2019

H1 Half-Year Review

Metso's Half-Year Review January 1 – June 30, 2019

Second-quarter 2019 in brief

- Healthy market activity in both segments
- Orders received increased 2% to EUR 869 million (855 million)
- Sales grew 16%, totaling EUR 903 million (776 million)
- EBITA improved to EUR 119 million, or 13.1% of sales (91 million, or 11.7%)
- Operating profit improved to EUR 114 million, or 12.6% of sales (86 million, or 11.1%)
- Earnings per share were EUR 0.59 (0.38)
- Free cash flow was EUR 28 million negative (21 million positive)
- Agreement to acquire McCloskey International, a Canadian mobile crushing and screening equipment manufacturer, was signed. The acquisition of a Chilean mining services business was completed.

Half-year 2019 in brief

- Orders received increased 10% to EUR 1,883 million (1,714 million)
- Sales grew 17%, totaling EUR 1,739 million (1,490 million)
- EBITA was EUR 222 million, or 12.8% of sales (176 million, or 11.8%)
- Operating profit was EUR 214 million, or 12.3% of sales (167 million, or 11.2%)
- Earnings per share were EUR 1.02 (0.71)
- Free cash flow was EUR 10 million (23 million)

Combination of Metso Minerals and Outotec – Flow Control to become an independent company

On July 4, Metso announced a combination agreement between Metso Minerals business and the Outotec Group. Flow Control will become an independent listed company to be renamed Neles. The transaction is expected to be completed in the second quarter of 2020.

Market outlook (unchanged)

- Market activity in both segments, Minerals and Flow Control, is expected to remain at the current high level in both the equipment and services business.

Metso's market outlook describes the expected sequential development of market activity during the following six-month period using three categories: improve, remain at the current level, or decline.

Key figures

EUR million	**Q2/2019**	Q2/2018	Change %	**H1/2019**	H1/2018	Change %	2018
Orders received	**869**	855	2	**1,883**	1,714	10	3,499
Orders received by services business	**507**	463	10	**1,025**	954	7	1,913
% of orders received	**58**	54		**54**	56		55
Order backlog at the end of period				**1,850**	1,601	16	1,686
Sales	**903**	776	16	**1,739**	1,490	17	3,173
Sales by services business	**472**	442	7	**934**	864	8	1,773
% of sales	**52**	57		**54**	58		56
EBITA	**119**	91	31	**222**	176	26	369
% of sales	**13.1**	11.7		**12.8**	11.8		11.6
Operating profit	**114**	86	33	**214**	167	28	351
% of sales	**12.6**	11.1		**12.3**	11.2		11.1
Earnings per share, EUR	**0.59**	0.38	55	**1.02**	0.71	44	1.53
Free cash flow	**-28**	21		**10**	23	-57	146
Return on capital employed (ROCE) before taxes, %, annualized				**20.9**	16.8		16.9
Equity to assets ratio, %				**43.4**	47.0		47.7
Net gearing, %				**28.7**	13.7		11.7
Personnel at end of period				**14,676**	12,708	15	13,150

IFRS 16 is adopted in the 2019 figures. Comparison figures for 2018 are not restated. For more information, see notes 2 and 7.

President and CEO Pekka Vauramo:

We continued to perform well and made good progress during the second quarter. Activity in our end markets remained healthy and is shown in the good order intake for both Minerals and Flow Control. The pipeline for mining equipment orders continues to be good even though there were no large bookings during the quarter due to timing. Sales grew at a healthy double-digit rate in both segments. In addition to volume growth, we continue to show higher operational leverage with improving profitability in both segments. This proves that the internal work done across the businesses is generating the targeted results.

During the quarter we closed a mining services-related acquisition in Chile and signed an agreement to buy an aggregates equipment business in Canada. The acquired service business expands our services offering in the important mining markets in Chile and neighboring countries. It also strengthens our services capabilities to help customers to improve their productivity and performance. The McCloskey acquisition in Canada, which we expect to close in the fourth quarter, will expand our offering of mobile crushing and screening equipment and enable us to better meet the demands of a diverse customer base in the aggregates industry. Both acquisitions are logical steps in our profitable growth strategy.

In addition, on July 4, we announced an agreement to combine Metso Minerals with Outotec and to create an independent valve company, Neles. We are excited about the unique opportunities that this transaction will create. The Metso Outotec combination will enable us to drive sustainable growth together with our complementary offering of high-quality technology, in equipment and services, and leverage our extensive global presence, strong services network and large installed base. On the other hand, Neles will be able to capitalize on both organic and inorganic growth opportunities, thanks to its strong product portfolio and service offering as well as best-in-class profitability.

Operating environment

Market activity remained healthy during the second quarter. The demand for aggregates equipment remained high in the US, Europe and China, whereas India saw lower activity due to elections. The demand for mining equipment continued to be healthy and the demand for services from mining customers was strong. Recycling demand in waste was healthy whereas lower scrap prices slowed metal recycling markets somewhat year-on-year. The activity in the valves market remained healthy overall and especially in pulp and paper.

Orders and sales

Second-quarter orders received increased 2% compared to the corresponding period in 2018, and totaled EUR 869 million (EUR 855 million). Minerals orders were at the same level year-on-year, whereas Flow Control's orders increased 9%. Minerals orders were positively impacted by strong services and aggregates equipment orders, while there were no large mining equipment orders during the quarter. Growth in Flow Control's orders resulted from oil & gas projects as well as services.

Quarterly sales totaled EUR 903 million (EUR 776 million), which represents an increase of 16% from the second quarter in 2018. Sales in Minerals increased 17% to EUR 735 million and in Flow Control 13% to EUR 168 million. Equipment sales grew faster than services in both segments.

Orders received in January-June totaled EUR 1,883 million, which is 10% higher than in the corresponding period of 2018. Orders grew 10% in Minerals to EUR 1,527 million and 11% in Flow Control to EUR 356 million. The order backlog at the end of June totaled EUR 1,850 million (EUR 1,686 million at the end of 2018).

January-June sales totaled EUR 1,739 million, which is 17% higher than in the first half of 2018. Minerals' sales increased 17% and Flow Control's sales 16% year-on-year.

Impacts of currency and structural changes on orders received

	Minerals		Flow Control		**Metso total**	
EUR million, %	Q2	H1	Q2	H1	**Q2**	**H1**
2018	**704**	**1,392**	**151**	**322**	**855**	**1,714**
Organic growth in constant currencies, %	0%	9%	3%	5%	0%	8%
Impact of changes in exchange rates, %	0%	0%	3%	2%	0%	0%
Structural changes, %	0%	1%	4%	3%	1%	1%
Total change, %	**0%**	**10%**	**9%**	**11%**	**2%**	**10%**
2019	**704**	**1,527**	**165**	**356**	**869**	**1,883**

Impacts of currency and structural changes on sales

	Minerals		Flow Control		**Metso total**	
EUR million, %	Q2	H1	Q2	H1	**Q2**	**H1**
2018	**627**	**1,211**	**149**	**279**	**776**	**1,490**
Organic growth in constant currencies, %	16%	16%	6%	9%	14%	15%
Impact of changes in exchange rates, %	0%	0%	3%	3%	1%	1%
Structural changes, %	1%	0%	3%	4%	2%	1%
Total change, %	**17%**	**17%**	**13%**	**16%**	**16%**	**17%**
2019	**735**	**1,416**	**168**	**323**	**903**	**1,739**

Financial performance

EBITA in the second quarter totaled EUR 119 million, or 13.1% of sales (EUR 91 million, or 11.7%). Operating profit during the same period reached EUR 114 million, or 12.6% of sales (EUR 86 million, or 11.1%). Minerals' operating profit totaled EUR 91 million, or 12.3% of sales (EUR 70 million, or 11.1%). Flow Control's operating profit totaled EUR 28 million, or 16.5% of sales (EUR 21 million, or 14.2%). The impact of the Group Head Office and other on the operating profit was EUR 4 million negative (EUR 4 million negative). The profitability improvement resulted from higher volumes and improved operational efficiency, despite the higher share of the equipment business in the sales mix.

Profit before taxes in January-June improved to EUR 194 million (EUR 152 million). Net financial expenses in January-June were EUR 20 million (EUR 15 million).

On May 3, 2019, Metso announced that related to the earlier announced reassessment decision by the Finnish tax authority, the Assessment Adjustment Board had largely accepted Metso's appeal and ruled that the company will receive a refund of about EUR 14 million of the EUR 21 million tax payment made in the first quarter of 2018. The refund by the Finnish tax authority has been recognized in the second quarter result and cash flow. The effective tax rate was 21% or 28% excluding the refund impact.

Earnings per share in January-June totaled EUR 1.02 (EUR 0.71) and return on capital employed (ROCE) was 20.9% (16.8 % at the end of 2018) thanks to improved earnings and in spite of the negative effect from the adoption of IFRS 16. See notes 2 and 7 for more information.

Net cash generated by operating activities in January-June totaled EUR 31 million (EUR 34 million) and free cash flow was EUR 10 million (EUR 23 million). An increase in net working capital had a EUR 160 million negative (EUR 95 million negative) impact on cash flow, arising mainly from growth in inventories in the supply chain.

Financial position

Metso's balance sheet and liquidity position remain strong. Total liquid funds at the end of June 2019 were EUR 330 million (EUR 426 million at the end of 2018), of which EUR 50 million (EUR 94 million at the end of 2018) was invested in financial instruments with an initial maturity exceeding three months, and the remaining EUR 279 million (EUR 332 million at the end of 2018) is accounted for as cash and cash equivalents. The first installment of the dividend for the year 2018, EUR 90 million in total, was paid on May 7, 2019. The second installment will be paid in November.

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. In addition, to ensure financing for the agreed McCloskey acquisition, Metso has a bilateral EUR 300 million committed loan from Nordea Bank. The loan has a maturity of two years and includes an option to extend the maturity by one year.

Net interest-bearing liabilities were EUR 400 million at the end of June (EUR 165 million at the end of 2018) and net gearing was 28.7% (11.7% at the end of 2018), including the negative effect from the adoption of IFRS 16. See notes 2 and 7 for more information. The equity-to-assets ratio was 43.4% (47.7% at the end of 2018).

After the reporting period on July 9, 2019, Standard & Poor's Ratings Services placed their BBB rating on Metso on Credit Watch negative due to the planned carve-out of Metso Minerals' assets planned to be merged with Outotec and the resulting impact of the Metso business operations consisting of only Neles' (Flow Control) assets. Metso has stated in the demerger plan that it intends to initiate a bond consent process to transfer the existing bonds to the combined Metso Outotec at the closing.

Reporting segments: Minerals

- **Quarterly orders flat due to timing of mining orders**
- **Strong 17% sales growth**
- **Improved profitability**

Key figures

EUR million	**Q2/2019**	Q2/2018	Change %	**H1/2019**	H1/2018	Change %	2018
Orders received	**704**	704	-	**1,527**	1,392	10	2,872
Orders received by services business	**468**	429	9	**942**	885	6	1,777
% of orders received	**66**	61		**62**	64		62
Order backlog				**1,552**	1,327	17	1,411
Sales	**735**	627	17	**1,416**	1,211	17	2,581
Sales by services business	**436**	411	6	**865**	804	8	1,644
% of sales	**59**	66		**61**	66		64
EBITA	**93**	72	29	**177**	141	26	291
% of sales	**12.6**	11.5		**12.5**	11.7		11.3
Operating profit	**91**	70	30	**174**	137	27	283
% of sales	**12.3**	11.1		**12.3**	11.3		11.0
Return on operative capital employed (Segment ROCE), %, annualized				**27.7**	24.2		23.7
Personnel at end of period				**11,277**	9,777	15	9,942

The Pumps business area was moved from the Flow Control segment to the Minerals segment as of January 1, 2019. Figures for 2018 have been restated. Restated figures based on the new segment structure for 2018 were published on March 26, 2019.

Minerals' orders received in the second quarter were flat year-on-year and totaled EUR 704 million (EUR 704 million). Equipment orders declined 14%, whereas services orders increased 9%. The lower volume of equipment orders was a result of the lack of large mining equipment orders due to timing. Aggregates equipment orders grew, driven by the US, Europe and China. In the services business, orders for spare parts and expert services grew fastest compared to the same quarter in 2018.

Quarterly sales totaled EUR 735 million (EUR 627 million), an increase of 17% mainly driven by the growth in equipment sales. EBITA for the quarter increased to EUR 93 million (EUR 72 million) and the EBITA margin to 12.6% (11.5%). Operating profit improved to EUR 91 million, or 12.3% of sales (EUR 70 million, or 11.1%). Volume growth and improved operational performance both had a positive impact on profitability.

Orders in January-June increased 10% from the comparison period and totaled EUR 1,527 million. Sales during the same period grew 17%, totaling EUR 1,416 million. EBITA was EUR 177 million, or 12.5% of sales, and operating profit EUR 174 million, or 12.3% of sales.

The acquisition of the Chilean mining services business was successfully completed in May 2019. Its sales in fiscal year 2018 were EUR 57 million and the May-June 2019 sales are recognized in the published figures for Minerals' services business.

Reporting segments: Flow Control

- **Strong order growth continued**
- **Double-digit sales growth**
- **Operating profit margin reached 16.5%**

Key figures

EUR million	**Q2/2019**	Q2/2018	Change %	**H1/2019**	H1/2018	Change %	2018
Orders received	**165**	151	9	**356**	322	11	628
Orders received by services business	**39**	34	15	**83**	69	20	136
% of orders received	**24**	23		**23**	21		22
Order backlog				**298**	277	8	276
Sales	**168**	149	13	**323**	279	16	593
Sales by services business	**36**	31	16	**70**	60	17	128
% of sales	**22**	21		**22**	21		22
EBITA	**29**	22	32	**52**	41	27	90
% of sales	**17.1**	14.5		**16.2**	14.5		15.2
Operating profit	**28**	21	33	**50**	40	25	88
% of sales	**16.5**	14.2		**15.6**	14.2		14.8
Return on operative capital employed (Segment ROCE), %, annualized				**38.0**	34.7		37.1
Personnel at end of period				**2,903**	2,433	19	2,723

The Pumps business area was moved from the Flow Control segment to the Minerals segment as of January 1, 2019. Figures for 2018 have been restated. Restated figures based on the new segment structure for 2018 were published on March 26, 2019.

Flow Control's second-quarter orders received increased 9% to EUR 165 million (EUR 151 million). Growth was driven by the services business. Orders received in the equipment business increased in the oil & gas market in Asia in particular. In addition, growth was solid in the distribution and day-to-day businesses.

Second-quarter sales increased 13% year-on-year to EUR 168 million (EUR 149 million), thanks to the solid order backlog built during the previous quarters. Both equipment and services saw double-digit sales growth.

Flow Control's second-quarter EBITA was EUR 29 million, or 17.1% of sales (EUR 22 million, or 14.5%) and operating profit EUR 28 million, or 16.5% of sales (EUR 21 million, or 14.2%). The improved profitability resulted from strong operational performance and volume growth.

Orders in January-June increased 11% from the comparison period and totaled EUR 356 million (EUR 322 million). Sales totaling EUR 323 million in the first half of the year grew 16% from the comparison period. EBITA for the same period was EUR 52 million, or 16.2% of sales, and operating profit EUR 50 million, or 15.6% of sales.

Capital expenditure and investments

Gross capital expenditure excluding business acquisitions in January-June 2019 was EUR 41 million (EUR 26 million), of which maintenance investments accounted for 55%, or EUR 22 million (52%, or EUR 14 million).

The expansion project related to increasing the aggregates equipment manufacturing capacity in India advanced to the inauguration phase during the first quarter. The first product deliveries are expected by the end of 2019. The total investment of approximately EUR 25 million will increase Metso's crushing and screening equipment production capacity in India by 40 percent.

The groundbreaking ceremony for a new greenfield valve plant in Jiaxing, China, took place on January 9, 2019. The plant will strengthen Metso’s production capabilities for valves and related products and increase production capacity for customers across various process industries, both in China and globally. Metso plans to invest a total of approximately EUR 10 million by 2020.

In addition, the investment into expanding the foundry capacity in Vadodara, India, is progressing as planned and production is expected to fully ramp up in 2020.The total investment is approximately EUR 25 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. R&D expenses, including digital investments, grew to 1.8% of sales in the second quarter of 2019.

EUR million	**Q2/2019**	Q2/2018	**H1/2019**	H1/2018	2018
R&D expenses	17	12	33	21	51
of sales, %	1.8	1.2	1.9	1.4	1.6

Personnel

Metso had 14,676 employees at the end of June 2019, which is 1,526 more than at the end of December 2018. During January-June 2019, personnel increased by 1,335 to 11,277 in Minerals and by 180 to 2,903 in Flow Control. Acquisitions increased the number people in Minerals by 869 during the January-June period. Personnel in the Group Head Office and corporate functions totaled 496 at the end of June 2019 (485 at the end of 2018).

Personnel by area

	Jun 30, 2019	**Share, %**	Jun 30, 2018	Share, %	**Change %**	Dec 31, 2018
Europe	4,570	31	4,388	34	4	4,412
North America	1,696	12	1,635	13	4	1,674
South and Central America	4,105	28	2,883	23	42	2,906
Asia Pacific	3,441	23	2,933	23	17	3,318
Africa and Middle East	864	6	869	7	-1	840
Metso total	**14,676**	**100**	12,708	100	**15**	13,150

Acquisitions and divestments

On June 10, Metso announced that it had signed an agreement to acquire McCloskey International, a Canadian mobile crushing and screening equipment manufacturer, to expand its offering in the aggregates industry globally and to strengthen the customer reach especially to general contractor customers.

In the 12-month period ending September 30, 2018, McCloskey had pro forma sales of CAD 464 million or EUR 308 million and a pro forma EBITDA margin of 10.3%. McCloskey’s total assets in the fiscal year ending September 30, 2018, were CAD 285 million or EUR 190 million and net debt CAD 79 million or EUR 53 million. McCloskey has approximately 900 employees in Canada, the United States and Northern Ireland. The acquisition is subject to customary closing conditions, including anti-trust approvals. Closing is expected to take place during the fourth quarter of 2019.

The acquisition of the Chilean mining services business was successfully completed in May 2019. Its sales in fiscal year 2018 were EUR 57 million and the May-June 2019 sales are recognized in the published figures for Minerals’ services business. The acquisition was announced in January 2019 and approved by the Chilean competition authority in March. With the acquisition, 869 services employees in Chile, Argentina and Brazil transferred to Metso.

On January 4, 2019, Metso completed the divestment of its grinding media business. The divested business consisted of two locations in Spain and 80 employees. Its sales in 2018 were EUR 60 million. The proceeds from the divestment had no material impact on Metso's financial results.

Other events during the reporting period

Decisions of the 2019 Annual General Meeting

Metso Corporation's Annual General Meeting (AGM) was held on April 25, 2019, in Helsinki, Finland. The AGM approved the financial statements and discharged the members of the Board of Directors and the President & CEOs from liability for the financial year 2018.

The AGM approved the Board of Directors proposal to pay a dividend of EUR 1.20 per share in two installments. The first dividend installment of EUR 0.60 per share was paid on May 7, 2019. The second dividend installment of EUR 0.60 per share shall be paid in November 2019 based on the dividend record date to be agreed at the Board of Directors meeting planned to be held on October 25, 2019.

The AGM confirmed the number of Board members as eight and re-elected Mikael Lilius as Chair of the Board and Christer Gardell as Vice Chair of the Board. Peter Carlsson, Lars Josefsson, Nina Kopola, Antti Mäkinen and Arja Talma were re-elected as members for a new term. Kari Stadigh was elected as a new member.

The Authorized Public Accountant firm Ernst & Young was elected as Metso's Auditor with Mikko Järventausta as principal responsible auditor. 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 as well as the issuance of shares and special rights entitling to shares. The Nomination Board's proposal concerning Board members' remuneration was also approved.

Metso's Board of Directors held its organizing meeting after the AGM. In the meeting the Board elected members of the Audit Committee and the Remuneration and HR Committee from among its members as follows:

- Audit Committee: Arja Talma (Chair), Nina Kopola and Antti Mäkinen
- Remuneration and HR Committee: Mikael Lilius (Chair), Christer Gardell and Lars Josefsson

The minutes of the meeting are available at www.metso.com/agm.

Change in the reporting segments

Metso announced on February 11, 2019, that it has moved the Pumps business area from its Flow Control segment to the Minerals segment. The change was backdated to January 1, 2019. Restated figures for 2018 based on the new segment structure were announced on March 26, 2019.

Changes in the Metso Executive Team

Merja Kamppari, SVP, Human Resources, left her position on January 31, 2019. Hannele Järvistö has acted as interim SVP, Human Resources, as of February 1, 2019.

On June 18, Metso's Board of Directors appointed Olli Isotalo as President, Valves business area. Olli Isotalo started in his position after the reporting period on July 15, 2019, and also became a member of the Metso Executive Team. Olli Isotalo has previously served as the CEO of Patria Oyj and has held various executive positions at Cargotec Corporation. John Quinlivan, the previous President of the Valves business area, will continue as Senior Adviser until the end of 2019 to support Olli Isotalo during the transition period.

New earning periods for senior management's long-term incentive plans

On February 6, 2019, the Board of Directors decided on new earning periods for the company's three senior management long-term incentive plans: Performance Share Plan, Restricted Share Plan and Deferred Share Unit Plan. Competitive long-term incentive plans are designed to align the interest of Metso's management with those of its shareholders to increase the value of Metso and to commit the management to the company.

A new plan period for the Performance Share Plan

The Board approved the commencement of a new plan period for the senior management Performance Share Plan (PSP). PSP 2019-2021 commenced at the beginning of 2019 and potential share rewards will be delivered in the first half of 2022, if the performance targets set by the Board are achieved. The potential share reward payable under PSP 2019-2021 is based on the total shareholder return of Metso's share during calendar years 2019-2021. The plan includes 11 executives belonging to Metso's senior management and will comprise a maximum of 190,000 reward shares, gross before the deduction of applicable payroll tax.

A new plan period for the Restricted Share Plan

The Board approved the commencement of a new plan period for the complementary Restricted Share Plan (RSP). RSP 2019-2021 commenced at the beginning of 2019, and potential share rewards will be delivered in spring 2022, if the performance targets are achieved. The maximum number of share rewards that may be allocated and delivered within the RSP 2019-2021 total 60,000 shares, gross before the deduction of applicable payroll tax.

A new plan period for the Deferred Share Unit Plan

The Board approved the commencement of a new plan period for the Deferred Share Unit Plan (DSUP). DSUP 2019-2021 commenced at the beginning of 2019, and potential rewards will be delivered in the first half of 2022, if the performance targets are achieved. The plan includes around 140 people.

The Deferred Share Unit Plan consists of annually commencing three-year plans. The final value of the plans depends both on the achievement of the performance targets set by the Board of Directors and the development of Metso's share price. The maximum amount of rewards payable for the years 2019-2021, based on the average price of the Metso share on February 4, 2019, is approximately EUR 9 million, gross before the deduction of applicable payroll tax.

Events after the reporting period

Combination of Metso Minerals and Outotec – Flow Control to become an independent company

Metso announced on July 4, 2019 that Metso and Outotec have agreed to combine Metso Minerals and the Outotec Group to create a leading company in process technology, equipment and services for the minerals, metals and aggregates industries. The Combined Company will be named “Metso Outotec”. It had illustrative combined sales of EUR 3.9 billion in 2018, or approximately EUR 4.2 billion including the impact of the acquisition agreement of McCloskey. Metso Flow Control, with 2018 sales of EUR 593 million, will be renamed Neles and will become a globally recognized listed flow control company with highly attractive market positions in various process industries.

The combination will be implemented through a partial demerger of Metso, in which all its assets and liabilities that relate to Metso Minerals will transfer to Outotec in exchange for 4.3 newly-issued Outotec shares per Metso share. This implies that Metso shareholders would own approximately 78% and Outotec shareholders would own approximately 22% of the shares and votes of Metso Outotec. In addition, Metso shareholders will retain their current shares in Neles. Completion is expected in Q2/2020 and is subject to the approval of the transaction by the EGMs of both Metso and Outotec, the statutory creditor hearing process and receipt of all required regulatory and other approvals. Metso's EGM is expected to be held on October 29.

See more details in note 14. In addition, all related documents are available on our website at www.metso.com/news-metso-outotec-neles.

Annual Report 2018

Metso’s annual report for 2018 was published on March 5, 2019. The report consists of four sections: Business Overview, Financial Review, Corporate Governance and GRI Supplement. All sections of the report are available for downloading at www.metso.com/2018.

Shares and share trading

Metso’s share capital on June 30, 2019, was EUR 140,982,843.80 and the number of shares 150,348,256. This included 272,088 treasury shares held by the Parent Company, which represented 0.2% of all Metso shares and votes. A total of 56,587,966 Metso shares were traded on Nasdaq Helsinki in January-June 2019, equivalent to a turnover of EUR 1,711 million. Metso’s market capitalization at the end of June 2019, excluding shares held by the Parent Company, was EUR 5,185 million (EUR 3,435 million at the end of 2018).

Metso share performance on Nasdaq Helsinki January 1- June 30, 2019

EUR	
Closing price	34.55
Highest share price	35.25
Lowest share price	22.36
Volume-weighted average trading price	30.24

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 June 30, 2019 was USD 9.80.

Conveyance of own shares based on the long-term incentive plan

On March 28, 2019, a total of 79,040 of Metso Corporation's treasury shares were conveyed without consideration to the 80 key individuals participating in the Performance Share Plan 2016-2018 under the terms and conditions of the plan. Following the directed share issue, the number of treasury shares was decreased to 272,088 shares. The directed share issue is based on an authorization given by the Annual General Meeting held on March 22, 2018.

Flagging notifications

In January-June 2019, Metso received two flagging notifications.

BlackRock, Inc. announced that on March 15, 2019, its direct holding in Metso's shares fell below the 5 percent threshold. BlackRock's direct holding (4.66%) and holding through financial instruments (0.35%) amounted to 7,539,098 Metso's shares, which corresponded to 5.01 percent of Metso's total number of shares and votes.

On March 25, 2019, BlackRock, Inc. announced that its total holding in Metso's shares fell below the 5 percent threshold. BlackRock's direct holding (4.56%) and holding through financial instruments (0.33%) amounted to 7,361,853 Metso's shares, which corresponds to 4.89 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 (unchanged)

- Market activity in both segments, Minerals and Flow Control, is expected to remain at the current high level in both the equipment and services business.

Metso's market outlook describes the expected sequential development of market activity during the following six-month period using three categories: improve, remain at the current level, or decline.

Helsinki, July 24, 2019
Metso Corporation's Board of Directors

Consolidated statement of income

EUR million	**4–6/2019**	4–6/2018	**1–6/2019**	1–6/2018	1–12/2018
Sales	**903**	776	**1,739**	1,490	3,173
Cost of goods sold [1]	-629	-543	-1,213	-1,049	-2,257
Gross profit [1]	**274**	233	**526**	441	916
Selling, general and administrative expenses [1]	-159	-134	-305	-263	-545
Other operating income and expenses, net	-1	-13	-8	-11	-19
Share in profits of associated companies	0	0	0	0	0
Operating profit [1]	**114**	86	**214**	167	351
Financial income	2	4	2	5	6
Financial expenses [2]	-12	-9	-22	-20	-36
Profit before taxes	**104**	81	**194**	152	321
Income taxes	-15	-24	-41	-45	-92
Profit for the period	**89**	57	**154**	107	229
Attributable to:					
Shareholders of the parent company	89	57	153	107	230
Non-controlling interests	0	0	0	0	-1
	89	57	**154**	107	229
Earnings per share:					
Basic, EUR	0.59	0.38	1.02	0.71	1.53
Diluted, EUR	0.59	0.38	1.02	0.71	1.53

[1] Following the adoption of IFRS 16, operating profit for 1-6/2019 does not include rental expenses for on-balance sheet leases. Such rental expenses amounting to EUR 18 million are reversed and replaced by depreciation of right-of-use assets and interest expense on lease liability. Operating profit for 1-6/2019 includes EUR 17 million depreciation of right-of-use assets which was not recognized in comparison periods. See notes 2 and 7.
[2] Following the adoption of IFRS 16, financial expenses for 1-6/2019 include EUR 2 million interest expenses on lease liability which were not recognized in comparison periods. See notes 2 and 7.

Consolidated statement of comprehensive income

EUR million	**4–6/2019**	4–6/2018	**1–6/2019**	1–6/2018	1–12/2018
Profit for the period	**89**	57	**154**	107	229
Other comprehensive income:					
Cash flow hedges, net of tax	0	0	0	0	-1
Measurement at fair value, net of tax	-	0	-	0	0
Currency translation on subsidiary net investments	-10	-6	6	-15	-13
Items that may be reclassified to profit or loss in subsequent periods	-9	-6	6	-15	-14
Defined benefit plan actuarial gains and losses, net of tax	-	0	-	1	-2
Items that will not be reclassified to profit or loss	-	0	-	1	-2
Other comprehensive income	**-9**	-6	**6**	-14	-16
Total comprehensive income	**80**	51	**159**	93	213
Attributable to:					
Shareholders of the parent company	80	51	159	93	214
Non-controlling interests	0	0	0	0	-1
	80	51	**159**	93	213

Consolidated balance sheet – Assets

EUR million	**Jun 30, 2019**	Jun 30, 2018	Dec 31, 2018
Non-current assets			
Intangible assets			
Goodwill	545	466	525
Other intangible assets	84	72	83
Total intangible assets	**629**	538	608
Tangible assets			
Land and water areas	40	42	40
Buildings and structures	96	95	97
Machinery and equipment	140	129	135
Assets under construction	46	18	33
Total tangible assets	**322**	284	305
Right-of-use assets [1]	**115**	0	0
Other non-current assets			
Investments in associated companies	5	1	4
Non-current financial assets	7	7	6
Loan and other interest bearing receivables	5	3	6
Deferred tax asset	109	90	101
Other non-current receivables	41	28	38
Total other non-current assets	**167**	127	157
Total non-current assets	**1,233**	950	1,070
Current assets			
Inventories	1,028	857	950
Trade receivables	633	558	585
Customer contract assets	127	82	82
Interest bearing receivables	1	1	1
Income tax receivables	36	36	22
Other current receivables	154	145	144
Deposits and securities, maturity more than three months	50	88	94
Cash and cash equivalents	279	335	332
Liquid funds	330	423	426
Total current assets	**2,307**	2,102	2,209
TOTAL ASSETS	**3,540**	3,052	3,279

[1] IFRS 16 impact, see notes 2 and 7.

Consolidated balance sheet – Equity and liabilities

EUR million	**Jun 30, 2019**	Jun 30, 2018	Dec 31, 2018
Equity			
Share capital	141	141	141
Cumulative translation adjustments	-95	-102	-101
Fair value and other reserves	292	304	302
Retained earnings	1,045	939	1,064
Equity attributable to shareholders	**1,384**	1,282	1,406
Non-controlling interests	11	7	10
Total equity	**1,394**	1,289	1,416
Liabilities			
Non-current liabilities			
Interest bearing liabilities	388	559	383
Lease liabilities [1]	87	0	0
Post-employment benefit obligations	71	70	68
Provisions	33	33	29
Non-current financial liabilities	3	2	2
Deferred tax liability	39	17	30
Other non-current liabilities	2	2	2
Total non-current liabilities	**622**	683	515
Current liabilities			
Interest bearing liabilities	233	44	215
Lease liabilities [1]	29	0	0
Trade payables	437	379	431
Provisions	66	72	71
Advances received	252	211	208
Customer contract liabilities	79	97	100
Income tax liabilities	70	53	61
Other current liabilities	357	224	262
Total current liabilities	**1,523**	1,080	1,348
Total liabilities	**2,146**	1,763	1,863
TOTAL EQUITY AND LIABILITIES	**3,540**	3,052	3,279

[1] IFRS 16 impact, see notes 2 and 7.

NET INTEREST BEARING LIABILITIES

EUR million	**Jun 30, 2019**	Jun 30, 2018	Dec 31, 2018
Interest bearing liabilities	620	603	598
Lease liabilities	116	0	0
Liquid funds	-330	-423	-426
Other interest bearing assets	-6	-3	-7
Net interest bearing liabilities	**400**	**177**	**165**

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, 2018	141	-87	305	987	1,346	7	1,353
Profit for the period	-	-	-	107	107	0	107
Other comprehensive income:							
Cash flow hedges, net of tax	-	-	-	-	0	-	0
Measurement at fair value, net of tax	-	-	0	-	0	-	0
Currency translation on subsidiary net investments	-	-15	-	-	-15	0	-15
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	1	1	-	1
Total comprehensive income	-	-15	0	108	93	0	93
Dividends	-	-	-	-157	-157	0	-157
Share-based payments, net of tax	-	-	-1	-	-1	-	-1
Other items	-	-	0	1	1	0	1
Changes in non-controlling interests	-	-	-	-	-	-	-
Jun 30, 2018	141	-102	304	939	1,282	7	1,289
Dec 31, 2018	141	-101	302	1,064	1,406	10	1,416
Effect from adoption of new IFRS standards [1]	-	-	-	-3	-3	-	-3
Jan 1, 2019	**141**	**-101**	**302**	**1,061**	**1,403**	**10**	**1,413**
Profit for the period	-	-	-	153	**153**	0	**154**
Other comprehensive income:							
Cash flow hedges, net of tax	-	-	0	-	**0**	-	**0**
Measurement at fair value, net of tax	-	-	-	-	**-**	-	**-**
Currency translation on subsidiary net investments	-	6	-	-	**6**	-	**6**
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	-	**-**	-	**-**
Total comprehensive income	**-**	6	0	153	**159**	0	**159**
Dividends	-	-	-	-180	**-180**	-0	**-180**
Share-based payments, net of tax	-	-	3	1	**3**	-	**3**
Other items	-	-	-12	10	**-2**	0	**-1**
Changes in non-controlling interests	-	-	-	-	**-**	-	**-**
Jun 30, 2019	**141**	**-95**	**292**	**1,045**	**1,384**	**11**	**1,394**

[1] Impact of the adoption of IFRIC 23 on retained earnings was EUR 3 million negative.

Condensed consolidated statement of cash flows

EUR million	**4–6/2019**	4–6/2018	**1–6/2019**	1–6/2018	1–12/2018
Operating activities					
Profit for the period	89	57	154	107	229
Adjustments:					
Depreciation and amortization	23	14	45	29	58
Financial expenses, net	10	5	20	15	30
Income taxes	15	24	41	45	92
Other items	-1	-1	0	0	0
Change in net working capital	-105	-51	-160	-95	-129
Net cash flow from operating activities before financial items and taxes	**31**	48	**99**	100	281
Financial income and expenses paid, net [1]	-11	-7	-16	-9	-17
Income taxes paid	-34	-19	-52	-57	-87
Net cash flow from operating activities	**-14**	23	**31**	34	177
Investing activities					
Capital expenditures on intangible and tangible assets	-21	-14	-41	-26	-67
Proceeds from sale of intangible and tangible assets	0	1	1	3	5
Business acquisitions, net of cash acquired	-35	-	-35	-	-77
Proceeds from sale of businesses, net of cash sold	-	-	9	-	-
Other items	-	-	-	-	-4
Net cash flow from investing activities	**-56**	-12	**-66**	-24	-143
Financing activities					
Dividends paid	-90	-157	-90	-157	-157
Transactions with non-controlling interests	-	-	-	-	1
Proceeds from and investments in financial assets, net	0	-	31	0	0
Proceeds from and repayment of debt, net	14	-250	13	-255	-272
Repayments of lease liabilities	-12	-	-18	-	-
Other items	-	-	0	-	0
Net cash flow from financing activities	**-88**	-407	**-64**	-412	-428
Net change in liquid funds	**-158**	-397	**-99**	-402	-394
Effect from changes in exchange rates	-2	0	0	-1	-6
Liquid funds equivalents at beginning of period	488	819	426	826	826
Liquid funds at end of period [2]	**328**	423	**328**	423	426

[1] Following the adoption of IFRS 16, period 1-6/2019 includes EUR -3 million interest payments on the lease liability, see notes 2 and 7.

[2] An overdraft facility in use, EUR 2 million, has been deducted from the liquid funds presented on the balance sheet as at June 30, 2019.

FREE CASH FLOW

EUR million	**4–6/2019**	4–6/2018	**1–6/2019**	1–6/2018	1–12/2018
Net cash flow from operating activities	-14	23	31	34	177
Maintenance investments	-14	-3	-22	-14	-36
Proceeds from sale of intangible and tangible assets	0	1	1	3	5
Free cash flow	**-28**	21	**10**	23	146

Notes to the half-year review

Contents

1. Basis of preparation

This half-year 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 note 2. This half-year review is unaudited.

The segment information relating to 2018 in this half-year review has been restated to reflect a change in the reporting structure whereby Metso moved its Pumps business area from the Flow Control segment under the Minerals segment. The restated figures were published on March 26, 2019.

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 the 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, recycling and pumps businesses. The Flow Control segment covers the valves business.

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 six business areas: Mining Equipment, Aggregates Equipment, Minerals Services, Minerals Consumables, Recycling and Pumps.

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 comprises the Valves business area.

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. 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)” 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 2019

IFRS 16

From the beginning of 2019, Metso has adopted IFRS 16 Leases, replacing the previously used IAS 17 Leases and the related interpretations. The adoption was done using the modified retrospective approach whereby the comparative figures for 2018 were not restated. The adjustments resulting from the adoption were recognized on the opening balance sheet on January 1, 2019.

Impact

IFRS 16 introduced a single measurement and recognition approach for all leases, whereas under IAS 17 they were classified into operating or finance leases. Until December 31, 2018, Metso reported its operating leases as an off-balance sheet liability. The amount of Metso's finance leases was not material. IFRS 16 sets out new accounting treatment requirements for lessee accounting, whereas lessor accounting was substantially unchanged from IAS 17.

According to IFRS 16, from January 1, 2019, Metso as a lessee has recognized assets representing its right to use the leased assets during the lease term (the right-of-use asset) and liabilities to make the lease payments (the lease liability). Accordingly, a depreciation of the right-of-use assets and an interest expense on the lease liability are recognized, replacing the lease expenses recognized under IAS 17. The lessee's accounting treatment for short-term leases and leases of low-value assets has not changed under IFRS 16.

At the date of initial application Metso applied IFRS 16 to the existing contracts that were previously classified as leases. Metso applied the recognition exemptions permitted by the standard for short-term leases with a remaining lease term of 12 months or less and for leases of low-value assets. As other practical expedients, Metso has also applied a single discount rate to leases with reasonably similar characteristics, relied on its previous assessment on whether leases are onerous, and excluded initial direct costs when measuring the right-of-use asset at initial application. Metso has not separated the non-lease components, because of their immaterial impact.

The impact from the adoption of IFRS 16 on the consolidated balance sheet is as follows:

EUR million	Jan 1, 2019
Right-of-use assets	
Land and water areas	0
Buildings and structures	107
Machinery and equipment	19
Total	**126**
Lease liabilities	
Lease liabilities, non-current	96
Lease liabilities, current	30
Total	**126**

Metso's right-of-use assets consist primarily of operative and office premises in the category of *Buildings and structures*, and cars, operative machinery, and equipment in the category of *Machinery and equipment*. Low-value assets comprise IT equipment and other small office items, and short-term leases have a lease term of 12 months or less. The leases of low-value assets and short-term leases are not recognized on the balance sheet.

On the balance sheet, the right-of use assets were measured at the amount equal to the lease liability, adjusted by possible prepaid or accrued payments in 2018. Right-of-use assets are depreciated over the respective lease period. As of June 30, 2019, the weighted average duration of the lease term was approximately six years. The lease liability was measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of January 1, 2019. The incremental borrowing rate has been defined separately for each group company and with consideration to company-specific, geographical and currency risks as well as duration of the lease liability. For Metso Group, the weighted average incremental borrowing rate on January 1, 2019 was approximately four percent.

The impact from the adoption of IFRS 16 on the consolidated income statement relates to the replacement of the lease expense included in operating profit under IAS 17 with the depreciation of right-of-use asset included in operating profit and with the interest expense of lease liability included in financial expenses under IFRS 16. Lease payments related to short-term leases and low-value leases are continued to be recognized as expenses in operating profit, as they were under IAS 17.

The impact from the adoption of IFRS 16 on the consolidated cash flow statement relates to the classification of the lease payments into principal payments of lease liability presented within cash flow from financing activities and interest payments presented within cash flow from operating activities. Lease payments related to short-term leases and low-value leases are presented within cash flow from operating activities, like all the lease payments previously under IAS 17.

The amounts recognized for leases in the income statement and balance sheet in the reporting period are presented in note 7.

Reconciliation

The lease liabilities recognized on the opening balance sheet in the adoption of IFRS 16 as at January 1, 2019 can be reconciled to the operating lease commitments reported under IAS 17 as at December 31, 2018 as follows:

EUR million	
IAS 17 off-balance sheet operating lease commitments as at December 31, 2018	**122**
Add: finance lease liabilities as at December 31, 2018	0
Add: net increase in lease liability resulting from different treatment of extension and termination options, leases of low-value assets and short-term leases	19
Less: Impact from discounting the future lease payments for leases recognized on the balance sheet	-15
IFRS 16 lease liability in the opening balance sheet as at January 1, 2019	**126**

Summary of new accounting policies

Right-of-use assets

At the commencement date of the lease, Metso recognizes right-of-use assets. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. As of June 30, 2019, the weighted average duration of the lease term was approximately six years.

Lease liability

At the commencement date of the lease, Metso recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. A period covered by Metso's option to extend or terminate the lease is included in the lease term if Metso considers that such option will be exercised. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments may include the exercise price of a purchase option reasonably certain to be exercised by Metso. Metso's lease terms do not include any material variable lease payments to be recognized separately from the lease liability.

In calculating the present value of lease payments, Metso uses the incremental borrowing rate, because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The lease liability is remeasured if there is a change in lease term, change in future lease payments resulting from a change in an index or a rate used to determine those payments, a change in the assessment of a purchase option, or a change in the amounts expected to be payable under a residual value guarantee.

Short-term leases and low-value assets

Payments of short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit and loss.

Summary of estimates and assessment by management

The most significant management judgment relates to lease agreements that include an option for Metso to extend or terminate early the lease term. For these contracts, management needs to assess the probability of exercising such option, which may significantly affect the estimated length of lease term and consequently the amounts of right-of-use asset and lease liability as well as the related depreciation and interest expense. Management judgment is also applied in defining the incremental borrowing rate used to calculate the present value of the future lease payments.

IFRIC 23

Metso has applied IFRIC 23 Uncertainty over Income Tax Treatment from the beginning of year 2019. The interpretation addresses the accounting for income taxes, when tax treatments involve uncertainty in the application of IAS 12. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

Metso Group is operating in a complex multinational environment; thus, management applies significant judgment in identifying uncertain tax positions. Based on the analysis made by the Group, Metso has recognized EUR 3 million tax liability for uncertain tax positions in the retained earnings as at January 1, 2019.

3. Key figures and formulas

	1–6/2019	1–6/2018	1–12/2018
Earnings per share, basic, EUR	1.02	0.71	1.53
Earnings per share, diluted, EUR	1.02	0.71	1.53
Equity/share at end of period, EUR	9.22	8.55	9.37
Return on equity (ROE), %, annualized	21.8	16.2	16.5
Return on capital employed (ROCE) before taxes, %, annualized	20.9	16.8	16.9
Return on capital employed (ROCE) after taxes, %, annualized	16.9	12.3	12.5
Equity to assets ratio at end of period, %	43.4	47.0	47.7
Net gearing at end of period, %	28.7	13.7	11.7
Free cash flow, EUR million	10	23	146
Free cash flow/share, EUR	0.06	0.15	0.97
Cash conversion, %	6	21	64
Gross capital expenditure, EUR million	41	26	67
Business acquisitions, net of cash acquired, EUR million	35	-	77
Depreciation and amortization, EUR million	45	29	58
Number of outstanding shares at end of period (thousands)	150,076	149,997	149,997
Average number of shares (thousands)	150,038	149,997	149,997
Average number of diluted shares (thousands)	150,167	150,136	150,187

IFRS 16 is adopted in the 2019 figures. Comparison figures for 2018 are not restated. For more information, see notes 2 and 7.

Formulas for key figures

Earnings before financial expenses, net, taxes and amortization (EBITA) = Operating profit + adjustment items + amortization

Earnings per share, basic = $\frac{\text{Profit attributable to shareholders}}{\text{Average number of outstanding shares during the period}}$

Earnings per share, diluted = $\frac{\text{Profit attributable to shareholders}}{\text{Average number of diluted shares during the period}}$

Equity/share = $\frac{\text{Equity attributable to shareholders}}{\text{Number of outstanding shares at the end of the period}}$

Return on equity (ROE), % = $\frac{\text{Profit for the period}}{\text{Total equity (average for the period)}} \times 100$

Return on capital employed (ROCE) before taxes, % = $\frac{\text{Profit before tax + financial expenses}}{\text{Capital employed (average for the period)}} \times 100$

Return on capital employed (ROCE) after taxes, % = $\frac{\text{Profit for the period + financial expenses}}{\text{Capital employed (average for the period)}} \times 100$

Net gearing, % = $\frac{\text{Net interest bearing liabilities}}{\text{Total equity}} \times 100$

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 of intangible and tangible assets

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

Cash conversion, % = $\frac{\text{Free cash flow}}{\text{Profit for the period}} \times 100$

Interest bearing liabilities = Interest bearing liabilities, non-current and current + lease liabilities, non-current and current

Net interest bearing liabilities = Interest bearing liabilities - non-current financial assets - loan and other interest bearing receivables (current and non-current) - 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 and tangible assets + right-of-use assets + non-current investments + interest bearing receivables + liquid funds + tax receivables, net + interest payables, net

Operative capital employed = Intangible and tangible assets + right-of-use 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	**4–6/2019**	4–6/2018	**1–6/2019**	1–6/2018	1–12/2018
Minerals	735	627	1,416	1,211	2,581
Flow Control	168	149	323	279	593
Group Head Office and other	0	0	0	0	0
Sales	**903**	776	**1,739**	1,490	3,173

EXTERNAL SALES BY CATEGORY

EUR million	**4–6/2019**	4–6/2018	**1–6/2019**	1–6/2018	1–12/2018
Sales of services	472	442	934	864	1,773
Minerals	436	411	865	804	1,644
Flow Control	36	31	70	60	128
Sales of projects, equipment and goods	431	334	805	626	1,401
Minerals	299	215	552	406	936
Flow Control	132	119	253	220	465
Sales	**903**	776	**1,739**	1,490	3,173

EXTERNAL SALES BY DESTINATION

EUR million	**4–6/2019**	4–6/2018	**1–6/2019**	1–6/2018	1–12/2018
Finland	23	21	52	44	94
Other European countries	209	186	409	348	753
North America	188	162	360	299	610
South and Central America	176	134	322	281	599
Asia-Pacific	243	202	465	385	839
Africa and Middle East	63	71	132	133	279
Sales	**903**	776	**1,739**	1,490	3,173

EXTERNAL SALES BY TIMING OF REVENUE RECOGNITION

EUR million	**4–6/2019**	4–6/2018	**1–6/2019**	1–6/2018	1–12/2018
At a point in time	782	721	1,512	1,390	2,812
Minerals	615	572	1,190	1,111	2,220
Flow Control	167	149	323	279	592
Over time	121	55	227	100	361
Minerals	120	55	226	100	360
Flow Control	0	0	0	1	1
Sales	**903**	776	**1,739**	1,490	3,173

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:

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

Level 3 A financial instrument is categorized into Level 3 if the calculation of the fair value cannot be based on observable market data. 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 the periods.

	Jun 30, 2019			Jun 30, 2018		
EUR million	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Financial assets at fair value through profit and loss						
Derivatives not under hedge accounting	-	9	-	-	8	-
Financial assets at fair value through other comprehensive income						
Derivatives under hedge accounting	-	12	-	-	8	-
Total	**-**	**21**	**-**	-	16	-
Liabilities						
Financial liabilities at fair value through profit and loss						
Derivatives not under hedge accounting	-	14	-	-	14	-
Long term debt at fair value	-	190	-	-	188	-
Financial liabilities at fair value through other comprehensive income						
Derivatives under hedge accounting	-	7	-	-	9	-
Total	**-**	**211**	**-**	-	211	-

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	**Jun 30, 2019**	Jun 30, 2018	Dec 31, 2018
Forward exchange rate contracts	1,623	1,212	1,369
Interest rate swaps	345	345	345
Cross currency swaps	-	33	-
Option agreements			
Bought	135	-	-
Sold	-	-	-

The notional amount of nickel forwards to hedge stainless steel prices was 312 tons as of June 30, 2019 and 282 tons as of June 30, 2018. The notional amounts indicate the volumes in the use of derivatives, but do not indicate the exposure to risk.

7. Leases

The right-of-use assets, lease liabilities, depreciation and interest expense related to leases as at and for the six months ended June 30, 2019 were as follows:

	Jun 30, 2019			**1-6/2019**		
EUR million	Right-of-use assets	Lease liability - non-current	Lease liability - current	Reversal of rental expense	Depreciation of right-of-use assets	Interest expense on lease liability
Minerals	63	-	-	10	-11	-
Flow Control	46	-	-	7	-5	-
Group Head Office and other	6	87	29	1	-1	-2
Metso total	**115**	**87**	**29**	**18**	**-17**	**-2**

The right-of-use assets and lease liabilities are reported as separate line items in the balance sheet. Depreciation of right-of-use assets is reported as part of cost of goods sold or selling, general and administrative expenses, depending on the use of the leased asset. Interest expense on lease liability is reported under financial expenses. Lease liabilities or the related interest expenses are not allocated to reportable segments.

The adoption of IFRS 16 impacted the related key figures as follows:

	1–6/2019	
	Reported	Without IFRS 16 impact
Return on capital employed (ROCE) before taxes, %, annualized	20.9	21.3
Return on capital employed (ROCE) after taxes, %, annualized	16.9	17.2
Equity to asset ratio at end of period, %	43.4	45.1
Net gearing at end of period, %	28.7	20.4
Free cash flow, EUR million	10	-8

The effect of the adoption of IFRS 16 is described in note 2.

8. Contingent liabilities and other commitments

EUR million	**Jun 30, 2019**	Jun 30, 2018	Dec 31, 2018
Guarantees			
External guarantees given by parent and group companies	384	288	380
Other commitments			
Repurchase commitments	2	2	2
Other contingencies	5	6	6

9. Acquisitions and divestments

Acquisitions

On May 3, 2019, Metso acquired 100% share of the company Industrial Support Company SpA in Chile, which used to form the service division of the Chilean mining engineering, construction and technology company HighService Corp. The acquired business was consolidated into the Minerals Services business area and contributed sales of 9 EUR million to Metso for the period from May 3, 2019 to June 30, 2019. The company's sales in 12 months fiscal year that ended on December 31, 2018, was 57 EUR million. The company employs 869 persons.

Preliminary asset and liabilities recognized from the acquisition are as follows:

EUR million	
Intangible assets	9
Tangible assets	4
Trade receivables	7
Other receivables	3
Interest bearing liabilities	-3
Trade payables	-4
Other liabilities	-3
Deferred tax liabilities	-2
Net identifiable assets acquired at fair value	**11**
Goodwill	**23**
Purchase consideration	**33**

The goodwill is attributable to personnel knowhow and synergies. 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 cash flow impact of the acquisition:

EUR million	
Cash consideration paid	35
Cash and cash equivalents acquired	0
Net cash outflow for the year	35
Contingent consideration	-1
Cash consideration, total	**33**

Acquisition costs of EUR 0.4 million are expensed and included in administrative expenses in the income statement and in operating cash flow in the statement of cash flows.

Divestments

On January 4, 2019, Metso successfully completed the divestment of its grinding media business to Moly-Cop, a portfolio company of American Industrial Partners. The transaction included the sale of Metso Spain Holding, S.L.U, including operations in Bilbao and Seville, Spain. As part of the transaction, 80 employees transferred from Metso to Moly-Cop. The turnover of the divested business in 2018 was EUR 60 million. The grinding media business was part of the Minerals segment.

The preliminary net assets of disposed business and loss on disposal were as follows:

EUR million	
Intangible assets	6
Tangible assets	4
Inventories	21
Trade receivables	15
Other receivables	2
Liquid funds	3
Interest bearing liabilities	-31
Trade payables	-9
Other liabilities	-1
Deferred tax liabilities	3
Net assets of disposed business	**13**
Consideration received in cash	11
Net assets of disposed business	-13
Loss on disposal	**-2**
Consideration received in cash	11
Cash and cash equivalents disposed of	-3
Debt repayments at disposal	31
Net cash inflow on disposal	**39**

10. Segment information

ORDERS RECEIVED

EUR million	4–6/2019	4–6/2018	1–6/2019	1–6/2018	7/2018–6/2019	1–12/2018
Minerals	704	704	1,527	1,392	3,008	2,872
Flow Control	165	151	356	322	662	628
Group Head Office and other	0	0	0	0	0	0
Metso total	**869**	855	**1,883**	1,714	3,670	3,499

ORDERS RECEIVED BY SERVICES BUSINESS

EUR million, %	4–6/2019	4–6/2018	1–6/2019	1–6/2018	7/2018–6/2019	1-12/2018
Minerals	468	429	942	885	1,835	1,777
% of orders received	66	61	62	64	61	62
Flow Control	39	34	83	69	150	136
% of orders received	24	23	23	21	23	22
Metso total	**507**	463	**1,025**	954	1,984	1,913
% of orders received	58	54	54	56	54	55

SALES

EUR million	4–6/2019	4–6/2018	1–6/2019	1–6/2018	7/2018–6/2019	1–12/2018
Minerals	735	627	1,416	1,211	2,786	2,581
Flow Control	168	149	323	279	637	593
Group Head Office and other	0	0	0	0	0	0
Metso total	**903**	776	**1,739**	1,490	3,422	3,173

SALES BY SERVICES BUSINESS

EUR million, %	4–6/2019	4–6/2018	1–6/2019	1–6/2018	7/2018–6/2019	1-12/2018
Minerals	436	411	865	804	1,705	1,644
% of sales	59	66	61	66	61	64
Flow Control	36	31	70	60	138	128
% of sales	22	21	22	21	22	22
Metso total	**472**	442	**934**	864	1,843	1,773
% of sales	52	57	54	58	54	56

EBITA AND OPERATING PROFIT (LOSS)

EUR million, %	4–6/2019	4–6/2018	1–6/2019	1–6/2018	7/2018–6/2019	1–12/2018
Minerals						
EBITA	92.5	71.9	176.9	141.3	326.7	291.0
% of sales	12.6	11.5	12.5	11.7	11.7	11.3
Amortization of intangible assets	-1.7	-2.0	-2.9	-3.9	-6.8	-7.8
Operating profit	**90.8**	69.9	**174.0**	137.4	319.9	283.2
% of sales	12.3	11.1	12.3	11.3	11.5	11.0
Flow Control						
EBITA	28.6	21.6	52.3	40.6	101.9	90.3
% of sales	17.1	14.5	16.2	14.5	16.0	15.2
Amortization of intangible assets	-0.9	-0.5	-1.9	-1.1	-3.2	-2.3
Operating profit	**27.7**	21.1	**50.4**	39.5	98.8	88.0
% of sales	16.5	14.2	15.6	14.2	15.5	14.8
Group Head Office and other						
EBITA	-2.6	-2.5	-6.7	-5.9	-12.9	-12.1
Amortization of intangible assets	-1.7	-2.0	-3.6	-4.0	-7.6	-8.0
Operating profit	**-4.3**	-4.5	**-10.3**	-9.9	-20.5	-20.1
Metso total						
EBITA	118.6	91.0	222.4	175.9	415.7	369.3
% of sales	13.1	11.7	12.8	11.8	12.1	11.6
Amortization of intangible assets	-4.4	-4.5	-8.3	-9.0	-17.5	-18.2
Operating profit	**114.2**	86.5	**214.1**	167.0	398.2	351.1
% of sales	12.6	11.1	12.3	11.2	11.6	11.1

OPERATIVE CAPITAL EMPLOYED AND SEGMENT ROCE-%

EUR million, %	Jun 30, 2019	Jun 30, 2018	Dec 31, 2018
Minerals	1,505	1,202	1,272
Segment ROCE-%	27.7	24.2	23.7
Flow Control	347	228	293
Segment ROCE-%	38.0	34.7	37.1

11. Quarterly information

ORDERS RECEIVED

EUR million	**4–6/2019**	1–3/2019	10–12/2018	7–9/2018	4–6/2018
Minerals	704	823	745	734	704
Flow Control	165	191	157	149	151
Group Head Office and other	0	0	0	0	0
Metso total	**869**	1,013	902	883	855

SALES

EUR million	**4–6/2019**	1–3/2019	10–12/2018	7–9/2018	4–6/2018
Minerals	735	681	729	641	627
Flow Control	168	155	168	146	149
Group Head Office and other	0	0	0	0	0
Metso total	**903**	836	897	786	776

EBITA

EUR million	**4–6/2019**	1–3/2019	10–12/2018	7–9/2018	4–6/2018
Minerals	92.5	84.4	77.6	72.2	71.9
Flow Control	28.6	23.6	27.6	22.0	21.6
Group Head Office and other	-2.6	-4.2	-7.6	1.4	-2.5
Metso total	**118.6**	103.8	97.7	95.6	91.0

EBITA, % OF SALES

%	**4–6/2019**	1–3/2019	10–12/2018	7–9/2018	4–6/2018
Minerals	12.6	12.4	10.6	11.3	11.5
Flow Control	17.1	15.2	16.4	15.1	14.5
Group Head Office and other	n/a	n/a	n/a	n/a	n/a
Metso total	**13.1**	12.4	10.9	12.1	11.7

AMORTIZATION

EUR million	**4–6/2019**	1–3/2019	10–12/2018	7–9/2018	4–6/2018
Minerals	-1.7	-1.1	-2.0	-2.0	-2.0
Flow Control	-0.9	-1.0	-0.8	-0.5	-0.5
Group Head Office and other	-1.7	-1.8	-2.0	-2.0	-2.0
Metso total	**-4.4**	-4.0	-4.7	-4.5	-4.5

OPERATING PROFIT (LOSS)

EUR million	**4–6/2019**	1–3/2019	10–12/2018	7–9/2018	4–6/2018
Minerals	90.8	83.2	75.6	70.2	69.9
Flow Control	27.7	22.6	26.8	21.5	21.1
Group Head Office and other	-4.3	-6.0	-9.6	-0.6	-4.5
Metso total	**114.2**	99.9	93.0	91.1	86.5

OPERATING PROFIT, % OF SALES

%	**4–6/2019**	1–3/2019	10–12/2018	7–9/2018	4–6/2018
Minerals	12.3	12.2	10.4	11.0	11.1
Flow Control	16.5	14.6	16.0	14.7	14.2
Group Head Office and other	n/a	n/a	n/a	n/a	n/a
Metso total	**12.6**	11.9	10.4	11.6	11.1

CAPITAL EMPLOYED

EUR million	**Jun 30, 2019**	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018
Minerals *	1,505	1,371	1,272	1,229	1,202
Flow Control *	347	352	293	234	228
Group Head Office and other	279	496	449	457	462
Metso total	**2,130**	2,218	2,015	1,920	1,892

* Operative capital employed includes only external balance sheet items.

ORDER BACKLOG

EUR million	**Jun 30, 2019**	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018
Minerals	1,552	1,545	1,411	1,408	1,327
Flow Control	298	310	276	280	277
Group Head Office and other	0	0	-1	-2	-3
Metso total	**1,850**	1,855	1,686	1,686	1,601

PERSONNEL

Persons	**Jun 30, 2019**	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018
Minerals	11,277	10,226	9,942	9,873	9,777
Flow Control	2,903	2,738	2,723	2,422	2,433
Group Head Office and other	496	483	485	477	498
Metso total	**14,676**	13,447	13,150	12,772	12,708

12. Exchange rates

Currency		**1–6/2019**	1–6/2018	1–12/2018	**Jun 30, 2019**	Jun 30, 2018	Dec 31, 2018
USD	(US dollar)	1.1334	1.2060	1.1809	1.1380	1.1658	1.1450
SEK	(Swedish krona)	10.4782	10.1722	10.2591	10.5633	10.4530	10.2548
GBP	(Pound sterling)	0.8761	0.8811	0.8861	0.8966	0.8861	0.8945
CAD	(Canadian dollar)	1.5120	1.5408	1.5307	1.4893	1.5442	1.5605
BRL	(Brazilian real)	4.3580	4.1441	4.3020	4.3511	4.4876	4.4440
CNY	(Chinese yuan)	7.6891	7.7119	7.8148	7.8185	7.7170	7.8751
AUD	(Australian dollar)	1.6015	1.5656	1.5795	1.6244	1.5787	1.6220

13. Acquisitions announced

Acquisition of McCloskey

Metso announced on June 10, 2019, that it had signed an agreement to acquire McCloskey International, a Canadian mobile crushing and screening equipment manufacturer, to expand Metso's offering in the aggregates industry globally and to strengthen the customer reach especially to general contractor customers. In the 12-month period ending September 30, 2018, McCloskey had pro forma sales of CAD 464 million or EUR 308 million and a pro forma EBITDA margin of 10.3%. The company's strong track record of profitable growth over the past several years is expected to continue in 2019. The company's sales in the fiscal year ending September 30, 2019, are expected to exceed CAD 500 million or EUR 330 million. McCloskey has approx. 900 employees in Canada, the United States and Northern Ireland.

The enterprise value of the transaction is CAD 420 million or EUR 279 million payable at closing with an additional contingent profitability-based earn-out consideration of up to CAD 35 million or EUR 23 million for the two-year period after closing. The transaction is expected to be positive for Metso's earnings per share in 2020. McCloskey will be reported in Minerals segment. The acquisition is subject to customary closing conditions, including anti-trust approvals. Closing is expected to take place during Q4 2019.

14. Events after reporting period

Combination of Metso Minerals and Outotec

Metso announced on July 4, 2019, that Metso and Outotec Group have agreed to combine Metso Minerals and Outotec to create a leading company in process technology, equipment and services serving the minerals, metals and aggregates industries. The Combined Company, comprising Metso Minerals and Outotec (but excluding Metso Flow Control), will be named “Metso Outotec”. It had illustrative combined sales of EUR 3.9 billion in 2018 (approximately EUR 4.2 billion including the impact of the recently announced acquisition of McCloskey by Metso). Metso Flow Control will be a pure-play listed entity under the name of Neles with 2018 sales of EUR 593 million.

The combination will be implemented through a partial demerger of Metso, in which all assets and liabilities of Metso that relate to Metso Minerals will transfer to Outotec in exchange for newly-issued shares in Outotec to be delivered to Metso shareholders. Outotec shareholders will continue to own their shares in Outotec. Upon completion, Metso shareholders will receive 4.3 newly-issued shares in Outotec for each share owned in Metso on the record date. This implies Metso shareholders would own approximately 78% of the shares and votes of Metso Outotec, and Outotec shareholders would own approximately 22% of the shares and votes of Metso Outotec. In addition, Metso shareholders will retain their current shares in Metso, which will be renamed Neles.

The current CEO of Metso, Mr. Pekka Vauramo, will become Metso Outotec’s CEO, and the current CEO of Outotec, Mr. Markku Teräsvasara, will become the Deputy CEO of Metso Outotec. Ms. Eeva Sipilä will become the CFO and Deputy CEO of Metso Outotec. The board of Metso Outotec will include board members from both companies. It is proposed that Metso Outotec’s Chairman will be Mr. Mikael Lilius and that the Vice Chairman will be Mr. Matti Alahuhta.

The transaction is unanimously recommended by the boards of Metso and Outotec to their respective shareholders. The transaction is subject to, among other items, approval by a majority of two-thirds of votes cast and shares represented at the respective EGMs of Metso and Outotec in respect of the transaction, and regulatory approvals including competition clearances. As the transaction is proposed to be implemented by way of a partial demerger of Metso, it is also subject to a statutory creditor hearing process of Metso’s creditors. Completion is expected in the second quarter of 2020, subject to the approval of the transaction by the EGMs of both Metso and Outotec, the statutory creditor hearing process and receipt of all required regulatory and other approvals.

Metso’s financial information in 2019

Financial Statements Review for 2018 on February 6

Annual Report 2018 on March 5

Interim Review for January – March 2019 on April 25

Half-Year Review for 2019 on July 25

Interim Review for January – September 2019 on October 25

Metso's EGM is expected to be held on October 29. Board will convene the meeting with a separate invitation.

Metso Corporation, Group Head Office, Töölönlahdenkatu 2, PO Box 1220, FIN-00101 Helsinki, Finland
Tel. +358 20 484 100 Fax +358 20 484 101 www.metso.com