

Financial

STATEMENTS 2003

Financial Statements 2003

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Shares and Shareholders

Share capital and shares

According to Metso's Articles of Association, the minimum share capital is EUR 170 million and the maximum share capital is EUR 680 million. Metso has a single series of shares. Each share has a nominal value of EUR 1.70 and entitles its holder to one vote at a general meeting.

On December 31, 2003, Metso's share capital was EUR 231,625,926.50, and it was divided into 136,250,545 fully paid shares. No changes took place in the share capital during 2003. If the year 2000 options are exercised to subscribe for all 5,000,000 shares, and if the year 2001 options are exercised to subscribe for all 1,000,000 shares, Metso's share capital will increase to EUR 241,825,926.50 and the number of shares to 142,250,545, of which the new shares will account for 4.22 percent.

Redemption obligation

Any shareholder whose ownership of the Corporation's shares or the voting rights produced by these shares reaches or exceeds 33 1/3 percent or 50 percent, is obliged to redeem the shares of the other shareholders upon demand and in the manner defined in the Articles of Association.

Own shares

The Annual General Meeting of April 15, 2003 authorized the Board of Directors to decide, within one year of the Meeting, on the acquisition of the Corporation's own shares, using its distributable funds. The Corporation's own shares may be acquired for use as pay-

ment in acquisitions or in financing investments or as an incentive for key personnel. The Meeting also authorized the Board of Directors to decide on the disposal and annulment of the Corporation's own shares. Such shares may be acquired provided their combined nominal value does not exceed 5 percent of the Corporation's share capital, i.e. 6,812,527 shares.

In 2003, no own shares were acquired or disposed of. On December 31, 2003 the Corporation held 60,841 of its own shares, representing 0.04 percent of total shares and votes. These shares were acquired in 1999 for a total price of EUR 654,813, i.e. EUR 10.76/share.

Board authorizations

The Annual General Meeting of April 15, 2003 authorized the Board to decide on raising the share capital by a rights offering, a convertible bonds issue and/or an issue of share options. The authorization expires one year from the Annual General Meeting. No more than 12,500,000 new shares with a nominal value of EUR 1.70 may be subscribed for as a result of the rights offering, convertible bond issue or issue of share options. The Corporation's share capital may be raised in total by no more than EUR 21,250,000, which represents 9.17 percent of the share capital and votes. The Board of Directors had not exercised these authorizations by December 31, 2003.

Market capitalization and trading

Metso Corporation's shares have been listed on the Helsinki Exchanges (HEX:MEO1V) and the New York Stock Exchange (NYSE:

MX) since July 1, 1999. Metso's year 2000 A options have been listed on the Helsinki Exchanges since June 29, 2001. The year 2000 B options were listed on the Helsinki Exchanges combined with the year 2000 A options on April 1, 2003. The year 2001 A and B options were also combined and were listed as a separate security on April 1, 2003.

The highest quotation of Metso's share on the Helsinki Exchanges was EUR 11.41, and the lowest EUR 7.52. The share price on December 31, 2003 was EUR 9.68, and the average trading price for the year was EUR 9.21. The Corporation's end-of-year market capitalization was EUR 1,318 million, excluding shares held by the Corporation.

In 2003, 97,816,594 Metso shares were traded on the Helsinki Exchanges. The total turnover was EUR 901 million. The average daily trading volume was 391,266 shares. The relative turnover including the ADS turnover was 73.3 percent.

The highest price of Metso's American depository share (ADS) on the New York Stock Exchange was USD 12.77, and the lowest USD 8.31. The ADS price on December 31, 2003 was USD 12.53, and the average trading price was USD 10.59. In 2003, 2,042,018 Metso American depository shares were traded on the New York Stock Exchange, to a value of USD 22 million. Each ADS represents one share.

The highest quotation for Metso's year 2000 A/B options on the Helsinki Exchanges was EUR 1.00 and the lowest EUR 0.30, with

Up-to-date information on Metso's share price and shareholders can be found at Metso's Internet site at www.metso.com/investors.



Shares and Shareholders

the value of the option on December 31, 2003 being EUR 0.50. The highest quotation for Metso's year 2001 A/B options on the Helsinki Exchanges was EUR 0.70 and the lowest EUR 0.38, with the value of the option on December 31, 2003 being EUR 0.55. In 2003, a total of 155,400 of Metso's year 2000 A/B options and a total of 50,200 of Metso's year 2001 A/B options were traded. The value of the year 2000 A/B options traded was EUR 72,973 and the value of the year 2001 A/B options traded was EUR 27,140.

Options programs

Metso Corporation currently has three options programs, launched in 2000, 2001 and 2003. The programs are part of the incentive system for key personnel, and included 218 persons at the end of 2003. The programs give the right to subscribe for a maximum of 13,800,000 new shares.

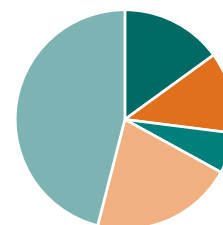
The year 2000 options program includes 5,000,000 options, which entitle their holders to subscribe for a maximum of 5,000,000 shares. 2,500,000 of the options were A options, and 2,500,000 were B options. The series were combined on April 1, 2003 as one security. The share subscription price was EUR 13.80 on December 31, 2003. Annually paid dividends are deducted from the subscription price. Subscription of shares with the options began on April 1, 2001 for the A options, and on April 1, 2003 for the B options, at which time the series were also combined. The subscription period for the year 2000 A/B options will end on April 30, 2005.

The year 2001 options program includes 1,000,000 options, which entitle their holders to subscribe for a maximum of 1,000,000 shares. 500,000 of the options were A options, and 500,000 were B options. The series were combined on April 1, 2003 as one security. The share subscription price was EUR 13.80 on December 31, 2003. Annually paid dividends are deducted from the subscription price. Subscription of shares with the options began on April 1, 2001 for the A options, and on April 1, 2003 for the B options, at which time the series were also combined. The subscription period for the year 2001 A/B options will end on April 30, 2005.

According to the decision of the Annual General Meeting the number of options related to the year 2003 options program is 7,800,000 in total, which entitle their holders to subscribe for a maximum of 7,800,000 shares. 5,600,000 of the options can, by the decision of a General Meeting, be distributed to key personnel of Metso. Options will be distributed, if Metso's earnings per share increases sufficiently with reference to its starting figure, and if other criteria for the granting of options are met. 2,600,000 of the options were designated as 2003A, 2,600,000 as 2003B and 2,600,000 as 2003C options.

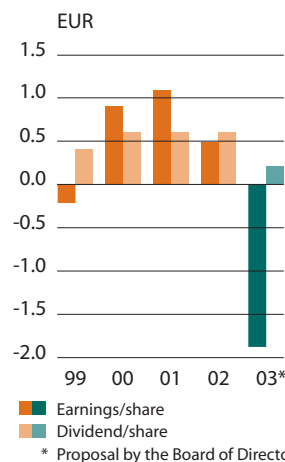
The share subscription prices are, for the 2003A options the trade-weighted average price of the Metso share on the Helsinki Exchanges during January 1 – March 31, 2004, for the 2003B options the trade-weighted average price of the Metso share on the Helsinki Exchanges during January 1 – March 31, 2005,

Breakdown by shareholder category on December 31, 2003



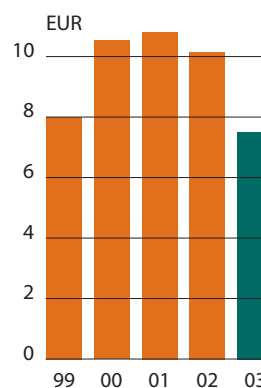
- UPM-Kymmene Corporation 14.6%
- The Finnish State 11.5%
- Finnish private investors 7.1%
- Finnish institutions, companies and foundations 21.1%
- Nominee-registered and non-Finnish holders 45.7%

Earnings/share and dividend/share



- Earnings/share
- Dividend/share
- * Proposal by the Board of Directors

Equity/share



and for the 2003C options the trade-weighted average price of the Metso share on the Helsinki Exchanges during January 1 – March 31, 2006. The subscription prices of shares that can be subscribed for with the options will be reduced, after commencement of the subscription price determination period and before share subscription, by the amount of dividends decided upon on the record day for each dividend distribution.

The share subscription periods are, for the 2003A options April 1, 2006 – April 30, 2009, for the 2003B options April 1, 2007 – April 30, 2010, and for the 2003C options April 1, 2008 – April 30, 2011.

In spring 2003, Metso's Board of Directors decided that the maximum number of 2003A options to be distributed would be 2,500,000. At the same time, the Board defined the following minimum criteria for distributing the 2003A options: an operating profit of 5 percent of net sales, a 9 percent return on capital employed (ROCE) and earnings per share of EUR 0.75 in 2003. As the minimum criteria were not fulfilled, no options were distributed from the program, apart from 100,000 options granted to the new President and CEO.

Holdings of Metso's Board of Directors and executive management on December 31, 2003

At the end of 2003, the members of Metso Corporation's Board of Directors and Olli Vaartimo, Executive Vice President and CFO who served as the Corporation's acting President and CEO from September 25, 2003 to March 1, 2004, held a combined total of 29,611 Metso shares. These shares represent 0.02 percent of the Corporation's share capital and voting power. While serving as President and CEO of Metso Corporation, Board member Heikki Hakala was issued 150,000 options. The total number of options issued to Heikki Hakala and Olli Vaartimo was 280,000 at the end of the year. On the basis of these options, the share capital of Metso Corporation may increase by EUR 476,000 and the number of shares by 280,000, which on December 31, 2003 would have represented 0.21 percent of the company's share capital and voting power.

Metso Corporation's extended insider holdings are also presented on the Corporation's homepages at www.metso.com > About Us > Corporate Governance > Insiders.

The taxable value of Metso's share in Finland

The taxable value of Metso Corporation's share in Finland in 2003 is EUR 6.79 / share.

Dividend policy

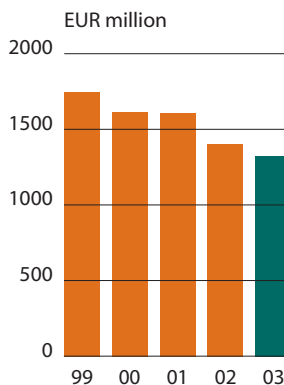
Metso's objective is to distribute annual dividends equivalent to at least one third of the average earnings per share over five years. The dividend policy is founded on the Corporation's long-term profitability and financial strength.

Metso's Board of Directors has decided to propose to the Annual General Meeting, which will convene on April 6, 2004, that a dividend of EUR 0.20 per share be distributed for 2003.

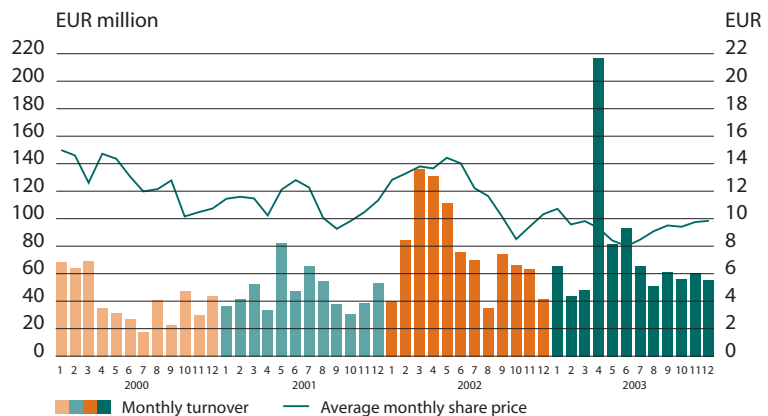
Shareholders

At the end of 2003, Metso's biggest shareholders were UPM-Kymmene Corporation, which held 14.6 percent of all shares, and the Finnish State with an 11.5 percent holding. Nominee-registered shares and shares in direct foreign ownership accounted for 45.7 percent of the total stock. 7.1 percent of the total stock was held by Finnish private individuals.

Market capitalization, on December 31



Monthly turnover and average share price on the Helsinki Exchanges 2000–2003



Shares and Shareholders

Metso's biggest shareholders on December 31, 2003

	Number of shares and votes	% of share capital and voting rights
1 UPM-Kymmene Corporation	19,922,115	14.6
2 The Finnish State	15,695,287	11.5
3 Ilmarinen Mutual Pension Insurance Company	3,428,788	2.5
4 Varma Mutual Pension Insurance Company	2,203,969	1.6
5 Suomi Group	1,428,700	1.0
Suomi Mutual Life Assurance Company	1,378,700	1.0
Suomi Insurance Company Ltd.	50,000	0.0
6 Odin	1,290,913	0.9
Odin Norden	1,062,876	0.8
Odin Finland	228,037	0.2
7 OKO Bank Consolidated	1,240,677	0.9
OP-Delta Mutual Fund	611,300	0.4
OP-Pirkka Mutual Fund	223,100	0.2
OP-Tuotto Mutual Fund	193,900	0.1
OKO Bank	100,000	0.1
OP-Focus Mutual Fund	60,000	0.0
Opstock Finland Index Mutual Fund	52,377	0.0
8 The Finnish State Pension Fund	1,100,000	0.8
9 Svenska litteratursällskapet i Finland	928,477	0.7
10 Sampo Group	814,211	0.6
Sampo Finnish Equity Fund	414,360	0.3
Sampo Finnish Institutional Equity Fund	242,911	0.2
Sampo European Balanced Fund	156,940	0.1
10 largest owner groups in total	48,053,137	35.3
Nominee-registered shares*	60,758,311	44.6
Other shareholders	27,378,256	20.1
Shares held by Metso Corporation	60,841	0.0
Total	136,250,545	100.0

*) The Corporation was informed on April 24, 2002 that the funds managed by Capital Group Companies, Inc. held 6.29% of the share capital and 4.97% of the voting rights on April 17, 2002.

The Corporation was informed on June 12, 2002 that the funds managed by Franklin Resources, Inc. held 5.17% of the share capital and 6.30% of the voting rights on June 10, 2002.

The Corporation was informed on March 25, 2003 that the funds managed by Harris Associates L.P. held 5.07% of the share capital and the voting rights on March 18, 2003.

American depository shares

(Each ADS represents one share)

	2002	2003
Earnings/ADS, USD	0.45	(2.14)
Highest ADS price, USD	14.26	12.77
Lowest ADS price, USD	7.81	8.31
ADS price, Dec. 31, USD	10.92	12.53

Changes in number of shares and share capital, July 1, 1999–December 31, 2003

	Number of shares	Change in number of shares	Share capital EUR	Change in share capital
1999 July 1, 1999, Metso Corporation. Share capital FIM 1,358,172,750.00.	135,817,275		228,428,258.60	
2000 25.4.2000 Conversion of share capital into euros. In addition to a transfer from the share premium reserve, own shares were declared void.	135,317,275	(500,000)	230,039,367.50	1,611,108.90
New shares subscribed with the Metso 1994 options, which were transferred from Valmet Corporation.	135,457,275	140,000	230,277,367.50	238,000.00
2001 New shares subscribed with the Metso 1994 options, which were transferred from Valmet Corporation.	136,250,545	793,270	231,625,926.50	1,348,559.00

Breakdown of share ownership on December 31, 2003

Number of shares	Number of shareholders	% of share- holders	Total number of shares and votes	% of share capital and voting rights
1–100	10,943	42.3	501,740	0.4
101–1,000	12,152	47.0	4,389,110	3.2
1,001–10,000	2,455	9.5	6,248,439	4.6
10,001–100,000	241	0.9	6,811,338	5.0
Over 100,000	54	0.2	57,467,766	42.2
	25,845	100.0	75,418,393	55.4
Nominee-registered shares	16		60,758,311	44.6
Shares held by Metso Corporation			60,841	0.0
On shared account			13,000	0.0
Total			136,250,545	100.0

Share capital and share data 1999–2003

(In EUR millions,

except for per share data and share prices)

	1999	2000	2001	2002	2003
Share capital, Dec. 31	228	230	232	232	232
Number of shares					
Number of outstanding shares, Dec. 31	135,256,434	135,501,634	136,189,704	136,189,704	136,189,704
Average number of shares	135,631,740	135,363,537	136,135,223	136,189,704	136,189,704
Number of shares redeemed and canceled	-	500,000	-	-	-
Number of own shares, Dec. 31	560,841	60,841	60,841	60,841	60,841
Trading volume, Helsinki Exchanges	46,058,568	39,455,032	51,858,765	76,737,801	97,816,594
Trading volume, NYSE	826,018	950,824	980,606	914,715	2,042,018
% of shares**	46.0	40.5	52.5	77.2	73.3
Earnings/share	(0.22)	0.90	1.09	0.48	(1.89)
Dividend/share	0.40	0.60	0.60	0.60	0.20*
Dividend	54	81	82	82	27*
Dividend/earnings, %	neg.	67	55	126	neg.*
Effective dividend yield, %	3.0	5.2	5.2	5.8	2.1*
P/E ratio	neg.	13.00	10.62	21.54	neg.
Equity/share	7.98	10.51	10.78	10.12	7.51
Highest share price	13.70	16.20	14.10	15.15	11.41
Lowest share price	8.26	8.61	7.81	7.73	7.52
Average share price	10.76	12.67	11.16	12.13	9.21
Share price, Dec. 31	12.90	11.90	11.80	10.30	9.68
Market capitalization, Dec. 31 ***	1,745	1,612	1,607	1,403	1,318

*) Proposal by the Board of Directors **) Of the total amount of shares for public trading ***) Excluding own shares held by Metso Corporation

Risks and Risk Management

According to Metso's Risk Management and Treasury Policies, the goal of risk management is to ensure the attainment of business objectives and the continuation of operations.

Risk management

Coordination of risk management related to Metso's business risks is the responsibility of the Senior Vice President, Administration, who reports to the Senior Vice President, Human Resources, who reports directly to the President and CEO. Corporate risk management assesses the level of risk management in the business units, creates Corporation-wide risk management principles, develops risk management tools and establishes global insurance programs. The business areas are responsible for the risks related to their own operations and for taking protective measures. The emphasis is on the evaluation and management of operational risks. Also important are the management and safeguarding of business-related critical information and data security.

Metso's risk management system has been developed together with an insurance broker and insurance companies. Short- and long-term recommendations for the improvement of risk management are based on the Flexible Risk Management Evaluations (FRIME) developed by the insurance broker. Metso performs FRIME evaluations in its key units every third year. About 10–15 evaluations are performed yearly.

The task of Metso's Corporate Treasury is to manage financial risks in accordance with the Treasury Policy approved by Metso's Board of Directors, and to safeguard the

availability of the Corporation's equity and debt capital under competitive terms. The Corporate Treasury functions as the counterparty to the operating units, centrally manages external funding and is responsible for the management of financial assets and appropriate hedging measures.

BUSINESS RISKS

Business cycles in the global economy and customer industries

Business cycles in the global economy influence the demand for Metso's products and its financial position, especially in the short term. In the long term, these effects are balanced by the wide geographical spread of Metso's operations, the various customer industries served, the large installed base, the increase in the share of aftermarket and maintenance services, and the commitment to long-term partnerships with customers over the life cycle.

Metso Paper is affected by the business cycles of the pulp and paper industry. Metso Minerals is dependent on the development of the mining, construction and civil engineering industries. Infrastructure investments affect the main part of Metso Minerals' net sales.

Metso actively reduces the risks of business cycles by expanding aftermarket and maintenance services, increasing the flexibility of operations through outsourcing, and focusing on the manufacture and assembly of core components.

Competition

Metso's competitors vary by business area and product. Metso aims to differentiate itself from competitors through its high level of technology, quality, service and availability, and through its long-term commitment and reliability. Current or future competitors may launch new or enhanced products and new technology that may decrease the value and competitiveness of Metso's products and weaken Metso's opportunities of achieving its financial goals.

Metso aims for competitive advantage not only through product development, but also by operating flexibly and cost-efficiently. Metso Paper improves its competitiveness by developing products together with its customers. In Metso Minerals' business it is important to react rapidly to customers' changing needs. Metso Automation cooperates with other companies on technology issues when appropriate.

Production, products and technology

The competitiveness of products and services is maintained and improved by emphasizing R&D, systematically protecting intellectual property rights, including patents, and cooperating with customers, other companies and leading research institutes. Quality and internal processes are controlled in accordance with ISO 9001 quality systems.

Metso is occasionally involved in product liability claims. These claims are covered by Metso's insurance policy with coverage of up to EUR 100 million per year. Metso prevents product liability risks by

emphasizing product safety and customer training already in the development phase.

Environmental protection laws and regulations and ISO 14001 compliant environmental systems are key tools in Metso's environmental management.

In order to better manage product development, Metso developed an innovation process in 2003, which will be introduced in all business areas in 2004. The innovation process streamlines product development projects by providing a model process based on the best practices for making business plans, marketing and launching products, managing IPR, life cycle design, environmentally-responsible product planning and industrial design.

Project activity

Metso's operations consist partly of large project deliveries to the pulp and paper industry and the mining industry. These sometimes involve project-specific risks concerning delivery schedules, quality or the start-up of equipment. However, the risks of individual projects are not significant with respect to the magnitude of business. Customer risks are also reduced by exact contract and payment terms.

Raw materials, suppliers and subcontractors

The risks related to the purchase of raw materials have decreased because Metso has increasingly focused on manufacturing and assembling core components only. On the other hand, outsourcing increases the importance of, and risks related to, suppliers and subcontractors.



Risks and Risk Management

Developments in the global economy and political factors can influence the prices and availability of raw materials. The raw material used by Metso Minerals in manufacturing wear parts for crushers is manganese, the supply of which is limited to South Africa. Political changes in this area or the delivery problems of producers can affect the availability of manganese and thus the wear parts business. Metso Ventures' foundries use scrap iron, the price and availability of which may fluctuate. Changes in the prices of electricity, oil and metals may have a negative influence on Metso, if these variations decrease the willingness of customer industries to invest.

Metso purchases the majority of product components from its suppliers, for all of whom it is not necessarily possible to find alternative suppliers at short notice. The delivery problems of subcontractors may also affect Metso's customer relationships and business.

Metso has signed long-term contracts with its major subcontractors in an attempt to limit the purchasing risks related to availability and pricing. Fluctuations in the price of electricity are partly hedged by derivative contracts.

The main subcontractors are audited before cooperation begins and if necessary during the cooperation period. Revised general purchasing conditions and contract models were introduced in Finland in 2003, and the aim is to introduce them internationally in 2004. They not only provide guidance on managing risks in the supplier chain and other technical/commercial issues,

but also include principles related to environmental awareness and social responsibility. The management of purchasing risks is eased by actions to reduce the number of suppliers, monitoring the actions of current suppliers more closely and improving transparency through the use of standardized systems.

Political, economic and legislative changes in developing countries

The operations of both Metso and its customers are geographically widespread. Political, economic and legislative changes can weaken Metso's competitiveness or restrict its operations in some countries. The markets for new machinery and equipment are concentrated in Asia (mainly China) and South America, so sudden changes in these markets may have a significant impact on Metso's business. The risks related to these markets are reduced by the growth of the aftermarket and maintenance business in Europe and North America.

Property and liability risks

Metso has prepared for property, interruption, transport and liability risks (general liability, product liability and management liability) through global insurance schemes. The insurance coverage consists of property, transport and liability insurance schemes and their local applications. The Corporation's total risk bearing capacity is taken into consideration when setting the amount of deductibles. Metso's captive company will bear risks to the extent that is financially sustainable.

FINANCIAL RISKS

The key principles of Metso's Treasury Policy are risk avoidance and cost-efficient mitigation of factors that might have a negative impact on the Corporation's result or cash flow. The Treasury Policy specifies risk limits, the investment and hedging instruments to be used and approved counterparties.

Liquidity

To ensure the Corporation's short-term liquidity, a minimum has been set for cash and revolving credit facilities. Limits have also been set for the proportion of short-term loans and for the average remaining maturity of long-term loans. Risks in the availability of funds and pricing are managed in the long term by diversifying funding between money and capital markets and banks.

The credit rating agencies assess Metso's business and publish credit ratings on the Corporation. A lowering of credit ratings may raise the financing costs of possible new loans taken.

Interest rate risks

Changes in market interest rates and interest margins may influence Metso's financing costs, returns on financial investments and valuation of derivative contracts. Metso has set limits for the ratio of floating-rate to fixed-rate loans and the average length of interest rate periods. Interest rate risks can also be managed by interest rate swaps and other derivative contracts.

Currency risks

Exchange rate changes affect Metso's business. However, the geographical scope of the operations decreases the significance of individual currencies.

Exchange rate variations have a direct effect on the prices of raw materials and production commodities purchased on non-domestic currencies and in the prices of end products for export, in which the invoicing currency is different from the currency of the manufacturing costs (transaction effect). A good half of Metso's net sales originate from outside the euro zone. Alongside the euro, the most important currencies used in invoicing are the U.S. dollar and the Swedish krona. When the net sales and results of subsidiaries outside the euro zone are translated into euros, they may increase or decrease because of exchange rate changes, even though no real change has occurred (translation effect). Exchange rate movements may also affect Metso's position by weakening the cost competitiveness of its products as against those of its competitors.

In accordance with the Corporation's Treasury Policy, the operating units hedge in full the currency exposures that arise from firm delivery and purchase agreements. In addition, the units can hedge anticipated foreign currency-denominated cash flows by taking into account their significance, the competitive situation and other opportunities to adapt. Metso has operations in countries in which currency regulation affects hedging risks. The most important of these are Brazil and China.

Hedging operations are centralized through the Corporation's Treasury. Upper limits have been set on the open currency exposures of the Corporate Treasury, calculated on the basis of their potential profit impact. These limits cover net exposures from transfers between units and items arising from financing activities. Future cash flows are hedged for periods which do not normally exceed two years. Accordingly the majority of future cash flows related to the order backlog are hedged.

The equity of subsidiaries outside the euro zone is affected by exchange rate risks, which may lead to translation differences in the Corporation's consolidated equity. Metso hedges these risks with respect to essential currencies in accordance with its Treasury Policy by using foreign currency-denominated loans and forward exchange agreements.

Credit risks and other counterparty risks

When investing cash assets and making derivative contracts, the only accepted counterparties are those fulfilling the credit rating criteria defined in the Treasury Policy, or those separately approved by the Board. With respect to investments, derivative contracts and borrowing, Metso has set counterparty-specific limits to avoid risk concentrations.

The operating units are primarily responsible for credit risks pertaining to trade activities. The business areas have defined credit policies which determine the delivery and payment terms granted to customers, their supervision and enforcement. The Corporate Treasury

provides centralized services related to customer financing and ensures that the Treasury Policy principles are adhered to with respect to terms of payment and required collateral.

Board of Directors' Report

Operating environment

The uncertainty of the global economy affected Metso's customer industries in Europe and North America. In Asia and particularly in the Chinese markets, investment activity continued to be lively. In the year's final quarter, the North American economy showed signs of recovery.

In pulp and paper industry markets, the price of chemical pulp rose until early June, after which it declined, before increasing in October. In Europe, the prices of printing papers leveled off after a decline in the first half of the year. In North America, the prices of newsprint and magazine paper strengthened slightly in the second half of the year, but fine paper prices fell significantly.

In rock and minerals processing markets, the prices of the most common base metals rose steadily throughout the year. In Europe and North America, the price of aggregates developed moderately. In growing markets, especially in India and China, the price of aggregates increased. The price development was also affected by continuously tightening quality demands on aggregates, which in turn added to the technology demands on the crushing process. In addition, the price of recycled metal rose significantly.

The weakening of the U.S. dollar throughout the year was clearly reflected in Metso's operating environment and reduced the competitiveness of products made in Europe.

Demand for Metso's products

Metso Paper's market situation was satisfactory in 2003, even though customers' willingness to commit to new machine investments, especially in Europe and North America, continued at a low level. The SARS epidemic temporarily weakened the market situation in China, but demand recovered to the level of the year's first months in the second half of the year.

In Metso Minerals' customer industries, demand in the construction industry weakened in Europe. Demand was weak in North America, but started to pick up in the final quarter. In the Chinese markets, demand remained good. On the whole, the demand for mining industry products was satisfactory. Towards the year's end, the number of equipment and project inquiries increased in South America, South Africa and Australia.

Demand for Metso Automation's products remained at the previous year's level in North America. In Europe, customer industries' investments were at a low level. In China, demand was good. Demand in the power and process industry was stronger than in the previous year.

Orders received and order backlog

The value of orders received by Metso in 2003 was EUR 4,256 million, or 8 percent lower than in 2002. Calculated with the previous year's exchange rates, the value of orders received decreased by 3 percent. Metso's order backlog at the end of the year was EUR 1,505 million, or 5 percent less than at the end of 2002. 41 percent of orders originated from Europe, 21 percent

from North America, 27 percent from Asia-Pacific, 6 percent from South America and 5 percent from the rest of the world.

The value of orders received by Metso Paper during the year under review totaled EUR 1,710 million, up 6 percent on the comparison year. Metso Paper's order backlog strengthened by 7 percent compared with the end of the previous year, totaling EUR 784 million at the end of 2003.

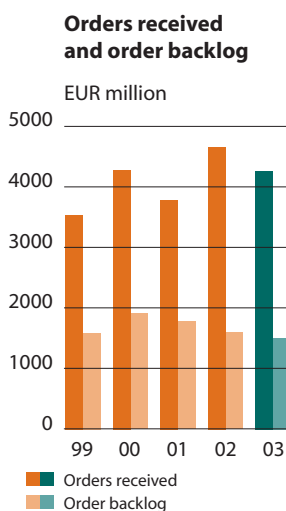
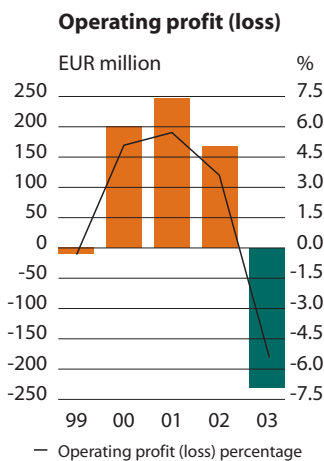
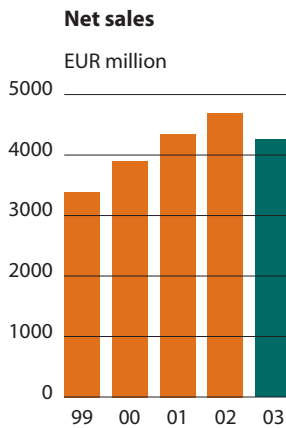
The value of orders received by Metso Minerals was EUR 1,594 million, down 14 percent on the comparison year. The business area's order backlog decreased by 15 percent and was EUR 397 million at the end of the year under review.

The value of orders received by Metso Automation was EUR 531 million, down 17 percent on the comparison year. However, the comparable order backlog (taking into consideration divestitures) at the end of the year was at the same level as at the end of the previous year, totaling EUR 145 million.

The value of orders received by Metso Ventures was EUR 398 million, down 15 percent on the previous year. Due to the low level of invoicing, the order backlog nevertheless increased by 14 percent, totaling EUR 175 million at the end of the year.

Net sales

Metso's net sales totaled EUR 4,250 million, which was 9 percent lower than in the comparison year. Calculated with the previous year's exchange rates, net sales decreased by 4 percent. Aftermarket operations accounted for 37 percent (33% in



2002) of the Corporation's net sales (excluding Metso Ventures). The increase was mainly due to the re-defined scope of aftermarket in the year under review. These operations now include Metso Paper's process improvements.

Of the net sales, 38 percent came from the deliveries of Metso Paper, 37 percent from Metso Minerals, 12 percent from Metso Automation and 9 percent from Metso Ventures. The Converting Equipment group accounted for 4 percent of the Corporation's net sales.

46 percent of net sales came from Europe, 23 percent from North America, 19 percent from Asia-Pacific, 6 percent from South America and 6 percent from the rest of the world. 12 percent of Metso's net sales came from Finland, while exports and operations outside Finland accounted for 88 percent of the Corporation's net sales.

Result

The Corporation's operating profit before nonrecurring items and amortization of goodwill was EUR 133 million, or 3.1 percent of net sales. The decline in operating profit was primary due to the strengthening of the euro, the lower margins in Metso Paper's large projects than in the comparison year, and the continued tight competition related to Metso Minerals' crushing and screening equipment market.

Net nonrecurring expenses were EUR 106 million. These included EUR 15 million in income from divestitures and sales of shares, EUR 103 million in restructuring expenses related to the efficiency improvement program, and EUR 18 million

in other nonrecurring expenses. Furthermore, a goodwill impairment of EUR 205 million was made in Metso Minerals, due to the continued demanding market situation in rock and minerals processing and exchange rate movements that were unfavorable to Metso Minerals. The goodwill impairment has no cash flow effect. The impairment decreases Metso's annual amortization of goodwill by approximately EUR 10 million.

In 2003, Metso's operating loss was EUR 229 million, or 5.4 percent of net sales.

Metso's net financial expenses were EUR 74 million, including dividend income of EUR 4 million.

Metso's loss before taxes was EUR 303 million. Earnings per share were a negative EUR 1.89.

Most of Metso Minerals' goodwill impairment, i.e. EUR 175 million, was accepted as tax-deductible. The corresponding tax benefit of EUR 51 million reduces the effect of the impairment on the net result, and it was booked in the final quarter of 2003.

The net loss for the year under review was EUR 258 million.

BUSINESSES

Metso Paper

Key figures (in millions)	2003 EUR	2002 EUR	Change %
Net sales	1,651	1,778	(7)
Operating profit before nonrecurring items and amortization of goodwill	68.3	129.3	(47)
Operating profit	24.6	115.2	(79)
Capital employed, 31.12.	538	498	8
Gross capital expenditure	54	72	(25)

Board of Directors' Report

Research and development expenditure	56	72	(22)
Orders received	1,710	1,611	6
Order backlog, 31.12.	784	735	7
Personnel, 31.12.	9,085	9,357	(3)

Metso Paper's net sales for 2003 totaled EUR 1,651 million, down 7 percent on the comparison year. The decline in net sales was due to the unfavorable market situation. Aftermarket operations accounted for 34 percent of net sales (28% in 2002). The increase was mainly due to the redefined scope of aftermarket in the year under review. These operations now include process improvements.

Metso Paper's operating profit before nonrecurring items and amortization of goodwill was EUR 68.3 million, or 4.1 percent of net sales. Profitability was weakened by lower margins in large projects than in the comparison year, underutilization of production capacity and the strengthening of the euro. Nonrecurring expenses totaled EUR 36 million, and were due to the efficiency improvement program. Metso Paper's operating profit was EUR 24.6 million, or 1.5 percent of net sales. Net sales and profit were clearly better in the year's final quarter than in the other quarters of the year under review.

Converting Equipment group

The Converting Equipment group's net sales were EUR 183 million (EUR 160 million in 2002) and the operating loss was EUR 4.0 million (EUR 8.9 million in 2002). The group was sold to the Swiss company, Bobst Group SA, on January 30, 2004.

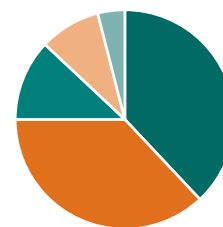
Metso Minerals

Key figures (in millions)	2003 EUR	2002 EUR	Change %
Net sales	1,637	1,804	(9)
Operating profit before nonrecurring items and amortization of goodwill	74.5	105.7	(30)
Operating profit (-loss)	(234.9)	49.2	(577)
Capital employed, 31.12.	1,049	1,393	(25)
Gross capital expenditure	35	48	(27)
Research and development expenditure	22	21	5
Orders received	1,594	1,848	(14)
Order backlog, 31.12.	397	468	(15)
Personnel, 31.12.	10,332	10,553	(2)

Metso Minerals' net sales decreased by 9 percent from the comparison year and totaled EUR 1,637 million. The decline in net sales was primarily due to weak demand in the North American markets and the lack of big mining projects. Aftermarket operations accounted for 44 percent of net sales (42% in 2002).

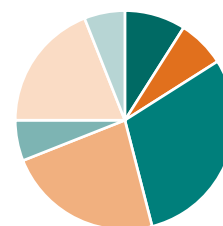
Metso Minerals' operating profit before nonrecurring items and amortization of goodwill was EUR 74.5 million, or 4.6 percent of net sales. Profitability was weakened by the strengthening of the euro and the weak market situation in crushing and screening, as well as in minerals processing. Nonrecurring expenses totaled EUR 66 million and included expenses of EUR 55 million related to the efficiency improvement program and other nonrecurring expenses amounting to EUR 11 million. The latter item includes accounting adjustments and reserves for Metso Minerals' UK operations and for the opening balance sheet of the Svedala acquisition. Additionally, a goodwill

Net sales by business area



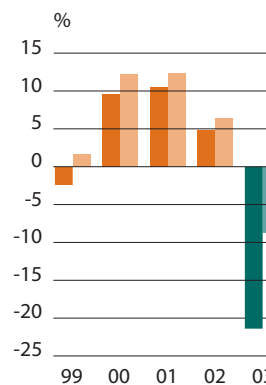
- Metso Paper 38% (2002: 37%)
- Metso Minerals 37% (38%)
- Metso Automation 12% (13%)
- Metso Ventures 9% (9%)
- Converting Equipment 4% (3%)

Net sales by market area



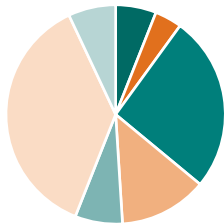
- Finland 9% (2002: 8%)
- Other Nordic countries 7% (10%)
- Other European countries 30% (29%)
- North America 23% (25%)
- South America 6% (9%)
- Asia-Pacific 19% (14%)
- Rest of the world 6% (5%)

Return on equity and capital employed



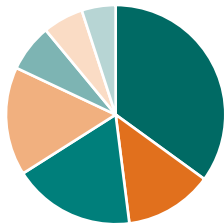
- Return on equity (ROE)
- Return on capital employed (ROCE)

Order backlog by market area



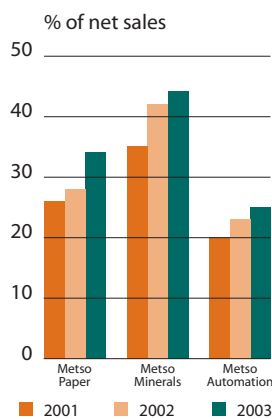
- Finland 6% (2002: 8%)
- Other Nordic countries 4% (4%)
- Other European countries 26% (35%)
- North America 13% (21%)
- South America 7% (8%)
- Asia-Pacific 37% (17%)
- Rest of the world 7% (7%)

Personnel by area



- Finland 35% (2002: 37%)
- Other Nordic countries 13% (13%)
- Other European countries 18% (17%)
- North America 16% (17%)
- South America 7% (6%)
- Asia-Pacific 6% (5%)
- Rest of the world 5% (5%)

Aftermarket operations



impairment of EUR 205 million was made in Metso Minerals. Metso Minerals' operating loss was EUR 234.9 million, or 14.3 percent of net sales. Net sales and profit performance showed no change in the year's final quarter, even though the market situation showed slight signs of recovery.

The positive effects of the integration of Metso Minerals were offset by the effect of exchange rate changes and the weak market situation.

Metso Automation

Key figures	2003	2002	Change
(in millions)	EUR	EUR	%
Net sales	531	622	(15)
Operating profit before nonrecurring items and amortization of goodwill	31.4	21.9	43
Operating profit	28.4	16.3	74
Capital employed, 31.12.	150	207	(28)
Gross capital expenditure	8	13	(38)
Research and development expenditure	33	44	(25)
Orders received	531	643	(17)
Order backlog, 31.12.	145	185	(22)
Personnel, 31.12.	3,314	4,150	(20)

Metso Automation's net sales decreased by 15 percent from the comparison year and totaled EUR 531 million. Taking into consideration exchange rate movements and divestitures, net sales remained at the previous year's level. Aftermarket operations accounted for 25 percent (23% in 2002) of Metso Automation's net sales.

Metso Automation's operating profit before nonrecurring items and amortization of goodwill was EUR 31.4 million, or 5.9 percent of net sales. The operating profit improved substantially from the previous year. Process automation systems and the North American operations in particular have improved their prof-

itability due to measures taken to streamline the cost structure in 2002 and 2003. The capital employed has been reduced significantly in the past two years. Nonrecurring income of EUR 11 million from divestitures and nonrecurring expenses of EUR 7 million from costs related to the efficiency improvement program and of EUR 5 million from other costs were booked. Metso Automation's operating profit was EUR 28.4 million, or 5.3 percent of net sales. The result for the year's final quarter was good.

Metso Ventures

Key figures	2003	2002	Change
(in millions)	EUR	EUR	%
Net sales	370	446	(17)
Operating profit (-loss) before nonrecurring items and amortization of goodwill	(2.6)	28.6	(109)
Operating profit (-loss)	(8.7)	20.1	(143)
Capital employed, 31.12.	160	172	(7)
Gross capital expenditure	24	40	(40)
Research and development expenditure	10	12	(17)
Orders received	398	468	(15)
Order backlog, 31.12.	175	154	14
Personnel, 31.12.	2,482	3,466	(28)

Metso Ventures' net sales decreased by 17 percent from the comparison year and totaled EUR 370 million. The operating loss before nonrecurring items and amortization of goodwill was EUR 2.6 million, representing 0.7 percent of net sales. Nonrecurring items totaled EUR 5 million, and were mainly due to the efficiency improvement program. Metso Ventures' operating loss was EUR 8.7 million, or 2.4 percent of net sales.

Metso Panelboard

Metso Panelboard's net sales increased by 41 percent and totaled EUR 93 million. Due particularly

Board of Directors' Report

to positive development in the Asian markets and the efficiency measures implemented during the year, Metso Panelboard substantially increased its net sales. Operating profit before nonrecurring items and amortization of goodwill was EUR 2.0 million, or 2.2 percent of net sales. Nonrecurring items totaled EUR 4 million, and were mainly due to rearrangements in Germany related to the efficiency improvement program.

Metso Drives

Metso Drives' net sales decreased by 25 percent and totaled EUR 130 million. The group's comparable net sales, excluding Metso Hydraulics that was divested in January 2003, were about 15 percent lower than in the comparison year mainly because wind turbine gear deliveries were low in the first half of the year. Operating profit before nonrecurring items and amortization of goodwill was EUR 3.1 million, or 2.4 percent of net sales. The low volumes early in the year and the launching costs of new products were reflected in weakened profitability.

Foundries

As part of Metso's efficiency improvement program, Metso Paper's foundries located in Finland and Sweden and Metso Minerals' foundry located in Finland were operationally transferred to the Metso Ventures business area on October 1, 2003. Metso's need for in-house foundry products has been reduced and their production is being transferred to local foundries close to the customers. The aim is to create a strong entity and investigate

the development alternatives for the foundries as a whole.

In 2003, the combined net sales of these three foundries were EUR 69 million, 57 percent of which came from external invoicing.

Valmet Automotive

Valmet Automotive's net sales fell by 45 percent and totaled EUR 70 million. The operating loss was EUR 7.4 million, or 10.6 percent of net sales. The operating loss includes a EUR 4 million reserve for possible additional costs in 2004 due to the difficult employment situation. Net sales and result were clearly down on the previous year, because the manufacture of Saab cars ceased at the beginning of May and the manufacture of Porsche Boxsters also decreased. Valmet Automotive laid off about half of its personnel after Saab manufacture ended. A total of 19,226 cars were manufactured in the year under review (41,066 cars in 2002).

Metso's renewed operating model

In accordance with the operating model renewed by Metso's Board of Directors in September, the varying needs of different customer segments are clearly recognized in the strategies and operations of Metso's business areas - Metso Paper, Metso Minerals, Metso Automation and Metso Ventures.

Efficiency improvement program

The implementation of the efficiency improvement program, announced in June and designed to cut fixed costs, proceeded as planned in the second half of the year. The program aims to achieve annual result

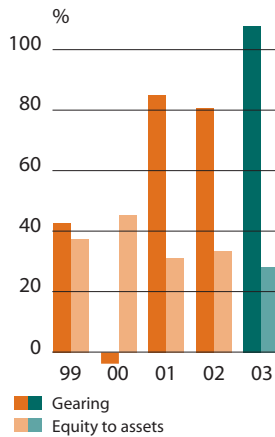
improvements of more than EUR 100 million. Of this, Metso Paper will account for almost EUR 40 million, Metso Minerals for just over EUR 50 million, Metso Automation for EUR 10 million and Metso Ventures for EUR 5 million.

In accordance with the efficiency improvement program, Metso Paper will reduce about 340 jobs in Finland and Sweden and about 200 jobs in North America by summer 2004. Additionally, Metso Paper initiated a review into a decrease in its in-house manufacturing capacity to correspond with the long-term demand outlook. In certain Metso Paper units in Finland outsourcing of components' manufacturing has either been decided on or is being reviewed. These arrangements will affect some 350 jobs. Metso Paper will also reduce production capacity at the unit manufacturing paper and board machines in Como, Italy. This arrangement will affect 90 jobs.

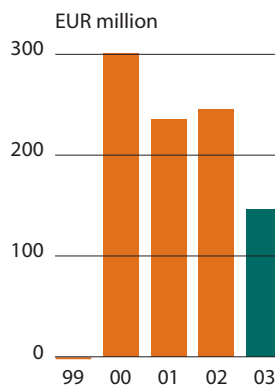
As a part of the efficiency improvement program, Metso Minerals decided to close the production plant for mining crushers in Milwaukee, Wisconsin, USA. Furthermore, a decision was made to close the production plant for mining industry process equipment and pumps in Colorado Springs, Colorado, USA. In addition, it was decided to close down the production plant for mining and crushing screens in Ketsch, Germany. Operational efficiency was also improved at the Tampere crusher plant in Finland, the Mâcon plant in France and at Metso Minerals' headquarters. The above-mentioned arrangements affect 350 jobs altogether.

Metso Minerals will also adjust

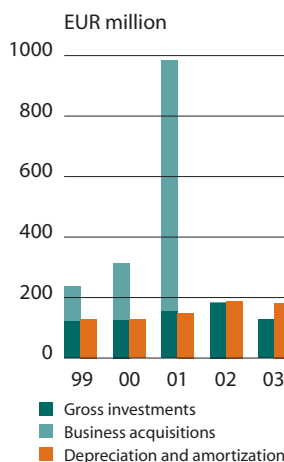
Gearing and equity to assets



Operating cash flow



Investments and depreciation



its wear protection business to correspond with demand in its two units operating in Sweden. In addition, Metso Minerals will continue measures to adjust the resources of its global sales and service network to reflect the market situation. The effects of these arrangements are estimated to be 250-320 jobs.

Metso Automation decided, in accordance with the efficiency improvement program, to reduce about 140 jobs in Finland, North America and its global sales network.

Metso Panelboard, a part of Metso Ventures, will combine its operations located in Willich and Hannover, Germany into its Hannover operations, in order to further improve operational efficiency. The personnel will be reduced by a third to 73.

As part of the efficiency improvement program, Metso's foundries located in Tampere and Jyväskylä, Finland and Karlstad, Sweden were operationally transferred to the Metso Ventures business area on October 1, 2003.

The re-evaluation of the role of Metso's Corporate Headquarters is expected to result in savings of around EUR 10 million.

The nonrecurring expenses of the efficiency improvement program were EUR 103 million.

In addition to the efficiency improvement program, materials management development programs were initiated in all business areas, the aim of which are to achieve substantial savings within the next 2-3 years by developing purchasing activities. Metso's purchases amount to over a half of net sales.

During the year under review, the streamlining of administrative costs continued. Costs are cut by combining back office operations into shared services. In order to combine the

financial administration of Metso's Finnish units, financial administration service centers were established in Jyväskylä and Tampere, and these centers began to operate in September. A decision was made to establish a North American financial administration service center in Montreal, Canada.

Cash flow and financing

In 2003, Metso's net cash provided by operating activities was EUR 146 million. The net result for the year includes substantial nonrecurring expenses that have no effect on cash flow. The most significant of these was a goodwill impairment made in Metso Minerals. The net working capital increased by EUR 54 million, which was mainly due to Metso Paper's ongoing project deliveries and their timing. The amount of net working capital decreased in Metso Minerals and Metso Automation.

Gearing, i.e. the ratio of net interest bearing liabilities to shareholders' equity, was 107.7 percent. The goodwill impairment and other nonrecurring items significantly increased the gearing ratio. Metso's equity to assets ratio was 28.3 percent at the end of the year.

Net interest bearing liabilities totaled EUR 1,109 million at the end of the year while they were EUR 1,118 million at the end of 2002. During the year under review, the previous syndicated revolving credits were replaced with a new five-year EUR 450 million credit agreement. Long-term debt accounted for 75 percent of total interest bearing debt at the end of 2003. The largest installments are scheduled for 2006 and 2007. The credit agreements do not include repayment covenants based on credit ratings.

On June 27, 2003, Standard & Poor's Rating Services lowered the

Board of Directors' Report

outlook on the BBB long-term rating of Metso from stable to negative and, at the same time, the short-term rating was lowered from A-2 to A-3. Moody's Investors Service lowered the long-term ratings of Metso to Baa3 from Baa2 on June 23, 2003 with a stable outlook.

Capital expenditure

Metso's gross capital expenditure totaled EUR 130 million (EUR 194 million in 2002) and net capital expenditure EUR 80 million (EUR 56 million in 2002). The year's most significant investments were a new composite roll plant in Oulu, Finland, a TMP/CTMP pilot pulp line in Anjalankoski, Finland, service technology centers in Järvenpää, Finland, and Sorocaba, São Paulo, Brazil, a service center in Raisio, Finland, and logistics centers in Jyväskylä, Finland, and Shanghai, China.

Acquisitions and divestitures

In September, Metso Automation acquired the business ownership and key resources of ABB's Total Quality Analyzer (TQA) product line and merged it with its analyzers business.

In January, Metso divested Metso Hydraulics, part of Metso Ventures, to Sampo-Rosenlew, and in February it divested Network Management Solutions (NMS), part of Metso Automation, to Telvent. In September, Metso divested CPS Electronics, a subsidiary of Metso Automation that manufactures electronic components, to Scanfil Plc.

ThyssenKrupp Automotive AG from Germany owns 10 percent of Valmet Automotive. In December,

it announced that it would not exercise its option to acquire the remaining 90 percent of Valmet Automotive's shares by the end of 2003. Metso and ThyssenKrupp Automotive have agreed to continue cooperation in 2004.

Research and development

Metso's research and development expenditure for the review period totaled EUR 129 million (EUR 156 million in 2002), representing 3 percent of the Corporation's net sales. Research and development operations focus on improving efficiency, strengthening Metso's life cycle business and raising its share of net sales.

The most important projects targeted embedded automation solutions applicable to both new machines and the installed machine base. The life cycle business is also supported by development made in materials technology and industrial design.

One example of Metso's know-how is a newsprint machine delivered to Stora Enso's Langerbrugge mill in Belgium. The machine is the world's largest in terms of wire width and uses recycled fiber.

Personnel

In 2003, Metso's personnel numbered 27,400 on average. At the end of the year, the number of personnel was 26,240, or 8 percent less than at the end of 2002. The increase in the number of the Corporate Headquarters' personnel was due to the financial administration service centers' employees being included in the personnel figures for the Corporate Headquarters. The total salaries

and wages paid in 2003 amounted to EUR 964 million.

The Corporation employed 35 percent of its total personnel in Finland, 13 percent in other Nordic countries, 18 percent in other European countries, 16 percent in North America, 6 percent in Asia-Pacific, 7 percent in South America and 5 percent in the rest of the world.

Of the Corporation's personnel, 35 percent were employed by Metso Paper, 39 percent by Metso Minerals, 13 percent by Metso Automation and 9 percent by Metso Ventures. 3 percent of the Corporation's personnel worked in the Converting Equipment group. The Corporate Headquarters employed 1 percent of Metso's personnel.

Changes in corporate management

On September 25, 2003, Metso Corporation's Board of Directors relieved Tor Bergman of his duties as President and CEO of Metso Corporation and chairman of Metso's business area boards. On November 28, 2003 Jorma Eloranta, M.Sc. (Tech.), was appointed President and CEO of Metso Corporation and chairman of Metso's business area boards. Jorma Eloranta will start in his new position on March 1, 2004.

Olli Vaartimo, who started as Metso's Executive Vice President and CFO, and Deputy to the CEO on April 22, 2003, is serving as the company's President and CEO and chairman of Metso's business area boards from September 25, 2003 to March 1, 2004. Sakari Tamminen served as Metso's Executive Vice President and CFO, and Deputy to the CEO until April 21, 2003.

Bertel Karlstedt started as Metso

Paper's President on March 1, 2003. Bertel Langenskiöld commenced as Metso Minerals' President on April 28, 2003 and Vesa Kainu started as Metso Ventures' President on May 27, 2003.

Board of Directors and auditors

The Annual General Meeting of Metso Corporation held on April 15, 2003 elected Matti Kavetvuo as the new Chairman of Metso's Board of Directors and Maija-Liisa Friman as a new Board member. The Vice Chairman of the Board, Mikko Kivimäki, and Board members Heikki Hakala, Juhani Kuusi, Pentti Mäkinen and Jaakko Rauramo were all re-elected. PricewaterhouseCoopers Oy, the firm of authorized public accountants, was re-elected as the Corporation's auditor, with the principal auditors being Lars Blomquist, APA, and Heikki Lassila, APA.

Decisions of the Annual General Meeting

The Annual General Meeting of Metso Corporation held on April 15, 2003 approved the proposals of the Board of Directors concerning authorizations to repurchase and transfer the Corporation's own shares and to increase the share capital by a rights offering within one year of the AGM. It also approved the issuing of stock options to key personnel of the Corporation and to a wholly-owned subsidiary of Metso Corporation.

The Annual General Meeting approved the payment of a dividend of EUR 0.60 per share for the financial year that ended December 31, 2002. The record date for the payment of dividends was April 22, 2003, and the actual payment of dividends took place on April 29, 2003.

Transfer to IAS/IFRS financial statements

Metso will report in accordance with the IAS/IFRS standards as of January 1, 2005. The comparison figures will also be presented in the way required by the above mentioned standards. The Corporation is preparing the transfer to IAS/IFRS reporting together with the business areas, and the project has proceeded as planned.

Events after the financial period

Metso signed an agreement to divest its Converting Equipment group to Bobst Group SA from Switzerland in October 2003. The transaction was completed on January 30, 2004 at a price of approximately EUR 75 million. The group's net sales for 2003 were EUR 183 million and it employed approximately 800 persons at the end of the year.

As part of the on-going measures to strengthen Metso Corporation's balance sheet Metso's Board of Directors has decided to initiate a review of the development alternatives, including a potential divestment of Dynapac, the construction and paving equipment manufacturer. Dynapac, which forms the Compaction and Paving business line of Metso Minerals, is a leading global manufacturer of compaction and paving equipment. Dynapac designs, manufactures and sells under its own brand name rollers, pavers, planers and concrete and light compaction equipment and services. In 2003 the net sales of Dynapac totalled EUR 322 million, and it employed some 1,800 people at the end of the year.

Metso Paper is supplying a rebuild of a paper machine to Papiers Gaspésia in Canada. According to the information Metso has received the customer will need additional financing to complete the project.

Metso Paper's management estimates that these arrangements will likely postpone the completion schedule of the project but the delay is not expected to have any significant financial impact on Metso Paper.

Short-term outlook

The markets and demand for Metso's products are estimated to remain at the previous year's level in Europe, Asia and South America. In the North American markets, the demand for Metso Minerals' products is estimated to recover.

The practical implementation of measures relating to the ongoing efficiency improvement program will be focused on 2004. The market situation and the weakening of the U.S. dollar, challenge Metso's profitability performance. Metso's long-term profitability targets are not estimated to be reached in the next two years. In 2004, the primary focus in managing the Corporation will be the decisive implementation of the efficiency improvement actions and other measures to improve profitability and strengthen the balance sheet.

Board of Directors' proposal for the distribution of profit

The consolidated distributable funds of Metso Corporation on December 31, 2003 were EUR 510 million. The parent company's distributable funds totaled EUR 616 million. On December 31, 2003, a total of 136,189,704 Metso shares, giving entitlement to full dividends for 2003, were held outside the Corporation.

Metso Corporation's Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.20 per share be distributed.

Helsinki, February 4, 2004
Metso Corporation's Board of Directors



Consolidated Statements of Income

(In millions, except for per share amounts)	Note	Year ended December 31,		
		2001 EUR	2002 EUR	2003 EUR
Net sales		4,343	4,691	4,250
Cost of goods sold	3), 6)	(3,200)	(3,425)	(3,211)
Gross profit		1,143	1,266	1,039
Selling, general and administrative expenses	2), 3), 6)	(873)	(1,015)	(906)
Operating profit before nonrecurring operating items and amortization of goodwill		270	251	133
% of net sales		6.2%	5.3%	3.1%
Nonrecurring operating income and expenses, net	4)	4	(27)	(106)
Goodwill impairment	5)	-	-	(205)
Amortization of goodwill	6)	(28)	(57)	(51)
Operating profit (loss)		246	167	(229)
% of net sales		5.7%	3.6%	(5.4%)
Financial income and expenses, net	7)	(24)	(74)	(74)
Share of profits of associated companies	8)	0	0	0
Income (loss) before extraordinary items and income taxes		222	93	(303)
Extraordinary income and expenses, net	9)	(8)	-	-
Income (loss) before taxes		214	93	(303)
Income taxes	10)	(72)	(26)	44
Minority interests		(1)	(2)	1
Net income (loss)		141	65	(258)
Earnings per share	11)	1.09	0.48	(1.89)

Consolidated Balance Sheets

Assets

(In millions)	Note	As at December 31,	
		2002 EUR	2003 EUR
Fixed assets and financial assets			
Intangible assets	12)		
Goodwill		895	623
Other intangible assets		116	137
		1,011	760
Tangible assets	12), 13)		
Land and water areas		85	80
Buildings		350	329
Machinery and equipment		343	336
Other tangible assets		31	28
Assets under construction		82	37
		891	810
Financial assets			
Shareholdings and other securities	15)	51	44
Own shares	15)	1	1
Loans receivable	18)	20	37
Accounts receivable	18)	5	2
Other long-term investments	16), 18)	26	10
		103	94
Total fixed and financial assets		2,005	1,664
Current assets			
Inventories			
Materials and supplies		186	169
Work in process		281	275
Finished products		352	299
		819	743
Receivables	18)		
Accounts receivable		836	719
Cost and earnings of projects under construction in excess of billings	17)	174	269
Loans receivable		5	5
Accrued income and prepaid expenses		201	88
Deferred tax asset	10)	98	145
Other receivables		60	53
Other short-term investments		11	7
		1,385	1,286
Cash and cash equivalents		190	130
Total current assets		2,394	2,159
Total assets		4,399	3,823

Shareholders' equity and liabilities

(In millions)	Note	As at December 31,	
		2002 EUR	2003 EUR
Shareholders' equity	19)		
Share capital		232	232
Share premium reserve		14	14
Legal reserve		227	228
Cumulative translation differences		(60)	(76)
Reserve for own shares		1	1
Other reserves		202	202
Retained earnings		698	681
Net income (loss) for the financial year		65	(258)
Total shareholders' equity		1,379	1,024
Minority interests		10	6
Liabilities			
Long-term debt	20)		
Bonds		713	695
Loans from financial institutions		233	183
Pension loans		38	29
Other long-term debt		36	50
		1,020	957
Other long-term liabilities			
Accrued expenses	21), 24)	126	134
Deferred tax liability	10)	25	22
Other long-term loans		1	5
		152	161
Current liabilities			
Current portion of long-term debt		50	17
Other interest bearing short-term debt	22)	283	295
Advances received		141	147
Accounts payable		321	282
Billings in excess of cost and earnings of projects under construction	17)	84	41
Accrued expenses and deferred income	23), 24)	873	818
Other current liabilities		86	75
		1,838	1,675
Total liabilities		3,010	2,793
Total shareholders' equity and liabilities		4,399	3,823

Consolidated Statements of Cash Flows

(In millions)	Year ended December 31,		
	2001 EUR	2002 EUR	2003 EUR
Cash flows from operating activities:			
Net income (loss)	141	65	(258)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	149	197	183
Provisions / Efficiency improvement program	-	-	60
Asset write-downs related to the efficiency improvement program	-	-	25
Impairment of goodwill	-	-	205
Tax receivable on goodwill impairment	-	-	(21)
Gain on sale of fixed assets	(4)	(7)	0
(Gain) loss on sale of subsidiaries and associated companies	(11)	(1)	(12)
Gain on marketable securities	(37)	(7)	(3)
Share of profits and losses of associated companies	0	(1)	(2)
Other non-cash items	10	28	23
Change in net working capital, net of effect from business acquisitions	(13)	(22)	(54)
Net cash provided by operating activities	235	252	146
Cash flows from investing activities:			
Capital expenditures on fixed assets	(154)	(191)	(128)
Proceeds from sale of fixed assets	18	33	14
Acquisition of Svedala, net of cash acquired	(804)	-	-
Other business acquisitions, net of cash acquired	(24)	(1)	(2)
Investments in associated companies	-	(1)	-
Proceeds from sale of subsidiaries and associated companies	17	38	31
Taxes paid on gain of Timberjack sale	(85)	-	-
Proceeds from sale of shares and marketable securities	90	110	6
Investments in shares and marketable securities	(1)	(2)	(1)
Net cash provided by (used in) investing activities	(943)	(14)	(80)
Cash flows from financing activities:			
Dividends paid	(81)	(82)	(82)
Hedging of net investment in foreign subsidiaries	0	-	12
Net borrowings (payments) on short-term debt	114	(50)	17
Proceeds from issuance of long-term debt	798	200	110
Principal payments of long-term debt	(466)	(311)	(171)
Notes receivable issued	(7)	(4)	(8)
Proceeds from payments on notes receivable	68	14	2
Other	7	0	(1)
Net cash provided by (used in) financing activities	433	(233)	(121)
Effect of changes in exchange rates on cash and cash equivalents	2	(27)	(5)
Net increase (decrease) in cash and cash equivalents	(273)	(22)	(60)
Cash and cash equivalents at beginning of year	485	212	190
Cash and cash equivalents at end of year	212	190	130

(In millions)	Year ended December 31,		
	2001 EUR	2002 EUR	2003 EUR
Change in net working capital, net of effect from business acquisitions:			
(Increase) decrease in assets and increase (decrease) in liabilities:			
Inventory	57	24	23
Receivables	(40)	183	70
Other assets	(34)	35	59
Percentage of completion: recognized assets and liabilities, net	(74)	(71)	(140)
Accounts payable	8	(46)	(26)
Accrued liabilities	79	(119)	(51)
Other liabilities	(9)	(28)	11
Total	(13)	(22)	(54)

Supplemental cash flow information:

Acquisition of businesses:

Intangible assets	11	0	-
Tangible assets	197	1	-
Goodwill	836	4	0
Current assets, other than cash	909	2	-
Minority interests	10	0	2
Liabilities assumed	(1,135)	(6)	-
Total, net of cash acquired	828	1	2

Cash paid (received) during the year for:

Interest	47	83	69
Income taxes ¹⁾	113	57	(6)

¹⁾ Includes cash receipt of EUR 30 million related to income tax benefit realized for the goodwill impairment for the year ended 2003.

Consolidated Statements of Changes in Shareholders' Equity

(In millions)	Number of shares (thousands)	Share capital EUR	Share premium reserve EUR	Legal reserve EUR	Cumulative translation differences EUR	Reserve for own shares EUR	Other reserves EUR	Retained earnings EUR	Total EUR
Balance at December 31, 2000	135,562	230	8	220	46	1	202	718	1,425
Dividends	-	-	-	-	-	-	-	(81)	(81)
Share issue (option rights)	689	2	6	-	-	-	-	-	8
Translation differences	-	-	-	-	(21)	-	-	-	(21)
Other	-	-	-	1	-	-	-	(4)	(3)
Net income	-	-	-	-	-	-	-	141	141
Balance at									
December 31, 2001	136,251	232	14	221	25	1	202	774	1,469
Dividends	-	-	-	-	-	-	-	(82)	(82)
Translation differences	-	-	-	-	(85)	-	-	-	(85)
Other	-	-	-	6	-	-	-	6	12
Net income	-	-	-	-	-	-	-	65	65
Balance at									
December 31, 2002	136,251	232	14	227	(60)	1	202	763	1,379
Dividends	-	-	-	-	-	-	-	(82)	(82)
Translation differences	-	-	-	-	(16)	-	-	-	(16)
Other	-	-	-	1	-	-	-	0	1
Net loss	-	-	-	-	-	-	-	(258)	(258)
Balance at									
December 31, 2003	136,251	232	14	228	(76)	1	202	423	1,024

Shareholders' equity includes EUR 39 million nondistributable accelerated depreciation and untaxed reserves and EUR 76 million negative translation differences at December 31, 2003.

Notes to Consolidated Financial Statements

1 Accounting Principles

Basis of presentation

The consolidated financial statements, prepared in accordance with Finnish generally accepted accounting principles ("Finnish GAAP"), include the financial statements of Metso Corporation (the "Parent Company") and its subsidiaries (together, "Metso"). Metso Corporation was formed in 1999 as a result of the merger of Rauma Corporation ("Rauma") and Valmet Corporation ("Valmet"). The merger was consummated on July 1, 1999 and is accounted for by the pooling-of-interests method.

The financial statements are presented in millions of euros ("EUR"), except for share and per share amounts.

Use of estimates

The preparation of financial statements, in conformity with Finnish GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting convention

The financial statements are prepared under the historical cost convention.

Principles of consolidation

The consolidated financial statements include the accounts of the Parent Company and each of those companies in which it owns, directly or indirectly through subsidiaries, over 50 percent of the voting rights. The companies acquired during the financial period have been consolidated from the date that Metso acquired control. Subsidiar-

ies sold have been included up to their date of sale.

All intercompany transactions are eliminated as part of the consolidation process. Minority interests are presented separately before net income. They are also shown separately from shareholders' equity and liabilities on the consolidated balance sheets.

Acquisitions of companies are accounted for using the purchase method. Goodwill represents the excess of the purchase cost over the book value of the net assets of the acquired companies. A portion of the goodwill is allocated to fixed assets, which are depreciated over their useful lives. The remaining goodwill arising from acquisitions is amortized over a period not to exceed twenty years. Deferred credit (negative goodwill) represents the excess of net assets of acquired companies over the purchase cost. Deferred credit arising from acquisitions is allocated to reduce the acquired fixed assets.

The equity method of accounting is used for investments in associated companies in which the investment provides Metso 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's direct or indirect ownership is between 20 and 50 percent. Under the equity method, the share of profits and losses of associated companies is included in the consolidated statements of income. The share of the result of associated companies, the activity of which is closely connected with the business areas of Metso, is recorded in other income and expenses, net. Metso's share of post-acquisition retained profits and losses of associated companies is reported as part

of investments in associated companies in the consolidated balance sheets.

Other shareholdings and securities (voting rights less than 20 percent) are stated at cost and dividends received are included in the statements of income; a write-down is made where it is deemed necessary to reduce the cost to estimated net realizable value.

Foreign currency translation

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the date of the transactions. At the end of the accounting period, unsettled foreign currency transaction balances are valued at the rates of exchange prevailing at the balance sheet date. Trade flow related foreign currency exchange gains and losses are treated as adjustments to sales and purchases. Foreign exchange gains and losses associated with financing are entered as a net amount under financial income and expenses.

The statements of income of foreign subsidiaries (i.e., outside the Euro area) are translated into euro at the average exchange rates for the financial year and the balance sheets are translated at the exchange rate of the balance sheet date. The resulting translation differences are recorded directly to equity. When Metso hedges the equity of its foreign subsidiaries with foreign currency loans and with financial derivatives, the translation difference is adjusted by the currency effect of hedging instruments and recorded in equity, net of taxes.

Derivative financial instruments

Metso uses a variety of derivative financial instruments, mainly forward exchange contracts, and a limited number of interest rate, currency and cross-cur-

Notes to Consolidated Financial Statements

rency swaps as well as currency options and commodity contracts, as part of an overall risk management policy. These instruments are used to reduce the foreign currency and interest rate risks relating to existing assets, liabilities, firm commitments, forecasted sales and estimated consumption of raw materials.

Metso does not hold nor issue derivative financial instruments for trading purposes.

Metso uses principally forward exchange contracts to hedge the currency risk on certain commercial assets (receivables) and liabilities (payables) and firm commitments (orders). The derivatives are designated at inception as a hedge with respect to the hedged item or group of items with similar characteristics. If a derivative has been contracted to close or reduce net exposure to a certain currency or group of currencies, it is fair valued quarterly and the arising variation in fair values is recognized in the consolidated statements of income.

Currency options are used to hedge forecasted sales. Options are recorded at fair value.

Metso hedges its net foreign investments in certain currencies to reduce the effect of exchange rate fluctuations. The hedging instruments are mainly foreign currency loans and forward exchange contracts, and to some extent cross-currency swaps. Both realized and unrealized exchange gains and losses measured on these instruments are recorded, net of taxes, in a separate component of equity against the translation differences arising from consolidation to the extent that these hedges are effective.

Currency and cross-currency swaps are used to hedge foreign currency denominated loans. The translation differences arising from the derivative instruments are recorded concurrently with the translation difference of the underlying loans. Interest expense and income,

net is recognized as incurred.

When derivative instruments have been used to mitigate the foreign currency fluctuation arising from business acquisitions, the instruments are fair valued and the respective change is charged to income.

Metso's exposure to interest rate risk, arising from interest bearing receivables and loans, is managed through interest rate swaps and interest rate futures. The net of interest payable and receivable on the swaps is accrued and recorded in interest and other financial expenses to match the interest income/expense on the related underlying hedged items. Realized gains and losses occurring from early termination of contracts are recorded in income over the remaining period of the original swap agreement.

If the interest leg of a cross-currency swap or an interest swap has not been designated as a hedge of an underlying item at its inception, the interest portion of the swaps is recorded at fair value. Interest rate futures are fair valued quarterly and the change in fair value is recognized in financial income and expenses, net.

Metso has entered into electricity futures to reduce the effects of the volatility of the electricity prices of its units located in Finland. The unrealized gains and losses of the contracts are deferred and recognized concurrently with the underlying consumption at maturities of the contracts.

Other long-term investments

Marketable debt securities, e.g. bonds, commercial papers and time deposits are included in other long-term investments when their maturity, at the time of their inception, exceeds one year. The unrealized gains and losses on marketable securities are deferred and recognized in income when realized either at disposal or at maturity.

Revenue recognition

Revenues from goods and services sold are recognized, net of sales taxes, discounts and foreign exchange differences, when substantially all the risks and rewards of ownership are transferred to the buyer, or when legal title of the goods and responsibility for shipment has transferred to the buyer. The transfer of risk takes place either when the goods are shipped or made available to the buyer for shipment, depending on the delivery clause of the contract. The credit worthiness of the buyer is verified before engaging into a sale. However, should a risk of non-payment arise after revenue recognition, an adequate provision for non-collectibility is established.

Percentage of completion -method: Sales and anticipated profits under significant long-term engineering and construction contracts are recorded on a percentage-of-completion basis. The measurement is done either by units of delivery, which are based on predetermined milestones and on the realized value added (contract value of the work performed to date) or by the cost-to-cost method of accounting. Estimated contract profits are recorded in earnings in proportion to recorded sales. In the cost-to-cost method, sales and profits are recorded after considering the ratio of accumulated costs to estimated total costs to complete each contract. In certain cases, subcontractor materials, labor and equipment, are included in sales and costs of goods sold when management believes that Metso is responsible for the ultimate acceptability of the project. Changes to total estimated contract costs and losses, if any, are recognized in the period in which they are determined.

Sales with repurchase commitments are recognized at the time of the delivery and the commitment is included in contingent liabilities.

Trade-ins: Sales, against which trade-ins are accepted, are recorded at contract price. Any reduction between the agreed trade-in price and its recorded value in the inventory is recognized in cost of goods sold concurrently with the sale.

Research and development

Research and development costs are expensed as incurred.

Maintenance, repair and renewals

Maintenance, repairs and renewals are charged to expense as incurred. However, major betterments are capitalized and depreciated over their expected useful lives.

Pensions and coverage of pension liabilities

The pension coverage of personnel working for Metso in Finland is mainly insured by payments made to pension insurance companies and, to some extent, by an internal Pension Fund. The Fund has been closed to new employees since 1987 and the accumulated pension liability of the Fund has been transferred to an external insurance company. Subsequently the Fund was wound up in the year 2001.

The companies within Metso have various pension schemes in accordance with the local conditions and practices in the countries in which they operate. The schemes are generally funded through payments to insurance companies or to trustee-administered funds as determined by periodic actuarial calculations. Metso has met minimum funding requirements for the countries in which it maintains pension schemes. Metso's contributions to defined contribution plans and to multi-employer and insured plans are charged to the income statement concurrently with the payment obligations.

Fixed assets and long-term investments

Intangible and tangible assets are stated at cost, less accumulated depreciation.

Land and water areas are not depreciated.

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

Buildings	15–40 years
Machinery and equipment	3–20 years
Other tangible assets	5–20 years
Intangibles, other than goodwill	3–12 years
Trade names	20 years
Goodwill	5–20 years

Impairments of fixed assets and capital gains and losses on the disposal of fixed assets are included in operating profit (loss) or in extraordinary items depending on the nature of the event. Goodwill arising from strategic business acquisitions is amortized over 20 years. The acquisition of Svedala in 2001 has been classified as strategic and the goodwill arising from it is being amortized over 20 years.

Metso reviews long-lived assets and certain intangibles, other than goodwill, 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.

The carrying value of goodwill for each business area is reviewed annually or, more frequently, if the facts and circumstances, such as declines in sales, operating profit or cash flows or material adverse changes in the business climate, suggest that its carrying value may not be recoverable. The testing is performed at the reporting unit level, which in Metso is one level below the segment level. The annual testing may be waived if there has not been significant changes to the assets and liabilities of the reporting unit, if in the previous testing the fair value clearly exceeded the carrying values tested, and if the likelihood that the current fair value would be less than the current carrying value of the reporting unit is remote. Metso uses discounted cash flow analysis to assess the fair value of goodwill.

Capitalization of interest expenses

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

Revaluation of fixed assets

Fixed assets are stated at historical acquisition price reduced by accumulated depreciation. Revaluations are not permitted.

Leasing

Rental expenses for operating leases are expensed as incurred. Acquisitions of property and equipment under capital lease arrangements are recorded in fixed assets and depreciated over their expected useful lives.

Own shares (treasury stock)

Own shares held by Metso are valued at reacquisition price in a separate caption under financial assets. Own shares have been deducted from the number of shares outstanding and the share capital for the calculation of per share and other performance related indicators.

Cash and cash equivalents

Cash and cash equivalents consist of cash in banks and other liquid investments with an original maturity of ninety days or less.

Inventories

Inventories are stated at the lower of historical cost calculated on an "average cost" basis or net realizable value. Historical costs include purchase costs as well as transportation and processing costs. The costs of finished goods include direct materials, wages and salaries plus social costs, subcontracting and other direct costs. In addition, production costs include an allocable 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 after allowing for the costs of realization.

Notes to Consolidated Financial Statements

Inventories are shown net of a reserve for obsolete and slow-moving inventories. A reserve is established and a corresponding charge is taken to income in the period in which the loss occurs based upon an assessment of technological obsolescence, turnover and related factors.

Trade-in equipment received is recorded as inventory at the lower of cost or net realizable value reduced by a reasonable sales margin.

Nonrecurring operating income and expenses

Nonrecurring operating income and expenses include restructuring and reorganizing costs which have either been realized or planned and to which the management is committed, and other major one-time operating income and expenses.

Extraordinary items

Extraordinary items, net of taxes, include significant unusual income and expenses not resulting from ordinary course of business operations.

Equity share of untaxed reserves

In Finland and certain other countries, companies are permitted to reduce or increase taxable income by adjustments to untaxed reserve accounts, provided that such amounts are reflected in the company's financial statements. Such amounts are included, net of taxes, in other shareholders' equity in the consolidated accounts.

Warranty

An accrual is made for expected warranty costs. The adequacy of this accrual is reviewed periodically based on an analysis of historical experience and anticipated probable warranty liabilities.

Restructuring costs

A provision for restructuring is recognized only after management has developed and approved a formal plan to which it has committed. The costs included in a provision for restructuring are those costs that are either incremental and incurred as a direct result of the plan or are the result of a continuing contractual obligation with no continuing economic benefit to the Company or a penalty incurred to cancel the contractual obligation. A restructuring provision also includes other costs incurred as a result of the plan, which are recorded separately under nonrecurring income and expenses, such as asset write-downs, environmental liabilities and costs to transfer operations to new locations.

Income taxes

Income taxes presented in the income statement consist of current and deferred taxes. Current taxes include estimated taxes corresponding to the results for the financial year of the companies, and adjustments of taxes for previous years.

A deferred tax liability or asset has been determined for all temporary differences between the tax bases of assets and liabilities and their amounts in financial reporting, using the enacted tax rates effective for the future years. The deferred tax liabilities are recognized in the balance sheet in full, and the deferred tax assets at their estimated realizable amounts. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

No deferred tax liability has been recognized for undistributed earnings of domestic subsidiaries (i.e., Finnish) since such earnings can be transferred to the Parent Company without tax

consequences. Metso does not provide deferred income taxes on undistributed earnings of foreign subsidiaries, except in situations where Metso has elected to distribute earnings of foreign subsidiaries.

Earnings per share

Earnings per share is based on income before extraordinary items and income taxes adjusted for minority interests and taxes related to normal business operations. The amount is divided by the weighted average number of shares outstanding during each period. The average number of own shares has been deducted from the number of outstanding shares.

The diluted earnings per share have been computed by applying the "treasury stock" method, under which earnings per share data is computed as if the warrants and options were exercised at the beginning of the period, or on the issuance of, if later, and as if the funds obtained thereby were used to purchase common stock at the average market price during the period. In addition to the weighted average number of shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the warrants and options.

The assumption of exercise is not reflected in earnings per share when the exercise price of the warrants and options exceeds the average market price of the common stock during the period. The warrants and options have a dilutive effect only when the average market price of the common stock during the period exceeds the exercise price of the warrants and options.

2 Selling, general and administrative expenses

(In millions)	Year ended December 31,		
	2001	2002	2003
	EUR	EUR	EUR
Marketing and selling expenses	425	548	492
Research and development expenses	137	146	126
Administrative expenses	315	341	299
Other income	(15)	(26)	(17)
Other expenses	11	6	6
Total	873	1,015	906

3 Personnel expenses and the number of personnel

(In millions)	Year ended December 31,		
	2001	2002	2003
	EUR	EUR	EUR
Salaries to the members of Boards of Directors and managing directors of group companies	12	14	13
Other wages and salaries	924	1,062	951
Pension costs	99	112	104
Other indirect employee costs	156	183	173
Total	1,191	1,371	1,241
Number of personnel:	2001	2002	2003
Personnel, average	25,613	29,258	27,400
Personnel, at end of year	30,242	28,489	26,240

Notes to Consolidated Financial Statements

4 Nonrecurring operating income and expenses

(In millions)	Year ended December 31,		
	2001 EUR	2002 EUR	2003 EUR
Gain on sale of businesses			
Metso Automation	-	-	11
Metso Ventures	-	-	1
Gain on sale of listed and other shares			
Metso Ventures	-	1	-
Headquarters and other	47	7	3
Nonrecurring operating income, total	47	8	15
Expenses related to efficiency improvement program			
Metso Paper	-	-	(36)
Metso Minerals	-	-	(55)
Metso Automation	-	-	(7)
Metso Ventures	-	-	(4)
Headquarters and other	-	-	(1)
Restructuring expenses			
Metso Paper	(15)	(6)	-
Metso Minerals	(13)	(10)	-
Metso Automation	(8)	(3)	(5)
Metso Ventures	-	(8)	-
Converting Equipment	-	(1)	-
Other expenses			
Metso Minerals	(3)	(3)	(11)
Metso Ventures	-	-	(2)
Headquarters and other	(4)	-	-
Converting Equipment	-	(4)	-
Nonrecurring operating expenses, total	(43)	(35)	(121)
Nonrecurring operating income and expenses, net	4	(27)	(106)

Gain on sale of listed and other shares included gains on disposal of listed companies of EUR 37 million, EUR 7 million and EUR 3 million for the years ended December 31, 2001, December 31, 2002 and December 31, 2003, respectively.

In January, Metso divested Metso Hydraulics, which was part of Metso Ventures, and in February Network Management Solutions, which was part of Metso Automation. For the year ended

December 31, 2003, the gain recognized for the sale of Metso Hydraulics was EUR 1 million and the gain on the sale of Network Management Solutions was EUR 11 million.

Restructuring expenses consist of both paid and accrued expenses related to the restructuring of business operations. For the year ended December 31, 2001, Metso Paper's expenses of EUR 15 million consisted of reorganizing

operations in the United States and in Sweden. Metso Automation's expenses amounted to EUR 8 million and related to reorganizing operations in the United States. Metso Minerals' expenses, EUR 13 million, consisted of restructuring and integration measures worldwide and included EUR 7 million of restructuring expenses related to the acquisition of Svedala.

For the year ended December 31, 2002, the restructuring expenses comprised EUR 10 million, of which EUR 4 million related to Svedala acquisition, of employee and exit costs of Metso Minerals' operations in Europe and in North and South America. The streamlining of Metso Paper's North American and Swedish operations continued in the year ended December 31, 2002, with exit costs amounting to EUR 6 million. Concurrently with Metso Paper's reorganization, Converting Equipment recognized EUR 1 million of exit costs in North America. Restructuring costs of EUR 8 million recognized by Metso Ventures' Panelboard Technology and EUR 3 million by Metso Automation, respectively, relate to restructuring of operations to enhance the refocused business strategies.

For the year ended December 31, 2003, restructuring expenses consisted of Metso Automation's reorganization in the United States and amounted to EUR 5 million.

For the years ended December 31, 2001 and 2002, respectively, other expenses comprised of EUR 4 million for marketing and support costs for extending the use of the Metso name to business operations and of additional one-time inventory write-off of EUR 4 million in Converting Equipment. For the years ended December 31, 2001 and 2002, respectively, the caption includes, in both financial years, costs of EUR 3 million in Metso Minerals for integration projects, initiated before the acquisition of Svedala, and which continued through out the year 2002. For the year ended

December 31, 2003, other expenses of Metso Minerals', EUR 11 million, included accounting adjustments and reserves for Metso Minerals' UK operations and for the opening balance sheet of the Svedala acquisition. For the year ended December 31, 2003, Metso Ventures' other expenses, EUR 2 million, comprised a write-down of patents in Metso Panelboard and charges related to Metso Drives' operations in the United States.

In June 2003, Metso announced an efficiency improvement program affecting all business areas. The program is designed to cut overhead costs and aims at substantial cost savings. For the year ended December 2003, expenses of EUR 103 million were recognized related to the efficiency improvement program.

The total costs of the efficiency improvement program comprised of the following:

Year ended December 31,

2003
EUR

Efficiency improvement program	
Pensions and postretirement benefits	21
Employee termination and exit cost	42
Write-down of fixed assets and inventory	25
Restructuring expenses	7
Other expenses	8
Efficiency improvement program, total	103

A summary of the cash flow effect and balance sheet impact of the efficiency improvement program is presented below:

2003
EUR

Amount recorded as expense for the efficiency improvement program	103
Paid in 2003	(18)
Write-down of fixed assets and inventory	(8)
Accrued liabilities as at December 31, 2003	77

Notes to Consolidated Financial Statements

5 Goodwill impairment

Metso assesses the value of the goodwill for impairment annually or more frequently, if facts and circumstances indicate the need, using fair value measurement techniques, such as the discounted cash flow methodology. The testing is performed on the reporting unit level, which in Metso is one level below a segment. In the discounted cash flow method, Metso discounts forecasted performance plans to their present value. The discount rate is the weighted

average cost of capital for the reporting unit, calculated as the opportunity cost to all capital providers weighted by their relative contribution to the reporting unit's total capital and the risk associated with the cash flow and the timing of the cash flow. The comparison methods and other estimation techniques are utilized to verify the reasonableness of the value derived from the discounted cash flow.

Due to the tightened competition, reduced demand in certain market ar-

reas and exchange rate development, especially the impact of the weakened U.S. Dollar, the operating profits of Metso Minerals operations were lower than expected for the year. As of September 30, 2003, upon completion of the annual impairment assessment, based on approved updated forecasted plans, it was determined that Metso should recognize an impairment loss of EUR 205 million related to the Metso Minerals business.

A summary of changes in Metso's goodwill during the years ended December 31, 2002 and 2003 by business segments is as follows:

(In millions)	Balance at beginning of year EUR	Amortization EUR	Translation difference and other changes EUR	Impairment loss EUR	Balance at end of year EUR
2002					
Metso Paper	117	(8)	(13)	-	96
Metso Minerals ¹⁾	858	(43)	(69)	-	746
Metso Automation	30	(3)	(2)	-	25
Metso Ventures	19	(2)	(1)	-	16
Converting Equipment	13	(1)	0	-	12
Total	1,037	(57)	(85)	-	895
2003					
Metso Paper	96	(8)	(10)	-	78
Metso Minerals	746	(38)	(5)	(205)	498
Metso Automation	25	(3)	(1)	-	21
Metso Ventures	16	(1)	0	-	15
Converting Equipment	12	(1)	0	-	11
Total	895	(51)	(16)	(205)	623

¹⁾ Other changes for the year ended December 31, 2002 include the final allocation of EUR 81 million of excess purchase price to the fixed assets acquired in the Svedala acquisition in 2001. See note 14 for additional information.

6 Depreciation and amortization

Depreciation and amortization expenses consist of the following:

(In millions)	Year ended December 31,		
	2001	2002	2003
	EUR	EUR	EUR
Intangible assets			
Goodwill	28	57	51
Other intangible assets	16	19	16
Tangible assets			
Buildings	22	26	25
Machinery and equipment	77	87	84
Other tangible assets	6	8	7
Total	149	197	183

Depreciation and amortization charged against operations by activity are as follows:

(In millions)	Year ended December 31,		
	2001	2002	2003
	EUR	EUR	EUR
Cost of goods sold	77	83	82
Marketing, selling and administrative expenses			
Marketing and selling	7	12	8
Research and development	9	11	11
Administrative	28	34	31
Goodwill	28	57	51
Total	149	197	183

7 Financial income and expenses

(In millions)	Year ended December 31,		
	2001	2002	2003
	EUR	EUR	EUR
Financial income			
Dividends received	12	7	4
Interest income	24	11	7
Other financial income	3	3	1
Net gain (loss) from foreign exchange	2	(4)	(4)
Financial income total	41	17	8
Financial expenses			
Interest expenses	(53)	(87)	(73)
Other financial expenses	(12)	(4)	(9)
Financial expenses total	(65)	(91)	(82)
Financial income and expenses, net	(24)	(74)	(74)

As at December 31, 2001, other financial expenses included EUR 5 million in expenses related to the temporary financing of the Svedala acquisition.

Notes to Consolidated Financial Statements

8 Investments in associated companies

(In millions)	Year ended December 31,		
	2001	2002	2003
	EUR	EUR	EUR
Dividends received	0	0	0
Share of profits or losses in associated companies	0	1	2
Equity value of investments in associated companies	14	14	15

In addition to the information provided above for investments in associated companies, see also note 15.

9 Extraordinary income and expenses

The following extraordinary income and expenses include significant transactions considered outside the normal course of business and the effects of changes in the accounting principles.

(In millions)	Year ended December 31,		
	2001	2002	2003
	EUR	EUR	EUR
Extraordinary income	-	-	-
Extraordinary expenses			
Inventory adjustment in Metso Drives' German operations	(3)	-	-
Accounting adjustments in Metso Automation's U.S. operations	(8)	-	-
Tax effect	3	-	-
Extraordinary expenses, net of taxes	(8)	-	-
Extraordinary income and expenses, net	(8)	-	-

10 Income taxes

The domestic and foreign components of income (loss) before extraordinary items and income taxes are as follows:

(In millions)	Year ended December 31,		
	2001	2002	2003
	EUR	EUR	EUR
Finland	208	103	(48)
Other countries	14	(10)	(255)
Total	222	93	(303)

The components of income taxes are as follows:

(In millions)	Year ended December 31,		
	2001 EUR	2002 EUR	2003 EUR
Current taxes			
Finland	50	(18)	(12)
Other countries	23	17	33
	73	(1)	21
Deferred taxes			
Finland	10	22	(53)
Other countries	(11)	5	(12)
	(1)	27	(65)
Current and deferred taxes	72	26	(44)
Tax effect of extraordinary items	(3)	-	-
Income taxes, total	69	26	(44)

The differences between income tax expense (benefit) computed at Finnish statutory rate, 29%, and income tax expense (benefit) provided on earnings are as follows:

(In millions)	Year ended December 31,		
	2001 EUR	2002 EUR	2003 EUR
Income tax expense (benefit) at Finnish statutory rate	64	27	(88)
Income tax for prior years	(7)	(9)	(3)
Write-down of subsidiary shares ¹⁾	-	(29)	(53)
Temporary differences for which no deferred tax has been provided	(1)	2	(3)
Benefit of operating loss carryforward	(3)	(3)	(12)
Amortization and impairment of goodwill	4	16	74
Nontaxable income	0	0	0
Nondeductible expenses	1	1	1
Taxes on foreign subsidiaries' net income in excess of			
income taxes at Finnish statutory rates	3	4	8
Operating losses with no current tax benefit ²⁾	9	16	26
Effect of extraordinary items	(3)	-	-
Other	2	1	6
Income tax expense (benefit)	69	26	(44)

¹⁾ Write-down of subsidiary shares includes for the year ended December 31, 2003, the impact of realized tax benefit of EUR 51 million related to a write-down of subsidiary shares recorded in 2002 with full valuation allowance.

²⁾ Operating losses with no current tax benefit relate to current year losses for which no deferred tax asset has been recognized.

Notes to Consolidated Financial Statements

The components of net deferred tax asset (liability) consist of the following: (In millions)	Year ended December 31,	
	2002 EUR	2003 EUR
Noncurrent assets:		
Tax losses carried forward	186	171
Provisions	29	21
Other	0	0
Valuation allowance	(110)	(111)
	105	81
Current assets:		
Intercompany profit in inventory	10	8
Provisions	84	116
Valuation allowance	0	(3)
	94	121
Current liabilities:		
Inventories and other	(8)	(6)
Noncurrent liabilities:		
Accelerated depreciation and other untaxed reserves	(25)	(22)
Other	(93)	(51)
	(118)	(73)
Deferred tax asset (liability), net	73	123

As at December 31, 2003, Metso had EUR 514 million of losses carried forward, primarily attributable to foreign subsidiaries. New losses for the year ended De-

cember 31, 2003, amounting to EUR 101 million, increased the deferred tax asset on loss carryforward by EUR 3 million. Approximately 40 percent of the accu-

mulated loss carryforwards at December 31, 2003 have no expiration date, 25 percent expires between years 2004–2013 and the remaining 35 percent between years 2014–2024.

The valuation allowance for the deferred tax asset is as follows: (In millions)	Balance at beginning of year			Balance at end of year	
	EUR	Deduction EUR	Increase EUR	EUR	EUR
2002					
Losses carried forward	88	(34)	56	110	
Other ¹⁾	17	(17)	0	0	
Total	105	(51)	56	110	
2003					
Losses carried forward	110	(49)	50	111	
Other	0	0	3	3	
Total	110	(49)	53	114	

¹⁾ The deduction in the valuation allowance for 2002 includes EUR 16 million, which relates to a write-down on subsidiary shares that became tax deductible in the 2002 taxation.

11 Earnings per share

Earnings per share is calculated as follows:

(In millions, except for per share amounts)	Year ended December 31,		
	2001	2002	2003
	EUR	EUR	EUR
Income (loss) before extraordinary items and income taxes	222	93	(303)
Minority interests	(1)	(2)	1
Taxes on normal business operations	(72)	(26)	44
	149	65	(258)
Weighted average number of shares issued and outstanding (in thousands)	136,135	136,190	136,190
Earnings per share	1.09	0.48	(1.89)
Weighted average number of diluted shares issued and outstanding (in thousands)	136,135	136,190	136,190
Diluted earnings per share	1.09	0.48	(1.89)

The diluted earnings per share have been computed by applying the "treasury stock" method, under which earnings per share data is computed as if the warrants and options were exercised at the beginning of the period, or on the issuance of if later, and as if the

funds obtained thereby were used to purchase common stock at the average market price during the period. In addition to the weighted average number of shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the

warrants and options. The warrants and options have a dilutive effect only when the average market price of the common stock during the period exceeds the exercise price of the warrants and options.

Notes to Consolidated Financial Statements

12 Intangible and tangible assets

(In millions)	Year ended December 31,	
	2002	2003
	EUR	EUR
Goodwill		
Acquisition cost at beginning of year	1,252	1,137
Increases	21	1
Decreases	(101)	(13)
Impairment	-	(205)
Translation differences	(35)	(32)
Accumulated depreciation at end of year	(242)	(265)
Net book value at end of year	895	623
Other intangible assets		
Acquisition cost at beginning of year	130	202
Increases	81	41
Decreases	(6)	(8)
Translation differences	(3)	(2)
Accumulated depreciation at end of year	(86)	(96)
Net book value at end of year	116	137
Land and water areas		
Acquisition cost at beginning of year	68	85
Increases	23	1
Decreases	(3)	(4)
Translation differences	(3)	(2)
Net book value at end of year	85	80
Buildings		
Acquisition cost at beginning of year	576	599
Increases	82	43
Decreases	(30)	(38)
Translation differences	(29)	(22)
Accumulated depreciation at end of year	(249)	(253)
Net book value at end of year	350	329

Year ended December 31,

2002 **2003**

EUR **EUR**

(In millions)

Machinery and equipment

Acquisition cost at beginning of year	1,383	1,293
Increases	85	101
Decreases	(113)	(51)
Translation differences	(62)	(35)
Accumulated depreciation at end of year	(950)	(972)
Net book value at end of year	343	336

Other tangible assets

Acquisition cost at beginning of year	88	93
Increases	16	9
Decreases	(6)	(8)
Translation differences	(5)	(4)
Accumulated depreciation at end of year	(62)	(62)
Net book value at end of year	31	28

Assets under construction

Acquisition cost at beginning of year	59	82
Increases	54	25
Decreases	(30)	(70)
Translation differences	(1)	0
Net book value at end of year	82	37

13 Capitalization of interest expenses

Year ended December 31,

2002 **2003**

EUR **EUR**

(In millions)

Net capitalized interest, beginning of year	4	3
Amortization of capitalized interest expense	(1)	(1)
Net capitalized interest, end of year	3	2

Notes to Consolidated Financial Statements

14 Final goodwill arising from the acquisition of Svedala

(In millions)	EUR
Purchase price of the shares	943
Equity of Svedala at acquisition less goodwill included in the balance sheets of the Svedala subsidiaries	(206)
Goodwill of Svedala reported as of September 30, 2001	737
Charges to the equity of Svedala after September 30, 2001	111
Goodwill before fair market value allocation	848
Allocation of fair market values exceeding the book values in the acquisition balance sheet	(81)
Final goodwill at acquisition	767

Allocation of fair values

The fair market values exceeding book values in the acquisition balance sheet were allocated from goodwill to other assets as follows:

(In millions)	Gross EUR	Tax effect EUR	Net EUR
Intangible assets			
Trademarks	58	(17)	41
Patents	7	(2)	5
Tangible assets			
Land areas	13	(4)	9
Buildings	21	(6)	15
Machinery and equipment	15	(4)	11
Total	114	(33)	81

Total restructuring expenses of the Svedala acquisition from the acquisition date:

(In millions)	Gross EUR	Tax effect EUR	Net EUR
Booked into goodwill	79	(15)	64
Booked as expense	11	(3)	8
Restructuring expenses total	90	(18)	72

15 Shareholdings and other securities

Investments in associated companies:

(In millions)	Year ended December 31,			
	2002		2003	
	Ownership %	Equity value EUR	Ownership %	Equity value EUR
Allimand S.A.	35.8%	5	35.8%	5
Valmet-Xian Paper Machinery Co. Ltd.	48.3%	4	48.3%	5
Shanghai Neles-Jamesbury Valve Co. Ltd	50.0%	3	50.0%	3
Others		2		2
Total investments in associated companies		14		15

Shareholdings and other securities:

(In millions, except for number of shares)	Year ended December 31,							
	2002				2003			
	Number of shares	Ownership %	Book value EUR	Fair value EUR	Number of shares	Ownership %	Book value EUR	Fair value EUR
Tamfelt Corporation ¹⁾	242,100	2.7%	4	7	484,200	2.7%	4	8
Sampo Plc	327,540	0.1%	1	2	-	-	-	-
Sato Corporation plc	239,555	10.9%	12	12	239,555	10.9%	12	12
Exel plc	650,000	12.3%	5	4	650,000	12.2%	5	8
Other shares and securities			15	15			8	7
Total investments in shares and other securities			37	40			29	35

Total shareholdings and other securities

			51				44	
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Own shares held by

Metso Corporation	60,841	0.0%	1	1	60,841	0.0%	1	1
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¹⁾ Split 1:2 in 2003

Notes to Consolidated Financial Statements

16 Other long-term investments

Other long-term investments consist of certificates of deposits, bonds and other securities with a maturity of greater than one year at the time of acquisition. They amounted to EUR 26 million at December 31, 2002 and to EUR 10 million at December 31, 2003. Other long-term investments are recorded at the lower of cost or market value.

(In millions)	Year ended December 31,							
	2002				2003			
	Cost	Unrealized gains	Unrealized losses	Fair value	Cost	Unrealized gains	Unrealized losses	Fair value
EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Bonds and Treasury bills	8	0	-	8	5	0	-	5
Other securities	18	0	-	18	5	0	-	5
Total	26	0	-	26	10	0	-	10

Additional information regarding other long-term investments is as follows:

(In millions)	Year ended December 31,		
	2001	2002	2003
	EUR	EUR	EUR
Purchases	-	6	0
Transferred through Svedala acquisition	25	-	-
Reclassified in other short-term investments	5	35	-
Reclassified in loans receivable	-	-	13
Proceeds from sales	1	18	2
Proceeds from maturities	3	-	1
Realized gains	-	-	0
Realized losses	-	(1)	-

Realized gains and losses on the sale of securities are determined by reference to the carrying value of the specific security sold.

As at December 31, 2003, the maturities of long-term investments in debt and other securities are as follows:

(In millions)	EUR
Less than five years	6
Five to ten years	2
More than ten years	2
Total	10

**17 Cost and earnings of projects under construction in excess of billings/
billings in excess of cost and earnings of projects under construction**

Information on balance sheet items of uncompleted contracts at December 31, 2002 and 2003 is as follows:

(In millions)	Cost and earnings of uncompleted projects EUR	Billings of projects EUR	Net EUR
2002			
Projects where cost and earnings exceed billings	538	364	174
Projects where billings exceed cost and earnings	161	245	84
2003			
Projects where cost and earnings exceed billings	600	331	269
Projects where billings exceed cost and earnings	420	461	41

18 Interest bearing and non-interest bearing assets

(In millions)	Year ended December 31,					
	Interest bearing EUR	2002 Non- interest bearing EUR	Total EUR	Interest bearing EUR	2003 Non- interest bearing EUR	Total EUR
Financial assets						
Loans receivable	2	18	20	9	28	37
Accounts receivable	1	4	5	1	1	2
Other long-term investments	26	-	26	10	-	10
Total	29	22	51	20	29	49
Receivables						
Accounts receivable	2	834	836	0	719	719
Cost and earnings of projects under construction in excess of billings	-	174	174	-	269	269
Loans receivable	2	3	5	3	2	5
Prepaid expenses and accrued income	-	201	201	-	88	88
Other receivables	-	158	158	-	198	198
Other short-term investments	11	-	11	7	-	7
Total	15	1,370	1,385	10	1,276	1,286

Notes to Consolidated Financial Statements

19 Shareholders' equity

As at December 31, 2003 Metso had 136,250,545 issued shares with a par value of EUR 1.70, the share capital being EUR 232 million. Under its Articles of Association Metso Corporation's authorized share capital may not be less than EUR 170 million nor more than EUR 680 million. At the closing of the financial year Metso held 60,841 of its own shares. The reacquisition price of EUR 1 million has been recorded in the reserve of own shares at cost.

Calculation of distributable funds at December 31, 2003:

(In millions)	EUR
Other reserves	202
Retained earnings	681
Result for the financial year	(258)
Equity share of accelerated depreciation and other untaxed reserves	(39)
Translation differences	(76)
Total distributable funds	510

The parent company's distributable funds at December 31, 2003 were EUR 616 million. The distribution of dividends to shareholders is limited to the lower of consolidated distributable funds or distributable funds held by the parent company.

Foreign currency translation included in the shareholders' equity at December 31:

(In millions)	2002 EUR	2003 EUR
Cumulative translation adjustment at beginning of year	25	(60)
Change in foreign currency translation	(127)	(55)
Hedging of net investment denominated in foreign currency	59	55
Tax effect	(17)	(16)
Cumulative translation adjustment at end of year	(60)	(76)

20 Long-term debt

Long-term debt consists of the following at December 31:

(In millions)	2002 EUR	2003 EUR
Bonds	713	697
Loans from financial institutions	270	187
Pension loans	48	38
Other long-term debt	39	52
	1,070	974
Less current maturities	50	17
Total	1,020	957

Bonds:

The bonds consist principally of two loans: a USD 200 million (EUR 158 million) bond and a EUR 500 million bond. The USD denominated bond was issued in the United States in December 1997 and registered with the Securities Exchange Commission (SEC). It matures in 2007 and bears a fixed annual interest rate of 6.875%. A portion of the bond has been converted through a currency swap agreement of GBP 45 million (EUR 64 million) into British pound sterling with a fixed annual rate of 7.51%. The currency swap agreement matures concurrently with the bond.

The EUR 500 million bond was issued in December 2001 under the Euro Medium Term Note Program of EUR 1 billion, which Metso established in December 2000. The bond matures in 2006 and carries a fixed interest of 6.25%.

Loans from financial institutions:

Loans from financial institutions consist of international bank borrowings with either fixed or variable interest rates. A major share of loans is either USD or EUR denominated. The interest rates vary from 1.69% (USD) to 9.50% (ZAR). The loans are payable from year 2004 to 2011.

In June 2003, Metso signed a five-year EUR 450 million revolving credit facility agreement with a syndicate of 14 international banks. The credit replaced two then existing revolving credits: EUR 230 million credit from 1998 and the remaining EUR 400 million of the credit from year 2000. Of these facilities EUR 98 million was utilised at December 31, 2002. As at December 31, 2003 EUR 66 million of the current revolving facility was utilised.

As at December 31, 2003 the undrawn committed facilities of Metso totaled EUR 384 million.

Pension loans:

Pension loans consist of Finnish pension insurance reborrowing loans amounting to EUR 32 million and of EUR 6 million foreign pension loans.

Other long-term debt:

Other long-term loans consist principally of pension liabilities amounting to EUR 39 million at December 31, 2002. As at December 31, 2003 other long term debt comprised EUR 29 million pension liabilities, EUR 16 million obligations under finance leases and EUR 7 million other liabilities.

Maturities of long-term debt as at December 31, 2003 are as follows:

(In millions)	Bonds EUR	Loans from financial institutions EUR	Pension loans EUR	Other long-term debt EUR	Total EUR
2004	2	4	9	2	17
2005	0	11	10	5	26
2006	500	47	1	3	551
2007	158	10	1	8	177
2008	0	91	1	2	94
Later	37	24	16	32	109

Notes to Consolidated Financial Statements

21 Other long-term liabilities - Accrued expenses

Long-term accrued liabilities consist of the following at December 31:

(In millions)	2002 EUR	2003 EUR
Accrued costs related to the efficiency improvement program		
Pension liabilities for personnel with terminated contracts	-	5
Accrued restructuring costs	-	1
	-	6
Pension liabilities	49	50
Pension liabilities for personnel with terminated contracts	6	4
Accrued postretirement benefits	43	45
Warranty and guarantee liabilities	11	12
Accrued restructuring costs	0	3
Other long-term provisions and accruals	17	14
Total	126	134

22 Other interest bearing short-term debt

Other interest bearing short-term debt consists of the following at December 31:

(In millions)	2002 EUR	2003 EUR
Loans from financial institutions	67	25
Domestic commercial paper financing	200	262
Euro Commercial Paper financing	-	-
Other	16	8
Total	283	295

The weighted average interest rate applicable to short-term borrowing at December 31, 2002 and 2003 was 3.4% and 2.4%, respectively.

Metso had undrawn committed short-term credit facilities with banks totaling EUR 100 million at December 31, 2003.

The Company has established a short-term Euro Commercial Paper program of EUR 150 million and a domestic commercial paper program amounting to EUR 300 million.

23 Accrued expenses and deferred income

Accrued expenses and deferred income consist of the following at December 31:

(In millions)	2002 EUR	2003 EUR
Accrued expenses related to the efficiency improvement program		
Pension liabilities for personnel with terminated contracts	-	7
Employee termination and exit costs	-	33
Accrued restructuring costs	-	6
Other	-	25
	-	71
Accrued restructuring costs	28	10
Employee termination and exit costs	25	6
Accrued interest expenses	8	6
Accrued personnel expenses	156	155
Accrued project costs	334	297
Environmental and product liabilities	4	4
Taxes currently payable	47	38
Warranty and guarantee liabilities	147	127
Other	124	104
Total	873	818

Notes to Consolidated Financial Statements

24 Changes in cost accruals

The cost accruals, including both long- and short-term portions, have changed as follows during the financial year 2003:

(In millions)	Balance at beginning of year EUR	Impact of exchange rates EUR	Additions charged to expense EUR	Deductions/ other additions EUR	Balance at end of year EUR
Allowance for doubtful notes and receivables	45	(3)	5	(13)	34
Allowance for inventory	72	(5)	15	(15)	67
Environmental and product liabilities	4	0	2	(2)	4
Efficiency improvement program	-	-	103	(26)	77
Accrued restructuring costs	28	(2)	6	(19)	13
Accrued employee termination and exit costs	25	(1)	3	(17)	10
Total	174	(11)	134	(92)	205

The total costs and accruals related to the efficiency improvement program have been recognized as follows during the financial year 2003:

(In millions)	Balance at beginning of year EUR	Impact of exchange rates EUR	Additions changed to expense EUR	Deductions EUR	Balance at end of year EUR
Pension liabilities for personnel with terminated contracts	-	-	21	(9)	12
Employee termination and exit costs	-	-	42	(9)	33
Accrued restructuring costs	-	-	7	0	7
Other	-	-	33	(8)	25
Total	-	-	103	(26)	77

Balance at the end of year includes reserves amounting to EUR 17 million related to fixed assets.

The cost accruals for warranty and guarantee liabilities have changed as follows during the financial year 2003:

(In millions)	Balance at beginning of year EUR	Impact of exchange rates EUR	Increase for current year's deliveries EUR	Increase for previous year's deliveries EUR	Deductions ¹⁾ EUR	Balance at end of year EUR
Warranty and guarantee liabilities	158	(4)	43	24	(82)	139

¹⁾ Includes reversals of EUR 24 million.

25 Mortgages and contingent liabilities

Mortgages and contingent liabilities consist of the following at December 31:

(In millions)	2002 EUR	2003 EUR
Mortgages on corporate debt	1	1
Other pledges and contingencies		
Mortgages	2	2
Pledged assets	0	4
Guarantees on behalf of associated company obligations	0	0
Other guarantees	4	7
Repurchase and other commitments ¹⁾	38	48

1) Prior year amount has been reclassified to conform to current year presentation.

The mortgage amount on corporate debt has been calculated as the amount of corresponding loans. The nominal value of the mortgages at December 31, 2003 was EUR 0.2 million higher than the amount of the corresponding loans.

The repurchase commitments, am-

ounting to EUR 8 million and EUR 20 million for the years ended December 31, 2002 and 2003, respectively, represent engagements whereby Metso guarantees specified trade-in values for products sold to customers and third parties. The amounts in the above schedule

comprise the agreed value in full of each repurchase commitment.

Other commitments include EUR 13 million of unfunded pension liabilities for foreign subsidiaries for the years ended December 31, 2002 and 2003, respectively.

26 Lawsuits and claims

Several product liability suits against Metso Corporation are pending in the USA. Management does not believe that the outcome of these actions, individually or in the aggregate, will have a material adverse effect on Metso's business, liquidity, results of operations or financial position. The normal risks of legal disputes concerning deliveries cannot be regarded as material in terms of Metso's total business activities.

Pending asbestos litigation

As of December 31, 2003 there have been 284 complaints alleging asbestos injuries filed in the United States in which a Metso entity is a named defendant among others. Where a given plaintiff has named more than one viable Metso unit as a defendant, the cases are

counted by the number of viable Metso defendants. Of these claims, 119 are still pending and 165 cases have been closed. Of the closed cases, 112 were dismissed and 53 were settled. For the 53 cases settled the average compensation has been USD 540 per case. The outcome of the still pending cases is not expected to materially deviate from the outcome of the previous claims. Hence, the company believes it has not material asbestos related claims in the United States.

Environmental issues

Metso Minerals Industries Inc. has been named, together with a number of other parties, as a potentially responsible party ("PRP") for the remediation of two Wisconsin landfills: Hunt and Muskego. By the end of year 2003 Metso Minerals had paid

a total of approximately USD 0.525 million for the clean-up costs at these sites. Management estimates that Metso Minerals' maximum remaining liability with respect to the Hunt and Muskego sites will not exceed USD 0.267 million, and that the reserves already established will be sufficient for any remaining liability.

Metso Minerals Industries Inc. owns an industrial facility at Milwaukee, Wisconsin, and it has been announced that the manufacturing at this site is intended to cease. Should in the future the use of the site change or should the facility become subject to sales process, it has been estimated that some remedial costs may be required. Metso Minerals Industries Inc. has reserves in the amount of USD 4.2 million for future remedial costs at the Milwaukee facility.

Notes to Consolidated Financial Statements

As a result of the acquisition of Svedala, Metso Minerals has two sites with certain environmental concerns: Mt. Olive in New Jersey and Danville in Pennsylvania. Metso Minerals has sold the site in Mt. Olive in December 2003, however, the liabilities for ground water contamination issues were retained by Metso Minerals and an USD 0.832 million reserve has been established to cover the clean-up costs. The second site with environmental concerns is a former manufacturing property in Danville, Pennsylvania. An approved remediation plan is being developed in conjunction with the state of Pennsylvania and an USD 1.2 million reserve is the best estimate of potential remediation costs at this time.

Metso Minerals, through its Reedrill

division was identified as a PRP in two sites. At one of the sites, liability has been assumed by a predecessor company. Regarding the other site, Metso Minerals (Svedala) has responded in March 2000 to an EPA request for information and identified predecessor companies as the proper responsible parties.

In addition, in Colorado Springs there is an old industrial facility, which is for sale and where Metso Minerals Industries Inc. may become subject to remedial costs. A reserve of USD 0.35 million has been established to cover such potential costs.

In Svedala, Sweden, at the industrial site, which was acquired in 2001 by Sandvik from Metso, Metso Minerals has a contractual liability to remedy

Sandvik for two soil removal remedial work related costs. At this moment we are not aware of the actual costs that Metso would be required to assume, but the remedial costs are not anticipated to be material.

Metso Panelboard, part of the Metso Ventures business area, has previously owned a site with a certain environmental concerns. The site, located in Belgium, was owned by Constructiewerkhuizen De Mets N.V., a company divested in 2001. In accordance with the conditions of the sales agreement, the estimated responsibility for remediation costs will be limited to EUR 1 million, which was recognized as a reserve in connection with the disposal.

27 Lease contracts

Metso leases offices, manufacturing and warehouse space under various noncancelable leases. Certain contracts contain renewal options for various periods of time.

Minimum annual rentals for leases in effect at December 31, 2003 are shown in the table below:

(In millions)	Operating leases EUR	Capital leases EUR
Fiscal 2004	43	5
2005	32	4
2006	24	4
2007	17	4
2008	14	2
2009 and later	28	6
Total minimum lease payments	158	25

Total rental expense amounted to EUR 46 million, EUR 41 million and EUR 39 million in the years ended December 31, 2001, 2002 and 2003, respectively.

Future lease payments for empty premises

Due to reorganization of production and sales activities, Metso has from time to time empty leased premises with non-cancelable rental agreements.

A cost reserve for the remaining lease period is made when it is probable that economically realistic sub-lease or early termination arrangements cannot be negotiated. The cost accrual is based on discounted future lease payments.

In connection with the Svedala acquisition, Metso recognized an accrual for duplicate lease costs. As of December 31, 2002 and 2003, the remaining reserve amounted to EUR 7 million and EUR 5 million, respectively.

28 Financial instruments

Foreign currency risk management

Both the production and sales activities of Metso are geographically widely spread creating exposure to various currency risks, the main currencies being USD, EUR, SEK and GBP. Due to the number of Swedish based operations of acquired Svedala companies the SEK exposure against other currencies has increased since September 2001.

Foreign exchange gains and losses, reported in the operating profit resulted in a net gain of EUR 1 million in 2001, a net loss of EUR 3 million in 2002 and a net gain of EUR 1 million in 2003.

Trade flow related derivatives

The trade flow related currency exposures are hedged with forward exchange contracts. The Corporate Treasury monitors the global currency risk and enters into forwards with third parties to reverse the currency exposures created through internal derivative transactions with the subsidiaries. External forwards contracted by the Corporate Treasury are fair valued quarterly. External currency forwards entered into directly by the subsidiaries are designated at inception as hedges of an underlying transaction. The currency leg of such forwards is fair valued and the interest component is recognized upfront concurrently with the respective underlying.

Foreign currency denominated equity

Metso hedges its USD, SEK and, to some extent, CAD denominated net investments to reduce the effect of exchange rate fluctuations. As of December 31, 2003, the hedging instruments were foreign currency loans and forward exchange contracts. Both realized and unrealized exchange gains and losses measured on these instruments are recorded, net of taxes, in a separate component of equity against the translation differences arising from consolidation. The forwards are designated as hedges of net investments at inception and their effectiveness is measured quarterly. The interest component of forwards is fair valued and the change in fair value is recognized in the income statement.

Foreign currency denominated loans

Metso has made medium-term, mainly USD and GBP denominated, loans to its foreign subsidiaries. The resulting currency risk has been hedged with cross-currency swaps and forward exchange contracts.

Short-term funding and liquidity management

Forward exchange contracts are used to mitigate foreign currency risk arising from short-term borrowing and liquidity management. Such forwards are fair valued quarterly. Metso also enters into call and put options to allow more flexible control of the net currency exposures. The options have maturities not exceed-

ing twelve months and they are fair valued quarterly.

Metso measures and monitors foreign currency risk using sensitivity analysis. The consolidated net exposures in different currencies are continuously controlled and the risk is mitigated through different financial instruments, including derivatives, as required by the Corporate Treasury Policy. The financial derivatives for other than trade flow related currency risks are all entered into by the Corporate Treasury.

Interest rate management

Metso uses both interest rate and cross-currency swaps and interest rate futures contracts to mitigate the risks arising from interest bearing receivables and debt. The notional amount of interest rate swaps outstanding at December 31, 2002 and 2003 was EUR 60 million and EUR 60 million, respectively. The notional amount of interest rate futures contracts at December 31, 2002 and 2003 amounted to EUR 15 million and EUR 15 million, respectively. The interest rate risk is measured using sensitivity analysis and controlled by the Corporate Treasury.

Commodity risks

In 2003, Metso extended its risk management policy to include the volatility in electricity prices and authorized its affiliates located in Finland, together with the Corporate Treasury, to enter into electricity forward contracts. The commodity risk is measured using sensitivity analysis.

Notes to Consolidated Financial Statements

The utilization of financial derivatives (expressed as notional amounts) can be divided as follows:

(In millions)	Year ended December 31,	
	2002	2003
	EUR	EUR
Trade flow related currency derivatives		
Fair valued derivatives	778	654
Ear-marked with underlying item	5	3
Foreign currency denominated equity	102	481
Foreign currency denominated loans	104	84
Short-term funding and liquidity management	533	405
Long-term funding and other arrangements	38	-
Currency risk management	184	71
Interest risk management	75	75
Total notional amount of derivative instruments	1,819	1,773

The following table presents the notional amounts, carrying amounts and fair values of derivative financial instruments as at December 31:

(In millions)	2002			2003		
	Notional amount EUR	Carrying amount EUR	Fair value EUR	Notional amount EUR	Carrying amount EUR	Fair value EUR
Forward exchange contracts	1,617	38	65	1,567	20	36
Cross-currency swaps	4	0	(1)	3	0	0
Currency swaps	100	2	1	81	(1)	(2)
Interest rate swaps	60	0	2	60	(1)	0
Interest rate futures contracts	15	0	0	15	0	0
Option agreements						
Bought	9	1	1	13	0	0
Sold	14	0	0	34	(1)	(1)
Electricity forward contracts ¹⁾	-	-	-	344	0	(1)

¹⁾ Notional amount GWh

Carrying amounts noted in the table above are included in the balance sheet. The notional amounts indicate the volumes in the use of derivatives, they do not indicate the exposure to risk. The fair value reflects the estimated amounts that Metso would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts.

As at December 31, 2003 the maturities of the financial derivatives are following (expressed as notional amounts):

	2004	2005	2006	2007	2008 and after
(In millions)	EUR	EUR	EUR	EUR	EUR
Forward exchange contracts	1,529	38	-	-	-
Cross-currency swaps	-	-	-	3	-
Currency swaps	-	15	-	64	2
Interest rate swaps	-	-	40	-	20
Interest rate futures contracts	15	-	-	-	-
Option agreements					
Bought	13	-	-	-	-
Sold	34	-	-	-	-
Electricity forward contracts ¹⁾	192	108	44	-	-

¹⁾ Notional amount GWh

Notes to Consolidated Financial Statements

Fair value of financial instruments

Disclosures about fair values of financial instruments require the disclosure of estimated fair values for all financial instruments, both on- and off-balance sheet, for which it is practicable to estimate fair value. Metso has used a variety of methods and assumptions, which were based on market conditions and

risks existing at the time to estimate the fair value of the Group's financial instruments at December 31, 2002 and 2003. For certain instruments, including cash and cash equivalents, accounts payable and accruals and short-term debt, it was assumed that the carrying amount approximated fair value due to the short maturity of those instruments. Quoted

market prices or dealer quotes for the same or similar financial instruments were used to estimate the fair value for marketable securities and long-term investments. Other techniques, such as estimated discounted cash flows or replacement cost have been used to determine fair value for the remaining financial instruments.

(In millions)	Year ended December 31,			
	2002		2003	
	Carrying value	Fair value	Carrying value	Fair value
	EUR	EUR	EUR	EUR
Assets:				
Shareholdings and other securities (excluding shares in associated companies)	37	40	29	35
Own shares	1	1	1	1
Loans receivable, long-term	20	20	37	37
Accounts receivable, long-term	5	5	2	2
Other interest bearing long-term investments	26	26	10	10
Accounts receivable, short-term	836	836	719	719
Loans receivable, short-term	5	5	5	5
Short-term investments	11	11	7	7
Cash and cash equivalents	190	190	130	130
Liabilities:				
Bonds	713	757	695	731
Loans from financial institutions	233	240	183	187
Pension loans	38	38	29	29
Other long-term debt	36	36	50	50
Current portion of long-term loans	50	50	17	17
Other interest bearing short-term debt	283	283	295	295

29 Concentrations of credit risk

Metso is exposed to credit risk primarily in relation to project deliveries, trade receivables and the use of financial instruments. The companies within Metso conduct diverse business activities with a large number of customers and suppliers. The receivables are well diversified and, where appropriate, secured by

various trade finance instruments such as letters of credit, export guarantees or by withheld security interest in products sold under extended credit terms. In the use of financial instruments, Metso minimizes credit and counterparty risk by dealing only with major local or international banks and financial institutions or

companies with investment grade credit ratings.

Management believes that no significant unmanaged concentration of credit risk with any individual customer, counterparty or geographical region exists for Metso.

30 Principal subsidiaries

	Country	Shareholder percentage
Metso Paper		
Metso Paper Oy	Finland	100%
Metso Paper USA Inc.	United States	100%
Metso Paper Ltd	Canada	100%
Metso Paper Karlstad AB	Sweden	100%
Metso Paper Sundsvall AB	Sweden	100%
Metso Paper Pori Oy	Finland	100%
Metso Paper Valkeakoski Oy	Finland	100%
Metso Minerals		
Metso Minerals Industries Inc.	United States	100%
Metso Dynapac AB	Sweden	100%
Metso Minerals (Tampere) Oy	Finland	100%
Metso Minerals (Australia) Ltd	Australia	100%
Metso Dynapac GmbH	Germany	100%
Metso Automation		
Metso Automation Oy	Finland	100%
Metso Automation USA Inc.	United States	100%
Metso Ventures		
Metso Drives Oy	Finland	100%
Valmet Automotive Oy	Finland	90%

Notes to Consolidated Financial Statements

31 Business area and geographic information

Net sales by business area:

(In millions)	2001 EUR	2002 EUR	2003 EUR
Metso Paper	2,180	1,778	1,651
Metso Minerals	900	1,804	1,637
Metso Automation	693	622	531
Metso Ventures	554	446	370
Intra Metso net sales	(160)	(119)	(122)
Continuing operations	4,167	4,531	4,067
Converting Equipment	176	160	183
Metso total	4,343	4,691	4,250

Operating profit (loss) before nonrecurring operating items and amortization of goodwill by business area:

(In millions)	2001 EUR	% of net sales	2002 EUR	% of net sales	2003 EUR	% of net sales
Metso Paper	188.0	8.6%	129.3	7.3%	68.3	4.1%
Metso Minerals	42.4	4.7%	105.7	5.9%	74.5	4.6%
Metso Automation	28.7	4.1%	21.9	3.5%	31.4	5.9%
Metso Ventures	34.7	6.3%	28.6	6.4%	(2.6)	(0.7%)
Corporate Headquarters and other	(27.6)	-	(31.8)	-	(35.7)	-
Continuing operations	266.2	6.4%	253.7	5.6%	135.9	3.3%
Converting Equipment	4.3	2.4%	(3.1)	(1.9%)	(2.7)	(1.5%)
Metso total	270.5	6.2%	250.6	5.3%	133.2	3.1%

Nonrecurring operating items by business area:

(In millions)	2001 EUR	2002 EUR	2003 EUR
Metso Paper	(14.9)	(5.9)	(36.0)
Metso Minerals	(16.0)	(13.3)	(66.1)
Metso Automation	(8.5)	(2.6)	(0.3)
Metso Ventures	-	(7.1)	(4.7)
Corporate Headquarters and other	43.1	6.9	1.6
Continuing operations	3.7	(22.0)	(105.5)
Converting Equipment	-	(4.5)	-
Metso total	3.7	(26.5)	(105.5)

Amortization of goodwill by business area:

(In millions)	2001 EUR	2002 EUR	2003 EUR
Metso Paper	(8.2)	(8.2)	(7.7)
Metso Minerals	(13.9)	(43.2)	(38.3)
Metso Automation	(2.9)	(3.0)	(2.7)
Metso Ventures	(1.6)	(1.4)	(1.4)
Corporate Headquarters and other	-	-	-
Continuing operations	(26.6)	(55.8)	(50.1)
Converting Equipment	(1.3)	(1.3)	(1.3)
Metso total	(27.9)	(57.1)	(51.4)

Operating profit (loss) by business area:

(In millions)	2001 EUR	% of net sales	2002 EUR	% of net sales	2003 EUR	% of net sales
Metso Paper	164.9	7.6%	115.2	6.5%	24.6	1.5%
Metso Minerals	12.5	1.4%	49.2	2.7%	(234.9)	(14.3%)
Metso Automation	17.3	2.5%	16.3	2.6%	28.4	5.3%
Metso Ventures	33.1	6.0%	20.1	4.5%	(8.7)	(2.4%)
Corporate Headquarters and other	15.5	-	(24.9)	-	(34.1)	-
Continuing operations	243.3	5.8%	175.9	3.9%	(224.7)	(5.5%)
Converting Equipment	3.0	1.7%	(8.9)	(5.6%)	(4.0)	(2.2%)
Metso total	246.3	5.7%	167.0	3.6%	(228.7)	(5.4%)

Metso Minerals' operating loss includes a goodwill impairment of EUR 205 million, which was booked in September 2003.

Capital employed by business area at the end of year:

(In millions)	2001 EUR	2002 EUR	2003 EUR
Metso Paper	544	498	538
Metso Minerals	1,518	1,393	1,049
Metso Automation	282	207	150
Metso Ventures	164	172	160
Corporate Headquarters and other	476	417	340
Continuing operations	2,984	2,687	2,237
Converting Equipment	60	55	62
Metso total	3,044	2,742	2,299

Notes to Consolidated Financial Statements

Capital expenditure (including business acquisitions) by business area:

(In millions)	2001 EUR	2002 EUR	2003 EUR
Metso Paper	67	72	54
Metso Minerals	825	48	35
Metso Automation	43	13	8
Metso Ventures	36	40	24
Corporate Headquarters and other	8	18	5
Continuing operations	979	191	126
Converting Equipment	3	3	4
Metso total	982	194	130

Depreciation and amortization by business area:

(In millions)	2001 EUR	2002 EUR	2003 EUR
Metso Paper	64	62	60
Metso Minerals	36	89	79
Metso Automation	19	18	15
Metso Ventures	24	22	22
Corporate Headquarters and other	2	3	4
Continuing operations	145	194	180
Converting Equipment	4	3	3
Metso total	149	197	183

Orders received by business area:

	2001	2002	2003
(In millions)	EUR	EUR	EUR
Metso Paper	1,706	1,611	1,710
Metso Minerals	862	1,848	1,594
Metso Automation	676	643	531
Metso Ventures	496	468	398
Intra Metso orders received	(131)	(120)	(121)
Continuing operations	3,609	4,450	4,112
Converting Equipment	169	196	144
Metso total	3,778	4,646	4,256

Order backlog by business area:

	2001	2002	2003
(In millions)	EUR	EUR	EUR
Metso Paper	949	735	784
Metso Minerals	491	468	397
Metso Automation	182	185	145
Metso Ventures	129	154	175
Intra Metso order backlog	(51)	(55)	(55)
Continuing operations	1,700	1,487	1,446
Converting Equipment	72	102	59
Metso total	1,772	1,589	1,505

Notes to Consolidated Financial Statements

Information about Metso's operations in different geographical areas as at and for the years ended December 31, 2001, 2002 and 2003 is as follows:

Net sales to unaffiliated customers by destination:

(In millions)	Finland EUR	Other		North America EUR	South America EUR	Asia- Pacific EUR	Rest of the World EUR	Elimi- nations EUR	Metso total EUR
		Nordic Countries EUR	European Countries EUR						
2001	587	417	1,172	1,143	360	521	143	-	4,343
2002	382	453	1,363	1,199	417	652	225	-	4,691
2003	357	310	1,272	989	264	824	234	-	4,250

In year 2003, 26 percent of net sales was recognized under the percentage of completion method. The percentage was highest in the Metso Paper business area, where it accounted for 53 percent of net sales.

Metso's exports, including sales to unaffiliated customers and intra-group sales from Finland, by destination:

(In millions)	Other		North America EUR	South America EUR	Asia- Pacific EUR	Rest of the World EUR	Total EUR	
	Nordic Countries EUR	European Countries EUR						
2001		365	592	200	85	269	20	1,531
2002		297	567	183	137	248	21	1,453
2003		195	523	209	38	372	15	1,352

Fixed assets and financial assets by location:

(In millions)	Finland EUR	Other		North America EUR	South America EUR	Asia- Pacific EUR	Rest of the World EUR	Elimi- nations EUR	Metso total EUR
		Nordic Countries EUR	European Countries EUR						
2001	530	949	158	457	28	64	9	-	2,195
2002	514	935	108	357	24	57	10	-	2,005
2003	504	746	96	233	23	52	10	-	1,664

Fixed and financial assets include goodwill, other intangible assets, tangible assets, shares and other long-term interest bearing and non-interest bearing receivables.

Gross capital expenditure (excluding business acquisitions) by region:

(In millions)	Finland EUR	Other		North America EUR	South America EUR	Asia- Pacific EUR	Rest of the World EUR	Elimi- nations EUR	Metso total EUR
		Nordic Countries EUR	European Countries EUR						
2001	81	18	17	19	4	14	1	-	154
2002	119	23	23	14	5	8	1	-	193
2003	70	15	19	10	5	7	2	-	128

Parent Company Statement of Income

(In millions)	Year ended December 31,		
	2001 EUR	2002 EUR	2003 EUR
Net sales	-	-	-
Cost of goods sold	-	-	-
Gross profit	-	-	-
Selling, general and administrative expenses	(26)	(31)	(34)
Other income and expenses, net	9	(11)	3
Operating profit (loss)	(17)	(42)	(31)
Financial income and expenses, net	158	201	57
Profit before contributions, untaxed reserves and income taxes	141	159	26
Group contributions	81	2	(24)
Change in untaxed reserves	-	-	-
Change in accelerated depreciation	-	-	-
Extraordinary income and expenses, net	-	-	-
Income before taxes	222	161	2
Income taxes	(17)	(44)	(1)
Net income	205	117	1

Parent Company Balance Sheet

Assets		
(In millions)	As at December 31,	
	2002	2003
	EUR	EUR
Fixed assets and financial assets		
Intangible assets		
Goodwill	-	-
Other intangible assets	2	3
	2	3
Tangible assets		
Land and water areas	2	2
Buildings	1	1
Machinery and equipment	1	1
Other tangible assets	0	0
Assets under construction	-	2
	4	6
Financial assets		
Shareholdings and other securities	1,251	1,602
Own shares	1	1
Loans receivable	345	780
Accounts receivable	-	-
Other long-term investments	8	5
	1,605	2,388
Total fixed and financial assets	1,611	2,397
Current assets		
Inventories		
Materials and supplies	-	-
Work in process	-	-
Finished products	-	-
	-	-
Receivables		
Accounts receivable	6	5
Loans receivable	1,254	426
Accrued income and prepaid expenses	81	71
Other receivables	0	0
Other short-term investments	5	6
	1,346	508
Cash and cash equivalents	2	6
Total current assets	1,348	514
Total assets	2,959	2,911

Shareholders' equity and liabilities

(In millions)	As at December 31,	
	2002	2003
	EUR	EUR
Shareholders' equity		
Share capital	232	232
Share premium reserve	88	88
Legal reserve	216	216
Reserve for own shares	1	1
Other reserves	202	202
Retained earnings	378	413
Net income for the financial year	117	1
Total shareholders' equity	1,234	1,153
Untaxed reserves	0	0
Liabilities		
Long-term debt		
Bonds	711	693
Loans from financial institutions	213	177
Pension loans	17	9
Other long-term debt	1	1
	942	880
Other long-term liabilities		
Accrued expenses	-	1
Current liabilities		
Current portion of long-term debt	39	9
Other interest bearing short-term debt	703	777
Advances received	-	-
Accounts payable	5	7
Accrued expenses and deferred income	35	83
Other current liabilities	1	1
	783	877
Total liabilities	1,725	1,758
Total shareholders' equity and liabilities	2,959	2,911

Parent Company Statement of Changes in Shareholders' Equity

(In millions)	Number of shares (thousands)	Share capital EUR	Share premium reserve EUR	Legal reserve EUR	Reserve for own shares EUR	Other reserves EUR	Retained earnings EUR	Total EUR
Balance at December 31, 2000	135,562	230	82	216	1	202	337	1,068
Dividends	-	-	-	-	-	-	(81)	(81)
Share issue (option rights)	689	2	6	-	-	-	-	8
Other	-	-	-	-	-	-	(1)	(1)
Net income	-	-	-	-	-	-	205	205
Balance at December 31, 2001	136,251	232	88	216	1	202	460	1,199
Dividends	-	-	-	-	-	-	(82)	(82)
Net income	-	-	-	-	-	-	117	117
Balance at December 31, 2002	136,251	232	88	216	1	202	495	1,234
Dividends	-	-	-	-	-	-	(82)	(82)
Net income	-	-	-	-	-	-	1	1
Balance at December 31, 2003	136,251	232	88	216	1	202	414	1,153

Financial indicators 1999–2003

(In millions)	1999 EUR	2000 EUR	2001 EUR	2002 EUR	2003 EUR
Net sales	3,387	3,891	4,343	4,691	4,250
Net sales change, %	(8.3)	14.9	11.6	8.0	(9.4)
Operating profit (loss)	(10)	200	246	167	(229)
% of net sales	(0.3)	5.1	5.7	3.6	(5.4)
Income (loss) before extraordinary items and taxes	(28)	180	222	93	(303)
% of net sales	(0.8)	4.6	5.1	2.0	(7.1)
Income (loss) before taxes	(87)	448	214	93	(303)
% of net sales	(2.6)	11.5	4.9	2.0	(7.1)
Net income (loss) for the year	(88)	389	141	65	(258)
Exports and international operations	3,042	3,530	3,764	4,320	3,724
% of net sales	89.8	90.7	86.7	92.1	87.6
Orders received	3,528	4,268	3,778	4,646	4,256
Order backlog, December 31	1,586	1,907	1,772	1,589	1,505
Gross capital expenditure	121	127	154	193	128
% of net sales	3.6	3.3	3.5	4.1	3.0
Depreciation and amortization	130	128	149	197	183
% of net sales	3.8	3.3	3.4	4.2	4.3
Business acquisitions, net of cash acquired	116	186	828	1	2
% of net sales	3.4	4.8	19.1	0.0	0.0
Research and development	127	127	150	156	129
% of net sales	3.7	3.3	3.5	3.3	3.0
Shareholders' equity	1,085	1,425	1,469	1,379	1,024
Net interest bearing liabilities (receivables)	465	(53)	1,251	1,118	1,109
Balance sheet total	3,169	3,564	5,042	4,399	3,823
Gearing, %	42.8	(3.7)	84.8	80.6	107.7
Return on equity (ROE), %	(2.4)	9.5	10.4	4.8	(21.3)
Return on capital employed (ROCE), %	1.6	12.2	12.3	6.4	(8.7)
Equity to assets ratio, %	37.3	45.4	31.1	33.3	28.3
Average number of employees	22,965	22,372	25,613	29,258	27,400

Formulas for calculation of financial indicators are presented on the following page.

Formulas for Calculation of Indicators

Formulas for calculation of financial indicators

Gearing, %:

$$\frac{\text{Net interest bearing liabilities}}{\text{Shareholders' equity + minority interests}} \times 100$$

Return on equity (ROE), %:

$$\frac{\text{Profit before extraordinary items and income taxes - taxes}}{\text{Shareholders' equity + minority interests (average for period)}} \times 100$$

Return on capital employed (ROCE), %:

$$\frac{\text{Profit before extraordinary items and income taxes + interest and other financial expenses}}{\text{Balance sheet total - non-interest bearing liabilities (average for period)}} \times 100$$

Equity to assets ratio, %:

$$\frac{\text{Shareholders' equity + minority interests}}{\text{Balance sheet total - advances received}} \times 100$$

Formulas for calculation of share-related indicators

Earnings/share:

$$\frac{\text{Profit before extraordinary items and income taxes} - \text{taxes +/- minority interests}}{\text{Average number of shares during period}}$$

Effective dividend yield, %:

$$\frac{\text{Dividend per share}}{\text{Weighted average share price on Dec. 31}} \times 100$$

Equity/share:

$$\frac{\text{Shareholders' equity}}{\text{Number of shares at end of period}}$$

P/E ratio:

$$\frac{\text{Weighted average share price on Dec. 31}}{\text{Earnings per share}}$$

Dividend/share:

$$\frac{\text{Dividend distribution}}{\text{Number of shares at end of period}}$$

Average share price:

$$\frac{\text{Total value of shares traded in euro}}{\text{Number of shares traded during period}}$$

Dividend/earnings, %:

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

Market capitalization:

$$\text{Total number of shares} \times \text{share price at end of period}$$

Exchange rates used

		Average rates			Year-end rates				
		2003	2002	2001	2003	2002	2001	2000	1999
USD	(US dollar)	1.1309	0.9449	0.8957	1.2630	1.0487	0.8813	0.9305	1.0046
SEK	(Swedish krona)	9.1244	9.1591	9.2557	9.0800	9.1528	9.3012	8.8313	8.5625
GBP	(Pound sterling)	0.6919	0.6288	0.6219	0.7048	0.6505	0.6085	0.6241	0.6217
CAD	(Canadian dollar)	1.5821	1.4828	1.3867	1.6234	1.6550	1.4077	1.3965	1.4608

Auditors' Report

**To the shareholders
of Metso Corporation**

We have audited the accounting, the financial statements and the corporate governance of Metso Corporation for the period January 1, 2003 to December 31, 2003. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the President and CEO. Based on our audit we express an opinion on these financial statements and on corporate governance of the parent company.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that

we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the President and CEO have legally complied with the rules of the Companies' Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and

other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies Act.

Helsinki February 23, 2004

PricewaterhouseCoopers Oy
Authorized Public Accountants

Lars Blomquist
Authorized Public Accountant

Heikki Lassila
Authorized Public Accountant

Quarterly information

Net sales by business area

	1-3/02	4-6/02	7-9/02	10-12/02	2002	1-3/03	4-6/03	7-9/03	10-12/03	2003
(In millions)	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Metso Paper	410	403	405	560	1,778	359	402	363	527	1,651
Metso Minerals	432	514	424	434	1,804	379	430	409	419	1,637
Metso Automation	151	155	149	167	622	126	132	120	153	531
Metso Ventures	113	104	101	128	446	98	93	76	103	370
Intra Metso net sales	(33)	(33)	(15)	(38)	(119)	(25)	(32)	(22)	(43)	(122)
Continuing operations	1,073	1,143	1,064	1,251	4,531	937	1,025	946	1,159	4,067
Converting Equipment	38	35	41	46	160	46	47	45	45	183
Metso total	1,111	1,178	1,105	1,297	4,691	983	1,072	991	1,204	4,250

Operating profit (loss) before nonrecurring operating items and amortization of goodwill by business area and net income

	1-3/02	4-6/02	7-9/02	10-12/02	2002	1-3/03	4-6/03	7-9/03	10-12/03	2003
(In millions)	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Metso Paper	31.1	29.4	14.8	54.0	129.3	7.8	11.1	15.3	34.1	68.3
Metso Minerals	21.4	36.3	21.4	26.6	105.7	10.9	21.3	19.1	23.2	74.5
Metso Automation	0.1	8.5	6.1	7.2	21.9	1.7	6.9	8.1	14.7	31.4
Metso Ventures	2.2	8.8	4.2	13.4	28.6	0.2	4.6	(1.7)	(5.7)	(2.6)
Corporate Headquarters and other	(7.3)	(9.4)	(8.2)	(6.9)	(31.8)	(8.5)	(10.4)	(6.2)	(10.6)	(35.7)
Continuing operations	47.5	73.6	38.3	94.3	253.7	12.1	33.5	34.6	55.7	135.9
Converting Equipment	(0.8)	(2.1)	(0.5)	0.3	(3.1)	(0.4)	1.5	(0.6)	(3.2)	(2.7)
Operating profit (loss) before nonrecurring operating items and amortization of goodwill	46.7	71.5	37.8	94.6	250.6	11.7	35.0	34.0	52.5	133.2
Nonrecurring operating income and expenses, net	(2.0)	(13.5)	(3.1)	(7.9)	(26.5)	7.3	(7.9)	(108.0)	3.1	(105.5)
Goodwill impairment	-	-	-	-	-	-	-	(205.0)	-	(205.0)
Amortization of goodwill	(13.8)	(15.4)	(14.2)	(13.7)	(57.1)	(13.7)	(13.6)	(13.5)	(10.6)	(51.4)
Operating profit (loss)	30.9	42.6	20.5	73.0	167.0	5.3	13.5	(292.5)	45.0	(228.7)
Financial income and expenses, net	(17)	(20)	(18)	(19)	(74)	(18)	(17)	(18)	(21)	(74)
Income (loss) before taxes	14	22	3	54	93	(13)	(3)	(311)	24	(303)
Income taxes	(7)	(11)	(2)	(6)	(26)	0	(1)	6	39	44
Minority interests	(1)	(1)	0	0	(2)	0	(1)	1	1	1
Net income (loss)	6	10	1	48	65	(13)	(5)	(304)	64	(258)
Earnings per share, EUR	0.04	0.08	0.01	0.35	0.48	(0.09)	(0.04)	(2.23)	0.47	(1.89)

Consolidated balance sheets

	Mar 31, 2002	June 30, 2002	Sep 30, 2002	Dec 31, 2002	Mar 31, 2003	June 30, 2003	Sep 30, 2003	Dec 31, 2003
(In millions)	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Fixed assets and financial assets								
Intangible assets	1,086	1,031	1,031	1,011	988	973	755	760
Tangible assets	892	893	898	891	876	862	855	810
Financial assets	197	194	139	103	107	92	92	94
Current assets								
Inventories	999	959	903	819	885	875	853	743
Receivables	1,444	1,438	1,408	1,385	1,253	1,355	1,379	1,286
Cash and cash equivalents	227	124	134	190	127	126	130	130
Total assets	4,845	4,639	4,513	4,399	4,236	4,283	4,064	3,823
Shareholders' equity								
Share capital	232	232	232	232	232	232	232	232
Other shareholders' equity	1,148	1,124	1,114	1,147	1,132	1,048	751	792
Minority interests	8	9	9	10	8	6	7	6
Liabilities								
Long-term liabilities	1,456	1,408	1,314	1,172	1,085	1,165	1,175	1,118
Current liabilities	2,001	1,866	1,844	1,838	1,779	1,832	1,899	1,675
Total shareholders' equity and liabilities	4,845	4,639	4,513	4,399	4,236	4,283	4,064	3,823
Net interest bearing liabilities								
Long-term interest bearing								
liabilities	1,291	1,244	1,167	1,020	926	1,001	1,010	957
Short-term interest bearing								
liabilities	228	270	229	333	319	341	320	312
Cash and cash equivalents	(227)	(124)	(134)	(190)	(127)	(126)	(130)	(130)
Other interest bearing assets	(84)	(78)	(78)	(45)	(28)	(26)	(28)	(30)
Total	1,208	1,312	1,184	1,118	1,090	1,190	1,172	1,109
Equity to assets ratio, %	30.5	31.2	31.8	33.3	34.5	32.4	26.8	28.3
Gearing, %	87.1	96.1	87.3	80.6	79.5	92.5	118.5	107.7

Quarterly information

Orders received by business area

	1-3/02	4-6/02	7-9/02	10-12/02	2002	1-3/03	4-6/03	7-9/03	10-12/03	2003
(In millions)	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Metso Paper	481	464	391	275	1,611	733	268	421	288	1,710
Metso Minerals	541	466	412	429	1,848	431	395	352	416	1,594
Metso Automation	162	184	139	158	643	160	131	121	119	531
Metso Ventures	100	127	104	137	468	104	77	75	142	398
Intra Metso orders received	(31)	(31)	(26)	(32)	(120)	(36)	(30)	(22)	(33)	(121)
Continuing operations	1,253	1,210	1,020	967	4,450	1,392	841	947	932	4,112
Converting Equipment	38	46	37	75	196	33	43	40	28	144
Metso total	1,291	1,256	1,057	1,042	4,646	1,425	884	987	960	4,256

Order backlog by business area

	Mar 31, 2002	June 30, 2002	Sep 30, 2002	Dec 31, 2002	Mar 31, 2003	June 30, 2003	Sep 30, 2003	Dec 31, 2003
(In millions)	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Metso Paper	1,013	1,052	1,025	735	1,108	973	1,031	784
Metso Minerals	583	496	453	468	509	472	415	397
Metso Automation	193	209	199	185	184	182	181	145
Metso Ventures	122	136	142	154	157	144	146	175
Intra Metso order backlog	(50)	(47)	(58)	(55)	(68)	(69)	(70)	(55)
Continuing operations	1,861	1,846	1,761	1,487	1,890	1,702	1,703	1,446
Converting Equipment	71	79	77	102	84	81	74	59
Metso total	1,932	1,925	1,838	1,589	1,974	1,783	1,777	1,505

Personnel by business area

	Mar 31, 2002	June 30, 2002	Sep 30, 2002	Dec 31, 2002	Mar 31, 2003	June 30, 2003	Sep 30, 2003	Dec 31, 2003
Metso Paper	9,063	9,466	9,203	9,357	9,394	9,776	9,323	9,085
Metso Minerals	10,954	10,798	10,722	10,553	10,498	10,650	10,517	10,332
Metso Automation	4,387	4,395	4,223	4,150	3,648	3,689	3,412	3,314
Metso Ventures	4,165	3,741	3,558	3,466	3,271	2,618	2,509	2,482
Corporate Headquarters and other	118	132	131	134	135	166	204	223
Continuing operations	28,687	28,532	27,837	27,660	26,946	26,899	25,965	25,436
Converting Equipment	840	830	835	829	831	827	818	804
Metso total	29,527	29,362	28,672	28,489	27,777	27,726	26,783	26,240

Exchange rates used

	1-3/2002	1-6/2002	1-9/2002	1-12/2002	1-3/2003	1-6/2003	1-9/2003	1-12/2003
USD (US dollar)	0.8764	0.8979	0.9265	0.9449	1.0734	1.1049	1.1114	1.1309
SEK (Swedish krona)	9.1566	9.1567	9.1806	9.1591	9.1818	9.1623	9.1628	9.1244
GBP (Pound sterling)	0.6146	0.6217	0.6262	0.6288	0.6698	0.6856	0.6900	0.6919
CAD (Canadian dollar)	1.3973	1.4127	1.4539	1.4828	1.6202	1.6045	1.5874	1.5821
	Mar 31, 2002	June 30, 2002	Sep 30, 2002	Dec 31, 2002	Mar 31, 2003	June 30, 2003	Sep 30, 2003	Dec 31, 2003
USD (US dollar)	0.8724	0.9975	0.9860	1.0487	1.0895	1.1427	1.1652	1.2630
SEK (Swedish krona)	9.0304	9.1015	9.1516	9.1528	9.2608	9.2488	8.9625	9.0800
GBP (Pound sterling)	0.6130	0.6498	0.6295	0.6505	0.6896	0.6932	0.6986	0.7048
CAD (Canadian dollar)	1.3923	1.5005	1.5566	1.6550	1.6037	1.5506	1.5717	1.6234

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