

# 02

**Financial  
Statements  
2002**



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# Information to Shareholders

## Annual General Meeting

The Annual General Meeting of Metso Corporation will be held on Tuesday, April 15, 2003 at 2.00 p.m. in the Marina Congress Center at Katajanokanlaituri 6, FIN-00160 Helsinki. Registration of the shareholders participating in the meeting and distribution of ballots will begin at 1.00 p.m.

The shareholders who are entered as shareholders in the Corporation's shareholder register maintained by the Finnish Central Securities Depository Ltd. by April 4, 2003 shall have the right to participate in the Annual General Meeting.

Shareholders who wish to participate in the meeting should notify the Corporation of their intention to participate by no later than 4.00 p.m. on April 10, 2003, either by mail to Metso Corporation, PO Box 1220, FIN-00101 Helsinki, or by phone at +358 10 808 300, by fax at +358 20 484 3125, or by email to [soili.i.johansson@metso.com](mailto:soili.i.johansson@metso.com). Notices of participation must be received by the above-mentioned deadline. Any powers-of-attorney should also be sent to the above address by the same deadline.

## Payment of dividends

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of EUR 0.60 per share be paid for 2002.

Dividends will be paid to those shareholders who are entered in the Corporation's shareholder register maintained by the Finnish Central Securities Depository Ltd. on the record date for payment of dividends, i.e. on April 22, 2003. The actual payment of dividends will take place on April 29, 2003.

## Financial reviews in 2003

Financial statements release 2002	February 5, 2003
Interim review for January-March	April 29, 2003
Interim review for January-June	July 30, 2003
Interim review for January-September	October 29, 2003

The interim reviews will be published in Finnish, Swedish and English, and the releases in Finnish and English on Metso's Internet pages at [www.metso.com](http://www.metso.com). Webcasts of the related press conferences can also be viewed on Metso's Internet pages.

Metso publishes its Index investor magazine three times a year in Finnish, Swedish and English. The main investor information is also gathered in the Investors' section on Metso's Internet pages in Finnish and English.

### Annual reports for 2002

This Financial Statements together with Metso's Annual Review form Metso's Annual Report for 2002. Metso has also published a Sustainability Report for 2002. The reports are published in Finnish, English and Swedish and are also available in Finnish and English on Metso's Internet pages at [www.metso.com/reports](http://www.metso.com/reports).

### Ordering of financial reviews

Annual reports and interim reviews can be ordered from:  
Metso Corporation  
Corporate Communications  
PO Box 1220  
FIN-00101 Helsinki  
By phone +358 20 484 100  
By fax +358 20 484 3123  
By email: [metso.info@metso.com](mailto:metso.info@metso.com)

Financial reviews can also be ordered by using the order form available on Metso's Internet pages at: [www.metso.com](http://www.metso.com) > Contact Us > Order publications.

### Changes of address

If your address changes, please send written notification of this to the bank where your book-entry account is held or, if your account is held at the Finnish Central Securities Depository Ltd., please send notification to:  
Finnish Central Securities Depository Ltd.  
Fabianinkatu 14  
PO Box 361  
FIN-00131 Helsinki, Finland  
Tel. +358 9 6166 7529  
(free customer helpline Monday to Friday from 9 a.m. to 4 p.m. Finnish time, tel. +358 800 180 500)

Metso ADS holders are requested to contact the Bank of New York:

The Bank of New York  
PO Box 11258  
Church Street Station  
New York, NY 10286-1258, USA  
Tel. (national) 1-888-BNY-ADRS  
Tel. (international) +1 610 312 5315  
Email: [shareowner-svcs@bankofny.com](mailto:shareowner-svcs@bankofny.com)  
[www.adrbny.com](http://www.adrbny.com) or [www.stockbny.com](http://www.stockbny.com)

People other than shareholders are requested to notify Metso Corporate Headquarters of changed addresses.

# Shares and Shareholders

## Share capital and shares

Metso's share capital is EUR 231,625,926.50, and it is divided into 136,250,545 fully paid shares. According to the 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.

## 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 March 27, 2002 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 payment in acquisitions or in financing investments. 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 2000-2002, none of the Corporation's own shares were acquired or disposed of. On December 31, 2002 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 March 27, 2002 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. The Board of Directors had not exercised these authorizations by December 31, 2002.

## 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 2000 A warrants have been listed on the Helsinki Exchanges since June 29, 2001.

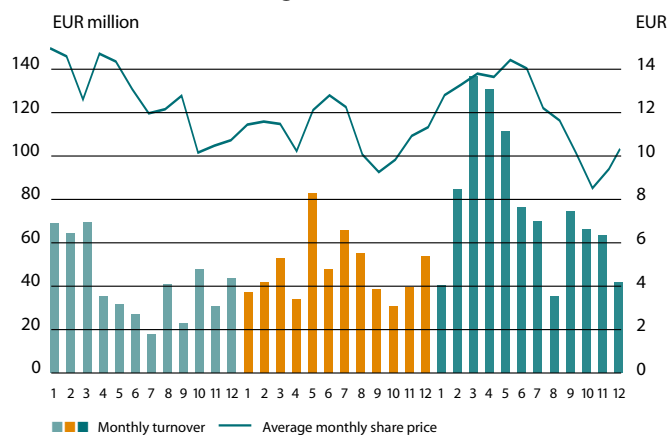
The highest quotation of Metso's share on the Helsinki Exchanges was EUR 15.15, and the lowest EUR 7.73. The share price on December 31, 2002 was EUR 10.30, and the average trading price for the year was EUR 12.13. The Corporation's end-of-year market capitalization was EUR 1,403 million.

In 2002, 76,737,801 Metso shares were traded on the Helsinki Exchanges. The total turnover was EUR 931 million. The average daily trading volume was 308,184 shares. The relative turnover including the ADS turnover was 57 per cent.

The highest price of Metso's American depositary share (ADS) on the New York Stock Exchange was USD 14.26, and the lowest USD 7.81. The ADS price on December 31, 2002 was USD 10.92, and the average trading price was USD 11.39. In 2002, 914,715 Metso American depositary shares were traded on the New York Stock Exchange, to a value of USD 10 million. Each ADS represents one share.

The highest quotation of Metso's 2000 A warrants on the Helsinki Exchanges was EUR 2.75, and the lowest EUR 1.20 which was also the value of the share options on December 31, 2002. During the year 83,100 Metso 2000 A warrants were traded. The total turnover was EUR 180,608.

**Monthly turnover and average share price on the Helsinki Exchanges 2000-2002**



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

## Options programs

Metso Corporation currently has two options programs, launched in 2000 and 2001. The programs are part of the incentive system for key personnel, and included 226 persons at the end of 2002. The programs give the right to subscribe for a maximum of 6,000,000 new shares.

The 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 warrants are marked with the letter 'A', and 2,500,000 with the letter 'B'. The share subscription price was EUR 14.40 on December 31, 2002. Annually paid dividends are deducted from the subscription price. Share subscriptions based on A options began on April 1, 2001, while those based on B options will begin on April 1, 2003. The subscription period for all share options ends on April 30, 2005.

The 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 warrants are marked with the letter 'A', and 500,000 with the letter 'B'. The share subscription price was EUR 14.40 on December 31, 2002. Annually paid dividends are deducted from the subscription price. Share subscriptions based on A options began on April 1, 2001, while those based on B options will begin on April 1, 2003. The subscription period for all options ends on April 30, 2005.

A total of 50,000 options issued in 1996 and transferred from Rauma Corporation had not been exercised in 2001 nor at the end of the subscription period on January 31, 2002. Of these, 25,000 entitled subscription for 25,000 Metso Corporation shares at a subscription price of EUR 15.44 between April 2, 2000 and January 31, 2002. Another 25,000 entitled subscription for 25,000 Metso Corporation shares at a subscription price of EUR 15.44 between April 2, 2001 and January 31, 2002. No share entitlements provided by options transferred from Rauma Corporation were subscribed for in 2002, and the program has now ended.

## Shareholdings of the Board of Directors and the Management

On December 31, 2002, the members of the Metso Corporation's Board of Directors held 23,597 Metso shares, equivalent to 0.02 percent of the Corporation's shares and the accompanying voting rights. Tor Bergman, President and CEO, owned 220,000 options. Mr. Bergman did not own any Metso shares. Sakari Tamminen, Executive Vice President and CFO, owned 1,380 Metso shares and 150,000 options. Metso Corporation's extended insider holdings are also presented on the Corporation's homepages at [www.metso.com](http://www.metso.com) > Metso > Management > Insiders.

## The taxable value of Metso's share in Finland

The taxable value of Metso Corporation's share in Finland in 2002 is EUR 7.19 / share.

## Dividend policy

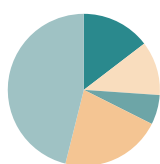
Metso's objective is to distribute annual dividends equivalent to at least one third of the average earnings per share over five years. The dividend policy is founded on the Corporation's long-term profitability and financial strength.

Metso's Board of Directors has decided to propose to the Annual General Meeting, which will convene on April 15, 2003, that a dividend of EUR 0.60 per share be distributed for 2002, which is 126 percent of the earnings per share.

## Shareholders

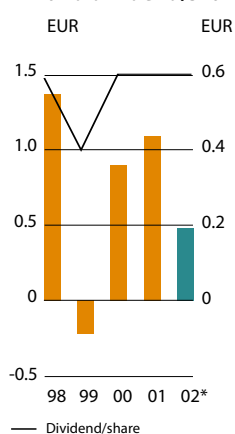
At the end of 2002, Metso had approximately 27,000 shareholders. Metso's biggest shareholders are UPM-Kymmene Corporation, which held 14.6 percent of all shares, and the Finnish Government with an 11.5 percent holding. Nominee-registered shares and shares in direct foreign ownership accounted for 46.1 percent of the total stock. 6.3 percent of the total stock was held by Finnish private individuals.

### Breakdown by shareholder category on December 31, 2002

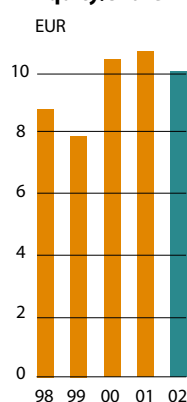


- UPM-Kymmene Corporation 14.6%
- The Finnish Government 11.5%
- Finnish private investors 6.3%
- Finnish institutions, companies and foundations 21.5%
- Nominee-registered and foreign ownership 46.1%

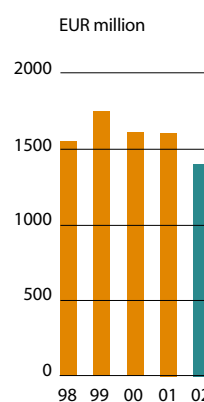
### Earnings/share and dividend/share



### Equity/share



### Market capitalization, Dec. 31



## Shares and Shareholders

### Metso's biggest shareholders on December 31, 2002

	Number of shares	% of share capital
1. UPM-Kymmene Corporation	19,922,115	14.6
2. The Finnish Government	15,695,287	11.5
3. Varma-Sampo Mutual Pension Insurance Company	3,217,069	2.4
4. Ilmarinen Mutual Pension Insurance Company	3,055,678	2.2
5. Suomi Group		
Suomi Mutual Life Assurance Company	1,750,000	1.3
Suomi Insurance Company Ltd.	400,000	0.3
	2,150,000	1.6
6. OKO Bank		
OP-Delta Mutual Fund	868,900	0.6
OP-Pirkka Mutual Fund	345,600	0.3
OP-Tuotto Mutual Fund	219,700	0.2
OKO Bank	80,000	0.1
OP-Focus Mutual Fund	73,400	0.1
Opstock Finland Index Mutual Fund	64,877	0.0
OP-Forest Mutual Fund	48,160	0.0
	1,700,637	1.3
7. Odin		
Odin Norden	1,160,376	0.9
Odin Finland	156,037	0.1
	1,316,413	1.0
8. Pohjola Group Plc		
Pohjola Non-Life Insurance Company Limited	1,020,000	0.7
Mutual Fund Pohjola Finland Value	230,000	0.2
	1,250,000	0.9
9. Svenska litteratursällskapet i Finland	828,577	0.6
10. Nordea		
Nordea Optima.fi Fund	234,836	0.2
Nordea Fennia Fund	220,100	0.2
Nordea Life Assurance Ltd.	152,310	0.1
Nordea Nordia Fund	62,100	0.0
Nordea Pro Suomi Fund	50,000	0.0
	719,346	0.5
<b>10 largest shareholders total</b>	<b>49,855,122</b>	<b>36.6</b>
Nominee-registered shares*	61,152,968	44.9
Other shareholders	25,181,164	18.5
Shares held by Metso Corporation	60,841	0.0
<b>Total</b>	<b>136,250,545</b>	<b>100.0</b>

\*) The Corporation was informed on April 24, 2002 that the funds managed by Capital Group Companies, Inc. held 6.29% of share capital and 4.97% of voting rights. The Corporation was informed on June 12, 2002 that the funds managed by Franklin Resources, Inc. held 5.17% of share capital and 6.30% of voting rights.

## Breakdown of share ownership on December 31, 2002

Number of shares	Number of shareholders	% of shareholders	Total number of shares	% of share capital
1 – 100	11,015	43.9	489,906	0.3
101 – 1,000	11,589	46.1	4,049,765	3.0
1,001 – 10,000	2,244	8.9	5,720,930	4.2
10,001 – 100,000	228	0.9	6,494,261	4.8
Over 100,000	51	0.2	58,268,214	42.8
	25,127	100.0	75,023,076	55.1
Nominee-registered shares	12		61,152,968	44.9
Shares held by Metso Corporation			60,841	0.0
Shares to be transferred or not converted into book entries			13,660	0.0
<b>Total</b>			<b>136,250,545</b>	<b>100.0</b>

Each nominee-register is entered in Metso's shareholder register at the Finnish Central Securities Depository Ltd. as one shareholder. Metso has estimated that the number of shareholders in these nominee-registers was approximately 1,900 on December 31, 2002, and hence the total number of shareholders is approximately 27,000.

## Share capital and share data 1998–2002

(In EUR millions, except for per share data, share prices and number of shares)

	1998	1999	2000	2001	2002
Share capital, Dec. 31	228	228	230	232	232
Number of shares					
Number of outstanding shares, Dec. 31	135,826,010	135,256,434	135,501,634	136,189,704	136,189,704
Average number of shares	135,826,010	135,631,740	135,363,537	136,135,223	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
Trading volume, Helsinki Exchanges	74,734,449	46,058,568	39,455,032	51,858,765	76,737,801
% of shares**	74.6	46.0	40.5	52.5	77.2
Earnings / share	1.37	(0.22)	0.90	1.09	0.48
Dividend / share	0.59	0.40	0.60	0.60	0.60*
Dividend	80	54	81	82	82*
Dividend / earnings, %	43	neg.	67	55	126*
Effective dividend yield, %	5.1	3.0	5.2	5.2	5.8*
P/E ratio	8.34	neg.	13.00	10.62	21.54
Equity / share	8.88	7.98	10.51	10.78	10.12
Highest share price	18.53	13.70	16.20	14.10	15.15
Lowest share price	7.72	8.26	8.61	7.81	7.73
Average share price	13.00	10.76	12.67	11.16	12.13
Share price, Dec. 31	11.43	12.90	11.90	11.80	10.30
Market capitalization, Dec. 31	1,553	1,752	1,612	1,608	1,403

\*) Proposal by the Board of Directors

\*\*\*) Of the total amount of shares for public trading

Formulas for calculation of share-related indicators are on page 58.

## American depositary shares

(Each ADS represents one share)	2001	2002
Trading volume (NYSE)	980,606	914,715
Earnings / ADS, USD	0.98	0.45
Highest ADS price, USD	11.30	14.26
Lowest ADS price, USD	7.68	7.81
ADS price, Dec. 31, USD	10.45	10.92

# Risks and Risk Management

## Business operation risks

### Global economy and customer industries

Cyclical changes in the global economy have an impact on the demand for Metso's products and its financial position, especially in the short-term. In the long-term, these impacts are leveled out by the wide geographical spread of Metso's operations, the number of customers from different industries, the large base of installed machinery and stable customer relationships.

The Svedala acquisition led to a significant change in the Corporation's structure, for the Metso Minerals business area now equals Metso Paper in size. Due to the acquisition, Metso's dependence on the business cycles of the pulp and paper industry has diminished, since Metso Minerals is tied to the development of the mining, construction and civil engineering industries. Metso Minerals' main focus is on infrastructure investments, the demand for which is more stable by nature. In addition, the increasing share of net sales derived from aftermarket and maintenance services reduces the risks related to cyclical changes.

### Competition

The business of both Metso and its customers is geographically widely spread. Political and legislative changes can weaken Metso's competitiveness or restrict its operations in some countries. At the end of 2002 Metso was not aware of any probable political risks of potential material significance to Metso's operations.

Current or future competitors may launch new and revised products and new technology that may decrease the value and competitiveness of Metso's products and weaken Metso's possibilities to achieve its financial goals.

Changes in foreign exchange rates have an impact on Metso's competitiveness. This impact is reflected directly in the prices of raw materials, factors of production and the final products. Indirectly they can affect the profitability of Metso's competitors and Metso's position on the market. The wide geographical spread of Metso's operations reduces the significance of individual currencies, however.

### Production, products and technology

Every attempt is made to maintain and improve the competitiveness of products and services by emphasizing research and development, by taking care of intellectual property rights, including patents, and by cooperating with other companies.

The adaptability of production to changes in demand has been enhanced by, for example, increasing outsourcing and by focusing on the manufacture and assembly of key components. Quality and internal processes are controlled in accordance with ISO 9001 quality systems.

Metso has been involved in general lawsuits or those associated with product liability, and the claims arising have been covered with general and product liability insurance. Attempts are made to prevent product liability lawsuits by emphasizing product safety at the product planning phase.

Environmental aspects are increasingly emphasized in Metso's products. It is the task of product development to ensure that the environmental impacts of new products and services are taken into account. Many laws and regulations that promote environmental protection guide the Corporation's operations. Moreover, environmental systems meeting ISO 14001 standards are essential tools in Metso's environmental management.

### Raw materials and subcontractors

Developments in the global economy and political factors may influence the prices and availability of raw materials. For example, changes in energy and oil prices have a negative influence on Metso in cases where the price changes directly affect customer industries' willingness to invest.

Metso buys most of the raw materials and product components it needs from subcontractors with whom it has made long-term contracts. These limit the availability and pricing risks related to purchasing. The most significant subcontractors are audited before cooperation begins and also regularly during the contract period.

## Financial risks

### Financial risk management

The most important financial risks in Metso's extensive international operations are liquidity, interest rate, currency and credit risks. The key principles underlying Metso's Treasury policy, approved by the Board, 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.

The task of Metso's Corporate Treasury is to safeguard the availability of the Corporation's equity and debt capital under competitive terms, and to manage financial risks in accordance with the approved Treasury policy. 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.

### 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 the banks.

### Interest rate risks

Changes in market interest rates and interest margins influence Metso's financing costs and returns from financial investments. To decrease exposure to interest rate risks, Metso has set limits for the ratio of floating-rate to fixed-rate loans. In addition, the average length of interest rate periods can be influenced by interest rate swaps and other derivative contracts.

### Currency risks

A good half of Metso's net sales originate from outside the euro zone. Various currencies are used for customer deliveries and for intercompany transactions within Metso.

Alongside the euro, the most important currencies used in invoicing are the U.S. dollar and the Swedish krona. Metso has operations in countries in which currency regulation affects hedging risks. The most important of these are Brazil, China and South Africa.

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. 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 financial operations.

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.

### Share value risks

Metso has, to a small extent, investments in the shares of other listed companies. Metso has not hedged the risks pertaining to their market value.

### Credit 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 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

## General market environment

The uncertainty of the global economy was reflected in Metso's market environment and product demand throughout the year under review, especially in the USA and Germany, both important markets for the Corporation. On the other hand, the growing Chinese market showed positive development.

In the year's final quarter, the paper industry began to activate its investment planning, while infrastructure building in the construction and civil engineering industry continued at the level of the beginning of the year.

## The demand for Metso's products

The market for Metso Paper was satisfactory. Major paper machine projects were ongoing mainly in Canada, China and Europe. Metso also strengthened its market position in tissue and pulping lines. The US markets remained slow throughout the year. Rebuilds were pending mainly in Europe. The demand for Metso Paper's aftermarket and maintenance services was good.

The demand for Metso Minerals' products supplied to the construction and civil engineering industries was good in Europe, except for Germany. In the US markets, on the other hand, the demand continued weak. The demand for mining industry products strengthened slowly during the year in the southern hemisphere, but was modest elsewhere. The demand for Metso Minerals' aftermarket and maintenance services was good.

The demand for Metso Automation's products was satisfactory everywhere except the USA, where the market was weak the whole year.

## Orders received and order backlog

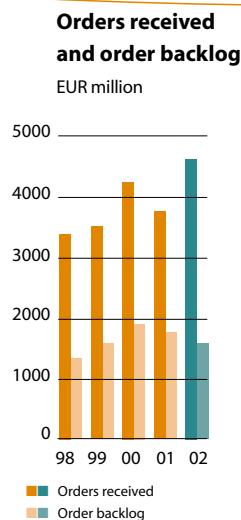
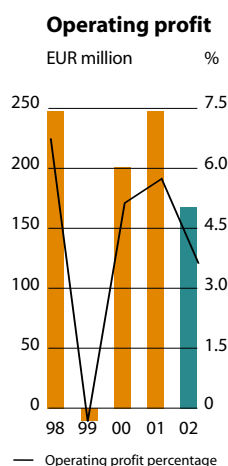
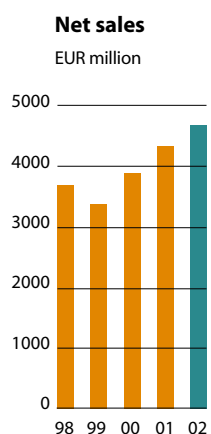
In 2002, Metso received new orders worth EUR 4,646 million, or 23 percent more than in the comparison year 2001 due to the acquisition of Svedala. 46 percent of these orders originated from Europe, 27 percent from North America, 13 percent from Asia-Pacific, 9 percent from South America and 5 percent from the rest of the world.

The value of orders received by Metso Paper was 5 percent lower than in the comparison year (excluding the Converting Equipment group). The value of orders received by Metso Minerals increased substantially from the comparison year due to the acquisition of Svedala. The orders received by Metso Automation were 5 percent lower than in the comparison year. The orders received by Metso Ventures were 7 percent lower than in the comparison year.

Metso's order backlog was EUR 1,589 million at the end of the year under review, a decrease of 10 percent from the end of 2001. Metso Paper accounted for 45 percent of the Corporation's order backlog, Metso Minerals for 29 percent, Metso Automation for 11 percent and Metso Ventures for 9 percent. The Converting Equipment group accounted for 6 percent of the Corporation's order backlog.

## Net sales

Metso's net sales totaled EUR 4,691 million, 8 percent more than in the comparison year. Aftermarket and maintenance services accounted for 33 percent of the Corporation's net sales (excluding Metso Ventures). The corresponding figure in the comparison year was 27 percent. Of the Corporation's net sales, 38 percent came from the deliveries of Metso Paper, 38 percent from Metso Minerals, 13 percent from Metso Automation and 8 percent from Metso Ventures.



The Converting Equipment group accounted for 3 percent of the Corporation's net sales.

Exports and operations outside Finland accounted for 92 percent of the Corporation's net sales, or EUR 4,320 million. 47 percent of net sales originated from Europe, 25 percent from North America, 14 percent from Asia-Pacific, 9 percent from South America and 5 percent from the rest of the world.

Sales between business areas of EUR 96 million have been eliminated from the Corporation's net sales.

### Result

The Corporation's operating profit before nonrecurring items and amortization of goodwill was EUR 250.6 million, representing 5.3 percent of net sales. The nonrecurring income of EUR 8 million arose from the sale of shares and other assets. The nonrecurring expenses of EUR 35 million originated mainly from business restructuring. During the year's final quarter, nonrecurring expenses of EUR 8 million were booked.

Metso's operating profit for 2002 was EUR 167.0 million, or 3.6 percent of net sales. Income before extraordinary items and taxes was EUR 93 million. Profit declined from the previous year, especially due to the weakened market situation in Germany and the USA. In addition, the operating losses of Metso Panelboard, part of Metso Ventures, and of the Converting Equipment group, part of Metso Paper, as well as the extensive integration carried out in Metso Minerals, weakened the Corporation's profitability.

The Corporation's net financial expenses were EUR 74 million, including dividend income of EUR 7 million.

The net income for the year was EUR 65 million. Earnings per share were EUR 0.48 or, excluding nonrecurring items and amortization of goodwill, EUR 0.99. The return on capital employed (ROCE) was 6.4 percent, while the return on equity (ROE) was 4.8 percent.

The Corporation's tax rate was 28.0 percent (32.4% in 2001). The tax rate was exceptionally low because the accumulated losses of the Converting Equipment group became tax deductible already in 2002 when a memorandum of understanding was signed on its sale. On the other hand, the tax rate was raised by increased amortization of goodwill due to the Svedala acquisition.

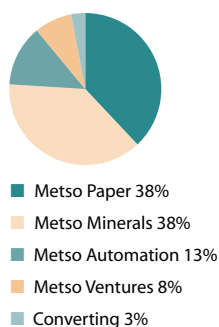
### Businesses

#### Metso Paper

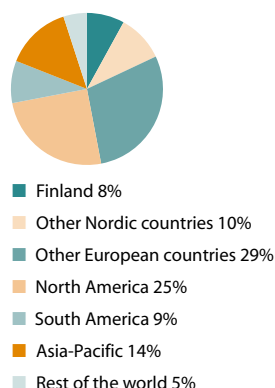
A memorandum of understanding was signed in November concerning the sale of Metso Paper's Converting Equipment group. The group is regarded as a discontinued operation and has been transferred out of the Corporation's continuing businesses. Metso Paper's figures for the comparison year are also presented without the Converting Equipment group. Metso Panelboard was transferred to Metso Ventures at the beginning of 2002 and is reported in the figures for Metso Ventures.

	1-12/02	1-12/01	Change
(in millions)	EUR	EUR	%
Net sales	1,812	2,209	(18)
Operating profit before nonrecurring items and amortization of goodwill	132.3	190.7	(31)
% of net sales	7.3	8.6	
Operating profit	118.2	167.6	(29)
% of net sales	6.5	7.6	
Orders received	1,642	1,737	(5)
Order backlog Dec. 31	742	957	(22)

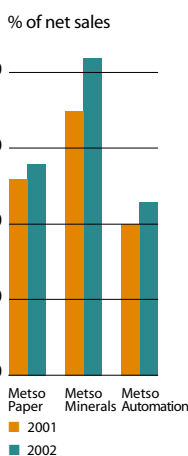
Net sales by business area



Net sales by market area



Aftermarket and maintenance services



## Board of Directors' Report

In 2002 Metso Paper's net sales were EUR 1,812 million, which is down 18 percent on the comparison year. Net sales decreased in paper technology, largely due to the small number of deliveries of large paper making lines. On the other hand, pulping technology deliveries increased slightly on the comparison period. Aftermarket and maintenance services accounted for 28 percent of net sales (26% in 2001).

Metso Paper's operating profit before nonrecurring items and amortization of goodwill was EUR 132.3 million, or 7.3 percent of net sales. The small number of deliveries at the beginning of the year and the underutilization of production capacity weakened profitability. Nonrecurring expenses totaled EUR 6 million, and were mainly due to business restructuring in Sweden and the USA. Metso Paper's operating profit was EUR 118.2 million, or 6.5 percent of net sales. During the final quarter of the year, Metso Paper's deliveries increased and profitability improved clearly.

The value of orders received by Metso Paper was EUR 1,642 million and the order backlog at the end of the year was EUR 742 million.

The net sales of Metso Paper's Converting Equipment group totaled EUR 160 million (EUR 176 million in 2001). The operating loss of the Converting Equipment group was EUR 8.9 million (operating profit EUR 3.0 million in 2001), which includes nonrecurring expenses of EUR 5 million.

### Metso Minerals

(in millions)	1-12/02 EUR	1-12/01 EUR	Change %
Net sales	1,819	913	99
Operating profit before nonrecurring items and amortization of goodwill	107.9	44.6	142
% of net sales	5.9	4.9	
Operating profit	51.4	14.7	250
% of net sales	2.8	1.6	
Orders received	1,860	873	113
Order backlog Dec. 31	474	499	(5)

Metso Minerals' net sales totaled EUR 1,819 million. The increase in net sales from the comparison year was largely due to Svedala, which was acquired in September 2001, being included in Metso Minerals' figures for the whole year under review. Aftermarket and maintenance services accounted for 42 percent of net sales (35%).

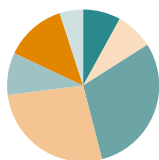
Metso Minerals' operating profit before nonrecurring items and amortization of goodwill was EUR 107.9 million, or 5.9 percent of net sales. The elimination of overlapping functions and the dismantling of surplus production capacity were gradually beginning to be reflected in a streamlined cost structure towards the end of the year. The nonrecurring expenses of EUR 13 million were mainly due to the closing of the Clintonville and Vespasiano plants and the restructuring of the Milwaukee plant in the USA. The operating profit of Metso Minerals was EUR 51.4 million, or 2.8 percent of net sales. In the year's final quarter, profitability improved even though net sales increased only slightly over the previous quarter.

The value of orders received by Metso Minerals was EUR 1,860 million and the order backlog at the end of the year was EUR 474 million.

### Metso Automation

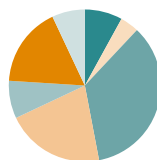
(in millions)	1-12/02 EUR	1-12/01 EUR	Change %
Net sales	622	693	(10)
Operating profit before nonrecurring items and amortization of goodwill	21.9	28.7	(24)
% of net sales	3.5	4.1	
Operating profit	16.3	17.3	(6)
% of net sales	2.6	2.5	
Orders received	643	676	(5)
Order backlog Dec. 31	185	182	2

### Orders received by market area



- Finland 8%
- Other Nordic countries 8%
- Other European countries 30%
- North America 27%
- South America 9%
- Asia-Pacific 13%
- Rest of the world 5%

### Order backlog by market area



- Finland 8%
- Other Nordic countries 4%
- Other European countries 35%
- North America 21%
- South America 8%
- Asia-Pacific 17%
- Rest of the world 7%

Metso Automation's net sales were EUR 622 million, which is down 10 percent on the comparison year. The decrease in net sales was largely due to reduced deliveries of automation systems for the pulp and paper industry. After-market and maintenance services accounted for 23 percent (20 percent) of Metso Automation's net sales.

Metso Automation's operating profit before nonrecurring items and amortization of goodwill was EUR 21.9 million, or 3.5 percent of net sales. Profitability was weakened by tougher price competition and underutilization of production capacity. Nonrecurring expenses totaled EUR 3 million, and were due to business restructuring in Finland and the USA. Expenses were cut by approximately EUR 20 million and the personnel was reduced by approximately 400, or 8 percent. Metso Automation's operating profit was EUR 16.3 million, or 2.6 percent of net sales. In the last quarter, the value of deliveries was the strongest of 2002 and the operating profit was higher than in the previous year.

The value of orders received by Metso Automation was EUR 643 million and the order backlog at the end of the year was EUR 185 million.

#### Metso Ventures

In the beginning of 2002 Metso Panelboard was transferred to Metso Ventures. It is reported in Metso Ventures' figures for the year under review and the comparison year.

(in millions)	1-12/02 EUR	1-12/01 EUR	Change %
Net sales	374	489	(24)
Operating profit before nonrecurring items and amortization of goodwill	23.4	29.8	(21)
% of net sales	6.3	6.1	
Operating profit	14.9	28.2	(47)
% of net sales	4.0	5.8	

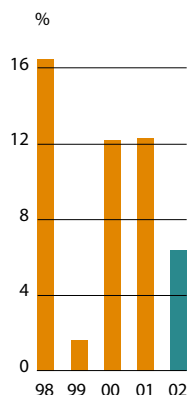
The net sales of Metso Ventures were down 24 percent on the comparison year, and totaled EUR 374 million. The operating profit of Metso Ventures was EUR 14.9 million, or 4.0 percent of net sales. Nonrecurring expenses amounted to EUR 8 million and were due to the restructuring of Metso Panelboard.

The net sales of Metso Panelboard decreased to EUR 66 million (EUR 144 million in 2001). In line with the goals set for the restructuring of Metso Panelboard the operating result turned positive in the final quarter of the year. However, the operating result for the whole year before nonrecurring items and amortization of goodwill was a loss of EUR 11.8 million (loss EUR 6.1 million). Metso Panelboard's operating loss was EUR 20.6 million (loss EUR 7.2 million). During the second half of the year Metso Panelboard received significantly more orders than during the first half. The value of orders received during the year amounted to EUR 128 million (EUR 72 million), and the order backlog increased to EUR 76 million (EUR 14 million).

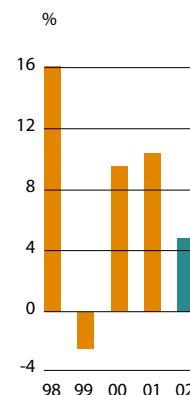
Metso Drives' net sales decreased to EUR 173 million (EUR 204 million). Metso Drives' operating profit was EUR 12.8 million (EUR 8.3 million). The value of orders received amounted to EUR 150 million (EUR 220 million) and the order backlog at the end of the year was EUR 53 million (EUR 88 million).

Valmet Automotive's net sales decreased to EUR 128 million (EUR 136 million). Valmet Automotive's operating profit was EUR 23.4 million (EUR 27.4 million). In the year under review 41,066 cars were manufactured (41,916 cars in 2001).

**Return on capital employed (ROCE)**



**Return on equity (ROE)**



## Board of Directors' Report

### Cash flow and balance sheet

In 2002 Metso's net cash provided by operating activities was EUR 252 million. Cash flow continued to be strong in the year's final quarter, totaling EUR 93 million. Net interest bearing liabilities fell from EUR 1,184 million at the end of September to EUR 1,118 million at the end of December. Gearing, i.e. the ratio of net interest bearing liabilities to shareholders' equity, fell from 87.3 percent at the end of September to 80.6 percent at the end of December. The strengthening of the euro against Metso's other main currencies affected the Corporation's currency-denominated shareholders' equity, which decreased equity by EUR 85 million during the financial year. This raised gearing by 4.6 percentage points. The long-term portion of interest bearing debt accounted for 75 percent of the total. The Corporation's equity to assets ratio was 33.3 percent.

On December 3, 2002, Moody's Investors Service confirmed its current Baa2 long-term rating for Metso Corporation. At the same time Metso's outlook was changed from stable to negative. On November 26, 2002, Standard & Poor's Rating Services lowered its long-term rating of Metso Corporation from BBB+ to BBB. At the same time the A-2 short-term rating was affirmed. All ratings were removed from Credit Watch and Metso's outlook was considered to be stable.

Metso's goal has been to return gearing to less than 50 percent by the end of the first quarter of 2003. Steps continue to be taken to achieve this goal by, for example, reducing net working capital. However, in the current market situation, the corporate divestments required to fulfil this target look to be advancing more slowly than expected.

### Capital expenditure

Metso's gross capital expenditure was EUR 194 million (EUR 982 million) and the net capital expenditure was EUR 56 million (EUR 884 million). The most significant

capital expenditures during the year were Metso Paper's service centers in Finland and Brazil and Metso Drives' efforts to raise the capacity of its gears production and service center. The figure for the comparison year includes a net EUR 804 million for the acquisition of Svedala.

### Revised strategy for Metso Automation

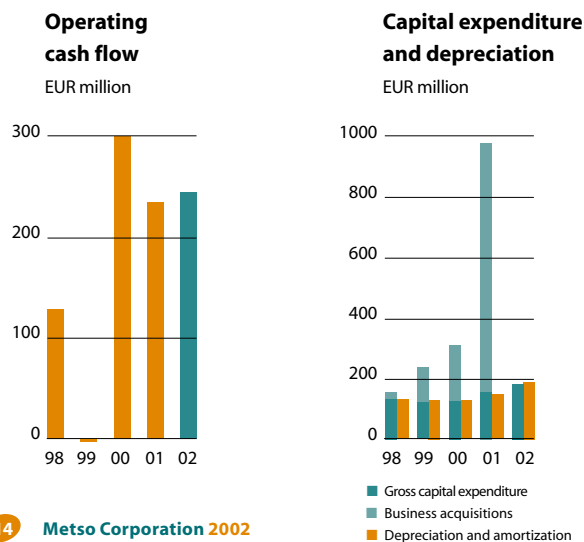
Metso Automation's strategy was revised in the second half of the year to improve the profitability of the automation business and to better utilize the Corporation's internal synergy potential. The focus of Metso Automation's operations is being redirected to industry-specific process automation for the pulp and paper industry and for rock and mineral processing as well as field systems solutions for various industry sectors.

### Integration of Metso Minerals

Metso Minerals' operational integration was concluded by the end of September. By the end of the year under review 12 production plants, mostly in the USA, had been closed down or sold. In addition, as a result of the integration of distribution operations, about 70 distribution and service units were closed. These decisions reduced Metso Minerals' personnel by about 1,800 from the beginning of integration to the end of 2002. Metso Minerals also divested or closed four non-core businesses – Svedala Robot B.V., Kranlyft Ab, Interconsult i Falkenberg Ab and Oy Rolac Ab. The combined sales of these units totaled EUR 79 million in 2001.

At the turn of the year Metso Minerals finalized the divestiture of its Hodge foundry unit in Greenville, Pennsylvania, which was sold to a group of investors. The foundry, employing 90 persons, was transferred on December 31, 2002 to the new company, Hodge Foundry, Inc.

At the beginning of the process, it was estimated that the annual synergy benefits of integration would amount to EUR 70 million and be realized in full in 2003. Later, the target was raised to EUR 90 million, of which more than half was realized in 2002.



The total nonrecurring restructuring expenses of integration from the acquisition date have been EUR 72 million (90 million net of tax benefits of EUR 18 million).

### Corporate-wide synergy projects

The corporate-wide synergy projects aim at better utilizing Metso's joint resources, processes and methods. In 2002, reorganization of administrative functions in North America was launched, and a project aiming to exploit the synergy potential within the Corporation's purchasing activities was also started. These two projects together are estimated to produce annual cost benefits of over EUR 50 million. In addition, Metso continued to unify its administrative operations in China and to concentrate its Brazilian operations in Sorocaba, São Paulo.

In December, Metso announced that it would rationalize its Finnish financial administration by establishing a service center to centrally handle all the financial administration services of its Finnish units. The service center will operate in two locations, Tampere and Jyväskylä, and is expected to reduce the personnel required for financial administration and payroll accounting by about 50.

### Corporate acquisitions and divestments

In April Metso sold Metso Works, a company with engineering workshop operations in Pori, Parkano and Loviisa, Finland to Hollming Oy. Metso Works' net sales in 2001 totaled EUR 38 million and its personnel numbered 532.

In September, Metso acquired YIT's shareholding in Scandinavian Mill Service Oy, i.e. 51 percent of the company's shares. After this, Metso owns the entire share capital of Scandinavian Mill Service. The company's net sales in 2001 were EUR 5.3 million and its personnel numbered 140. The acquisition is in line with Metso's aim to expand its scope in daily service operations for the pulp and paper industry.

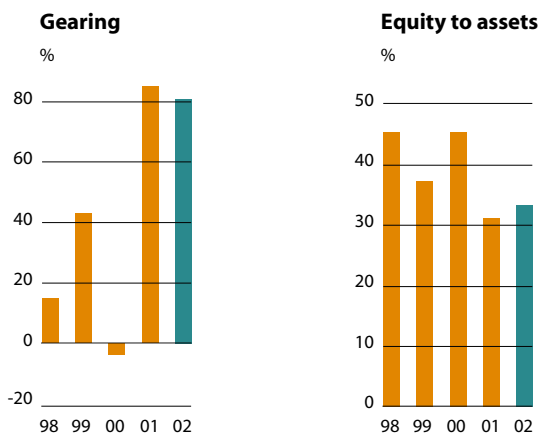
In November, Metso signed a memorandum of understanding with the Swiss Bobst Group SA for the sale of its Converting Equipment group. The transaction is intended to be completed in the first quarter of 2003. The value of the transaction is approximately EUR 90 million, corresponding to the group's book value in Metso's balance sheet.

In December, Metso signed a memorandum of understanding for the sale of its foundry operations, located in Karlstad, Sweden, to a newly established company, which is owned by Åkers AB and Metso Paper Karlstad AB. Åkers AB will initially hold 51 percent of the shares in the new company, and it has an option to acquire the rest of the shares later.

### Research and development

Metso's research and development expenditure in the year under review totaled EUR 156 million (EUR 150 million), or 3.3 percent of the Corporation's net sales.

In 2002, research and development focused mainly on strengthening lifecycle technologies and process know-how in line with the Metso Future Care business concept. In fiber and paper technology, investments were made mostly in mechanical pulp processing and paper surface treatment technologies. In rock and minerals processing, development focused especially on high-precision simulations and knowledge-based control systems. In automation and control technology, the aim was to develop automation and information system solutions, mainly those based on open standards, and paper quality measurements. The development of power transmission technology focused on gear technology and maintenance services. In panelboard technology, improvements were made in the continuously operated press and related process technology.



## Board of Directors' Report

### Personnel

In 2002, Metso's personnel numbered 29,258 on average. At the end of the year the number of personnel was 28,489, or 6 percent less than at the end of 2001.

The Corporation employed 37 percent of its total personnel in Finland, 13 percent in other Nordic countries, 17 percent in other European countries, 17 percent in North America, 5 percent in Asia-Pacific, 6 percent in South America and 5 percent in the rest of the world.

Of the personnel, 34 percent were employed by Metso Paper, 38 percent by Metso Minerals, 15 percent by Metso Automation and 10 percent by Metso Ventures. 3 percent of the Corporation's personnel worked in the Converting Equipment group.

### Changes in corporate management

Metso's Board of Directors has appointed Olli Vaartimo (52), M.Sc. (Econ), the Corporation's Executive Vice President, CFO and Deputy to the President. Vaartimo will start in this position by May 1, 2003. Vaartimo is currently President of Metso Minerals.

Sakari Tamminen, Metso's Executive Vice President, CFO, has been appointed the CEO of Rautaruukki as of January 1, 2004. Tamminen will transfer to Rautaruukki by May 1, 2003.

On January 29, 2003, Metso's Board of Directors appointed Bertel Langenskiöld (52), M.Sc. (Eng), the President of Metso Minerals and a member of Metso's Executive Board. He is currently the President and CEO of Fiskars Corporation. Langenskiöld will start in this position at a date that will be confirmed later.

### Board of Directors and Auditors

Metso Corporation's Annual General Meeting held on March 27, 2002 re-elected Pertti Voutilainen as Chairman of the Board. Mikko Kivimäki was re-elected the Vice Chairman of the Board. Board members re-elected were Heikki Hakala, Juhani Kuusi, Jaakko Rauramo, Markku Tapio and Pentti Mäkinen, who was proposed by the personnel of Metso Corporation. PricewaterhouseCoopers, Authorized Public Accountants, was re-elected as the Corporation's auditor, with the responsible auditors being Lars Blomquist, APA, and Heikki Lassila, APA.

### Decisions of the Annual General Meeting

The Annual General Meeting of Metso Corporation on March 27, 2002 authorized the Board of Directors to resolve the repurchase and transfer of the Corporation's own shares as well as to increase the share capital within one year of the shareholders' meeting. The Corporation's own shares may be procured for use as payment in possible future acquisitions

or for financing investments. The Board of Directors had not utilized the authorization by December 31, 2002.

The Annual General Meeting decided to pay a dividend of EUR 0.60 per share for the fiscal year that ended December 31, 2001.

### Events after the review period

On January 17, 2003, Metso sold its hydraulic power transmission unit, Metso Hydraulics, to Sampo-Rosenlew Oy. Metso Hydraulics was part of the Metso Ventures business area. In 2002, its net sales was EUR 18 million, operating profit EUR 3 million and number of personnel approximately 120.

On January 31, 2003, Metso agreed on the sale of its Network Management Solutions companies (NMS) to Telvent from Spain. The divestment is expected to be closed in February 2003. The value of the transaction is approximately EUR 35 million and it will reduce Metso's gearing by approximately 3 percentage points.

### Short-term outlook

The market environment is expected to continue uncertain in the near future.

No significant change in the near term is expected in Metso Paper's market situation, although the paper industry's investment planning activity seems to be cautiously reviving.

The demand for construction and civil engineering industry products supplied by Metso Minerals is expected to remain at the present level. The prospects for the mining industry have improved slightly everywhere except for the USA.

The demand for Metso Automation's field systems is expected to pick up slightly.

The actions taken to streamline the cost structure create a basis for improved profitability in 2003. The work in order to achieve the Corporation's financial goals continues.

### Board of Directors' proposal for the distribution of profit

The consolidated distributable funds of Metso Corporation on December 31, 2002 were EUR 861 million. The parent company's distributable funds totaled EUR 697 million. On December 31, 2002, a total of 136,189,704 Metso shares, giving entitlement to full dividends for 2002, were held outside the Corporation.

Metso Corporation's Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.60 per share be distributed.

Helsinki, February 5, 2003

Metso Corporation's Board of Directors

# Consolidated Statements of Income

(In millions, except for per share amounts)	Note	Year ended December 31,			
		2000 EUR	2001 EUR	2002 EUR	2002 USD
Net sales		3,891	4,343	4,691	4,918
Cost of goods sold	3), 5)	(2,901)	(3,200)	(3,425)	(3,591)
Gross profit		990	1,143	1,266	1,327
Selling, general and administrative expenses	2), 3), 5)	(793)	(873)	(1,015)	(1,064)
Operating profit before nonrecurring operating items and amortization of goodwill		197	270	251	263
% of net sales		5.1%	6.2%	5.3%	5.3%
Nonrecurring operating income and expenses, net	4)	18	4	(27)	(28)
Amortization of goodwill	5)	(15)	(28)	(57)	(60)
Operating profit		200	246	167	175
% of net sales		5.1%	5.7%	3.6%	3.6%
Financial income and expenses, net	6)	(20)	(24)	(74)	(78)
Share of profits of associated companies	7)	0	0	0	0
Income before extraordinary items and income taxes		180	222	93	97
Extraordinary income and expenses, net	8)	268	(8)	-	-
Income before taxes		448	214	93	97
Income taxes	9)	(59)	(72)	(26)	(27)
Minority interests		0	(1)	(2)	(2)
<b>Net income</b>		<b>389</b>	<b>141</b>	<b>65</b>	<b>68</b>
Earnings per share	10)	0.90	1.09	0.48	0.50
Earnings per share excl. nonrecurring items and amortization of goodwill	10)	0.91	1.26	0.99	1.04

# Consolidated Balance Sheets

## Assets

(In millions)	Note	As at December 31,		
		2001 EUR	2002 EUR	2002 USD
<b>Fixed assets and financial assets</b>				
Intangible assets	11)			
Goodwill		1,037	895	938
Other intangible assets		57	116	122
		1,094	1,011	1,060
Tangible assets	11), 12)			
Land and water areas		68	85	89
Buildings		340	350	367
Machinery and equipment		387	343	360
Other tangible assets		32	31	33
Assets under construction		59	82	86
		886	891	935
Financial assets				
Shareholdings and other securities	14)	114	51	53
Own shares	14)	1	1	1
Loans receivable	17)	17	20	21
Accounts receivable	17)	10	5	5
Other long-term investments	15), 17)	73	26	27
		215	103	107
<b>Total fixed and financial assets</b>		<b>2,195</b>	<b>2,005</b>	<b>2,102</b>
<b>Current assets</b>				
Inventories				
Materials and supplies		225	186	195
Work in process		320	281	295
Finished products		404	352	369
		949	819	859
Receivables	17)			
Accounts receivable		1,106	836	876
Cost and earnings of projects under construction in excess of billings	16)	133	174	182
Loans receivable		16	5	5
Accrued income and prepaid expenses		146	201	211
Deferred tax asset	9)	176	98	103
Other receivables		100	60	63
Other short-term investments		9	11	12
		1,686	1,385	1,452
Cash and cash equivalents		212	190	199
<b>Total current assets</b>		<b>2,847</b>	<b>2,394</b>	<b>2,510</b>
<b>Total assets</b>		<b>5,042</b>	<b>4,399</b>	<b>4,612</b>

## Shareholders' equity and liabilities

(In millions)	Note	As at December 31,		
		2001 EUR	2002 EUR	2002 USD
<b>Shareholders' equity</b>	18)			
Share capital		232	232	243
Share premium reserve		14	14	15
Legal reserve		221	227	238
Revaluation reserve		0	0	0
Cumulative translation differences		25	(60)	(63)
Reserve for own shares		1	1	1
Other reserves		202	202	212
Retained earnings		633	698	732
Net income for the financial year		141	65	68
<b>Total shareholders' equity</b>		<b>1,469</b>	<b>1,379</b>	<b>1,446</b>
<b>Minority interests</b>		<b>7</b>	<b>10</b>	<b>10</b>
<b>Liabilities</b>				
<b>Long-term debt</b>	19)			
Bonds		730	713	748
Loans from financial institutions		373	233	244
Pension loans		47	38	40
Other long-term debt		29	36	38
		<b>1,179</b>	<b>1,020</b>	<b>1,070</b>
<b>Other long-term liabilities</b>				
Accrued expenses	20), 23)	148	126	132
Deferred tax liability	9)	34	25	26
Other long-term loans		1	1	1
		<b>183</b>	<b>152</b>	<b>159</b>
<b>Current liabilities</b>				
Current portion of long-term debt		46	50	52
Other interest bearing short-term debt	21)	343	283	297
Advances received		183	141	148
Accounts payable		390	321	337
Billings in excess of cost and earnings of projects under construction	16)	114	84	88
Accrued expenses and deferred income	22), 23)	1,040	873	915
Other current liabilities		88	86	90
		<b>2,204</b>	<b>1,838</b>	<b>1,927</b>
<b>Total liabilities</b>		<b>3,566</b>	<b>3,010</b>	<b>3,156</b>
<b>Total shareholders' equity and liabilities</b>		<b>5,042</b>	<b>4,399</b>	<b>4,612</b>

# Consolidated Statements of Cash Flows

(In millions)	Year ended December 31,			
	2000 EUR	2001 EUR	2002 EUR	2002 USD
<b>Cash flows from operating activities:</b>				
Net income	389	141	65	68
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	128	149	197	206
Gain on sale of fixed assets	(3)	(4)	(7)	(7)
Gain on sale of Timberjack, net of taxes	(275)	-	-	-
(Gain) loss on sale of other subsidiaries and associated companies	2	(11)	(1)	(1)
Gain on marketable securities	(12)	(37)	(7)	(7)
Share of profits and losses of associated companies	0	0	(1)	(1)
Other non-cash items	43	10	28	29
Change in net working capital, net of effect from business acquisitions	28	(13)	(22)	(23)
<b>Net cash provided by (used in) operating activities</b>	<b>300</b>	<b>235</b>	<b>252</b>	<b>264</b>
<b>Cash flows from investing activities:</b>				
Capital expenditures on fixed assets	(111)	(154)	(191)	(200)
Proceeds from sale of fixed assets	41	18	33	34
Acquisition of Svedala, net of cash acquired	-	(804)	-	-
Other business acquisitions, net of cash acquired	(186)	(24)	(1)	(1)
Investments in associated companies	(1)	-	(1)	(1)
Proceeds from sale of subsidiaries and associated companies	7	17	38	40
Proceeds from sale of Timberjack, net of taxes	506	-	-	-
Taxes payable (taxes paid) on gain of Timberjack sale	85	(85)	-	-
Proceeds from sale of shares and marketable securities	15	90	110	115
Investments in shares and marketable securities	(47)	(1)	(2)	(2)
<b>Net cash provided by (used in) investing activities</b>	<b>309</b>	<b>(943)</b>	<b>(14)</b>	<b>(15)</b>
<b>Cash flows from financing activities:</b>				
Dividends paid	(54)	(81)	(82)	(86)
Hedging of net investment in foreign subsidiaries	(34)	0	-	-
Net borrowings (payments) on short-term debt	(183)	114	(50)	(53)
Proceeds from issuance of long-term debt	16	798	200	210
Principal payment of long-term debt	(73)	(466)	(311)	(326)
Notes receivable issued	(6)	(7)	(4)	(4)
Proceeds from payment on notes receivable	25	68	14	15
Proceeds from Timberjack installment credit receivables	35	-	-	-
Other	(10)	7	0	0
<b>Net cash provided by (used in) financing activities</b>	<b>(284)</b>	<b>433</b>	<b>(233)</b>	<b>(244)</b>
Effect of changes in exchange rates of cash and cash equivalents	1	2	(27)	(28)
Net increase (decrease) in cash and cash equivalents	326	(273)	(22)	(23)
Cash and cash equivalents at beginning of year	159	485	212	222
<b>Cash and cash equivalents at end of year</b>	<b>485</b>	<b>212</b>	<b>190</b>	<b>199</b>

(In millions)	Year ended December 31,			
	2000 EUR	2001 EUR	2002 EUR	2002 USD
<b>Change in net working capital, net of effect from business acquisitions:</b>				
(Increase) decrease in assets and increase (decrease) in liabilities:				
Inventory	(156)	57	24	25
Receivables	(49)	(40)	183	192
Other assets	12	(34)	35	37
Percentage of completion: recognized assets and liabilities, net	77	(74)	(71)	(75)
Accounts payable	51	8	(46)	(48)
Accrued liabilities	65	79	(119)	(125)
Other liabilities	28	(9)	(28)	(29)
<b>Total</b>	<b>28</b>	<b>(13)</b>	<b>(22)</b>	<b>(23)</b>

**Supplemental cash flow information:**

**Acquisition of businesses:**

Intangible assets	18	11	0	0
Tangible assets	64	197	1	1
Goodwill	102	836	4	4
Current assets, other than cash	36	909	2	2
Minority interests	-	10	0	0
Liabilities assumed	(34)	(1,135)	(6)	(6)
<b>Total, net of cash acquired</b>	<b>186</b>	<b>828</b>	<b>1</b>	<b>1</b>

**Cash paid during the year for:**

Interest	45	47	83	87
Income taxes	55	113	57	60

# Consolidated Statements of Changes in Shareholders' Equity

(In millions)	Number of shares (thousands)	Share capital (Par value EUR 1.70 per share)	Share premium reserve EUR	Legal reserve EUR	Cumulative translation differences EUR	Reserve for own shares EUR	Other reserves EUR	Retained earnings EUR	Total EUR
<b>Balance at</b>									
December 31, 1999	135,817	228	7	221	(2)	6	202	423	1,085
Dividends	-	-	-	-	-	-	-	(54)	(54)
Transfer from share premium reserve	-	3	(3)	-	-	-	-	-	0
Cancellation of own shares	(500)	(1)	1	-	-	(5)	-	-	(5)
Translation differences	-	-	-	-	23	-	-	-	23
Transfer of translation differences	-	-	-	-	25	-	-	(25)	0
Other	245	-	3	(1)	-	-	-	(15)	(13)
Net income	-	-	-	-	-	-	-	389	389
<b>Balance at</b>									
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
<b>Balance at</b>									
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
<b>Balance at</b>									
December 31, 2002	136,251	232	14	227	(60)	1	202	763	1,379

Shareholders' equity includes EUR 44 million nondistributable accelerated depreciation and untaxed reserves and EUR 60 million negative translation differences at December 31, 2002.

# 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 was accounted for by the pooling of interest method.

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

Solely for the convenience of the reader, the consolidated financial statements as of and for the year ended December 31, 2002 have been translated into United States dollars (“USD”) using the December 31, 2002 Noon Buying Rate of the Federal Reserve Bank of New York of EUR 1.00 = 1.0485 USD (USD 1.00 = EUR 0.9538). Translation should not be construed as a representation that the amounts shown could be converted into USD at that rate.

### 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 the responsibility for their operations was transferred to Metso. Subsidiaries 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 by using the purchase method. Goodwill represents the excess of the purchase cost over the fair value of the net assets of the acquired companies. The excess of purchase price allocated to fixed assets is depreciated concurrently with the underlying assets. 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 proportionally to their fair values at the time of the acquisition.

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 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%. Under the equity method, the share of profits and losses of associated companies is included in the consolidated statements of income. The share of result of the 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%) are stated at cost and dividends received are included in the statements of income; 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 are translated into euro at the average exchange rates for the

## Notes to Consolidated Financial Statements

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-currency swaps and currency options, 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 and liabilities and firm commitments. In some cases, derivative financial instruments may be used to mitigate foreign currency denominated cash flow risks arising from business acquisitions.

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 of 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.

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.

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.

When derivative instruments have been used to mitigate the foreign currency fluctuation arising from business acquisition, 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 fair valued quarterly. Interest rate futures are fair valued quarterly and the change in fair value is recognized in financial income and expenses, net.

### 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 on marketable securities are deferred and recognized in income only at disposal or at maturity.

### Revenue recognition

Completed contract method: Revenues from goods and services sold are recognized, net of sales taxes, discounts and foreign exchange differences, when substantially all of the risks and rewards of ownership are transferred to the buyer, or when the service is performed.

Percentage of completion method: Sales and anticipated profits under significant long-term engineering and construction contracts are recorded on a percentage-of-completion basis, using either units of delivery (based on predetermined milestones) or the cost-to-cost method of accounting as the measurement basis. 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.

Trade-ins: Sales, against which trade-ins are accepted, are recorded at the nominal or contract price. The difference between the trade-in allowance and the recorded value of the inventory received is recognized in cost of goods sold.

### Research and development

Research and development costs are expensed as incurred.

### Maintenance, repair and renewals

Maintenance, repairs and renewals are generally 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. On December 29, 2000, the accumulated pension liability of the Fund was transferred to an external insurance company and the Fund was wound up during 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.

### 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
Goodwill	5–20 years

Impairments on fixed assets and capital gains and losses on the disposal 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 in 20 years.

Metso reviews long-lived assets and certain intangibles 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. When such events or changes in circumstances indicate that an asset may not be recoverable, Metso estimates the future cash flows expected to result from the use of the asset and its eventual disposal. If the sum of such expected future cash flows (undiscounted and without interest charge) is less than the carrying amount of the asset, an impairment loss is recognized in an amount by which the asset's net book value exceeds its fair market value. For purposes of assessing impairment, assets are to be grouped at the lowest level for which there are separately identifiable cash flows.

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 cli-

mate, suggest that its carrying value may not be recoverable. Metso uses discounted future cash flow analysis to assess whether the carrying value of goodwill exceeds its fair value.

### 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 remaining useful life.

### Revaluation of fixed assets

Fixed assets are stated at historical acquisition price reduced by annual depreciation. Their revaluation is not allowed.

### Leasing

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

### Own shares (treasury stock)

The own shares held by Metso are valued at reacquisition price in a separate caption under financial assets. The 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 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.

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.

## Notes to Consolidated Financial Statements

### Nonrecurring operating income and expenses

Nonrecurring operating income and expenses include significant restructuring and reorganizing costs related to ongoing businesses and other major one time operating income and expenses.

### Equity share of untaxed reserves

In Finland and certain other countries, companies are permitted to reduce or increase taxable income by net charges or by income representing adjustments to untaxed reserve accounts, provided that such amounts are reflected in the company's financial statements and accumulated on the balance sheet. 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 historical analysis and anticipated product returns.

### 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.

### 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. This 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

Selling, general and administrative expenses consist of the following:

(In millions)	Year ended December 31,		
	2000	2001	2002
	EUR	EUR	EUR
Marketing and selling expenses	381	425	548
Research and development expenses	123	137	146
Administrative expenses	289	315	341
Other income	(15)	(15)	(26)
Other expenses	15	11	6
<b>Total</b>	<b>793</b>	<b>873</b>	<b>1,015</b>

## 3 Personnel expenses and the number of personnel

Information regarding personnel expenses and number of personnel is as follows:

(In millions)	Year ended December 31,		
	2000	2001	2002
	EUR	EUR	EUR
Salaries to the members of Boards of Directors and Managing Directors of Group companies	12	12	14
Other wages and salaries	825	924	1,062
Pension costs	81	99	112
Other indirect employee costs	135	156	183
<b>Total</b>	<b>1,053</b>	<b>1,191</b>	<b>1,371</b>
<b>Number of personnel:</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Personnel, average	22,372	25,613	29,258
Personnel, at end of year	22,024	30,242	28,489

## Notes to Consolidated Financial Statements

### 4 Nonrecurring operating income and expenses

(In millions)	Year ended December 31,		
	2000 EUR	2001 EUR	2002 EUR
Pension refunds of Swedish subsidiaries			
Metso Paper	11	-	-
Metso Minerals	0	-	-
Metso Automation	1	-	-
Metso Ventures	2	-	-
Gain on sale of listed and other shares			
Metso Ventures	-	-	1
Headquarters and other	11	47	7
Nonrecurring operating income, total	25	47	8
Restructuring expenses			
Metso Paper	-	(15)	(6)
Metso Minerals	-	(13)	(10)
Metso Automation	-	(8)	(3)
Metso Ventures	(7)	-	(8)
Converting Equipment	-	-	(1)
Other expenses			
Metso Minerals	-	(3)	(3)
Headquarters and other	-	(4)	-
Converting Equipment	-	-	(4)
Nonrecurring operating expenses, total	(7)	(43)	(35)
<b>Nonrecurring operating income and expenses, net</b>	<b>18</b>	<b>4</b>	<b>(27)</b>

Gain on sale of listed and other shares included gain on disposal of listed companies of EUR 11 million, EUR 37 million and EUR 7 million for the years ended December 31, 2000, December 31, 2001 and December 31, 2002, respectively.

Restructuring expenses consist of both paid and accrued expenses related to the restructuring of business operations. For the year ended December 31, 2000, restructuring expenses of EUR 7 million consisted of reorganizing Metso Ventures' Panelboard Technology operations in Germany.

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 Metso Minerals' 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 years ended December 31, 2001 and 2002, respectively, other expenses comprised of EUR 4 million 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 throughout the year 2002.

## 5 Depreciation and amortization

Depreciation and amortization expenses consist of the following:

(In millions)	Year ended December 31,		
	2000	2001	2002
	EUR	EUR	EUR
Intangible assets			
Goodwill	15	28	57
Other intangible assets	10	16	19
Tangible assets			
Buildings	19	22	26
Machinery and equipment	79	77	87
Other tangible assets	5	6	8
<b>Total</b>	<b>128</b>	<b>149</b>	<b>197</b>

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

(In millions)	Year ended December 31,		
	2000	2001	2002
	EUR	EUR	EUR
Cost of goods sold	73	77	83
Marketing, selling and administrative expenses			
Marketing and selling	8	7	12
Research and development	13	9	11
Administrative	19	28	34
Goodwill	15	28	57
<b>Total</b>	<b>128</b>	<b>149</b>	<b>197</b>

## Notes to Consolidated Financial Statements

### 6 Financial income and expenses

The following table provides a summary of financial income and expenses:

(In millions)	Year ended December 31,		
	2000 EUR	2001 EUR	2002 EUR
Financial income			
Dividends received	12	12	7
Interest income	21	24	11
Other financial income	2	3	3
Net gain (loss) from foreign exchange	0	2	(4)
Financial income total	35	41	17
Financial expenses			
Interest expenses	(47)	(53)	(87)
Other financial expenses	(8)	(12)	(4)
Financial expenses total	(55)	(65)	(91)
<b>Financial income and expenses, net</b>	<b>(20)</b>	<b>(24)</b>	<b>(74)</b>

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

## 7 Investments in associated companies

(In millions)	Year ended December 31,		
	2000	2001	2002
	EUR	EUR	EUR
Dividends received	0	0	0
Share of profits or losses in associated companies	0	0	1
Equity value of investments in associated companies	14	14	14

In addition to the information provided above for investments in associated companies, see also note 14.

## 8 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,		
	2000	2001	2002
	EUR	EUR	EUR
Extraordinary income			
Capital gain on disposal of Timberjack	378	-	-
Tax effect	(103)	-	-
Extraordinary income, net of taxes	275	-	-
Extraordinary expenses			
Realized losses on currency derivatives caused by delay in the acquisition of Svedala Industri AB	(10)	-	-
Inventory adjustment in Metso Drives' German operations	-	(3)	-
Accounting adjustments in Metso Automation's U.S. operations	-	(8)	-
Tax effect	3	3	-
Extraordinary expenses, net of taxes	(7)	(8)	-
<b>Extraordinary income and expenses, net</b>	<b>268</b>	<b>(8)</b>	<b>-</b>

## Notes to Consolidated Financial Statements

### 9 Income taxes

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

(In millions)	Year ended December 31,		
	2000	2001	2002
	EUR	EUR	EUR
Finland	92	208	103
Other countries	88	14	(10)
<b>Total</b>	<b>180</b>	<b>222</b>	<b>93</b>

The components of income taxes are as follows:

(In millions)	Year ended December 31,		
	2000	2001	2002
	EUR	EUR	EUR
<b>Current taxes</b>			
Finland	28	50	(18)
Other countries	13	23	17
	41	73	(1)
<b>Deferred taxes</b>			
Finland	3	10	22
Other countries	15	(11)	5
	18	(1)	27
Current and deferred taxes	59	72	26
Tax effect of extraordinary items	100	(3)	-
<b>Income taxes, total</b>	<b>159</b>	<b>69</b>	<b>26</b>

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,		
	2000	2001	2002
	EUR	EUR	EUR
Income tax expense (benefit) at Finnish statutory rate	52	64	27
Income tax for prior years	(1)	(7)	(9)
Write-down of subsidiary shares	-	-	(29)
Temporary differences for which no deferred tax has been provided	3	(1)	2
Benefit of operating loss carryforward	(1)	(3)	(3)
Amortization of goodwill	2	4	16
Nontaxable income	(1)	0	0
Nondeductible expenses	1	1	1
Taxes on foreign subsidiaries' net income in excess of income taxes at Finnish statutory rates	4	3	4
Operating losses with no current tax benefit	13	9	16
Effect of extraordinary items	100	(3)	-
Other	(13)	2	1
<b>Income tax expense (benefit)</b>	<b>159</b>	<b>69</b>	<b>26</b>

The components of net deferred tax asset (liability) consist of the following:

(In millions)	Year ended December 31,	
	2001	2002
	EUR	EUR
<b>Noncurrent assets:</b>		
Tax losses carried forward	157	186
Provisions	34	29
Other	16	0
Valuation allowance	(104)	(110)
	103	105
<b>Current assets:</b>		
Intercompany profit in inventory	11	10
Provisions	126	84
Valuation allowance	(1)	0
	136	94
<b>Current liabilities:</b>		
Inventories and other	(24)	(8)
<b>Noncurrent liabilities:</b>		
Accelerated depreciation and other untaxed reserves	(34)	(25)
Other	(39)	(93)
	(73)	(118)
<b>Deferred tax asset (liability), net</b>	<b>142</b>	<b>73</b>

The change in the deferred tax asset includes EUR 31 million of deferred tax liability arising from allocation of the excess of purchase consideration to fair values in the opening balance of Svedala companies.

As at December 31, 2002, Metso had EUR 548 million of losses carried forward, primarily attributable to foreign subsidiaries. New losses for the year ended December 31,

2002, amounting to EUR 262 million, increased the deferred tax asset on loss carryforward by EUR 38 million. Approximately 40% of the accumulated loss carryforwards at December 31, 2002 have no expiration date, 10% expires between years 2003–2011 and the remaining 50% between years 2012–2017.

The valuation allowance for the deferred tax asset is as follows:

(In millions)	Balance at	Deduction	Increase	Balance at
	beginning of year			end of year
	EUR	EUR	EUR	EUR
<b>2001</b>				
Losses carried forward	27	(1)	62	88
Other	16	0	1	17
<b>Total</b>	<b>43</b>	<b>(1)</b>	<b>63</b>	<b>105</b>
<b>2002</b>				
Losses carried forward	88	(34)	56	110
Other	17	(17)	0	0
<b>Total</b>	<b>105</b>	<b>(51)</b>	<b>56</b>	<b>110</b>

## Notes to Consolidated Financial Statements

### 10 Earnings per share

Earnings per share is calculated as follows:

(In millions, except for per share amounts)	Year ended December 31,		
	2000	2001	2002
	EUR	EUR	EUR
Income before extraordinary items and income taxes	180	222	93
Minority interests	0	(1)	(2)
Taxes on normal business operations	(59)	(72)	(26)
	121	149	65
Weighted average number of shares issued and outstanding (in thousands)	135,364	136,135	136,190
<b>Earnings per share</b>	<b>0.90</b>	<b>1.09</b>	<b>0.48</b>
Weighted average number of diluted shares issued and outstanding (in thousands)	135,518	136,135	136,190
<b>Diluted earnings per share</b>	<b>0.90</b>	<b>1.09</b>	<b>0.48</b>

The impact of nonrecurring items and amortization of goodwill on net income and earnings per share excluding nonrecurring items and amortization of goodwill:

(In millions, except for per share amounts)	Year ended December 31,		
	2000	2001	2002
	EUR	EUR	EUR
Nonrecurring operating income and expenses, net	18	4	(27)
Amortization of goodwill	(15)	(28)	(57)
Expenses related to the temporary financing of the Svedala acquisition (incl. in financing expenses)	-	(5)	-
Nonrecurring items and amortization of goodwill, total	3	(29)	(84)
Tax effect	(4)	5	13
The impact of nonrecurring items and amortization of goodwill on net income	(1)	(24)	(71)
The impact of nonrecurring items and amortization of goodwill on earnings per share	0.01	0.17	0.51
<b>Earnings per share excl. nonrecurring items and amortization of goodwill</b>	<b>0.91</b>	<b>1.26</b>	<b>0.99</b>

## 11 Intangible and tangible assets

(In millions)	Year ended December 31,	
	2001	2002
	EUR	EUR
<b>Goodwill</b>		
Acquisition cost at beginning of year	380	1,252
Increases	895	20
Decreases	(31)	(94)
Exchange gains (losses)	8	(41)
Accumulated depreciation at end of year	(215)	(242)
<b>Net book value at end of year</b>	<b>1,037</b>	<b>895</b>
<b>Other intangible assets</b>		
Acquisition cost at beginning of year	101	130
Increases	36	81
Decreases	(7)	(6)
Exchange gains (losses)	0	(3)
Accumulated depreciation at end of year	(73)	(86)
<b>Net book value at end of year</b>	<b>57</b>	<b>116</b>
<b>Land and water areas</b>		
Acquisition cost at beginning of year	55	68
Increases	14	23
Decreases	(1)	(3)
Exchange gains (losses)	0	(3)
<b>Net book value at end of year</b>	<b>68</b>	<b>85</b>
<b>Buildings</b>		
Acquisition cost at beginning of year	425	576
Increases	164	82
Decreases	(16)	(30)
Exchange gains (losses)	3	(29)
Accumulated depreciation at end of year	(236)	(249)
<b>Net book value at end of year</b>	<b>340</b>	<b>350</b>

## Notes to Consolidated Financial Statements

(In millions)	Year ended December 31,	
	2001	2002
	EUR	EUR
<b>Machinery and equipment</b>		
Acquisition cost at beginning of year	1,013	1,383
Increases	439	85
Decreases	(70)	(113)
Exchange gains (losses)	1	(62)
Accumulated depreciation at end of year	(996)	(950)
<b>Net book value at end of year</b>	<b>387</b>	<b>343</b>
<b>Other tangible assets</b>		
Acquisition cost at beginning of year	77	88
Increases	25	16
Decreases	(15)	(6)
Exchange gains (losses)	1	(5)
Accumulated depreciation at end of year	(56)	(62)
<b>Net book value at end of year</b>	<b>32</b>	<b>31</b>
<b>Assets under construction</b>		
Acquisition cost at beginning of year	55	59
Increases	39	54
Decreases	(35)	(30)
Exchange gains (losses)	(0)	(1)
<b>Net book value at end of year</b>	<b>59</b>	<b>82</b>

### 12 Capitalization of interest expenses

The capitalized interest expenses are the following:

(In millions)	Year ended December 31,	
	2001	2002
	EUR	EUR
Net capitalized interest, beginning of year	5	4
Capitalized interest expenses	-	-
Amortization of capitalized interest expense	(1)	(1)
<b>Net capitalized interest, end of year</b>	<b>4</b>	<b>3</b>

### 13 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)
<b>Goodwill of Svedala reported as of September 30, 2001</b>	<b>737</b>
Charges to the equity of Svedala after September 30, 2001	111
<b>Goodwill before fair market value allocation</b>	<b>848</b>
Allocation of fair market values exceeding the book values in the acquisition balance sheet	(81)
<b>Final goodwill at acquisition</b>	<b>767</b>

#### Allocation of fair market 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
<b>Total</b>	<b>114</b>	<b>(33)</b>	<b>81</b>

#### 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
<b>Restructuring expenses total</b>	<b>90</b>	<b>(18)</b>	<b>72</b>

## Notes to Consolidated Financial Statements

### 14 Shareholdings and other securities

Investments in shareholdings and other securities consist of the following:

Investments in associated companies:

(In millions)	Year ended December 31,			
	2001		2002	
	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%	3	48.3%	4
Shanghai Neles-Jamesbury Valve Co. Ltd.	50.0%	3	50.0%	3
Others		3		2
Total investments in associated companies		14		14

Shareholdings and other securities:

(In millions, except for number of shares)	Year ended December 31,							
	2001				2002			
	Number of shares	Ownership %	Book value EUR	Fair value EUR	Number of shares	Ownership %	Book value EUR	Fair value EUR
Tamfelt Corporation	242,100	2.7%	4	6	242,100	2.7%	4	7
Sampo Plc	327,540	0.1%	1	3	327,540	0.1%	1	2
Sato Corporation plc	239,555	10.9%	12	12	239,555	10.9%	12	12
Partek Corporation	4,126,039	8.5%	57	38	-	-	-	-
Exel plc	550,000	10.5%	5	5	650,000	12.3%	5	4
Other shares and securities			21	21			15	15
Total investments in shares and other securities			100	85			37	40
<b>Total shareholdings and other securities</b>			<b>114</b>				<b>51</b>	
Own shares held by Metso Corporation	60,841	0.0%	1	1	60,841	0.0%	1	1

## 15 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 73 million at December 31, 2001

and to EUR 26 million at December 31, 2002. Other long-term investments are recorded at the lower of cost or market value.

(In millions)	Year ended December 31,							
	2001				2002			
	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	24	0	-	24	8	0	-	8
Other securities	49	0	-	49	18	0	-	18
<b>Total</b>	<b>73</b>	<b>0</b>	<b>-</b>	<b>73</b>	<b>26</b>	<b>0</b>	<b>-</b>	<b>26</b>

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

(In millions)	Year ended December 31,		
	2000	2001	2002
	EUR	EUR	EUR
Purchases	11	-	6
Transferred through Svedala acquisition	-	25	-
Reclassified in other short-term investments	5	5	35
Proceeds from sales	2	1	18
Proceeds from maturities	1	3	-
Realized gains	-	-	-
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, 2002, the maturities of long-term investments in debt and other securities are as follows:

(In millions)	EUR
Less than five years	13
Five to ten years	-
More than ten years	13
<b>Total</b>	<b>26</b>

## 16 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 is as follows:

(In millions)	Cost and earnings	Billings of	Net
	of uncompleted projects	projects	
	EUR	EUR	EUR
Projects where cost and earnings exceed billings	538	364	174
Projects where billings exceed cost and earnings	161	245	84

## Notes to Consolidated Financial Statements

### 17 Interest bearing and non-interest bearing assets

(In millions)	Year ended December 31,					
	Interest bearing EUR	2001 Non- interest bearing EUR	Total EUR	Interest bearing EUR	2002 Non- interest bearing EUR	Total EUR
<b>Financial assets</b>						
Loans receivable	1	16	17	2	18	20
Accounts receivable	6	4	10	1	4	5
Other long-term investments	73	-	73	26	-	26
<b>Total</b>	<b>80</b>	<b>20</b>	<b>100</b>	<b>29</b>	<b>22</b>	<b>51</b>
<b>Receivables</b>						
Accounts receivable	5	1,101	1,106	2	834	836
Cost and earnings of projects under construction in excess of billings	-	133	133	-	174	174
Loans receivable	11	5	16	2	3	5
Prepaid expenses and accrued income	-	146	146	-	201	201
Other receivables	-	276	276	-	158	158
Other short-term investments	9	-	9	11	-	11
<b>Total</b>	<b>25</b>	<b>1,661</b>	<b>1,686</b>	<b>15</b>	<b>1,370</b>	<b>1,385</b>

### 18 Shareholders' equity

As at December 31, 2002 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, 2002:

(In millions)	EUR
Other reserves	202
Retained earnings	698
Result for the financial year	65
Equity share of accelerated depreciation and other untaxed reserves	(44)
Translation differences	(60)
<b>Total distributable funds</b>	<b>861</b>

The parent company's distributable funds at December 31, 2002 were EUR 697 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)	2001 EUR	2002 EUR
Cumulative translation adjustment at beginning of year	46	25
Change in foreign currency translation	(17)	(127)
Hedging of net investment denominated in foreign currency	(6)	59
Tax effect	2	(17)
<b>Cumulative translation adjustment at end of year</b>	<b>25</b>	<b>(60)</b>

## 19 Long-term debt

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

	2001	2002
(In millions)	EUR	EUR
Bonds	754	713
Loans from financial institutions	378	270
Pension loans	56	48
Other long-term debt	37	39
	1,225	1,070
Less current maturities	46	50
<b>Total</b>	<b>1,179</b>	<b>1,020</b>

### Bonds:

The bonds consist principally of two loans: a USD 200 million (EUR 191 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 69 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 1.9% (USD) to 14.0% (ZAR). The loans are payable from year 2003 to 2011.

In July 1998 Metso entered into a syndicated seven-year revolving credit facility with a group of international banks for EUR 230 million. At December 31, 2001 and 2002 the facility was undrawn.

In August 2000, Metso signed loan facilities of EUR 1.2 billion with a syndicate of fifteen international banks for financing the acquisition of Svedala. The short-term portion of the facilities expired in February, 2002, and the long term revolving credit portion of EUR 400 million expires in 2005. Of the facility EUR 334 million was utilised at December 31, 2001 and EUR 98 million at December 31, 2002.

As at December 31, 2002 the undrawn committed facilities of Metso totaled EUR 532 million.

### Pension loans:

Pension loans consist of Finnish pension insurance reborrowing loans amounting to EUR 42 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 37 million at December 31, 2001 and EUR 39 million at December 31, 2002.

Maturities of long-term debt as at December 31, 2002 are as follows:

	Bonds	Loans from financial institutions	Pension loans	Other long-term debt	Total
(In millions)	EUR	EUR	EUR	EUR	EUR
2003	-	37	10	3	50
2004	-	10	9	2	21
2005	-	105	10	1	116
2006	500	50	1	1	552
2007	191	1	1	1	194
Later	22	67	17	31	137

## Notes to Consolidated Financial Statements

### 20 Other long-term liabilities – Accrued expenses

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

(In millions)	2001 EUR	2002 EUR
Pension liabilities	44	49
Pension liabilities for terminated personnel	6	6
Accrued postretirement benefits	52	43
Warranty and guarantee liabilities	12	9
Accrued restructuring costs	7	0
Other long-term provisions and accruals	27	19
<b>Total</b>	<b>148</b>	<b>126</b>

### 21 Other interest bearing short-term debt

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

(In millions)	2001 EUR	2002 EUR
Loans from financial institutions	214	67
Domestic commercial paper financing	116	200
Euro Commercial Paper financing	-	-
Other	13	16
<b>Total</b>	<b>343</b>	<b>283</b>

The weighted average interest rate applicable to short-term borrowing at December 31, 2001 and 2002 was 4.6% and 3.4%, respectively.

Metso had undrawn committed short term credit facilities with banks totaling EUR 100 million at December 31, 2002.

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.

### 22 Accrued expenses and deferred income

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

(In millions)	2001 EUR	2002 EUR
Accrued expenses for restructuring and plant reorganisation	107	56
Accrued interest expenses	9	8
Accrued personnel expenses	203	156
Accrued project costs	304	334
Environmental and product liabilities	5	4
Taxes currently payable	76	47
Warranty and guarantee liabilities	152	144
Other	184	124
<b>Total</b>	<b>1,040</b>	<b>873</b>

## 23 Changes in cost accruals

The cost accruals, including both long- and short-term portions, have changed as follows during the financial year 2002:

(In millions)	Balance at beginning of year EUR	Impact of exchange rates EUR	Additions charged to expense EUR	Deductions/ other additions <sup>1)</sup> EUR	Balance at end of year EUR
Allowance for doubtful notes and receivables	56	(8)	13	(16)	45
Allowance for inventory	80	(7)	12	(13)	72
Warranty and guarantee liabilities	164	(6)	37	(42)	153
Environmental and product liabilities <sup>2)</sup>	5	(1)	0	0	4
Liabilities for restructuring and plant reorganisation	58	(4)	31	(53)	32
Liabilities for employee terminations and exit costs	62	(4)	17	(45)	30
<b>Total</b>	<b>425</b>	<b>(30)</b>	<b>110</b>	<b>(169)</b>	<b>336</b>

1) Other additions consist of reclassifications.

2) Environmental and product liabilities include cost accruals of EUR 4 million for cleaning up water and soil contamination at former manufacturing sites in North America and in Europe.

The number of employees subject to employee termination plans or early retirement arrangements has been as follows during the financial year:

2002	Beginning of year	Increase	Departures	End of year
Number of employees	1,365	588	(1,766)	187

## 24 Mortgages and contingent liabilities

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

(In millions)	2001 EUR	2002 EUR
Mortgages on corporate debt	2	1
Other pledges and contingencies		
Mortgages	2	2
Pledged assets	1	0
Guarantees on behalf of associated company obligations	1	0
Other guarantees	4	4
Repurchase and other commitments	30	25

The mortgage amount on corporate debt has been calculated as the amount of corresponding loans. The nominal value of the mortgages at December 31, 2002 was EUR 1 million larger than the amount of the corresponding loans.

## Notes to Consolidated Financial Statements

### 25 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

The results of a survey on legal implications resulting from potential health hazards caused by exposure to asbestos indicate that Metso has no material asbestos related claims in the United States. As of December 31, 2002, the survey

had identified 263 claims brought against Metso's U.S. subsidiary Neles-Jamesbury Inc. relating to valves previously manufactured by the company. Out of the total number of claims 77 have been dismissed in the relevant court and 51 have been settled for an average compensation of USD 551 each. The remaining 135 claims, in which Metso is one of numerous defendants, are still pending but their outcome is not expected to materially deviate from the outcome of the previous claims. In addition, two claims have been brought against another U.S. based subsidiary of Metso, Metso Minerals Industries Inc, one of which has been dismissed. In the other claim Metso is one of the 22 defendants, and the claim is not expected to have material adverse economic effect on Metso.

### 26 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, 2002 are shown in the table below:

(In millions)	Operating leases EUR	Capital leases EUR
Fiscal 2003	43	2
2004	36	1
2005	28	1
2006	20	1
2007	17	1
2008 and later	31	0
<b>Total minimum lease payments</b>	<b>175</b>	<b>6</b>

Total rental expense amounted to EUR 38 million, EUR 46 million and EUR 41 million in the years ended December 31, 2000, 2001 and 2002, respectively.

## 27 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 Sweden 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 9 million in 2000, EUR 1 million in 2001, respectively, and a net loss of EUR 3 million in 2002.

### 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 designed 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 and SEK denominated net investments to reduce the effect of exchange rate fluctuations. As of December 31, 2002, the hedging instruments were foreign currency loans, receivables 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 exceeding 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, 2001 and 2002 was EUR 22 million and EUR 60 million, respectively. As of December 31, 2002, the notional amount of interest rate futures contracts amounted to EUR 15 million. The interest rate risk is measured using sensitivity analysis and controlled by the Corporate Treasury.

## 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,	
	2001	2002
	EUR	EUR
Trade flow related currency derivatives		
Fair valued derivatives	770	778
Ear-marked with underlying item	74	5
Foreign currency denominated equity	-	102
Foreign currency denominated loans	136	104
Short-term funding and liquidity management	211	533
Long-term funding and other arrangements	22	38
Currency risk management	594	184
Interest risk management	22	75
<b>Total notional amount of derivative instruments</b>	<b>1,829</b>	<b>1,819</b>

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

(In millions)	Notional amount	2001		Fair value	2002	
		Carrying amount	amount		Notional amount	Carrying Fair value
	EUR	EUR	EUR	EUR	EUR	EUR
Forward exchange contracts	1,421	(23)	(29)	1,617	38	65
Cross-currency swaps	37	(7)	(8)	4	0	(1)
Currency swaps	121	(1)	(3)	100	2	1
Interest rate swaps	22	0	0	60	0	2
Interest rate futures contracts	-	-	-	15	0	0
Option agreements						
Bought	112	1	1	9	1	1
Sold	116	(1)	(1)	14	0	0

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, 2002 the maturities of the financial derivatives are following (expressed as notional amounts):

(In millions)	2003	2004	2005	2006	2007
	EUR	EUR	EUR	EUR	and after EUR
Forward exchange contracts	1,615	2	-	-	-
Cross-currency swaps	-	-	-	-	4
Currency swaps	-	-	28	-	72
Interest rate swaps	-	-	-	40	20
Interest rate futures contracts	15	-	-	-	-
Option agreements					
Bought	9	-	-	-	-
Sold	14	-	-	-	-

### 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, 2001 and 2002. 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,			
	2001		2002	
	Carrying value EUR	Fair value EUR	Carrying value EUR	Fair value EUR
<b>Assets:</b>				
Shareholdings and other securities (excluding shares in associated companies)	100	85	37	40
Own shares	1	1	1	1
Loans receivable, long-term	17	17	20	20
Accounts receivable, long-term	10	10	5	5
Other interest bearing long-term investments	73	73	26	26
Accounts receivable, short-term	1,106	1,106	836	836
Loans receivable, short-term	16	16	5	5
Short-term investments	9	9	11	11
Cash and cash equivalents	212	212	190	190
<b>Liabilities:</b>				
Bonds	730	721	713	757
Loans from financial institutions	373	377	233	240
Pension loans	47	47	38	38
Other long-term debt	29	29	36	36
Current portion of long-term loans	46	46	50	50
Other interest bearing short-term debt	343	343	283	283

## Notes to Consolidated Financial Statements

### 28 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.

### 29 Principal subsidiaries

	Country	Shareholder percentage
<b>Metso Paper</b>		
Metso Paper Oy	Finland	100%
Metso Paper USA Inc.	United States	100%
Metso Paper Karlstad AB	Sweden	100%
Metso Paper Ltd.	Canada	100%
Metso Paper Sundsvall AB	Sweden	100%
Metso Chemical Pulping Oy	Finland	100%
Metso Paper Valkeakoski Oy	Finland	100%
<b>Metso Minerals</b>		
Metso Minerals Industries Inc.	United States	100%
Metso Dynapac AB	Sweden	100%
Metso Minerals (Tampere) Oy	Finland	100%
Metso Dynapac GmbH	Germany	100%
Metso Minerals (Australia) Ltd.	Australia	100%
Svedala Ltda.	Brazil	100%
<b>Metso Automation</b>		
Metso Automation USA Inc.	United States	100%
Metso Field Systems Oy	Finland	100%
Metso Paper Automation Oy	Finland	100%
<b>Metso Ventures</b>		
Valmet Automotive Oy	Finland	90%
Metso Drives Oy	Finland	100%

### 30 Business area and geographic information

#### Net sales by business area:

	2000	2001	2002
(In millions)	EUR	EUR	EUR
Metso Paper	1,956	2,209	1,812
Metso Minerals	561	913	1,819
Metso Automation	644	693	622
Metso Ventures	482	489	374
Intra Metso net sales	(107)	(137)	(96)
<b>Continuing operations</b>	<b>3,536</b>	<b>4,167</b>	<b>4,531</b>
Forest Machines	179	-	-
Converting Equipment	176	176	160
<b>Metso total</b>	<b>3,891</b>	<b>4,343</b>	<b>4,691</b>

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

	2000	% of	2001	% of	2002	% of
(In millions)	EUR	net sales	EUR	net sales	EUR	net sales
Metso Paper	113.1	5.8%	190.7	8.6%	132.3	7.3%
Metso Minerals	30.2	5.4%	44.6	4.9%	107.9	5.9%
Metso Automation	45.5	7.1%	28.7	4.1%	21.9	3.5%
Metso Ventures	21.9	4.5%	29.8	6.1%	23.4	6.3%
Corporate Headquarters and other	(29.0)	-	(27.6)	-	(31.8)	-
<b>Continuing operations</b>	<b>181.7</b>	<b>5.1%</b>	<b>266.2</b>	<b>6.4%</b>	<b>253.7</b>	<b>5.6%</b>
Forest Machines	14.4	8.0%	-	-	-	-
Converting Equipment	1.5	0.9%	4.3	2.4%	(3.1)	(1.9%)
<b>Metso total</b>	<b>197.6</b>	<b>5.1%</b>	<b>270.5</b>	<b>6.2%</b>	<b>250.6</b>	<b>5.3%</b>

## Notes to Consolidated Financial Statements

### Nonrecurring operating items by business area:

(In millions)	2000 EUR	2001 EUR	2002 EUR
Metso Paper	11.0	(14.9)	(5.9)
Metso Minerals	0.2	(16.0)	(13.3)
Metso Automation	1.0	(8.5)	(2.6)
Metso Ventures	(5.0)	-	(7.1)
Corporate Headquarters and other	10.4	43.1	6.9
<b>Continuing operations</b>	<b>17.6</b>	<b>3.7</b>	<b>(22.0)</b>
Forest Machines	-	-	-
Converting Equipment	-	-	(4.5)
<b>Metso total</b>	<b>17.6</b>	<b>3.7</b>	<b>(26.5)</b>

### Amortization of goodwill by business area:

(In millions)	2000 EUR	2001 EUR	2002 EUR
Metso Paper	(6.9)	(8.2)	(8.2)
Metso Minerals	(2.7)	(13.9)	(43.2)
Metso Automation	(1.5)	(2.9)	(3.0)
Metso Ventures	(1.4)	(1.6)	(1.4)
Corporate Headquarters and other	-	-	-
<b>Continuing operations</b>	<b>(12.5)</b>	<b>(26.6)</b>	<b>(55.8)</b>
Forest Machines	(1.1)	-	-
Converting Equipment	(1.5)	(1.3)	(1.3)
<b>Metso total</b>	<b>(15.1)</b>	<b>(27.9)</b>	<b>(57.1)</b>

### Operating profit (loss) by business area:

(In millions)	2000 EUR	% of net sales	2001 EUR	% of net sales	2002 EUR	% of net sales
Metso Paper	117.2	6.0%	167.6	7.6%	118.2	6.5%
Metso Minerals	27.7	4.9%	14.7	1.6%	51.4	2.8%
Metso Automation	45.0	7.0%	17.3	2.5%	16.3	2.6%
Metso Ventures	15.5	3.2%	28.2	5.8%	14.9	4.0%
Corporate Headquarters and other	(18.6)	-	15.5	-	(24.9)	-
<b>Continuing operations</b>	<b>186.8</b>	<b>5.3%</b>	<b>243.3</b>	<b>5.8%</b>	<b>175.9</b>	<b>3.9%</b>
Forest Machines	13.3	7.4%	-	-	-	-
Converting Equipment	0.0	0.0%	3.0	1.7%	(8.9)	(5.6%)
<b>Metso total</b>	<b>200.1</b>	<b>5.1%</b>	<b>246.3</b>	<b>5.7%</b>	<b>167.0</b>	<b>3.6%</b>

Capital employed by business area at the end of year:

	2000	2001	2002
(In millions)	EUR	EUR	EUR
Metso Paper	502	562	517
Metso Minerals	331	1,525	1,401
Metso Automation	244	282	207
Metso Ventures	113	139	145
Corporate Headquarters and other	714	476	417
<b>Continuing operations</b>	<b>1,904</b>	<b>2,984</b>	<b>2,687</b>
Forest Machines	-	-	-
Converting Equipment	77	60	55
<b>Metso total</b>	<b>1,981</b>	<b>3,044</b>	<b>2,742</b>

Capital expenditure (including business acquisitions) by business area:

	2000	2001	2002
(In millions)	EUR	EUR	EUR
Metso Paper	233	68	73
Metso Minerals	22	827	50
Metso Automation	30	43	13
Metso Ventures	19	33	37
Corporate Headquarters and other	7	8	18
<b>Continuing operations</b>	<b>311</b>	<b>979</b>	<b>191</b>
Forest Machines	-	-	-
Converting Equipment	2	3	3
<b>Metso total</b>	<b>313</b>	<b>982</b>	<b>194</b>

Depreciation and amortization by business area:

	2000	2001	2002
(In millions)	EUR	EUR	EUR
Metso Paper	65	66	63
Metso Minerals	16	37	90
Metso Automation	17	19	18
Metso Ventures	21	21	20
Corporate Headquarters and other	2	2	3
<b>Continuing operations</b>	<b>121</b>	<b>145</b>	<b>194</b>
Forest Machines	3	-	-
Converting Equipment	4	4	3
<b>Metso total</b>	<b>128</b>	<b>149</b>	<b>197</b>

## Notes to Consolidated Financial Statements

Information about Metso's operations in different geographical areas as at and for the years ended December 31, 2000, 2001 and 2002 is as follows:

### Net sales to unaffiliated customers by destination

	Finland	Other Nordic Countries	Other European Countries	North America	South America	Asia-Pacific	Rest of the World	Eliminations	Metso total
(In millions)	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
2000	375	356	1,097	1,281	237	460	85	-	3,891
2001	587	417	1,172	1,143	360	521	143	-	4,343
2002	382	453	1,363	1,199	417	652	225	-	4,691

In year 2002, 24 percent of net sales was recognized under percentage of completion method. The percentage was highest in the Metso Paper business area, where it accounted for 45 percent of net sales.

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

	Other Nordic Countries	Other European Countries	North America	South America	Asia-Pacific	Rest of the World	Total
(In millions)	EUR	EUR	EUR	EUR	EUR	EUR	EUR
2000	377	556	276	47	253	14	1,523
2001	365	592	200	85	269	20	1,531
2002	297	567	183	137	248	21	1,453

### Fixed assets and financial assets by location

	Finland	Other Nordic Countries	Other European Countries	North America	South America	Asia-Pacific	Rest of the World	Eliminations	Metso total
(In millions)	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
2000	560	108	157	311	4	23	7	-	1,170
2001	530	949	158	457	28	64	9	-	2,195
2002	514	935	108	357	24	57	10	-	2,005

# Parent Company Statement of Income

(In millions)	Year ended December 31,		
	2000 EUR	2001 EUR	2002 EUR
Net sales	-	-	-
Cost of goods sold	-	-	-
Gross profit	-	-	-
Selling, general and administrative expenses	(37)	(26)	(31)
Other income and expenses, net	15	9	(11)
Operating profit (loss)	(22)	(17)	(42)
Financial income and expenses, net	6	158	201
Profit (loss) before contributions, untaxed reserves and income taxes	(16)	141	159
Group contributions	199	81	2
Change in untaxed reserves	-	-	-
Change in accelerated depreciation	-	-	-
Extraordinary income and expenses, net	-	-	-
Income before taxes	183	222	161
Income taxes	(51)	(17)	(44)
<b>Net income</b>	<b>132</b>	<b>205</b>	<b>117</b>

# Parent Company Balance Sheet

## Assets

(In millions)	As at December 31,	
	2001	2002
	EUR	EUR
<b>Fixed assets and financial assets</b>		
Intangible assets		
Goodwill	-	-
Other intangible assets	1	2
	1	2
Tangible assets		
Land and water areas	2	2
Buildings	1	1
Machinery and equipment	1	1
Other tangible assets	0	0
Assets under construction	-	-
	4	4
Financial assets		
Shareholdings and other securities	1,263	1,251
Own shares	1	1
Loans receivable	462	345
Accounts receivable	0	-
Other long-term investments	8	8
	1,734	1,605
<b>Total fixed and financial assets</b>	<b>1,739</b>	<b>1,611</b>
<b>Current assets</b>		
Inventories		
Materials and supplies	-	-
Work in process	-	-
Finished products	-	-
	-	-
Receivables		
Accounts receivable	3	6
Loans receivable	1,220	1,254
Accrued income and prepaid expenses	103	81
Other receivables	1	0
Other short-term investments	14	5
	1,341	1,346
Cash and cash equivalents	16	2
<b>Total current assets</b>	<b>1,357</b>	<b>1,348</b>
<b>Total assets</b>	<b>3,096</b>	<b>2,959</b>

## Shareholders' equity and liabilities

(In millions)	As at December 31,	
	2001 EUR	2002 EUR
<b>Shareholders' equity</b>		
Share capital	232	232
Share issue	-	-
Share premium reserve	88	88
Legal reserve	216	216
Reserve for own shares	1	1
Other reserves	202	202
Retained earnings	255	378
Net income for the financial year	205	117
<b>Total shareholders' equity</b>	<b>1,199</b>	<b>1,234</b>
<b>Untaxed reserves</b>	<b>0</b>	<b>0</b>
<b>Liabilities</b>		
<b>Long-term debt</b>		
Bonds	727	711
Loans from financial institutions	346	213
Pension loans	25	17
Other long-term debt	-	1
	1,098	942
<b>Other long-term liabilities</b>		
Accrued expenses	-	-
<b>Current liabilities</b>		
Current portion of long-term debt	38	39
Other interest bearing short-term debt	731	703
Advances received	-	-
Accounts payable	6	5
Accrued expenses and deferred income	23	35
Other current liabilities	1	1
	799	783
<b>Total liabilities</b>	<b>1,897</b>	<b>1,725</b>
<b>Total shareholders' equity and liabilities</b>	<b>3,096</b>	<b>2,959</b>

# Parent Company Statement of Changes in Shareholders' Equity

(In millions)	Share capital		Share	Legal reserve	Reserve		Retained earnings	Total
	Number of shares (thousands)	(Par value EUR 1.70 per share)	premium reserve EUR		for own shares	Other reserves		
Balance at December 31, 1999	135,817	228	82	216	6	202	259	993
Dividends	-	-	-	-	-	-	(54)	(54)
Transfer from share premium reserve	-	3	(3)	-	-	-	-	0
Cancellation of own shares	(500)	(1)	1	-	(5)	-	-	(5)
Other	245	-	2	-	-	-	-	2
Net income	-	-	-	-	-	-	132	132
<b>Balance at December 31, 2000</b>	<b>135,562</b>	<b>230</b>	<b>82</b>	<b>216</b>	<b>1</b>	<b>202</b>	<b>337</b>	<b>1,068</b>
Dividends	-	-	-	-	-	-	(81)	(81)
Share issue (option rights)	689	2	6	-	-	-	-	8
Other	-	-	-	-	-	-	(1)	(1)
Net income	-	-	-	-	-	-	205	205
<b>Balance at December 31, 2001</b>	<b>136,251</b>	<b>232</b>	<b>88</b>	<b>216</b>	<b>1</b>	<b>202</b>	<b>460</b>	<b>1,199</b>
Dividends	-	-	-	-	-	-	(82)	(82)
Net income	-	-	-	-	-	-	117	117
<b>Balance at December 31, 2002</b>	<b>136,251</b>	<b>232</b>	<b>88</b>	<b>216</b>	<b>1</b>	<b>202</b>	<b>495</b>	<b>1,234</b>

# Financial Indicators 1998–2002

(In millions)	1998	1999	2000	2001	2002
	EUR	EUR	EUR	EUR	EUR
Net sales	3,695	3,387	3,891	4,343	4,691
Net sales change, %	(5.2)	(8.3)	14.9	11.6	8.0
Operating profit (loss)	246	(10)	200	246	167
% of net sales	6.7	(0.3)	5.1	5.7	3.6
Income (loss) before extraordinary items and taxes	251	(28)	180	222	93
% of net sales	6.8	(0.8)	4.6	5.1	2.0
Income (loss) before taxes	249	(87)	448	214	93
% of net sales	6.7	(2.6)	11.5	4.9	2.0
Net income (loss) for the year	184	(88)	389	141	65
Exports and international operations	3,219	3,042	3,530	3,764	4,320
% of net sales	87.1	89.8	90.7	86.7	92.1
Orders received	3,399	3,528	4,268	3,778	4,646
Order backlog, December 31	1,342	1,586	1,907	1,772	1,589
Gross capital expenditure	133	121	127	154	193
% of net sales	3.6	3.6	3.3	3.5	4.1
Depreciation and amortization	131	130	128	149	197
% of net sales	3.5	3.8	3.3	3.4	4.2
Business acquisitions, net of cash acquired	24	116	186	828	1
% of net sales	0.6	3.4	4.8	19.1	0.0
Research and development	119	127	127	150	156
% of net sales	3.2	3.7	3.3	3.5	3.3
Shareholders' equity	1,206	1,085	1,425	1,469	1,379
Net interest bearing liabilities (receivables)	178	465	(53)	1,251	1,118
Balance sheet total	2,798	3,169	3,564	5,042	4,399
Gearing, %	14.6	42.8	(3.7)	84.8	80.6
Return on equity (ROE), %	16.1	(2.4)	9.5	10.4	4.8
Return on capital employed (ROCE), %	16.5	1.6	12.2	12.3	6.4
Equity to assets ratio, %	45.4	37.3	45.4	31.1	33.3
Average number of employees	23,754	22,965	22,372	25,613	29,258

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

# Formulas for Calculation of Indicators

## Formulas for calculation of financial indicators

### Gearing, %:

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

### Return on equity (ROE), %:

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

### Return on capital employed (ROCE), %:

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

### Equity to assets ratio, %:

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

## Formulas for calculation of share-related indicators

### Earnings / share:

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

### Equity / share:

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

### Dividend / share:

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

### Dividend / earnings, %:

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

### Effective dividend yield, %:

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

### P/E ratio:

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

### Average share price:

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

### Market capitalization:

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

## Exchange rates used

	Average rates			Year-end rates				
	2002	2001	2000	2002	2001	2000	1999	1998
USD (US dollar)	0.9449	0.8957	0.9240	1.0487	0.8813	0.9305	1.0046	1.1667
SEK (Swedish krona)	9.1591	9.2557	8.4459	9.1528	9.3012	8.8313	8.5625	9.4874
GBP (Pound sterling)	0.6288	0.6219	0.6094	0.6505	0.6085	0.6241	0.6217	0.7055
CAD (Canadian dollar)	1.4828	1.3867	1.3712	1.6550	1.4077	1.3965	1.4608	1.8061

# 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, 2002 to December 31, 2002. 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 12, 2003

PricewaterhouseCoopers Oy  
Authorized Public Accountants

Lars Blomquist  
Authorized Public Accountant

Heikki Lassila  
Authorized Public Accountant

# Quarterly Information

## Net sales by business area

	1-3/01	4-6/01	7-9/01	10-12/01	2001	1-3/02	4-6/02	7-9/02	10-12/02	2002
(In millions)	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Metso Paper	567	546	481	615	2,209	418	412	411	571	1,812
Metso Minerals	123	150	133	507	913	436	518	427	438	1,819
Metso Automation	153	169	177	194	693	151	155	149	167	622
Metso Ventures	148	135	109	97	489	95	85	86	108	374
Intra Metso net sales	(28)	(29)	(56)	(24)	(137)	(27)	(27)	(9)	(33)	(96)
<b>Continuing operations</b>	<b>963</b>	<b>971</b>	<b>844</b>	<b>1,389</b>	<b>4,167</b>	<b>1,073</b>	<b>1,143</b>	<b>1,064</b>	<b>1,251</b>	<b>4,531</b>
Converting Equipment	39	46	43	48	176	38	35	41	46	160
<b>Metso total</b>	<b>1,002</b>	<b>1,017</b>	<b>887</b>	<b>1,437</b>	<b>4,343</b>	<b>1,111</b>	<b>1,178</b>	<b>1,105</b>	<b>1,297</b>	<b>4,691</b>

## Orders received by business area

	1-3/01	4-6/01	7-9/01	10-12/01	2001	1-3/02	4-6/02	7-9/02	10-12/02	2002
(In millions)	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Metso Paper	646	327	300	464	1,737	490	473	398	281	1,642
Metso Minerals	149	152	137	435	873	545	469	415	431	1,860
Metso Automation	189	165	151	171	676	162	184	139	158	643
Metso Ventures	135	140	72	93	440	83	112	91	125	411
Intra Metso orders received	(47)	(30)	(13)	(27)	(117)	(27)	(28)	(23)	(28)	(106)
<b>Continuing operations</b>	<b>1,072</b>	<b>754</b>	<b>647</b>	<b>1,136</b>	<b>3,609</b>	<b>1,253</b>	<b>1,210</b>	<b>1,020</b>	<b>967</b>	<b>4,450</b>
Converting Equipment	58	31	47	33	169	38	46	37	75	196
<b>Metso total</b>	<b>1,130</b>	<b>785</b>	<b>694</b>	<b>1,169</b>	<b>3,778</b>	<b>1,291</b>	<b>1,256</b>	<b>1,057</b>	<b>1,042</b>	<b>4,646</b>

## Order backlog by business area

	Mar 31, 2001	June 30, 2001	Sep 30, 2001	Dec 31, 2001	Mar 31, 2002	June 30, 2002	Sep 30, 2002	Dec 31, 2002
(In millions)	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Metso Paper	1,522	1,298	1,093	957	1,023	1,063	1,035	742
Metso Minerals	127	130	535	499	592	504	461	474
Metso Automation	238	238	203	182	193	209	199	185
Metso Ventures	160	165	129	111	101	116	122	139
Intra Metso order backlog	(99)	(99)	(59)	(49)	(48)	(46)	(56)	(53)
<b>Continuing operations</b>	<b>1,948</b>	<b>1,732</b>	<b>1,901</b>	<b>1,700</b>	<b>1,861</b>	<b>1,846</b>	<b>1,761</b>	<b>1,487</b>
Converting Equipment	94	81	84	72	71	79	77	102
<b>Metso total</b>	<b>2,042</b>	<b>1,813</b>	<b>1,985</b>	<b>1,772</b>	<b>1,932</b>	<b>1,925</b>	<b>1,838</b>	<b>1,589</b>

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

	1-3/01	4-6/01	7-9/01	10-12/01	2001	1-3/02	4-6/02	7-9/02	10-12/02	2002
(In millions)	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Metso Paper	54.6	42.9	42.1	51.1	190.7	32.5	30.5	14.5	54.8	132.3
Metso Minerals	7.2	12.6	9.0	15.8	44.6	22.0	36.9	21.9	27.1	107.9
Metso Automation	5.4	5.5	10.0	7.8	28.7	0.1	8.5	6.1	7.2	21.9
Metso Ventures	13.7	9.1	(0.4)	7.4	29.8	0.2	7.1	4.0	12.1	23.4
Corporate Headquarters and other	(7.5)	(3.7)	(8.2)	(8.2)	(27.6)	(7.3)	(9.4)	(8.2)	(6.9)	(31.8)
<b>Continuing operations</b>	<b>73.4</b>	<b>66.4</b>	<b>52.5</b>	<b>73.9</b>	<b>266.2</b>	<b>47.5</b>	<b>73.6</b>	<b>38.3</b>	<b>94.3</b>	<b>253.7</b>
Converting Equipment	1.7	0.4	0.7	1.5	4.3	(0.8)	(2.1)	(0.5)	0.3	(3.1)
<b>Operating profit (loss) before nonrecurring operating items and amortization of goodwill</b>	<b>75.1</b>	<b>66.8</b>	<b>53.2</b>	<b>75.4</b>	<b>270.5</b>	<b>46.7</b>	<b>71.5</b>	<b>37.8</b>	<b>94.6</b>	<b>250.6</b>
Nonrecurring operating income and expenses, net	(9.0)	(3.8)	0.7	15.8	3.7	(2.0)	(13.5)	(3.1)	(7.9)	(26.5)
Amortization of goodwill	(4.1)	(4.2)	(4.2)	(15.4)	(27.9)	(13.8)	(15.4)	(14.2)	(13.7)	(57.1)
<b>Operating profit (loss)</b>	<b>62.0</b>	<b>58.8</b>	<b>49.7</b>	<b>75.8</b>	<b>246.3</b>	<b>30.9</b>	<b>42.6</b>	<b>20.5</b>	<b>73.0</b>	<b>167.0</b>
Financial income and expenses, net	4	3	(6)	(25)	(24)	(17)	(20)	(18)	(19)	(74)
<b>Income before extraordinary items and income taxes</b>	<b>66</b>	<b>62</b>	<b>44</b>	<b>50</b>	<b>222</b>	<b>14</b>	<b>22</b>	<b>3</b>	<b>54</b>	<b>93</b>
Extraordinary income and expenses, net	-	(5)	-	(3)	(8)	-	-	-	-	-
<b>Income before taxes</b>	<b>66</b>	<b>57</b>	<b>44</b>	<b>47</b>	<b>214</b>	<b>14</b>	<b>22</b>	<b>3</b>	<b>54</b>	<b>93</b>
Income taxes	(21)	(20)	(14)	(17)	(72)	(7)	(11)	(2)	(6)	(26)
Minority interests	(2)	(1)	(1)	3	(1)	(1)	(1)	0	0	(2)
<b>Net income</b>	<b>43</b>	<b>36</b>	<b>29</b>	<b>33</b>	<b>141</b>	<b>6</b>	<b>10</b>	<b>1</b>	<b>48</b>	<b>65</b>
Earnings per share, EUR	0.32	0.29	0.22	0.26	1.09	0.04	0.08	0.01	0.35	0.48
Earnings per share excl. nonrecurring items and amortization of goodwill, EUR	0.38	0.39	0.29	0.20	1.26	0.16	0.27	0.07	0.49	0.99

## Consolidated balance sheets

(In millions)	Mar 31,	June 30,	Sep 30,	Dec 31,	Mar 31,	June 30,	Sep 30,	Dec 31,
	2001	2001	2001	2001	2002	2002	2002	2002
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>Fixed assets and financial assets</b>								
Intangible assets	268	276	1,000	1,094	1,086	1,031	1,031	1,011
Tangible assets	666	678	858	886	892	893	898	891
Financial assets	260	246	260	215	197	194	139	103
<b>Current assets</b>								
Inventories	741	787	1 072	949	999	959	903	819
Receivables	1,162	1,162	1,714	1,686	1,444	1,438	1,408	1,385
Cash and cash equivalents	531	398	307	212	227	124	134	190
<b>Total assets</b>	<b>3,628</b>	<b>3,547</b>	<b>5,211</b>	<b>5,042</b>	<b>4,845</b>	<b>4,639</b>	<b>4,513</b>	<b>4,399</b>
Share capital	232	232	232	232	232	232	232	232
Other shareholders' equity	1,163	1,211	1,211	1,237	1,148	1,124	1,114	1,147
Minority interests	10	11	11	7	8	9	9	10
Long-term liabilities	495	487	634	1,362	1,456	1,408	1,314	1,172
Current liabilities	1,728	1,606	3,123	2,204	2,001	1,866	1,844	1,838
<b>Total shareholders' equity and liabilities</b>	<b>3,628</b>	<b>3,547</b>	<b>5,211</b>	<b>5,042</b>	<b>4,845</b>	<b>4,639</b>	<b>4,513</b>	<b>4,399</b>
<b>Net interest bearing liabilities</b>								
Long-term interest bearing liabilities	412	399	466	1,179	1,291	1,244	1,167	1,020
Short-term interest bearing liabilities	125	130	1,279	389	228	270	229	333
Cash and cash equivalents	(531)	(398)	(307)	(212)	(227)	(124)	(134)	(190)
Other interest-bearing assets	(115)	(75)	(152)	(105)	(84)	(78)	(78)	(45)
<b>Total</b>	<b>(109)</b>	<b>56</b>	<b>1,286</b>	<b>1,251</b>	<b>1,208</b>	<b>1,312</b>	<b>1,184</b>	<b>1,118</b>
Equity to assets ratio, %	43.6	45.5	30.0	31.1	30.5	31.2	31.8	33.3
Gearing, %	(7.8)	3.9	88.5	84.8	87.1	96.1	87.3	80.6

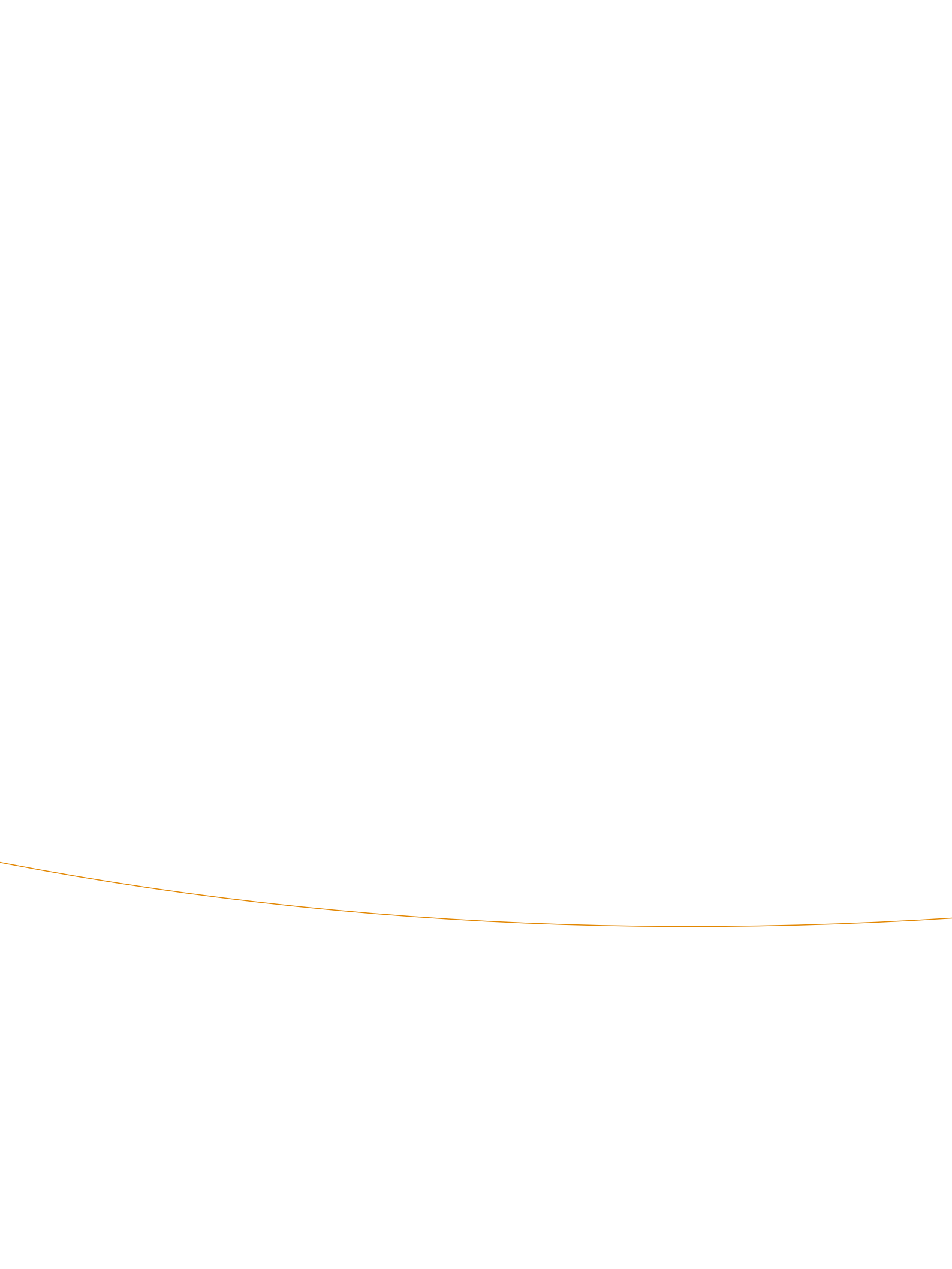
## Personnel by business area

	Mar 31, 2001	June 30, 2001	Sep 30, 2001	Dec 31, 2001	Mar 31, 2002	June 30, 2002	Sep 30, 2002	Dec 31, 2002
Metso Paper	9,524	10,053	9,550	9,458	9,427	9,831	9,565	9,719
Metso Minerals	3,282	3,235	12,034	11,725	11,184	11,040	10,953	10,784
Metso Automation	4,569	4,804	4,666	4,532	4,387	4,395	4,223	4,150
Metso Ventures	3,767	3,847	3,670	3,586	3,571	3,134	2,965	2,873
Corporate Headquarters and other	114	124	118	117	118	132	131	134
<b>Continuing operations</b>	<b>21,256</b>	<b>22,063</b>	<b>30,038</b>	<b>29,418</b>	<b>28,687</b>	<b>28,532</b>	<b>27,837</b>	<b>27,660</b>
Converting Equipment	795	810	837	824	840	830	835	829
<b>Metso total</b>	<b>22,051</b>	<b>22,873</b>	<b>30,875</b>	<b>30,242</b>	<b>29,527</b>	<b>29,362</b>	<b>28,672</b>	<b>28,489</b>

## Exchange rates used

	1-3/2001	1-6/2001	1-9/2001	1-12/2001	1-3/2002	1-6/2002	1-9/2002	1-12/2002
USD (US dollar)	0.9232	0.8982	0.8957	0.8957	0.8764	0.8979	0.9265	0.9449
SEK (Swedish krona)	9.0030	9.0649	9.1820	9.2557	9.1566	9.1567	9.1806	9.1591
GBP (Pound sterling)	0.6326	0.6236	0.6222	0.6219	0.6146	0.6217	0.6262	0.6288
CAD (Canadian dollar)	1.4097	1.3781	1.3773	1.3867	1.3973	1.4127	1.4539	1.4828

	Mar 31, 2001	June 30, 2001	Sep 30, 2001	Dec 31, 2001	Mar 31, 2002	June 30, 2002	Sep 30, 2002	Dec 31, 2002
USD (US dollar)	0.8832	0.8480	0.9131	0.8813	0.8724	0.9975	0.9860	1.0487
SEK (Swedish krona)	9.1570	9.2125	9.7321	9.3012	9.0304	9.1015	9.1516	9.1528
GBP (Pound sterling)	0.6192	0.6031	0.6220	0.6085	0.6130	0.6498	0.6295	0.6505
CAD (Canadian dollar)	1.3904	1.2927	1.4418	1.4077	1.3923	1.5005	1.5566	1.6550





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