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**METSO MINERALS**
**AUDITED CARVE-OUT FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2019**

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## COMBINED STATEMENT OF INCOME

| EUR million | Note | 2019 | 2018 |
|---|---|---|---|
| Sales | 1.1, 1.2 | 2,976 | 2,580 |
| Sales, Metso Group | | 0 | 0 |
| **Sales, total** | | 2,976 | 2,581 |
| Cost of sales | 1.5, 3.3 | (2,117) | (1,867) |
| **Gross profit** | | 858 | 714 |
| Selling and marketing expenses | 1.3, 1.5, 3.3 | (266) | (222) |
| Administrative expenses | | (212) | (185) |
| Research and development expenses | | (30) | (23) |
| Other operating income and expenses, net | 1.4 | (25) | (16) |
| Share of results of associated companies | 5.2 | 1 | 0 |
| **Operating profit** | | 325 | 268 |
| Finance income | 1.7 | 4 | 4 |
| Finance income, Metso Group | 5.4 | 3 | 5 |
| Foreign exchange gains/losses | 1.7 | 1 | 0 |
| Finance expenses | 1.7 | (42) | (36) |
| Finance expenses, Metso Group | 5.4 | 0 | 0 |
| **Finance income and expenses, net** | | (34) | (26) |
| **Profit before taxes** | | 292 | 242 |
| Income taxes | 1.8 | (69) | (72) |
| **Profit for the period** | | 223 | 169 |
| Attributable to: | | | |
| Equity holders of Metso Minerals | | 224 | 170 |
| Non-controlling interests | | (1) | (1) |
| | | 223 | 169 |

## COMBINED STATEMENT OF COMPREHENSIVE INCOME

| EUR million | Note | 2019 | 2018 |
|---|---|---|---|
| **Profit for the year** | | 223 | 169 |
| Other comprehensive income: | | | |
| Cash flow hedges, net of tax | 1.8, 4.4, 4.8 | 3 | (1) |
| Currency translation on subsidiary net investments | 1.8, 4.4 | 2 | (15) |
| Items that may be reclassified to profit or loss in subsequent periods | | 4 | (16) |
| Defined benefit plan actuarial gains (+) / losses (-), net of tax | 1.8, 2.7 | (3) | 1 |
| Items that will not be reclassified to profit or loss | | (3) | 1 |
| **Other comprehensive income** | | 1 | (15) |
| **Total comprehensive income** | | 224 | 154 |
| Attributable to: | | | |
| Equity holders of Metso Minerals | | 225 | 155 |
| Non-controlling interests | | (1) | (1) |
| | | 224 | 154 |

## COMBINED BALANCE SHEET – ASSETS

| EUR million | Note | 2019 | 2018 |
|---|---|---|---|
| **Non-current assets** | | | |
| **Intangible assets** | 3.1, 3.3 | | |
| Goodwill | | 556 | 462 |
| Other intangible assets | | 167 | 63 |
| **Total intangible assets** | | 723 | 526 |
| | | | |
| **Property, plant and equipment** | 3.2, 3.3 | | |
| Land and water areas | | 43 | 35 |
| Buildings and structures | | 98 | 75 |
| Machinery and equipment | | 128 | 106 |
| Assets under construction | | 46 | 31 |
| **Total property, plant and equipment** | | 315 | 246 |
| | | | |
| Right-of-use assets | 3.3, 3.4 | 89 | 0 |
| | | | |
| **Other non-current asset** | | | |
| Investments in associated companies | 5.2 | 8 | 4 |
| Non-current financial assets | 4.2 | 3 | 3 |
| Loan receivables | 4.2 | 6 | 6 |
| Loan receivables, Metso Group | 5.4 | 25 | 49 |
| Derivative financial instruments | 4.8 | 2 | 3 |
| Deferred tax asset | 1.8 | 108 | 81 |
| Other non-current receivables | 2.3 | 42 | 38 |
| Other non-current receivables, Metso Group | 2.2, 2.3, 4.2, 5.4 | 88 | 137 |
| **Total other non-current assets** | | 282 | 321 |
| | | | |
| **Total non-current assets** | | 1,409 | 1,094 |
| | | | |
| **Current assets** | | | |
| Inventories | 2.4 | 975 | 790 |
| Trade receivables | 2.2 | 577 | 493 |
| Trade receivables, Metso Group | 5.4 | 10 | 8 |
| Customer contract assets | 1.2 | 87 | 82 |
| Loan receivables | | 1 | 1 |
| Loan receivables, Metso Group | 5.4 | 25 | 33 |
| Cash pool receivables, Metso Group | 5.4 | 17 | 20 |
| Derivative financial instruments | 4.8 | 16 | 9 |
| Income tax receivables | 1.8 | 44 | 21 |
| Other current receivables | 2.3 | 139 | 102 |
| Other current receivables, Metso Group | | 1 | 1 |
| | | | |
| Deposits and securities, maturity more than three months | | 0 | 76 |
| Cash and cash equivalents | | 156 | 249 |
| Liquid funds | 4.3 | 156 | 325 |
| | | | |
| **Total current assets** | | 2,048 | 1,885 |
| | | | |
| **TOTAL ASSETS** | | 3,457 | 2,979 |

## COMBINED BALANCE SHEET – EQUITY AND LIABILITIES

| EUR million | Note | 2019 | 2018 |
|---|---|---|---|
| **Equity** | 4.4 | | |
| Cumulative translation adjustments | | (151) | (153) |
| Hedge reserve | | 0 | (3) |
| Invested equity and retained earnings | | 1,313 | 1,328 |
| **Equity attributable to equity holders of Metso Minerals** | | 1,252 | 1,173 |
| Non-controlling interests | | 3 | 10 |
| **Total equity** | | 1,254 | 1,183 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 4.2, 4.5 | 801 | 383 |
| Borrowings, Metso Group | | 0 | 0 |
| Lease liabilities | 4.2, 4.5 | 69 | 0 |
| Post-employment benefit obligations | 2.7 | 61 | 57 |
| Provisions | 2.6 | 33 | 27 |
| Derivative financial instruments | 4.8 | 2 | 2 |
| Deferred tax liability | 1.8 | 66 | 26 |
| Other non-current liabilities | | 2 | 2 |
| Other non-current liabilities, Metso group | | 6 | 6 |
| **Total non-current liabilities** | | 1,040 | 502 |
| **Current liabilities** | | | |
| Borrowings | 4.2, 4.5 | 24 | 209 |
| Borrowings, Metso Group | | 0 | 0 |
| Lease liabilities | 4.2, 4.5 | 21 | 0 |
| Cash pool liabilities, Metso Group | 5.4 | 86 | 81 |
| Trade payables | 2.5 | 385 | 374 |
| Trade payables, Metso Group | 5.4 | 1 | 1 |
| Provisions | 2.6 | 71 | 59 |
| Advances received | | 189 | 189 |
| Customer contract liabilities | 1.2 | 63 | 100 |
| Derivative financial instruments | 4.8 | 13 | 13 |
| Income tax liabilities | 1.8 | 47 | 58 |
| Other current liabilities | 2.5 | 252 | 210 |
| Other current liabilities, Metso Group | 5.4 | 11 | 0 |
| **Total current liabilities** | | 1,163 | 1,294 |
| **Total liabilities** | | 2,202 | 1,796 |
| **TOTAL EQUITY AND LIABILITIES** | | 3,457 | 2,979 |

## COMBINED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| EUR million | Cumulative translation adjustments | Hedge reserves | Invested equity and retained earnings | Equity attributable to shareholders | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| **Jan 1, 2018** | **(138)** | **(2)** | **1,198** | **1,059** | **7** | **1,065** |
| Profit for the period | - | - | 170 | 170 | (1) | 169 |
| Other comprehensive income | | | | | | |
| Cash flow hedges, net of tax | - | (1) | - | (1) | - | (1) |
| Equity instruments at fair value, net of tax | - | 0 | - | 0 | - | 0 |
| Currency translation on subsidiary net investments | (15) | - | - | (15) | 0 | (15) |
| Defined benefit plan actuarial gains (+) / losses (-), net of tax | - | - | 1 | 1 | - | 1 |
| Total comprehensive income | (15) | (1) | 171 | 155 | (1) | 154 |
| Dividends | - | - | (126) | (126) | 0 | (126) |
| Dividends, Metso Group | - | - | (5) | (5) | - | (5) |
| Share-based payments, net of tax | - | - | 1 | 1 | - | 1 |
| Changes in invested equity | - | - | 99 | 99 | - | 99 |
| Net change from winding up the consolidated tax groups | - | - | (16) | (16) | - | (16) |
| Other items | - | - | 1 | 1 | 0 | 1 |
| Changes in non-controlling interests | - | - | 4 | 4 | 4 | 8 |
| **Dec 31, 2018** | **(153)** | **(3)** | **1,328** | **1,173** | **10** | **1,183** |
| Impact of the adoption of new IFRS standards [1] | - | - | (3) | (3) | - | (3) |
| **Jan 1, 2019** | **(153)** | **(3)** | **1,325** | **1,170** | **10** | **1,180** |
| Profit for the period | - | - | 224 | 224 | (1) | 223 |
| Other comprehensive income | | | | | | |
| Cash flow hedges, net of tax | - | 3 | - | 3 | - | 3 |
| Equity instruments at fair value, net of tax | - | 0 | - | 0 | - | 0 |
| Currency translation on subsidiary net investments | 2 | - | - | 2 | 0 | 2 |
| Defined benefit plan actuarial gains (+) / losses (-), net of tax | - | - | (3) | (3) | - | (3) |
| Total comprehensive income | 2 | 3 | 221 | 225 | (1) | 224 |
| Dividends | - | - | (144) | (144) | 0 | (144) |
| Dividends, Metso Group | - | - | (4) | (4) | - | (4) |
| Share-based payments, net of tax | - | - | 1 | 1 | - | 1 |
| Changes in invested equity | - | - | 10 | 10 | - | 10 |
| Net change from winding up the consolidated tax groups | - | - | 1 | 1 | - | 1 |
| Other items | - | - | (1) | (1) | 0 | (1) |
| Changes in non-controlling interests | - | - | (7) | (7) | (7) | (13) |
| **Dec 31, 2019** | **(151)** | **0** | **1,403** | **1,252** | **3** | **1,254** |

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

## COMBINED STATEMENT OF CASH FLOWS

| EUR million | Note | 2019 | 2018 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the year | | 223 | 169 |
| Adjustments: | | | |
| Depreciation and amortization | 3.3 | 71 | 46 |
| Financial expenses, net | 1.7 | 34 | 26 |
| Income taxes | 1.8 | 69 | 72 |
| Other items | | (7) | (3) |
| Change in net working capital | | (216) | (105) |
| **Net cash flow from operating activities before financial items and taxes** | | 173 | 207 |
| Interests paid | | (35) | (20) |
| Interests received | | 5 | 9 |
| Other financial items, net | | (1) | (3) |
| Income taxes paid | 1.8 | (100) | (85) |
| **Net cash flow from operating activities** | | 43 | 107 |
| **Investing activities** | | | |
| Capital expenditures on intangible assets and property, plant and equipment | 3.1, 3.2 | (87) | (59) |
| Proceeds from sale of intangible assets and property, plant and equipment | | 8 | 4 |
| Proceeds from and investments in financial assets, net | 4.6 | 31 | 0 |
| Business acquisitions, net of cash acquired | 5.5 | (214) | (28) |
| Business acquisitions, net of cash acquired, Metso Group | | - | (49) |
| Proceeds from sale of businesses, net of cash sold | 5.5 | 9 | - |
| Proceeds from sale of businesses, net of cash sold, Metso group | | 50 | - |
| Investments in associated companies | 5.2 | (3) | (4) |
| Other items | | - | 0 |
| **Net cash flow from investing activities** | | (207) | (135) |
| **Financing activities** | | | |
| Dividends paid | 4.4 | (144) | (126) |
| Dividends paid, Metso Group | | (4) | (5) |
| Transactions with non-controlling interests | | (13) | 1 |
| Proceeds from and repayment of debt, net | 4.6 | 148 | (268) |
| Repayments of lease liabilities | | (24) | 0 |
| Net borrowings (+), payments (-), Metso Group | | 46 | 24 |
| Equity financing, net, Metso Group | | (8) | 84 |
| Cash pool funding, Metso Group | | (7) | (52) |
| **Net cash flow from financing activities** | | (5) | (342) |
| **Net change in liquid funds** | | **(169)** | **(370)** |
| Effect from changes in exchange rates | | 0 | (6) |
| Liquid funds equivalents at beginning of year | 4.3, 4.6 | 325 | 701 |
| **Liquid funds at end of year** | 4.3, 4.6 | 156 | 325 |

## NOTES TO THE CARVE-OUT FINANCIAL STATEMENTS

### Background

Metso Corporation ("Metso" or "Parent Company") and its subsidiaries (together "Metso" or the "Metso Group") form a global supplier of sustainable technology and services for mining, aggregates, recycling and process industries. The main customers operate in mining, civil engineering, oil and gas industries.

On October 29, 2019, the extraordinary shareholders' meeting approved the proposal of board of directors to demerge the Metso Minerals business from total Metso and to combine it with Outotec group. Metso's Flow Control business will remain in current company after the demerger, which will be called Neles. Metso's shareholders will receive 4.3 shares in Metso-Outotec for each share in Metso owned as demerger consideration. The final aggregate number of shares in Metso-Outotec to be issued as demerger consideration will be determined based on the number of shares in Metso (excluding own shares held by Metso) on the effective date. Transaction is subject to an approval of competition authorities.

As part of the proposed partial demerger Metso will carve-out and transfer the relevant entities' assets and liabilities to Outotec Corporation. The carve-out financial statements presented herein reflect the relevant entities' results of operations, assets and liabilities and cash flows that will be carved out from Metso in the partial demerger process. Collectively these entities included in these carve-out financial statements are referred to as ("Metso Minerals"). The carve-out financial statements have been prepared in accordance with the basis of preparation and Metso accounting policies set out below.

The prepared carve-out financial statements as at December 31, 2019 form the comparison data for the opening balance of Metso Outotec group. These carve-out financial statements were approved by the Metso Board of Directors on May 6, 2020.

### Basis of Preparation

The carve-out financial statements as at and for the year ended December 31, 2019 present Metso Minerals as a single economic entity and have been prepared on historical financial information of the relevant entities and business as part of the Metso Group, using the same accounting principles and carrying amounts as in Metso Group. The entities and business have been under common control during these periods. The carve-out financial statements have been prepared on a basis that combined statements of income, statements of comprehensive income, balance sheets and cash flows of the legal entities and operating units attributable to the Minerals business in Metso's consolidated financial statements and that will be carved out from Metso to be combined to Outotec Group including certain Parent Company's and Metso's foreign holding companies' income and expenses, assets and liabilities and cash flows which will either be transferred to Outotec or which have been allocated to Minerals business for the purpose of the preparation of the carve-out financial statements. Metso Minerals is not comprised of a single sub-group of entities within Metso and, accordingly, has historically not prepared consolidated financial statements for internal or external reporting purposes.

The carve-out financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The carve-out financial statements are the first Metso Minerals has prepared in accordance with IFRS as a separate combined entity. As IFRS does not provide guidance for the preparation of carve-out financial statements, certain accounting conventions commonly used for the preparation of historical financial information have been applied in preparing the carve-out financial statements for inclusion in Prospectuses. The application of these carve-out conventions has been described below. In addition to the application of the specific carve-out conventions impacting the presentation of these financial statements, the areas involving a high degree of judgement or where estimates and assumptions are significant to the carve-out financial statements are discussed at the end of this section.

The carve-out financial statements have been prepared on a going concern basis under the historical cost convention, except for financial assets and liabilities classified as at fair value through profit and loss account.

These Metso Minerals carve-out financial statements do not necessarily reflect what the combined results of operations and financial position would have been had Metso Minerals existed as a separate independent legal group from January 1, 2019 and had it therefore presented stand-alone consolidated financial information during the periods presented. Further, these carve-out financial statements may not be indicative of Metso Minerals' future performance, financial position or cash flows.

The carve-out financial statements are presented in millions of euros (EUR million) except when otherwise indicated.

The legal entities and associated companies, of which minerals business is included in the carve-out financial statements are shown below:

| Company name | Country | Ownership Dec 31, 2019 |
|---|---|---|
| Metso Algerie EURL | Algeria | 100.00% |
| Metso Argentina SA | Argentina | 100.00% |
| Metso Australia Ltd | Australia | 100.00% |
| Precision Rubber NSW Pty Ltd | Australia | 100.00% |
| Wamcast Pty Ltd | Australia | 100.00% |
| Wear Application & Management Services Pty Ltd | Australia | 100.00% |
| WearX Employee Services Pty Ltd | Australia | 100.00% |
| WearX Holdings Pty Ltd | Australia | 100.00% |
| WearX Pty Ltd | Australia | 100.00% |
| Metso Austria GmbH | Austria | 100.00% |
| Metso Brazil Indústria e Comércio Ltda | Brazil | 100.00% |
| Metso Bulgaria EOOD | Bulgaria | 100.00% |
| McCloskey International Limited | Canada | 100.00% |
| Metso Canada Holdings Inc | Canada | 100.00% |
| Metso Minerals Canada Inc. | Canada | 100.00% |
| Metso Shared Services Ltd | Canada | 100.00% |
| Industrial Support Company SpA | Chile | 100.00% |
| Metso Chile SpA | Chile | 100.00% |
| Metso Minerals (Quzhou) Co. Ltd | China | 100.00% |
| Metso Minerals (Tianjin) Co. Ltd | China | 100.00% |
| Metso Minerals (Tianjin) International Trade Co. Ltd | China | 100.00% |
| Shaoguan City Shaorui Heavy Industries Co Ltd | China | 100.00% |
| Metso Czech Republic s.r.o. | Czech Republic | 100.00% |
| Metso Denmark A/S | Denmark | 100.00% |
| Metso Denmark Properties Aps | Denmark | 100.00% |
| Metso Minerals Oy | Finland | 100.00% |
| Rauma Oy | Finland | 100.00% |
| Metso France SAS | France | 100.00% |
| Metso Germany GmbH | Germany | 100.00% |
| Metso Ghana Ltd | Ghana | 100.00% |
| Metso India Private Ltd | India | 100.00% |
| PT Metso Minerals Indonesia | Indonesia | 99.90% |
| Metso Japan Co. Ltd | Japan | 100.00% |
| Metso (Kazakhstan) LLP | Kazakhstan | 100.00% |
| Metso Lithuania UAB | Lithuania | 100.00% |
| Metso Minerals Dooel Skopje | Macedonia | 100.00% |
| Metsotec Malaysia Sdn. Bhd | Malaysia | 100.00% |
| Metso Mexico SA de CV | Mexico | 100.00% |
| Metso SA de CV | Mexico | 100.00% |
| Metsotec NL BV | Netherlands | 100,00% |
| Metso Norway A/S | Norway | 100,00% |
| Metso Central America SA | Panama | 100.00% |
| Metso PNG Limited | Papua New Guinea | 100.00% |
| Metso Perú SA | Peru | 100.00% |
| Metso Portugal, Lda | Portugal | 100.00% |
| OOO Metso | Russia | 100.00% |
| Metso d.o.o. Beograd | Serbia | 100.00% |
| Metso Asia Pacific Pte Ltd | Singapore | 100.00% |
| Metso South Africa Pty Ltd | South Africa | 86.74% |
| Metso South Africa Sales Pty Ltd | South Africa | 86.74% |
| Metso Espana SA | Spain | 100.00% |
| AB P. J. Jonsson och Söner | Sweden | 100.00% |
| Metso Sweden AB | Sweden | 100.00% |
| Metso Minerals Anonim Sirketi | Turkey | 100.00% |
| Kiln Flame Systems Enterprises Limited | United Kingdom | 100.00% |
| Kiln Flame Systems Ltd | United Kingdom | 100.00% |
| McCloskey International Ltd | United Kingdom | 100.00% |
| Metso Captive Insurance Limited | United Kingdom | 100.00% |
| Metso UK Ltd | United Kingdom | 100.00% |
| Metso McCloskey USA LLC | United States | 100.00% |
| Metso Minerals Industries Inc | United States | 100.00% |
| Metso USA Inc. | United States | 100.00% |
| Metso Zambia Ltd | Zambia | 100.00% |
| WearX Zambia Ltd | Zambia | 100.00% |
| **Metso Minerals' associated companies** | | |
| Liugong Metso Construction Equipment Ltda | China | 50,00 % |
| Sefate Capital (Pty) Limited | South Africa | 49,00 % |

***Description of the Carve-Out Principles***

The following paragraphs summarize the accounting and other principles applied in preparing the carve-out financial statements.

For such legal entities' historical financial information with regards to assets and liabilities, as well as sales and expenses and cash flows directly attributable to Minerals segment could be derived from stand-alone financial statements utilized in the preparation of the consolidated historical financial statements of Metso.

Carve-out financial statements include the allocations of income, expense, assets, liabilities and cash flows which are based on management judgement, assumptions and estimates as described below. The most significant estimates, judgements and assumptions relate to the allocation of costs of certain centrally provided services, cash management and financing related allocations, determination of current and deferred income taxes and invested equity.

Accordingly, Metso's management considers that the carve-out allocations have been made on a reasonable basis, but they are not necessarily indicative of the revenues and expenses that would have been incurred if Metso Minerals had been a stand-alone entity preparing consolidated financial statements for the periods presented.

*Intercompany and Related Party Transactions*

Intercompany transactions and assets and liabilities between Metso Minerals entities included in the carve-out financial statements have been eliminated. The carve-out financial statements include Metso Minerals' transactions and balance sheet items. Intercompany transactions and balance sheet items with other Metso Group companies previously considered as intercompany transactions in Metso's consolidated reporting have been treated as transactions with related parties. Metso Minerals does not have significant recurring interbusiness relationships with other Metso legal entities that are not part of Metso Minerals. Internal profit on inventories between Metso Group companies and Metso Minerals entities has not been eliminated in the carve-out financial statements.

Metso Corporation's or other Metso Group companies intercompany receivables and liabilities due to or due from a Metso Minerals entity have been allocated to Metso Minerals, including the financial income and expenses relating to these receivables and liabilities. Metso Minerals' ownership of shares in other Metso Group companies is presented under Other non-current assets, Metso Group in these carve-out financial statements. Metso will undertake certain intra-group arrangements prior to the Demerger to align the legal structures of Metso Minerals and Metso to reflect the contemplated legal structures after the Demerger.

Carrying values for subsidiary shares of Metso Minerals subsidiaries previously owned by Metso's parent company have been allocated to the Metso Minerals parent company. Acquisitions of businesses outside Metso Group are accounted for using the acquisition method.

*Equity Components*

Metso Minerals has not in the past formed a separate legal group nor presented stand-alone consolidated financial statements, and accordingly it is not conceivable to present share capital separately from other equity balances including reserves. Metso Minerals' net assets for each balance sheet date are represented by capital invested in Metso Minerals and shown in these carve-out financial statements as "Equity" comprising of cumulative translation adjustments, hedge reserve as well as invested equity and retained earnings. Invested equity and retained earnings comprise of equity items allocated from Metso's parent company and other Metso Minerals companies in accordance with the demerger plan and historical retained earnings balances of Metso Minerals entities.

All cash and other movements in capital amounts, being shares issued or cancelled or dividends and other distributions made from/to Metso Minerals companies from/to Metso parent company or changes resulting from the internal reorganization have been reflected in the combined statement of cash flows under "Dividends paid, ''Metso Group" and "Equity financing, Metso Group" and in the combined statements of changes in equity under "Dividends", "Changes in invested equity" and "Net change from winding up the consolidated tax groups".

These carve-out financial statements are presented in euros, which will be Metso Minerals' parent company's functional and reporting currency. Metso Minerals' operating units have also other functional currencies. Translation differences arising from translating the net results for the period and equity are recognized in equity and their changes are presented in the separate cumulative translation adjustment within equity.

*Corporate, Shared Service Units and Foreign Holding Company Expenses*

Metso's parent company has been responsible for the management and general administration of Metso Group. For the purposes of the preparation of the carve-out financial statements a portion of Metso's parent company's shared income and expense items including all administrative and personnel expenses for each of the corporate headquarter functions attributable to Metso Minerals has been allocated to Metso Minerals. Shared functions include Group Management, Human Resource, Communication and Investor Relations, Finance, Tax, Treasury, Legal and Strategy. Allocations of the income and expense items are based mainly on the number of employees, which the management believes is appropriate.

Metso's shared service units and foreign holding companies have historically recharged Metso Group companies for costs that have arisen from services conducted on behalf of the Metso Group companies. Such services consist of Business support services, Human Resources, Information Technology, Finance and Accounting, Communications, Legal, other general corporate services and tax services. The majority of the costs are included in the carve-out financial statements based on the historically recharged amounts.

These allocated income and expense items were affected by the arrangements that existed in Metso Group and are not necessarily representative of the position that may prevail in the future for Metso Minerals.

*Pensions*

Pensions and other post-employment benefit plans and their respective portion of the plan liabilities, plan assets, interest and service costs are included in the carve-out financial statements in accordance with each Metso Minerals subsidiary's separate benefit plans. In addition, a portion of the costs for the supplementary pension plan subscribed by Metso to the members of the Metso Executive Team has been allocated to these carve-out financial statements.

*Share-Based Payments*

Metso Minerals key personnel have historically participated in Metso's share-based incentive plans. The carve-out financial statements include employee cost allocations related to these participations based on the actual number of Metso Minerals employees over the cost recorded at Metso. The historical cost allocations may not be indicative of the future expenses that will be incurred through incentive schemes that will be established for Metso Minerals' key personnel following the demerger.

*Cash Management and Financing*

Cash management is centralized so that Metso manages the Group's liquidity needs through cash pool arrangements and other liquid funds consisting of deposits and securities with maturity less than twelve months. Cash pools cover all major geographical areas and Metso Corporation participates in the cash pools whenever allowed by the local regulation.

Metso Minerals' cash and cash equivalents comprise cash held by legal entities and the cash pool balances held by cash pool masters in Metso Minerals legal entities. In addition, the carve-out financial statements include those cash pooling receivable and liability balances due to or due from other Metso Group companies that will be settled at the execution of the partial demerger. These receivable and liability cash pooling balances have been presented as short-term receivables and liabilities from related parties.

Metso Group's external financing is centralized mainly to the Metso parent company. Subsidiaries' working capital and capital expenditure needs have been funded in addition to cash pool arrangements mainly by intercompany loans. All Metso Minerals entities intercompany loans from Metso parent company have been eliminated in these carve-out financial statements against the corresponding Metso parent company's intercompany loan receivables allocated to Metso Minerals. In addition, a limited number of Metso Group companies have funded their operations directly with external banks.

The external debt financing of the demerging Metso parent company and the related interest expenses that are directly attributable to Metso Minerals' operations, comprising mainly of bonds and bank loans, are included in the carve-out financial statements in accordance with the demerger plan. In addition, carve-out financial statements comprise existing external funding arrangements and the related interest expenses of the demerging Metso Minerals entities.

*Derivative Financial Instruments*

Carve-out financial statements include allocated external derivative financial instruments, entered into by Metso's parent company, that correspond to the internal derivative contracts entered by Metso Minerals entities with the parent company. These derivative financial instruments comprise of foreign exchange forwards and electricity forward contracts. Metso has hedged the interest rate risk of the debt arrangements that will transfer to Metso Minerals in the demerger, and the related interest derivatives have been allocated to the carve-out financial statements.

In addition, the carve-out financial statements include an allocation of the derivative financial contracts that Metso has used to hedge its currency denominated financial items such as loans, receivables and bank account balances at the parent company level. The allocation has been made proportionately to correspond to Metso Minerals' share of the hedged exposure including Metso Minerals entities' cash, receivable and loan balances.

*Income Taxes*

During the periods presented in these carve-out financial statements, several of the legal entities in Metso Minerals have operated as separate taxpayers. For these entities the tax charges and the tax liabilities and receivables in the carve-out financial statements are based on actual taxation.

Some Metso Minerals entities have historically been included in Metso legal entities including operations other than operations of Metso Minerals or in tax groups consolidated for income tax purposes, where the taxpaying entity was another Metso Group entity outside of Metso Minerals. During the periods presented, these Metso Minerals entities did not file separate tax returns. Tax charges in these carve-out financial statements have been determined based on the separate return method, as if the Metso Minerals entities were separate taxpayers in the jurisdiction of their primary operations.

The current tax provision is the amount of tax payable or refundable based on the Metso Minerals entity's hypothetical, current-year separate return and has been recorded as current income tax expense and as a shareholder transaction through invested equity in the carve-out financial statements. After computing its current tax payable or refund, the Metso Minerals entity has provided deferred taxes on its temporary differences and on any tax losses that it could claim on its hypothetical return. Deferred taxes on temporary differences are recognized where such temporary differences exist.

The line item "income taxes paid" in the combined cash flow statement reflects current taxes for all carve-out entities as they are deemed to be paid by the respective tax filing group. To the extent that historically there has been no settlement through cash, such tax payments are deemed to be contributions from or distributions to Metso Group and deemed to be settled immediately through equity. Such settlement through equity is reflected in the line item "Equity financing, net, Metso Group" in the financing section of the combined cash flow statement."

The tax charges recorded in the combined income statement are not necessarily representative of the tax charges that may arise in the future.

*Guarantees and Contingent Liabilities*

Metso's parent company has given guarantees on behalf of its subsidiaries in the ordinary course of their business. The guarantee obligations of Metso's parent company relating to Metso Minerals have been allocated to these carve-out financial statements.

*Earnings per Share*

As the carve-out financial statements have been prepared on a carve-out basis, it is not possible to measure earnings per share for any of the periods presented. Metso minerals has not had share capital during the periods presented nor can a portion of Metso's outstanding shares be allocated to it. Therefore, management considers that presenting an earnings per share ratio calculated on the carve-out information would not accurately reflect the historical earnings per share. Accordingly, the requirement of IAS 33 "Earnings per share" to disclose earnings per share is not met.

***Critical Accounting Estimates and Judgements***

The preparation of carve-out financial statements requires management to make estimates and assumptions and to exercise its judgement in the process of applying the Group's accounting policies. These affect the reported amounts of balance sheet items, the presentation of contingent assets and liabilities, and the income and expenses for the financial year. Actual results may differ from the estimates made.

The assets and liabilities involving a higher degree of judgement or complexity, or areas where the assumptions and estimates are significant to Metso Minerals' carve-out financial statements, are disclosed in the following notes:

| Key judgement and estimates | Note |
|---|---|
| Carve-out principles | Basis of preparation |
| Sales | 1.2 |
| Share-based payments | 1.6 |
| Income taxes | 1.8 |
| Trade receivables | 2.2 |
| Other receivables | 2.3 |
| Inventory | 2.4 |
| Provisions | 2.6 |
| Post-employment obligations | 2.7 |
| Goodwill and other intangible assets | 3.1 |
| Property, plant and equipment | 3.2 |
| Right-of-use assets | 3.4 |

Metso Minerals' more detailed accounting policies are disclosed in the relevant note to the consolidated financial statements.

## 1. Metso Minerals Performance

### *1.1. Reporting Segments*

***Accounting policy***

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors. Metso Minerals' operations and profitability is reported as a single reportable segment and operative decisions have been made by the Board of Directors of Metso as Metso's Chief Operating Decision Maker at Metso Minerals Group level. Metso Minerals has no aggregated operating segments and thus Metso Minerals is the reportable operating segment. The accounting principles applied to segment reporting are the same as those used in preparing the consolidated financial statements.

Segment performance is measured with operating profit (EBIT). In addition Metso Minerals 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. Adjustment items comprise capacity adjustment costs, outcome of material intellectual property rights disputes, gains and losses on business disposals and other infrequent events. Their nature and net effect on cost of goods sold, selling, general and administrative expenses as well as other income and expenses are presented in the segment information. Alternative performance measures should, however, not be considered as a substitute for measures of performance in accordance with the IFRS.

*Carve-out Principles*

Carve-out reporting structure consists of one segment: Metso Minerals business. It covers the mining, aggregates, recycling and pump businesses. Intercompany transactions and balance sheet items with other Metso Group companies previously considered as intercompany transactions in Metso's consolidated reporting have been treated as transactions with related parties and presented in Head Office and carve-out items.

***Corporate Structure***

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

**The Minerals** business supplies technology, process solutions, machinery and services for aggregates production, mining processing, and metal and waste recycling.

The **Head Office and carve-out items** is comprised of the Parent Company with centralized group functions such as treasury and tax as well as shared service centers and holding companies.

Segment assets comprise intangible assets and property, plant and equipment, investments in associated companies and joint ventures, inventories and non-interest bearing operating assets and receivables. They exclude interest bearing assets, cash and cash equivalents, income tax receivables and deferred tax assets, which are included in the assets of Head Office and carve-out items.

Segment liabilities comprise non-interest bearing operating liabilities and exclude income tax liabilities, deferred tax liabilities and interest bearing liabilities, which are included in the liabilities of Head Office and carve-out items.

Non-cash write-downs include write-offs made to the value of receivables and inventories and impairment and other write-offs recognized to reduce the value of intangible assets or property, plant and equipment and other assets.

Gross capital expenditure comprises investments in intangible assets and property, plant and equipment, associated companies and joint ventures and additions through business acquisitions.

Information about the reportable segments as of and for the years ended December 31, 2019 and 2018 is presented in the following tables.

| EUR million | Minerals | Head Office and carve-out items | Metso Minerals total |
|---|---|---|---|
| **2019** | | | |
| **Sales** | 2,976 | 0 | 2,976 |
| Earnings before interest, tax and amortization (EBITA) | 359.2 | (18.0) | 341.2 |
| % of sales | 12.1 | n/a | 11.5 |
| Adjusted EBITA | 380.7 | (3.6) | 377.1 |
| % of sales | 12.8 | n/a | 12.7 |
| Adjusted EBITDA | 434.4 | (2.1) | 432.2 |
| % of sales | 14.6 | n/a | 14.5 |
| Operating profit (-loss) | 349.9 | (24.6) | 325.2 |
| % of sales | 11.8 | n/a | 10.9 |
| Adjustment items in cost of goods sold | (11.4) | - | (11.4) |
| Adjustment items in selling, general and administrative expenses | (5.5) | (14.4) | (19.9) |
| Adjustment items in other operating income and expenses, net | (4.6) | - | (4.6) |
| Adjustment items | (21.5) | (14.4) | (35.9) |
| Amortization of intangible assets | (9) | (7) | (16) |
| Depreciation of property, plant and equipment | (32) | 0 | (32) |
| Depreciation of right-of-use assets | (22) | (1) | (23) |
| Non-cash write-downs [1] | 6 | - | 6 |
| Gross capital expenditure (including business acquisitions) | 341 | 1 | 342 |
| Non-current non-interest bearing assets | 1,124 | 13 | 1,138 |
| Current non-interest bearing assets | 1,793 | 145 | 1,938 |
| Interest bearing receivables | - | 56 | 56 |
| Tax receivables and deferred tax assets | - | 152 | 152 |
| Liquid funds | - | 173 | 173 |
| **Total assets** | 2,917 | 540 | 3,457 |
| Non-interest bearing liabilities | 1,004 | 84 | 1,088 |
| Tax payables and deferred tax liability | - | 113 | 113 |
| Interest bearing debt | - | 1,001 | 1,001 |
| **Total liabilities** | 1,004 | 1,198 | 2,202 |
| Capital employed | 1,904 | 307 | 2,211 |
| Capital employed, Metso Group | 9 | 35 | 44 |
| Orders received | 3,009 | - | 3,009 |
| Order backlog | 1,408 | - | 1,408 |

[1] Write-downs including reversals of intangible assets and property, plant and equipment, inventories and trade receivables.

| EUR million | Minerals | Head Office and carve-out items | Metso Minerals total |
|---|---|---|---|
| **2018** | | | |
| **Sales** | 2,581 | 0 | 2,581 |
| Earnings before interest, tax and amortization (EBITA) | 291.0 | (7.6) | 283.4 |
| % of sales | 11.3 | n/a | 11.0 |
| Adjusted EBITA | 291.0 | (7.6) | 283.4 |
| % of sales | 11.3 | n/a | 11.0 |
| Adjusted EBITDA | 321.2 | (7.3) | 313.9 |
| % of sales | 12.4 | n/a | 12.2 |
| Operating profit (-loss) | 283.2 | (15.6) | 267.6 |
| % of sales | 11.0 | n/a | 10.4 |
| Total adjustment items | - | - | - |
| Amortization | (8) | (8) | (16) |
| Depreciation | (30) | 0 | (30) |
| Non-cash write-downs | 6 | 0 | 5 |
| Gross capital expenditure (including business acquisitions) | 86 | 2 | 88 |
| Non-current non-interest bearing assets | 766 | 14 | 779 |
| Current non-interest bearing assets | 1,488 | 176 | 1,664 |
| Interest bearing receivables | - | 89 | 89 |
| Tax receivables and deferred tax assets | - | 102 | 102 |
| Liquid funds | - | 345 | 345 |
| **Total assets** | 2,254 | 725 | 2,979 |
| Non-interest bearing liabilities | 975 | 64 | 1,039 |
| Tax payables and deferred tax liability | - | 84 | 84 |
| Interest bearing debt | - | 673 | 673 |
| **Total liabilities** | 975 | 821 | 1,796 |
| Capital employed | 1,272 | 396 | 1,668 |
| Capital employed, Metso Group | 7 | 182 | 188 |
| Orders received | 2,871 | - | 2,871 |
| Order backlog | 1,411 | - | 1,411 |

### *Geographical Information*

***Accounting Policy***

Metso presents the geographical segments' sales by location of customers. Non-current assets and gross capital expenditure are presented by location of assets.

Metso's businesses are present in over 50 countries providing strong diversification. The main market areas are Europe and North America accounting for approximately 47 percent of sales. Metso has production units on all inhabited continents.

*Sales to Unaffiliated Customers by Destination*

| EUR million | 2019 | 2018 |
|---|---|---|
| Finland | 66 | 61 |
| Other European countries | 717 | 617 |
| North America | 507 | 403 |
| South and Central America | 669 | 567 |
| Asia-Pacific | 795 | 696 |
| Africa and Middle East | 223 | 236 |
| **Sales** | **2,976** | **2,581** |

*Metso's Exports from Finland by Destination, Including Intra-group Sales*

| EUR million | 2019 | 2018 |
|---|---|---|
| European countries | 212 | 166 |
| North America | 78 | 83 |
| South and Central America | 31 | 23 |
| Asia-Pacific | 110 | 108 |
| Africa and Middle East | 32 | 33 |
| **Total** | **464** | **413** |

*Non-Current Assets by Location*

| EUR million | 2019 | 2018 |
|---|---|---|
| Finland | 79 | 75 |
| Other European countries | 111 | 89 |
| North America | 99 | 41 |
| South and Central America | 74 | 53 |
| Asia-Pacific | 150 | 101 |
| Africa and Middle East | 8 | 11 |
| Non-allocated | 747 | 584 |
| **Total** | **1,268** | **954** |

Non-current assets presented in the table above comprise intangible assets and property, plant and equipment, right-of-use assets, investments in associated companies and joint ventures, equity investments and other non-interest bearing non-current assets. Non-allocated assets include mainly goodwill and other allocated assets arising from business acquisitions that have not been pushed down to the subsidiaries' books.

*Gross Capital Expenditure by Location*

| EUR million | 2019 | 2018 |
|---|---|---|
| Finland | 10 | 5 |
| Other European countries | 14 | 10 |
| North America | 9 | 3 |
| South and Central America | 17 | 9 |
| Asia-Pacific | 37 | 27 |
| Africa and Middle East | 2 | 4 |
| **Total** | **89** | **59** |

Gross capital expenditure comprises investments in intangible assets and property, plant and equipment, associated companies and joint ventures. Right-of-use assets are not included to gross capital expenditure calculation.

### *1.2. Sales*

***Accounting Policy***

Metso Minerals applies IFRS 15 Revenue from Contracts with Customers standard. Metso Minerals has applied the same accounting principles and carrying values (pooling) in these carve-out financial statements as Metso Group. The principle is that sales are recognized at an amount that reflects the consideration to which Metso expects to receive in exchange for transferring goods or services to a customer. Sales are recognized, when the control of goods or services is transferred to a customer. The control is transferred either at a point in time or over time.

Metso Minerals providing standardized equipment and wear or spare parts to customers, sales are recognized at a point in time, when control for the goods is transferred, typically at the delivery of the goods or after commissioning. Sales to the distributors are recognized at the delivery, when the distributor is not acting as an agent. If the distributor is acting as an agent, sales are recognized only when delivered to ultimate client.

Metso Minerals providing customized engineered system deliveries, where the asset produced does not have alternative use and Metso has enforceable right to payment for the performance completed, sales are recognized over time. Sales recognition is based on estimated sales, costs and profit. Metso measures the progress using the cost-to-cost method, where sales and profits are recorded after considering the ratio of accumulated costs to estimated total costs to complete each contract. This method is considered to reflect best the satisfaction of the performance obligation. The estimated sales, costs and profit, together with the planned delivery schedule of the contract are subject to regular revisions as the contract progresses to the completion. Revisions in profit estimates as well as projected potential loss on contract are charged through the profit and loss account in the period in which they become known.

Sales from providing services are recognized when the performance obligation is satisfied. For long-term fixed price service contracts, sales are recognized over time, because of the customer receives the performance obligation simultaneously when the service is rendered. The measure of the progress is based on costs of actual services provided as a proportion of the costs of total services to be rendered. The estimated sales, costs and profit, together with the planned delivery schedule of the contract are subject to regular revisions as the contract progresses to the completion. Revisions in contract estimates as well as projected potential loss on contract are charged through the profit and loss account in the period in which they become known.

For short-term service contracts with hourly fee based on valid price list, sales are recognized to the extent Metso has the right to invoice the customer, and for service contracts with fixed hourly fee agreed in the contract, sales are recognized based on invoicing.

Client contracts may include promises such as volume-based rebates, late delivery penalties or right to return delivered parts. The impact of these promises on the final consideration will be estimated, when recognition is started and systematically during the contract period. Sales will be recognized to the extent that Metso is entitled to the consideration. Also, creditworthiness of the client and collectability of the consideration is assessed through the contract period. Extended warranties are treated as a separate performance obligation and appropriate transaction price is allocated to them and recognized in sales when occurred.

Metso Minerals typically requires advance payments from clients. Applying IFRS 15, advances received do not include a financing component, because the payment schedule of them follows closely the timing of performance obligations to be satisfied.

***Estimates and Assessments by Management***

Sales recognized at a point in time may require judgement on facts and circumstances when the control is considered to have passed to the client, affecting on timing of sales to be recognized. Transfer of the control is assessed mainly based on terms of delivery in the contract and local legislation. Customer contracts including clauses on rebates, late delivery penalties, right to return promises or extended warranties requires management judgement on the probability of such clauses to have an effect on contracts sales. Judgements are based on earlier experience and market practice, when it is available.

Sales recognized over time is based on cost-to-cost method, which requires management to be able to estimate total sales, costs, margin and cash flow to complete the project. To assess the progress and margin to be recognized as well as the total costs estimated to complete the contracts requires judgements by management throughout the contract period. The most critical judgements are needed in case of a loss-making contract to estimate the performance needed to be able to satisfy the contract. Changes in general market conditions and the possible act to contracts needs to be predicted as well. The credit worthiness of the customer is verified, and collectability of the consideration assessed before entering into a contract. However, a risk of non-payment might arise afterwards, and it requires then management judgement on the impact on final sales recognition.

*Hedging of Foreign Currency Denominated Firm Commitments*

Under Metso Minerals hedging policy, business units are required to hedge their foreign currency risk when they become engaged in a firm commitment denominated in a currency other than their functional currency. When a firm commitment qualifies for over time recognition, the business unit applies hedge accounting and recognizes the effect of the hedging instruments in other comprehensive income (OCI) until the commitment is recognized. Though Metso Minerals has defined the characteristics triggering a firm commitment, the final realization of the unrecognized commitment depends also on factors beyond management control, which cannot be foreseen when initiating the hedging relationship. Such factors can be a change in the market environment causing the other party to postpone or cancel the commitment. To the extent possible, management strives to include clauses in its contracts that reduce the impact of such adverse events on its results.

***Disaggregation of Sales***

| **EUR million** | **2019** | **2018** |
|---|---|---|
| Sales, external | 2,976 | 2,581 |
| Sales, Metso Group | 0 | 0 |
| **Sales** | **2,976** | **2,581** |

**External sales by category**

| **EUR million** | **2019** | **2018** |
|---|---|---|
| Sales of services | 1,815 | 1,644 |
| Sales of projects, equipment and goods | 1,161 | 936 |
| **Sales** | **2,976** | **2,581** |

**External sales by destination**

| **EUR million** | **2019** | **2018** |
|---|---|---|
| Finland | 66 | 61 |
| Other European countries | 717 | 617 |
| North America | 507 | 403 |
| South and Central America | 669 | 567 |
| Asia-Pacific | 795 | 696 |
| Africa and Middle East | 223 | 236 |
| **Sales** | **2,976** | **2,581** |

**External sales by timing of revenue recognition**

| **EUR million** | **2019** | **2018** |
|---|---|---|
| At a point in time | 2,485 | 2,220 |
| Over time | 491 | 360 |
| **Sales** | **2,976** | **2,581** |

***Contract Balances***

| EUR million | 2019 | 2018 |
|---|---|---|
| Trade receivables | 577 | 493 |
| Trade receivables, Metso Group | 10 | 8 |
| Customer contract assets | 87 | 82 |
| Advances received | 189 | 189 |

Customer contract liabilities and advances received are annually recognized as sales mainly during the following year.

When providing standardized equipment, valves and pumps and wear or spare parts, invoicing takes place in general at the delivery or after commissioning. In engineered system delivery and long-term service contracts invoicing is based on the client contracts. Short-term service contracts are invoiced, when service is rendered.

Trade receivables are based on the invoicing to customers and are generally on terms of 30–90 days. The acquisitions in 2019 resulted an increase in trade receivables of EUR 56 million (EUR 10 million in 2018) and disposals resulted a decrease of EUR 15 million, see note 5.5. Information about provision for expected credit losses on trade receivables is presented in note 2.2.

Engineered system delivery contracts and long-term service contracts are mainly fixed priced contracts, where customers are invoiced with fixed amounts based on contracts' schedule. In case, the performance obligation satisfied exceeds the invoiced payment from the customer, a contracts asset is recognized. In case, the invoiced payment from the customer exceeds the performance obligation satisfied, a contract liability is recognized.

Advances received is the amount paid in advance to Metso Minerals by the customers. Typically, Metso Minerals receives advance payments in the customized large scale engineered system and equipment delivery projects.

Change in receivables from customers or liabilities to customers and advances received is the result of changes in business volume operations in 2019 compared to the previous year.

***Unsatisfied Performance Obligations***

Unsatisfied performance obligations relate to customized engineered system projects and long-term service contracts amounting to EUR 267 million. These performance obligations are expected to be materially satisfied in two years.

***Performance Obligations***

Metso Minerals’ sales consist of the sale of standardized equipment deliveries and services with wear or spare parts as well as customized large scale engineered system and/or equipment deliveries. Metso Minerals’ performance obligations are as follows:

*Equipment and Wear or Spare Parts Deliveries*

Metso Minerals providing standardized equipment and wear or spare parts to customers, revenue will be recognized at a point in time, when control for the goods is transferred, typically at the delivery of the goods or after commissioning. These contracts may include promises such as volume-based rebates, late delivery penalties or right to return delivered parts. The impact of these promises on the final consideration will be estimated and sales will be recognized to the extent that Metso Minerals is entitled to. Extended warranties are treated as a separate performance obligation and appropriate transaction price is allocated to them and recognized in sales when occurred.

Metso Minerals cooperates with distributors specially in aggregates, valves and recycling businesses. Based on the current distributor contracts, Metso Minerals recognizes sales at the delivery to a distributor. Promises on volume-based rebates and right to return of the goods are assessed and sales will be recognized to the extent Metso Minerals is entitled to.

*Engineered System and Equipment Deliveries*

With customized large scale engineered system and equipment deliveries, where assets produced do not have alternative use for another client and Metso has the right to payment for the performance completed, revenue will be recognized over time. Each large scale engineered system and equipment delivery contract is assessed separately. These contracts usually have a customer specific, one total performance obligation agreed with the client.

These contracts may include promises such as late delivery penalties, performance guarantees and extended warranties. The impact of these promises on the final consideration will be estimated and sales will be recognized to the extent that Metso Minerals is entitled to. Metso Minerals typically requires advance payments from clients, which in general, does not include a financing component, because the payment schedule of advances follows closely the timing of performance obligations to be satisfied.

*Service Contracts*

Sales from providing services are recognized when the services are rendered. For long-term fixed price contracts, sales are recognized over time. The measure of the progress is based on costs of actual services provided as a proportion of the costs of total services to be rendered. For short-term service contracts with hourly fee based on valid price list, revenue is recognized to the extend Metso Minerals has right to invoice the customer, and for service contracts with fixed hourly fee agreed in the contract, revenue is recognized based on invoicing. Typical promises in service contacts are late delivery penalties, performance guarantees or right to return promises, the impact of these promises are assessed, and sales recognized to the extent Metso Minerals is entitled to.

***Major Customers***

In 2019 and 2018, Metso Minerals did not have a single customer whose sales would have exceeded 10 percent of the consolidated sales.

### *1.3. Selling, General and Administrative Expenses*

| **EUR million** | **2019** | **2018** |
|---|---|---|
| Marketing and selling expenses [1] | (258) | (215) |
| Research and development expenses, net | (30) | (23) |
| Digitalization expenses [1] | (10) | (9) |
| Administrative expenses [1] | (210) | (183) |
| **Selling, general and administrative expenses** | **(508)** | **(430)** |

[1] Digitalization expenses are included in marketing and selling and administrative expenses in the combined statement of income. Digitalization expenses are considered as research and development expenses.

***Accounting Policy***

Research and development expenses comprise salaries, administration costs, digital investments, depreciation and amortization of intangible assets and property, plant and equipment, and are mainly recognized as incurred. When material development costs meet certain capitalization criteria under IAS 38, they are capitalized and amortized over the expected useful life of the underlying technology.

***Research and Development Expenses***

| **EUR million** | **2019** | **2018** |
|---|---|---|
| Research and development expenses, total | (41) | (32) |
| Capital expenditure | 1 | 0 |
| Grants received | 0 | 0 |
| Depreciation and amortization | 0 | 0 |
| **Research and development expenses, net** | **(41)** | **(32)** |

### *1.4. Other Operating Income and Expenses*

***Accounting Policy***

Other operating income and expenses comprise income and expenses that do not directly relate to the operating activity of businesses within Metso or which arise from unrealized and realized changes in fair value of foreign currency denominated financial instruments related to operations, including forward exchange contracts. Such items include costs related to significant restructuring programs, gains and losses on disposal of assets, and foreign exchange gains and losses, excluding those qualifying for hedge accounting and those, which are reported under financial income and expenses, net. Additionally, non-recoverable foreign taxes, which are not based on taxable profits, are reported in other operating income and expenses, net. In particular, these include foreign taxes and such like payments not based on Double Taxation Treaties in force.

| EUR million | 2019 | 2018 |
|---|---|---|
| Gain on sale of intangible assets and property, plant and equipment | 0 | 2 |
| Rental income | 0 | 0 |
| Foreign exchange gains [1] | 55 | 62 |
| Other income | 6 | 4 |
| Other operating income, total | 61 | 68 |
| | | |
| Loss on disposed businesses | (2) | - |
| Loss on sale of intangible assets and property, plant and equipment | 0 | 0 |
| Impairment of intangible assets and property, plant and equipment | (7) | (1) |
| Foreign exchange losses [1] | (75) | (79) |
| Other expenses | (3) | (4) |
| Other operating expenses, total | (86) | (84) |
| | | |
| **Other operating income and expenses, net** | **(25)** | **(16)** |

[1] Includes foreign exchange gains and losses resulting from trade receivables and payables and related derivatives.

### *1.5. Personnel Expenses and the Number of Personnel*

***Accounting policy***

***Carve-out Principles***

In these carve-out financial statements a share of the historical remuneration of the management of Metso has been allocated to Metso Minerals to reflect management's contribution to the Metso Minerals business, which share has been estimated at 75 percent of total remuneration. This allocation may not be indicative of the expenses related to management remuneration that will incur in the following financial years.

***Personnel Expenses***

| EUR million | 2019 | 2018 |
|---|---|---|
| Salaries and wages | (464) | (419) |
| Pension costs, defined contribution plans | (27) | (28) |
| Pension costs, defined benefit plans [1] | (3) | (5) |
| Other post-employment benefits [1] | (1) | (1) |
| Share-based payments [2] | (5) | (2) |
| Other indirect employee costs | (84) | (76) |
| **Total** | **(585)** | **(532)** |

[1] For more information on pension costs, see note 2.7.
[2] For more information on share-based payments, see note 1.6.

***Number of Personnel at end of Year***

| | 2019 | 2018 |
|---|---|---|
| Metso Minerals business | 12,451 | 9,935 |
| Head Office and carve-out items | 443 | 432 |
| **Total** | **12,894** | **10,367** |

***Board Remuneration***

| EUR thousand | 2019 | 2018 |
|---|---|---|
| Total | (473) | (501) |

***Remuneration Paid to Chief Executive Officer and Other Executive Team Members***

| EUR | Salary | Performance bonus paid | Fringe benefits | Share-based payment | Total |
|---|---|---|---|---|---|
| 2019 | | | | | |
| President and CEO | 539,915 | - | 24,516 | - | 564,431 |
| Other Executive Team members | 1,650,835 | 664,191 | 20,635 | 481,085 | 2,816,746 |
| Total | 2,190,750 | 664,191 | 45,151 | 481,085 | **3,381,177** |
| 2018 | | | | | |
| President and CEO | 426,989 | 181,305 | 6,135 | - | 614,429 |
| Other Executive Team members | 1,631,164 | 261,432 | 23,991 | - | 1,916,587 |
| Total | 2,058,153 | 442,737 | 30,126 | - | **2,531,016** |

### *1.6. Share-based Payments*

***Accounting Policy***

Certain Metso Minerals key personnel have participated in the Metso's share-based incentive plans. The equity-settled share awards are valued based on the market price of Metso share as of the grant date and recognized as an employee benefit expense over the vesting period with corresponding entry in the equity. The historical development of Metso share and the expected dividends have been taken into account when calculating the fair value. The entire share incentive, including the cash-for-taxes portion is recognized in equity. Also the value of the cash portion is based on the grant date value. As a market condition, total shareholder return of the Performance Share Plans will be taken into account when determining the fair value at grant and it will not be changed during the plan. The fair value of the cost estimate of the Performance Share Plans will only be changed when service condition and non-market conditions are concerned.

At each balance sheet date, Metso Minerals revises its estimates on the amount of share-based payments that are expected to vest. The impact of the revision to previous estimate is accrued as an employee benefit expense with corresponding entry to equity.

***Carve-out Principles***

Metso Minerals key personnel have historically participated in Metso's share-based incentive plans. The carve-out financial statements include employee cost allocations related to these participations based on the actual number of Metso Minerals employees over the cost recorded at Metso. The historical cost allocations may not be indicative of the future expenses that will be incurred through incentive schemes that will be established for Metso Mineral's key personnel following the demerger.

***Estimates and Assessments by Management***

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

***Performance and Restricted Share Plans***

In December 2014, Metso's Board decided on new long-term share-based incentive plans: Performance Share Plan (PSP) and Restricted Share Plan (RSP). The commencement of each new PSP and RSP and the earnings criteria for each new PSP plan will be subject to a separate decision by the Board. The PSP consists of an annually commencing plan, each with a three-year earning period, and the complementary RSP consists of an annually commencing plan, each with a three-year vesting period. The possible rewards are paid partly in Metso's shares and partly in cash.

If the participant's employment or service ends for reasons relating to the participant before the reward payment, no reward will be paid from the long-term incentive plans.

***Performance Share Plan 2015–2017***

The earning criteria for the PSP 2015-2017 and the potential reward is based on the total shareholder return (TSR) of Metso's share during 2015-2017. In 2018 the earning criteria was not met and there were no payout from PSP 2015-2017 plan.

***Performance Share Plan 2016–2018***

The earning criteria for the PSP 2016-2018 and the potential reward is based on the total shareholder return (TSR) of Metso's share during 2016-2018. A total of 64.881 treasury shares were used to pay rewards to 76 participants in March 2019.

***Performance Share Plan 2017–2019***

The earning criteria for the PSP 2017-2019 is based on the total shareholder return of Metso's share during 2017-2019. At the end of 2019, there were 65 participants in the plan and the potential reward corresponds to a maximum of 251,892 Metso shares. The potential reward will be paid in 2020.

***Restricted Share Plan 2017–2019***

At the end of 2019, there were two participants in the RSP plan and the potential reward corresponds to a 14,000 Metso shares. The potential reward will be paid in 2020.

***Performance Share Plan 2018–2020***

The earning criteria for the PSP 2018-2020 is based on the total shareholder return of Metso's share during 2018-2020. At the end of 2019, there were 8 participants in the plan and the potential reward corresponds to a maximum of 97,228 Metso shares. The potential reward will be paid in 2021.

***Restricted Share Plan 2018–2020***

At the end of 2019, there was one participant in the RSP plan and the potential reward corresponds to a 15,000 Metso shares. The potential reward will be paid in 2021.

***Performance Share Plan 2019–2021***

The earning criteria for the PSP 2019-2021 is based on the total shareholder return of Metso's share during 2019-2021. At the end of 2019, there were 8 participants in the plan and the potential reward corresponds to a maximum of 128,658 Metso shares. The potential reward will be paid in 2022.

***Restricted Share Plan 2019–2021***

At the end of 2019, there were three participants in the RSP plan and the potential reward corresponds to a 25,000 Metso shares. The potential reward will be paid in 2022.

***Deferred Share Unit Plan***

In December 2017, Metso Board of Directors decided to establish a new long-term incentive plan for senior managers and key employees. DSUP is a long-term share value-based incentive plan that aligns and rewards the employee’s performance and Metso share value development during a performance period.

***Deferred Share Unit Plan 2018–2020***

At the end of 2019, there were 95 participants in the DSUP plan. The potential reward will be paid in 2021.

***Deferred Share Unit Plan 2019–2021***

At the end of 2019, there were 108 participants in the DSUP plan. The potential reward will be paid in 2022.

***Matching Share Plan 2018–2022***

Metso has one active Matching Share Plan for President and CEO Pekka Vauramo. The plan requires personal investment in Metso shares. The potential reward corresponds to maximum 18,750 shares and will be delivered in three installments and are subject to fulfill the performance criterion adjusted EBITA for each installment.

***Beneficiaries of and Granted Shares Under the Share Ownership Plan as at December 31, 2019***

| | Beneficiaries total | Shares total |
|---|---|---|
| Plan 2016–2018 | | |
| Granted 2019 | 76 | 64,881 |

***Costs Recognized for the Share Ownership Plans***

| EUR thousand | Plan PSP 2015–2017 | Plan PSP 2016–2018 | Plan PSP 2017–2019 | Plan PSP and DSUP 2018–2020 | Plan PSP and DSUP 2019–2021 | Total |
|---|---|---|---|---|---|---|
| 2019 | | (354) | (598) | (2,455) | (1,701) | **(5,108)** |
| 2018 | (15) | (195) | (643) | (1,534) | | **(2,387)** |

### *1.7. Financial income and expenses*

| EUR million | 2019 | 2018 |
|---|---|---|
| Financial income | | |
| Interest income on cash and cash equivalents | 1 | 3 |
| Income on financial investments | 0 | 0 |
| Other finance income | 3 | 1 |
| Finance income | 4 | 4 |
| | | |
| Finance income, Metso Group | | |
| Interest expenses on cash pool receivables | 3 | 5 |
| Finance income, Metso Group | 3 | 5 |
| | | |
| Foreign exchange gains/losses | 1 | 0 |
| | | |
| Finance expenses | | |
| Interest expenses from financial liabilities at amortized cost | (28) | (26) |
| Interest expenses on leases | (4) | 0 |
| Other finance expenses | (10) | (10) |
| Finance expenses | (42) | (36) |
| | | |
| **Finance income and expenses, net** | **(34)** | **(26)** |

### *1.8. Income taxes*

***Accounting Policy of Income Taxes***

Income taxes in the consolidated income statement includes taxes of subsidiaries based on taxable income for the current period, tax adjustments for previous periods and the changes in deferred taxes. The other comprehensive income statement (OCI) includes taxes on items presented in OCI. Deferred taxes are determined for temporary differences arising between the tax base of assets and liabilities and their financial statement carrying amounts, measured using substantially enacted tax rates.

***Carve-out Policy***

During the periods presented in these carve-out financial statements, several of the legal entities in Metso Minerals have operated as separate taxpayers. For these entities the tax charges and the tax liabilities and receivables in the carve-out financial statements are based on actual taxation.

Some Metso Minerals entities might be included in Metso legal entities including operations other than operations of Metso Minerals or in tax groups consolidated for income tax purposes, where the taxpaying entity was another Metso Group entity outside of Metso Minerals. During the periods presented, these Metso Minerals entities did not file separate tax returns. Tax charges in this carve-out financial statements have been determined based on the separate return method, as if the Metso Minerals entities were separate taxpayers in the jurisdiction of their primary operations. The current tax provision is the amount of tax payable or refundable based on the Metso Minerals entity's hypothetical, current-year separate return and has been recorded as current income tax expense and as a shareholder transaction through invested equity in the carve-out financial statements. After computing its current tax payable or refund, the Metso Minerals entity has provided deferred taxes on its temporary differences and on any tax losses that it could claim on its hypothetical return. Deferred taxes on temporary differences are recognized where such temporary differences exist.

The tax charges recorded in the combined income statement are not necessarily representative of the tax charges that may arise in the future.

***Estimates and Assessments by Management***

Metso Minerals is subject to income tax in its operating countries. Metso Minerals' management is required to make certain assumptions and estimates in preparing the annual tax calculations for which the ultimate tax consequence is uncertain. Annually, Metso Minerals has tax audits ongoing in several subsidiaries and recognizes tax liabilities on for anticipated tax audit issues based on estimate of whether additional taxes will be due. Where the final outcome of these issues is different from the estimated amounts, the difference will impact the income tax in the period in which such determination is made.

***The Components of Income Taxes***

| **EUR million** | **2019** | **2018** |
|---|---|---|
| Income taxes for current year | (75) | (79) |
| Income taxes for prior years | 15 | 2 |
| Change in deferred tax asset and liability | (10) | 4 |
| **Income taxes** | **(69)** | **(72)** |

The differences between income tax expense computed at the Finnish statutory rate and income tax expense provided on earnings were as follows:

| EUR million | 2019 | 2018 |
|---|---|---|
| **Profit before taxes** | 292 | 242 |
| | | |
| Income tax at Finnish statutory tax rate of 20.0% | (58) | (48) |
| Effect of different tax rates in foreign subsidiaries | (11) | (17) |
| Non-deductible expenses | (6) | (4) |
| Tax exempt income or tax incentives | 7 | 7 |
| Foreign non-creditable withholding taxes | (2) | (1) |
| Deferred tax assets not booked on current year loss | (2) | (2) |
| Deferred tax liability on undistributed earnings | (9) | (7) |
| Effect of enacted change in tax rates | 0 | 0 |
| Income tax for prior years | 15 | 2 |
| Other | (3) | (2) |
| **Income taxes** | (69) | (72) |

### *Tax Effects of Components in Other Comprehensive Income*

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| EUR million | Before taxes | Tax | After taxes | Before taxes | Tax | After taxes |
| Cash flow hedges | 4 | (1) | 3 | (1) | 0 | (1) |
| Defined benefit plan actuarial gains (+) / losses (-) | (4) | 1 | (3) | 1 | 0 | 1 |
| Currency translation on subsidiary net investments | 2 | - | 2 | (15) | - | (15) |
| Total comprehensive income (+) / expense (-) | 1 | 0 | 1 | (15) | 0 | (15) |
| | | | | | | |
| Current tax | | (1) | | | 0 | |
| Deferred tax | | 1 | | | 0 | |
| Total | | 0 | | | 0 | |

### *Accounting Policy of Deferred Taxes*

The deferred tax asset or liability is determined for temporary differences arising between the tax bases of assets and liabilities and their financial statement carrying amounts using the substantially enacted tax rates expected to apply in future years. Typical temporary differences arise from provisions, depreciation and amortization expense, inter-company inventory margins, defined benefit plans and tax loss carry forwards. Deferred tax liabilities are recognized in the balance sheet in full, and the deferred tax assets are only recognized if it is probable there will be taxable income in the future against which deferred tax can be used. Deferred tax assets are set off against deferred tax liabilities if they relate to taxes levied by the same taxation authority.

### *Estimates and Assessments by Management*

In determining the deferred tax assets and liabilities, Metso Minerals is required to make certain assumptions and estimates on in particular future operating performance and the taxable income of subsidiaries, recoverability of tax loss carry-forwards and potential changes of tax laws in jurisdictions where Metso Minerals operates. A deferred tax liability based on foreign subsidiaries undistributed earnings has been provided only where Metso Minerals management has elected to distribute such earnings in the coming years and the distribution is subject to taxation. Because the tax consequences are difficult to predict, the deferred tax asset and liabilities may need to be adjusted in coming financial years, which will have an impact in the period in which such determination is made.

*Reconciliation of Deferred Tax Balances*

| EUR million | January 1 | Charged to income statement | Charged to shareholders' equity | Acquisitions and disposals | Translation differences and group items | December 31 |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| **Deferred tax assets** | | | | | | |
| Tax losses carried forward | 6 | 1 | 0 | 1 | - | 8 |
| Intangible assets and property, plant and equipment | 13 | (2) | 0 | (1) | - | 11 |
| Inventory | 21 | 0 | 0 | - | 0 | 21 |
| Provisions | 17 | (2) | 0 | 2 | 0 | 17 |
| Accruals | 10 | 0 | 0 | - | (1) | 9 |
| Pension related items | 4 | 0 | 0 | - | 6 | 10 |
| Other | 22 | 10 | 0 | 1 | 16 | 49 |
| Total deferred tax assets | 93 | 7 | 0 | 3 | 21 | 124 |
| Offset against deferred tax liabilities | (12) | 0 | - | - | (4) | (16) |
| **Net deferred tax assets** | **81** | **7** | **0** | **3** | **17** | **108** |
| | | | | | | |
| **Deferred tax liabilities** | | | | | | |
| Purchase price allocations | 8 | (2) | 0 | 28 | - | 34 |
| Intangible assets and property, plant and equipment | 6 | 0 | (1) | - | 0 | 5 |
| Other | 24 | 19 | 0 | 0 | 0 | 43 |
| Total deferred tax liabilities | 38 | 17 | (1) | 28 | 0 | 82 |
| Offset against deferred tax assets | (12) | - | - | - | (4) | (16) |
| **Net deferred tax liabilities** | **26** | **17** | **(1)** | **28** | **(4)** | **66** |
| | | | | | | |
| **Deferred tax assets, net** | **55** | **(10)** | **1** | **(25)** | **(21)** | **43** |

| EUR million | January 1 | Charged to income statement | Charged to shareholders' equity | Acquisitions and disposals | Translation differences and group items | December 31 |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| **Deferred tax assets** | | | | | | |
| Tax losses carried forward | 11 | (5) | 0 | - | 0 | 6 |
| Intangible assets and property, plant and equipment | 5 | 8 | - | - | - | 13 |
| Inventory | 23 | (6) | - | - | - | 17 |
| Provisions | 20 | (3) | - | - | - | 17 |
| Accruals | 5 | (1) | - | - | 2 | 6 |
| Pension related items | 0 | 10 | (5) | - | - | 5 |
| Other | 20 | 1 | 1 | 0 | (3) | 21 |
| Total deferred tax assets | 84 | 4 | (4) | - | (1) | 85 |
| Offset against deferred tax liabilities | (10) | 6 | - | - | - | (4) |
| **Net deferred tax assets** | **74** | **10** | **(4)** | **0** | **(1)** | **81** |
| | | | | | | |
| **Deferred tax liabilities** | | | | | | |
| Purchase price allocations | 9 | (5) | 0 | 4 | - | 8 |
| Intangible assets and property, plant and equipment | 5 | (1) | - | - | 1 | 4 |
| Other | 13 | 6 | 0 | 1 | (2) | 18 |
| Total deferred tax liabilities | 27 | 0 | 0 | 5 | (1) | 30 |
| Offset against deferred tax assets | (10) | 6 | - | - | - | (4) |
| **Net deferred tax liabilities** | **17** | **6** | **0** | **5** | **(1)** | **26** |
| | | | | | | |
| **Deferred tax assets, net** | **57** | **4** | **(4)** | **(5)** | **(2)** | **55** |

Deferred tax liability on undistributed retained earnings in subsidiaries will recognized when the dividend distribution is probable in the near future and it will cause a tax impact. At the end of year 2019 there are no substantial undistributed earnings in subsidiaries from which deferred tax liability is not booked.

## 2. Operational Assets and Liabilities

### *2.1. Net Working Capital and Capital Employed*

*Net Working Capital*

| EUR million | 2019 | 2018 |
|---|---|---|
| Inventories | 975 | 790 |
| Trade receivables | 588 | 501 |
| Other non-interest bearing receivables | 287 | 290 |
| Customer contract assets and liabilities, net | 24 | (18) |
| Trade payables | (386) | (375) |
| Advances received | (189) | (189) |
| Other non-interest bearing liabilities | (446) | (370) |
| **Net working capital** | **853** | **629** |

*Capital Employed*

| EUR million | 2019 | 2018 |
|---|---|---|
| Net working capital | 853 | 629 |
| Intangible assets | 723 | 526 |
| Property, plant and equipment | 315 | 247 |
| Right-of-use assets | 89 | 0 |
| Non-current investments | 10 | 7 |
| Interest bearing receivables | 73 | 109 |
| Liquid funds | 156 | 325 |
| Tax receivables, net | 39 | 18 |
| Interest payables, net | (4) | (5) |
| **Capital employed** | **2,255** | **1,856** |

### *2.2. Trade Receivables*

*Accounting Policy*

Trade receivables are invoiced receivables from customers related to Metso Minerals' ordinary business transactions. General payment terms are typically from 30 days to 90 days and they are non-interest bearing receivables. Trade receivables are initially recognized at recoverable value and subsequently valued at amortized cost. If exceptionally over 360 days payment term has offered to a client, the invoiced amount is discounted to its fair value.

Metso Minerals may enter an agreement to sell trade receivables. Trade receivable will be derecognized as payment has been received and there is certainty that credit risk and other risks and rewards have been transferred to a third party.

Receivables from customer contracts are recognized receivables related to sales recognition over time, at the time when performance obligation satisfied by Metso exceeds the amount invoiced from the client. These receivables will be invoiced according to invoicing schedules in the client contract, see note 1.2.

Metso Minerals applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance to be assessed and recognized regularly. Credit loss risk related to customer contract assets is for material part covered with the advance payments received from the clients.

Based on the analysis of previous year's credit losses by aging category and nature, as well as macroeconomic outlook in the near future, Metso Minerals recognize credit loss allowance on trade receivables within the range: 0.2% undue–5% up to 180 days overdue. From 180 days overdue trade receivables impairment is assessed individually, but without any credit guarantee, collateral or similar assurance on the recoverability, credit loss provision of at the minimum 25% (over 180 days) and 100% (over 360 days) will be recognized. Trade receivables are written off when there is no reasonable expectation of recovery. Probability of bankruptcy, other financial reorganization or similar situation indicating insolvency of the client trigger final write off.

***Estimates and Assessments by Management***

Estimate on expected credit losses and credit loss provision to be recognized are based on management's best judgement. The judgement is based on earlier experience on past years credit losses and current economic outlooks and client segment and location information. Trade receivables are collected actively, and possible impairment analyzed regularly by businesses and Metso Minerals legal units, and necessary actions to secure the receivables are made by the management. When credit loss provision of a trade receivable is assessed individually, collateral, credit guarantees, financial position of client and earlier payment behavior.

| EUR million | 2019 | 2018 |
|---|---|---|
| Trade receivables | 572 | 484 |
| Trade receivables, Metso Group | 10 | 8 |
| Trade receivables for sale | 5 | 9 |
| Customer contract assets | 87 | 82 |
| **Total** | **674** | **584** |

***Provision on Trade Receivables by Ageing Category***

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **EUR million** | **Trade receivables** | **of which provided** | **Trade receivables** | **of which provided** |
| Undue | 405 | 1 | 362 | 1 |
| overdue 1–30 days | 93 | 1 | 81 | 0 |
| overdue 31–180 days | 81 | 3 | 54 | 2 |
| overdue 181–360 days | 17 | 4 | 9 | 2 |
| overdue 360– days | 18 | 17 | 23 | 23 |
| **Total** | **613** | **26** | **529** | **27** |

Realized write-offs totaled to EUR 4 million in 2019 and EUR 3 million in 2018.

***Provision for Impairment of Trade Receivables***

| EUR million | 2019 | 2018 |
|---|---|---|
| Accumulated provision January 1 | 27 | 32 |
| Adjustment to the opening balance | - | - |
| Impact in income statement | (4) | (3) |
| Currency rate differences | 2 | (1) |
| Other change | 1 | 0 |
| **Accumulated provision December 31** | **26** | **27** |

### *2.3. Other Receivables*

***Accounting Policy***

Other non-interest bearing receivables are recognized in the balance sheet at fair value which can be subsequently written down due to impairment. The impairment is expensed under selling, general and administrative expenses.

***Estimates and Assessments by Management***

Metso Minerals' policy is to calculate an impairment loss based on the best estimate of the amounts that are potentially uncollectable at the balance sheet date. Metso Minerals' management actively monitors the amount of receivables past due globally and initiates action as necessary.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **EUR million** | **Non-current** | **Current** | **Total** | **Non-current** | **Current** | **Total** |
| Derivative financial instruments | 2 | 16 | 18 | 3 | 9 | 12 |
| Deferred tax assets | 108 | - | 108 | 81 | - | 81 |
| Income tax receivables | - | 44 | 44 | - | 21 | 21 |
| Other receivables | | | | | | |
| Loan receivables | - | 1 | 1 | - | - | - |
| Prepaid expenses and accrued income | - | 44 | 44 | - | 33 | 33 |
| VAT, payroll tax and social charge receivables | - | 76 | 76 | - | 60 | 60 |
| Pension assets | 16 | - | 16 | 15 | - | 15 |
| Other receivables | 26 | 18 | 44 | 23 | 9 | 32 |
| Other receivables total | 42 | 139 | 180 | 38 | 102 | 140 |
| Prepaid expenses and accrued income, Metso Group | - | 0 | 0 | - | 0 | 0 |
| Other receivables, Metso Group | 88 | 0 | 89 | 137 | 1 | 138 |
| Other receivables total, Metso Group | 88 | 1 | 89 | 137 | 1 | 138 |
| **Non-interest bearing receivables total** | **241** | **199** | **440** | **259** | **133** | **392** |

Other non-interest bearing receivables included EUR 15 million in 2019 (EUR 14 million in 2018) Brazilian tax credits arising from delivery of goods and transfer of services (ICMS) recognized by local subsidiaries. Of that amount EUR 3 million was classified as long-term in 2019 (EUR 1 million in 2018).

More information on derivatives, see note 4.8.

### *2.4. Inventory*

***Accounting Policy***

Inventories are valued at the lower of historical cost calculated or net realizable value. Costs are measured on a weighted average cost basis and include purchase costs as well as transportation and processing costs. The costs of finished goods include direct materials, wages and salaries plus employer social contributions, subcontracting and other direct costs, as well as a portion of production and project administration overheads. Net realizable value is the estimated amount that can be realized from the sale of the asset in the normal course of business less costs to sell.

Inventories are shown net of a provision for obsolete and slow-moving inventories. Metso Minerals' policy is to maintain a provision for slow-moving and obsolete inventory based on the best estimate of such amounts at the balance sheet date. An obsolescence provision is charged to income statement in the period in which the obsolescence is determined. Estimates are based on a systematic, on-going review and evaluation of inventory balance.

Trade-in equipment received is recorded as inventory at the lower of cost or net realizable value.

***Estimates and Assessments by Management***

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

| EUR million | 2019 | 2018 |
|---|---|---|
| Materials and supplies | 157 | 105 |
| Work in process | 195 | 180 |
| Finished products | 624 | 505 |
| **Inventories** | **975** | **790** |

The cost of inventories recognized as expense totaled EUR 2,084 million in 2019 (EUR 1,840 million in 2018).

***Changes in Provision for Inventory Obsolescence***

| EUR million | 2019 | 2018 |
|---|---|---|
| Balance at beginning of year | 53 | 57 |
| Impact of exchange rates | 0 | (1) |
| Acquisitions | 3 | - |
| Additions charged to expense | 5 | 5 |
| Used reserve | (6) | 0 |
| Deductions / other additions | (9) | (9) |
| **Balance at end of year** | **46** | **53** |

### *2.5. Trade and Other Payables*

***Accounting Policy***

The fair values and carrying amounts of trade and other payables are considered to be the same due to the short-term maturities. The maturities of the current non-interest bearing liabilities rarely exceed six months. The maturities of trade payables are largely determined by the trade practices and individual agreements between Metso Minerals and its supplier.

Accrued personnel costs, including holiday pay, are settled in accordance with local laws and regulations.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **EUR million** | **Non-current** | **Current** | **Total** | **Non-current** | **Current** | **Total** |
| Trade payables | - | 385 | **385** | - | 374 | **374** |
| Trade payables, Metso Group | - | 1 | 1 | - | 1 | 1 |
| Other payables: | | | | | | |
| Accrued interests | - | 4 | 4 | - | 5 | 5 |
| Accrued personnel costs | - | 90 | 90 | - | 87 | 87 |
| Accrued project costs | - | 55 | 55 | - | 53 | 53 |
| VAT, payroll tax and social charge payables | - | 39 | 39 | - | 33 | 33 |
| Other payables | 2 | 64 | 66 | 2 | 32 | 34 |
| Other payables total | 2 | 251 | 253 | 2 | 210 | 211 |
| Derivative instruments | 2 | 13 | 15 | 2 | 13 | 15 |
| Other payables, Metso Group | 6 | 11 | 17 | 6 | 0 | 6 |
| **Total** | **10** | **660** | **671** | **10** | **598** | **607** |

### *2.6. Provisions*

***Accounting Policy***

Provisions are recognized when the Group has a legal or constructive obligation as a result of a past event, and it is probable that financial benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions, for which settlement is expected to occur more than one year after the initial recognition, are discounted to their present value and adjusted in subsequent closings for the time effect.

*Warranty and Guarantee Provisions*

Metso Minerals issues various types of contractual product warranties under which it generally guarantees the performance levels agreed in the sales contract, the performance of products delivered during an agreed warranty period and services rendered for a certain period or term. The provision for estimated warranty costs is based on historical realized warranty costs for deliveries of standard products and services in the past. The typical warranty period is 12 months from the accepted delivery. The adequacy of provisions is assessed periodically on a case by case basis.

*Restructuring and Capacity Adjustment Costs*

A provision for restructuring and capacity adjustment costs is recognized only after management has approved, committed to and started to implement a formal plan. Employee termination benefits are recognized after the representatives of employees or individual employees have been informed of the intended measures in detail and the related compensation packages can be reliably measured. The costs included in a provision for capacity adjustment are those costs that are either incremental or incurred as a direct result of the plan or are as the result of a continuing contractual obligation with no continuing economic benefit to Metso Minerals or a penalty incurred to cancel the contractual obligation. Restructuring and capacity adjustment expenses are recognized in either cost of goods sold or selling, general and administrative expenses depending on the nature of the restructuring expenses. Restructuring costs can also include other costs incurred as a result of the plan, which are recorded under other operating income and expenses, net, such as asset write-downs.

*Environmental Remediation Costs*

Metso Minerals recognizes provisions associated with environmental remediation obligations when there is a present obligation as a result of past events, an outflow of resources is considered probable and the obligation can be estimated reliably. Such provisions are adjusted as further information develops or circumstances change. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed virtually certain.

*Provision for loss Making Projects*

A provision for loss making projects is booked when the costs needed to settle the performance obligations of the contract exceed the consideration to be received. Such a provision for the unrecognized portion of the loss is recognized immediately when these conditions have been met and is revised according to the progress of the project.

***Estimates and Assessments by Management***

Provisions booked require management to estimate the future costs needed to settle the obligations and to estimate the possible outcomes of claims or lawsuits. The outcome depends on future development and events, so the final costs needed and timing to settle the obligation may differ from the initial provision estimated.

For larger and long-term delivery projects and sales involving new technology, additional warranty provisions can be established on a case by case basis to take into account the potentially increased risk.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **EUR million** | **Non-current** | **Current** | **Total** | **Non-current** | **Current** | **Total** |
| Warranty and guarantee provision | 0 | 43 | 43 | 0 | 47 | 47 |
| Restructuring provision | 1 | 11 | 11 | 0 | 5 | 5 |
| Environmental remedial provision | 1 | 0 | 1 | 0 | 0 | 1 |
| Other provisions [1] | 31 | 17 | 48 | 26 | 8 | 34 |
| **Total** | **33** | **71** | **104** | **27** | **59** | **86** |

[1] Includes provisions related to lawsuit, personnel liabilities and provisions for loss making projects.

*Changes in Provisions*

| | 2019 | | | |
|---|---|---|---|---|
| **EUR million** | **Warranty and guarantee provision** | **Restructuring provision** | **Environmental remediation provision** | **Total** |
| Carrying value at January 1 | 47 | 5 | 1 | **52** |
| Impact of exchange rates | 0 | 0 | 0 | **0** |
| Acquisitions | 2 | - | 0 | **2** |
| Addition charged to expense | 28 | 11 | 0 | **40** |
| Used reserve | (19) | (3) | 0 | **(22)** |
| Reversal of reserve / other changes | (15) | (2) | - | **(17)** |
| **Carrying value at December 31** | **43** | **11** | **1** | **56** |

| | 2018 | | | |
|---|---|---|---|---|
| **EUR million** | **Warranty and guarantee provision** | **Restructuring provision** | **Environmental remediation provision** | **Total** |
| Carrying value at January 1 | 45 | 11 | 1 | **57** |
| Impact of exchange rates | 0 | 0 | 0 | **0** |
| Acquisitions | - | - | - | **-** |
| Addition charged to expense | 28 | 2 | 0 | **31** |
| Used reserve | (14) | (7) | 0 | **(21)** |
| Reversal of reserve / other changes | (13) | (2) | - | **(15)** |
| **Carrying value at December 31** | **47** | **5** | **1** | **52** |

### *2.7. Post-employment Obligations*

***Accounting Policy***

Metso Minerals has several different pension schemes in accordance with local regulations and practices in countries where it operates. In certain countries, the pension schemes are defined benefit plans with retirement, disability, death, and other post-retirement benefits, such as health services, and termination income benefits. The retirement benefits are usually based on the number of service years and the salary levels of the final service years. Metso Minerals has both defined contribution and defined benefit schemes. The schemes are generally funded through payments to insurance companies or to trustee-administered funds. Other arrangements are unfunded with benefits being paid directly by Metso Minerals as they fall due. All arrangements are subject to local tax and legal restrictions in their respective jurisdictions.

In the case of defined benefit plans, the liability recognized from the plan is the present value of the defined benefit obligation as of the balance sheet date less the fair value of the plan assets. Independent actuaries calculate the defined benefit obligation by applying the projected unit credit method under. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and having maturity approximating to the terms of the related pension obligation. The cost of providing retirement and other post-retirement benefits to personnel is recognized in the income statement concurrently with the service rendered by personnel. Net interest is recorded through financial income and expenses in the income statement. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized through other comprehensive income (OCI) in shareholders' equity in the period in which they arise. Past service costs, gains and losses on curtailments or settlements are recognized immediately in the income statement.

The contributions to defined contribution plans and multi-employer and insured plans are recognized in the income statement concurrently with the payment obligations.

***Estimates and Assessments by Management***

The present value of the pension obligations is based on annual actuarial calculations, which use several assumptions such as the discount rate and expected return on assets, salary and pension increases and other actuarial factors. As a result, the liability recorded on Metso Minerals' balance sheet and cash contributions to funded arrangements are sensitive to changes. Where the actuarial experience differs from those assumptions gains and losses result and are recognized in OCI. Sensitivity analyses on the present value of the defined benefit obligation have been presented in the tables. Assets of Metso Minerals' funded arrangements are managed by external fund managers. The allocation of assets is reviewed regularly by those responsible for managing Metso Minerals' arrangements based on local legislation, professional advice and consultation with management, based on acceptable risk tolerances.

***Metso Minerals' Pension and Other Post-employment Plans***

Pension arrangements in the US, Canada, Germany and the UK together represent 89 percent of Metso Minerals' defined benefit obligation and 80 percent of its pension assets. These arrangements provide income in retirement which is substantially based on salary and service at or near retirement. In the US and Canada annual valuations are carried out to determine whether cash funding contributions are required in accordance with local legislation. In the UK, Metso Minerals' defined benefit pension arrangement is closed to future accrual. Plan assets are held by a separate pension fund and are administered by a board of trustees. Cash contributions are determined on a triennial basis in accordance with local funding legislation, with the level of cash payments being agreed between the trustees and Metso Minerals. Defined benefit pension arrangements in Sweden are offered in accordance with collective labor agreements and are unfunded.

Assets of Metso Minerals' funded arrangements are managed by external fund managers. The allocation of assets is reviewed regularly by those responsible for managing Metso Minerals' arrangements based on local legislation, professional advice and consultation with Metso Minerals, based on acceptable risk tolerances.

The expected contributions to plans in 2020 are EUR 5 million. In year 2019 Metso Minerals paid contributions to defined benefit plans EUR 6 million.

*The Amounts Recognized as of December 31 in the Balance Sheet*

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **EUR million** | **Pension benefits** | **Other post-employment benefits** | **Total** | **Pension benefits** | **Other post-employment benefits** | **Total** |
| Present value of funded obligations | 151 | - | 151 | 164 | - | 164 |
| Fair value of plan assets | (165) | - | (165) | (180) | - | (180) |
| | (15) | - | (15) | (16) | - | (16) |
| Present value of unfunded obligations | 33 | 27 | 60 | 32 | 25 | 57 |
| Unrecognized asset | - | - | - | 1 | - | 1 |
| **Net liability recognized** | 18 | 27 | 45 | 17 | 25 | 42 |
| Amounts in the balance sheet: | | | | | | |
| Liabilities | 33 | 27 | 60 | 32 | 25 | 57 |
| Assets | 15 | - | 15 | 15 | - | 15 |
| **Net liability recognized** | 18 | 27 | 45 | 17 | 25 | 42 |

*Movements in the Net Liability Recognized in the Balance Sheet*

| EUR million | Pension benefits and other post-employment benefits 2019 | 2018 |
|---|---|---|
| Net liability at beginning of year | 42 | 44 |
| Net expense recognized in the income statement | 3 | 5 |
| Employer contributions | (6) | (6) |
| Gain (+) / loss (-) recognized through OCI | 6 | 1 |
| Translation differences | 0 | (2) |
| **Net liability at end of year** | 45 | 42 |

*The Amounts Recognized in the Income Statement*

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| EUR million | Pension benefits | Other post-employment benefits | Total | Pension benefits | Other post-employment benefits | Total |
| Employer's current service cost | 1 | 0 | 1 | 2 | 0 | 2 |
| Net interest on net surplus (+) / deficit (-) | 0 | 1 | 1 | 0 | 1 | 1 |
| Settlements | (1) | - | (1) | - | - | - |
| Recognition of past service cost (+) / credit (-) | 1 | - | 1 | 2 | - | 2 |
| Administration costs paid by the scheme | 1 | - | 1 | 0 | - | 0 |
| **Expense (+) / income (-) recognized in income statement** | 2 | 1 | 3 | 4 | 1 | 5 |

*The amounts Recognized Through OCI*

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| EUR million | Pension benefits | Other post-employment benefits | Total | Pension benefits | Other post-employment benefits | Total |
| - Return on plan assets, excluding amounts included in interest expense (+) / income (-) | 10 | - | 10 | 10 | - | 10 |
| - Actuarial gain (-) / loss (+) on liabilities due to change in financial assumptions | (12) | (5) | (17) | (7) | (2) | (9) |
| - Actuarial gain (-) / loss (+) on liabilities due to change in demographic assumptions | 0 | - | 0 | 0 | - | 0 |
| - Actuarial gain (-) / loss (+) on liabilities due to experience | 0 | - | 0 | (2) | - | (2) |
| - Gain (-) / loss (+) as result of asset ceiling | 1 | - | 1 | 0 | - | 0 |
| **Total gain (-) / loss (+) recognized through OCI** | (1) | (5) | (6) | 1 | (2) | (1) |

*The Changes in the Value of the Defined Benefit Obligation*

| EUR million | 2019 Pension benefits | 2019 Other post-employment benefits | 2019 Total | 2018 Pension benefits | 2018 Other post-employment benefits | 2018 Total |
|---|---|---|---|---|---|---|
| Defined benefit obligation at beginning of year | 196 | 25 | 221 | 219 | 27 | 246 |
| Other adjustment to present value | - | 0 | 0 | - | 0 | 0 |
| Employer's current service cost | 1 | 0 | 1 | 2 | 0 | 2 |
| Interest cost | 4 | 1 | 5 | 5 | 1 | 6 |
| Plan participant contributions | 0 | - | 0 | 0 | - | 0 |
| Past service cost (+) / credit (-) | (1) | - | (1) | 1 | - | 1 |
| - Actuarial gain (-) / loss (+) due to change in financial assumptions | 14 | 3 | 17 | (7) | (2) | (9) |
| - Actuarial gain (-) / loss (+) on liabilities due to change in demographic assumptions | 0 | - | 0 | 0 | - | 0 |
| - Actuarial gain (-) / loss (+) due to experience | 3 | (1) | 2 | (3) | 0 | (3) |
| Settlements | (29) | - | (29) | 0 | - | 0 |
| Benefits paid from the arrangement | (7) | - | (7) | (17) | - | (17) |
| Benefits paid direct by employer | (3) | (2) | (5) | (3) | (2) | (5) |
| Translation differences | 6 | 1 | 7 | (1) | 1 | 0 |
| **Defined benefit obligation at end of year** | **184** | **27** | **211** | **196** | **25** | **221** |

*The Changes in the Fair Value of the Plan Assets During the Year*

| EUR million | Pension and other post-employment benefits total 2019 | 2018 |
|---|---|---|
| Fair value of assets at beginning of year | 180 | 203 |
| Interest income on assets | 4 | 5 |
| Return on plan assets excluding interest income | 10 | (10) |
| Assets distributed on settlements | (28) | - |
| Employer contributions | 6 | 6 |
| Plan participant contributions | 0 | 0 |
| Benefits paid from the arrangements | (7) | (17) |
| Benefits paid direct by employer | (5) | (5) |
| Administration expenses paid from the scheme | (1) | 0 |
| Translation differences | 7 | (2) |
| **Fair value of assets at end of year** | **165** | **180** |

*The Major Categories of Plan Assets as a Percentage of Total Plan Assets as at December 31*

| | 2019 Quoted | 2019 Unquoted | 2019 Total | 2018 Quoted | 2018 Unquoted | 2018 Total |
|---|---|---|---|---|---|---|
| Equity securities | 9% | 0% | 9% | 12% | 0% | 12% |
| Bonds | 40% | 2% | 42% | 22% | 3% | 25% |
| Property | 1% | 0% | 1% | 2% | 0% | 2% |
| Cash | 1% | 0% | 1% | 1% | 0% | 1% |
| Insurance contracts | 2% | 10% | 12% | 2% | 15% | 17% |
| Other | 22% | 13% | 35% | 26% | 17% | 43% |
| **Total** | 75% | 25% | 100% | 65% | 35% | 100% |

As at 31, December 2019 there were no plan assets invested in affiliated or property occupied by affiliated companies.

*The Principal Actuarial Assumptions at December 31 Expressed as Weighted Average*

| | 2019 | 2018 |
|---|---|---|
| **Benefit obligation** | | |
| Discount rate | 3.48% | 3.52% |
| Rate of salary increase | 2.48% | 2.54% |
| Rate of pension increase | 1.57% | 2.13% |
| Expense in income statement | | |
| Discount rate | 2.27% | 3.18% |
| Rate of salary increase | 2.32% | 2.69% |
| Rate of pension increase | 1.08% | 2.04% |

*The Weighted Average Life Expectancy Used for the Major Defined Benefit Plans*

| | Life expectancy at age of 65 for a male member currently aged 65 | | Life expectancy at age of 65 for a male member currently aged 45 | |
|---|---|---|---|---|
| **In years** | **2019** | **2018** | **2019** | **2018** |
| United Kingdom | 22.0 | 21.9 | 22.6 | 23.3 |
| United States | 20.6 | 20.7 | 22.2 | 22.3 |
| Canada | 21.8 | 21.8 | 22.9 | 22.8 |

Life expectancy is allowed for in the assessment of the Defined Benefit Obligation using mortality tables which are generally based on experience within the country in which the arrangement is located with (in many cases) an allowance made for anticipated future improvements in longevity.

Sensitivity analyses on present value of Defined Benefit Obligation in below table presents the present value of the Defined Benefit Obligation when major assumptions are changed while others held constant.

*Sensitivity Analyses*

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Pension** | **Other** | **Total** | **Pension** | **Other** | **Total** |
| Discount rate | | | | | | |
| Increase of 0.25% | (8.1) | (0.6) | (8.7) | (7.4) | (0.6) | (8.0) |
| Decrease of 0.25% | 8.8 | 0.7 | 9.5 | 7.8 | 0.6 | 8.4 |
| Salary increase rate | | | | | | |
| Increase of 0.25% | 0.2 | 0.1 | 0.3 | 0.1 | 0.1 | 0.2 |
| Decrease of 0.25% | (0.2) | (0.1) | (0.3) | (0.1) | (0.1) | (0.2) |
| Pension increase rate | | | | | | |
| Increase of 0.25% | 3.1 | - | 3.1 | 2.8 | - | 2.8 |
| Decrease of 0.25% | (2.8) | - | (2.8) | (2.5) | - | (2.5) |
| Medical cost trend | | | | | | |
| Increase of 0.25% | - | 1.3 | 1.3 | - | 1.1 | 1.1 |
| Decrease of 0.25% | - | (1.2) | (1.2) | - | (1.0) | (1.0) |
| Life expectancy | | | | | | |
| Increase of one year | 13.1 | 0.9 | 14.0 | 13.1 | 0.8 | 13.9 |
| Decrease of one year | (12.5) | (0.9) | (13.4) | (12.9) | (0.8) | (13.7) |

Weighted average duration of Defined Benefit Obligation expressed in years:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **In years** | **Pension** | **Other** | **Total** | **Pension** | **Other** | **Total** |
| At December 31 | 12.5 | 9.9 | 12.2 | 11.4 | 9.5 | 11.2 |

## 3. Intangible Assets and Property, Plant and Equipment

### *3.1. Goodwill and Other Intangible Assets*

***Accounting policy***

*Goodwill and other intangible assets with an indefinite useful life*

Recognized goodwill represents the excess of acquisition costs over the fair value of net identified assets acquired and liabilities assumed and the fair values of previously owned interests and non-controlling interests. Goodwill is allocated to cash-generating unit (CGUs), which is the Minerals business. When Metso Minerals reorganizes its reporting structure, goodwill is reallocated to the cash generating units affected based on their relative fair values at the time of the reorganization. The carrying value of goodwill is tested with the CGU's value in use or CGU's fair value less costs of disposal, when appropriate. Previously recognized impairment losses on goodwill are not reversed.

Other intangible assets with an indefinite useful life, such as brand values, are not amortized. Currently such assets are tested for impairment annually as part of the appropriate CGU tested for impairment. Previous losses on impairment are only reversed to the extent that the new carrying amount of the assets does not exceed the carrying amount the asset would have had, if the asset had not been impaired.

*Other intangible assets*

Other intangible assets with a definite useful life, mainly trademarks, patents, licenses, IT software or acquired order backlog are measured at costs less accumulated amortizations and impairment losses.

*Amortization of intangible assets*

Amortization of intangible assets with a definite useful life is calculated on a straight-line basis over the useful life of the assets as follows:

| | |
|---|---|
| Patents and licenses | 5–10 years |
| Computer software | 3–5 years |
| Technology | 3–20 years |
| Customer relationships | 3–20 years |
| Other intangible assets | < 1–20 years |

The probable useful lives of assets are reviewed annually. If material deviations from previous estimates arise, the useful lives are reassessed. The carrying value of intangible assets subject to amortization is reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. A previously recognized impairment loss may be reversed if there is a significant improvement of the circumstances having initially caused the impairment, but not to a higher value than the carrying amount, which would have been recorded had there been no impairment in prior years.

Research and development expenses comprise salaries, administration costs, depreciation and amortization of intangible assets and property, plant and equipment and they are mainly recognized as incurred. When material development costs meet certain capitalization criteria under IAS 38, they are capitalized and amortized during the expected useful life of the underlying technology.

*Goodwill and Other Intangible Assets, Discontinued Operations*

| EUR million | Goodwill | Patents and licenses | Capitalized software | Other intangible assets | Intangible assets total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Acquisition cost at beginning of year | 462 | 27 | 75 | 108 | 672 |
| Translation differences | (2) | 0 | 0 | 0 | (2) |
| Business acquisitions | 99 | 0 | 1 | 109 | 209 |
| Business disposals | (3) | - | 0 | (12) | (15) |
| Capital expenditure | - | 1 | 1 | 6 | 9 |
| Reclassifications | - | - | 1 | 0 | 0 |
| Other changes | 0 | 0 | (1) | 3 | 2 |
| **Acquisition cost at end of year** | 556 | 28 | 77 | 215 | 876 |
| Accumulated depreciation at beginning of year | - | (19) | (66) | (60) | (145) |
| Translation differences | - | 0 | 0 | 0 | (1) |
| Business acquisitions | - | - | 0 | - | 0 |
| Business disposals | - | - | - | 10 | 10 |
| Other changes | - | 0 | 1 | 0 | 1 |
| Impairment losses | - | 0 | - | 0 | 0 |
| Amortization charges for the year | - | (2) | (6) | (8) | (16) |
| **Accumulated depreciation at end of year** | - | (22) | (71) | (59) | (152) |
| **Net book value at end of year, discontinued operations** | 556 | 6 | 5 | 156 | 723 |
| **2018** | | | | | |
| Acquisition cost at beginning of year | 446 | 28 | 76 | 101 | 651 |
| Translation differences | (1) | 0 | - | 1 | 0 |
| Business acquisitions | 17 | 0 | - | 7 | 24 |
| Capital expenditure | - | 2 | 1 | 1 | 3 |
| Reclassifications | - | - | 1 | (1) | 0 |
| Other changes | - | (3) | (2) | (1) | (5) |
| **Acquisition cost at end of year** | 462 | 27 | 75 | 108 | 672 |
| Accumulated depreciation at beginning of year | - | (19) | (62) | (53) | (134) |
| Other changes | - | 2 | 2 | - | 4 |
| Amortization charges for the year | - | (2) | (6) | (7) | (16) |
| **Accumulated depreciation at end of year** | - | (19) | (66) | (60) | (145) |
| **Net book value at end of year** | 462 | 7 | 8 | 49 | 526 |

***Impairment Testing***

*Accounting Policy*

Goodwill and other intangible assets with an indefinite useful life are tested for impairment annually. The testing of goodwill and other intangible assets with an indefinite useful life is performed at the cash generating unit level. When the carrying value of goodwill exceeds the recoverable value, an impairment is recognized in the income statement under depreciations and amortizations. Impairment losses on goodwill are not reversed. Currently Metso Minerals' management has defined one CGU to be tested, Minerals segment, to which goodwill has been allocated.

The recoverable amount of CGU is based on value in use calculations, where the estimated future cash flows of CGU are discounted to their present value. The cash flows are derived from the current year's last quarter estimate, the following year's budget and the approved strategy for the next three years, beyond which cash flows are calculated using the terminal value method. The terminal growth rate used is based on management's judgement regarding the average long-term growth. Cash flows include only normal maintenance investments and exclude any potential investments that enhance the CGU's performance and acquisitions.

***Estimates and Assessments by Management***

Value in use calculations are inherently judgmental and highly susceptible to change from period to period because they require management to make assumptions about future supply and demand related to its individual business units, future sales prices, profit margins and achievable efficiency savings over time. The value of benefits and savings expected from the efficiency improvement programs are inherently subjective. Metso Minerals management estimates sales growth rate and EBITDA development for the testing period as well as the discount factor used. The present value of the cash generating unit is discounted using the CGU's weighted average cost of capital (WACC) calculated by Metso Minerals. WACC calculations include judgements on regarding, among other things, relevant beta factors, peer companies and capital structure to use.

Metso Minerals performs impairment testing annually, or whenever there is an indication of impairment. Typical triggering events are material and permanent deterioration in the global economy or political environment, observed significant under-performance relative to projected future performance and significant changes in Metso Minerals' strategic orientations.

Expected useful lives and remaining amortization periods for other intangible assets are reviewed annually by management. Acquisitions, disposals and restructuring actions typically generate a need for the reassessment of the recoverable amounts and remaining useful lives of the assets. When other intangible assets are measured at fair value less costs of disposal, the selling price, incremental costs and selling costs need to be estimated by management.

Upon initial acquisition Metso Minerals uses readily available market values to determine the fair values of acquired net assets to be allocated. However, when this is not possible, the valuation is based on past performance of such an asset and expected future cash generating capacity, which requires management to make estimates and assumptions of the future performance and use of these assets. Any change in Metso Minerals' future business priorities may affect the recoverable amounts.

*Goodwill Allocation to Cash Generating Unit*

| **EUR million** | **2019** | **2018** |
|---|---|---|
| 2019 | | |
| Balance at beginning of year | 462 | 446 |
| Translation differences and other changes | (2) | (1) |
| Acquisitions / disposals | 96 | 17 |
| **Balance at end of year** | **556** | **462** |

The EUR 96 million net increase in 2019 relates to acquisitions of Industrial Support Company SpA and McCloskey International Ltd as well as to disposal of grinding media business in Spain, see more in note 5.4.

In 2018, EUR 17 million increase in goodwill relates to the acquisitions of AB P.J. Jonsson och Söner and Kiln Flame Systems Ltd.

The value of other intangible assets with indefinite useful life amounted to EUR 16 million in 2019 (EUR 16 million in 2018), which comprises of the brand values in Minerals segment.

*Annual Impairment Test in 2019*

At the end At the end of 2019 goodwill amounted to EUR 556 million equaling 39% of the equity. In year 2019, Metso Minerals' reporting structure and the allocation of goodwill remained unchanged from the previous year. As the pooling method has been applied for these carve-out financial statements, the reporting structure and allocation of goodwill in the Metso Group has been carried forward.

Given that the recoverable amount significantly exceeded the carrying value tested, no indication of impairment was found in 2019. The value in use calculations were derived from estimates, budgets and strategy figures reviewed by Metso Minerals' management and approved by the Board of Directors of Metso.

The key assumptions used in assessing the recoverable amount are the profitability and growth rate for the estimate period, long-term average growth in the terminal period and discount rate. The key values used were the following:

| % | 2019 | 2018 |
|---|---|---|
| Sales growth in four years estimate period | 7.9% | 10.2% |
| EBITDA % range in four years estimate period | 12.1%–17.0% | 12.3%–15.6% |
| Growth rate in the terminal period | 1.7% | 1.7% |
| WACC after tax | 10.1% | 7.5% |
| WACC before tax | 13.0% | 9.7% |

Values assigned to key assumptions reflect past experience and the management's expectations on the future sales and production volumes, which are based on the current structure and production capacity of each cash generating unit. The seasonality and current market situation of each cash generating unit have been considered separately. In addition, data on growth, demand and price development provided by various research institutions have been utilized. The growth rate of 1.7% for the terminal period is based on the long-term expectations on the growth in Metso Minerals' market environments considering the current low interest rate environment and overall financial market situation.

WACC before tax is used as a discount factor in the calculations. It takes into account the expected return on both debt and equity and has been derived from the WACC on comparable peer industry betas, capital structure and tax rates. CGU WACCs are evaluated annually for testing and CGU specific risk is incorporated through individual beta factors from the market data of the segment's peer companies.

*Sensitivity Analysis*

The sensitivity to impairment of the calculations of cash generating unit was tested in the following scenarios:

- Scenario 1: increasing WACC by 2.0 percentage points
- Scenario 2: reducing the terminal growth rate from 1.7% to 1.2% and increasing WACC by 2.0 percentage points

The impact to the value in use of the CGU in the sensitivity analysis:

| % | WACC increase by 2 p.p. | Terminal growth from 1.7% to 1.2% and WACC increase by 2 p.p. |
|---|---|---|
| Metso Minerals | | |
| 2019 | (23)% | (20)% |
| 2018 | (26)% | (30)% |

The sensitivity analysis also includes several cash projections on break-even levels of EBITDA %, WACC and sales growth based on reasonable change in the future performance of the CGU. However, the impact on the present value obtained is limited as long as there is no permanent weakening expected for the business, which would affect the terminal value. Based on these sensitivity analyses, the management believes that no reasonably possible change of the key assumptions used would cause the carrying value of any cash generating unit to exceed its recoverable amount. In 2019, the sensitivity analysis did not indicate risks of impairment.

### *3.2. Property, Plant and Equipment*

***Accounting Policy***

Property, plant and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any. The property, plant and equipment of acquired subsidiaries are measured at their fair value at the acquisition date.

Depreciation is calculated on a straight-line basis over the expected useful lives of the assets as follows:

| | |
|---|---|
| Buildings and structures | 15–40 years |
| Machinery and equipment | 3–20 years |

Land and water areas are not depreciated.

Expected useful lives are reviewed at each balance sheet date and if they differ significantly from previous estimates, the remaining depreciation periods are adjusted accordingly.

Subsequent improvement costs related to an asset are included in the carrying value of such asset or recognized as a separate asset, as appropriate, only when the future economic benefits associated with the costs are probable and the related costs can be separated from normal maintenance costs.

Metso Minerals reviews property, plant and equipment to be held and used by the company for impairment whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Gains and losses on the disposal of property, plant and equipment and possible impairments are recognized in operating income and expenses. Previously recognized impairment loss may be reversed if there is a significant improvement to the circumstances having initially caused the impairment, however not to a higher value than the carrying amount, which would have been recorded had there been no impairment in prior years.

*Capitalized interests*

The interest expenses of self-constructed investments are capitalized in Metso Minerals' financial statements. The capitalized interest expense is amortized over the estimated useful life of the underlying asset.

*Government Grants*

Government grants relating to additions to property, plant and equipment are deducted from the acquisition cost of the asset and they reduce the depreciation charge of the related asset. Other government grants are deferred and recognized as profit concurrently with the costs they compensate.

***Estimates and Assessments by Management***

Acquisitions, disposals and restructuring actions typically generate a need for the reassessment of the recoverable values and remaining useful lives of the assets. When property, plant and equipment are valued at fair value less costs of disposal, selling price, incremental costs and selling costs need to be estimated by management.

### *Property, Plant and Equipment*

| EUR million | Land and water areas | Buildings and structures | Machinery and equipment | Assets under construction | Property, plant and equipment total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Acquisition cost at beginning of year | 35 | 181 | 438 | 31 | 684 |
| Translation differences | 0 | 0 | 0 | 0 | 0 |
| Business acquisitions | 9 | 18 | 17 | 0 | 45 |
| Business disposals | 0 | (1) | (14) | 0 | (16) |
| Capital expenditure | - | 3 | 23 | 52 | 78 |
| Reclassifications | - | 12 | 21 | (32) | 0 |
| Other changes | 0 | (7) | (25) | (4) | (36) |
| **Acquisition cost at end of year** | 43 | 206 | 460 | 46 | 755 |
| Accumulated depreciation at beginning of year | - | (105) | (333) | - | (438) |
| Translation differences | - | 0 | 0 | - | 0 |
| Business acquisitions | - | (1) | (3) | - | (4) |
| Business disposals | - | 0 | 12 | - | 12 |
| Other changes | - | 2 | 20 | - | 23 |
| Impairment losses | - | 3 | (2) | - | (1) |
| Amortization charges for the year | - | (6) | (27) | - | (33) |
| **Accumulated depreciation at end of year** | - | (107) | (332) | - | (439) |
| **Net book value at end of year, discontinued operations** | **43** | **98** | **128** | **46** | **315** |
| **2018** | | | | | |
| Acquisition cost at beginning of year | 38 | 188 | 441 | 10 | 676 |
| Translation differences | 0 | (3) | (16) | (1) | (20) |
| Business acquisitions | - | 4 | 1 | 0 | 4 |
| Capital expenditure | - | 4 | 21 | 31 | 56 |
| Reclassifications | 0 | 0 | 9 | (9) | 0 |
| Other changes | (2) | (12) | (18) | - | (32) |
| **Acquisition cost at end of year** | 35 | 181 | 438 | 31 | 684 |
| Accumulated depreciation at beginning of year | - | (108) | (335) | - | (444) |
| Translation differences | - | 1 | 12 | - | 13 |
| Business acquisitions | - | 0 | 0 | - | 0 |
| Other changes | - | 9 | 16 | - | 25 |
| Impairment losses | - | (1) | (1) | - | (2) |
| Amortization charges for the year | - | (6) | (24) | - | (31) |
| **Accumulated depreciation at end of year** | - | (105) | (333) | - | (438) |
| **Net book value at end of year** | **35** | **75** | **106** | **31** | **246** |

### 3.3. *Depreciation and Amortization*

| EUR million | 2019 | 2018 |
|---|---|---|
| Intangible assets from acquisitions | (5) | (5) |
| Other intangible assets | (11) | (11) |
| Property, plant and equipment | | |
| Buildings and structures | (6) | (6) |
| Machinery and equipment | (26) | (24) |
| Right-of-use assets | | |
| Land areas | 0 | - |
| Buildings | (15) | - |
| Machinery and equipment | (8) | - |
| **Total** | **(71)** | **(46)** |

### *Depreciation and Amortization by Function*

| EUR million | 2019 | 2018 |
|---|---|---|
| Cost of goods sold | (41) | (27) |
| Selling, general and administrative expenses | (30) | (19) |
| **Total** | **(71)** | **(46)** |

### *3.4. Right-of-Use Assets*

***Accounting policy***

A lease is a contract in which the right to use an asset is granted for a specified period in exchange for compensation.

Until 31 December 2018, a lease was defined as an agreement in which the lessor conveys to the lessee the right to use an asset for a specified period in return for a payment. Under IAS 17, beneficial ownership of leased asset was transferred to the lessee if the lessee substantially bore all risks and rewards incidental to ownership of the leased asset. If beneficial ownership of the leased asset was attributed to Metso Minerals as the lessee, the asset was capitalized at the lower of the fair value of the leased property or the present value of the minimum lease payments. A corresponding lease liability was recognized under non-current liabilities, net of finance charges. The lease liability was subsequently measured at amortized cost and lease payments were allocated between repayment of the lease liability and finance charges. Assets acquired under finance leases were depreciated over the useful life of the asset or over the lease period, if shorter.

When acting as a lessee, Metso Minerals has recognized assets for the right of use received and liabilities for the payment obligations for all leases in the balance sheet since 1 January 2019. The right-of-use assets and corresponding lease liabilities are recognized at present value. Lease liabilities include the following payments:
• fixed payments, less any lease incentives provided by the lessor;
• variable payments that depend on an index or a rate;
• expected payments under residual value guarantees;
• the exercise price of purchase options when exercise is estimated to be reasonably certain; and
• penalties for terminating the lease if the lease term reflects the exercise of a termination option.

Lease payments are discounted by using the implicit interest rate in the lease to the extent it can be readily determined. Otherwise the incremental borrowing rate is used as the discount rate.

Right-of-use assets are measured at cost. The cost comprises of the following:
• lease liability
• lease payments made at or before the commencement of the lease, less lease incentives received
• initial direct costs and
• estimated dismantling and restoration costs.

Subsequently, right-of-use assets are measured at cost and depreciated over the shorter of estimated useful life and the lease term. Metso Minerals' right-of-use assets consist primarily of operative and office premises in the category of Buildings, and cars, operative machinery, and equipment in the category of Machinery and equipment.

Metso Minerals uses practical expedients provided for leases. Lease payments for leases of low value assets and short-term leases (shorter than twelve months) are expensed in the income statement on a straight-line basis. Low value assets comprise IT equipment and other small office items. In addition, the new requirements are not applied to lease contracts for intangible assets. Also, for contracts that comprise both lease components and non-lease components, the payments are not split between these components.

A number of lease contracts include extension and termination options. Such options have been taken into account when determining the lease term. A period covered by Metso Minerals' option to extend the lease is included in the lease term if such option is sufficiently likely to be exercised. Further, a period covered by Metso Minerals' option to terminate the lease is included in the lease term if it is reasonably certain that such option will not be exercised.

***Estimates and Assessments by Management***

The most significant management judgement relates to lease agreements that include extension or early termination options for Metso Minerals. 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 judgement is also applied in defining the incremental borrowing rate used to calculate the present value of the future lease payments.

***Amounts recognized in balance sheet***

| 2019<br>EUR million | Land and water areas | Buildings | Machinery and equipment | Right-of-use assets total |
|---|---|---|---|---|
| Acquisition cost at beginning of year. | - | 58 | 16 | 74 |
| Translation differences | - | 0 | 0 | 0 |
| Acquisitions | - | 3 | 3 | 6 |
| Additions | 1 | 29 | 6 | 35 |
| Derecognition | - | (3) | (1) | (4) |
| Disposals | - | 0 | 0 | 0 |
| **Acquisition cost at end of year** | 1 | 87 | 23 | 110 |
| Translation differences | 0 | 0 | 0 | 0 |
| Other changes | - | 1 | 1 | 1 |
| Depreciation for the year | 0 | (15) | (8) | (23) |
| **Accumulated depreciation at end of year** | 0 | (14) | (7) | (22) |
| **Net book value at end of year** | **1** | **73** | **16** | **89** |

***Amounts recognized in profit and loss***

| EUR million | 2019 | 2018 |
|---|---|---|
| Rental expenses recognized in profit and loss | - | (22) |
| **Operating profit** | | |
| Depreciation expense on right-of-use assets | (23) | - |
| Rental expense relating to leases of low value assets. | (2) | - |
| Rental expense relating to short-term leases | (2) | - |
| **Finance expenses** | | |
| Interest expense on lease liabilities. | (4) | - |
| **Total amount recognized in profit and loss** | **(31)** | **(22)** |

The total cash outflow for leases including short-term leases and leases of low value assets in 2019 was EUR 32 million.

Maturity analysis of lease liabilities is presented in note 4.5.

## 4. Capital Structure and Financial Instruments

### 4.1. *Financial Risk Management*

As a global company, Metso Minerals is exposed to a variety of business and financial risks. Financial risks are managed centrally by the Group Treasury under annually reviewed written policies approved by the Board of Directors. Treasury operations are monitored by the Treasury Management Team chaired by the CFO. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the operating units. Group Treasury functions as counterparty to the operating units, manages centrally external funding and is responsible for the management of financial assets and appropriate hedging measures. The objective of financial risk management is to minimize potential adverse effects on Metso Minerals' financial performance.

***Sensitivity Analysis***

Sensitivity analysis figures presented in connection with different financial risks are based on the risk exposures at the balance sheet date. The sensitivity is calculated by assuming a change in one of the risk factors of a financial instrument, such as interest or currency. It is not likely that the future volatility of a risk factor will develop in accordance with the test assumptions and that only one factor would be impacted.

When calculating the sensitivity, Metso Minerals has chosen to use market conventions in assuming a one percentage point (100 basis points) variation in interest rates, 10 percent change in foreign exchange rates and in commodity prices because this provides better comparability from one period to another and information on the volatility to users of financial statements. Metso Minerals is aware that such assumptions may not be realistic when compared to past volatility and they are not intended to reflect the future. Metso Minerals has chosen not to use past volatility as this could mislead the users of financial statements to assume the analysis reflect management's view on future volatility of the financial instruments.

***Liquidity and Refinancing Risk and Capital Structure Management***

Liquidity or refinancing risk arises when a company is not able to arrange funding at terms and conditions corresponding to its creditworthiness. Sufficient cash, short-term investments and committed and uncommitted credit facilities are maintained to protect short-term liquidity. Diversification of funding among different markets and adequate number of financial institutions is used to safeguard the availability of liquidity at all times. Group Treasury monitors bank account structures, cash balances and forecasts of the operating units and manages the utilization of the consolidated cash resources.

The liquidity position of Metso Minerals remained good supported by the available back up credit facilities and maturity structure of the funding. During the year bank loans with nominal values EUR 300 million and EUR 114 million and commercial paper loan with a nominal value EUR 10 million were withdrawn. Public bonds with a nominal value EUR 174 matured and were repaid. At the end of 2019 liquid funds amounted to EUR 156 million (EUR 325 million in 2018). Liquid funds consisted of cash and cash equivalents amounted to EUR 156 million (EUR 249 million in 2018), and there were no deposits nor securities with maturity over three months (EUR 76 million in 2018). Additionally, committed undrawn revolving credit facility amounted to EUR 600 million (EUR 500 million in 2018) and committed undrawn European Investment Bank loan facility to EUR 40 million (EUR 40 million in 2018). The syndicated revolving credit facility matures in September 2024, and has two extension options for one year each. Additionally, the uncommitted Finnish Commercial Paper program totaling EUR 500 million can be utilized for funding.

Metso Minerals' refinancing risk is managed by balancing the proportion of short-term and long-term debt as well as the average remaining maturity of long-term debt. The tables below analyze the repayments and interests on Metso Minerals' liabilities by the remaining maturities from the balance sheet date to the contractual maturity date. The net interest payments of interest rate swaps hedging long-term loans are included in the long-term debt repayment figures.

***Maturities of Debts***

| EUR million | Dec 31, 2019 <1 year | Dec 31, 2019 1–5 years | Dec 31, 2019 >5 years | Dec 31, 2018 <1 year | Dec 31, 2018 1–5 years | Dec 31, 2018 >5 years |
|---|---|---|---|---|---|---|
| **Long-term debt** | | | | | | |
| Repayments | - | 814 | - | 174 | 100 | 300 |
| Interests | 11 | 24 | - | 9 | 24 | 4 |
| Other liabilities | - | 2 | - | - | - | - |
| **Short-term debt** | | | | | | |
| Repayments | 24 | - | - | 35 | - | - |
| Interests | 0 | - | - | 1 | - | - |
| Trade payables | 385 | - | - | 375 | - | - |
| Other liabilities | 23 | - | - | 7 | 8 | - |
| **Total** | **443** | **840** | **-** | **601** | **132** | **304** |

Detailed information on balance sheet items is presented in other notes to consolidated financial statements. Capital structure is assessed regularly by the Board of Directors and managed operationally by the Group Treasury.

Capital structure management in Metso Minerals comprises both equity and interest-bearing debt. As of December 31, 2019, the equity attributable to shareholders was EUR 1,252 million (EUR 1,173 million in 2018) and the amount of interest bearing debt was EUR 1,001 million (EUR 673 million in 2018).

Financial covenants included in some loan agreements refer to Metso Minerals' capital structure. Metso Minerals is in compliance with all covenants and other terms of its debt instruments.

***Interest Rate Risk***

Interest rate risk arises when changes in market interest rates and interest margins influence finance costs, returns on financial investments and valuation of interest bearing balance sheet items. Interest rate risks are managed by balancing the ratio between fixed and floating interest rates and administrating duration of debt and investment portfolios. Additionally, Metso Minerals may use derivative instruments such as forward rate agreements, swaps, options and futures contracts to mitigate the risks arising from interest bearing assets and liabilities. The interest rate risk is managed and controlled by the Group Treasury and measured using sensitivity analysis and duration of long term debt. The duration of long-term debt was 1.8 years as at December 31, 2019 (2.9 years in 2018).

At the end of 2019 the balance sheet items exposed to interest rate risk were interest bearing assets of EUR 229 million (EUR 426 million in 2018) and interest-bearing debt amounted to EUR 1,001 million (EUR 673 million in 2018).

The basis for the interest rate sensitivity analysis is an aggregate group level interest exposure, composed of interest bearing assets, interest bearing debt and financial derivatives, such as interest rate swaps and options, which are used to hedge the underlying exposures. For all interest bearing current debt and assets to be fixed during next 12 months a one percentage point move upwards or downwards in interest rates with all other variables held constant would have an effect on Metso Minerals' net interest expenses, net of taxes, of EUR -/+ 2.0 million (EUR +/- 0.7 million in 2018).

For financial assets valued at fair value, a one percentage point change upwards or downwards in all interest rates with all other variables held constant would have following effects, net of taxes, in income statement and equity:

| EUR million | 2019 | 2018 |
|---|---|---|
| Effects in | | |
| Income statement | +/- 1.7 | +/- 1.5 |
| Equity | +/- 0.0 | +/- 0.0 |

The effect in the income statement comprises of the changes in the fair value on the financial instruments, which are measured at fair value through profit and loss. The effect in the equity is comprised of the changes in the fair value on the financial instruments, which are measured at fair value through other comprehensive income, such as derivatives under hedge accounting.

***Foreign Exchange Risk***

Metso Minerals operates globally and is exposed to foreign exchange risk in several currencies, although the geographical diversity of operations decreases the significance of any individual currency. About 80 percent of Metso Minerals' sales originate from outside the euro zone; the main currencies being Euro, US dollar, Australian dollar, Chilean peso, Swedish crown and Indian rupee.

***Transaction Exposure***

Foreign exchange transaction exposure arises when an operating unit has commercial or financial transactions and payments in other than its own functional currency, and when related cash inflow and outflow amounts are not equal or concurrent.

In accordance with the Metso Minerals Treasury Policy, operating units are required to hedge in full the foreign currency exposures on balance sheet and other firm commitments. Future cash flows denominated in a currency other than the functional currency of the unit are hedged with internal foreign exchange contracts with the Group Treasury for periods, which do not usually exceed two years. Operating units also do some hedging directly with banks in countries, where regulation does not allow corporate internal cross-border contracts.

Group Treasury monitors the net position of each currency and decides to what extent a currency position is to be closed. Group Treasury is however responsible for entering into external forward transaction whenever an operating unit applies hedge accounting. Metso Minerals Treasury Policy defines upper limits on the open currency exposures managed by the Group Treasury; limits have been calculated on the basis of their potential profit impact. To manage the foreign currency exposure Group Treasury may use forward exchange contracts and foreign exchange options.

*Total amount of foreign currency exposures on December 31*

| EUR million | 2019 | 2018 |
|---|---|---|
| Operational items | 232 | 207 |
| Financial items | 499 | 367 |
| Hedges | (712) | (590) |
| **Total exposure** | **19** | **(16)** |

This aggregate group level currency exposure is the basis for the sensitivity analysis of foreign exchange risk. This exposure, net of respective hedges, is composed of all assets and liabilities denominated in foreign currencies, projected cash flows for unrecognized firm commitments, both short- and long-term sales and purchase contracts and anticipated operational cash flows to the extent their realization has been deemed highly probable and therefore hedged. This analysis excludes net foreign currency investments in subsidiaries together with instruments hedging these investments.

Assuming euro to appreciate or depreciate ten percent against all other currencies, the impact on cash flows, net of taxes, derived from the year-end net exposure as defined above, would be EUR +/- 1.3 million (EUR -/+ 1.0 million in 2018). Transaction exposure is spread in about 37 currencies and as of December 31, 2019, the biggest open exposure was in US dollar, 44 percent.

A sensitivity analysis of financial instruments as required by IFRS 7, excludes following items: projected cash flows for unrecognized firm commitments, advance payments, both short- and long-term purchase contracts and anticipated operational cash flows. The next table presents the effects, net of taxes, of a +/- 10 percent change in EUR foreign exchange rates:

| EUR million | AUD | CNY | Other | 2019 Total | 2018 Total |
|---|---|---|---|---|---|
| Effects in | | | | | |
| Income statement | -/+ 1.3 | +/- 1.0 | -/+ 1.1 | -/+ 1.5 | +/- 0.6 |
| Equity | +/- 0.1 | -/+ 0.1 | -/+ 0.2 | -/+ 0.2 | -/+ 2.4 |

Effect in equity is the fair value change in derivatives contracts qualifying as cash flow hedges for unrecognized firm commitments. Effect in income statement is the fair value change for all other financial instruments exposed to foreign exchange risk including derivatives, which qualify as cash flow hedges, to the extent the underlying sales transaction, recognized over time, has been recognized as revenue.

***Translation or Equity Exposure***

Foreign exchange translation exposure arises when the equity of a subsidiary is denominated in currency other than the functional currency of the Parent Company. The major translation exposures are in US dollar, Chinese yuan, Brazilian real, Indian rupee and in Pound sterling, which altogether comprise approximately 62 percent of the total equity exposure. Metso Minerals is currently not hedging any equity exposure.

***Credit and Counterparty Risk***

Credit or counterparty risk is defined as the possibility of a customer or a financial counterparty not fulfilling its commitments towards Metso Minerals. The operating units of Metso Minerals are primarily responsible for credit risks pertaining to sales and procurement activities. The units assess the credit quality of their customers, by taking into account their financial position, past experience and other relevant factors. When appropriate, advance payments, letters of credit and third party guarantees or credit insurance are used to mitigate credit risks. Group Treasury provides centralized services related to customer financing and seeks to ensure that the principles of the Treasury Policy are adhered to with respect to terms of payment and required collateral. Metso Minerals has no significant concentrations of credit risks.

The maximum credit risk equals the carrying value of trade and loan receivables. The credit quality is evaluated both on the basis of aging of the trade receivables and also on the basis of customer specific analysis. The aging structure of trade receivables is presented in note 2.2.

Counterparty risk arises also from financial transactions agreed upon with banks, financial institutions and corporates. The risk is managed by careful selection of banks and other counterparties, by counterparty specific limits determined in the Treasury Policy, and netting agreements such as ISDA (Master agreement of International Swaps and Derivatives Association). The compliance with counterparty limits is regularly monitored.

Credit risk exposure relates to carrying value of financial assets valued at amortized cost, such as trade receivables, interest bearing receivables, other receivables, deposits and security investments and cash and cash equivalents, and customer contract assets.

Impairment on cash on hand, bank accounts, deposits and interest- bearing investments is assessed regularly, but seen minor, because of their high investment grade and short duration. Group Treasury makes a financial analysis of corporate counterparties regularly. In addition, the investments are constantly monitored by Group Treasury and Metso Minerals does not expect any future credit losses from these investments.

For trade receivables and customer contract assets Metso Minerals applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance to be assessed and recognized regularly, see note 2.2.

***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 fund investments classified as 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 Minerals had no such instruments in 2019 or 2018.

The tables below present Metso Minerals' financial assets and liabilities that are measured at fair value.

| EUR million | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **2019** | | | |
| **Assets** | | | |
| Financial assets at fair value through profit and loss | | | |
| Derivatives not under hedge accounting | - | 10 | - |
| Interest bearing investments | - | - | - |
| Fund investments | - | - | - |
| Financial assets at fair value through other comprehensive income | | | |
| Derivatives under hedge accounting | - | 8 | - |
| Interest bearing investments | - | - | - |
| **Total assets** | **-** | **18** | **-** |
| **Liabilities** | | | |
| Financial liabilities at fair value through profit and loss | | | |
| Derivatives not under hedge accounting | - | 11 | - |
| Long term debt at fair value | - | 102 | - |
| Derivatives qualified for hedge accounting | | | |
| Derivatives under hedge accounting | - | 5 | - |
| **Total liabilities** | **-** | **118** | **-** |

| EUR million | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **2018** | | | |
| **Assets** | | | |
| Financial assets at fair value through profit and loss | | | |
| Derivatives not under hedge accounting | - | 4 | - |
| Interest bearing investments | - | - | - |
| Fund investments | 8 | - | - |
| Financial assets at fair value through other comprehensive income | | | |
| Derivatives under hedge accounting | - | 8 | - |
| Interest bearing investments | - | - | - |
| **Total assets** | **8** | **12** | **-** |
| **Liabilities** | | | |
| Financial liabilities at fair value through profit and loss | | | |
| Derivatives not under hedge accounting | - | 10 | - |
| Long term debt at fair value | - | 188 | - |
| Derivatives qualified for hedge accounting | | | |
| Derivatives under hedge accounting | - | 7 | - |
| **Total liabilities** | **-** | **205** | **-** |

### 4.2. *Financial Assets and Liabilities by Category*

***Accounting Policy***

Under IFRS 9 Metso Minerals classifies financial assets and liabilities in to the measurement categories according to contractual terms of the cash flows and Metso Minerals business model to manage the investment at the inception. Reclassification of the categories will be made only, if the business model for managing those assets changes. Financial assets and liabilities are classified as non-current items, when the remaining maturity exceeds 12 months and as current items, when the remaining maturity is 12 months or less. Financial assets and liabilities are classified as follows:

*At amortized Cost*

*Financial Assets*

Financial assets valued at amortized cost are investments in debt instruments or receivables, which are held end of maturity and for collection of contractual cash flows, where those cash flows are solely payments of principal and/or interest. These are recognized at fair value less transaction costs, and subsequently measured at amortized cost using the effective interest method. Interest income is recognized in financial income in income statement. Financial assets at amortized cost include deposit, commercial papers, interest bearing loans and receivables, trade receivables and non-interest bearing receivables. Impairment is assessed regularly and when the carrying value exceed the recoverable value of discounted cash flows, appropriate impairment is recognized in income statement.

For trade receivables, Metso applies the simplified method in IFRS 9, which requires expected lifetime losses to be recognized from the initial recognition of the receivables. See more in note 2.2 Trade receivables.

*Financial Liabilities*

Issued bonds and withdrawn loan facilities from financial institutions as well as trade and other liabilities are valued at fair value, net transaction costs, and subsequently measured at amortized cost using the effective interest method. Trade and other receivables are non-interest bearing short-term unpaid debts.

The difference, between the debt amount net transaction cost recognized of bonds and loans from financial institutions and the redemption amount, is recognized in income statement as interest cost over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized income statement as other finance expense over the period of the facility, or, if the withdrawn of the loan is probable, as part of transaction cost.

*At Fair Value Through Other Comprehensive Income (FVOCI)*

Financial assets valued at fair value through other comprehensive income are debt instruments or receivables, which are held for collection of contractual cash flows or held for selling the assets, and where contractual cash flows are solely payments of principal and/or interest. Interest income is recognized in income statement using the effective interest method. Change in fair value is recognized in other comprehensive income (OCI). At the derecognition, the cumulative previously booked gains and losses in OCI are released from equity to income statement. Metso includes in this measurement category derivatives under hedge accounting, trade receivables for sale and security investments with maturity less than three months. Impairment is assessed regularly and when the carrying value exceed the recoverable value of discounted cash flows, appropriate impairment is recognized in income statement.

*At Fair Value Through Profit and Loss (FVPL)*

*Financial Assets*

Financial assets valued at fair value through profit and loss are equity investments, investments in funds and derivatives not under hedge accounting. Change in fair value and gain or loss at the derecognition will be recognized in income statement. The change in the fair value includes the valuation of the impairment risk as well. Fair value of listed equity shares or investments in funds are the quoted market price on the balance sheet date. Unlisted shares are valued at cost less impairment, if any.

*Financial Liabilities*

Fixed rate debts covered by fair value hedges accounting and derivatives not under hedge accounting are included in this measurement category. Change in fair value and gains or losses at the derecognition will be recognized in income statement.

*Financial Assets and Liabilities by Categories as of December 31*

| EUR million | At fair value through profit and loss | At fair value through other comprehensive income | At amortized cost | Carrying value | Fair value |
|---|---|---|---|---|---|
| 2019 | | | | | |
| **Non-current financial assets** | | | | | |
| Equity investments | 3 | - | - | 3 | 3 |
| Loan receivables | - | - | 6 | 6 | 6 |
| Loan receivables, Metso Group | - | - | 25 | 25 | 25 |
| Derivatives financial instruments | 2 | 0 | - | 2 | 2 |
| Other receivables | - | - | 10 | 10 | 10 |
| **Total** | **6** | **0** | **41** | **46** | **46** |
| | | | | | |
| **Current financial assets** | | | | | |
| Trade receivables | - | - | 572 | 572 | 572 |
| Trade receivables, Metso Group | - | - | 10 | 10 | 10 |
| Trade receivables, for sale | - | 5 | - | 5 | 5 |
| Loan receivables | - | - | 1 | 1 | 1 |
| Loan receivables, Metso Group | - | - | 25 | 25 | 25 |
| Cash pool receivables, Metso group | - | - | 17 | 17 | 17 |
| Derivatives financial instruments | 10 | 6 | - | 16 | 16 |
| Other receivables | - | - | 139 | 139 | 139 |
| Other receivables, Metso Group | - | - | 1 | 1 | 1 |
| Deposits and securities, maturity more than three months | - | - | - | - | - |
| Fund investments | - | - | - | - | - |
| Deposits and securities, maturity three months or less | - | - | 15 | 15 | 15 |
| Cash at hand and on bank accounts | - | - | 141 | 141 | 141 |
| **Total** | **10** | **11** | **921** | **942** | **942** |

| EUR million | At fair value through profit and loss | At fair value through other comprehensive income | At amortized cost | Carrying value | Fair value |
|---|---|---|---|---|---|
| 2019 | | | | | |
| **Non-current liabilities** | | | | | |
| Bonds | 98 | - | 290 | 388 | 406 |
| Other non-current debt | - | - | 414 | 414 | 414 |
| Lease liabilities | - | - | 69 | 69 | 69 |
| Derivatives financial instruments | 2 | - | - | 2 | 2 |
| Other liabilities | - | - | 2 | 2 | 2 |
| Other liabilities, Metso Group | - | - | 6 | 6 | 6 |
| **Total** | **100** | **0** | **781** | **881** | **899** |
| | | | | | |
| **Current liabilities** | | | | | |
| Current portion of non-current debt | - | - | - | - | - |
| Loans from financial institutions | - | - | 14 | 14 | 14 |
| Commercial papers | - | - | 10 | 10 | 10 |
| Cash pool liabilities, Metso Group | - | - | 86 | 86 | 86 |
| Trade payables | - | - | 385 | 385 | 385 |
| Trade payables, Metso Group | - | - | 1 | 1 | 1 |
| Derivatives financial instruments | 8 | 5 | - | 13 | 13 |
| Other liabilities | - | - | 251 | 251 | 251 |
| Other liabilities, Metso Group | - | - | 11 | 11 | 11 |
| **Total** | **8** | **5** | **758** | **771** | **771** |

| EUR million | At fair value through profit and loss | At fair value through other comprehensive income | At amortized cost | Carrying value | Fair value |
|---|---|---|---|---|---|
| 2018 | | | | | |
| **Non-current financial assets** | | | | | |
| Equity investments | 3 | - | - | 3 | 3 |
| Loan receivables | - | - | 6 | 6 | 6 |
| Loan receivables, Metso Group | - | - | 49 | 49 | 49 |
| Derivatives financial instruments | 1 | 2 | - | 3 | 3 |
| Other receivables | - | - | 10 | 10 | 10 |
| **Total** | **4** | **2** | **65** | **71** | **71** |
| **Current financial assets** | | | | | |
| Trade receivables | - | - | 484 | 484 | 484 |
| Trade receivables, Metso Group | - | - | 8 | 8 | 8 |
| Trade receivables, for sale | - | 9 | - | 9 | 9 |
| Loan receivables | - | - | 1 | 1 | 1 |
| Loan receivables, Metso Group | - | - | 33 | 33 | 33 |
| Cash pool receivables, Metso group | | | 20 | 20 | 20 |
| Derivatives financial instruments | 3 | 6 | - | 9 | 9 |
| Other receivables | - | - | 102 | 102 | 102 |
| Other receivables, Metso Group | - | - | 1 | 1 | 1 |
| Deposits and securities, maturity more than three months | - | - | 76 | 76 | 76 |
| Fund investments | 8 | - | - | 8 | 8 |
| Deposits and securities, maturity three months or less | - | - | 15 | 15 | 15 |
| Cash at hand and on bank accounts | - | - | 226 | 226 | 226 |
| **Total** | **11** | **14** | **966** | **992** | **992** |

| EUR million | At fair value through profit and loss | At fair value through other comprehensive income | At amortized cost | Carrying value | Fair value |
|---|---|---|---|---|---|
| 2018 | | | | | |
| **Non-current liabilities** | | | | | |
| Bonds | 95 | - | 288 | 383 | 402 |
| Finance lease obligations | - | - | 0 | 0 | 0 |
| Derivatives financial instruments | 2 | - | - | 2 | 2 |
| Other liabilities | - | - | 2 | 2 | 2 |
| Other liabilities, Metso Group | - | - | 6 | 6 | 6 |
| **Total** | **97** | **-** | **296** | **393** | **412** |
| **Current liabilities** | | | | | |
| Current portion of non-current debt | 87 | - | 87 | 174 | 174 |
| Loans from financial institutions | - | - | 35 | 35 | 35 |
| Cash pool liabilities, Metso Group | - | - | 81 | 81 | 81 |
| Trade payables | - | - | 374 | 374 | 374 |
| Trade payables, Metso Group | - | - | 1 | 1 | 1 |
| Derivatives financial instruments | 6 | 7 | - | 13 | 13 |
| Other liabilities | - | - | 210 | 210 | 210 |
| **Total** | **93** | **7** | **788** | **888** | **888** |

## 4.3. *Liquid Funds*

***Accounting Policy***

Deposits and securities with maturities over 3 months, consist of highly liquid investments, which are part of Metso Minerals' cash management. These commercial papers deposit and debt investments have maturity less than twelve months, and they are measured at amortized cost.

Cash and cash equivalents consist of cash on hand and bank accounts, deposits and interest bearing investments, which are easily convertible to known amount of cash within the period of three months or less as well as bond fund investments, with the same risk profile.

Cash on hand, bank accounts, deposits and interest bearing investments are measured at amortized cost. The bond fund investments are measured at fair value through profit and loss accounts.

Impairment on cash on hand, bank accounts, deposits and interest bearing investments is assessed regularly, but seen minor, because of their high investment grade and short duration. Impairment risk of bond fund investment is included in the change in fair value of them.

| **EUR million** | **2019** | **2018** |
|---|---|---|
| Deposits and securities, maturity more than three months | - | 76 |
| | | |
| Cash and cash equivalents | | |
| Fund investments | - | 8 |
| Deposits and securities, maturity three months or less | 15 | 15 |
| Cash on hand and bank accounts | 141 | 226 |
| Cash and cash equivalents | 156 | 249 |
| | | |
| **Liquid funds total** | 156 | 325 |

Average returns for deposits and securities were as follows:

| | **2019** | **2018** |
|---|---|---|
| With maturity more than three months | - | 0.01% |
| With maturity three months or less | 4.24% | 3.67% |

## 4.4. *Equity*

***Accounting Policy***

*Translation Differences*

The translation differences arising from subsidiary net investments and non-current subsidiary loans without agreed settlement dates are recognized through the Other Comprehensive Income (OCI) to cumulative translation adjustments under equity. When Metso Minerals hedges the net investment of its foreign subsidiaries with foreign currency loans and with financial derivatives, the translation difference is adjusted by the currency effect of the hedging instruments which has been recorded, net of taxes, through OCI in equity. When a foreign entity is disposed of, the respective accumulated translation difference, including the effect from qualifying hedging instruments, is reversed through OCI and recognized in the consolidated statements of income as part of the gain or loss on the sale. If the equity of a subsidiary denominated in a foreign currency is reduced by a return of capital, the translation difference relating to the reduction is reversed through OCI and recognized in the consolidated statements of income.

***Carve-out Principles***

Metso Minerals has not in the past formed a separate legal group nor presented stand-alone consolidated financial statements, and accordingly it is not conceivable to present share capital separately from other equity balances including reserves. Metso Minerals' net assets for each balance sheet date are represented by capital invested in Metso Minerals and shown in these carve-out financial statements as "equity" comprising of cumulative translation account, fair value reserve as well as invested equity and retained earnings. Invested equity and retained earnings comprise of equity items allocated from Metso Minerals' parent company and other Metso Minerals companies in accordance with the demerger plan and historical retained earnings balances of Metso Minerals entities.

All cash and other movements in capital amounts, being shares issued or cancelled or dividends and other distributions made from/to Metso Minerals companies from/to Metso parent company or changes resulting from the internal reorganization have been reflected in the combined statement of cash flows under "Dividends paid, ‘‘Metso Group" and "Equity financing, Metso Group" and in the combined statements of changes in equity under "Dividends", "Changes in invested equity" and "Net change from winding up the consolidated tax groups".

These carve-out financial statements are presented in euros, which will be Metso Minerals' parent company's functional and reporting currency. Metso Minerals' operating units have also other functional currencies. Translation differences arising from translating the net results for the period and equity are recognized in equity and their changes are presented in the separate cumulative translation account within equity.

***Share Capital and Number of Shares***

Share capital is not presented separately for historical periods in the carve-out financial statements.

***Dividends***

Dividend paid in 2019 amounting to EUR 144 million and in 2018 amounting to 126 million consists of the allocated part of dividends paid by Metso Oyj.

Metso Minerals has paid dividends 2018 and 2019 to those Metso Corporation's subsidiaries that have owned the shares in such Metso Minerals companies.

***Hedge Reserve***

The hedge reserve includes the fair value movements of derivative financial instruments which qualify as cash flow hedges.

***Changes in Hedge reserve and Other Reserves***

| EUR million | 2019 | 2018 |
|---|---|---|
| **January 1** | (3) | (2) |
| Cash flow hedges | | |
| Fair value gains (+) / losses (-), net of tax | 8 | 2 |
| Transferred to profit and loss, net of tax | | |
| Sales | (4) | 0 |
| Cost of goods sold / Administrative expenses | - | 0 |
| Interest income / expenses | (2) | (3) |
| Instruments at fair value and share-based rewards | - | - |
| Other | 0 | 0 |
| **December 31** | **0** | **(3)** |

***Cumulative Translation Adjustments Included in the Shareholders' Equity***

| EUR million | 2019 | 2018 |
|---|---|---|
| Cumulative translation adjustment at beginning of year | (153) | (138) |
| Currency translation on subsidiary net investments | 2 | (15) |
| **Cumulative translation adjustment at end of year** | (151) | (153) |

## 4.5. *Borrowings and lease liabilities*

***Accounting policy***

Long-term debt is initially recognized at fair value, net of transaction costs incurred and subsequently measured at amortized cost using the effective interest method. The difference, between the debt amount recognized and the redemption amount, is recognized in income statement as interest expense over the period of the borrowings. The fair value changes in borrowings covered by fair value hedge are, in respect of hedged risk, recognized through profit and loss. A portion of long-term debt is classified as short-term debt, when the settlement of the liability is due within 12 months from the balance sheet date. Borrowings are derecognized only, if the contractual obligation is discharged, cancelled or expired.

Fees paid on the establishment of loan facilities are recognized in income statement as other finance expense over the period of the facility, or, if the withdrawal of the loan is probable, as part of transaction cost. Transaction costs arising from modification to debt instruments are included in the carrying value of the debt and amortized using the effective interest method over the remaining period of the modified liability provided that the new conditions obtained through the modification do not substantially differ from those of the original debt. Modification gain or loss will be recognized in income statement at the time of non-substantial modification.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| EUR million | Carrying values | Fair values | Carrying values | Fair values |
| Bonds | 388 | 406 | 383 | 402 |
| Loans from financial institutions | 413 | 414 | - | - |
| **Total borrowings** | 801 | 820 | 383 | 402 |
| Lease liabilities | 69 | 69 | 0 | 0 |
| **Total long-term interest bearing debt** | 870 | 889 | 383 | 402 |
| | | | | |
| Current portion of bonds | - | - | 174 | 174 |
| Loans from financial institutions | 14 | 14 | 35 | 35 |
| Commercial papers | 10 | 10 | - | - |
| Cash pool liabilities, Metso Group | 86 | 86 | 81 | 81 |
| **Total short-term borrowings** | 110 | 110 | 290 | 290 |
| Lease liabilities | 21 | 21 | 0 | 0 |
| **Total short-term interest bearing debt** | 131 | 131 | 290 | 290 |
| | | | | |
| **Total interest bearing debt** | **1,001** | **1,020** | **673** | **692** |

***Bonds***

| 2019<br>EUR million | Nominal interest rate | Effective interest rate | Outstanding original loan amount | Outstanding carrying value |
|---|---|---|---|---|
| Public bond 2017–2024 | 1.13% | 2.33% | 300 | 288 |
| Private placements 2022 | | 3.80% | 100 | 100 |
| **Bonds total** | | | **400** | **388** |

***Bonds, comparison period***

| 2018<br>EUR million | Nominal interest rate | Effective interest rate | Outstanding original loan amount | Outstanding carrying value |
|---|---|---|---|---|
| Public bond 2012–2019 | 2.75% | 2.91% | 174 | 174 |
| Public bond 2017–2024 | 1.13% | 2.33% | 300 | 283 |
| Private placements 2022 | | 3.80% | 100 | 100 |
| **Bonds total** | | | **574** | **557** |

Metso has a Euro Medium Term Note Program (EMTN) of EUR 1.5 billion, under which EUR 388 million at carrying value were outstanding at the end of 2019 (EUR 557 million in 2018). EUR 288 million (EUR 457 million) of the outstanding amount were public bonds and EUR 100 million (EUR 100 million) private placements.

In 2019, public bond with nominal value of EUR 174 million matured in October. Two term loans from financial institutions were withdrawn, EUR 300 million in September with a maturity of 2 years for financing the McCloskey acquisition.

On December 31, 2019, the average interest rate of total loans and derivatives was 1.37% (1.96%), the duration of medium and long-term debt interest bearing debt 1.8 years (2.9 years) and the average maturity 2.9 years (3.7 years).

Short term loans from financial institutions consists of bank loans withdrawn by Metso Minerals subsidiaries to fund local operations. The subsidiary loans are mainly Indian rupee denominated. In addition, commercial papers with nominal value EUR 10 million were withdrawn in December 2019. The weighted average interest rate applicable to the short-term borrowing at December 31, 2019 was 4.8% (6.8% in 2018). In 2019, interest amounting to EUR 0.5 million is expected to be paid concurrently with respective principals on the short-term debt presented above.

Metso has a syndicated revolving credit facility of EUR 600 million with 10 banks, maturing in 2024 (EUR 500 million in 2018) with two one-year extension options. In addition, Metso has a EUR 40 million committed loan facility for research, development and innovation costs with a disbursement period until June 2020, and a tenor up to ten years from European Investment Bank. Metso also has a Finnish commercial paper program amounting to EUR 500 million. Both revolving credit facility and EUR 40 million committed facility were undrawn at the end of 2019. From commercial paper program there was an issuance with nominal amount EUR 10 million.

*Contractual Maturities of Interest-bearing Debt*

| 2019<br>EUR million | Borrowings | Repayments | Interests | Lease liabilities[1] |
|---|---|---|---|---|
| 2020 | 35 | 24 | 11 | 26 |
| 2021 | 310 | 300 | 10 | 19 |
| 2022 | 221 | 214 | 8 | 14 |
| 2023 | 3 | - | 3 | 10 |
| 2024 | 303 | 300 | 4 | 8 |
| Later | - | - | - | 30 |
| **Total** | 872 | 838 | 36 | 108 |

[1] Future lease payments at nominal value.

The maturities of derivative financial instruments are presented in note 4.8.

## 4.6. *Interest bearing Net Debt Reconciliation*

### *Net interest bearing liabilities*

| EUR million | 2019 | 2018 |
|---|---|---|
| Borrowings, non-current [1] | 801 | 557 |
| Lease liabilities [2] | 90 | 0 |
| Borrowings, current | 24 | 35 |
| Cash pool liabilities, Metso Group | 86 | 81 |
| Loan receivables | (6) | (7) |
| Loan receivables, Metso Group | (50) | (82) |
| Cash pool receivables, Metso Group | (17) | (20) |
| Liquid funds | (156) | (325) |
| **Net interest bearing liabilities** | **773** | **239** |

[1] Including current portion of non-current liabilities EUR 0 million in 2019 (EUR 174 million in 2018).
[2] Figures for year 2019 include lease liabilities recognized due to adoption of IFRS 16.

### *Changes in Net Interest-bearing Liabilities*

| **2019**<br>**EUR million** | **Balance at beginning of year** | **Cash flows** | **Acquisitions** | **Disposals** | **Translation differences** | **Other non-cash movements** | **Balance at end of year** |
|---|---|---|---|---|---|---|---|
| Borrowings, non-current | 557 | 239 | - | - | - | 5 | **801** |
| Lease liabilities | 74 | (24) | 6 | - | 0 | 35 | **90** |
| Borrowings, current | 35 | (91) | 87 | - | 0 | (7) | **24** |
| Cash pool liabilities, Metso Group | 81 | 4 | - | - | 1 | - | **86** |
| Loan receivables | (7) | 31 | - | (31) | 0 | 1 | **(6)** |
| Loan receivables, Metso Group | (82) | 34 | - | - | (2) | - | **(50)** |
| Cash pool receivables, Metso Group | (20) | 3 | - | - | 0 | - | **(17)** |
| Liquid funds | (325) | 177 | (8) | - | 0 | - | **(156)** |
| **Net interest bearing liabilities** | **313** | **373** | **85** | **(31)** | **(1)** | **34** | **772** |

| **2018**<br>**EUR million** | **Balance at beginning of year** | **Cash flows** | **Acquisitions** | **Disposals** | **Translation differences** | **Other non-cash movements** | **Balance at end of year** |
|---|---|---|---|---|---|---|---|
| Borrowings, non-current | 833 | (283) | - | - | 0 | 7 | **557** |
| Borrowings, current | 21 | 15 | - | - | (1) | - | **35** |
| Cash pool liabilities, Metso Group | 136 | (60) | - | - | 4 | - | **81** |
| Loan receivables | (3) | 0 | - | - | 1 | (5) | **(7)** |
| Loan receivables, Metso Group | (93) | 25 | - | - | (4) | (10) | **(82)** |
| Cash pool receivables, Metso Group | (27) | 7 | - | - | 0 | - | **(20)** |
| Liquid funds | (701) | 370 | - | - | 6 | - | **(325)** |
| **Net interest bearing liabilities** | **165** | **75** | **-** | **-** | **7** | **(8)** | **239** |

## 4.7. *Contingent Liabilities and Other Commitments*

***Accounting Policy***

The repurchase commitments represent engagements whereby Metso Minerals agrees to purchase back equipment sold to customer. The conditions triggering the buyback obligation are specific to each sales contract.

| **EUR million** | **2019** | **2018** |
|---|---|---|
| Guarantees | | |
| External guarantees given by Metso Corporation and Metso Minerals companies................ | 268 | 319 |
| Other commitments | | |
| Repurchase commitments................................................................................................ | 1 | 1 |
| Other contingencies ........................................................................................................ | 1 | 1 |
| **Total** ......................................................................................................................... | **270** | **320** |

Metso Minerals companies have guaranteed obligations arising in the ordinary course of business. These guarantees have typically been given to secure customer's advance payments or to secure commercial contractual obligations, or given counter guarantees to banks, which have given commercial guarantees to a group company.

## 4.8. *Derivative Instruments*

***Accounting Policy***

Derivatives are initially recognized in the balance sheet at fair value and subsequently measured at their fair value at each balance sheet date. Derivatives are designated at inception either as hedges of firm commitments or forecasted transactions (cash flow hedge) or as hedges of fixed rate debt (fair value hedge), or as hedges of net investment in a foreign operation (net investment hedge), or as derivatives at fair value through profit and loss that do not meet the hedge accounting criteria.

In case of hedge accounting, Metso Minerals documents at inception the relationship between the hedging instruments and the hedged items in accordance with its risk management strategy and objectives. Metso Minerals also tests the effectiveness of the hedge relationships at hedge inception, and quarterly both prospectively and retrospectively.

Derivatives are classified as non-current assets or liabilities when the remaining maturities exceed 12 months and as current assets or liabilities when the remaining maturities are less than 12 months.

*Cash Flow Hedge*

Metso Minerals applies cash flow hedge accounting to certain interest rate swaps, foreign currency forward contracts and to electricity forwards.

Metso Minerals designates only the currency component of the foreign currency forward contracts as the hedging instrument to hedge foreign currency denominated firm commitments. The interest component is recognized under other operating income and expenses, net. The gain or loss relating to the effective portion of the currency forward contracts is recognized in the income statement concurrently with the underlying in the same line item. The effective portion of foreign currency forwards hedging sales and purchases is recognized in the sales and the cost of goods sold, respectively. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is reversed from the hedge reserve through the other comprehensive income (OCI) to the income statement within financial items concurrently with the recognition of the underlying liability. Both at hedge inception and at each balance sheet date an assessment is performed to ensure the continued effectiveness of the designated component of the derivatives in offsetting changes in the fair values of the cash flows of hedged items.

Metso Minerals assesses regularly the effectiveness of the fair value changes of the electricity forwards in offsetting the changes in the fair value changes of the underlying forecasted electricity purchases in different countries. The gain or loss relating to the effective portion of the electricity forward contracts is recognized in the cost of goods sold.

The effective portion of the derivatives is recognized through OCI in the hedge reserve under equity and reversed through OCI to be recorded through profit and loss concurrently with the underlying transaction being hedged.

The gain or loss relating to the ineffective portion of the derivatives is reported under other operating income or expenses, net or under financial items when contracted to hedge variable rate borrowings. Should a hedged transaction no longer be expected to occur, any cumulative gain or loss previously recognized under equity is reversed through OCI to profit and loss.

*Fair Value Hedge*

Metso Minerals applies fair value hedge accounting to certain fixed rate loans. The change in fair value of the interest rate swap hedging the loan is recognized through profit and loss concurrently with the change in value of the underlying. Both at inception and quarterly the effectiveness of the derivatives is tested by comparing their change in fair value against those of the underlying instruments.

*Derivatives at Fair Value through Profit and Loss*

Certain derivative instruments do not qualify for hedge accounting. These instruments, which have been contracted to mitigate risks arising from operating and financing activities, comprise foreign exchange forward contracts, currency and interest rate options and interest rate swaps.

Changes in the fair value of interest rate swaps are recognized in interest expenses. Changes in the fair value of foreign exchange forward contracts are mainly recognized in other operating income and expenses. However, when the foreign exchange forwards have been contracted to mitigate the exchange rate risks arising from foreign currency denominated cash and from financial instruments used for cash management, the changes in fair value of the derivatives are recognized in financial income and expenses. Changes in the fair value of other derivative instruments such as commodity instruments are recognized in other operating income and expenses.

*Fair value estimation of derivative instruments*

The fair value of the foreign currency forward contracts is determined using forward exchange market rates at the balance sheet date. The fair value of the interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. The fair value of the commodity forwards and swaps are based on quoted market prices at the balance sheet date. The fair value of options is determined using Black-Scholes valuation model.

Notional amounts and fair values of derivative financial instruments as at December 31 were as follows:

| EUR million | Notional amount | Fair value, assets | Fair value, liabilities | Fair value, net |
|---|---|---|---|---|
| **2019** | | | | |
| Forward exchange contracts [1] | 1,488 | 16 | 13 | 3 |
| Interest rate swaps | 145 | 2 | 2 | 0 |
| Cross currency swaps | - | - | - | - |
| Electricity forward contracts [2] | - | - | - | - |
| **Total** | - | 18 | 16 | 3 |
| **2018** | | | | |
| Forward exchange contracts [1] | 1,215 | 9 | 13 | (4) |
| Interest rate swaps | 345 | 3 | 2 | 1 |
| Cross currency swaps | - | - | - | - |
| Electricity forward contracts [2] | - | - | - | - |
| **Total** | - | 12 | 15 | (3) |

[1] Ca. 23 percent and 35 percent of the notional amount at the end of 2019 and 2018, respectively, qualified for cash flow hedge accounting.
[2] Notional amount in GWh

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

Derivative financial instruments recognized in balance sheet as at December 31 are presented below:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| EUR million | Assets | Liabilities | Assets | Liabilities |
| Interest rate swaps - cash flow hedges | - | - | - | - |
| Interest rate swaps - fair value hedges | 2 | - | 2 | - |
| Interest rate swaps - non-qualifying hedges | - | 2 | 1 | 2 |
| | 2 | 2 | 3 | 2 |
| Cross currency swaps - cash flow hedges | - | - | - | - |
| Cross currency swaps - fair value hedges | - | - | - | - |
| | - | - | - | - |
| Forward exchange contracts - cash flow hedges | 6 | 5 | 6 | 7 |
| Forward exchange contracts - non-qualifying hedges | 10 | 8 | 3 | 6 |
| | 16 | 13 | 9 | 13 |
| Electricity forward contracts - cash flow hedges | - | - | - | - |
| **Derivatives total** | **18** | **16** | **12** | **15** |

In the years ended December 31, 2019 and December 31, 2018 there was no ineffectiveness related to the cash flow hedges. As at December 31, 2019, the fixed interest rates of swaps varied from 0.4 percent to 2.6 percent.

As at December 31, 2019, the maturities of financial derivatives are the following (expressed as notional amounts):

| EUR million | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| Forward exchange contracts | 1,443 | 44 | - | - | - |
| Interest rate swaps | - | 20 | - | - | 125 |
| Cross currency swaps | - | - | - | - | - |
| Electricity forward contracts [1] | - | - | - | - | - |

[1] Notional amount in GWh.

As at December 31, 2019, notional and carrying amounts of financial derivatives applying hedge accounting were as follows:

| EUR million | Notional amount | Fair value, assets | Fair value, liabilities | Fair value, net |
|---|---|---|---|---|
| 2019 | | | | |
| Forward exchange contracts | 346 | 6 | 5 | 1 |
| Interest rate swaps | 100 | 2 | - | 2 |
| **Total** | | 8 | 5 | 3 |
| 2018 | | | | |
| Forward exchange contracts | 484 | 6 | 7 | (1) |
| Interest rate swaps | 187 | 2 | - | 2 |
| **Total** | | 8 | 7 | 1 |

Forward exchange contracts hedge commercial cash flows of projects applying hedge accounting. The hedge ratio is 1:1. 97% of hedged cash flows mature during the year 2020, 3% in year 2021.

The impact of cash flow hedge in the statement of financial position in 2019:

| EUR million<br>Notional amount | Hedging gain/loss recognized in OCI, net of tax | Amount reclassified from OCI to P/L | Cost of hedging recognized in OCI |
|---|---|---|---|
| 346 | 3 | 5 | (1) |

Metso Minerals applies fair value hedge accounting to a bond maturing in 2024. The hedge accounted total nominal value is EUR 100 million (EUR 187 million in 2018). The terms of the interest rate swap match the terms of the fixed rate bonds (maturity date, interest fixing and payments dates). Fair values of cash flows of interest rate swap and bond are compared when measuring hedge accounting effectiveness. Credit margin is added to the discount curve of the bond.

Bonds applying fair value hedge accounting as at December 31, 2019, were as follows:

| Nominal amount of loan, EUR million | Hedge ratio | Maturity date of loan | Fair value of loan, EUR million | Nominal amount of interest rate swap, EUR million | Maturity date of interest rate swap | Fair value of interest rate swap, EUR million |
|---|---|---|---|---|---|---|
| 300 | 33% | June 13, 2024 | (2) | 100 | June 13, 2024 | 2 |

## 5. Consolidation

### *5.1. Principles of Consolidation*

***Carve-out Principles***

The carve-out financial statements as at and for the years ended December 31, 2019 and December 31, 2018 present Metso Minerals as a single economic entity and have been prepared on historical financial information of the relevant entities and business as part of the Metso Group, using the same accounting principles and carrying values as Metso Group. The entities have been under common control during these periods. The carve-out financial statements have been prepared on a basis that combined statements of income, statements of comprehensive income, balance sheets and cash flows of the legal entities and operating units attributable to the Minerals business in Metso's historical consolidated financial statements and that will be carved out from Metso to be combined to Outotec Group including certain Parent Company's and Metso's foreign holding companies' income and expenses, assets and liabilities and cash flows which will either be transferred to Outotec or which have been allocated to Minerals business for the purpose of the preparation of the carve-out financial statements. Metso Minerals is not comprised of a single sub-group of entities within Metso and, accordingly, has historically not prepared consolidated financial statements for internal or external reporting purposes.

***Subsidiaries***

The carve-out financial statements include the financial statements of the Parent Company and each of those companies over which Metso Minerals exercises control. Control is achieved when Metso Minerals is exposed, or has rights, to variable returns from the investee and has the ability to affect those returns through its power over the investee. The companies acquired during the financial period have been consolidated from the date Metso Minerals acquired control. Subsidiaries sold or distributed to the owners have been included up to their date of disposal.

All intercompany transactions, balances and gains or losses on transactions between subsidiaries are eliminated as part of the consolidation process. Non-controlling interests are presented in the consolidated balance sheet within equity, separate from equity attributable to shareholders. Non-controlling interests are separately disclosed in the consolidated statement of income.

Acquisitions of businesses are accounted for using the acquisition method. The purchase consideration of an acquisition is measured at fair value over the assets given up, shares issued, or liabilities incurred or assumed at the date of acquisition. For each acquisition, the non-controlling interest in the acquiree, if any, can be recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess acquisition price over the fair value of net assets acquired is recognized as goodwill (see also intangible assets). If the purchase consideration is less than the fair value of the Group's share of the net assets acquired, the difference is recognized directly through profit and loss.

When Metso Minerals ceases to have control, any retained interest in equity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity is accounted for as if the group had directly disposed of the related assets or liabilities.

***Non-controlling Interest***

Transactions with non-controlling interests are regarded as transactions with equity owners. In the case of purchases from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets acquired in the subsidiary is recorded in shareholders' equity. Gains or losses on disposal to non-controlling interests are also recorded directly in shareholders' equity.

***Non-current Assets or Disposal Group Held-for-sale***

Metso Minerals classifies a non-current asset or disposal group as held for sale if it's carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are valued at the lower of its carrying value and fair value less costs to sell, and assets subject to depreciation or amortization are no longer amortized. Assets related to non-current assets or a disposal group classified a held-for-sale are disclosed separately from other assets, but financial statements for prior periods are not reclassified.

***Foreign Currency Translation***

The carve-out financial statements are presented in euros, which is the Metso Mineral's functional currency and presentation currency.

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the date of the transaction. At the end of the reporting period, unsettled foreign currency transaction balances are valued at the rates of exchange prevailing at the balance sheet date. Trade related foreign currency exchange gains and losses are recorded in other operating income and expenses, unless the foreign currency denominated transactions are subject to hedge accounting, in which case the related exchange gains and losses are recorded in the same line item as the hedged transaction. Foreign exchange gains and losses associated with financing are entered as a net amount under financial income and expenses.

The statement of income of a subsidiary with a functional currency different from the presentation currency is translated into euros at the average month end exchange rate for the financial year, and the balance sheet is translated at the exchange rate in effect on the balance sheet date. This exchange rate difference is recorded through other comprehensive income (OCI) within cumulative translation adjustments under equity.

The translation differences arising from subsidiary net investments and long-term subsidiary loans without agreed settlement dates are recognized through OCI within cumulative translation adjustments under equity. When Metso Minerals hedges the net investment of its foreign subsidiaries with foreign currency loans and financial derivatives, the translation difference is adjusted by the currency effect of hedging instruments which has been recorded, net of taxes, through OCI under equity. When a foreign entity is disposed of, the respective accumulated translation difference, including the effect from qualifying hedging instruments, is reversed through OCI and recognized in the consolidated statement of income as part of the gain or loss on the sale. If the equity of a foreign currency denominated subsidiary is reduced by reimbursement of invested funds, the translation difference relating to the reduction is reversed through OCI and recognized in the consolidated statement of income.

***Net Investment Hedge***

Metso Minerals may hedge its net foreign investments in certain currencies to reduce the effect of exchange rate fluctuations. The hedging instruments are mainly foreign currency loans and foreign currency forward contracts. Both realized and unrealized exchange gains and losses measured on these instruments are recorded, net of taxes, through OCI in a separate component of equity against the translation differences arising from consolidation to the extent these hedges are effective. The interest portion of derivatives qualifying as hedges of net investment is recognized under financial income and expenses.

### *5.2. Subsidiaries*

| Company name | Country | Ownership Dec 31, 2019 |
|---|---|---|
| Metso Algerie EURL | Algeria | 100.00% |
| Metso Argentina SA | Argentina | 100.00% |
| Metso Australia Ltd | Australia | 100.00% |
| Precision Rubber NSW Pty Ltd. | Australia | 100.00% |
| Wamcast Pty Ltd | Australia | 100.00% |
| Wear Application & Management Services Pty Ltd | Australia | 100.00% |
| WearX Employee Services Pty Ltd | Australia | 100.00% |
| WearX Holdings Pty Ltd | Australia | 100.00% |
| WearX Pty Ltd | Australia | 100.00% |
| Metso Austria GmbH | Austria | 100.00% |
| Metso Brazil Indústria e Comércio Ltda | Brazil | 100.00% |
| Metso Bulgaria EOOD | Bulgaria | 100.00% |
| McCloskey International Limited | Canada | 100.00% |
| Metso Canada Holdings Inc | Canada | 100.00% |
| Metso Minerals Canada Inc. | Canada | 100.00% |
| Metso Shared Services Ltd | Canada | 100.00% |
| Industrial Support Company SpA | Chile | 100.00% |
| Metso Chile SpA | Chile | 100.00% |
| Metso Minerals (Quzhou) Co. Ltd. | China | 100.00% |
| Metso Minerals (Tianjin) Co. Ltd. | China | 100.00% |
| Metso Minerals (Tianjin) International Trade Co. Ltd | China | 100.00% |
| Shaoguan City Shaorui Heavy Industries Co Ltd | China | 100.00% |
| Metso Czech Republic s.r.o. | Czech Republic | 100.00% |
| Metso Denmark A/S | Denmark | 100.00% |
| Metso Denmark Properties Aps | Denmark | 100.00% |
| Metso Minerals Oy | Finland | 100.00% |
| Rauma Oy | Finland | 100.00% |
| Metso France SAS | France | 100.00% |
| Metso Germany GmbH | Germany | 100.00% |
| Metso Ghana Ltd | Ghana | 100.00% |
| Metso India Private Ltd | India | 100.00% |
| PT Metso Minerals Indonesia | Indonesia | 99.90% |
| Metso Japan Co. Ltd | Japan | 100.00% |
| Metso (Kazakhstan) LLP | Kazakhstan | 100.00% |
| Metso Lithuania UAB | Lithuania | 100.00% |
| Metso Minerals Dooel Skopje | Macedonia | 100.00% |
| Metsotec Malaysia Sdn. Bhd | Malaysia | 100.00% |
| Metso Mexico SA de CV | Mexico | 100.00% |
| Metso SA de CV | Mexico | 100.00% |
| Metsotec NL BV | Netherlands | 100,00% |
| Metso Norway A/S | Norway | 100,00% |
| Metso Central America SA | Panama | 100.00% |
| Metso PNG Limited | Papua New Guinea | 100.00% |
| Metso Perú SA | Peru | 100.00% |
| Metso Portugal, Lda | Portugal | 100.00% |
| OOO Metso | Russia | 100.00% |
| Metso d.o.o. Beograd | Serbia | 100.00% |
| Metso Asia Pacific Pte Ltd | Singapore | 100.00% |
| Metso South Africa Pty Ltd | South Africa | 86.74% |
| Metso South Africa Sales Pty Ltd | South Africa | 86.74% |
| Metso Espana SA | Spain | 100.00% |
| AB P. J. Jonsson och Söner | Sweden | 100.00% |
| Metso Sweden AB | Sweden | 100.00% |
| Metso Minerals Anonim Sirketi | Turkey | 100.00% |
| Kiln Flame Systems Enterprises Limited | United Kingdom | 100.00% |
| Kiln Flame Systems Ltd | United Kingdom | 100.00% |
| McCloskey International Ltd | United Kingdom | 100.00% |
| Metso Captive Insurance Limited | United Kingdom | 100.00% |
| Metso UK Ltd | United Kingdom | 100.00% |
| Metso McCloskey USA LLC | United States | 100.00% |
| Metso Minerals Industries Inc. | United States | 100.00% |
| Metso USA Inc. | United States | 100.00% |
| Metso Zambia Ltd | Zambia | 100.00% |
| WearX Zambia Ltd | Zambia | 100.00% |

### *5.3. Associated Companies and Joint Ventures*

***Accounting policy***

The equity method of accounting is used for investments in associated companies in which the investment provides Metso Minerals the ability to exercise significant influence over the operating and financial policies of the investee company. Such influence is presumed to exist for investments in companies in which Metso Minerals' direct or indirect shareholding is between 20 and 50 percent of the voting rights or if Metso Minerals is able to exercise significant influence. Investments in associated companies are initially recognized at cost after which Metso Minerals' share of their post-acquisition retained profits and losses is included as part of investments in associated companies in the consolidated balance sheets.

Under the equity method, the share of profits and losses of associated companies and joint ventures is presented separately in the consolidated statements of income.

A joint arrangement is an arrangement of which two or more parties have joint control. Within Metso Minerals, all the joint arrangements are joint ventures. Investments in joint ventures in which Metso Minerals has the power to jointly govern the financial and operating activities of the investee company are accounted for using the equity method. Investments in joint ventures in which Metso Minerals has the control over the financial and operating activities of the investee company are fully consolidated and a non-controlling interest is recognized.

***Associated Companies and Joint Ventures***

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **EUR million** | **Ownership** | **Carrying value** | **Ownership** | **Carrying value** |
| Liugong Metso Construction Equipment (Shanghai) Co. Ltd | 50.0% | 7 | 50.0% | 3 |
| Sefate Capital (Pty) Limited | 49.0% | 1 | 49.0% | 1 |
| Other | | 0 | | 0 |
| Total | | **8** | | **4** |

*The Movements in the Carrying Value of Investments in Associated Companies and Joint Ventures*

| **EUR million** | **2019** | **2018** |
|---|---|---|
| Investments in associated companies and joint ventures | | |
| Acquisition cost as of January 1 | 6 | 2 |
| Investments | 3 | 4 |
| **Acquisition cost as of December 31** | 8 | 6 |
| Equity adjustments in investments in associated companies and joint ventures | | |
| Equity adjustments as of January 1 | (2) | (1) |
| Share of results | 1 | 0 |
| Translation differences | 0 | 0 |
| **Equity adjustments as of December 31** | (1) | (2) |
| **Carrying value as of December 31** | **8** | **4** |

*Metso Minerals' share of the assets and liabilities, sales and results of the associated companies and joint ventures, which have been accounted for using the equity method*

| **EUR million** | **2019** | **2018** |
|---|---|---|
| Assets | 22 | 15 |
| Liabilities | 15 | 11 |
| Sales | 15 | 7 |
| Profit | 1 | 0 |

### *5.4. Related Party Transactions*

Metso Minerals' related parties include Metso Corporation, Metso companies other than Metso Minerals business related and associated companies as well as key members of Metso Minerals management. For a list of Metso Minerals' associated companies, see note 5.2 of these carve-out financial statements. For information on the remuneration and salaries paid to the management of Metso Minerals management, see note 1.5 of these carve-out financial statements.

In the historical carve-out financial information of Metso Minerals, previous business transactions between Metso Minerals business and Metso Flow Control business have been presented as related party transactions. Metso Minerals' sales and purchases to and from Metso Flow Control has been insignificant during the periods in the carve-out financial statements.

In addition, Metso Group has equity and financing transactions with Metso Minerals business, which have led to the recognition of receivables and liabilities with Metso Group. Current receivables include trade receivables arising in the intragroup services as well as loan receivables and positive cash pool balances resulting from the centralized cash pool arrangements. Other receivables comprise non-interest bearing receivables from Metso Corporation corresponding to Metso Minerals' ownership in Metso Group entities, which are subject to contemplated internal reorganizations before the Effective date.

Non-current and current loan receivables represent loan balances owed by the Flow Control entities to the Metso Minerals entities, which have arranged funding to the Flow Control entities to meet their financing needs. Trade payables comprise of items arising in intragroup services. Cash pooling liabilities represent cash owed to Metso as part of the centralized cash pool arrangements. Interest income relates to interest earned on positive cash pool accounts and loan receivables and interest expenses comprise of interest on Metso's financing to Metso Minerals and interest costs on cash owed through the cash pooling arrangements.

The following table sets forth Metso Minerals' business transactions and outstanding balances with Metso Group on a carve-out basis.

| **EUR million** | **2019** | **2018** |
|---|---|---|
| Sales | 0 | 0 |
| Cost of sales | 0 | 0 |
| Financial income | 3 | 5 |
| Financial expenses | 0 | 0 |

| **EUR million** | **2019** | **2018** |
|---|---|---|
| **Non-current** | | |
| Loan receivables | 25 | 49 |
| Other receivables | 88 | 137 |
| **Current** | | |
| Loan receivables | 25 | 33 |
| Trade receivables | 10 | 8 |
| Cash pool receivables | 17 | 20 |
| Other receivables | 1 | 1 |
| | | |
| **Non-current** | | |
| Other liabilities | 6 | 6 |
| **Current** | | |
| Cash pool liabilities | 86 | 81 |
| Trade payables | 1 | 1 |
| Other liabilities | 11 | 0 |

Following the Effective Date, business transactions between Metso Minerals and Metso Flow Control will not be related party transactions according to the "IAS 24 – Related Party Disclosures" standard.

*Transactions Carried Out and Related Balances with Associated Companies and Joint Ventures*

| EUR million | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Sales | 26 | 0 | 1 | 2 |
| Purchases | 0 | 0 | 0 | (1) |
| Receivables | 15 | 0 | 3 | 2 |
| Payables | 0 | - | - | - |

### *5.5. Acquisitions and Business Disposals*

#### *Acquisitions 2019*

On May 3, 2019, Metso Minerals 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 contributed sales of EUR 35 million to Metso Minerals for the period from May 3, 2019 to December 31, 2019, The company's sales in 12 months fiscal year that ended on December 31, 2018, were EUR 57 million. The company employs 869 people.

On October 1, 2019, Metso Minerals acquired 100% share of the Canadian company McCloskey International Limited, a mobile crushing and screening equipment manufacturer with operations in Canada, the United States and United Kingdom. With McCloskey acquisition, Metso Minerals expands its offering in the aggregates industry globally and strengthens its customer reach to the general contractor segment. With this acquisition, Metso Minerals is able to better take part in the attractive, long-term growth of the mobile equipment market within the aggregates industry. The acquired business contributed sales of EUR 55 million to Metso Minerals for the period from October 1, 2019 to December 31, 2019. The company's sales in 12 months fiscal year that ended on September 30, 2019, were EUR 322 million. The company has about 900 employees.

*Preliminary Assets and Liabilities Recognized as a Result of the Acquisitions*

| EUR million | McCloskey International Ltd | Industrial Support Company | Total 2019 |
|---|---|---|---|
| Intangible assets | 101 | 8 | 109 |
| Property, plant and equipment | 38 | 0 | 38 |
| Right-of-use assets | 2 | 3 | 6 |
| Deferred tax assets | 15 | 2 | 17 |
| Inventories | 113 | 0 | 113 |
| Trade receivables | 49 | 7 | 56 |
| Other receivables | 5 | 1 | 6 |
| Liquid funds | 8 | 0 | 8 |
| Interest bearing liabilities | (84) | (3) | (87) |
| Trade payables | (43) | (4) | (47) |
| Other liabilities | (27) | (6) | (33) |
| Accrued income taxes | (24) | - | (24) |
| Deferred tax liabilities | (25) | (2) | (27) |
| **Net identifiable assets acquired at fair value** | 126 | 7 | 133 |
| Goodwill | 77 | 24 | 100 |
| **Purchase consideration** | 203 | 30 | 233 |

Goodwill is attributable to personnel knowhow and synergies. The goodwill on McCloskey acquisition is partly tax deductible. The initial calculation of goodwill generated is based on the result of acquired companies, adjusted by changes in accounting principles and effects from the fair value adjustment of acquired assets and related tax adjustments.

*Net Cash Flow Impact of the Acquisitions*

| EUR million | McCloskey International Ltd | Industrial Support Company | Total 2019 |
|---|---|---|---|
| Cash consideration paid | (192) | (30) | (222) |
| Cash and cash equivalents acquired | 8 | 0 | 8 |
| Net cash flow for the year | (184) | (30) | (214) |
| Contingent consideration | (11) | - | (11) |
| **Cash considerations, total** | (195) | (30) | (225) |

Contingent consideration of the McCloskey acquisition will be paid if the profitability requirements are met for a two-year period.

Acquisition costs of EUR 5 million are expensed and included in administrative expenses in the income statement and in operating cash flow in the statement of cash flows.

### *Acquisitions 2018*

On July 2, 2018, Metso Minerals acquired 100% of the share capital of Swedish mobile crushing and screening solution provider P.J.Jonsson och Söner AB. The acquired business contributed sales of EUR 20 million to Metso Minerals 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 Minerals acquired 100% of the share capital of Indish valve automation provider RMEBS Controls Private Limited. The company has an advanced offering of switches, process valves, and valve automation products and solutions. The acquired business contributed sales of EUR 3 million to Metso Minerals 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 Minerals 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 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 13.

*Assets and Liabilities Recognized as a Result of the Acquisitions*

| EUR million | 2018 |
|---|---|
| Intangible assets | 16 |
| Property, plant and equipment | 11 |
| Inventories | 13 |
| Trade receivables | 10 |
| Other receivables | 1 |
| Cash | 4 |
| Interest bearing liabilities | (10) |
| Trade payables | (12) |
| Other liabilities | (4) |
| Deferred tax liabilities | (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.

The calculations of 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.

*Net Cash Flow Impact of the Acquisitions*

| EUR million | 2018 |
|---|---|
| Cash consideration paid | (81) |
| Cash and cash equivalents acquired | 4 |
| Net cash flow for the year | (77) |
| Contingent consideration | (1) |
| **Cash considerations, total** | (78) |

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

***Disposal 2019***

On January 4, 2019 Metso Minerals had 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, approximately 80 employees transferred from Metso Minerals to Moly-Cop. The turnover of the divested business in 2018 was approximately EUR 60 million.

The cash consideration was EUR 11 million. The net assets of the disposed entity were EUR 13 million, whereby Metso Minerals booked a small loss on the transaction.

*Disposed balance sheet items*

| EUR million | 2019 |
|---|---|
| Intangible assets | 6 |
| Property, plant and equipment | 4 |
| Inventories | 21 |
| Trade receivables | 15 |
| Other receivables | 2 |
| Cash and cash equivalents | 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 of disposal | 31 |
| **Net cash inflow on disposal** | **39** |

### *5.6. New Accounting Standards*

***New and Amended Standards Adopted in 2019***

***IFRS 16 Leases***

From the beginning of 2019, Metso Minerals 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 Minerals reported its operating leases as an off-balance sheet liability. The amount of Metso Minerals' 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 Minerals 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 Minerals applied IFRS 16 to the existing contracts that were previously classified as leases. Metso Minerals 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 Minerals 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 Minerals 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***

| EUR million | **January 1, 2019** |
|---|---|
| **Right-of-use assets** | |
| Land and water areas | 0 |
| Buildings | 56 |
| Machinery and equipment | 15 |
| **Total** | **70** |
| | |
| **Lease liabilities** | |
| Lease liabilities, non-current | 54 |
| Lease liabilities, current | 17 |
| **Total** | **70** |

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. 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 Minerals 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 notes 3.4 and 4.5.

*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** | **68** |
| 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 | 11 |
| Less: Impact from discounting the future lease payments for leases recognized on the balance sheet | -8 |
| **IFRS 16 lease liability in the opening balance sheet as at January 1, 2019** | **70** |

Metso Minerals' accounting principles for lease contracts are presented in note 3.4.

*IFRIC 23 Uncertainty over Income Tax Treatment*

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

*Amendments and annual improvements to IFRS standards*

Metso Minerals has applied amendments and annual improvements to IFRS standards effective from the beginning of January 2019. The amended standards are IFRS 9 Financial Instruments, IAS 28 Investments in Associates and Joint Ventures, and IAS 19 Employee Benefits. Annual improvements effective from the beginning of January 2019 include following standards: IAS 12 Income Taxes, IAS 23 Borrowing Costs, IFRS 3 Business Combinations, and IFRS 11 Joint Arrangements. Amendments and annual improvements have not had a major impact on the financial statements.

*New and amended standards to be applied*

At the date of authorisation of these financial statements, Metso Minerals has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 17 Insurance Contracts
- IFRS 10 Consolidated Financial Statements and IAS 28 (amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 3 Definition of a business
- Amendments to IAS 1 and IAS 8 Definition of material
- Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform
- Amendments to IAS 1 Classification of Liabilities as Current or Non-Current

The adoption of the standards listed above is not expected to have a significant impact on Metso Minerals' financial statements in the coming periods.

### *5.7. Exchange Rates Used*

| | | Average rates | | Year-end rates | |
|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 |
| USD | (US dollar) | 1.1214 | 1.1809 | 1.1234 | 1.1450 |
| SEK | (Swedish krona) | 10.5572 | 10.2591 | 10.4468 | 10.2548 |
| GBP | (Pound sterling) | 0.8773 | 0.8861 | 0.8508 | 0.8945 |
| CAD | (Canadian dollar) | 1.4882 | 1.5307 | 1.4598 | 1.5605 |
| BRL | (Brazilian real) | 4.4195 | 4.3020 | 4.5157 | 4.4440 |
| CNY | (Chinese yuan) | 7.7353 | 7.8148 | 7.8205 | 7.8751 |
| AUD | (Australian dollar) | 1.6090 | 1.5795 | 1.5995 | 1.6220 |

## 6. Other Notes

### *6.1. Audit Fees*

| EUR million | 2019 | 2018 |
|---|---|---|
| Audit services | (1.9) | (1.7) |
| Tax services | (0.1) | 0.0 |
| Other services | (0.7) | 0.0 |
| **Total** | **(2.7)** | **(1.7)** |

### *6.2. Lawsuits and Claims*

Several lawsuits, legal claims and disputes based on various grounds are pending against Metso Minerals in various countries related, among other things, to Metso Mineral's products, projects, other operations and customer receivables. Metso Mineral's management assesses, however, to the best of its present understanding that the outcome of these lawsuits, claims and legal disputes would not have a material adverse effect on Metso Minerals in view of the grounds presented for them, provisions made, insurance coverage in force and the extent of Metso Mineral's total business activities. It should be noted, however, that outcomes of pending lawsuits, legal claims and disputes are beyond the direct influence of Metso Mineral's management and may, therefore, materially deviate from management's current assessment.

### 6.3 Events after balance sheet date

Covid-19 pandemic, which has spread during the first quarter of 2020, has posed significant short-term risks and uncertainties to the markets. The spread and severity of the pandemic are difficult to predict. Abrupt measures to restrict the spread by various national and local governments have further increased the unpredictability of the pandemic on the demand for Metso Minerals' products and services as well as on Metso Minerals' operations.

There is increased risk that the pandemic will deteriorate global economic growth, which together with uncertain political and trade related developments could affect our customer industries, reduce the investment appetite and spending among our customers, weaken the demand for Metso Minerals' products and services as well as affect our business operations in the coming financial periods.

## SIGNATURES OF CARVE-OUT FINANCIAL STATEMENTS

Helsinki, May 6, 2020

| | | |
|---|---|---|
| Mikael Lilius<br>Chairman of the Board | Christer Gardell<br>Vice Chairman of the Board | |
| Peter Carlsson<br>Member of the Board | Lars Josefsson<br>Member of the Board | |
| Antti Mäkinen<br>Member of the Board | Kari Stadigh<br>Member of the Board | Arja Talma<br>Member of the Board |

Pekka Vauramo
President and CEO

## THE AUDITOR'S NOTE

Our auditor's report has been issued today.

Helsinki, May 6, 2020
Ernst & Young Oy
Authorized Public Accountant Firm

Mikko Järventausta
APA

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domicile Helsinki

## AUDITOR'S REPORT (Translation of the Finnish original)

To the Board of Directors of Metso Corporation

### Report on the Audit of the Carve-out Financial Statements

#### Opinion

We have audited the carve-out financial statements of Metso Minerals business ("Metso Minerals") of Metso Corporation (business identity code1538032-5) for the year ended 31 December 2019. The carve-out financial statements comprise the combined balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes, including summaries of significant accounting policies, to the carve-out financial statements.

In our opinion, the carve-out financial statements of Metso Minerals give a true and fair view of its financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and under consideration of the principles for determining which assets and liabilities, income and expenses as well as cash flows are to be assigned to Metso Minerals as described in the notes to the carve-out financial statements.

#### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Carve-out Financial Statements* section of our report.

We are independent of Metso Corporation and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

#### Responsibilities of the Board of Directors and the Managing Director for the Carve-out Financial Statements

The Board of Directors and the Managing Director of Metso Corporation are responsible for the preparation of the carve-out financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and under consideration of the principles for determining which assets and liabilities, income and expenses as well as cash flows are to be assigned to Metso Minerals as described in the notes to the carve-out financial statements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of the carve-out financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the carve-out financial statements, the Board of Directors and the Managing Director are responsible for assessing Metso Minerals' ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The carve-out financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate Metso Minerals or cease operations, or there is no realistic alternative but to do so.

#### Auditor's Responsibilities for the Audit of the Carve-out Financial Statements

Our objectives are to obtain reasonable assurance on whether the carve-out financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the carve-out financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the carve-out financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Metso Minerals' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Metso Minerals' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the carve-out financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Metso Minerals to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the carve-out financial statements, including the disclosures, and whether the carve-out financial statements represent the underlying transactions and events so that the carve-out financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Metso Minerals to express an opinion on the carve-out financial statements. We are responsible for the direction, supervision and performance of the audit of Metso Minerals. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Emphasis of Matter**

We draw attention to the fact that, as described in the notes to the carve-out financial statements, Metso Minerals has not formed a separate legal group of entities during the year ended. The carve-out financial statements are, therefore, not necessarily indicative of the financial performance, financial position and cash flows of Metso Minerals that would have occurred if it had operated as a separate stand-alone group of entities during the year nor of Metso Minerals' future performance. Our opinion is not modified in respect of this matter.

Helsinki, 6 May 2020

Ernst & Young Oy
Authorized Public Accountant Firm

Mikko Järventausta
Authorized Public Accountant