2%	1%	1%	0%	2%	1%
Total change, %	**29%**	**19%**	**18%**	**13%**	**27%**	**18%**
2018	**695**	**2,453**	**201**	**720**	**897**	**3,173**

Financial performance

Adjusted EBITA in the fourth quarter totaled EUR 98 million, or 10.9% of sales (EUR 64 million, or 9.1%). Volume growth had a positive impact on profitability, which was somewhat affected by the higher share of equipment sales. Minerals' adjusted EBITA totaled EUR 72 million, or 10.4% of sales (EUR 48 million, or 8.9%). Flow Control's adjusted EBITA totaled EUR 33 million, or 16.4% of sales (EUR 27 million, or 15.6%). Group Head Office and other includes around EUR 5 million negative items related to pensions and development of the group structure.

Operating profit (EBIT) in the fourth quarter reached EUR 93 million, or 10.4% of sales (EUR 60 million, or 8.4%). Minerals' operating profit totaled EUR 70 million, or 10.1% of sales (EUR 46 million, or 8.6%). Flow Control's operating profit totaled EUR 32 million, or 16.0% of sales (EUR 26 million, or 15.3%).

The full-year 2018 adjusted EBITA totaled EUR 369 million, or 11.6% of sales (EUR 244 million, or 9.0%). The improvement in profitability was driven by sales growth and successfully implemented performance improvement actions in all business areas. Operating profit (EBIT) improved to EUR 351 million or 11.1% of sales (EUR 218 million, or 8.1%) and profit before taxes improved to EUR 321 million (EUR 184 million). Net financial expenses in January-December were EUR 30 million (EUR 35 million) and the effective tax rate was 28.8%. Earnings per share more than doubled to EUR 1.53 (EUR 0.68). Full-year 2017 figures were negatively impacted by EUR 33 million in charges related to the closing of mining projects in the backlog.

Return on capital employed (ROCE) improved significantly and was 16.9% (10.3%) thanks to both improved earnings and lower capital employed.

Net cash generated by operating activities totaled EUR 177 million (EUR 185 million) and free cash flow was EUR 146 million (EUR 158 million). Improved profit for the period had a positive impact on free cash flow. An increase in net working capital had a EUR 129 million negative (EUR 23 million negative) impact on cash flow, arising mainly from growth in inventories in the supply chain to ensure availability in the fast-growing markets. A one-time tax payment of EUR 21 million affecting free cash flow was made in the first quarter and was related to a reassessment decision from the Finnish tax authority. Metso is appealing the decision, but the payment was made to avoid any additional interest costs during the expected long complaint process.

Financial position

Metso's balance sheet and liquidity position remain strong. Total liquid funds at the end of December 2018 were EUR 426 million (EUR 826 million), of which EUR 94 million (EUR 307 million) was invested in financial instruments with an initial maturity exceeding three months, and the remaining EUR 332 million (EUR 519 million) is accounted for as cash and cash equivalents. The decline in liquid funds resulted mainly from the EUR 286 million repayments of long-term debt, EUR 157 million of dividend payments, and EUR 77 million of cash consideration for acquisitions.

Metso has an undrawn, committed EUR 500 million syndicated revolving credit facility and an undrawn, committed EUR 40 million loan from the European Investment Bank.

Net interest-bearing liabilities were EUR 165 million at the end of December (EUR 24 million) and net gearing was 11.7% (1.8%). The equity-to-assets ratio was 47.7% (44.5%).

Metso's credit rating remains unchanged: Standard & Poor's Ratings Services confirmed Metso's long-term corporate credit rating of BBB and short-term credit rating of A-2, with a stable outlook, in March 2018.

Reporting segments: Minerals

Strong order intake continued in all business areas

Sales growth driven by equipment deliveries

Solid improvement in profitability

Key figures

EUR million	Q4/2018	Q4/2017	Change %	2018	2017	Change %
Orders received	**714**	527	35	**2,742**	2,308	19
Orders received by services business	**432**	338	28	**1,647**	1,474	12
% of orders received	**60**	64		**60**	64	
Order backlog at end of period				**1,378**	1,173	17
Sales	**695**	540	29	**2,453**	2,064	19
Sales by services business	**403**	351	15	**1,517**	1,368	11
% of sales	**58**	65		**62**	66	
Adjusted EBITA*	**72**	48	50	**262**	168	56
% of sales	**10.4**	8.9		**10.7**	8.1	
Operating profit (EBIT)*	**70**	46	52	**254**	153	66
% of sales	**10.1**	8.6		**10.3**	7.4	
Return on operative capital employed (Segment ROCE), %				**22.7**	14.7	
Personnel at end of period				**9,611**	8,890	8

*) The adjusted EBITA and operating profit (EBIT) for full-year 2017 included EUR 33 million in charges related to the closing of mining projects in the backlog.

Minerals' orders received in the fourth quarter increased 35% year-on-year and totaled EUR 714 million (EUR 527 million). Orders grew in both the equipment and services business. Acquisitions contributed 3%.

Order growth for aggregates equipment was driven by China, the US, and the Nordics, which was supported by the acquisition of P.J. Jonsson och Söner in Sweden. Mining equipment orders increased year-on-year, highlighting improved market activity. Order intake consisted of small and mid-sized orders for replacements and brownfield projects, complemented by an order for a large pellet plant for Tata Steel in India. Services orders increased for both spare and wear parts as well as for process improvements in the main markets.

Fourth-quarter sales totaled EUR 695 million (EUR 540 million) and the increase of 29% was mainly driven by the equipment business. Adjusted EBITA for the quarter increased to EUR 72 million (EUR 48 million) and the adjusted EBITA margin to 10.4% (8.9%). Sales growth had a positive impact on profitability. The share of equipment deliveries increased in the sales mix and affected profitability somewhat. Operating profit (EBIT) improved to EUR 70 million, or 10.1% of sales (EUR 46 million, or 8.6%).

Orders received in January-December increased 19% from the comparison period and totaled EUR 2,742 million. Order intake in 2018 mainly consisted of small and mid-sized orders for replacements and brownfield projects. In addition, orders included two large pellet plants, comminution and material handling technologies for three greenfield iron ore and copper projects in Australia and South Africa, as well as dewatering solutions for greenfield and brownfield potash projects in Belarus.

Sales during the same period also grew 19%, totaling EUR 2,453 million. Adjusted EBITA was EUR 262 million, or 10.7% of sales (EUR 168 million, or 8.1%) and operating profit EUR 254 million, or 10.3% (EUR 153 million, or 7.4%) of sales in January-December. The improvement in profitability resulted from higher sales volumes and successfully implemented performance improvement actions in all business areas.

Reporting segments: Flow Control

Strong order growth

Sales growth driven by the equipment business

Healthy profitability

Key figures

EUR million	Q4/2018	Q4/2017	Change %	2018	2017	Change %
Orders received	**187**	157	19	**758**	675	12
Orders received by services business	**67**	55	22	**266**	243	9
% of orders received	**36**	35		**35**	36	
Order backlog at end of period				**307**	267	15
Sales	**201**	170	18	**720**	635	13
Sales by services business	**70**	62	13	**256**	228	12
% of sales	**35**	36		**36**	36	
Adjusted EBITA	**33**	27	22	**120**	93	29
% of sales	**16.4**	15.6		**16.6**	14.6	
Operating profit (EBIT)	**32**	26	23	**117**	91	29
% of sales	**16.0**	15.3		**16.3**	14.3	
Return on operative capital employed (Segment ROCE), %				**37.6**	29.7	
Personnel at end of period				**3,054**	2,660	15

Flow Control's fourth-quarter orders received increased 19% to EUR 187 million (EUR 157 million). Growth was driven by the valves business, which had strong orders in India, Asia-Pacific, and the US. Orders for pumps remained healthy.

Fourth-quarter sales increased 18% year-on-year to EUR 201 million (EUR 170 million). Strong growth in the valves business was backed by deliveries of the solid backlog built during the previous quarters.

Sales growth and good operational performance contributed to the strong profitability in the quarter. Adjusted EBITA was EUR 33 million, or 16.4% of sales (EUR 27 million, or 15.6%), and operating profit was EUR 32 million, or 16.0% of sales (EUR 26 million, or 15.3%).

Orders received in January-December increased 12% from the comparison period and totaled EUR 758 million (EUR 675 million). Growth came from both the equipment and services business and the strongest regions were North America and Asia. Sales totaling EUR 720 million in January-December grew 13% from the comparison period, and both the equipment and services business sales grew at a double-digit rate. Adjusted EBITA for the same period was EUR 120 million, or 16.6% of sales, (EUR 93 million, or 14.6%) and operating profit EUR 117 million, or 16.3% of sales (EUR 91 million, or 14.3%). The improved profitability is due to operational leverage from the strong volume growth as well as better operational performance during the year.

Capital expenditure and investments

Gross capital expenditure excluding business acquisitions in January-December 2018, was EUR 67 million (EUR 38 million), of which maintenance investments accounted for 54%, or EUR 36 million (83%, or EUR 32 million).

The growth related capital expenditure in 2018 was related to increases in aggregates equipment manufacturing capacity in Alwar, India, and Tampere, Finland, and foundry capacity in South Africa and China, as well as in rubber consumables manufacturing at multiple locations globally.

During the third quarter, Metso announced an investment of approximately EUR 25 million to expand its foundry capacity in India, to respond to the global market demand for cast wear parts in the aggregates and mining industries. Approximately EUR 9 million of this investment materialized during the second half of the 2018. The first product deliveries are expected by the end of 2019, and the production will fully ramp up in 2020.

To respond to the growing global demand in the valves market, during the fourth quarter Metso decided to invest in a new green-field valve plant in Jiaxing. Metso plans to invest a total of approximately EUR 10 million by 2020. The new-build plant will strengthen Metso’s valve and related products production capabilities and increase production capacity for customers across various process industries, both in China and globally. The new plant will start operations in spring 2020.

Acquisitions

In 2018, Metso announced three acquisitions that align with its profitable growth strategy and another after the reporting period, in January 2019.

On December 4, Metso closed the acquisition of the UK-based combustion solutions and technology provider Kiln Flame Systems Ltd., KFS, to extend its pyro processing portfolio and capabilities. KFS was a specialist in rotary kiln and calcining processes, combustion optimization and burner technologies with patented designs. KFS became part of Metso's Minerals Services business area, which offers a comprehensive line of pyro processing equipment. 13 employees transferred to Metso.

On November 1, Metso closed the acquisition of the valve automation division of the India-based valve technology company Rotex Manufacturers and Engineers Private Ltd. by acquiring all of the shares in RMEBS Controls Private Limited. The acquired company was a market-leader in India in the actuator business with an advanced offering of switches, process valves, and valve automation products and solutions. The acquired division's sales in the last fiscal year ending March 31, 2018, were approximately EUR 19 million.

On July 2, Metso closed the acquisition of the mobile crushing and screening plant provider P.J. Jonsson och Söner AB, based in Sweden. The acquisition strengthened the breadth and availability of Metso’s product and service offering for the aggregates industry in the Nordics. The acquired company's sales in fiscal year 2017 were EUR 33 million.

Research and development

Continuous renewal and innovation are fundamental for Metso’s competitiveness. The objective for innovation is to secure sustaining differentiation with targeted investments that are based on business- or product-specific roadmaps. During 2018, Metso accelerated its R&D activities, increasing the spend significantly. Research and development (R&D) expenses in 2018 were EUR 39 million, or 1.2% of sales (EUR 27 million, or 1.0%). In addition, costs related to Metso’s Digital Program were EUR 12 million. Metso’s research and technology development (RTD) network encompasses approximately 20 units around the world.

R&D and IP-related expenses

EUR million	2018	2017
R&D expenses	39	27
as % of sales	1.2	1.0
Expenses related to intellectual property rights	2	2

Inventions and patents

	2018	2017
Invention disclosures	123	69
Priority patent applications	23	18
Inventions protected by patents, as of December 31	310	300

Digitalization is providing Metso with opportunities for growth, and the role and importance of using data to improve the efficiency of customer processes will further increase in the future. Customers are looking for business benefits from data-driven process improvements, more optimized processes with higher throughput or energy efficiency, or maximized equipment availability and uptime.

In 2018, Metso expanded its digital Metso Metrics offering with the launch of a new predictive maintenance solution for mining equipment, which helps maximize the uptime and performance of comminution circuits. Metso Metrics is designed to provide global mining customers with improved visibility and new insights into their equipment and processes with analytics, condition monitoring and predictive maintenance. In 2018, Metso also delivered its first valves with 3D printed parts to a customer for a particularly demanding application. Metso is also already using 3D printing to manufacture tools used to make consumables parts.

In addition to digital innovations, R&D activities in 2018 centered around extending existing product families and adding new features to the existing offering.

Metso introduced new higher capacity models to its wheel-mounted Metso NW Rapid™ crushing plant series. The new models enable production capacity to be temporarily increased up to 500 tons per hour, which is equal to the capacity of a fixed plant. In addition to the bigger jaw crusher model, the NW Rapid™ units are now available also with a variety of most robust cone crushers, including the first model with the MX™ Multi-Action crusher, launched in 2017.

Metso's mobile cone crushing plant family was expanded with a renewed, more efficient model Metso Lokotrack® LT200HP™ in 2018. The renewed solution delivers fuel consumption savings of at least 15% compared to hydraulic-driven cone crushers. Furthermore, it complies with European Stage V emission regulations. New releases also included a new 3rd generation gyratory crusher, MKIII™, which can deliver up to 30% higher capacity and 70% lower downtime in a comminution circuit. In addition, it can be paired with the Metso Metrics solution.

In Flow Control, a new version of the Metso Expertune PlantTriage control loop monitoring software was launched. This newest version further improves process plant operational efficiency, reduces cybersecurity risks, and helps to improve profitability.

Health, safety and environment

Metso aims to provide a safe and healthy working environment for all its employees. In 2018 Metso failed to improve its safety performance, ending the year with an LTIF, lost time incident frequency, of 2.8 (2.6). Regrettably we had one fatal incident. As the production volume has increased, the safety management processes and the level of commitment have not improved sufficiently.

Metso has several processes in place to improve its safety performance. The internal HSE (Health, Safety and Environment) audit function bi-annually audits the hidden hazards at all major locations and plans the corrective actions. In 2018, HSE audits were carried out at 19 locations. In addition, a new reporting tool and web application was launched for reporting HSE data more transparently and accurately.

Metso encourages all employees to discuss safety-related matters and to pay attention to potential hazards. Face-to-face safety conversations are a part of every manager's individual targets, and all employees are expected to actively report risk observations. In 2018, a total of 23,922 (19,895) risk observations were reported.

Metso’s most significant environmental impacts come from customer processes when the equipment is in use at customer sites. For example, about 90 percent of energy use takes place in the actual rock crushing phase when the equipment is used, and very limited energy is consumed in the manufacturing of the crusher. However, to ensure the environmental efficiency of Metso’s own operations, internal environmental targets have also been set.

The environmental safety of Metso’s own operations is regularly audited. Based on the findings in 2018, corrective actions have been planned and their implementation will be followed in 2019. In 2018, for example, Metso further improved the chemical leakage protection in its units based on a finding made in an HSE audit the previous year.

Compliance management

During the first half of the year, the project to prepare for the new GDPR regulation in the EU was completed, and a separate Privacy office was established for privacy training and managing issues related to GDPR compliance going forward. Code of Conduct training was continued as part of the new employee induction process. The legal function arranged several e-learnings in the areas of, e.g., trade sanctions and anti-corruption and anti-bribery.

The Whistleblower channel was expanded in 2018 to also include non-financial misconduct. In 2018, we received 10 reports of suspected financial misconduct and 17 reports of suspected non-financial misconduct via the Whistleblower channel. All were investigated, and none had financial implications.

Metso has an audit framework in place to support risk management by ensuring compliance and continuous business development. In total approximately 180 internal and external audits were performed in 2018.

Personnel

Metso had 13,150 employees at the end of December 2018, which is 1,113 more than at the end of December 2017. During 2018, personnel increased by 721 to 9,611 in Minerals and by 394 to 3,054 in Flow Control. Acquisitions increased personnel by 63 in Minerals and 281 in Flow Control in 2018. Personnel in the Group Head Office and support functions totaled 485 at the end of 2018 (487).

Personnel by area

	Dec 31, 2018	**% of personnel**	Dec 31, 2017	% of personnel	Change %
Europe	**4,412**	**34**	4,113	34	7
North America	**1,674**	**13**	1,563	13	7
South and Central America	**2,906**	**22**	2,725	23	7
Asia Pacific	**3,318**	**25**	2,795	23	19
Africa and Middle East	**840**	**6**	841	7	0
Metso total	**13,150**	**100**	12,037	100	9

In 2018, Metso conducted its biennial employee engagement survey with excellent results and an 87-percent response rate (2016: 85%). Based on the results, 88 percent (2016: 85%) of the employees feel strongly engaged in their own work and committed to Metso as an organization. Metso’s score as an employer has developed favorably, and the survey results show that Metso employees feel highly empowered to do their work. The employer image as perceived by Metso people is strong, and 81 percent (2016: 76%) would recommend Metso as an employer.

The diverse expertise of the organization ensures a foundation for Metsos’ success. Metso employees represent 90 nationalities, operating in over 50 countries and in 176 locations. The combination of different backgrounds, and a wide range of service years and ages ensures diverse capabilities.

Other events during the year

Annual General Meeting (AGM)

The Annual General Meeting (AGM) was held in Helsinki on March 22, 2018. The AGM approved the Financial Statements for 2017 and discharged the members of the Board of Directors and the President and CEOs from liability for the 2017 financial year. The Authorized Public Accountant firm Ernst & Young was elected as Metso's Auditor with Mikko Järventausta as principal responsible auditor. The dividend of EUR 1.05 per share, approved by the AGM, was paid on April 4, 2018. In addition, the AGM approved the proposals of the Board of Directors to authorize the Board to decide on both the repurchase of Metso shares and the issuance of shares and special rights entitling to shares. The Nomination Board's proposals concerning Board members and their remuneration were also approved. The minutes of the meeting are available at www.metso.com/agm-2018.

Changes in the Metso Executive Team

President and CEO Pekka Vauramo assumed his duties on November 1, 2018. His appointment was published on May 21, 2018. CFO Eeva Sipilä served as interim President and CEO from February 3, 2018, after the previous President and CEO Nico Delvaux left his duties on February 2, 2018.

SVP, Human Resources, Merja Kamppari, left her position after the reporting period on January 31, 2019, as announced on August 22, 2018. Hannele Järvistö has acted as interim SVP, Human Resources, as of February 1, 2019.

Events after the reporting period

Acquisitions and divestments

On January 2, 2019, Metso announced an agreement to acquire HighService Service, the service business of the Chilean mining technology and maintenance provider HighService Corp. HighService Service is a high-quality mining services provider with operations in Chile, Argentina and Brazil. Its sales in fiscal year 2017 were EUR 60 million and it has 1,300 employees. The acquisition is pending regulatory approval from the Chilean authorities and is expected to close during the first half of 2019. The parties have agreed not to disclose the value of the transaction.

On January 4, 2019, Metso completed the divestment of its grinding media business to Moly-Cop, as announced on November 6, 2018. The divested business has operations in two locations in Spain and around 80 employees. Its sales in 2018 were approximately EUR 60 million. The proceeds from the divestment have no material impact on Metso's financial results and the value of the transaction was not disclosed.

Shareholders' Nomination Board proposal regarding Board composition and remuneration ahead of the 2019 Annual General Meeting

The Shareholders' Nomination Board (Nomination Board) is responsible for preparing proposals covering the composition of the Board of Directors and remuneration of the Board members to the next Annual General Meeting, planned to be held on April 25, 2019. The Nomination Board gave its proposal on January 23, 2019.

Proposal for the election of Board members

The Nomination Board will propose to the next Annual General Meeting that the Board of Directors should have eight members and that Mikael Lilius, Christer Gardell, Peter Carlsson, Lars Josefsson, Nina Kopola, Antti Mäkinen and Arja Talma should be re-elected. Mr. Kari Stadigh will be proposed as a new Board member. Ozey K. Horton, Jr. will not be available for re-election after having served as Board member since 2011. Mikael Lilius will be proposed to continue as Chair and Christer Gardell as Vice Chair of the Board.

Kari Stadigh (Master of Science, Eng., Bachelor of Business Administration, born 1955, Finnish citizen) is Group CEO and President of Sampo Group, Chair of the Board of If P&C Insurance Holding Ltd, Chair of the Board of Mandatum Life Insurance Company Limited and Board member of Nokia Corporation and Waypoint Group Holdings SA.

All candidates have given their consent to be elected and have been assessed as being independent of the company and its significant shareholders, except for Christer Gardell and Antti Mäkinen, who have been assessed to be independent of the company and not independent of a significant shareholder.

Proposition for the Board members' remuneration

The Nomination Board proposes that remuneration of the Board members will be the same as the previous year:

- Chair - EUR 120,000
- Vice Chair - EUR 66,000
- Other members - EUR 53,000

Additional remuneration:

- Chair of the Audit Committee - EUR 20,000
- Members of the Audit Committee - EUR 10,000
- Chair of the Remuneration and HR Committee - EUR 10,000
- Members of the Remuneration and HR Committee - EUR 5,000

Meeting fees (excluding committee meetings) are paid based on residence:

- Nordic countries - EUR 800
- Other European countries - EUR 1,600
- Outside Europe - EUR 3,200

As a condition for the remuneration, 40% of the fixed annual remuneration is to be used for purchasing Metso's shares.

The Nomination Board notes that a personnel representative will participate as an external expert in the Board meetings also during the next Board term within the limitations imposed by Finnish law and with no voting rights or legal liability for the Board's decisions.

The full Nomination Board's proposal is available in its entirety on our website at www.metso.com.

Composition of the Nomination Board

The Nomination Board was established in September 2018, and it comprises Petter Söderstöm, (Investment Director, Solidium Oy) as Chair, and members Niko Pakalén (Partner, Cevian Capital AB), Risto Murto (President and CEO, Varma Mutual Pension Insurance Company), Mikko Mursula (Chief Investment Officer, Ilmarinen Mutual Pension Insurance Company) and Mikael Lilius, Chair of Metso's Board of Directors as an expert member.

As Chair of the Board of Directors, Mikael Lilius did not take part in the decision-making on the Nomination Board's proposal related to the Chair of the Board and the remuneration payable to the members of the Board of Directors.

Shares and share trading

Metso's share capital on December 31, 2018, was EUR 140,982,843.80 and the number of shares 150,348,256 . This included 351,128 treasury shares held by the Parent Company, which represented 0.2% of all shares and votes. A total of 118,949,799 Metso shares were traded on Nasdaq Helsinki in 2018, equivalent to a turnover of EUR 3,307 million. Metso's market capitalization at the end of December 2018, excluding shares held by the Parent Company, was EUR 3,435 million (EUR 4,270 million at the end of 2017).

Metso share performance on Nasdaq Helsinki January 1- December 31, 2018

EUR	
Closing price	22.90
Highest share price	32.27
Lowest share price	22.38
Volume-weighted average trading price	27.79

In addition to Nasdaq Helsinki, Metso's ADRs (American Depositary Receipts) are traded on the International OTCQX market in the United States under the ticker symbol 'MXCYY', with four ADRs representing one Metso share. The closing price of the Metso ADR on December 31, 2018 was USD 6.35.

Flagging notifications

In 2018, Metso has received one flagging notification. BlackRock, Inc. announced that on January 8, 2018, its direct holding in Metso's shares exceeded the 5 percent threshold. BlackRock's direct holding (5.02%) and holding through financial instruments (0.76%) amounted to 8,706,776 shares, which corresponds to 5.79 percent of Metso's total number of shares and votes.

Metso is not aware of any shareholders' agreements regarding the ownership of Metso shares and voting rights.

Short-term business risks and market uncertainties

Uncertainties in economic growth and political developments globally could affect our customer industries, reduce the investment appetite and spending among our customers, and thereby weaken the demand for Metso's products and services as well as affect our business operations. There are also other market- and customer-related risks that could cause on-going projects to be postponed, delayed or discontinued. Concern about the possible effects of the ongoing trade disputes on economic growth has had an impact on metal prices. This could further impact our customers' behavior.

Continued market growth and inflation as well as the impact of tariffs or other trade barriers could pose challenges to our supply chain and price management, impacting our growth capability and margins.

Exchange rate fluctuations and changes in commodity prices could affect our orders received, sales and financial position. Metso hedges currency exposure linked to firm delivery and purchase agreements.

Uncertain market conditions could adversely affect our customers' payment behavior and increase the risk of lawsuits, claims and disputes taken against Metso in various countries related to, among other things, Metso's products, projects and other operations.

Information security and cyber threats could disturb or disrupt Metso's businesses and operations.

Market outlook

Metso has changed the structure of its market outlook statement. Going forward, market outlook will describe the expected sequential development of market activity during the following six-month period. Expected development will be described using three categories: grow, remain at the current level, or decline.

Metso's market outlook:

Market activity in Minerals is expected to continue to grow in both equipment and services business.
Market activity in Flow Control is expected to continue to grow in both equipment and services business.

Board of Directors' proposal on the use of profit

The Company's distributable funds on December 31, 2018, totaled EUR 966,837,017.94, of which the net profit for 2018 was EUR 157,907,512.31.

Metso will transition to semi-annual dividend payments. The Board of Directors proposes that a dividend of EUR 1.20 per share be paid based on the balance sheet to be adopted for the financial year, ended December 31, 2018, and that the remaining portion of the profit is retained and included in the Company's unrestricted equity. EUR 0.60 is proposed to be paid after the Annual General Meeting in May and EUR 0.60 in November.

Corporate Governance Statement

Metso will publish a separate Corporate Governance Statement for 2018 that complies with the recommendations of the Finnish Corporate Governance Code for listed companies and covers other central areas of corporate governance. The statement will be published on our website, separately from the Board of Directors' Report, during the week commencing March 4, 2019, at the latest.

Non-financial information

Metso will publish non-financial information that complies with the Finnish Accounting Act, as part of the Board of Directors' Report during the week commencing March 4, 2019, at the latest.

Annual General Meeting 2019

Metso Corporation's Annual General Meeting 2018 is planned to be held on Thursday, April 25, 2019. The Board will convene the meeting by separate invitation.

Helsinki, February 5, 2019
Metso Corporation's Board of Directors

Consolidated statement of income

EUR million	**10–12/2018**	10–12/2017	**1–12/2018**	1–12/2017
Sales	**897**	709	**3,173**	2,699
Cost of goods sold	-650	-521	-2,257	-1,968
Gross profit	**247**	189	**916**	731
Selling, general and administrative expenses	-151	-129	-545	-510
Other operating income and expenses, net	-4	0	-19	-2
Share in profits of associated companies	0	0	0	0
Operating profit	**93**	60	**351**	218
Financial income	1	8	6	12
Financial expenses	-10	-16	-36	-47
Profit before taxes	**84**	52	**321**	184
Income taxes	-22	-40	-92	-82
Profit for the period	**62**	12	**229**	102
Attributable to:				
Shareholders of the parent company	63	12	230	102
Non-controlling interests	-1	0	-1	0
	62	12	**229**	102
Earnings per share				
Basic, EUR	0.42	0.08	1.53	0.68
Diluted, EUR	0.42	0.08	1.53	0.68

Consolidated statement of comprehensive income

EUR million	**10–12/2018**	10–12/2017	**1–12/2018**	1–12/2017
Profit for the period	**62**	**12**	**229**	**102**
Other comprehensive income:				
Cash flow hedges, net of tax	-1	-1	-1	3
Measurement at fair value, net of tax	0	0	0	0
Currency translation on subsidiary net investments	8	-3	-13	-39
Items that may be reclassified to profit or loss in subsequent periods	7	-4	-14	-36
Defined benefit plan actuarial gains (+) / losses (-), net of tax	-3	1	-2	1
Items that will not be reclassified to profit or loss	-3	1	-2	1
Other comprehensive income	**5**	**-3**	**-16**	**-35**
Total comprehensive income	**67**	**9**	**213**	**67**
Attributable to:				
Shareholders of the parent company	66	9	214	67
Non-controlling interests	0	0	-1	0
	67	**9**	**213**	**67**

Consolidated balance sheet – assets

EUR million	**Dec 31, 2018**	Dec 31, 2017
Non-current assets		
Intangible assets		
Goodwill	525	466
Other intangible assets	83	79
Total intangible assets	**608**	**545**
Tangible assets		
Land and water areas	40	43
Buildings and structures	97	98
Machinery and equipment	135	136
Assets under construction	33	10
Total tangible assets	**305**	**287**
Other non-current assets		
Investments in associated companies	4	1
Non-current financial assets	6	5
Loan and other interest bearing receivables	6	3
Deferred tax asset	101	93
Other non-current receivables	38	29
Total other non-current assets	**157**	**130**
Total non-current assets	**1,070**	**961**
Current assets		
Inventories	950	750
Trade receivables	585	497
Customer contract assets	82	66
Interest bearing receivables	1	0
Income tax receivables	22	38
Other receivables	144	147
Deposits and securities, maturity more than 3 months	94	307
Cash and cash equivalents	332	519
Liquid funds	426	826
Total current assets	**2,209**	**2,326**
TOTAL ASSETS	**3,279**	**3,287**

Consolidated balance sheet – equity and liabilities

EUR million	Dec 31, 2018	Dec 31, 2017
Equity		
Share capital	141	141
Cumulative translation adjustments	-101	-87
Fair value and other reserves	302	302
Retained earnings	1,064	988
Equity attributable to shareholders	**1,406**	**1,344**
Non-controlling interests	10	7
Total equity	**1,416**	**1,351**
Liabilities		
Non-current liabilities		
Interest bearing liabilities	383	554
Post employment benefit obligations	68	68
Provisions	29	37
Non-current financial liabilities	2	0
Deferred tax liability	30	18
Other liabilities	2	2
Total non-current liabilities	**515**	**680**
Current liabilities		
Interest bearing liabilities	215	300
Trade payables	431	342
Provisions	71	74
Advances received	208	198
Customer contract liabilities	100	58
Income tax liabilities	61	70
Other liabilities	262	216
Total current liabilities	**1,348**	**1,257**
Total liabilities	**1,863**	**1,937**
TOTAL EQUITY AND LIABILITIES	**3,279**	**3,287**

NET INTEREST BEARING LIABILITIES

EUR million	Dec 31, 2018	Dec 31, 2017
Non-current interest bearing liabilities	383	554
Current interest bearing liabilities	215	300
Liquid funds	-426	-826
Other interest bearing assets	-7	-3
Net interest bearing liabilities	**165**	**24**

Condensed consolidated statement of cash flows

EUR million	**10–12/2018**	10–12/2017	**1–12/2018**	1–12/2017
Operating activities:				
Profit for the period	63	12	230	102
Adjustments:				
Depreciation and amortization	15	16	58	59
Financial expenses, net	9	8	30	35
Income taxes	22	40	92	82
Other items	4	-10	0	16
Change in net working capital	-23	22	-129	-23
Net cash flow from operating activities before financial items and taxes	**91**	**87**	**281**	**270**
Financial income and expenses paid, net	-5	-7	-17	-21
Income taxes paid	-16	-15	-87	-64
Net cash flow from operating activities	**69**	**65**	**177**	**185**
Investing activities:				
Capital expenditures on intangible and tangible assets	-28	-12	-67	-38
Proceeds from sale of intangible and tangible assets	1	2	5	5
Business acquisitions, net of cash acquired	-52	-30	-77	-30
Other items	-4	0	-4	-2
Net cash flow from investing activities	**-83**	**-41**	**-143**	**-66**
Financing activities:				
Dividends paid	-	-	-157	-157
Transactions with non-controlling interests	1	-	1	-
Proceeds from and investments in financial assets, net	0	0	0	9
Proceeds from and repayment of debt, net	9	4	-272	59
Other items	0	0	0	-1
Net cash flow from financing activities	**11**	**3**	**-428**	**-90**
Net change in liquid funds	**-3**	**28**	**-394**	**29**
Effect from changes in exchange rates	0	-1	-6	-12
Liquid funds equivalents at beginning of period	429	799	826	807
Liquid funds at end of period	**426**	**826**	**426**	**826**

FREE CASH FLOW

EUR million	**10–12/2018**	10–12/2017	**1–12/2018**	1–12/2017
Net cash flow from operating activities	69	65	177	185
Maintenance investments	-13	-10	-36	-32
Proceeds from sale of intangible and tangible assets	1	2	5	5
Free cash flow	**57**	**57**	**146**	**158**

Consolidated statement of changes in shareholders' equity

EUR million	Share capital	Cumulative translation adjustments	Fair value and other reserves	Retained earnings	**Equity attributable to shareholders**	Non-controlling interests	**Total equity**
Jan 1, 2017	**141**	**-48**	**299**	**1,039**	**1,431**	**8**	**1,439**
Profit for the period	-	-	-	102	**102**	0	**102**
Other comprehensive income							
Cash flow hedges, net of tax	-	-	3	-	**3**	-	**3**
Measurement at fair value, net of tax	-	-	0	-	0	-	0
Currency translation on subsidiary net investments	-	-39	-	-	**-39**	-	**-39**
Defined benefit plan actuarial gains (+) / losses (-), net of tax	-	0	-	1	**1**	0	**1**
Total comprehensive income	**-**	**-39**	**3**	**103**	**67**	0	**67**
Dividends	-	-	-	-157	**-157**	-	**-157**
Donations to universities			-	-1	**-1**	-	**-1**
Share-based payments, net of tax	-	-	0	0	0	-	0
Other items	-	-	0	4	**4**	-1	**3**
Changes in non-controlling interests	-	-	-	0	0	0	0
Dec 31, 2017	**141**	**-87**	**302**	**988**	**1,344**	**7**	**1,351**
Effect from adoption of new IFRS standards [1]	-	-	3	-	**2**	-	**2**
Jan 1, 2018	**141**	**-87**	**305**	**987**	**1,346**	**7**	**1,353**
Profit for the period	-	-	-	230	**230**	-1	**229**
Other comprehensive income							
Cash flow hedges, net of tax	-	-	-1	-	**-1**	-	**-1**
Measurement at fair value, net of tax	-	-	0	-	0	-	0
Currency translation on subsidiary net investments	-	-13	-	-	**-13**	-	**-13**
Defined benefit plan actuarial gains (+) / losses (-), net of tax	-	-	-	-2	**-2**	-	**-2**
Total comprehensive income	**-**	**-13**	**-1**	**228**	**214**	**-1**	**213**
Dividends	-	-	-	-157	**-157**	0	**-157**
Share-based payments, net of tax	-	-	-2	1	**-2**	-	**-2**
Other items	0	-	0	1	**1**	-	**1**
Changes in non-controlling interests	-	-	-	4	**4**	5	**9**
Dec 31, 2018	**141**	**-101**	**302**	**1,064**	**1,406**	**10**	**1,416**

[1] Impact of the adoption of IFRS 9 on retained earnings was EUR 0.5 million negative, and IFRS 2 amendment's effect on fair value reserve was EUR 2.6 million positive.

Notes to the Financial Statements Review

Contents

1. Basis of preparation

This financial statements review has been prepared in accordance with IAS 34 'Interim Financial Reporting', applying the accounting policies of the Financial Statements 2018. New accounting standards have been adopted as described in section 2 of this financial statements review. This financial statements review is unaudited and based on audited financial statements 2018.

All figures relating to 2017 have been restated to reflect the adoption of IFRS 15 and the revision in the reporting of the Flow Control segment's services business. The restated figures were published on April 16, 2018.

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

Reporting segments

Metso Group is a global supplier of sustainable technology and services for mining, aggregates, recycling and process industries.

Metso reports its results consistently with its reporting structure based on its strategy, which consists of two reportable segments: Minerals and Flow Control. The Minerals segment covers the mining, aggregates and recycling businesses. The Flow Control segment covers the valves and pumps businesses.

The **Minerals segment** supplies technology, process solutions, machinery and services for aggregates production, mining, minerals processing, and metal and waste recycling. The Minerals segment is organized into five business areas: Mining Equipment, Aggregates Equipment, Minerals Services, Minerals Consumables and Recycling.

The **Flow Control segment** supplies process industry flow control solutions and services. Flow Control customers operate in oil and gas, pulp and paper, and other process industries. The segment is organized into two business areas: Valves and Pumps.

Group Head Office and other is comprised of the parent company with centralized group functions, such as treasury and tax, as well as shared service centers and holding companies.

Metso measures the performance of segments with operating profit/ loss (EBIT). In addition, Metso uses alternative performance measures to reflect the underlying business performance and to improve comparability between financial periods: "earnings before interest, tax and amortization (EBITA), adjusted" and "return on operative capital employed for reporting segments (segment ROCE)". Alternative performance measures should not, however, be considered as a substitute for measures of performance in accordance with the IFRS.

2. New accounting standards

New and amended standards adopted 2018

IFRS 15

Metso adopted the new IFRS 15 *Revenue from Contracts with Customers* standard from January 1, 2018. The adoption was done fully retrospectively using permitted practical expedients. IFRS 15 introduces a five-step model for assessing revenue recognition. The principle is that revenue is recognized at an amount that reflects the consideration to which an entity expects to receive in exchange for transferring goods or services to a customer. Revenue is recognized when the control of goods or service is transferred to a customer. Revenue is recognized either at a point in time or over time.

Adoption of the new standard has had no impact on the timing of revenue recognition or on the balance sheet presentation. Reported sales is reduced by the amounts of late delivery penalties, which have up until now been expensed. Accordingly, cost of goods sold (COGS) is affected positively by the same amount. Gross profit and other income statement items as well as the balance sheet are unchanged.

The used practical expedients:

- client contracts signed and satisfied in 2017 were not adjusted
- client contracts fully satisfied by January 1, 2017 were not adjusted
- disclosure on transaction price allocated to unsatisfied performance obligations as at December 31, 2017 and the expected recognition period will not be reported

The IFRS 15 impact on Metso's Consolidated Statement of Income for 2017 is as follows:

EUR million	Reported 1-12/2017	Adjustment	**Restated 1-12/2017**
Sales	2,706	-8	2,699
Cost of goods sold	-1,976	8	-1,968
Gross profit	**731**	**-**	**731**

Restated financial information for 2017 reflecting the impact of the IFRS 15 transition on quarterly figures and segment information was published on April 16, 2018.

Revenue recognition principles in 2018

Metso's Minerals segment provides standardized equipment deliveries and services consisting of wear or spare parts as well as customized, large-scale engineered system and/or equipment deliveries. Metso's Flow Control segment provides process industry flow control solutions delivering pumps and valves and related services.

Engineered system deliveries

With customized, large-scale engineered system and/or equipment deliveries, where the customer receives simultaneously the benefits provided and Metso has the right to tha payment for the performance completed, revenue is recognized over time. Metso will continue to measure progress using the cost-to-cost method. In these contracts, Metso typically requires advance payments from customers. These advance payments do not include a financing component, because the payment schedule of advances follows closely the timing of performance obligations to be satisfied.

Delivery of standardized equipment, pumps and valves

When Metso provides standardized equipment, valves and pumps as well as wear and spare parts to the customer, revenue is recognized when control of the goods is transferred, typically at the delivery of the goods or after commissioning.

Service agreements

A long-term service agreement is either a separate agreement or it is combined with an equipment delivery agreement. Metso's service commitments are mainly treated as separate performance obligations, and they are recognized when the services are delivered over time. Short-term service agreements are recognized at the point in time or by invoicing criteria. Some minor adjustments to the timing of the long-term service contracts can occur as a result of the diversity of the performance obligations in the contracts.

Variable components affecting to revenue recognition

Typical variable components in Metso's agreements are late delivery penalties, rebates, possible extended warranties or right to return clauses. These elements could eventually reduce the amount to be recognized as revenue or postpone the recognition. Except for the late delivery penalties, the impact of these variable elements has not been significant in the current contract portfolio and in the comparative period.

IFRS 9

Metso has adopted the IFRS 9 *Financial instruments* standard from January 1, 2018. The IFRS 9 adoption at Metso is related to three areas: the classification and measurement of financial assets, the impairment model for financial assets based on expected loss method, and to a new guidance on hedge accounting that will align more closely with common risk management practices.

Applying IFRS 9 did not have any significant impact on the classification or valuation of financial assets, impairment bookings on trade receivables and other financial assets or hedge accounting.

However, the adoption of IFRS 9 caused an adjustment to the carrying value of a debt instrument, for which the earlier modification loss has not been recognized. The adjustment in the opening retained earnings as at January 1, 2018, amounted to EUR 0.5 million.

IFRS 2

Metso has adopted the amendment to IFRS 2 *Classification and measurement of Share-based Payment Transactions* from January 1, 2018. The amendment clarifies the measurement and accounting treatment for cash-settled share-based payments. When an employer is committed to the net settlement feature and thereby withholds and pays to the tax authority an amount for the employee's tax obligation associated with a share-based payment, the whole award should be treated as if it were equity-settled. The adoption of the IFRS 2 amendment caused a EUR 2.6 million adjustment increasing the fair value and other reserves in equity and releasing current liabilities as at January 1, 2018.

New standards to be applied

IFRS 16

IFRS 16 *Leases*, effective for periods beginning on or after January 1, 2019, replaces IAS 17 *Leases* and the interpretations thereto. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, and it requires lessees to recognize nearly all leases on the balance sheet. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Metso will adopt IFRS 16 as of January 1, 2019 using the modified retrospective approach whereby the comparative financial information is not restated. Metso plans to apply the standard to contracts that were previously identified as leases. Metso plans to use the recognition exemptions proposed by the standard on low-value leased assets and short-term leases.

Based on Metso's assessment, the adoption of IFRS 16 will have some impact on reported EBITDA, operating profit, non-current assets, interest bearing liabilities and total balance sheet amounts as well as on the related key figures. The change will affect also the presentation of cash flows from operating activities and from financing activities.

As at December 31, 2018, Metso's off-balance sheet operating lease commitments amounted to EUR 122 million, of which most will be recognized on the balance sheet in connection with the adoption of IFRS 16. Part of the operating lease commitments relates to low-value leased assets and short-term leases for which no right-of-use asset or lease liability will be recognized. The finance lease liabilities of Metso were not material as of December 31, 2018. The value of the right-of-use asset and the respective lease liability to be recognized on the opening balance sheet as of January 1, 2019, is expected to be in the range of EUR 110–130 million.

In the income statement, the lease expense relating to the leases to be recognized on the balance sheet under IFRS 16 will be replaced by the interest expense of the lease liability and the depreciation of the leased asset. This change will have an increasing impact on the reported operating profit, EBITDA and net financial expenses.

3. Key figures and formulas

	1–12/2018	1–12/2017
Earnings per share, basic, EUR	1.53	0.68
Earnings per share, diluted, EUR	1.53	0.68
Equity/share at end of year, EUR	9.37	8.96
Return on equity (ROE), %	16.5	7.3
Return on capital employed (ROCE) before taxes, %	16.9	10.3
Return on capital employed (ROCE) after taxes, %	12.5	6.6
Equity to assets ratio at end of year, %	47.7	44.5
Net gearing at end of year, %	11.7	1.8
Free cash flow, EUR million	146	158
Free cash flow/share, EUR	0.97	1.05
Cash conversion, %	64	155
Gross capital expenditure (excl. business acquisitions), EUR million	67	38
Business acquisitions, net of cash acquired, EUR million	77	30
Depreciation and amortization, EUR million	58	59
Number of outstanding shares at end of the year (thousands)	149,997	149,997
Average number of shares (thousands)	149,997	149,995
Average number of diluted shares (thousands)	150,187	150,151

Formulas for key figures

Earnings before financial expenses, net, taxes and amortization (EBITA), adjusted	= Operating profit + adjustment items + amortization
Earnings per share, basic	= $\frac{\text{Profit attributable to shareholders}}{\text{Average number of outstanding shares during the period}}$
Earnings per share, diluted	= $\frac{\text{Profit attributable to shareholders}}{\text{Average number of diluted shares during the period}}$
Equity/share	= $\frac{\text{Equity attributable to shareholders}}{\text{Number of outstanding shares at the end of the period}}$
Return on equity (ROE), %	= $\frac{\text{Profit for the period}}{\text{Total equity (average for the period)}} \times 100$
Return on capital employed (ROCE) before taxes, %	= $\frac{\text{Profit before tax + financial expenses}}{\text{Capital employed (average for the period)}} \times 100$
Return on capital employed (ROCE) after taxes, %	= $\frac{\text{Profit for the period + financial expenses}}{\text{Capital employed (average for the period)}} \times 100$
Net gearing, %	= $\frac{\text{Net interest bearing liabilities}}{\text{Total equity}} \times 100$
Equity to assets ratio, %	= $\frac{\text{Total equity}}{\text{Balance sheet total - advances received}} \times 100$
Free cash flow	= Net cash flow from operating activities - maintenance investments + proceeds from sale on intangible and tangible assets
Free cash flow/share	= $\frac{\text{Free cash flow}}{\text{Average number of outstanding shares during the period}}$
Cash conversion, %	= $\frac{\text{Free cash flow}}{\text{Profit for the period}} \times 100$
Interest bearing liabilities	= Interest bearing liabilities, non-current and current
Net interest bearing liabilities	= Interest bearing liabilities - Non-current financial assets - loan and other interest bearing receivables (current and non-current) - liquid funds
Net working capital (NWC)	= Inventories + Trade receivables + Other non-interest bearing receivables + Customer contract assets and liabilities, net - Trade payables - Advances received - Other non-interest bearing liabilities
Capital employed	= Net working capital + Intangible assets + Tangible assets + Non-current investments + Interest bearing receivables + Liquid funds + Tax receivables, net + Interest payables, net
Operative capital employed	= Intangible and tangible assets + investments in associated companies + inventories + non-interest bearing operative assets and receivables (external) - non-interest bearing operating liabilities (external)
Return on operative capital employed for reporting segments (segment ROCE) , %	= $\frac{\text{Operating profit}}{\text{Operative capital employed (month-end average)}} \times 100$

4. Disaggregation of sales

SALES BY SEGMENTS

EUR million	10–12/2018	10–12/2017	1–12/2018	1–12/2017
Minerals	695	540	2,453	2,064
Flow Control	201	170	720	635
Intra Metso sales	1	-0	-0	-0
Sales	**897**	**709**	**3,173**	**2,699**

EXTERNAL SALES BY CATEGORY

EUR million	10–12/2018	10–12/2017	1–12/2018	1–12/2017
Sales of services	473	412	1,773	1,595
Minerals	403	351	1,517	1,368
Flow Control	70	61	256	228
Sales of projects, equipment and goods	424	297	1,401	1,103
Minerals	292	189	936	696
Flow Control	131	109	464	407
Sales	**897**	**709**	**3,173**	**2,699**

EXTERNAL SALES BY DESTINATION

EUR million	10–12/2018	10–12/2017	1–12/2018	1–12/2017
Finland	29	23	94	85
Other European countries	223	170	753	596
North America	155	126	610	553
South and Central America	163	144	599	536
Asia-Pacific	250	181	839	670
Africa and Middle East	77	65	279	258
Sales	**897**	**709**	**3,173**	**2,699**

EXTERNAL SALES BY TIMING OF REVENUE RECOGNITION

EUR million	10–12/2018	10–12/2017	1–12/2018	1–12/2017
At a point in time	706	676	2,812	2,489
Minerals	502	506	2,093	1,855
Flow Control	202	170	719	635
Over time	191	33	361	209
Minerals	193	33	360	209
Flow Control	-1	-	1	-
Sales	**897**	**709**	**3,173**	**2,699**

5. Fair value estimation

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

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

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

Level 3
- Over-the-counter derivatives classified as financial assets/liabilities at fair value through profit and loss or qualified for hedge accounting.
- Debt securities classified as financial instruments at fair value through profit and loss
- Fixed rate debt under fair value hedge accounting.

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

The table below present Metso's financial assets and liabilities that are measured at fair value. There have been no transfers between fair value levels during 2018 or 2017.

	Dec 31, 2018		
EUR million	Level 1	Level 2	Level 3
Assets			
Financial assets at fair value through profit and loss			
Derivatives not under hedge accounting	-	5	-
Interest bearing investments	-	-	-
Fund investments	10	-	-
Financial assets at fair value through other comprehensive income			
Derivatives under hedge accounting	-	8	-
Interest bearing investments	-	-	-
Total assets	**10**	**13**	**-**
Liabilities			
Financial liabilities at fair value through profit and loss			
Derivatives not under hedge accounting	-	10	-
Long term debt at fair value	-	188	-
Financial liabilities at fair value through other comprehensive income			
Derivatives under hedge accounting	-	7	-
Total liabilities [1]	**-**	**205**	**-**

	Dec 31, 2017		
EUR million	Level 1	Level 2	Level 3
Assets			
Financial assets at fair value through profit and loss			
Derivatives not under hedge accounting	-	8	-
Interest bearing investments	2	-	-
Fund investments	58	-	-
Financial assets at fair value through other comprehensive income			
Derivatives under hedge accounting	-	7	-
Interest bearing investments	-	-	-
Total assets	**60**	**15**	**-**
Liabilities			
Financial liabilities at fair value through profit and loss			
Derivatives not under hedge accounting	-	4	-
Long term debt at fair value	-	399	-
Financial liabilities at fair value through other comprehensive income			
Derivatives under hedge accounting	-	6	-
Total liabilities [1]	**-**	**409**	**-**

[1] In addition, Metso had EUR 276 million of financial liabilites measured at amortized cost (EUR 273 million in 2017). Their fair value EUR 289 million (EUR 293 milion in 2017) has been calculated based on level 2.

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

6. Notional amounts of derivative instruments

EUR million	**Dec 31, 2018**	Dec 31, 2017
Forward exchange rate contracts	1,369	1,347
Interest rate swaps	345	432
Cross currency swaps	-	244

All electricity forwards have matured during the year, thus as of December 31, 2018 Metso does not have any outstanding electricity forwards. The notional amount of electricity forwards was 14 GWh as of December 31, 2017.

The notional amount of nickel forwards to hedge stainless steel prices was 288 tons as of December 31, 2018 and 270 tons as of December 31, 2017.

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

7. Contingent liabilities and other commitments

EUR million	**Dec 31, 2018**	Dec 31, 2017
Guarantees		
External guarantees given by parent and group companies	380	274
Other commitments		
Repurchase commitments	2	3
Other contingencies	6	3
Lease commitments	122	126

8. Acquisitions

Acquisitions in 2018

On July 2, 2018, Metso acquired 100% of the share capital of Swedish mobile crushing and screening solution provider P.J. Jonsson och Söner AB. The acquired business was consolidated into Aggregate Equipment business area of the Minerals segment. The acquired business contributed sales of EUR 20 million to the Metso Group for the period from July 2, 2018, to December 31, 2018. The company's sales in 12 months fiscal year 2017 that ended on August 31, was approximately EUR 33 million and the number of personnel was 40.

On November 1, 2018, Metso acquired 100% of the share capital of Indish valve automation provider RMEBS Control Private Limited. The company has an advanced offering of switches, process valves, and valve automation products and solutions. The acquired business was consolidated into Valves business area of the Flow Control segment. The acquired business contributed sales of EUR 3 million to the Metso Group for the period from November 1, 2018, to December 31, 2018. The company's sales in 12 months fiscal year 2018 that ended on March 31, amounted approximately to EUR 19 million and the number of personnel was 275.

On December 4, 2018, Metso acquired 100% of the share capital of UK-based combustion solutions and technology provider Kiln Flame Systems Ltd. The company is specialized in rotary kiln and calcining processes, combustion optimization and burner technologies. The acquired business was consolidated into Minerals Services business area of the Minerals segment. The company's sales in 12 months fiscal year 2018 that ended on August 31, amounted approximately to EUR 4 million and the number of personnel was 14.

The preliminary assets and liabilities recognized as a result of the acquisitions are as follows:

EUR million	
Intangible assets	16
Tangible assets	11
Inventory	13
Trade receivables	10
Other receivables	1
Cash	4
Interest bearing liabilities	-10
Trade payables	-12
Other liabilities	-4
Deferred tax liability	-5
Net identifiable assets acquired at fair value	**24**
Goodwill	58
Purchase consideration	**82**

The goodwill is attributable to synergies related to sales and personnel know-how. Goodwill is not tax deductible.

Initial calculations on goodwill generated are based on the results of acquired companies, adjusted by changes in accounting principles and effects from the fair value adjustments of acquired assets and related tax adjustments.

The net cash flow from the acquisitions were as follows:

EUR million	
Cash consideration paid	-81
Cash and cash equivalents acquired	4
Net cash flow for the year	-77
Contingent consideration	-1
Purchase considerations, total	**-78**

Acquisition costs of 2 million are expensed and included in administrative expenses in the income statement and in operating cash flow in the statement of cash flows.

Acquisitions in 2017

On November 1, 2017, Metso acquired 100% of the share capital of the Australian WearX Holding Pty Ltd, which is a wear lining solutions provider. The business was consolidated into the Minerals segment. Purchase price paid amounted to EUR 31 million, the identifiable net assets EUR 12 million and generated goodwill EUR 19 million.

9. Segment information

ORDERS RECEIVED

EUR million	**10–12/2018**	10–12/2017	**1–12/2018**	1–12/2017
Minerals	714	527	2,742	2,308
Flow Control	187	157	758	675
Intra Metso orders received	2	0	0	0
Metso total	**904**	684	**3,499**	2,982

SALES

EUR million	**10–12/2018**	10–12/2017	**1–12/2018**	1–12/2017
Minerals	695	540	2,453	2,064
Flow Control	201	170	720	635
Intra Metso sales	1	0	0	0
Metso total	**897**	709	**3,173**	2,699

ADJUSTED EBITA AND OPERATING PROFIT (LOSS)

EUR million, %	**10–12/2018**	10–12/2017	**1–12/2018**	1–12/2017
Minerals				
Adjusted EBITA	72.3	48.2	261.7	167.8
% of sales	10.4	8.9	10.7	8.1
Capacity adjustment expenses	-	0.1	-	-8.1
Amortization of intangible assets	-2.0	-2.0	-7.8	-6.3
Operating profit	**70.3**	**46.4**	**253.9**	**153.4**
% of sales	10.1	8.6	10.3	7.4
Flow Control				
Adjusted EBITA	33.0	26.6	119.7	93.1
% of sales	16.4	15.6	16.6	14.6
Amortization of intangible assets	-0.8	-0.6	-2.3	-2.4
Operating profit	**32.2**	**26.0**	**117.3**	90.8
% of sales	16.0	15.3	16.3	14.3
Group Head Office and other				
Adjusted EBITA	-7.6	-10.5	-12.1	-17.3
Amortization of intangible assets	-2.0	-2.0	-8.0	-8.5
Operating profit	**-9.5**	**-12.6**	**-20.1**	**-25.7**
Metso total				
Adjusted EBITA	97.7	64.3	369.3	243.6
% of sales	10.9	9.1	11.6	9.0
Capacity adjustment expenses	-	0.1	-	-8.1
Amortization of intangible assets	-4.7	-4.6	-18.2	-17.2
Operating profit	**93.0**	**59.8**	**351.1**	**218.5**
% of sales	10.4	8.4	11.1	8.1

OPERATIVE CAPITAL EMPLOYED AND SEGMENT ROCE-%

EUR million, %	**Dec 31, 2018**	Dec 31, 2017
Minerals	1,192	1,051
Segment ROCE-%	22.7	14.7
Flow Control	374	290
Segment ROCE-%	37.6	29.7

10. Quarterly information

ORDERS RECEIVED

EUR million	**10–12/2018**	7–9/2018	4–6/2018	1–3/2018	10–12/2017
Minerals	714	702	671	654	527
Flow Control	187	181	184	205	157
Group Head Office and other	-	-	-	-	-
Intra Metso orders received	2	-	-2	-	-
Metso total	**904**	**883**	**853**	**859**	**684**

SALES

EUR million	**10–12/2018**	7–9/2018	4–6/2018	1–3/2018	10–12/2017
Minerals	695	609	596	553	540
Flow Control	201	178	180	161	170
Group Head Office and other	0	0	0	0	0
Intra Metso sales	1	-1	0	0	0
Metso total	**897**	**786**	**776**	**714**	**709**

ADJUSTED EBITA

EUR million	**10–12/2018**	7–9/2018	4–6/2018	1–3/2018	10–12/2017
Minerals	72.3	62.4	64.0	63.0	48.2
Flow Control	33.0	31.8	29.5	25.4	26.6
Group Head Office and other	-7.6	1.4	-2.5	-3.5	-10.5
Metso total	**97.7**	**95.6**	**91.0**	**84.9**	**64.3**

ADJUSTED EBITA, % OF SALES

%	**10–12/2018**	7–9/2018	4–6/2018	1–3/2018	10–12/2017
Minerals	10.4	10.2	10.7	11.4	8.9
Flow Control	16.4	17.9	16.4	15.8	15.7
Group Head Office and other	n/a	n/a	n/a	n/a	n/a
Metso total	**10.9**	**12.2**	**11.7**	**11.9**	**9.1**

AMORTIZATION

EUR million	**10–12/2018**	7–9/2018	4–6/2018	1–3/2018	10–12/2017
Minerals	-2.0	-2.0	-2.0	-1.9	-2.0
Flow Control	-0.8	-0.5	-0.5	-0.6	-0.6
Group Head Office and other	-2.0	-2.0	-2.0	-2.0	-2.0
Metso total	**-4.7**	**-4.5**	**-4.5**	**-4.5**	**-4.6**

OPERATING PROFIT (LOSS)

EUR million	**10–12/2018**	7–9/2018	4–6/2018	1–3/2018	10–12/2017
Minerals	70.3	60.4	62.0	61.1	46.4
Flow Control	32.2	31.3	28.9	24.8	26.0
Group Head Office and other	-9.5	-0.6	-4.5	-5.4	-12.6
Metso total	**93.0**	**91.1**	**86.5**	**80.5**	**59.8**

OPERATING PROFIT, % OF SALES

%	**10–12/2018**	7–9/2018	4–6/2018	1–3/2018	10–12/2017
Minerals	10.1	9.9	10.4	11.0	8.6
Flow Control	16.0	17.6	16.1	15.4	15.3
Group Head Office and other	n/a	n/a	n/a	n/a	n/a
Metso total	**10.4**	**11.6**	**11.1**	**11.3**	**8.4**

CAPITAL EMPLOYED

EUR million	**Dec 31, 2018**	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017
Minerals *	1,192	1,149	1,127	1,077	1,051
Flow Control *	374	314	304	298	290
Group Head Office and other	449	457	462	718	863
Metso total	**2,015**	**1,920**	**1,892**	**2,092**	**2,204**

* Operative capital employed includes only external balance sheet items.

ORDER BACKLOG

EUR million	**Dec 31, 2018**	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017
Minerals	1,380	1,373	1,292	1,248	1,173
Flow Control	307	315	312	306	267
Group Head Office and other	0	-	-	-	-
Intra Metso order backlog	-1	-2	-3	0	0
Metso total	**1,686**	**1,686**	**1,601**	**1,553**	**1,439**

PERSONNEL

Persons	**Dec 31, 2018**	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017
Minerals	9,611	9,552	9,459	9,313	8,890
Flow Control	3,054	2,743	2,751	2,575	2,660
Group Head Office and other	485	477	498	468	487
Metso total	**13,150**	**12,772**	**12,708**	**12,356**	**12,037**

11. Exchange rates

Currency		**1–12/2018**	1–12/2017	**Dec 31, 2018**	Dec 31, 2017
USD	(US dollar)	1.1809	1.1307	1.1450	1.1993
SEK	(Swedish krona)	10.2591	9.6392	10.2548	9.8438
GBP	(Pound sterling)	0.8861	0.8742	0.8945	0.8872
CAD	(Canadian dollar)	1.5307	1.4684	1.5605	1.5039
BRL	(Brazilian real)	4.3020	3.6271	4.4440	3.9729
CNY	(Chinese yuan)	7.8148	7.6299	7.8751	7.8044
AUD	(Australian dollar)	1.5795	1.4780	1.6220	1.5346

12. Events after reporting period

Metso announced on January 2, 2018 that it had agreed to acquire HighService Service, the service business of the Chilean mining technology and maintenance provider HighService Corp. HighService Service is a high-quality service provider for the mining industry, with operations in Chile, Argentina and Brazil. Its sales in the fiscal year 2017 were 60 million euros and it has 1,300 employees. The acquisition is pending regulatory approval from the Chilean authorities and is expected to close during the first half of 2019. The parties have agreed not to disclose the value of the transaction.

Metso announced on January 4, 2019 that it had successfully completed the divestment of its grinding media business to Moly-Cop, a portfolio company of American Industrial Partners. The divestment was announced on November 6, 2018. The transaction includes the sale of Metso Spain Holding, S.L.U, including operations in Bilbao and Seville, Spain. As part of the transaction, approximately 80 employees have transferred from Metso to Moly-Cop. The turnover of the divested business in 2018 was approximately EUR 60 million. Based on an initial assessment, Metso does not expect to recognize a material impact on the income statement from the divestment.

Metso's financial information in 2019

Financial Statements Review for 2018 on February 6

Annual Report 2018 during week commencing March 4 at the latest

Interim Review for January – March 2019 on April 25

Half-Year Financial Review for 2019 on July 25

Interim Review for January – September 2019 on October 25

Annual General Meeting is planned to be held on April 25, 2019.
Board will convene the meeting at a separate invitation.

metso

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