

Adjusting capacity to demand

We began adjusting our capacity and cost structure to the lower demand already in early 2008 and continued the measures during 2009. Our aim has been to secure the competitiveness, flexibility and profitability of our operations. This has meant reducing the use of external work force, reducing permanent personnel, temporary lay-offs, and shorter work time, closing down smaller units and tight cost discipline throughout the organization.

We estimated originally that if our net sales would come down 25–30 percent during this down cycle from the 2008 level and we would target satisfactory profitability we would need to reduce our annual capacity cost (all fixed costs related to our operations, including personnel costs) by about EUR 500–600 million. As the actual decline in our net sales has been about 20 percent, and we do not foresee currently further deterioration of net sales, the capacity cost adjustment need is reduced to EUR 400–450 million. We estimate that the measures we have initiated by the end of 2009 almost entirely cover the EUR 400–450 million adjustment need, and that more than half of the savings impacts of these measures materialized already in 2009. Over half of the savings stem from personnel reductions and the rest from other measures. The cost savings yielded by personnel reductions are more permanent by nature, while the majority of other costs are expected to come back gradually, as market activity recovers.

From the end of June 2008 to the end of 2009 we have reduced the number of our permanent personnel by 3,848. Additionally, decisions have already been made or negotiations are ongoing to further reduce the number of personnel by 760 during the first half of 2010. Altogether, we estimate that our personnel will be reduced by approximately 4,600 people between June 2008 to mid-2010. About 3,000 of them are from Finland and Sweden.

During 2009, we recorded about EUR 75 million in non-recurring expenses resulting from these personnel reductions and unit closures.

In 2009, selling, general and administrative expenses decreased by about EUR 140 million on a comparable basis from 2008 and our personnel related costs recognized in cost of goods sold decreased by about EUR 100 million. In addition to personnel-related costs there has also been a reduction in other fixed costs of goods sold items.

The number of personnel decreased in Mining and Construction Technology by 15 percent, the most in Finland, Brazil and the United States. The number of personnel in Energy and Environmental Technology declined primarily in Finland and the United States. The number of personnel in Paper and Fiber Technology decreased especially in Finland and Sweden.

The table below details the personnel reductions related to the capacity adjustment measures.

	Mining and Construction Technology	Energy and Environmental Technology	Paper and Fiber Technology	Metso
Personnel as of June 30, 2008	10,503	6,311	10,089	28,069
Acquisitions, July 2008 - December 2009	590	223	2,421	3,234
Divestitures, July 2008 - December 2009	-	-	-289	-289
Comparable personnel amount	11,093	6,534	12,221	31,014
Personnel as of December 31, 2009	9,541	6,060	10,459	27,166
Actual reduction July 2008 – December 2009	1,552	474	1,762	3,848
Estimated additional reductions decided and underway	200	170	390	760
Total personnel reductions decided	1,752	644	2,152	4,608
Temporary lay-offs in man years				600