

# Fit for the future

Annual Report 2011



# Metso is fit for the future

Metso is a global supplier of technology and services to customers in the process industries, including mining, construction, pulp and paper, power, and oil and gas. Our 30,000 professionals based in over 50 countries deliver sustainability and profitability to customers worldwide. Our new strategy implementation is focused on five strategic must-wins to ensure that Metso is the perfect fit for its stakeholders now and in the future.

## Metso's businesses

### Mining and Construction

Technology, processes, machinery and services for aggregates production, construction, mining and minerals processing.

(41% of Metso's net sales)

### Automation

Process industry flow control solutions, automation and information management systems and applications and services.

(12% of Metso's net sales)

### Pulp, Paper and Power

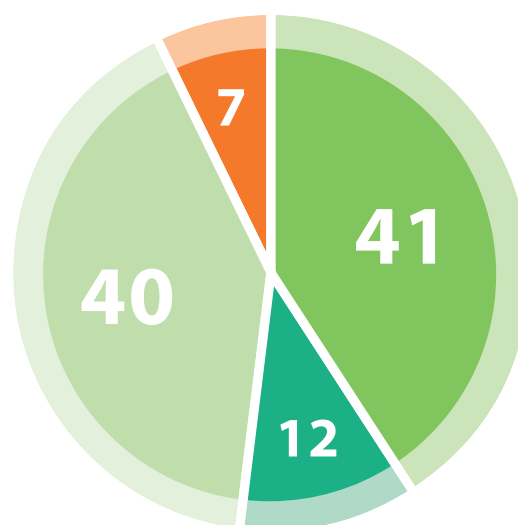
Processes, machinery, equipment, services, paper machine clothing and filter fabrics for the pulp, paper and power industries.

(40% of Metso's net sales)

### Others

Separate entities:  
Recycling and Valmet Automotive

(7% of Metso's net sales)



Links & notes

- 1 [www.metso.com](http://www.metso.com)
- 2 [www.metso.com/2011](http://www.metso.com/2011)
- 3 [www.twitter.com/metsogroup](https://www.twitter.com/metsogroup)

## How to read this report

The printed Annual Report for 2011 is published in Finnish and English and the Online Annual Report 2011 in English at [www.metso.com/2011](http://www.metso.com/2011). We discuss our new strategy and strategic must-wins in the printed report. The Online Annual Report 2011 has three main parts: Strategy, Financial Performance and Sustainability Results. Sustainability information presented both in the printed and the online version has been externally assured. In our sustainability reporting we apply the Global Reporting Initiative (GRI) sustainability reporting guidelines.

The 'Links & Notes' section contains additional sources and information about the Annual Report topics. Some links are presented as QR codes for camera-equipped mobile devices.



[www.metso.com](http://www.metso.com)



[www.metso.com/2011](http://www.metso.com/2011)

# Contents

## Metso

- From the CEO ..... 2
- Metso and megatrends ..... 4
- Organizational culture ..... 6
- Strategy review..... 8
- Strategic must-wins ..... 10
- Targets and achievements..... 20
- Risks and risk management ..... 24

## Business review

- Customer industries..... 26
- Metso's businesses ..... 28
- Mining and Construction..... 30
- Automation ..... 32
- Pulp, Paper and Power ..... 34
- Figures ..... 36

## Financial statements

- Table of Contents..... 41
- Board of Directors' Report..... 42
- Consolidated Financial Statements ..... 51
- Financial Indicators..... 102
- Parent Company Financial Statements..... 104
- Shares and Shareholders..... 106
- Auditor's Report ..... 112

## Governance

- Corporate Governance ..... 113
- Board of Directors ..... 118
- Executive Team ..... 120

## Investor information

- Investor relations ..... 122
- For shareholders ..... 123

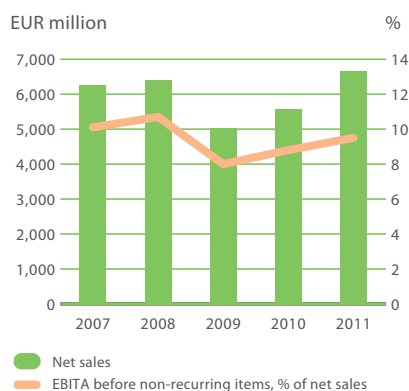
## Independent Assurance Report ..... 124

## Key figures

EUR million	2010	2011	Change
Net sales	5,552	<b>6,646</b>	20%
Services, % of external net sales*	45	<b>45</b>	
Earnings before interest, tax and amortization (EBITA) and nonrecurring items	491.0	<b>628.5</b>	28%
% of net sales	8.8	<b>9.5</b>	
Profit	258	<b>358</b>	39%
Earnings per share, EUR	1.71	<b>2.38</b>	39%
Dividend per share, EUR**	1.55	<b>1.70</b>	10%
Return on capital employed (ROCE) before taxes, %	13.5	<b>18.4</b>	
Gearing, %	15.0	<b>12.2</b>	
Free cash flow	435	<b>375</b>	-14%
Research and development expenses***	111	<b>124</b>	12%
Orders received	5,944	<b>7,961</b>	34%
Order backlog, December 31	4,023	<b>5,310</b>	32%
Personnel, December 31	28,593	<b>30,324</b>	6%
Lost-time incident frequency (LTIF)	12.4	<b>9.1</b>	-27%
Sponsorship and donations	3.1	<b>1.1</b>	-65%
Carbon dioxide emissions, 1,000 t	297	<b>272</b>	-8%
Energy consumption, TJ	3,938	<b>3,643</b>	-7%
Metals use, 1,000 t	237	<b>264</b>	11%

Changes have been made to the 2010 carbon dioxide emissions, energy consumption and metals use data.  
 \* Calculated out of external net sales excluding Valmet Automotive, which does not have services business.  
 \*\* 2011 Board's proposal \*\*\* without IPR expenses

Net sales and EBITA before non-recurring items

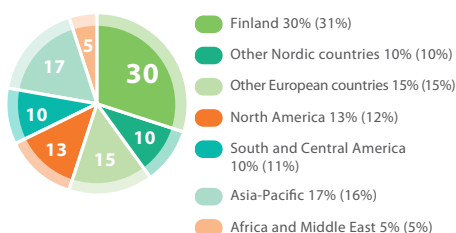


Orders received and order backlog



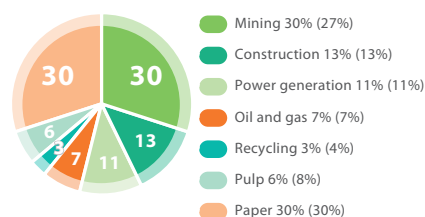
Personnel by area

Personnel 30,324  
(2010: 28,593)



Net sales by customer industry

Net sales EUR 6,646 million  
(2010: EUR 5,552 million)



# From the CEO

2011 was a successful year for Metso in many ways. Despite the global economic uncertainty that marked the end of the year, our company's profitability grew steadily. Our order backlog ended up at an all-time record high and our net sales increased slightly more than expected. The positive development in these key indicators is a result of the work done in all our businesses.

Last year, we achieved all the major targets we set. I am especially pleased with the positive development in the order intake in the services business: the orders were valued at over three billion euros and accounted for about 40 percent of all orders received. Additionally, the strategically important expansion of our operations in growth markets progressed favorably and the number of new orders in the mining business increased by over 50 percent compared to 2010.

### Changes in management and strategy

There were major changes in the company's management in early 2011, as a significant portion of the Executive Team retired and nearly every Executive Team position was filled by a new person. The renewal of our business structure and portfolio following this change has now been successfully completed, and the company is even more prepared to meet customer challenges and changes in our operating environment.

Last year, we reviewed the strategy process covering all Metso businesses. The renewal started with the mission, vision and values. In the process, we also defined the Metso-wide strategic must-wins that are important for our future success (read more about these elsewhere in this report). We also reviewed the extensive strategy implementation process, the aim of which is to make sure that all Metso people know their own unit's targets and their own role in executing the strategy. As a result of this strategy work, we are able to respond to the changes in our operating environment and ensure our success in the longer term.

### Instability in the global economy

There were changes in our operating environment last year. The positive trend that marked the first part of 2011 was reflected on Metso through exceptionally large orders. The economic crisis in Europe in summer and autumn put a damper on the overall market sentiments. The financing situation on the Chinese markets became more difficult, and there was a slow-down in the markets in the United States. The importance and size of the growth markets in maintaining the level of demand was emphasized. The situation balanced out in all markets later in the year.

The increased general uncertainty wasn't widely visible in our customers' investments. Our order backlog developed steadily until the end of the year, when orders for paper and board machines started to decline. In our other businesses, demand remained steady.

### Customer needs come first

One of Metso's strengths is its ability to solve a broad spectrum of customer problems. Our company has solid specialized expertise, technology solutions for a diverse range of needs and a comprehensive understanding of processes. Metso's size and strong balance sheet are also important factors in the delivery of large projects: our customers value delivery reliability and being able to count on the continuity of collaboration.

Listening more carefully to customers has also become a key success factor: we must be more prepared to build new kinds of fit-for-purpose solutions that meet customer needs. The demand for economically efficient solutions that are typical for emerging markets has clearly grown also in Metso's customer industries. Success in these markets depends on the ability to evolve and to adapt to changes in demand in the customer interface. Flexibility and the fluidity of controlled change is an important area of development for Metso in the future.

### Leadership, safety and well-being are targets of development

In 2011, we invested strongly also in leadership development and in occupational safety and well-being. We adopted new leadership principles that we are using to develop supervisory work and leadership at all levels. Our leadership principles are: show the way forward, build inspiration and trust, develop and coach, and drive results. Our renewed values – driving customer success, seeking innovations, performing together, respecting each other – guide our leadership.

At Metso, occupational safety is an integral part of all operations. During recent years, we have seen a clear drop in the number of injuries resulting in absences; this progress must be reinforced in every way possible. When safety is at a high level,



productivity and quality also improve. Metso is constantly striving to make the company an even safer workplace for its own people and for its partners.

Occupational well-being makes a difference both inside and outside the company. A good work environment supports competence development and productive work performances. Occupational well-being also has a direct impact on the service customers receive and on the company's ability to achieve results.

2011 was a successful year for Metso in many ways. We achieved all the major targets we set.

#### Future success factors

It appears that the global economic uncertainty will continue in 2012. This is a source of concern also in Metso's key market areas. However, Metso is in good shape and, despite the uncertainties, I am confident that our company's business will develop favorably also this year. Our strategic priorities – attaining growth in the services business, reinforcing our local presence in growth countries and leveraging the favorable development in the mining industry – are most important in creating value for Metso. Other key requisites for Metso's future success include agility in seizing business opportunities and adapting to a market environment that is more susceptible to change.

Realizing strategic goals is not possible without motivated and competent personnel. The company's positive performance in 2011 is a good indication of the strong commitment Metso people have to the company's goals. Let's keep the good momentum going. Metso is fit for the future.

#### Links & notes

- 1 CEO's video greeting [www.metso.com/2011](http://www.metso.com/2011)
- 2 Metso Executive Team video [www.metso.com/2011](http://www.metso.com/2011)
- 3 Organizational culture p. 6–7
- 4 Strategy overview p. 8–9
- 5 Strategic must-wins p. 10–19



[www.metso.com/2011](http://www.metso.com/2011)



Expo 2010 Shanghai China

# Metso and megatrends

Megatrends are an important element in our strategic thinking, and our view is that they are likely to be the largest driver for change in our customer industries for the next decades. Over the last few years, we have identified the megatrends relevant to Metso and have directed investments accordingly.

Although these megatrends are largely global, they impact our individual businesses in different ways, depending on the region and the market. We take these impacts into consideration in our strategy, in our business model and in our approach in different markets. Our strategic goal is to achieve a significant presence in emerging markets and to grow by actively expanding our installed equipment base. In developed markets, we are focusing on defending our strong market positions through services growth.

Most of Metso's markets have recovered and have reached or surpassed the level before the significant decline seen in 2008–2009; however, the current debt crises in the EU and USA – together with increasing inflationary pressures due to high food and commodity prices throughout the world – have led to lower growth expectations for the global economy. Gross domestic product is expected to rise, but the regional differences will widen – emerging markets, especially China and India, are growing briskly, whereas growth is slower in the USA and Western Europe. Economic growth continues to be fueled by big investment needs in all emerging markets.

The operating environment and competitive landscape have changed rapidly during recent years;

Over the last few years, we have identified the megatrends relevant to Metso and have directed investments accordingly.

traditional Western competitors are improving their market positions through mergers and acquisitions and new entrants from emerging markets are targeting an increasing share of new equipment business with low pricing. This trend is expected to continue, and thus strengthening our presence in China and India as well as in other selected growth countries is crucial. A key requirement for our success is the ability to seize business opportunities and to adapt to increasingly volatile market environments. Monitoring and understanding market development are the keys to survival in today's unstable economy.

## Links & notes

- 1 Strategic must-wins p. 10–19
- 2 [www.metso.com/2011](http://www.metso.com/2011)
- 3 More information on megatrends [www.metso.com/investors](http://www.metso.com/investors)

<b>Globalizing economy</b> Redistribution of economic power, new players in global market, change in supply chains		<b>Rise of the growth countries</b> New superpowers in global economy, growing affluence of middle class, local cost-effective solutions	
<b>Emerging markets</b>	<b>Developed markets</b>	<b>Emerging markets</b>	<b>Developed markets</b>
<ul style="list-style-type: none"> <li>The BRIC countries, along with other regions in Latin America and Southeast Asia, have been the engines of global economic growth in the last two decades. This growth has increased the consumption of minerals, paper and board in those regions, which boost Metso's businesses.</li> <li>Changes in the industry structure open the door to new competitors that are smaller, but more agile and more driven to grow their market share both locally and in export markets.</li> <li>Responding to customer needs in manufacturing-intensive growth markets requires development of local supply chains.</li> </ul>	<ul style="list-style-type: none"> <li>The installed equipment base in developed markets creates strong demand for Metso's services business.</li> <li>Players from growth countries are increasingly penetrating developed markets, which changes the competitive environment significantly.</li> <li>Business success in the changed competitive environment requires added value from product development, design, know-how, brand and life-cycle services, in addition to manufacturing.</li> </ul>	<ul style="list-style-type: none"> <li>Growth countries are becoming more affluent and are the engines of the global economy. Rapid development and large investments have stimulated extensive investments in infrastructure and industry. Our growing presence in these markets has resulted in new customers and has increased mining and construction demand.</li> <li>The rapidly growing new middle-class in growth countries is spending more money on consumer goods and housing, leading to growth in the demand for paper and packaging products, energy and infrastructure services.</li> <li>Companies in growth countries are very cost conscious, thus products offered in these markets need to be customized for local requirements. We understand our customers' needs very well; our long-spanning local presence gives us the know-how to respond to local challenges.</li> </ul>	<ul style="list-style-type: none"> <li>Metso's solid foothold in developed markets gives us a strong position against new competitors from growth countries.</li> <li>Our fit-for-purpose R&amp;D aimed at emerging markets can be transferred and adapted to meet the needs of traditional Western customers as well.</li> </ul>
<b>Demographic changes</b> Urbanization, aging workforce in traditional markets, knowledge transfer and training		<b>Sustainability and climate change</b> New eco-efficient technologies, new energy solutions and energy efficiency, increasing regulation	
<b>Emerging markets</b>	<b>Developed markets</b>	<b>Emerging markets</b>	<b>Developed markets</b>
<ul style="list-style-type: none"> <li>Rapid urbanization creates new demands for the mobility of people and goods and, consequently, drives the demand for infrastructure expansion and modernization</li> <li>Infrastructure construction boosts the demand for minerals – particularly iron, nickel and copper – as well as aggregates and Metso's business.</li> <li>The growing competition in our customer industries has also led to increasing competition for talent.</li> </ul>	<ul style="list-style-type: none"> <li>With an aging workforce, shifting labor-intensive functions to emerging markets with growing workforces has become more attractive for companies. Our customers have started to increasingly outsource some of their functions, thus improving our business opportunities, especially in the services business.</li> <li>Global employee development is essential to help harmonize the different working styles, cultures and practices while pursuing new markets and facilitating multinational work teams.</li> </ul>	<ul style="list-style-type: none"> <li>The limited supplies of raw materials, energy and clean water drive the search for solutions based on renewable natural resources. New technologies can be used to reduce the use of raw materials or to make their use more efficient.</li> <li>Solutions improving energy efficiency can be implemented relatively quickly and efficiently. The demand for power plants utilizing bio-energy or other renewable energy sources is expected to develop favorably.</li> </ul>	<ul style="list-style-type: none"> <li>Tightening environmental legislation, customer awareness and higher prices for carbon emissions allowances are calling for the reduction of greenhouse gases and more efficient use of energy and raw materials. Additionally, energy is the most significant cost factor for a number of our customers. This supports the increased focus on providing eco-efficient technologies.</li> <li>The increasing number of regulations on emissions and energy is driving our customers to implement more environmentally sustainable processes. Consequently, there is a constant focus on developing solutions that are more sustainable.</li> </ul>



## Organizational culture

### Vision, mission and values

Our operating environment is constantly changing and driving the need for us to continuously renew and improve our operations. We published our new vision, mission and values in March 2011. Our vision, mission and new operating practices more clearly support our values and our renewal.

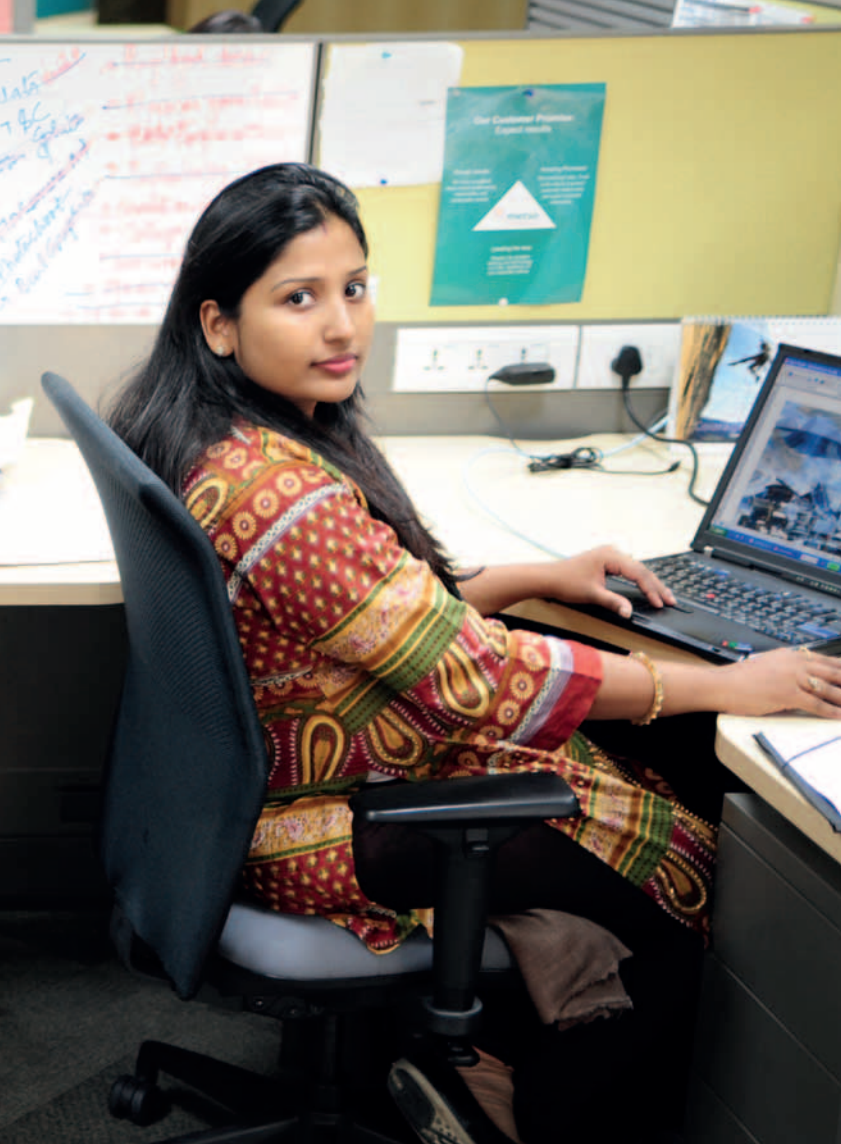
Our vision is "Working as One to be Number One." Working as one means working closely with customers and other key stakeholders and within the company. To be number one means creating added value for stakeholders in everything we do and being the best at it. Metso's mission, the purpose of our operations, emphasizes sustainable solutions: "We contribute to a more sustainable world by helping our customers to process natural resources and recycle materials into valuable products." In accordance with the mission, we are committed to working together with customers and being an active participant in building a more sustainable world.

Metso's values are: Driving customer success, seeking innovations, performing together, and respecting each other. Our values embody the spirit and energy of Metso and are essential if we are to succeed over time in a competitive environment. Values drive our performance and guide us in how we do business and in how we work together with internal and external stakeholders.

### Leadership

We are dedicated to continuing to make our people, and their know-how, Metso's key competitive advantage. "People" was defined as one of Metso's five must-wins, and in spring 2011 Metso developed its first Group-wide People Strategy – a set of prioritized choices about where and how to invest in people. We want to create a work environment that drives the full potential of employees through employee well-being, meritocratic performance management and adapted employee offerings. We





Monisha Majumdar (left) and Chhavi Gupta.

We are committed to taking personal responsibility for our own safety and for the safety of others.

work effectively as a global team with responsibilities geographically balanced and knowledge systematically shared. Our strong management bench and culture of leadership has the ability to deliver our business targets in an increasingly fast-paced and unpredictable environment.

### Sustainability as part of Metso's strategy and everyday life

In harmony with our mission, we are convinced that the world needs technologies that contribute to sustainable development. All our businesses offer products and services that reduce the environmental load and improve the quality of our customers' operations. This thinking also guides our efforts to develop new innovative solutions to help customers improve their own operational performance. We believe advanced technology plays a significant role in curbing and adapting to climate change. Sustainability is not a separate sub-area for Metso;

it is embedded in our daily operations. We strive for consistent and transparent management so that our stakeholders can reliably assess the company's operations and development around the world.

### Health, safety and the environment (HSE)

We are committed to taking personal responsibility for our own safety and for the safety of others. We believe that all incidents and accidents can be prevented. We emphasize our high HSE standards of conduct when dealing with customers, suppliers and other stakeholders. Compliance with applicable laws and regulations is only a minimum requirement. We aspire to minimize our environmental footprint along the entire value chain.



Links & notes

- 1 Must-win: People p. 18–19
- 2 [www.metso.com/2011](http://www.metso.com/2011)  
> Sustainability Results

# Strategy review

## A strategy for value creation and growth

Metso's strategic goal is long-term sustainable and profitable growth. Our comprehensive product and services offering, extensive installed equipment base and strong global presence provide an outstanding foundation for implementing our strategy and further developing Metso. Our ambition is to be the leading technology and service provider in all our businesses.

The strategic challenges that affect our businesses are crystallized in five must-wins: strong development of the services business, strengthening our presence in growth countries, retaining our technology leadership and developing our offering for local needs, developing a global operating model, and creating a working environment that enables our people to succeed.

We are pursuing growth both organically and through complementary acquisitions. We strive for improved profitability and return on capital by focusing on developing the cost and capital structures of our core businesses and by improving the financial performance of our least profitable businesses or divesting them.

## Balanced business portfolio

To ensure our continued profitable growth and value creation and to gain the critical size needed to be competitive, we have made strategic choices to focus our business portfolio. Metso will focus its resources on businesses in which it can achieve a strong global market position and in which services and the right application of technology in different markets, close to the customers, are the decisive competitive factors. This solution offers opportunities for growth and improved profitability, creating added value both in the short-term and long-term.

To accelerate the execution of our new strategy, we adopted a new operating structure on December 1, 2011. The reporting segments of the new structure are Mining and Construction; Automation; and Pulp, Paper and Power.

The Recycling and Valmet Automotive businesses are managed as separate entities. We are reviewing other strategic alternatives for the Recycling business.

The development of Metso's mining and construction business is accelerated by the brisk economic growth in emerging markets, sizable infrastructure investments and a strong demand for minerals. This growth is expected to continue in the coming years. For us, the growth in mining and construction requires a lot of resources, the readiness to invest and expansion of our global presence to support profitable growth. Our long-term target is to strengthen our position as one of the leading suppliers of technology and services for the mining industry.

We are developing the currently well-performing Automation business as an independent segment. Within the Automation segment, we are pursuing growth particularly in the area of flow control solutions. There is plenty of potential to utilize process automation expertise and solutions as a means to stand out from the competition and to expand the offering to Metso's other customer industries, especially the mining and construction sector. Currently, automation is most utilized in the Pulp, Paper and Power business.

Pulp, paper and power industries continue to offer opportunities for growth and profitability. Our goal is to maintain our position as the leading pulp and paper technology supplier and to continue to grow as one of the leading suppliers of biopower solutions. We are also further developing our business in other biomass technology solutions. We believe that through increased integration of the Pulp, Paper and Power businesses we can further enhance our offering and responsiveness to our customers' needs. Furthermore, the new structure offers us a means to improve our profitability, strengthen our cash flow and create a platform for further strategic development and growth.

## New long-term financial targets to create added value

Our target is to create shareholder value through growth and profitability. Our new financial targets are a central part of our strategy and its execution.

>> [SEE LINK 1](#)

### Leveraging our strengths to drive business performance

Competing in a continuously changing business environment is becoming increasingly challenging. It requires companies, including us, to continuously develop and change. We aim to strengthen our position in emerging markets, particularly in China and India. To achieve this goal, we need products that fit the needs of our customers in each market, as well as a corporate culture valuing commercial skills and leadership. We believe that we will achieve our goal by leveraging our unique strengths, which are:

1. A global sales and services network operating close to our customers
2. Advanced expertise in the services business, high-quality products and project management know-how
3. A profound understanding of our customers' processes
4. The leading technology in the sector

Our strengths have emerged over decades in our quest to respond to the challenges of our customers and markets, and we are continuously developing our strengths and adapting them to new conditions as needed.



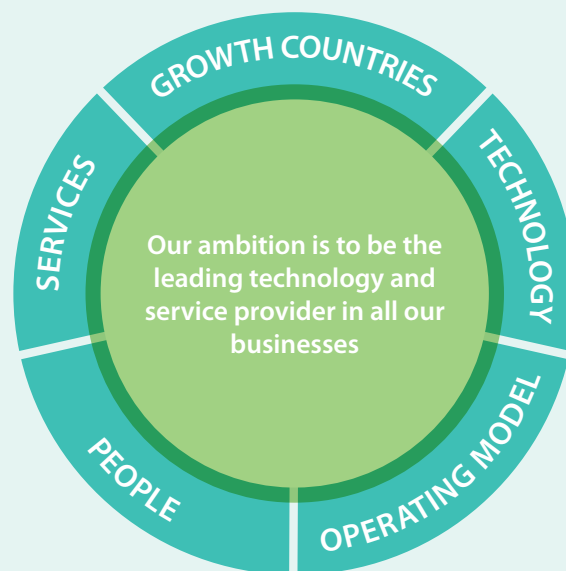
Links & notes

- 1 Targets and achievements p. 20–23
- 2 Strategic must-wins p. 10–19
- 3 [www.metso.com/2011](http://www.metso.com/2011) > Metso Strategy

### From must-wins to success

Our new strategy is driven by five Group-level must-wins and selected business-focused must-wins. Must-wins are key strategic measures that we must implement to achieve our ambition and our most important targets. Defining the common must-wins guides our businesses in the right direction and provides a common platform for collaboration that supports our success.

The must-wins aim to maximize our value creation and to support the implementation of the strategy. We have three must-wins related to customers and markets (Services, Growth countries, Technology) and two (Operating model, People) that enhance internal value creation. Each segment implements the must-wins in accordance with their own segment priorities, and thus they directly impact the growth of our business.



# Fit for performance



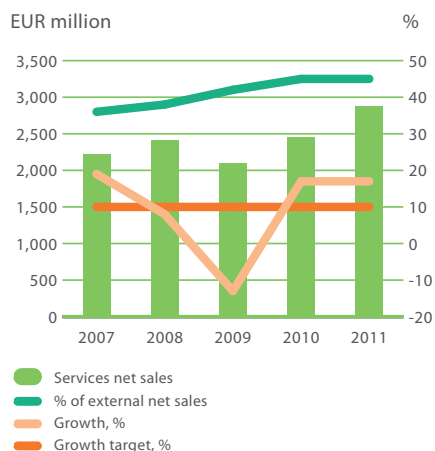
## 1. Must-win: Services

### Accelerating services business growth

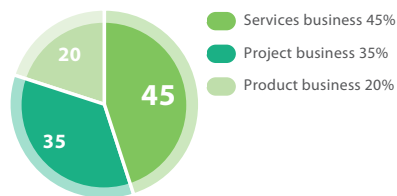
#### **Our ambition**

Our ambition is to be the best service provider in our businesses. Our target is to grow our share of the services business markets and achieve annual profitable net sales growth of over 10 percent.

## Services net sales



## Net sales by type\*



\*Based on management estimate

### Summary

A well functioning services business is a must for securing and improving customer productivity. We are continuously developing and expanding our services offering. Our operations are based on our extensive experience and on our strong, continuously growing network. Our key strength is the extensive installed equipment base, which has driven the continuous strong growth in services over the years and which also provides the prerequisites to further develop the services business.

### Starting point

Our solid track record in the services business has gained strength over the past ten years.

In 2011, the services business accounted for 45 percent (45% in 2010 and 42% in 2009) of our net sales. In developed markets, our services network is particularly strong and the share of services was 49% of net sales. In emerging markets, the share was 38% in 2011.

We can offer our customers the support they need quickly, anywhere and at any time. For instance, we have more than 50 service centers worldwide serving Pulp, Paper and Power customers. We have a deep understanding of customer processes and a broad range of life-cycle services to optimize those processes. A life-cycle services contract gives the customer access to our extensive process knowledge and experience. In the spring of 2011, we signed an extensive multi-year life-cycle services contract with Russian Copper Company. The contract includes equipment maintenance, planning and operational support, process and product support services, as well as wear and spare parts and components. We

are supplying the equipment, maintenance and operational support for this project and continuously monitoring equipment performance and efficiency. This arrangement maximizes the customer's capacity utilization, minimizes operational risks, and thus improves the profitability of the project.

### Our focus going forward

Our aim is to develop the best services offering for each customer industry by applying the appropriate pricing models. We aim to grow in services locally by leveraging our installed equipment base and through collaboration between our different businesses. We aim to grow our market share also by serving and maintaining the installed base delivered by our competitors. In order to better serve our customers, we must improve our global distribution network, strengthen our local presence and increase the number of local service units operating close to customers.



### Links & notes

- 1 Strategy overview p. 8–9
- 2 Figures p. 36–40
- 3 Board of Directors' Report p. 42–50
- 4 [www.metso.com/2011](http://www.metso.com/2011)
  - > Financial Performance
  - >> Finance and operations

Metso's services business in the mining industry. Read more in our online Annual Report at [www.metso.com/2011](http://www.metso.com/2011) > Metso Strategy >> Must-win: Services

# Fit for opportunities

## 2. Must-win: Growth countries

### Creating value in growth countries

#### Our ambition

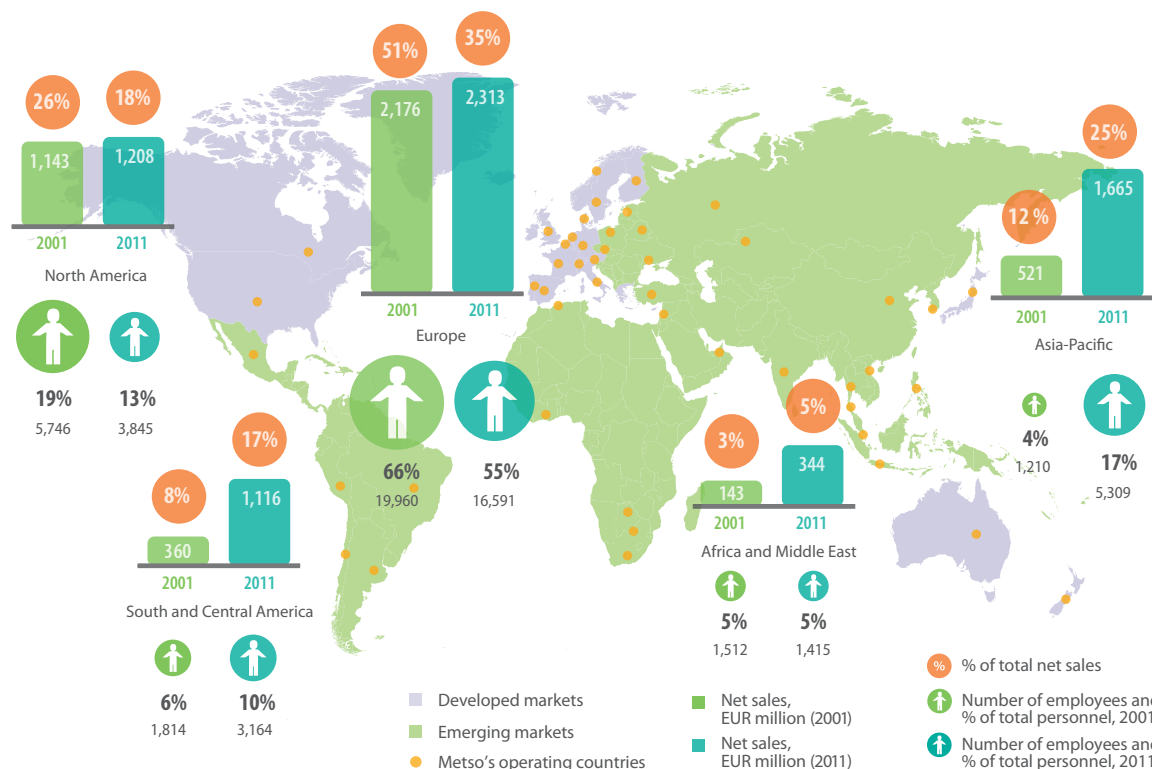
Our ambition is to be a significant and broad-scope player in our core businesses in all growth markets. We aim to strengthen our local presence and growth, particularly in Brazil, India, China and Russia, as well as in other key growth countries.

#### Summary

Metso must strengthen its position in all the selected growth markets by adapting its business practices and products to meet local needs, by increasing investments and by expanding the sales and services network to serve customers everywhere in the world.



## Metso in emerging and developed markets



In addition to ensuring the capacity to serve local customers, we are investing in utilizing growth countries for global procurements and production without forgetting to bring the new products and services concepts created in the growth countries to the developed markets.

### Starting point

We have continued to reinforce our presence particularly in emerging markets, where we have about 10,000 employees, or 34 percent of Metso's total personnel (34% in 2010, 31% in 2009). Emerging markets accounted for 51 percent of our new orders in 2011 and 49 percent of our net sales. We have been strong in the BRIC markets (Brazil, Russia, India, China), and we see plenty of potential in other growth countries, such as Chile, Mexico, Peru, Poland, Turkey, Czech Republic, Indonesia, South Korea, Vietnam, Thailand and Malaysia.

In 2011, the top three countries for new orders were Brazil, the US and China. Measured by net sales, the largest countries were the US, China and Brazil. As a result of our very good reputation and position in Brazil, in spring 2011 we received the biggest order ever in our history. Metso signed an agreement with Suzano Papel e Celulose, one of the largest producers of pulp and paper in Latin America, to supply the key technology for a new pulp mill. This deal demonstrated our strong know-how as a total scope supplier in the pulp industry.

### Our focus going forward

We will continue to sharpen our focus on growth countries. The list of growth countries will be dynamic and will follow economic development in new regions and countries. From a regional point of view, we plan to expand our presence in the Middle East and North Africa as well as Southeast Asia. This requires the appropriate product and service offerings for the growth countries and an even better understanding of local customer needs. To achieve the targeted expansion, the number of employees we have working in the growth markets is expected to increase in the upcoming years.



### Links & notes

- 1 Metso and megatrends p. 4-5
- 2 Strategy overview p. 8-9
- 3 [www.metso.com/2011](http://www.metso.com/2011)  
> Financial Performance  
>> Finance and operations

Metso is developing the infrastructure for sporting events in Brazil. Read more in our online Annual Report at [www.metso.com/2011](http://www.metso.com/2011)  
> Metso Strategy  
>> Must-win: Growth countries

# Fit for global and local needs



### 3. Must-win: Technology

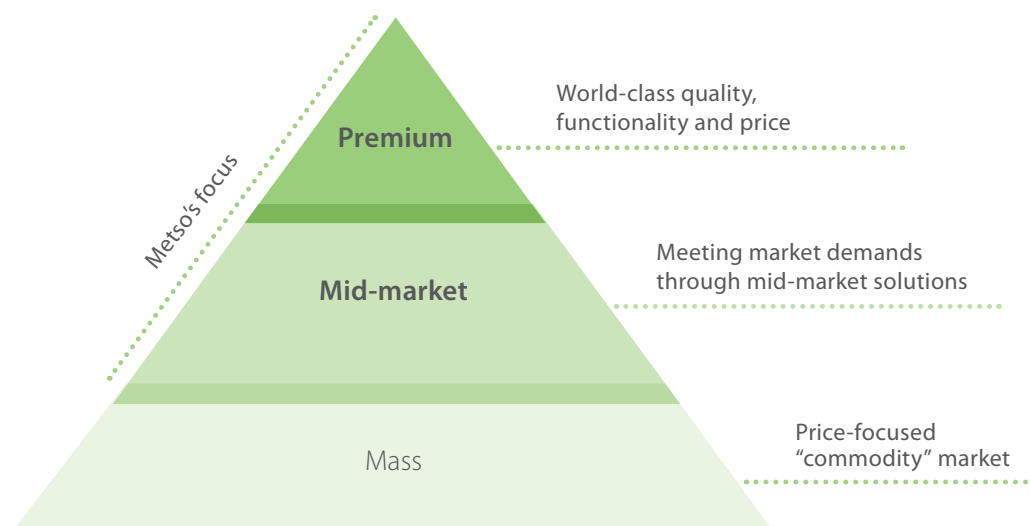
Maintaining technology leadership with a cost-efficient, mid-market offering

#### **Our ambition**

Our ambition is to maintain our technology leadership with cost-efficient and environmentally sustainable products and process solutions. We aim to develop our mid-market product offering by aligning our research and development efforts and resources globally.



## Right portfolio for selected market segments' needs



### Summary

Technology is a key enabler for us in terms of realizing our goal to be the leading technology and service provider in all our businesses. We are continuing to develop technology that is applicable for the growth markets and is responsive to the increasing importance of environmental sustainability.

### Starting point

Metso has traditionally focused on industry-leading advanced technology. We have excellent engineering competence for the design of high-quality and reliable products and production processes. In the premium segment, world-class quality, functionality and price competitiveness are very important. Additionally, with environmental legislation continuously becoming tighter, the product requirements in the areas of sustainability, the use of energy and water, and materials efficiency are becoming increasingly complex. Metso has a strong background in this area.

### Our focus going forward

A significant part of our growth is coming from emerging markets. We understand that there is a clear demand for localized products in the mid-market segment. To leverage this growth potential, we will need to innovate and strengthen our position by expanding our customer base. Mid-market products and services are tied to a particular customer experience and customer-specific need. Furthermore, we

must boost sales of mid-market innovations to other emerging and developed markets. To ensure that we have the technological capability to respond to these expectations, we will allocate more R&D resources to China, India and Russia. The goal is to adapt products to meet local needs.

Maintaining our technology leadership is important also for securing our long-term success. While we aim to develop our mid-market offerings, we will continue to focus on high-end technology leadership with cost-competitive and modularized solutions. Additionally, we are responding to the growing sustainability requirements by focusing on technologies that enable us to offer more environmentally friendly solutions for the pulp, paper, power, mining and construction industries. We will also continue to develop efficient solutions for water, energy and raw materials. In this respect, process automation is a significant factor: it helps to save on inputs and reduce wastes through enhanced process efficiency.



### Links & notes

- 1 Strategy overview p. 8–9
- 2 Figures p. 36–40
- 3 [www.metso.com/2011](http://www.metso.com/2011)  
> Metso Strategy  
>> Highlights of Metso products



Modular, full-scope paper and board-making concept, OptiConcept M, for mid-market demand. Read more in our online Annual Report at [www.metso.com/2011](http://www.metso.com/2011)  
> Metso Strategy  
>> Must-win: Technology

# Fit for efficiency

## 4. Must-win: Operating model

### Supporting local growth with a global operating model

#### Our ambition

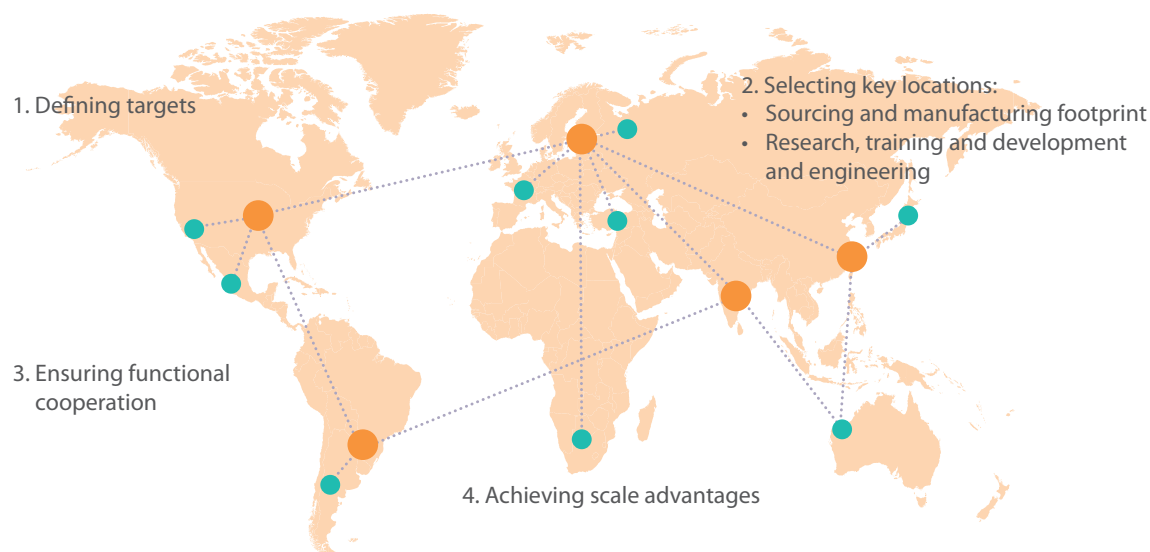
Our ambition is to secure the quality of operations and deliveries globally by improving cost efficiency. Another important aim is to strengthen regional organizations to support growth in the services business and equipment sales; we want to expand our global presence and create a world-class business structure around the world.

#### Summary

With our ambition to be the leading technology and service provider in all our businesses, it is important to optimize our operating model at both the global



## Example of Metso's global operating model



and local level. Furthermore, developing efficient operating models to enable our core businesses to outperform the competition is seen as crucial. We must make decisions and offer our expertise close to our customers.

### Starting point

Metso is present in various industries and is continuously expanding its network in order to better serve its customers. We have over 300 locations worldwide. Our know-how and our world-class production and office facilities bring us closer to our customers and enable us to meet their expectations. New production facilities and equipment ensure high quality, cost efficiency and on-time deliveries. In September 2011, Metso opened a new valve technology center in Finland. Since 2008, we have invested in several Automation business plants in Brazil, China, Finland and the United States.

One of Metso's core competence areas is strong project management expertise in delivering complete systems and related services. We have a competent and experienced network operating around the world, providing support services and equipment deliveries globally. Our presence around the world is growing, but we still must expand our operations and harmonize our ways of operating.

### Our focus going forward

Well-managed operating and supply chain structures benefit everyone. Therefore, our focus is on developing optimized working models that meet local needs and, at the same time, utilize global scale advantages.

Our key focus is to find segment-specific benefits from shared competencies and networks in order to achieve:

- Better global delivery capability and improved quality
- Global presence in production, procurement and engineering
- Global supply chain excellence through standardized processes
- Zero incidents through focused and effective HSE (Health, Safety and Environment) practices
- Accessibility and the right people in the right places, close to customers

In order to achieve these targets, we must support the local presence and local processes with a global operating model.



### Links & notes

- 1 Strategy overview p. 8–9
- 2 Must-win: People p. 18–19
- 3 [www.metso.com/2011](http://www.metso.com/2011) > Sustainability Results >> Health, safety and environment
- 4 [www.metso.com/2011](http://www.metso.com/2011) > Financial Performance >> Finance and operations

Our global valve production and service network. Read more in our online Annual Report at [www.metso.com/2011](http://www.metso.com/2011) > Metso Strategy >> Must-win: Operating model

# Fit for success

## 5. Must-win: People in focus

### Developing a working environment that enables our business success

#### Our ambition

Our ambition is to continue to grow close to our customers and to create a working environment where employees have the opportunity to succeed. Our aim is for Metso to be a workplace that attracts talented people, helps them to develop and gives them the opportunity to apply their own skills in a balanced manner.

#### Summary

Because leadership has been defined as one of the main goals in our new People strategy, issues related to performance, know-how and resourcing are important for us. In line with the People strategy, we are focusing on talent and strategic development of Metso employees. In doing so, we believe we can create the right work environment to attract the right people and help them to succeed.



## The aim of Metso's People strategy



### Starting point

In 2011, we introduced new leadership principles, renewed values and HSE (health, safety and environment) targets. In 2011, Metso also developed a new competency model to support the continuous development of employees. The model defines the focus areas for developing the competencies needed in the different businesses. Continuous learning and development are an important part of Metso's development and culture. To support learning and development, we have a global talent development portfolio consisting of both a global and local training offering.

At the end of 2011, Metso had a total of 30,324 employees. 34 percent of Metso's employees worked in the emerging markets (34% in 2010). Women accounted for 19 percent (18% in 2010) of our workforce, and the average age of employees was 42 years.

### Our focus going forward

Metso's strategic focus is to strengthen our presence in growth countries. This also reflects directly on our People strategy. The aim of the People strategy is to make Metso stronger in all four focus areas: strong global leaders, performance-driven teams, competent employees and resourcing, i.e. having the right people in the right places.

#### 1. Leadership

The key goal is to ensure that Metso has strong global leaders. Our managers must know their subordinates and be able to engage them and support them so that they can apply their competencies in a

balanced manner. Our supervisors act in accordance with principles of leadership. We ensure that there is a succession plan in place for all relevant supervisory positions. Increasing job rotation and diversification also support the globalization of our leadership base.

#### 2. Performance-driven teams

Effective performance management is based on the annual performance and development review process that we are carrying out consistently throughout a good part of Metso. Furthermore, good performance must be rewarded and low performance must be addressed.

#### 3. Competent employees

We define prioritized competence areas based on our business goals. These competence areas are included in the annual development discussions. To support the defined competence areas, we are building a strong training offering.

#### 4. Resourcing

An effective and efficient recruitment process is critical to our businesses success. With agility being an essential trait in today's business environment, we are developing a more efficient onboarding process.

### Links & notes

- 1 Organizational culture p. 6–7
- 2 Strategy overview p. 8–9
- 3 [www.metso.com/2011](http://www.metso.com/2011)  
> Sustainability Results  
>> People and society
- 4 [www.metso.com/2011](http://www.metso.com/2011)  
> Sustainability Results  
>> Reporting principles



Developing our competence with the Metso Award competition. Read more in our online Annual Report at [www.metso.com/2011](http://www.metso.com/2011)  
> Metso Strategy  
>> Must-win: People

# Targets and achievements

Metso's Board of Directors decided in November 2011 on new long-term financial targets. The new targets replace the targets set in autumn 2008. Our goal is to create shareholder value through growth and profitability. We will focus on growth in businesses in which we are targeting a strong global position and in the services business in all our segments.

We measure profitability by earnings per share (EPS) at the Group level. Additionally, we set segment-specific profitability

targets to increase the transparency of our businesses.

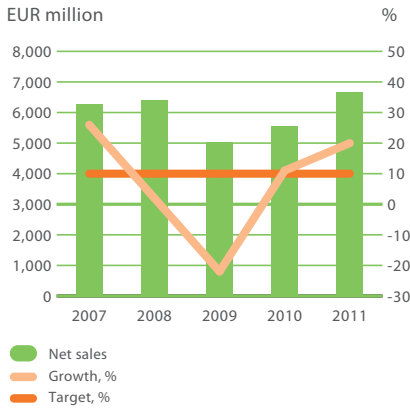
Growth in sales and earnings, combined with a high return on capital employed, are the main drivers of our shareholder value going forward.

During the year we achieved the net sales growth target of over 10 percent, and the services net sales exceeded the annual 10 percent target. Our earnings per share grew 39 percent, achieving its growth target.

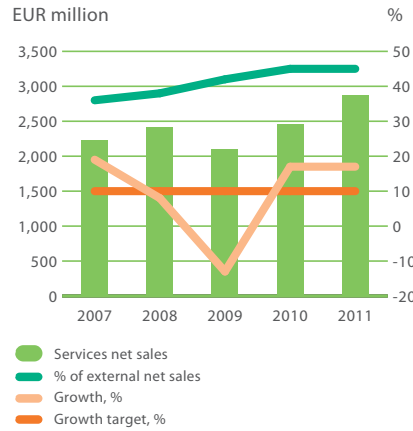
## Long-term financial targets

Target	Description	Financial development 2011	Graph												
<b>Net sales</b>															
<ul style="list-style-type: none"> <li>Annual average net sales growth of over 10 percent (CAGR) including acquisitions</li> <li>Over 10 percent annual growth in our services business</li> </ul>	Our target for net sales growth is unchanged. The growth will be attained both organically and through value-enhancing, complementary acquisitions.	Metso's net sales grew 20 percent and our services business grew 17 percent.	1 2												
<b>Profitability</b>															
Earnings per share (EPS) growth exceeding net sales growth.	Our new Group-level profitability target is annual earnings per share (EPS) growth exceeded net sales growth.	Metso's earnings per share grew 39 percent. Our net sales growth was 20 percent, i.e. EPS growth exceeded the net sales growth.	3												
<b>Segment-specific profitability targets</b>															
<table border="1"> <thead> <tr> <th></th> <th>Minimum EBITA,%* (low demand)</th> <th>Targeted EBITA,%* (high demand)</th> </tr> </thead> <tbody> <tr> <td>Mining and Construction</td> <td>10%</td> <td>15%</td> </tr> <tr> <td>Automation</td> <td>11%</td> <td>16%</td> </tr> <tr> <td>Pulp, Paper and Power</td> <td>6%</td> <td>9%</td> </tr> </tbody> </table> <p>* before non-recurring items</p>		Minimum EBITA,%* (low demand)	Targeted EBITA,%* (high demand)	Mining and Construction	10%	15%	Automation	11%	16%	Pulp, Paper and Power	6%	9%	Profitability targets (EBITA,% , earnings before interest, tax and amortization, and before non-recurring items) have been set for the segments, and the target ranges reflect the different characteristics of our businesses.	Favorable demand resulted in improved profitability in all business segments:	4 5 6
	Minimum EBITA,%* (low demand)	Targeted EBITA,%* (high demand)													
Mining and Construction	10%	15%													
Automation	11%	16%													
Pulp, Paper and Power	6%	9%													
		<table border="1"> <tbody> <tr> <td>Mining and Construction</td> <td>11.7%</td> </tr> <tr> <td>Automation</td> <td>13.5%</td> </tr> <tr> <td>Pulp, Paper and Power</td> <td>8.1%</td> </tr> </tbody> </table>	Mining and Construction	11.7%	Automation	13.5%	Pulp, Paper and Power	8.1%							
Mining and Construction	11.7%														
Automation	13.5%														
Pulp, Paper and Power	8.1%														
<b>Capital efficiency</b>															
Return on capital employed before tax (ROCE,% ) above 20 percent (excluding the impact of major acquisitions).	Return on capital employed before tax (ROCE,% ) is one of the key indicators used in Metso. Our ROCE target was decreased in 2011 to enable future growth investments (the previous ROCE % target, set in 2008, and was over 25% before taxes).	ROCE before taxes was 18.4 percent.	7												
<b>Capital structure</b>															
Credit rating: solid investment grade.	Our target to maintain a solid investment grade rating remained unchanged.	<p>In December 2011, Moody's raised our credit rating outlook from stable to positive. Standard &amp; Poor's credit rating remained unchanged.</p> <p>Moody's, December 22, 2011: Long-term credit rating: Baa2, outlook positive</p> <p>Standard &amp; Poor's, August 12, 2010: Long-term corporate credit rating: BBB, stable and short-term credit rating: A-2</p>													
<b>Dividend</b>															
At least 50 percent of annual earnings per share.	The target for our dividend policy remained unchanged. Our target is to distribute at least 50 percent of annual earnings per share as a dividend or in other forms (share buybacks, redemptions etc.) of repatriation of capital.	Metso's Board of Directors proposes a dividend of EUR 1.70 per share for 2011. This corresponds to 71% of the year's earnings per share.	8												

1 Net sales



2 Services net sales



3 Earnings per share



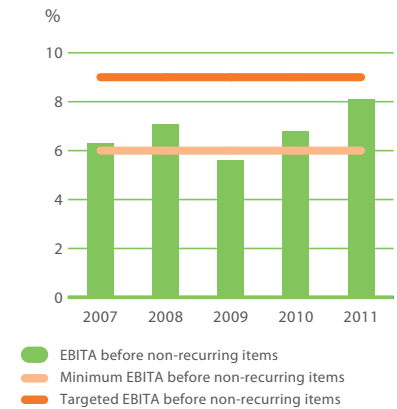
4 EBITA, % before non-recurring items  
Mining and Construction



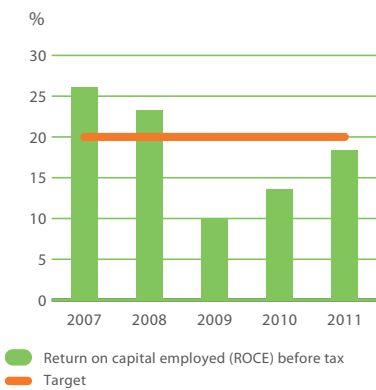
5 EBITA, % before non-recurring items  
Automation



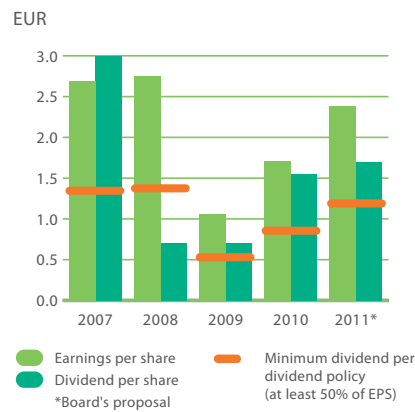
6 EBITA, % before non-recurring items  
Pulp, Paper and Power



7 Return on capital employed (ROCE) before tax



8 Earnings per share and dividend per share



### Our operating environment and demand in 2011

There were no major changes in our operating environment during 2011. The demand returned to a normal level in most of our customer industries. The natural disaster in Japan early in the year, the unrest in the Middle East and Northern Africa, as well as the economic instability in Europe and the US did not have a significant impact on the demand for our products and services. The good capacity utilization rates of our customer industries impacted positively on the demand for our services business. Our operating environment was good in emerging markets, especially in the early part of the year, but softened somewhat towards the end of the year, particularly in China, India and Brazil.

Metso's strong development and growth continued throughout the year. We achieved record quarters in terms of new orders and net sales. Increased delivery volumes and improved capacity utilization rates had a positive impact also on our profitability. In spite of the high delivery volumes, for the most part our net working capital remained under control.

### Targeting continued profitable growth

In September, we sharpened our business structure to effectively achieve our targets: to ensure the value creation of Metso and to gain the critical size needed to be competitive. We are focusing on businesses in which we can have a strong global market position and in which services and technology close to customers are decisive competitive advantages. Short- and long-term value creation through growth and profitability development has been the major factor in selecting the way forward. Additionally, we are aiming for increased simplicity and transparency of Metso's businesses.

### Strategic focus areas

In conjunction with our new strategy, we defined three strategic focus areas, which are supported by our long-term financial targets and the development of which we will purposefully measure, monitor and report. These three focus areas are strong growth in our services business, an increasing presence in emerging markets and strong growth in our mining business.

Our services business has grown from one year to the next and in 2011 accounted for 45 percent of our net sales. The fact that each of our segments has a business line focusing specifically on the services business indicates the importance this focus area will continue to have.

We have a solid foothold in emerging markets. These markets accounted for nearly half, or 49 percent, of our total net sales. A growing number of our employees are in emerging markets; currently, the share is about one third.

We believe there will be steady growth in mining industry investments. This will bring growth opportunities also for Metso. The orders we received from the mining industry increased during the 2011 by more than half and we received a few exceptionally large orders. Growth in the mining industry's services orders was also strong, 25 percent.

We estimate that the business environment in our customer industries will develop favorably as a result of global megatrends, such as the rise of emerging markets, urbanization and the increasing importance of environmentally sustainable

process solutions. We estimate that the high share of our business derived from the services business and emerging growth markets will compensate the possible negative effects that market uncertainties may have.

### Financial development

We measure our profitability by earnings per share on the Group level. In addition, we have introduced segment-level profitability targets in an effort to increase the transparency. In 2011, our profit (EBITA) before non-recurring items increased 28 percent and was EUR 628.5 million. The growth came from all our businesses and was especially strong in the Mining and Construction segment. We have opportunities to further improve our profitability, and we will sharpen our cost-efficiency, profitability and pricing. This will us move towards our segment-specific profitability targets.

The target for our return on capital employed before taxes (ROCE, %) is higher than 20 percent (excluding the impact of major acquisitions). We lowered this target from 25 percent to enable growth investments, for example in our services business. ROCE in 2011 was 18.4 percent and the cash conversion was good, above 100 percent.

Our total cash assets at the end of the year were EUR 757 million and our equity to assets ratio was 39.8 percent. Our strong cash flow has enabled yearly investments, dividends and strengthening of the balance sheet. Over the years 2010 and 2011, we have paid down debts altogether by nearly EUR 600 million. Cash and cash equivalents totaled EUR 590 million at the end of 2011. The profit attributable to shareholders in 2011 corresponded to EUR 2.38 per share. The Board's 2011 dividend proposal, EUR 1.70 per share, i.e. 71 percent of earnings per share, indicates our good liquidity position.

### Our guidance for 2012

Assuming that the growth in the global economy is not disrupted and the development in our customer industries does not clearly weaken due to the European economic situation or some other similar factor, we estimate that our net sales for 2012 will grow compared to 2011, and that our profit (EBITA before non-recurring items) will improve. Our estimate is based on the market outlook at the end of 2011, the approximately EUR 4.0 billion order backlog for 2012, the business scope as well as foreign exchange rates similar to those of December 2011.

The global economic turmoil may have an impact on our financial development. The uncertainties in the eurozone and fluctuations in exchange rates may have an adverse effect on the availability of financing from capital markets. Nevertheless, our exposure to the effects of global megatrends, our investments in rapidly growing markets and our large base of equipment give us excellent opportunities for growth.



## Global Health, Safety and Environment goals

We have two sustainability targets that we set in 2009 regarding energy savings and safety. Last year over half of our units achieved the short-term safety goal. To achieve our energy-savings target, we have set unit-level energy-savings targets, improved reporting on energy consumption and continued mapping opportunities to save energy in our biggest units.

	Year 2011	Year 2012
<b>Health and safety overview</b>		
Our short-term safety target is to achieve a lost time incident frequency (LTIF) of less than 5 in every Metso unit by 2015. Our long-term occupational safety target is zero incidents.	In 2011, our LTIF was 9.1. Out of our 117 largest units, 78 achieved the group LTIF target level of less than 5.	We will focus on safety by strengthening our health and safety organization and by e.g. increasing training in safety issues.
<b>Environmental overview</b>		
Our goal is to improve energy efficiency and to reduce carbon dioxide emissions by 15 percent by 2015 and by 20 percent by 2020.	In 2011, we continued mapping opportunities to save energy in our energy-intensive production units and launched more extensive investments targeting energy efficiency improvements.	In 2012, we will conclude the mapping of opportunities to save energy in our largest production units. Upon completion, approximately 80 percent of Metso's energy consumption will be mapped. In 2012, energy-savings measures will be implemented in most of Metso's production units; our goal is to significantly increase the number of ongoing and implemented improvement projects, compared to 2011.

### Global health and safety targets

Metso's Health, Safety and Environment (HSE) policy supports the development of a safe, healthy and well-managed work environment. Our long-term target is zero work-related incidents. We believe that every incident can be prevented.

Our short-term occupational safety target is to achieve a lost-time incident frequency (LTIF) of less than 5 by 2015. In 2011, our LTIF was 9.1. LTIF reflects the number of incidents resulting in an absence of at least one workday per million hours worked. In 2011, 78 of Metso's 117 biggest units achieved the group LTIF target level of less than 5.

The results reported by Metso's units in this area vary widely, and there is clearly room for improvement in our occupational health and safety work. In 2012, we will further increase our focus on developing a strong and decentralized safety organization by implementing new tools in occupational safety training.

### Energy efficiency benefits the environment and the economy

In 2009, we set global, Group-wide energy-saving and carbon dioxide emissions targets for our own production. The majority of our reported CO<sub>2</sub> emissions come from the use of energy; therefore decreasing energy consumption will also reduce emissions – while also bringing financial benefits.

Mapping the opportunities to save energy and decrease carbon dioxide emissions at the Metso level was started in the most energy-intensive production units, the biggest of which

are the steel and iron foundries. The mapping will continue in 2012. Upon completion, 80 percent of Metso's energy consumption will be mapped.

The biggest energy-savings opportunities are related to the use of fuel and heat. Potential savings outside our production processes were also found, e.g. in cooling and compressed air systems. We have defined energy-efficiency indices for our production units, and the units report their energy consumption in accordance with the indices on a quarterly basis, which promotes energy-efficiency and monitoring at the Metso level.



#### Links & notes

- 1 Figures p. 36–40
- 2 Board of Directors' Report p. 42–50
- 3 Formulas for calculation of indicators p. 103
- 4 [www.metso.com/2011](http://www.metso.com/2011)  
> Sustainability Results  
>> Health and safety results
- 5 [www.metso.com/2011](http://www.metso.com/2011)  
> Sustainability Results  
>> Sustainability and strategy

# Risks and risk management

As Metso's operations expand globally and target new technologies and customer industries, our business environment and competitive arena become more complex. This development increases our operational uncertainty. We use risk management to support the achievement of our strategic and business goals and to ensure continuity of our operations also in changing circumstances.

## Enterprise risk management supports the achievement of strategic goals

We define risks as uncertainties, which, if materialized, can either positively or negatively impact our chances of achieving our goals. So, risk is either an opportunity or a threat, or a combination of them. We assess the significance of a risk as a combination of probability and consequences of the occurrence.

The leading principle of our risk management is to strengthen our business opportunities. In addition, we aim to minimize the negative effects of the risks on our operations and to avoid hazard risks. We can manage some risks on our own, while other risks are beyond our control, and we can only prepare for them.

Our risk management focus is on risk assessments and proactively implementing any measures necessary. This allows us to take advantage of opportunities and to limit adverse impacts so that we achieve our goals. We map and analyze risks to support the strategic and daily operative planning of our business operations and decision-making. Comprehensive and systematic risk management also increases the confidence that internal and external stakeholders have in our operations.

We map and assess risks systematically throughout our organization and in all our functions, and we adjust our operations when needed. In the segment-specific risk assessments supporting our annual strategy process, we analyze the impacts of the opportunities and threats on our business and financial position during the ongoing strategy period and, based on the analyses, we compile a risk profile for Metso Group. If threats materialize, regardless of us having prepared for them, they may have a significant adverse impact on our business, financial situation and operating result or on the value of our shares and other securities. We aim to reduce the financial impacts of any adverse events and to restore operations to normal as quickly as possible. In addition, we have prepared for possible risks through insurance programs. We estimate that our overall level of risks is currently at a manageable level in proportion to the scope of our operations and to the practical measures available. However, it must be kept in mind that global business is dependent on a number of sudden and unforeseen political, economic and other wide-ranging risk factors.

In 2011, we renewed our risk management policy to fulfill the requirements of the ISO 31000 standard. The risk management policy defines the starting points, goals, principles and responsibilities of our enterprise risk management.

## Risk management responsibilities

Metso's Board of Directors approves our risk management policy. Additionally, the Board oversees that the planning, information and control systems in place for risk management are sufficient for the mapping and handling of risks. The Board's Audit Committee assesses the adequacy of risk management and ensures that it is consistent with our risk management principles.

The Metso Executive Team ensures sufficient resources and operating conditions for risk management. Business management is responsible for the implementation of the risk management policy and the annual risk management program in their respective areas of operations.

The Risk Management Team, comprised of Metso's CFO and representatives of the businesses, defines the risk management program and ensures that the views of the different stakeholders are taken into consideration in them.

The Group Risk Management function supports and oversees the implementation of the risk management policy and risk management program and develops common processes, practices, guidelines and tools for use by the entire Metso organization.

Group Treasury manages our financial risks and secures the availability of equity and debt financing with competitive terms. Group Treasury works in cooperation with the businesses and centrally manages external funding. Additionally, it is responsible for managing financial assets and for hedging related to our financial risks.

## Risk management focus areas and development in 2011

Uncertainties in the euro area, the budget deficit in the United States, weakened availability for funding and fluctuations in currency exchange rates increased the threats related to our operating environment. Additionally, the increased political tension in the Middle East and the related events with their broader impacts increased the general political and economic uncertainty. However, there



Links & notes

- 1 A more detailed description of Metso's risk management is presented on our website [www.metso.com/risks](http://www.metso.com/risks)
- 2 [www.metso.com/2011](http://www.metso.com/2011)  
> Sustainability Results  
>> Sustainability threats and opportunities

were no significant changes in the market activity of our customer industries, and demand was strong in the emerging markets.

In addition to renewing the risk management policy, in 2011 we strengthened our already holistic approach to risk management, and developed and documented risk- and crisis-management processes and good practices.

We also reassessed the content of audits conducted to determine the level of risk management, and made adjustments for better alignment with Metso's strategy, which was updated in autumn 2011. Technical improvements were made to the risk assessment tool to facilitate the monitoring of changes in risk levels.

In crisis management, we deployed a text messaging-based communications system to improve the reachability of our travelling personnel in exceptional situations. We continued developing the global risk management contact network by appointing new contact persons for handling crisis situations in particular. Many of the crisis situations related to natural phenomena and events that occurred at our own and our customers' production facilities during the year required crisis management measures.

In corporate security, we focused particularly on development and monitoring of and training in information security and on product safety. In IT risk management, we continued the auditing of server environments. Additionally, we arranged internal training in e.g. travel safety and in issues related to property insurance.

We are continuously optimizing the insurance terms and conditions, limits and premiums of our global insurance programs.

Our property insurance company conducted audits in 20 of our units, and we worked with our insurance broker to evaluate the risk management level in 10 of our units. We held transportation safety training and evaluation events in collaboration with our transportation insurer.

## Most significant threats and opportunities

We define risks as uncertainties that can be both opportunities and threats for our business operations and strategy implementation. In our annual risk assessment, we systematically assess the significance and development of various risks. In the risk assessment for 2012, our business management capability and the changes in customers' technology and product scope are seen as increased opportunities. The impact of global economic cycles and uncertainty in global financial markets, on the other hand, are seen as increasing threats in our operating environment.

The most significant factors creating threats and opportunities for Metso based on the 2012 risk assessment:

- Ensuring sufficient competence and talent resources globally: maintaining a high level of business and leadership capability and ability to implement strategy.
- Brand and reputation: ability to retain and strengthen position as the industry's leading company.
- Availability of mergers and acquisitions and capacity to utilize them.
- Ability to meet customers' demand for services.
- Maintaining competitive position and market share.
- Impact of global and key market economic cycles on meeting strategic goals.
- Maintaining and developing presence in emerging markets.
- Global sourcing capability: success in supply chain management.
- Stability of the financing sector and capital markets and the impact on the availability and cost of long-term financing for Metso and its customers.

# Customer industries

	Mining	Construction	Oil and gas	Pulping
Market drivers	<ul style="list-style-type: none"> <li>Mining investments driven by demand for minerals</li> <li>Infrastructure investments</li> <li>Growth of middle class with purchasing power</li> <li>Urbanization</li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure investments</li> <li>Growth of emerging markets</li> <li>Urbanization</li> </ul>	<ul style="list-style-type: none"> <li>Growth in energy consumption</li> <li>Long-term supply and demand for oil and gas</li> </ul>	<ul style="list-style-type: none"> <li>Growth of paper, board and tissue consumption in Asia</li> <li>Availability and price of raw materials in South America and Southeast Asia</li> <li>Opportunities for new fiber-based products and applications</li> </ul>
Market trends	<ul style="list-style-type: none"> <li>South America, Africa and Australia driven by infrastructure building and consumption in China and India</li> <li>Depletion of ore bodies requires capacity investments</li> <li>Growing demand and price for minerals drives up the growth rate in the services business</li> <li>Increased environmental responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>Future growth in the emerging markets, particularly in Eastern Europe, India, China and South America, where the public sector also supports infrastructure projects</li> <li>An increasing need to upgrade and maintain the Western infrastructure after years of limited fiscal spending</li> </ul>	<ul style="list-style-type: none"> <li>Increased demand and price for energy creates favorable development in investments and demand for automation and flow control solutions</li> <li>Growth driven by China, India, other BRIC countries and the Middle East</li> </ul>	<ul style="list-style-type: none"> <li>Investments for new lines concentrated to Asia and South America. Several pulp projects planned.</li> <li>Continuous demand for rebuilds, process improvements and maintenance services also in developed markets</li> <li>Development of nano cellulose solutions</li> </ul>
Market outlook	<ul style="list-style-type: none"> <li>Overall market environment is very good</li> <li>Strong demand for our mining services from growing mineral demand and our large installed base</li> <li>Good demand for equipment and project businesses</li> </ul>	<ul style="list-style-type: none"> <li>Good demand for equipment in Asia-Pacific and Brazil</li> <li>Satisfactory demand for equipment in Europe and North America</li> <li>Services demand satisfactory</li> </ul>	<ul style="list-style-type: none"> <li>Industry growing faster than the market, on average</li> <li>High oil prices keep investments at a good level</li> <li>High energy cost and increasing regulations force energy efficiency and emission reduction</li> <li>Services demand is good/excellent</li> </ul>	<ul style="list-style-type: none"> <li>Industry growing slower than the market on average</li> <li>Investments in South America drive growth</li> <li>Growth potential in Asia-Pacific in capital and services markets</li> <li>Services demand good</li> </ul>
Organic growth potential	<b>Excellent</b>	<b>Good</b>	<b>Good</b>	<b>Satisfactory</b>
Acquisition potential	<b>Some</b>	<b>Some</b>	<b>Extensive</b>	<b>Satisfactory</b>
Share of orders received in 2011	<b>33%</b>	<b>11%</b>	<b>7%</b>	<b>8%</b>
Services business orders in 2011 (% of total orders)	<b>45%</b>	<b>38%</b>	<b>26%</b>	<b>30%</b>

**Paper, board and tissue**

- Growth of emerging markets
- Growth in middle class with purchasing power in emerging markets
- Digital media
- Need for raw materials efficiency

- Capacity utilization rates of paper and board industry to drive services demand
- Continuous demand for rebuilds, process improvements and maintenance services also in developed markets

- Industry growing slower than the market, on average
- Investments in China drive growth
- Growth potential in Asia-Pacific in capital and services markets
- Services important in North America due to large installed base. Also capital opportunities.
- Opportunities in South America for paper
- Services demand satisfactory

**Satisfactory**

**Satisfactory**

**25%**

**46%**

**Power generation**

- Need for energy efficiency
- Growth in energy consumption
- Investments in renewable energy
- Refurbishment of aging power plants

- European countries and the United States to increase use of renewable energy and to modernize aging power plants.
- Increasing investments in electric power

- Industry growing faster than the market, on average
- Opportunities in bioenergy and new technologies in EMEA, the largest installed based market.
- Bioenergy opportunities also in North America
- Growth potential in Asia-Pacific in capital and services markets
- South American pulp industry is an important market
- Legislation-driven growth in bioenergy
- Services demand good

**Good**

**Extensive**

**13%**

**25%**

Our three business segments – Mining and Construction, Automation, and Pulp, Paper and Power – offer products and services to a range of customer industries

**Customers in several industries**

We serve customers around the world in the mining, construction, oil and gas, pulp and paper, as well as power generation industries by supplying them with capital goods and related process solutions and services. Most of our customers are industrial companies, like mining, energy and paper companies. We also have contractor customers, mainly in the construction industry. Most of our customers operate in the process industry and use natural raw materials or recycled materials in their production.

We have a balanced offering of products, projects and services business. Large-scale project deliveries are typical to the mining, power generation, and pulp and paper industries. Our deliveries to the construction and the oil and gas industries mainly consist of individual equipment components and smaller package solutions. The share of the services business is significant in all our businesses.

Our customers make investment decisions based primarily on the long-term demand and price forecasts for their products. They finance their bigger investment projects typically with a combination of cash flows and debt financing and the smaller purchases with their own cash flows. As a principal rule, we do not participate in the financing of customer projects.

Our customers are emphasizing return on investment in their decision-making and are thus pursuing efficient solutions with low initial investment and operating costs.

**Mining industry**

Our mining industry customers include global mining giants, significant regional players, and smaller, local mining companies. In recent years the mining industry has consolidated, but a significant part of operations is still carried out by small- and medium-sized mining companies.

We estimate that about two thirds of the equipment and processes we supply are used in the production of iron ore, copper and gold. Other mining operations, such as the production of nickel, platinum, zinc, silver and diamonds, are also important to us.

To secure the efficient operation of their existing mines, mining companies must make replacement investments and purchase spare and wear parts and maintenance services for existing machines and equipment. Our services business is strong, accounting for half of our deliveries, and it offsets the impact of economic fluctuations on our net sales.

# Metso's businesses

## Construction industry

The customer base in the construction industry is fragmented: the sector consists of a few major aggregates producers, but the majority of our customers are small- and medium-sized companies and contractors. The net sales of our construction business are almost equally divided between quarries and contractors. Quarries are either major international companies or local and regional players. Contractors are mainly small- or medium-sized local or regional companies operating as contract crushers. Our construction industry customers typically react quickly to changes in the market situation by adjusting their level of new investments.

We supply our construction industry customers with rock crushers, mobile and stationary crushing plants, screens and conveyors as well as expert and maintenance services. Our customers are interested particularly in energy-efficient mobile solutions that can be easily transferred from one location to another and that generate as little waste, noise and dust as possible. More than one third of our construction industry net sales come from the services business.

## Oil, gas and petrochemical industry

We supply our oil and gas industry customers with industrial valves used mainly for flow control and with automation systems used to control and monitoring processes, as well as with expert and maintenance services. Flow control solutions are a critical part of the refining process, the efficiency of which has a significant impact on the profitability of refineries. Over two-thirds of our flow control solutions go to the oil, gas and petrochemical industry, and the rest mainly to the pulp and paper industry.

## Pulp and paper industry

Our customer base in the pulp and paper industry consists of major regional or global players and a large number of smaller, local companies. We are one of the world's leading suppliers of paper, board and tissue lines, pulping lines, the related spare and wear parts, and expert and maintenance services.

## Power generation

The power generation industry is a sizable market, of which Metso holds a key position in a niche area. Independent energy companies and municipal power plants account for about two thirds of the net sales of our Power business, and pulp and paper mills account for about one third. Our strengths in power generation solutions include our technological know-how that enables the use of biomass and waste in energy production, and controlling technically challenging combustion processes that utilize multiple fuels simultaneously, supported by advanced automation solutions.

Segment and net sales in 2011

Mining and Construction: EUR 2,760 million

### Products and services

- Full-scope solutions for mining industry
- Grinding mills, grinding solutions
- Crushers, crushing solutions; Process equipment, such as pumps, filters, thickeners, separation equipment
- Mobile crushers and screens
- Bulk materials handling solutions, conveyors
- Expert and maintenance services
- Spare and wear parts

### Customers

- Mining industry
- Construction industry (quarries and contractors)

### Competitors

- Mining industry: FLSmidth, Outotec, ThyssenKrupp, Sandvik, Caterpillar, Weir, Citic Pacific, ABB Mining, Bateman, Excel, Joy Global, KHD, Magotteaux, Rema Tip Top, Rubber Engineering, Siemens Mining
- Construction industry: Terex, Atlas Copco, Caterpillar, Sandvik, Astec, Deister, Excel, FLSmidth, Furukawa, Haver, Boecker, Kawasaki, Komatsu, Magotteaux, Pegson, Puzzolana, Schenk, Shanghai Shanbao, Siebtechnik, Volvo Construction Equipment, Wirtgen Group
- Services business: Many local and regional competitors

### Global market position

- |                       |  |
|-----------------------|--|
| Mining:               | Construction:                          |
| • Grinding mills (1)  | • Crushing and screening (1–2)         |
| • Mining crushers (1) | • A strong position in selected niches |

### Business lines

- Minerals Processing Solutions: net sales EUR 906 million
- Crushing and Screening Equipment: net sales EUR 465 million
- Services: net sales EUR 1,389 million

### Operating model

In mining industry products, we focus on engineering and managing delivery projects. In construction equipment products, we focus on the final assembly of components supplied by our sub-contractor network. We manufacture spare and wear parts mainly in our own factories.

Share of orders received in 2011

43%

Services business' share of segment's orders received in 2011

43%

**Automation: EUR 770 million**

- Process automation and information management application networks and systems
- Process measurement systems and analyzers
- Control, on-off and emergency shutdown (ESD) valves
- Intelligent positioners
- Intelligent condition monitoring
- Expert and life cycle services

- Power generation industry
- Oil and gas industry
- Pulp and paper industry
- Mining and construction industry
- Selected other process industries

- Automation systems: ABB, Honeywell
- Valves: Emerson Process Management, GE, Flowserve

- |  |                                     |
|--|-------------------------------------|
| Process automation systems:            | Flow control:                       |
| • Pulp and paper control systems (3)   | • Pulp and paper control valves (1) |
| • Power control systems (9)            | • Oil and gas control valves (5)    |
| • A strong position in selected niches | • Refining control valves (4)       |
|  | • Chemical control valves (7)       |

- Process Automation Systems: net sales EUR 188 million
- Flow Control: net sales EUR 378 million
- Services: net sales EUR 205 million

Valves and positioners are assembled mainly in our own factories and the components are outsourced. Our process and automation solutions are based on our own engineering know-how. A significant part of the engineering work is purchased from our subcontractors operating in competitive countries.

**10%**

**46%**

**Pulp, Paper and Power: EUR 2,703 million**

- Chemical pulping lines and equipment
- Mechanical pulping lines and equipment
- Paper and board making lines, machines and rebuilds
- Tissue making lines, machines and rebuilds
- Power boiler plants and chemical recovery boilers, evaporators, flue-gas cleaning and environmental systems, boiler rebuilds and upgrades, biomass power plants
- Expert and maintenance services
- Fabrics and filters for the pulp, paper, energy and mining industries
- Spare and wear parts

- Chemical and mechanical pulp producers
- Paper, board and tissue producers
- Industrial power generators, municipalities and utility companies

- |   |   |
|---|---|
| • Pulp: Andritz, GLV  | Foster Wheeler, Wuhan                           |
| • Paper and board: Andritz, Voith                             | • Power plants: Renewa, Urbas Maschinenfabrik   |
| • Tissue: Acelli, Andritz, Toscotec, Voith                    | • Fabrics: Albany, Asten-Johnson, Voith, Xerium |
| • Recovery and power boilers: Andritz, Babcock & Wilcox, CBC, | • Services: Local and regional competitors      |

- |                                  |  |
|----------------------------------|--|
| • Chemical pulping lines (1–2)   | • Biomass-fired, fluidized bed boiler technology for the energy industry (1–3) |
| • Mechanical pulping lines (1–2) | • Recovery and power boilers for the pulp and paper industry (1–2)             |
| • Paper and board machines (1–2) | • Fabrics (5)  |
| • Tissue machines (1)            |  |
| • Mill services (1–2)            |  |

- Paper: net sales EUR 795 million
  - Fiber: net sales EUR 397 million
  - Power\*: net sales EUR 715 million
  - Services: net sales EUR 916 million
- \*Power business line includes also services business

We engineer and assemble paper, board and tissue machines in our units. In our Fiber business line solutions, we focus primarily on engineering and delivery project management. We manufacture fabrics and paper machine clothing in our own factories. In power industry products, we focus on engineering and project management.

**40%**

**36%**



Links & notes

- 1 Metso and megatrends p. 4–5
- 2 Segment reviews p. 30–35
- 3 Figures p. 36–40

# Mining and Construction

We are fully committed to delivering the targeted performance by capitalizing on mining growth and by leveraging our strong global position. We will continue to develop the services business through our installed base and to expand our presence and offering organically and through acquisitions.

We are a global, full-scope supplier of technology and services for the mining and construction industries. Growth and urbanization in the emerging markets will boost demand for minerals for years to come. Australia and South America are our key mining markets, driven by consumption growth in China and India. Infrastructure maintenance in developed markets and continued expansion in the emerging markets will drive the demand for our crushing and screening equipment.

## Global presence close to our customers

Global presence is one of our key strengths. We have been present in the emerging markets for a long time, as these are the traditional markets for our industry. Over the years, we have built a strong presence that includes also manufacturing and services capabilities. Currently, half of Mining and Construction's personnel work in the emerging markets. We are continuing to grow our presence wherever our customers operate.

In Brazil, we have a strong and stable position. We have supplied comprehensive process lines for minerals production and for infrastructure and building projects. New infrastructure projects related to the Olympics and World Cup offer us great opportunities.

In Russia, we are strong especially in mining. We will develop and strengthen our own operations, including improving our project capabilities and our sales and services network, as the local operating environment evolves.

We have established our presence in crushing and screening as well as in iron ore concentration in India. A key to our success is our Metso Park facility in Alwar, in the state of Rajasthan, and our mid-market solutions adapted to local cost structures.

## Success in China is a must

The Chinese construction market is worth half of the global construction market and a key to our global success. We have a strong foothold in the premium crushing market in mining. We have also succeeded in grinding and bulk materials handling. The fast-growing mid-market segment in construction offers us good growth opportunities.

We currently produce large crushing machines in China. Our aim is to build our capabilities in China to serve the domestic Chinese markets as well as the global markets. We will continue to develop our organization, supply chain and distribution network in China.

Some of our Chinese suppliers have become our competitors in the global markets. In order to stay competitive, we need to manage our cost structures and fully utilize our technology. Our global sales and services network supports us in the competition.

## Great opportunities in both mining and construction

We have long and deep exposure to the fast-growing mining industry. We will continue to strengthen our resources in the growth markets, expand our services offering and develop services hubs close to our customers. Acquisitions are one way of achieving this growth.

We have a strong position in the crushing and screening niche of the construction industry. We explore opportunities to enter into complementary product areas to expand and strengthen our current position. The mid-market, meaning localized versions of our products originally designed for Western markets, is an interesting area for us.

## Services business growth through installed base

We have a long history of supporting our installed base in North America and Europe. The markets for the services business, which are mainly driven by customer capacity utilization rates, are more stable than the markets for new equipment. We aim to grow the business also in the emerging markets through our new installed base and by leveraging and developing our global presence and services concepts close to our customers.

The majority of our services business is related to wear and spare parts. Our customers are becoming increasingly interested in our performance solutions. Currently, half of the Mining and Construction business is connected to our services business.

## Sustainability is our license to operate

Environmental impact is a major issue for any big mining company. We must support our customers in assuring local communities and authorities that these issues are addressed. Health and safety issues are a clear priority for us. In terms of the environment, we help our customers to reduce their energy and water use as well as the noise and dust generated by the use of our equipment.





## Our strategy is executed through must-wins

### Services

- Services offering – focus on growth through value proposition and engineered services solutions.
- Product offering expansion.
- Growth via exploitation of installed base.

### Growth countries

- Increase local presence in the BRICs (Brazil, Russia, India and China) by strengthening the organization and supply capabilities.

### Technology

- Sustainability is critical.
- Water and energy conservation.
- Energy and raw materials efficiency.

### Operating model

- Health, safety and environment a continued focus.
- Move towards a globally functional organization and with uniform processes.

### People

- Recruit, retain and develop people to address business needs.

## Key figures, EUR million

	2010	2011
Net sales	2,235	2,760
EBITA*	264.8	322.1
% of net sales	11.8	11.7
Personnel, Dec 31	10,206	10,771

\*before non-recurring items

### Links & notes

- 1 Customer industries p. 26–29
- 2 Figures p. 36–40
- 3 Segment's financial development in 2011 in the Board of Directors' Report p. 48
- 4 [www.metso.com/miningandconstruction](http://www.metso.com/miningandconstruction)
- 5 President of Mining and Construction Andrew Benko's presentation at Metso Capital Markets Day 2011 [www.metso.com/CMD](http://www.metso.com/CMD)

# Automation

The Automation segment's solutions and services meet the growing needs of Metso's customer industries to improve production process efficiency as raw materials and energy sources become scarcer and their costs increase.

Automation has been a separate business segment since the end of 2011 with excellent prerequisites for profitable growth. The Automation segment aims to grow its share in all of Metso's customer industries, organically and through business acquisitions. Services account for about half of the segment's net sales.

Automation is the market leader in solutions for the pulp and paper industry and has solid growth targets also in all of Metso's other main customer industries – power generation, mining and construction, and oil and gas. Automation's products and services support and strengthen Metso's overall portfolio and thus improve Metso's position in its strong customer sectors. The profound customer industry knowledge of Metso's other business segments significantly supports the development of the Automation segment.

## Strong position in our customer industries

Automation's customers are typically leading players in their respective sectors. They value Metso's thorough knowledge of customer industries, its technology leadership and global service network.

Automation's products and services help customers develop their own production processes, in which even minor improvements can lead to significant improvements in cost, materials and energy efficiency. Automation generally accounts for a small part of the actual investment in a production plant, but it has a major impact on the plant's functionality and efficiency.

The products and services offered by Automation are divided into three business lines: Process Automation Systems, Flow Control and Services.

Process Automation Systems' main customer industries are currently pulp and paper and power generation. It also serves other process industries, such as mining and construction and the marine industry. Its products include automation and information management systems and applications, analyzers and measurement systems.

Flow Control's main customer segment is the oil and gas industry, but it also serves the needs of other process industries, such as the petrochemical and pulp and paper industries. The business line's products include control valves, automated on/off and emergency shut-down valves, as well as smart positioners and condition monitoring.

The Services business line provides process industry customers with business solutions to

improve productivity, lower risk and optimize costs. Its service portfolio includes, for example, process optimization and monitoring, process automation upgrades and maintenance, valve maintenance, spare part management, outsourcing solutions, and engineering and environmental services. The business line has a local presence close to customers on all continents and in major industrial locations.

## Good outlook for growth in demand

Metso is developing Automation as a separate business segment with the aim of tapping into the global growth potential of the business. Demand for automation solutions is growing faster than the world's gross domestic product. As a result, automation investments are also outpacing the growth rate of industry investments in general.

Exhaustible and increasingly more expensive raw materials, along with the use of clean and efficient energy, are structural growth factors that have a strong impact on Automation's business operations. Automation's products and services are needed to boost process efficiency and optimize production. The increasing investments in electricity and heat production, the long-term supply and demand for oil and gas, the shortage of labor, and the growing investments in infrastructure also all stimulate growth and demand.

## Markets can accommodate expanded offering and operations

All the factors mentioned above create considerable potential for growth, and Automation has several different directions to expand its operations. Geographically, the key growth markets are the BRIC countries and the Middle East. Of these, Metso has the strongest foothold in China, where there is a high demand for Metso's systems and valves. Automation is pursuing growth also through business acquisitions that can expand its product offering and increase its capacity.



## Our strategy is executed through must-wins

### Services

- Increase local presence by strengthening global service network.
- Expand the accessible market with solutions that improve Metso customers' business performance.

### Growth countries

- Strengthen local hubs for sales, service, operations and research, training and development.

### Technology

- Analyzer technology for new customer industries.
- Expand valve offering.
- Extend DCS offering and ensure its competitiveness.

### Operating model

- Select and implement operational excellence programs.

### People

- Recruit and develop personnel in growth markets.

## Key figures, EUR million

	2010	2011
Net sales	650	770
EBITA*	72.2	103.9
% of net sales	11.1	13.5
Personnel, Dec 31	3,639	3,892

\*before non-recurring items

### Links & notes

- 1 Customer industries p. 26–29
- 2 Figures p. 36–40
- 3 Segment's financial development in 2011 in the Board of Directors' Report p. 48
- 4 [www.metso.com/automation](http://www.metso.com/automation)
- 5 President of Automation Perttu Louhiluoto's presentation at Metso Capital Markets Day 2011 [www.metso.com/CMD](http://www.metso.com/CMD)

# Pulp, Paper and Power

The services and solutions offered by Metso's Pulp, Paper and Power segment meet the needs of a sustainability-focused society. The segment serves industries that utilize renewable raw materials and are based on carbon-neutral power generation.

Our solutions help customers to use renewable raw materials in the manufacturing of products and in the generation of energy. Metso aims to be the world's leading supplier of pulp, paper and bioenergy solutions and to further develop its operations related to other biomass technologies.

By integrating the pulp, paper and power operations, we are able to serve a large share of our customers with a single organization. Internally, we can leverage the special expertise and experience of our different businesses. For example, Power has more experience with the Indian markets than the other businesses, and it, in turn, can benefit from the strong knowledge the other businesses have about China.

Services growth is an important strategic target for our operations. Services already account for 39 percent of our net sales. Our offering is the most extensive in the market, and we are constantly introducing new solutions and technologies. We aim to be the technology leader in our sector.

Operational efficiency is also an important goal and one that requires us to collaborate through our global network, in line with Metso's vision.

## **Sustainable production from renewable raw materials**

As the range of renewable raw materials continues to expand, the spectrum of products made from them will grow. Our solutions therefore must be compatible with a variety of raw materials, both in the pulp and paper industry as well as in power generation.

Lately, interest in the use of nano- and microcellulose to create new properties and applications for materials has been growing. For example, board can be developed as a replacement for plastic packaging material. Our aim in bioenergy is to develop solutions for using and refining new kinds of fuels.

## **We meet all our customers' needs**

Our portfolio for the pulp and paper industry is the most comprehensive in the market. We can meet any of the needs our customers have in pulp, paper, board and power production, including Metso's Automation solutions. This full-scope portfolio is one of Metso's great strengths and gives us a competitive edge in the market.

Our goal is to strengthen our market position and expand our offering in bioenergy production.

We are already the leader in our product segment, but there are still potential growth opportunities for us in Asia, Central and South America, and in the lower product segment of power boilers. Developing new technologies is critical for growth. At the moment, we are acting on the growth opportunities we see in gasification technology by introducing a new solution to the markets.

## **Most comprehensive service network in the markets**

We have more than 12,000 employees globally in our Pulp, Paper and Power segment, and our network of 110 service centers covers virtually all the main pulp and paper industry and bioenergy production sites.

We have a very strong presence in North America and Europe, and we aim to further strengthen our presence in growing and emerging markets, like China.

We respond to the tightening competition by developing new, cost-efficient and easy-to-use solutions, like the OptiConcept M production line that uses highly advanced technology and is designed for the mid-market segment. Additionally, we respond to competition by constantly improving our service capacity and customer relations around the world. As a result, we stay ahead of new competitors.



## Our strategy is executed through must-wins

### Customer closeness

- Be in direct and close contact with customers.

### Services

- Improve services market share and profitability with new products and markets.

### Growth countries

- Speed up business development and strengthen area organizations to support growth in services and capital.

### Technology

- Maintain technology leadership position with new products, and cost-efficient and sustainable solutions.

### Operating model

- Secure quality of operations and deliveries in global processes.

### People

- Build capabilities and competencies to enhance growth.

## Key figures, EUR million

	2010	2011
Net sales	2,453	2,703
EBITA*	167.9	218.8
% of net sales	6.8	8.1
Personnel, Dec 31	12,114	12,528

\*before non-recurring items

### Links & notes

- 1 Customer industries p. 26–29
- 2 Figures p. 36–40
- 3 Segment's financial development in 2011 in the Board of Directors' Report p. 49
- 4 [www.metso.com/pulpandpaper](http://www.metso.com/pulpandpaper)
- 5 [www.metso.com/power](http://www.metso.com/power)
- 6 President of Pulp, Paper and Power Pasi Laine's presentation at Metso Capital Markets Day 2011 [www.metso.com/CMD](http://www.metso.com/CMD)

# Group key figures

## Key figures

EUR million	2010	2011
Net sales	5,552	6,646
Services, % of net sales	45	45
Earnings before interest, tax and amortization (EBITA) and non-recurring items	491.0	628.5
% of net sales	8.8	9.5
Operating profit	445.2	571.8
% of net sales	8.0	8.6
Profit before taxes	370	507
% of net sales	6.7	7.6
Profit	258	358
% of net sales	4.6	5.4
Procurements*	3,470	4,319
Research and development expenditure, gross (including IPR expenses)	129	137
Research and development personnel	829	852
Priority applications, pcs*	181	180
Invention disclosures, pcs*	780	649
Gross capital expenditure (excluding business acquisitions)	135	166
Business acquisitions, net of cash acquired	21	15
Earnings per share, EUR	1.71	2.38
Dividend per share, EUR **	1.55	1.70
Balance sheet total	6,232	6,618
Return on capital employed (ROCE) before taxes, %	13.5	18.4
Return on equity (ROE), %	13.6	17.8
Equity to assets ratio, %	38.1	39.8
Gearing, %	15.0	12.2
Free cash flow	435	375
Orders received	5,944	7,961
Order backlog, December 31	4,023	5,310
Personnel, December 31	28,593	30,324

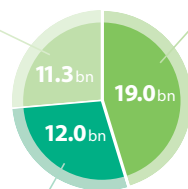
\* Unaudited \*\* 2011 Board's proposal

## Metso's target markets in 2011

EUR 42.3 billion

### Pulp, Paper and Power EUR 11.3 billion

- Pulp EUR 1.8 billion
- Paper EUR 8 billion
- Power EUR 1.5 billion



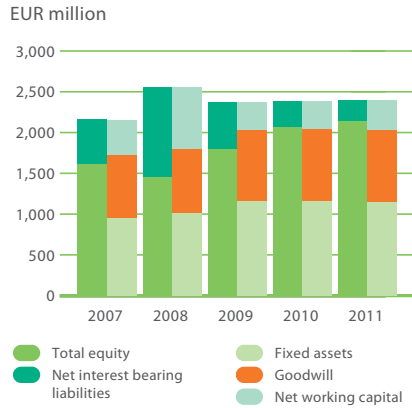
### Mining and Construction EUR 19.0 billion

- Mining EUR 11 billion
- Construction EUR 8 billion

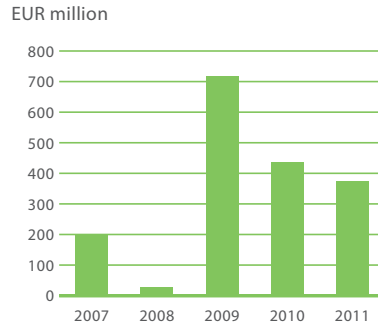
### Automation EUR 12.0 billion

- Systems EUR 4 billion
- Flow control EUR 8 billion

### Balance sheet structure



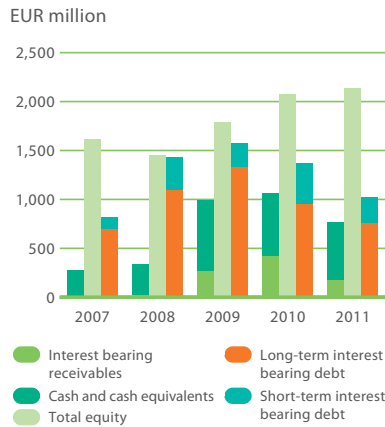
### Free cash flow



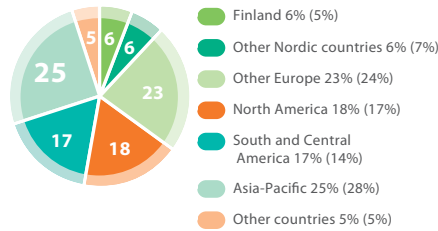
### Gearing and equity to assets ratio



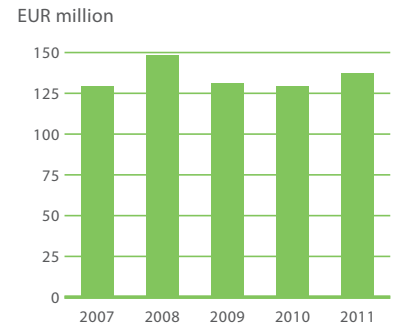
### Capital structure



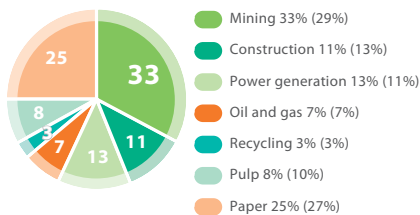
### Net sales by market area



### Research and development expenditure (including IPR expenses)

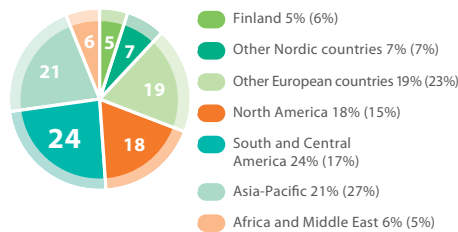


### Orders received by customer industry



### Orders received by market area

Orders received EUR 7,961 million (2010: EUR 5,944 million)



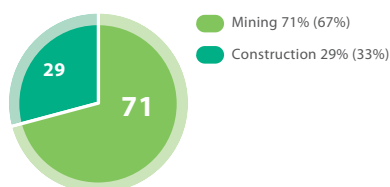
### Links & notes

- 1 More figures [www.metso.com/2011](http://www.metso.com/2011) > Financial Performance
- 2 More figures [www.metso.com/2011](http://www.metso.com/2011) > Sustainability Results
- 3 [www.metso.com/2011](http://www.metso.com/2011) > Financial Performance >> Quarterly Information

# Segment key figures

## Mining and Construction

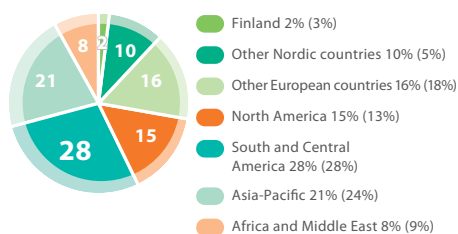
Net sales by customer industry



Segment key figures

EUR million	2010	2011
Net sales	2,235	2,760
Services net sales	1,139	1,378
EBITA before non-recurring items	264.8	322.1
% of net sales	11.8	11.7
Operating profit	290.4	313.1
Capital employed, Dec 31	1,151	1,268
Gross capital expenditure (including business acquisitions)	37	49
Research and development expenses, gross	18	22
Orders received	2,457	3,464
Order backlog, Dec 31	1,356	2,027
Personnel, Dec 31	10,206	10,771

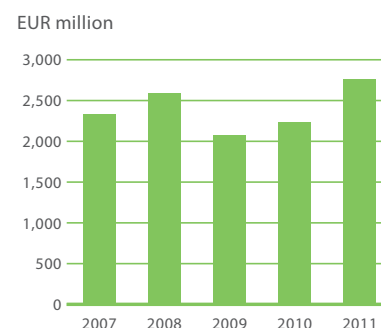
Orders received by market area



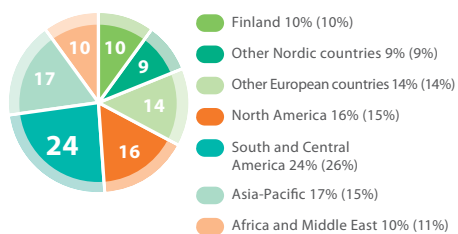
Orders received and order backlog



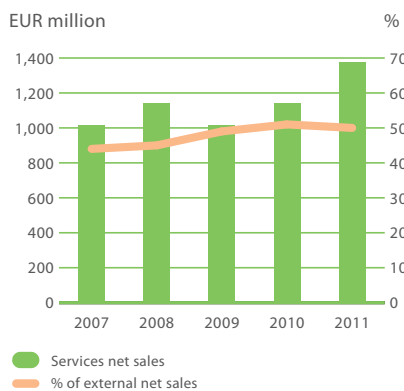
Net sales



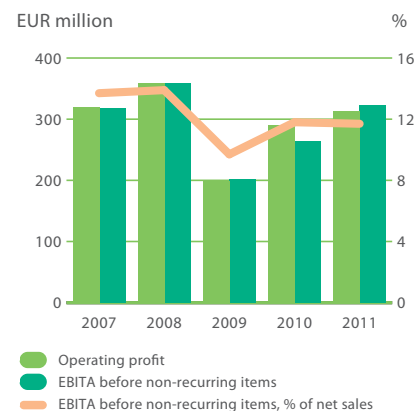
Personnel by area



Services net sales



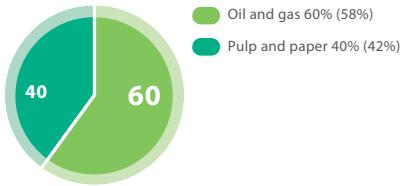
Operating profit and EBITA before non-recurring items





# Automation

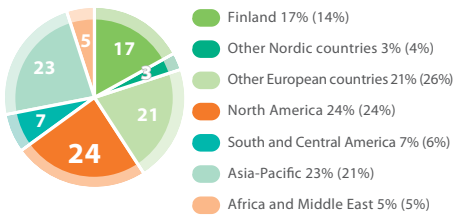
Net sales by customer industry



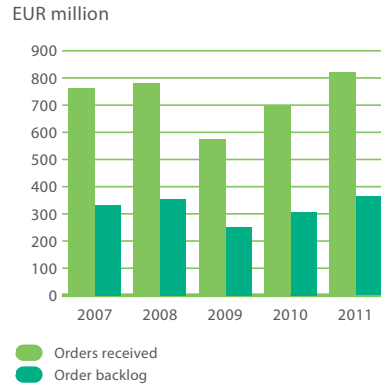
Segment key figures

EUR million	2010	2011
Net sales	650	770
Services net sales	297	345
EBITA before non-recurring items	72.2	103.9
% of net sales	11.1	13.5
Operating profit	65.6	99.7
Capital employed, Dec 31	235	292
Gross capital expenditure (including business acquisitions)	19	21
Research and development expenses, gross	26	31
Orders received	695	822
Order backlog, Dec 31	308	364
Personnel, Dec 31	3,639	3,892

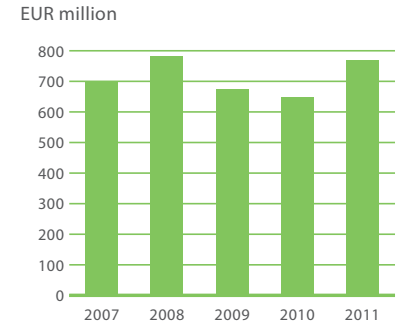
Orders received by market area



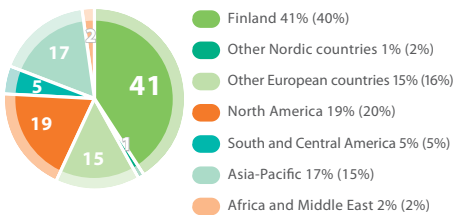
Orders received and order backlog



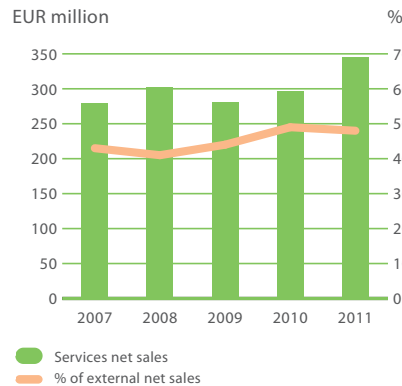
Net sales



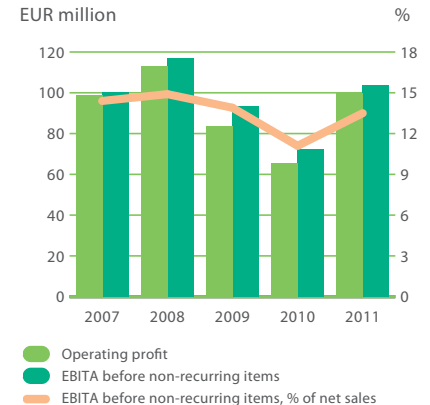
Personnel by area



Services net sales

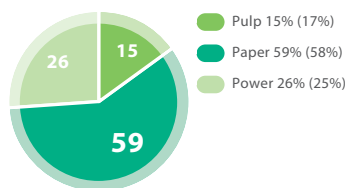


Operating profit and EBITA before non-recurring items



# Pulp, Paper and Power

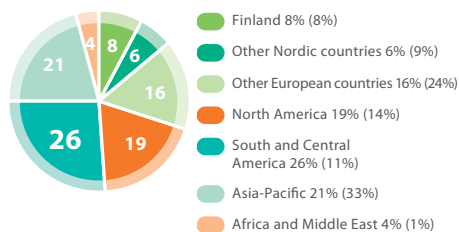
Net sales by customer industry



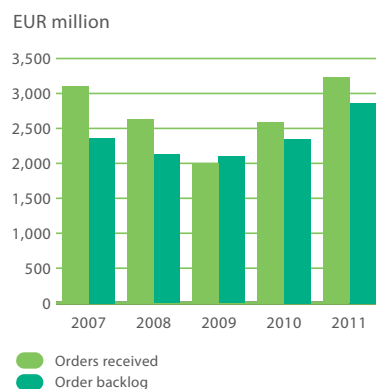
Segment key figures

EUR million	2010	2011
Net sales	2,453	2,703
Services net sales	923	1,048
EBITA before non-recurring items	167.9	218.8
% of net sales	6.8	8.1
Operating profit	115.8	189.2
Capital employed, Dec 31	755	596
Gross capital expenditure (including business acquisitions)	77	75
Research and development expenses, gross	64	68
Orders received	2,583	3,225
Order backlog, Dec 31	2,347	2,863
Personnel, Dec 31	12,114	12,528

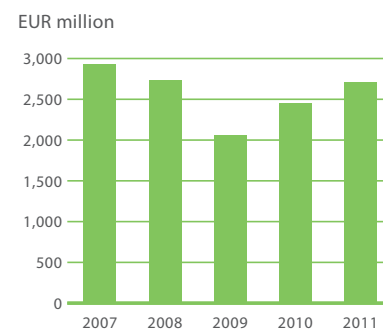
Orders received by market area



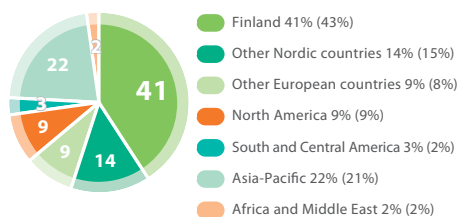
Orders received and order backlog



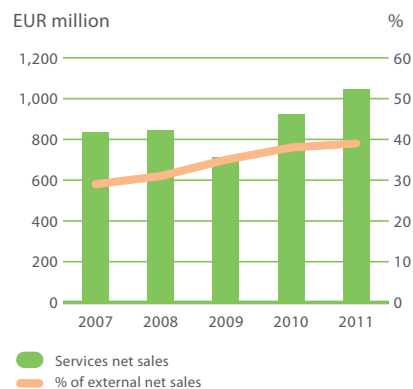
Net sales



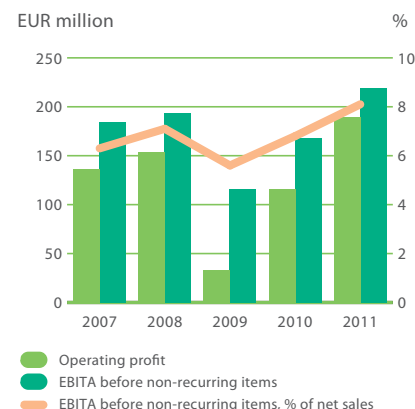
Personnel by area



Services net sales



Operating profit and EBITA before non-recurring items



# Financial Statements 2011

Financial statements presented in the Annual Report are condensed from the audited financial statements of Metso Corporation and comprise the consolidated financial statements of Metso, the Board of Directors' report, as well as the income statement, balance sheet and statement of changes in the shareholders' equity of the Parent Company. Audited financial statements, including also notes to the Parent Company financial statements, are available on our website [www.metso.com](http://www.metso.com).

## Table of Contents

Board of Directors' Report	42	1 Accounting principles	56
Consolidated Statements of Income and Comprehensive Income	51	2 Financial risk management	62
Consolidated Balance Sheets	52	3 Critical accounting estimates and judgments	65
Consolidated Statements of Cash Flows	54	4 Selling, general and administrative expenses	67
Consolidated Statements of Changes in Shareholders' Equity	55	5 Other operating income and expenses, net	67
Notes to the Consolidated Financial Statements *)	56	6 Personnel expenses and the number of personnel	68
		7 Depreciation and amortization	69
Exchange Rates Used	101	8 Financial income and expenses, net	70
Financial Indicators 2007–2011	102	9 Income taxes	70
Formulas for Calculation of Indicators	103	10 Acquisitions	72
		11 Earnings per share	72
Parent Company Statement of Income, FAS	104	12 Intangible assets and property, plant and equipment	73
Parent Company Balance Sheet, FAS	104	13 Investments in associated companies	76
Parent Company Statement of Changes in Shareholders' Equity, FAS	105	14 Available-for-sale equity investments	77
		15 Inventory	77
Shares and Shareholders	106	16 Percentage of completion	77
Auditor's Report	112	17 Change in net working capital	78
		18 Interest bearing and non-interest bearing receivables	78
		19 Financial assets and liabilities	79
		20 Cash and cash equivalents	81
		21 Equity	81
		22 Share-based payments	83
		23 Long-term debt	85
		24 Provisions	86
		25 Short-term debt	87
		26 Trade and other payables	87
		27 Post-employment benefit obligations	87
		28 Mortgages and contingent liabilities	90
		29 Lease contracts	91
		30 Derivative financial instruments	91
		31 Subsidiaries	93
		32 Reporting segment and geographic information	95
		33 Audit fees	99
		34 Lawsuits and claims	99
		35 New accounting standards	100
		36 Events after balance sheet date	101

\*) The accompanying notes form an integral part of these Financial Statements.

# Board of Directors' Report

## Operating environment and demand in 2011

There were no major changes in our operating environment during the year and the demand from our customer industries was mostly good. The unrest in the Middle East and Northern Africa early in the year, and the economic instability in Europe and North America, which carried over into the second half of the year, did not have far-reaching effects on our demand. Uncertainty somewhat increased towards the end of the year impacting mainly the paper and board industry. This was seen as delays in decision making in some projects under negotiations. There were no cancellations, however, from our order backlog. High commodity prices kept capacity utilization rates in our customer industries at a good level and the demand for our services business remained good. Our operating environment was strong in the emerging markets especially in the early part of the year, but saw a slight softening towards the end of the year, especially in China, India and Brazil.

The market activity for the mining industry improved in the first half of the year as metal prices remained high, largely due to the strong demand in China and India and the upswing in the global economy. Demand for copper and iron ore, for example, exceeded production early in the year. Market activity was good throughout 2011, which contributed positively to the volume of orders we received. For example we received several exceptionally large orders for equipment in the first and second quarters. Metal prices leveled out towards the end of the year but held steady at a high level. The growth in demand for minerals, especially in emerging countries, and our large installed equipment base kept demand for our services business strong.

The economic growth and infrastructure construction projects in emerging countries maintained demand for construction equipment at a good level all year. Uncertainty in the European and US economies delayed construction projects and the demand for equipment and services in aggregates production remained satisfactory.

Demand for automation products remained good for the whole year, and the turbulence in the world economy did not affect our customer industries. Investments made by the oil, gas and petrochemical industries continued and the demand remained at a good level. Demand by the pulp and paper industry also developed favorably and was good.

Investment decisions in three new pulp plants were made in South America during the first half of the year, after which the market for new mills slowed down. In addition, the high pulp price and our customers' high capacity utilization rates boosted demand for plant rebuilds and pulp mill services.

Demand for paper, board and tissue lines was satisfactory in the first half of 2011. Activity in our main market for paper machines, China, slowed down in the latter half of the year as financing became more difficult and caused delays in our customers' decision making. Utilization rates in the paper industry were sufficient to maintain the demand for our services business at a good level.

Demand for power plants utilizing renewable energy was satisfactory in Europe and North America. Several European countries and the US have published targets to increase the use of renewable energy, which has supported the demand for our power plant solutions fuelled by biomass and waste. However, the pending policies over subsidy mechanisms are estimated to have an impact on investment decisions. Demand for our power plant services business was good throughout the year.

## Orders received and order backlog

We received new orders worth EUR 7,961 million in January–December, i.e. 34 percent more than in the comparison period. The change was equal using comparable exchange rates. The growth in demand was strong in the Mining and Construction segment, where orders received increased more than 40 percent on the previous year. Orders received by the Pulp, Paper and Power segment increased 25 percent and by the Automation segment 18 percent. Services orders grew 18 percent and totaled EUR 3,100 million. Emerging markets accounted for 43 percent of our services orders received (41%).

The top three countries for new orders were Brazil, the US and China, which together accounted for 39 percent of all orders received. All four BRIC countries (Brazil, Russia, India and China) were among the top twelve. The share of emerging markets in our new orders was 51 percent (53%).

At the end of the year, our order backlog was EUR 5,310 million, which was 32 percent stronger than at the end of 2010 (EUR 4,023 million). Around EUR 4.0 billion of the deliveries in our order backlog are expected to be recognized as net sales in 2012, and around 24 percent of these are services business orders. The order backlog included the Fibria pulp mill project in Brazil, which is valued at around EUR 350 million and has an uncertain delivery schedule (EUR 340 million at the end of September 2011; the change in order value resulted from exchange rates).

## Net sales

Our net sales in 2011 increased 20 percent on the comparison period and totaled EUR 6,646 million (EUR 5,552 million). The change was equal using comparable exchange rates. Organic growth was 17 percent. Growth was strongest in Mining and Construction, which recorded a 23 percent increase in net sales. The Automation segment's net sales grew 18 percent and the Pulp, Paper and Power segment recorded 10 percent growth. Services business net sales increased 17 percent and accounted for 45 percent of the total net sales (45%). Emerging markets accounted for 43 percent of our services business net sales (39%).

Measured by net sales, the largest countries were the US, China and Brazil, together accounting for 35 percent of our net sales. The share of emerging markets of our net sales was 49 percent (50%).

## Financial results

In 2011, our earnings before interest, tax and amortization (EBITA) and before non-recurring items, were EUR 628.5 million, i.e. 9.5 percent of net sales (EUR 491.0 million and 8.8%). Our EBITA before non-recurring items improved 28 percent on the comparison period. Improvement resulted from increased delivery volumes and improved capacity utilization rates. Selling, general and administrative expenses increased less than net sales, i.e. 8 percent on the comparison period (excluding the effect of exchange rate and non-recurring items). Profitability improved in Automation and in Pulp, Paper and Power and remained on the level of the comparison period in Mining and Construction.

Selling, general and administrative expenses of the Group Head Office were approximately EUR 3 million higher than in the comparison period, mainly due to several development projects. Group Head Office's result (EBITA before non-recurring items) included also foreign exchange hedging and other risk management related items, which had an EUR 2 million positive impact (EUR 12 million).

In January–December 2011, our operating profit (EBIT) was EUR 571.8 million, i.e. 8.6 percent of net sales (EUR 445.2 million and 8.0%). The operating profit includes EUR 5.1 million in non-recurring expenses (EUR 11.8 million in non-recurring income). Non-recurring items are specified in the tables below.

Net financing expenses in 2011 were EUR 65 million (EUR 75 million). These included EUR 75 million in interest expenses (EUR 69 million), EUR 26 million in interest income (EUR 18 million), EUR 3 million in foreign exchange losses (EUR 13 million), and EUR 13 million in other net financial expenses (EUR 11 million).

Our profit before taxes was EUR 507 million (EUR 370 million) and our tax rate was 29 percent (30%).

The profit attributable to shareholders was EUR 356 million (EUR 257 million) in 2011, corresponding to earnings per share (EPS) of EUR 2.38 (EUR 1.71 per share).

The return on capital employed (ROCE) before taxes in January–December was 18.4 percent (13.5%) and the return on equity (ROE) was 17.8 percent (13.6%).

Financial indicators for the years 2007–2011 are presented on page 102.

### Cash flow and financing

Net cash provided by operating activities amounted to EUR 466 million (EUR 506 million) in 2011. Mining and Construction and Automation tied up net working capital during

the year, whereas capital was released in the Pulp, Paper and Power segment. Due to the increased delivery volumes, net working capital was tied up in inventories and receivables, which was partly compensated by advances received. The high invoicing in the last quarter of the year increased the amount of receivables, and as a result net working capital increased by EUR 116 million.

Free cash flow in January–December was EUR 375 million (EUR 435 million). Net interest-bearing liabilities totaled EUR 260 million at the end of December (EUR 310 million).

Our total cash assets at the end of December were EUR 757 million, of which EUR 167 million had been invested in financial instruments with an initial maturity exceeding three months. The remaining EUR 590 million has been accounted for as cash and cash equivalents. Additionally we have an undrawn syndicated EUR 500 million revolving credit facility available until 2015. The facility is primarily to support our short-term funding. Our liquidity position is good.

In April, following the Annual General Meeting, we paid EUR 232 million in dividends for 2010. Our gearing at the end of December was 12.2 percent (15.0%) and our equity to assets ratio was 39.8 percent (38.1%).

### Non-recurring items and amortization of intangible assets

2011 EUR million	Mining and Construction	Automation	Pulp, Paper and Power	Metso total
<b>EBITA before non-recurring items</b>	<b>322.1</b>	<b>103.9</b>	<b>218.8</b>	<b>628.5</b>
<b>% of net sales</b>	<b>11.7</b>	<b>13.5</b>	<b>8.1</b>	<b>9.5</b>
Intellectual property related items	-0.8	-	-	-0.8
Gain on sale of production plant in Sweden	-	-	2.6	2.6
Cost related to business acquisition projects	-	-	-	-0.8
Costs related to bankruptcy of THINK Global A/S	-	-	-	-6.1
Amortization of intangible assets <sup>1)</sup>	-8.2	-4.2	-32.2	-51.6
<b>Operating profit (EBIT)</b>	<b>313.1</b>	<b>99.7</b>	<b>189.2</b>	<b>571.8</b>

<sup>1)</sup> Includes EUR 23.8 million amortization of intangible assets acquired through business acquisitions.

2010 EUR million	Mining and Construction	Automation	Pulp, Paper and Power	Metso total
<b>EBITA before non-recurring items</b>	<b>264.8</b>	<b>72.2</b>	<b>167.9</b>	<b>491.0</b>
<b>% of net sales</b>	<b>11.8</b>	<b>11.1</b>	<b>6.8</b>	<b>8.8</b>
Capacity adjustment expenses	-1.8	-2.7	-10.2	-17.0
Gain on sale of Talvivaara shares	8.4	-	-	8.4
Intellectual property related items	27.6	-	-	27.6
Gain on business disposal	0.9	-	-	0.9
Credit loss reserve related to two paper machine customers	-	-	0.9	0.9
Provision for prior years' ICMS (VAT) tax credits in Brazil	-2.8	-	-2.0	-4.8
Cost related to business acquisition projects	-	-	-	-4.2
Amortization of intangible assets <sup>1)</sup>	-6.7	-3.9	-40.8	-57.6
<b>Operating profit (EBIT)</b>	<b>290.4</b>	<b>65.6</b>	<b>115.8</b>	<b>445.2</b>

<sup>1)</sup> Includes EUR 32.9 million amortization of intangible assets acquired through business acquisitions.

## Capital expenditure

Our gross capital expenditure in January–December, excluding business acquisitions, was EUR 166 million (EUR 135 million). The share of maintenance investments was 61 percent, i.e. EUR 101 million (58% and EUR 78 million). We estimate capital expenditure in 2012 to increase 10–20 percent on the 2011 level.

In 2011, we invested in a new technology center in the Helsinki region in Finland to strengthen our global industrial valve production network. The investment in buildings was accounted as an operating lease. In Massachusetts, in the US, we are expanding our valve production facilities by an investment totaling about EUR 4 million. In Peru and Chile, we are investing in new service workshops for mining and construction industries. The second phase of construction of our largest single investment so far in India, Metso Park, is currently under way. In Araucaria, Brazil, construction work on a new facility for our regional pulping and power operations is under way. The investment project in global enterprise resource planning (ERP) systems continues in the Automation segment. In Mining and Construction, the extensive ERP project was finalized during the first half of the year.

## Acquisitions, divestments and associated companies

In December, we sold our workshop in Valkeakoski, Finland, and related equipment and screen basket manufacturing. The deal entailed as a transfer of undertakings and had no significant impact on our results, and it has been reported as sales of property, plant and equipment. The personnel of 76 of the divested operations transferred to the new employer. The sale was part of our Pulp, Paper and Power segment's work to develop its production structure in order to improve competitiveness amid tightening global competition.

In August, we acquired the mining services business of Copperstate Industrial Services, based in Arizona, the US. The acquired business strengthens our position as a leading service and technology provider for the mining industry in North America and Mexico. A team of 43 service personnel in the American hard-rock mining region was transferred to Metso.

In August, we entered into an agreement with the Chinese SAC, Guodian Nanjing Automation, to strengthen our position in the power automation control systems market in China. Metso owns 33 percent and SAC 67 percent of the new associated company. The new company will develop new products and provide comprehensive after-sales services. The associated company has over 300 employees.

## Research and development

Our research and development activities focus on our ability to respond to present and future challenges such as global availability and cost of energy, water and raw materials.

With new technology our customers can enhance both their short-term competitiveness and their long-term business development.

We run our R&D program in partnership with our customers. In addition, we cooperate with many universities and research institutes and jointly improve products and processes for our customers. Metso also participates in academic development through scholarships and research financing.

Our research and development network encompasses approximately 40 units around the world. R&D employed 852 people in 2011 (829) in engineering offices, R&D centers and testing facilities. New technologies, processes and service solutions are protected actively. During the year, our R&D network made about 650 invention disclosures (780), which led to over 180 priority patent applications (180). At the end of 2011, approximately 2,950 Metso inventions were protected by patents (3,000). Our

research and development expenses in 2011 totaled EUR 124 million, representing 1.9 percent of net sales (EUR 111 million and 2.0%). In addition, expenses for intellectual property rights amounted to EUR 13 million in 2011 (EUR 18 million).

Decreased energy, water and raw materials use, reduced effluents and improved process efficiency are the outcome of our R&D work. In 2011, we launched many innovations and products where these were important goals. For example, key targets guiding the development work for the new full-scope paper- and board-making concept were: total investment economy, personnel safety, machine usability and reduced environmental load. The solution comprises a new, modular way of designing, building and operating a paper machine for cost-effective, high-quality and flexible paper and board making.

The refining stage in stock preparation plays a crucial role in developing fiber properties for paper production. This greatly affects the runnability of the paper machine and the paper quality. We have launched a revolutionary low-consistency refining concept with a new refiner, which combines high unit capacities with excellent development of fiber quality at significantly lower electrical energy consumption.

In Mining and Construction we have added resources to speed up the technological development. High crushing efficiency and throughput, low energy consumption, versatility and safety are all features of the newly launched cone crusher and jaw crusher. Easy maintenance is another advantage, which, combined with the above-mentioned features, ensures the cost effectiveness of these improved machines.

In the area of process automation systems and flow control solutions we continue developing products and services to all our customer industries. For example, our automation system was added with new control applications to benefit especially power generation and mining and construction customers.

In order to conduct our R&D projects effectively, we have also continued our development of Life Cycle Assessment as a tool to support the R&D work. Life cycle assessment (LCA) is an environmental management technique whereby the environmental impacts of a product are estimated throughout its entire life cycle, including the manufacturing stage, usage stage, and end-of-life stage. Although LCAs are generally used to communicate environmental impacts, they can also be used to calculate cost or consumption figures. Hence, LCAs are also very useful in guiding our product development towards more sustainable offerings.

## Environment and environmental technology

Many of our technology solutions have been developed in close cooperation with our customers. The solutions are related to renewable energy sources, the energy efficiency of our customers' production processes, waste management, recycling, the efficient utilization of raw materials and water, reducing dust, noise, carbon dioxide and particle emissions, and process optimization, to name a few.

We also provide training, maintenance and other services related to our technology. We take care of the entire life cycle of production processes and promote the optimal and environmentally sustainable way to use our solutions.

The environmental impacts of our own production are minor and relate mainly to the consumption of raw materials and energy, emissions to air, water consumption and waste. We are continuously improving our environmental management practices and the eco-efficiency of our production facilities, as well as developing our cooperation, towards greater environmental efficiency with our subcontractors and the entire supply chain.

We have set global energy savings and carbon dioxide emissions targets for our production. Our aim is to boost our energy efficiency and reduce our carbon dioxide emissions by 15 per-

cent by 2015 and 20 percent by 2020. In 2011, we continued the group-wide project to chart our opportunities to save energy and reduce carbon dioxide emissions in the production units that consume the most energy. Charting of the most energy-intensive units will be completed in 2012, at which time 80 percent of our energy consumption will be mapped out. The biggest energy-saving opportunities related to the use of fuel and heat.

### Risks and business uncertainties

Our operations are affected by various strategic, financial, operational and hazard risks. We take measures to exploit emerging opportunities and to limit the adverse effects of potential threats. If such threats materialized, they could have material adverse effects on our business, financial situation, and operating result or on the value of Metso shares and other securities.

Our risk assessments take into consideration the probability of the risks and the estimated impact of them on our net sales and financial results. Management estimates that the overall risk level of the company is currently manageable in proportion to the scope of our operations and the practical measures available to manage these risks.

The financial uncertainty in the euro zone and the US budget deficit are creating a potential negative impact on funding from capital markets coupled with fluctuations in exchange rates and tightening financial market regulation, which may have an adverse effect on availability of financing from bank and capital markets. This may decrease market activity. Despite this, we estimate that the business environment in our customer industries will develop favorably as a result of global megatrends, such as the rise of emerging markets, urbanization and the increasing importance of environmentally sustainable process solutions. We estimate that the high share of our business derived from services and emerging markets will diminish the possible negative effects that market uncertainties may have.

If global economic growth is disturbed, it might have adverse effects on new projects under negotiation or on projects in our order backlog. Some projects may be postponed or they may be suspended or canceled. At the end of the year, our order backlog included uncertain orders worth some EUR 350 million related to the pulp mill project for Fibria in Brazil, the delivery schedule of which is still open. In long-term delivery projects the initial customer down payments are typically 10–30 percent of the value of the project, in addition to which the customer makes progress payments during the project execution. This significantly decreases our risk and financing requirements related to these projects. We continually assess our customers' creditworthiness and ability to meet their obligations. As a rule, we do not finance customer projects. If the growth in the global economy slows down significantly, the markets for our products may shrink, which may lead to tightening price competition.

We might see changes in the competitive situation of our individual businesses, such as the emergence of new, cost-effective players in the growth markets. We can safeguard our market position by developing our products and services, and through good customer service and a local presence.

Securing the continuity of our operations requires that we have sufficient funding available under all circumstances. We estimate that our cash assets totaling EUR 757 million and available credit facilities are sufficient to secure short-term liquidity and overall financial flexibility. The average maturity for our long-term debt, current portions included, is 3.1 years. There are no prepayment covenants in our debt facilities that would be triggered by changes in credit ratings. Some of our debt facilities include financial covenants related to capital structure. We fully meet the covenants and other terms related to our financing agreements.

The levels of net working capital and capital expenditure have a key impact on the adequacy of financing. We have developed our practices and the supporting information systems relating to the management of net working capital. We expect that these measures will help us to control movements in our net working capital. We estimate that we are well positioned to keep our capital expenditure at the level of total amortization and depreciation.

At the end of 2011, we had EUR 883 million of goodwill on our balance sheet which is mainly related to business acquisitions made over the last 10 years. We conduct impairment tests regularly once a year and more frequently if needed, and have not detected any impairment.

Changes in labor costs and in the prices of raw materials and components can affect our profitability. Currently also high wage inflation continues. Our target is to pass the cost increases to our sales prices, but there's a risk that tight competition doesn't allow us targeted cost compensation in all product categories. On the other hand, some of our customers are raw material producers whose ability to operate and invest may be enhanced by strengthening raw material prices and hampered by declining raw material prices.

Currency exchange rate risks are among the most substantial financial risks to Metso. Exchange rate changes can affect our business, although the wide geographical scope of our operations decreases the impact of any individual currency. In general, uncertainty in the economy is likely to increase exchange rate fluctuations. We hedge the currency exposures that arise from firm delivery and purchase agreements.

### Legal proceedings and claims

In December, Metso won a patent infringement lawsuit against Terex Corporation, one of its subsidiaries and two of its dealers. As on December 9, 2011, the Federal District Court of New York affirmed the jury's earlier verdict that the defendants had willfully infringed on Metso's U.S. patent relating to mobile crushing and screening machines. Due to the willfulness of the infringement, the court doubled the original damages award to USD 31.6 million covering the infringing sales from March 2000 through October 2007. In addition, the defendants will have to pay additional compensation covering infringing sales after October 2007, which will be accounted for later and also doubled. The final compensation for Metso will also include interest.

In July, the court issued an order permanently barring the defendants from marketing their mobile screening machines that were found to infringe upon our patents. Terex has appealed the court decision and the lawsuit will continue in the appeals court. We will recognize the compensation in the financial statements only after the final outcome of the lawsuit is clear. We will continue to be active in protecting our intellectual property rights globally, with the objective of enhancing fair competition.

### Personnel

At the end of December, we had 30,324 employees, which was 6 percent more than at the end of 2010 (28,593 employees). The number of personnel increased by 1,731 people during the year. Our personnel increased in all segments, mostly in Mining and Construction. Increases were seen in China in the Paper business and Automation segment, in the US in mining services and in Brazil in mining industry and Fiber business. The proportion of our personnel in emerging markets was 34 percent (34%). In 2011, we had an average of 29,590 employees.

Mining and Construction employed 36 percent, Automation 13 percent, Pulp, Paper and Power 41 percent, and Recycling, Val-

met Automotive, Metso Shared Services and Group Head Office 10 percent of our personnel. The countries with the largest numbers of personnel were Finland, China, the US, Sweden and Brazil. These countries employed 67 percent of our total personnel.

In 2011, we implemented new leadership principles, revised values and Health, Safety and Environment (HSE) targets. A new competence model to support the continuous development of our personnel was also developed. It defines the focus areas for developing the future competencies required by various businesses. Continuous learning and personnel development are important parts of our development and corporate culture and they are supported by a global and local training offering.

In 2011, we continued with the implementation of our occupational health and safety monitoring system, the HSE Monitor, which currently encompasses 23,000 of our personnel. All observed risks and absences relating to occupational health and safety are collected in the HSE Monitor and analyzed with the goal of preventing similar incidents. Our long-term target is zero occupational accidents. Data on possible environmental accidents that occur in our units is now also entered in the system. Also in 2011, around 400 of our supervisors were trained in HSE matters, and the training continues this year.

The salaries and wages of our personnel are determined on the basis of local collective and individual agreements, employee performance and job evaluations. Basic salaries and wages are complemented by performance-based compensation systems. In 2011, altogether EUR 1,229 million was paid in salaries and wages (EUR 1,106 million). Indirect employee costs totaled EUR 347 million (EUR 319 million).

#### Personnel by area

	Dec 31, 2010	Dec 31, 2011	Change %
Finland	8,748	9,222	5
Other Nordic countries	2,880	2,935	2
Rest of Europe	4,183	4,434	6
North America	3,491	3,845	10
South and Central America	3,166	3,164	0
Asia-Pacific	4,700	5,309	13
Africa and Middle East	1,425	1,415	-1
<b>Metso total</b>	<b>28,593</b>	<b>30,324</b>	<b>6</b>

#### Corporate Governance Statement

We have prepared a separate Corporate Governance Statement for 2011 which complies with the recommendations of the Finnish Corporate Governance Code for listed companies. It also covers other central areas of corporate governance. The statement is presented condensed in this Annual Report on pages 113–121 and can be found in full at [www.metso.com/governance](http://www.metso.com/governance).

#### Changes in top management

Matti Kähkönen started as Metso's President and Chief Executive Officer on March 1, 2011, at which time his predecessor, Jorma Eloranta, retired.

Metso's new Executive Team also took effect on March 1, comprising of Andrew Benko, President of Mining and Construction; Perttu Louhiluoto, President of Automation; and Pasi Laine, President of Pulp, Paper and Power as well as Metso's Executive Vice President and Deputy to the CEO; Harri Nikunen, Chief Financial Officer; Merja Kamppari, Senior Vice President, Human Resources; and Kalle Reponen, Senior Vice President, Strategy and M&A. All of the above-mentioned individuals report to Matti Kähkönen, who serves as Chairman of the Metso Executive Team.

Metso's previous CFO, Olli Vaartimo, and the previous President of Paper and Fiber Technology, Bertel Langenskiöld, retired

from the Metso Executive Team as of March 1, 2011 and from Metso on April 30, 2011.

In December, the Board of Directors decided to discontinue the Metso Executive Forum, which was established in 2008. The forum consisted of the members of the Metso Executive Team and the heads of Metso's most significant businesses and market areas.

#### Reorganization of operating structure

In September, Metso's Board decided to modify the company's business structure in order to more effectively achieve business targets. As a result, the Power business, which was part of the Energy and Environmental Technology segment, was integrated with the new Pulp, Paper and Power segment. The Recycling business, which also was part of Energy and Environmental Technology, is managed as a separate entity and Metso is re-viewing other strategic alternatives for it.

In the new operating structure, Metso has three reporting segments; Mining and Construction, Automation as well as Pulp, Paper and Power. In addition to Recycling, also Valmet Automotive is managed as a separate entity.

#### Financial targets and dividend policy

In November, Metso's Board decided on new long-term financial targets in relation to Metso's new strategy. The new financial targets replaced the previous targets set in August 2008:

- The target of 10 percent annual average sales growth (CAGR) including acquisitions remains unchanged.
- In the services business we target to reach more than 10 percent growth annually.
- The profitability targets are annual earnings per share (EPS) growth exceeding the sales growth and the following EBITA margin before non-recurring items targets for the segments: Mining and Construction 10–15 percent, Automation 11–16 percent and Pulp, Paper and Power 6–9 percent.
- Capital efficiency is measured by the return on capital employed before taxes (ROCE, %) and we target a return higher than 20 percent (excluding the impact of major acquisitions).
- The target in our capital structure is to maintain a solid investment grade. This target is unchanged.
- The target for dividend policy remains unchanged as well; our target is to distribute at least 50 percent of annual earnings per share as a dividend or through other forms of repatriation of capital (share buybacks, redemptions etc).

#### Decisions of the Annual General Meeting

Our Annual General Meeting (AGM) on March 30, 2011 approved the Financial Statements for 2010 and decided to discharge the members of the Board of Directors and the President and CEO from liability. The AGM approved the proposals of the Board of Directors to authorize the Board of Directors to resolve on a repurchase of Metso's own shares and on a share issue.

The AGM decided that a dividend of EUR 1.55 per share will be paid for 2010. The dividend was paid on April 12, 2011.

The AGM elected Jukka Viinanen Chairman of the Board and Maija-Liisa Friman Vice Chairman of the Board. Ozey K. Horton, Jr., was elected as a new member of the Board. Mikael von Frenckell, Christer Gardell, Yrjö Neuvo, Erkki Pehu-Lehtonen and Pia Rudengren were re-elected as Board members.

The AGM decided that the annual remunerations for Board members are EUR 92,000 for the Chairman, EUR 56,000 for the Vice Chairman and the Chairman of the Audit Committee, and EUR 45,000 for the members. In addition, it was decided that a meeting fee of EUR 600 is paid to members whose residence is in the Nordic countries, EUR 1,200 to members whose residence



is elsewhere in Europe and to those residing outside Europe, EUR 2,400 per meeting they attend, including committee meetings. Based on the decision of the AGM, the Board members have used 40 percent of their annual remuneration to buy Metso shares. The Board members acquired a total of 4,308 shares from the market within two weeks after the publication of the first quarter Interim Review on April 28, 2011.

The auditing company Authorized Public Accountants Price-waterhouseCoopers Oy was re-elected as our Auditor until the end of the next Annual General Meeting.

The AGM decided to establish a Nomination Board of the AGM to prepare proposals regarding the composition and remuneration of the Board. Representatives of the four biggest shareholders entered in the shareholder register were elected to the Nomination Board, and the Chairman of the Board of Directors serves as the Nomination Board's expert member. On October 1, the four biggest shareholders were Solidium Oy, Cevian Capital II Master Fund, Ilmarinen Mutual Pension Insurance Company and Varma Mutual Pension Insurance Company, and their representatives appointed to Metso's Nomination Board were Kari Järvinen, Managing Director (Solidium Oy); Lars Förberg, Managing Partner (Cevian Capital); Harri Sailas, President and CEO (Ilmarinen); and Matti Vuoria, President and CEO (Varma). Kari Järvinen was elected Chairman of the Nomination Board.

### Members of the Board committees and personnel representative

Our Board elected members for the Audit Committee and Remuneration and HR Committee at its assembly meeting on March 30, 2011. The Board's Audit Committee consists of Pia Rudengren (Chairman), Maija-Liisa Friman and Erkki Pehu-Lehtonen. The Remuneration and HR Committee consists of Jukka Viinanen (Chairman), Mikael von Freckell, Christer Gardell and Yrjö Neuvo. The Board decided that the personnel representative participates in the Board meetings as an invited expert subject to the Finnish Act on Personnel Representation in the Administration of Undertakings with no voting rights or legal liability for the Board's decisions. Metso's personnel groups in Finland have elected Jukka Leppänen as the personnel representative. His term of office is the same as the Board members' term.

### Shares and share capital

At the end of December 2011, our share capital was EUR 240,982,843.80 and the number of shares was 150,348,256. The number of shares included 719,060 shares held by the Parent Company, which represent 0.5 percent of all the shares and votes. The average number of shares outstanding in January–December 2011, excluding shares held by the Parent Company, was 149,629,690 and the average number of diluted shares was 149,832,989.

During January–December, 663 shares were returned from Metso Share Ownership Plan participants to the Parent Company due to employment terminations.

As of December 31, 2011, the Board had not exercised the AGM's authorization to buy back the company's own shares, issue new shares or grant special rights.

Market capitalization of Metso, excluding the shares held by the Parent Company, was EUR 4,287 million on December 31, 2011 (EUR 6,255 million).

Metso Board members and their interest parties held altogether 120,480 shares on December 31, 2011, i.e. 0.08 percent of the total amount of shares and votes. The Metso Executive Team and their interest parties' holdings totaled 46,061 shares at the end of December, i.e. 0.03 percent of the total amount of shares

and votes. The holdings of the Board and Executive Team equaled 0.11 percent of the total amount of shares and votes in Metso.

Metso is not aware of any shareholders' agreements regarding the ownership of Metso shares and voting rights.

### Share-based incentive plans

Metso's share ownership plans are part of the remuneration and commitment program for Metso management. The reward shares for the plan are acquired in public trading and therefore the plans will not have a diluting effect on the share value.

#### Share Ownership Plan for 2009–2011

In October 2008, the Board approved a share ownership plan for the years 2009–2011. The plan has one three-year earnings period and required participants' personal investment in Metso shares at the beginning of the program. Any possible reward from the plan requires continued employment with Metso and achievement of the financial targets set for the plan. At the end of 2011, 84 people were participating in the plan and the rewards that can be paid correspond to a maximum of 354,975 Metso shares. Members of the 2011 Executive Team may receive a maximum of 54,600 shares as share rewards.

#### Share Ownership Plan for 2010–2012

In October 2009, the Board approved a similar kind of share ownership plan for the years 2010–2012. The plan has one three-year earnings period and required participants' personal investment in Metso shares at the beginning of the program. Any possible reward from the plan requires continued employment with Metso and achievement of the financial targets set for the plan. At the end of 2011, 88 people were participating in the plan and the rewards that can be paid correspond to a maximum of 329,600 Metso shares. Members of the 2011 Executive Team may receive a maximum of 51,325 shares as share rewards.

#### Share Ownership Plan for 2011–2013

In September 2010, the Board approved a similar kind of share ownership plan for the years 2011–2013. The plan includes one three-year earnings period and requires participants' personal investment in Metso shares at the beginning of the program. Any possible reward from the plan requires continued employment with Metso and achievement of the financial targets set for the plan. At the end of 2011, 72 people were participating in the plan and the rewards that can be paid correspond to a maximum of around 243,898 Metso shares. Members of the Executive Team may receive a maximum of 77,400 shares as share rewards.

#### Long-term Incentive Plan for 2012–2014

In December 2011, Metso's Board decided on a new share-based incentive plan for the Group's top management. The plan includes three performance periods, which are the calendar years 2012, 2013 and 2014. Metso's Board shall decide on the performance criteria, targets and participants at the beginning of each performance period. For the performance period 2012, the plan is targeted at about 100 people in Metso's management, and the potential reward of the plan is based on the net sales growth of the services business, return on capital employed (ROCE, %) before taxes, and earnings per share (EPS).

The potential rewards to be paid on the basis of the performance period 2012 will correspond to a maximum total of approximately 450,000 Metso shares. Members of the Executive Team may receive a maximum of 95,123 shares as share rewards.

## Reporting segments

### Mining and Construction

EUR million	2010	2011	Change %
Net sales	2,235	<b>2,760</b>	23
Net sales of services business	1,139	<b>1,378</b>	21
% of net sales	51	<b>50</b>	
Earnings before interest, tax and amortization (EBITA) and non-recurring items	264.8	<b>322.1</b>	22
% of net sales	11.8	<b>11.7</b>	
Operating profit	290.4	<b>313.1</b>	8
% of net sales	13.0	<b>11.3</b>	
Orders received	2,457	<b>3,464</b>	41
Orders received of services business	1,223	<b>1,497</b>	22
% of orders received	50	<b>43</b>	
Order backlog at end of period	1,356	<b>2,027</b>	49
Personnel at end of period	10,206	<b>10,771</b>	6

The net sales of the Mining and Construction segment increased 23 percent on the comparison period and were EUR 2,760 million in 2011. Net sales from mining customers were up by 31 percent and from construction customers by 10 percent. The services business net sales increased 21 percent and accounted for 50 percent of the segment's net sales.

Mining and Construction's EBITA before non-recurring items was EUR 322.1 million, i.e. 11.7 percent of net sales. The segment's result improved strongly and the investments in increased sales and marketing efforts paid off in higher sales volumes. Favorable profit development was mainly due to growth in volumes.

Operating profit (EBIT) for January–December was EUR 313.1 million, i.e. 11.3 percent of net sales. The EBIT includes non-recurring expenses of EUR 0.8 million, whereas the non-recurring income was EUR 32.3 million in the comparison period (non-recurring items are analyzed in the 'Financial result' section).

Orders received by the segment increased 41 percent on the comparison period and totaled EUR 3,464 million. New orders grew in all market areas and growth was strong for example in Sweden, Brazil, Russia and Australia. Orders from mining customers increased 54 percent and from construction customers 15 percent on the comparison period. Orders received grew strongly both in developed countries and in emerging markets. Orders from emerging markets totaled 58 percent of the segment's orders received. Major orders received in 2011 included minerals processing equipment and a multi-year service contract for Northland Resources' Kaunisvaara iron ore project in Sweden and for Russian Copper Company's copper operation in Russia, as well as equipment for a mining customer in South America. The 22 percent increase in service orders came from both customer industries. Services orders accounted for 43 percent of the segment's orders received.

The order backlog strengthened 49 percent during the year and totaled EUR 2,027 million at the end of December (EUR 1,356 million). Around 80 percent of the deliveries in our order backlog are expected to be recognized as net sales in 2012.

## Automation

EUR million	2010	2011	Change %
Net sales	650	<b>770</b>	18
Net sales of services business	297	<b>345</b>	16
% of net sales	49	<b>48</b>	
Earnings before interest, tax and amortization (EBITA) and non-recurring items	72.2	<b>103.9</b>	44
% of net sales	11.1	<b>13.5</b>	
Operating profit	65.6	<b>99.7</b>	52
% of net sales	10.1	<b>12.9</b>	
Orders received	695	<b>822</b>	18
Orders received of services business	316	<b>352</b>	11
% of orders received	49	<b>46</b>	
Order backlog at end of period	308	<b>364</b>	18
Personnel at end of period	3,639	<b>3,892</b>	7

The net sales of the Automation segment grew 18 percent on the comparison period and were EUR 770 million in 2011. The net sales of the Flow Control business increased 17 percent and those of the Process Automation Systems business increased 20 percent on the comparison period. The net sales of the services business increased 16 percent and accounted for 48 percent of the segment's net sales.

Automation's EBITA before non-recurring items was EUR 103.9 million, i.e. 13.5 percent of net sales. The improvement in profitability was due to improved sales volumes which were strong especially in Process Automation Systems business.

Operating profit (EBIT) for January–December increased 52 percent and was EUR 99.7 million, i.e. 12.9 percent of net sales. The EBIT for 2010 included EUR 2.7 million in non-recurring expenses related to capacity adjustment actions (non-recurring items are analyzed in the 'Financial result' section).

Orders received by the segment were at a record high level and increased 18 percent on the comparison period. Our orders received totaled EUR 822 million and the increase came from all of the segment's businesses and from all geographical regions. Major orders received during the year included automation systems for the world's largest pulp mill for Suzano Papel e Celulose in Brazil and for the Gainesville Renewable Energy Center in Florida, as well as a service contract covering 11 refineries for the Brazilian energy company Petrobras. Services orders increased 11 percent and accounted for 46 percent of the segment's orders received.

The order backlog was strong in all of the segment's businesses at the end of 2011, and totaled EUR 364 million, which was 18 percent higher than at the end of 2010 (EUR 308 million).

## Pulp, Paper and Power

EUR million	2010	2011	Change %
Net sales	2,453	<b>2,703</b>	10
Net sales of services business	923	<b>1,048</b>	14
% of net sales	38	<b>39</b>	
Earnings before interest, tax and amortization (EBITA) and non-recurring items	167.9	<b>218.8</b>	30
% of net sales	6.8	<b>8.1</b>	
Operating profit	115.8	<b>189.2</b>	63
% of net sales	4.7	<b>7.0</b>	
Orders received	2,583	<b>3,225</b>	25
Orders received of services business	999	<b>1,145</b>	15
% of orders received	39	<b>36</b>	
Order backlog at end of period	2,347	<b>2,863</b>	22
Personnel at end of period	12,114	<b>12,528</b>	3

The net sales of the Pulp, Paper and Power segment grew 10 percent, and were EUR 2,703 million in 2011. The growth in net sales came from the Fiber and Power businesses. The Paper business net sales decreased from the comparison period. The net sales of the services business increased 14 percent and accounted for 39 percent of the segment's net sales.

Pulp, Paper and Power's EBITA before non-recurring items was EUR 218.8 million, i.e. 8.1 percent of net sales. Profitability improved mainly as a result of high delivery volumes. In addition, the services business contributed positively with strong net sales and solid margins.

Operating profit (EBIT) was EUR 189.2 million, i.e. 7.0 percent of net sales. The EBIT included non-recurring income (non-recurring items are analyzed in the 'Financial result' section) that improved the result by EUR 2.6 million (non-recurring items weakened the EBIT by EUR 11.3 million).

The value of orders received by Pulp, Paper and Power increased 25 percent and totaled EUR 3,225 million. New orders from the pulp industry grew 78 percent during the year. Orders from paper, tissue and board customers remained at the level of the comparison year and orders from Power business customers grew 50 percent. Major orders received in 2011 included a recovery boiler and evaporation plant for Eldorado Celulose e Papel's new pulp mill and the world's largest pulp mill for Suzano Papel e Celulose, both in Brazil. Other orders included two containerboard machines for Anhui Shanying Paper Industry and a coated board line for International Paper & Sun Cartonboard, both orders from China. Services orders increased 15 percent on the comparison year and accounted for 36 percent of the segment's orders.

The order backlog at the end of the year increased 22 percent from the end of 2010 and was EUR 2,863 million (EUR 2,347 million). Around EUR 350 million in the order backlog relates to the pulp mill and power boiler project for Fibria in Brazil (of which approx. EUR 90 million is part of the Power business' deliveries), for which the delivery schedule is still open.

## Separate business entities

In accordance with Metso's new operating structure, which took effect on December 1, 2011, the Recycling business and Valmet Automotive are now managed as separate entities.

### Recycling

Orders received by the Recycling business in 2011 increased 30 percent and totaled EUR 253 million (EUR 195 million). Net sales increased 12 percent and were EUR 212 million (EUR 190 million). EBITA before non-recurring items was EUR 2.3 million, i.e. 1.1 percent of net sales (EUR 6.5 million and 3.4%). The order backlog at the end of December stood at EUR 115 million (EUR 72 million). The number of personnel in the Recycling business totaled 662 at the end of the year (682), most of whom were located in Germany, the US and Denmark.

### Valmet Automotive

Valmet Automotive's net sales increased 235 percent in January–December primarily as a result of the roof business acquired in the fourth quarter of 2010 and the increased sales of engineering services. Net sales were EUR 281 million (EUR 84 million). EBITA before non-recurring items was EUR 12.0 million positive (EUR 4.6 million negative). In the second quarter, EUR 6.1 million in non-recurring expenses were entered as a result of a petition for bankruptcy filed in June by THINK Global A/S.

Valmet Automotive employed 1,705 people at the end of 2011 (1,425), about half of whom were employed in Finland and the rest mainly in Germany and Poland.

## Metso's Nomination Board's proposals for Board members and Board remuneration

The Nomination Board established by Metso's Annual General Meeting proposes to the next Annual General Meeting, which is planned to be held on March 29, 2012, that the number of the Board of Directors should be seven.

The Nomination Board proposes that Jukka Viinanen, Mikael von Frenckell, Christer Gardell, Ozey K. Horton, Jr., Erkki Pehu-Lehtonen and Pia Rudengren would be re-elected. In addition, it is proposed to elect Ms. Eeva Sipilä, M.Sc. (Econ), CEFA, Chief Financial Officer of Cargotec Corporation, as a new member.

The Nomination Board proposes that the Board members would be paid the following annual remuneration: Chairman of the Board of Directors EUR 100,000; Vice-Chairman of the Board of Directors and the Chairman of the Audit Committee EUR 60,000; and the other members of the Board of Directors EUR 48,000 each. The Nomination Board furthermore proposes that for each Board and committee meeting a fee of EUR 700 would be paid to the members of the Board that reside in the Nordic countries, EUR 1,400 to the members that reside in other European countries and EUR 2,800 to the members that reside outside Europe. The Nomination Board proposes that as a condition for the annual remuneration the members of the Board of Directors are obliged, directly based on the General Meeting's decision, to use 40% of the fixed annual remuneration for purchasing Metso shares from the market at a price formed in public trading and that the purchase will be carried out within two weeks from the publication of the first quarter interim review scheduled for April 26, 2012.

The Nomination Board notes that a personnel representative will also participate as an external expert in the Metso Board meetings in the next Board term within the limitations imposed by Finnish law. The new Board of Directors will invite the personnel representative as its external expert in its organizing meeting after the Annual General Meeting.

## Short-term outlook

### Market development

In recent months, demand has been healthy in most of our customer industries with some variation by customer industry and geographic area. We estimate that in the emerging markets the operating environment will continue to be good. We anticipate that most of our customer industries will continue to utilize their capacity at a good or satisfactory level supporting our services business. The financial uncertainty in the euro zone, the budget deficit in the US, the availability of financing and fluctuations in the exchange rates may, however, influence market activity in the early part of 2012.

Metal prices still remain relatively high. The activity level for quotations for equipment and projects from mining companies has been good. We expect the underlying demand in the mining market to remain good in the early part of 2012, although we do not anticipate the same amount of large capital orders we received last year. However, a potential further tightening in the availability of financing and a continued decline in metal prices may have a negative impact on the demand for new equipment. Due to the expected high utilization rates of mines and our large installed equipment base, we expect demand for our mining services to remain good.

In the Asia-Pacific region and Brazil, economic growth continues and infrastructure projects are maintaining demand for construction equipment at a good level. We anticipate that the demand for equipment used in aggregates processing by the construction industry in Europe and in North America will stay at the current relatively low level going forward. We estimate that the demand for our services for the construction industry will remain satisfactory.

We estimate that the demand for our automation products will continue to be good in early 2012. We anticipate the activity from the pulp and paper industry to somewhat slow down. We expect the demand for our automation solution services to continue to be excellent.

We expect the market for pulp mills to remain satisfactory after recent large project orders. The demand for rebuilds and services is expected to remain good, even though lower pulp prices and lower capacity utilization rates may stabilize the demand.

Demand for paper and board lines is expected to be weak and for tissue lines satisfactory in the early part of 2012. Capacity utilization rates in the paper and board industry may fall somewhat, yet keep the demand for our services at a good level.

Demand for power plants that use renewable energy sources is expected to continue to be good in the early part of 2012. There is continuous need to replace old energy sources and build new capacity. Demand for the power plant services business is expected to be good.

### Financial development

In line with our earlier statement and assuming that the current demand in our customer industries does not clearly weaken due to the European economic situation or some other similar factor, we estimate that our net sales for 2012 will grow compared to 2011 and that our profit (EBITA before non-recurring items) will improve.

The estimates for our financial performance in 2012 are based on Metso's current market outlook, order backlog for 2012 and business scope as well as on foreign exchange rates similar to those of December 2011.

### Board of Director's proposal for the use of profit

The Parent Company's distributable funds totaled EUR 1,647,076,626.57 on December 31, 2011, of which the net profit for the year 2011 was EUR 353,155,391.07.

The Board of Directors proposes that a dividend of EUR 1.70 per share be paid based on the balance sheet to be adopted for the financial year which ended December 31, 2011 and the remaining part of the profit be retained and carried further in the Company's unrestricted equity.

The dividend shall be paid to shareholders who on the dividend record date April 3, 2012 are registered in the Company's shareholders' register held by Euroclear Finland Ltd. The dividend shall be paid on April 12, 2012.

All the shares in the Company are entitled to a dividend with the exception of own shares held by the Company on the dividend record date.

### Annual General Meeting 2012

The Annual General Meeting of Metso Corporation will be held at 3:00 p.m. on Thursday, March 29, 2012 at the Helsinki Fair Centre. (Messuaukio 1, FI-00520 Helsinki).

Helsinki, February 9, 2012

Metso Corporation's Board of Directors

## Consolidated Statements of Income

EUR million	Note	Year ended December 31,	
		2010	2011
Net sales	32	5,552	6,646
Cost of goods sold	6, 7	-4,130	-4,978
Gross profit		1,422	1,668
Selling, general and administrative expenses	4, 6, 7	-1,028	-1,107
Other operating income and expenses, net	5	50	11
Share in profits and losses of associated companies	13	1	0
Operating profit	32	445	572
Financial income and expenses, net	8	-75	-65
Profit before tax		370	507
Income taxes	9	-112	-149
<b>Profit</b>		258	358
<b>Attributable to:</b>			
Shareholders of the company		257	356
Non-controlling interests		1	2
<b>Profit</b>		258	358
<b>Earnings per share</b>			
Basic, EUR	11	1.71	2.38
Diluted, EUR	11	1.71	2.38

## Consolidated Statements of Comprehensive Income

EUR million	Note	Year ended December 31,	
		2010	2011
Profit		258	358
Cash flow hedges, net of tax	21, 30	24	-22
Available-for-sale equity investments, net of tax	14, 21	-4	0
Currency translation on subsidiary net investments	21	121	-11
Net investment hedge gains (+) / losses (-), net of tax	21	-13	10
Defined benefit plan actuarial gains (+) / losses (-), net of tax	27	-11	-35
Other comprehensive income (+) / expense (-)		117	-58
<b>Total comprehensive income (+) / expense (-)</b>		375	300
<b>Attributable to:</b>			
Shareholders of the company		374	298
Non-controlling interests		1	2
<b>Total comprehensive income (+) / expense (-)</b>		375	300

# Consolidated Balance Sheets

## Assets

EUR million	Note	As at December 31,	
		2010	2011
<b>Non-current assets</b>			
<b>Intangible assets</b> 12			
Goodwill		880	883
Other intangible assets		287	272
		1,167	1,155
<b>Property, plant and equipment</b> 12			
Land and water areas		64	67
Buildings and structures		283	294
Machinery and equipment		459	447
Assets under construction		43	46
		849	854
<b>Financial and other assets</b>			
Investments in associated companies	13	14	16
Available-for-sale equity investments	14, 19	9	6
Loan and other interest bearing receivables	18, 19	6	9
Available-for-sale financial investments	18, 19	169	2
Derivative financial instruments	19, 30	2	-
Deferred tax asset	9	168	167
Other non-current assets	18, 19	42	45
		410	245
<b>Total non-current assets</b>		2,426	2,254
<b>Current assets</b>			
<b>Inventories</b> 15			
		1,305	1,677
<b>Receivables</b>			
Trade and other receivables	18, 19	1,242	1,510
Cost and earnings of projects under construction in excess of advance billings	16	287	351
Loan and other interest bearing receivables	18, 19	6	1
Available-for-sale financial investments	18, 19	178	78
Financial instruments held for trading	18, 19	59	87
Derivative financial instruments	19, 30	55	54
Income tax receivables		29	16
		1,856	2,097
<b>Cash and cash equivalents</b> 20			
		645	590
<b>Total current assets</b>		3,806	4,364
<b>Total assets</b>		6,232	6,618

## Shareholders' equity and liabilities

EUR million	Note	As at December 31,	
		2010	2011
<b>Equity</b>	21		
Share capital		241	241
Cumulative translation adjustments		46	45
Fair value and other reserves		726	706
Retained earnings		1,036	1,123
<b>Equity attributable to shareholders</b>		2,049	2,115
<b>Non-controlling interests</b>		22	21
<b>Total equity</b>		2,071	2,136
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long-term debt	19, 23	956	755
Post-employment benefit obligations	27	195	238
Provisions	24	59	71
Derivative financial instruments	19, 30	3	6
Deferred tax liability	9	50	40
Other long-term liabilities	19	6	7
<b>Total non-current liabilities</b>		1,269	1,117
<b>Current liabilities</b>			
Current portion of long-term debt	19, 23	388	209
Short-term debt	19, 25	29	63
Trade and other payables	19, 26	1,377	1,520
Provisions	24	230	234
Advances received		503	659
Billings in excess of cost and earnings of projects under construction	16	299	597
Derivative financial instruments	19, 30	30	38
Income tax liabilities		36	45
<b>Total current liabilities</b>		2,892	3,365
<b>Total liabilities</b>		4,161	4,482
<b>Total shareholders' equity and liabilities</b>		6,232	6,618

# Consolidated Statements of Cash Flows

EUR million	Note	Year ended December 31,	
		2010	2011
<b>Cash flows from operating activities:</b>			
Profit		258	358
Adjustments to reconcile profit to net cash provided by operating activities			
Depreciation and amortization	7	178	172
Gain (-) / loss (+) on sale of fixed assets	5	-2	-5
Gain (-) / loss (+) on sale of subsidiaries and associated companies	5	-2	1
Gain on sale of available-for-sale equity investments	5	-9	0
Share of profits and losses of associated companies	13	-1	0
Dividend income and interests, net	8	51	48
Income taxes	9	112	149
Other non-cash items		52	38
Change in net working capital, net of effect from business acquisitions and disposals	17	25	-123
Interest paid		-73	-78
Interest received		15	28
Dividends received		0	0
Income taxes paid		-98	-122
<b>Net cash provided by operating activities</b>		<b>506</b>	<b>466</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures on fixed assets	12	-134	-164
Proceeds from sale of fixed assets		7	10
Business acquisitions, net of cash acquired	10	-21	-15
Proceeds from sale of businesses, net of cash sold		8	-
Investments in associated companies		-	-2
Investments in available-for-sale equity investments		-1	0
Proceeds from sale of available-for-sale equity investments		11	0
Investments in available-for-sale financial investments		-333	-
Proceeds from sale of available-for-sale financial investments		195	268
Investments in financial instruments held for trading		-19	-119
Proceeds from sale of financial instruments held for trading		-	86
Increase in loan receivables		-2	-3
Decrease in loan receivables		7	6
<b>Net cash provided by (+) / used in (-) investing activities</b>		<b>-282</b>	<b>67</b>
<b>Cash flows from financing activities:</b>			
Redemption of own shares	21	-7	-
Dividends paid		-105	-232
Changes in ownership interests in subsidiaries		20	0
Net borrowings (+) / payments (-) on short-term debt		-46	36
Proceeds from issuance of long-term debt		24	49
Principal payments of long-term debt		-218	-436
Principal payments of finance leases		-3	-1
Other items		-4	-3
<b>Net cash used in financing activities</b>		<b>-339</b>	<b>-587</b>
Net increase (+) / decrease (-) in cash and cash equivalents			
		-115	-54
Effect of changes in exchange rates on cash and cash equivalents			
		33	-1
Cash and cash equivalents at beginning of year			
	20	727	645
<b>Cash and cash equivalents at end of year</b>		<b>645</b>	<b>590</b>



# Consolidated Statements of Changes in Shareholders' Equity

EUR million	Share capital	Cumulative translation adjustments	Fair value and other reserves	Retained earnings	Equity attributable to shareholders	Non-controlling interests	Total equity
<b>Balance at December 31, 2009</b>	<b>241</b>	<b>-62</b>	<b>710</b>	<b>894</b>	<b>1,783</b>	<b>9</b>	<b>1,792</b>
Profit	-	-	-	257	257	1	258
Other comprehensive income (+) / expense (-)							
Cash flow hedges, net of tax	-	-	24	-	24	-	24
Available-for-sale equity investments, net of tax	-	-	-4	-	-4	-	-4
Currency translation on subsidiary net investments	-	121	-	-	121	-	121
Net investment hedge gains (+) / losses (-), net of tax	-	-13	-	-	-13	-	-13
Defined benefit plan actuarial gains (+) / losses (-), net of tax	-	-	-	-11	-11	-	-11
Total comprehensive income (+) / expense (-)	-	108	20	246	374	1	375
Dividends	-	-	-	-105	-105	-1	-106
Donations to universities	-	-	-	-2	-2	-	-2
Redemption of own shares	-	-	-7	-	-7	-	-7
Share-based payments, net of tax	-	-	0	-1	-1	-	-1
Other	-	-	3	-4	-1	0	-1
Changes in non-controlling interests	-	-	-	8	8	13	21
<b>Balance at December 31, 2010</b>	<b>241</b>	<b>46</b>	<b>726</b>	<b>1,036</b>	<b>2,049</b>	<b>22</b>	<b>2,071</b>
Profit	-	-	-	356	356	2	358
Other comprehensive income (+) / expense (-)							
Cash flow hedges, net of tax	-	-	-22	-	-22	-	-22
Available-for-sale equity investments, net of tax	-	-	0	-	0	-	0
Currency translation on subsidiary net investments	-	-11	-	-	-11	-	-11
Net investment hedge gains (+) / losses (-), net of tax	-	10	-	-	10	-	10
Defined benefit plan actuarial gains (+) / losses (-), net of tax	-	-	-	-35	-35	-	-35
Total comprehensive income (+) / expense (-)	-	-1	-22	321	298	2	300
Dividends	-	-	-	-232	-232	-1	-233
Redemption of own shares	-	-	0	-	0	-	0
Share-based payments, net of tax	-	-	2	0	2	-	2
Other	-	-	0	-2	-2	-1	-3
Changes in non-controlling interests	-	-	-	0	0	-1	-1
<b>Balance at December 31, 2011</b>	<b>241</b>	<b>45</b>	<b>706</b>	<b>1,123</b>	<b>2,115</b>	<b>21</b>	<b>2,136</b>

# Notes to the Consolidated Financial Statements

## 1 Accounting principles

### Description of businesses

Metso Corporation (the "Parent Company") and its subsidiaries (together with the Parent Company, "Metso" or the "Group") form a global supplier of sustainable technology and services, which designs, develops and produces systems, automation solutions, machinery and equipment for process industries. The main customer industries operate in mining, construction, oil and gas, pulp, paper as well as power generation industries.

Metso Corporation is a publicly listed company and its shares are listed on the NASDAQ OMX Helsinki Ltd under the trading symbol MEO1V. Metso Corporation is domiciled in Finland and the address of the Group Head Office is Fabianinkatu 9A, 00130 Helsinki, Finland.

These consolidated financial statements were authorized for issue by the Board of Directors on February 9, 2012 after which, in accordance with Finnish Company Law, the financial statements are either approved, amended or rejected in the annual shareholders' meeting.

### Basis of preparation and changes in accounting policies

The consolidated financial statements, prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU include the financial statements of Metso Corporation and its subsidiaries. There are no differences between IFRS standards and interpretations as adopted by the EU, as applied in Metso, and IFRS as written by the IASB.

There are no new standards or amendments to existing standards applicable from January 1, 2011 onwards with material impact to these financial statements.

### Use of estimates

The preparation of financial statements, in conformity with IFRS, 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, except for assets and liabilities classified as fair valued through profit and loss, available-for-sale investments, financial instruments held for trading and derivative instruments, which are recognized at fair value.

### Principles of consolidation

#### Subsidiaries

The consolidated financial statements include the financial statements 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 or in which it is in a position to govern the financial and operating policies of the entity. The companies acquired during the financial period have been consolidated from the date Metso acquired control. Subsidiaries sold have been included up to their date of disposal.

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

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

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

### Associated companies and joint ventures

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

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

Investments in joint ventures in which Metso has the power to jointly govern the financial and operating activities of the investee company are accounted for using the equity method.

### Segment reporting

Metso's operations are divided into three operating segments: Mining and Construction, Automation and Pulp, Paper and Power, the performances of which are regularly reviewed by the chief operating decision maker, in Metso the Board of Directors, to decide on allocation of resources and to assess the performance.

The performance of each segment is reported in the notes using same measurements and subtotals as reported to the chief operating decision maker. One key indicator of performance is EBITA (Earnings before interest, taxes and amortization). The performance is also

analyzed by excluding from EBITA items qualifying as non-recurring, such as capacity adjustment costs, outcome of material intellectual property rights' disputes, gains and losses on disposal of listed shares and business disposals, business prospection and acquisition costs and other infrequent events, as these items reduce the comparability of the segments' performance from one period to another.

The accounting policies applicable to the segment reporting are the same as those used for establishing the consolidated financial statements.

### Foreign currency translation

The financial statements are presented in euros, which is the Parent Company's functional currency and Metso's presentation currency.

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

The statements of income of subsidiaries with a functional currency different from the presentation currency are translated into euro at the average exchange rates for the financial year and the balance sheets are translated at the exchange rate of the balance sheet date. This exchange rate difference is recorded through Other Comprehensive Income/Expense (OCI) in the cumulative translation adjustment line item in equity.

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

### Derivative financial instruments

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

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

Derivatives are classified as non-current assets or liabilities when the remaining maturity exceeds 12 months and as current assets or liabilities when the remaining maturity is less than 12 months.

### Cash flow hedge

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

Metso designates only the currency component of the foreign currency forward contracts as the hedging instrument to hedge foreign

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

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

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

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

### Net investment hedge

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

### Derivatives at fair value through profit and loss

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

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

### Fair value estimation of derivative instruments

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

## Employee benefits

### Share-based payments

Metso has share-based incentive plans for its key personnel.

The equity-settled share awards are valued based on the market price of the Metso share as of the grant date, and recognized as an employee benefit expense over the vesting period with corresponding entry in other reserves of the equity. The liability resulting from the cash-settled transactions is measured based on the market price of the Metso share as of the balance sheet date and accrued as an employee benefit expense with corresponding entry in the current liabilities until the settlement date.

Market conditions, such as the total shareholder return upon which vesting is conditioned, is taken into account when estimating the fair value of the equity instruments granted. The expense relating to the market condition is recognized irrespective of whether that market condition is satisfied.

Non-market vesting conditions, such as operating profit, services business growth, return on capital employed and earnings per share targets, are included in assumptions about the amount of share-based payments that are expected to vest. At each balance sheet date, Metso revises its estimates on the amount of share-based payments that are expected to vest. The impact of the revision to previous estimate is recognized through profit and loss with corresponding adjustment to equity and current liabilities, as appropriate.

### Pensions and coverage of pension liabilities

Metso has several different pension schemes in accordance with local regulations and practices in countries where it operates. In certain countries, the pension schemes are defined benefit plans with retirement, disability, death, and other post retirement benefits, such as health services, and termination income benefits. The retirement benefits are usually based on the number of service years and the salary levels of the final service years. The schemes are generally funded through payments to insurance companies or to trustee-administered funds as determined by periodic actuarial calculations.

In addition, certain companies within Metso have multi-employer pension arrangements and defined contribution pension schemes. The contributions to defined contribution plans and to multi-employer and insured plans are charged to profit and loss concurrently with the payment obligations.

In the case of defined benefit plans, the liability recognized from the plan is the present value of the defined benefit obligation as of the balance sheet date, adjusted by the fair value of the plan assets and by the unamortized portion of past service cost. Independent actuaries calculate the defined benefit obligation by applying the projected unit credit method under which the estimated future cash flows are discounted to their present value using the interest rates approximating the terms of the pension engagement. The cost of providing retirement and other post retirement benefits to the personnel is charged to profit and loss concurrently with the service rendered by the personnel. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to plans are recognized through OCI into shareholders' equity.

### Revenue recognition

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

### Percentage-of-completion method

Sales and anticipated profits under engineering and construction contracts are recorded on a percentage-of-completion basis. The stage of completion is determined either by units of delivery, which are based on predetermined milestones and on the realized value added (contract value of the work performed to date) or by the cost-to-cost method of accounting. Estimated contract profits are recorded in earnings in proportion to recorded sales. In the cost-to-cost method, sales and profits are recorded after considering the ratio of accumulated costs to estimated total costs to complete each contract. 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.

### Service revenue

Revenues from short-term service contracts are recognized once the service has been rendered. Revenues from long-term service contracts are recognized using the output method.

### Trade-ins

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

### Government grants

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

### Emission rights and trading

Metso has received emission rights under the European Emission Trading Scheme. These rights, for the recognition of which there are no authoritative rules, are recognized as government grants at acquisition price and as they have been granted free of charge their acquisition value is nil. They are being consumed concurrently with CO<sub>2</sub> emissions over the compliance period. Any excess of rights is disposed of and the gain is recognized under other operating income. Should the emissions made exceed the initially allocated rights, additional rights are acquired at prevailing market price and recognized as cost in the costs of goods sold.

### Other operating income and expenses, net

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

### Income taxes

Income taxes presented in the consolidated statements of income consist of current and deferred taxes. Current taxes include estimated taxes corresponding to the Group companies' results for the financial year, and adjustments to 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 are only recognized when it is probable that there will be sufficient taxable profit against which the asset can be utilized. No deferred income tax is accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination.

No deferred tax liability has been recognized for undistributed earnings of domestic subsidiaries (i.e. Finnish) since such earnings can be transferred to the Parent Company without tax consequences. Metso does not provide deferred income taxes on undistributed earnings of foreign subsidiaries, except in situations where Metso has elected to distribute earnings, which become subject to additional non-recoverable taxes triggered by a distribution.

### Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity shareholders of the Parent Company by the weighted average number of ordinary shares in issue during the year, excluding own shares held by the Parent Company.

Diluted earnings per share are calculated by including the potentially diluting ordinary shares to the weighted average number of ordinary shares in issue excluding own shares. The potentially diluting ordinary shares are related to the share ownership plans targeted to Metso's key personnel.

### Fixed assets

Fixed assets comprise intangible assets and property, plant and equipment.

#### Intangible assets

Intangible assets, which comprise mainly goodwill, trademarks, patents and licenses, are stated at historical cost less accumulated amortization and impairment loss, if any. Goodwill and intangible assets with indefinite useful lives, such as brands, are not amortized, but tested annually for impairment.

#### Amortization of intangible assets

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

Patents and licenses	5–10 years
Computer software	3–5 years
Technology	3–15 years
Customer relationships	3–12 years
Other intangibles (incl. order backlog)	< 1–15 years

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

The carrying value of intangible assets subject to amortization is reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A previously recognized impairment loss may be reversed if there is a significant improvement to the circumstances having initially caused the impairment, however not to a higher value than the carrying amount, which would have been recorded had there been no impairment in prior years.

#### Impairment of intangible assets with indefinite useful lives

The carrying value of goodwill for each segment and of other intangible assets with indefinite useful lives are reviewed annually or more frequently for impairment, if the facts and circumstances, such as

declines in sales, operating profit or cash flows or material adverse changes in the business environment, suggest that its carrying value may not be recoverable. The testing of goodwill is performed at the cash generating unit level, whereas the testing of other intangible assets with an indefinite useful life is either performed as part of a cash generating unit or separately if the asset generates independent cash flows. The annual testing may be performed using previous year's recoverable amounts of the cash generating units if there has not been any significant changes to the assets and liabilities of the cash generating unit, if in the previous testing the recoverable value clearly exceeded the carrying values tested, or if the likelihood that the current recoverable value would be less than the current carrying value of the cash generating unit is remote. Metso uses a discounted cash flow analysis to assess the fair value of goodwill or of another intangible asset subject to testing. A previously recognized impairment loss on goodwill is not reversed even if there is a significant improvement in circumstances having initially caused the impairment.

#### Research and development

Research and development costs are mainly expensed as incurred. Research and development costs comprise salaries, administration costs, depreciation and amortization of tangible and intangible fixed assets. Development costs meeting certain capitalization criteria under IAS 38 are capitalized and amortized during the expected economic life of the underlying technology.

#### Property, plant and equipment

Property, plant and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any. Land and water areas are not depreciated.

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

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

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

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

Metso reviews property, plant and equipment to be held and used by the company for impairment whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment of property, plant and equipment and capital gains and losses on their disposal are included in other operating income and expenses, net. Previously recognized impairment on property, plant and equipment is reversed only if there has been a significant change in the estimates used to determine the recoverable amount, however not to exceed the carrying value, which would have been recorded had there been no impairment in prior years.

#### Capitalization of interest expenses

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

#### Leases

Leases for property, plant and equipment, where Metso has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated

between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in long-term debt, and the interest element is charged to profit and loss over the lease period. Property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset or over the lease period, if shorter.

Leases of property, plant and equipment, where the lessor retains a significant portion of the risks and rewards, are classified as operating leases. Payments under operating leases are expensed as incurred.

### Financial assets and liabilities

Metso classifies its financial investments into the following categories: assets and liabilities at fair value through profit and loss, loans and receivables and available-for-sale financial assets. The classification is determined at the time of the acquisition depending on the intended purpose. Assets at fair value through profit and loss comprise derivatives and financial instruments designated as at fair value through profit and loss upon initial recognition.

Available-for-sale financial assets are further classified into available-for-sale equity investments and available-for-sale financial investments. Loans and receivables include loans and other interest bearing receivables and other receivables, which are not interest bearing.

Purchases and sales of assets and liabilities at fair value through profit and loss, and loans and receivables are recognized or derecognized on the trade date, i.e. the date Metso commits to purchase or sell the asset. Purchases and sales of available-for-sale financial assets are recognized on the transaction date at fair value including transaction costs.

Financial assets are presented as non-current when their maturity exceeds one year.

At each balance sheet date, Metso assesses whether there is objective evidence of an available-for-sale financial asset or of a group of assets under this category being impaired. In case of prolonged significant decline in the fair value of such an asset compared to its acquisition value, the accumulated net loss is reversed from equity and recognized in the income statement.

### Assets and liabilities at fair value through profit and loss

Financial instruments held for trading, which are fair valued through profit and loss, comprise investments in financial instruments, e.g. bonds, commercial papers and time deposits with various maturities exceeding three months. The instruments are fair valued quarterly and the change in fair value is recognized through profit and loss. Gains and losses at disposal and impairment, if any are recorded in profit and loss.

Derivatives that are not designated as hedges do not meet the hedge accounting criteria, and are fair valued quarterly through profit and loss. Gains and losses at disposal are recorded in profit and loss.

### Available-for-sale equity investments

Available-for-sale equity investments include mainly shares in publicly listed companies. Available-for-sale equity investments are carried at fair value, based on quoted closing prices as of the respective balance sheet date. Unrealized gains and losses arising from changes in fair value are recognized through OCI in the fair value reserve of equity. Gains and losses at disposal and impairment, if any, are recorded in the profit and loss and the accumulated change in fair value previously recorded in the fair value reserve of equity is reversed through OCI. Unlisted shares, for which fair values cannot be measured reliably, are recognized at cost less impairment, if any.

### Available-for-sale financial investments

#### *Non-current available-for-sale financial investments*

Available-for-sale financial investments, which are reported under non-current assets and which have been contracted as part of the cash management of Metso, comprise investments in financial instru-

ments, e.g. bonds, commercial papers and time deposits with maturities exceeding one year or with an undefined maturity and which Metso plans to hold for more than one year. The instruments are fair valued quarterly and the change in fair value is recognized through OCI in the fair value reserve of equity. Gains and losses at disposal and impairment, if any, are recorded in profit and loss and the accumulated change in fair value previously recorded in the fair value reserve of equity is reversed through OCI.

### *Current available-for-sale financial investments*

Available-for-sale financial investments, which are reported under current assets, comprise highly liquid investments, which have been contracted as part of the cash management of Metso and which do not qualify as cash and cash equivalents. They are fair valued quarterly and the change in fair value is recognized through OCI in the fair value reserve of equity. Gains and losses at disposal and impairment, if any, are recorded in profit and loss and the accumulated change in fair value previously recorded in the fair value reserve of equity is reversed through OCI.

### Loans and receivables

Loan and other interest bearing receivables comprise interest bearing trade and loan receivables.

Loans and receivables are initially recognized at fair value including transaction costs. Subsequently they are recognized at amortized cost using the effective interest method. They are subject to regular and systematic review as to collectability. If a loan receivable is estimated to be partly or totally unrecoverable, an impairment loss is recognized for the shortfall between the carrying value and the present value of the expected cash flows. Interest income on loan and other interest bearing receivables is included in financial income and expenses, net.

### Inventories

Inventories are stated at the lower of historical cost calculated on average cost basis or net realizable value. 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 profit and loss in the period in which the loss occurs based upon an assessment of technological obsolescence and related factors.

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

### Trade receivables

Trade receivables are recognized at original invoice amount to customers and reported in the balance sheet, net of impairment. The impairment, which is expensed under selling, general and administrative expenses, is recorded on the basis of periodic reviews of potential non-recovery of receivables by taking into consideration individual customer credit risk, economic trends in customer industries and changes in payment terms. Bad debts are written off when official announcement of receivership, liquidation or bankruptcy is received confirming that the receivable will not be honored.

If extended payment terms, exceeding one year, are offered to customers, the invoiced amount is discounted to its present value and interest income is recognized over the credit term.

### Cash and cash equivalents

Cash and cash equivalents consist of cash in banks and other liquid investments with initial maturity of three months or less.

### Assets classified as held-for-sale

Non-current assets and discontinued operations are classified as held-for-sale and stated at the lower of carrying value and the fair value less cost to sell, if their carrying value is recovered principally through a sale transaction rather than through a continuing use.

A discontinued operation results from the management's decision and commitment to dispose of a separate business for which the related assets, liabilities and operating results can be distinguished both operationally and for financial reporting purposes. When specific criteria for the held-for-sale classification has been met, the non-current assets are recorded at the lower of carrying value or fair value less cost to sell, and non-current assets subject to depreciation or amortization are no longer amortized. The assets and liabilities of a disposal group classified as held-for-sale are presented in the balance sheet separate from assets and liabilities related to continuing operations as of the date the operation qualified as discontinued. The results of discontinued operations, net of taxes and the gain or loss on their disposal are presented for all periods separate from continuing operations in the consolidated statements of income. Balance sheet data from periods preceding the qualifying disposal decision is not reclassified.

### Issue of new shares and own shares

Transaction costs directly attributable to the issue of new shares or options are shown net of their tax effect in equity as a deduction from the proceeds.

Own shares held by the Parent Company and valued at historical acquisition price are deducted from equity. Should such shares be subsequently sold or reissued, the consideration received, net of any directly attributable transaction costs and related income tax, is recorded in the equity.

### Dividends

Dividends proposed by the Board of Directors are not recognized in the financial statements until they have been approved by the shareholders in the Annual General Meeting.

### Long-term debt

Long-term debt is initially recognized at fair value, net of transaction costs incurred. Debt is classified as current liability unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### Capitalization of transaction costs related to issuance of debt instruments

Transaction costs arising from issuance of debt instruments are included in the carrying value of the debt and amortized using the effective interest method over the period of the respective liability.

### Capitalization of transaction costs related to modification of debt instruments

Transaction costs arising from modification of debt instruments are included in the carrying value of the debt and amortized using the effective interest method over the remaining period of the modified liability provided that the new conditions obtained through the modification do not substantially differ from those of the original debt. The assessment of whether the conditions are substantially different is based on a comparison of the discounted present value of the cash flows under the new terms and the present value of the remaining cash flows of the original financial liability.

### Provisions

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

### Restructuring and capacity adjustment costs

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

### Environmental remediation costs

Metso accrues for losses associated with environmental remediation obligations when such losses are probable and can be estimated reliably. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed virtually certain.

### Warranty costs

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

## 2 Financial risk management

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

### Sensitivity analysis

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

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

### Liquidity and refinancing risk and capital structure management

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

At the end of 2011 (end of 2010 respectively) cash and cash equivalents amounted to EUR 590 million (EUR 645 million), available-for-sale financial investments to EUR 80 million (EUR 347 million), financial instruments held for trading EUR 87 million (EUR 59 million) and com-

mitted undrawn credit facilities to EUR 500 million (EUR 500 million). The five year revolving credit facility matures in 2015.

Liquidity risk management as described here excludes trade receivables (both interest and non-interest bearing) and similar financial instruments, as they are not considered active risk management tools within the responsibility of Group Treasury. Similarly, non-interest bearing liabilities such as trade and other payables are not included in liquidity management.

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

Detailed information of balance sheet items is presented in other notes to consolidated financial statements.

Capital structure management in Metso comprises both equity and interest bearing debt. As of December 31, 2011 the equity attributable to shareholders was EUR 2,115 million (EUR 2,049 million) and the amount of interest bearing debt was EUR 1,027 million (EUR 1,373 million). The objectives are to safeguard the ongoing business operations and to optimize the cost of capital. Metso has a target to maintain a solid investment grade credit rating.

The credit ratings are as at December 31, 2011:

Moody's	Baa2
Standard & Poor's	BBB / A-2

There are no prepayment covenants in Metso's financial contracts which would be triggered by changes in credit rating. Financial covenants included in some loan agreements refer to Metso's capital structure. Metso is in compliance with all covenants and other terms of its debt instruments.

Capital structure is assessed regularly by the Board of Directors and managed operationally by the Group Treasury.

Capital structure ratios are included in financial indicators for years 2007–2011 on page 102 in these financial statements. The formulas for calculating the financial indicators are presented on page 103.

### Interest rate risk

Interest rate risk arises when changes in market interest rates and interest margins influence finance costs, returns on financial investments and valuation of interest bearing balance sheet items. Interest rate risks are managed through balancing the ratio between fixed and

Maturities as of December 31, 2010

EUR million	<1 year	1–5 years	>5 years
<b>Long-term debt</b>			
Repayments	388	761	195
Interests	66	116	9
<b>Short-term debt</b>			
Repayments	29	-	-
Interests	1	-	-
Trade payables	815	-	-
Other liabilities	568	-	-
<b>Total</b>	<b>1,867</b>	<b>877</b>	<b>204</b>
Financial guarantee contracts	1		

Maturities as of December 31, 2011

EUR million	<1 year	1–5 years	>5 years
<b>Long-term debt</b>			
Repayments	209	498	257
Interests	49	118	25
<b>Short-term debt</b>			
Repayments	63	-	-
Interests	2	-	-
Trade payables	855	-	-
Other liabilities	673	-	-
<b>Total</b>	<b>1,851</b>	<b>616</b>	<b>282</b>
Financial guarantee contracts	3		



floating interest rates and duration of debt and investment portfolios. Additionally, Metso may use derivative instruments such as forward rate agreements, swaps, options and futures contracts to mitigate the risks arising from interest bearing assets and liabilities. The interest rate risk is managed and controlled by the Group Treasury and measured using sensitivity analysis and duration of long term debt. The Macaulay Duration of long term debt was 1.8 years on December 31, 2011 (1.6 years).

At the end of 2011 the balance sheet items exposed to interest rate risk were interest bearing assets of EUR 767 million (EUR 1,063 million) and interest bearing debt of EUR 1,027 million (EUR 1,373 million). Of the total of the interest bearing debt 68 percent (74%) was denominated in EUR.

The basis for the interest rate risk sensitivity analysis is an aggregate group level interest rate exposure, composed of interest bearing assets, interest bearing debt and financial derivatives, such as interest rate swaps and options, which are used to hedge the underlying exposures. For all interest bearing debt and assets to be fixed during next 12 months a one percentage point move upwards or downwards in interest rates with all other variables held constant would have an effect on Metso's net interest expenses, net of taxes, of EUR +/- 2.5 million (EUR +/- 3.0 million).

A one percentage point move upwards or downwards in all interest rates with all other variables held constant would have following effects, net of taxes, in income statement and equity:

EUR million	2010	2011
Effects in		
• income statement	+/- 0.7	+/- 1.0
• equity	+/- 1.7	+/- 1.4

The effect in the income statement comprises the changes in the fair value of financial instruments which are directly recognized through profit and loss. The effect in the equity is comprised of the changes in the fair value of available-for-sale financial assets and derivatives qualifying as effective cash flow hedge instruments for long-term floating rate debt.

### Foreign exchange risk

Metso operates globally and is exposed to foreign exchange risk in several currencies, although the geographical diversity of operations decreases the significance of any individual currency. Over 60 percent of Metso's net sales originate from outside euro zone; the main currencies being EUR, USD, SEK, BRL, CNY and AUD.

### Transaction exposure

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

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

Group Treasury monitors the net position of each currency and decides to what extent a currency position is to be closed. Group Treasury is however responsible for entering into external forward transaction whenever an operating unit applies hedge accounting.

Upper limits have been set on the open currency exposures managed by the Group Treasury; limits have been calculated on the basis of their potential profit impact. To manage the foreign currency exposure Group Treasury may use forward exchange contracts and foreign exchange options.

Total amount of foreign currency exposures on December 31 was as follows:

EUR million	2010	2011
Operational items	627	804
Financial items	-136	-365
Hedges	-446	-479
<b>Total exposure</b>	<b>45</b>	<b>-40</b>

This aggregate group level currency exposure is the basis for the sensitivity analysis of foreign exchange risk. This exposure, net of respective hedges, is composed of all assets and liabilities denominated in foreign currencies, projected cash flows for unrecognized firm commitments, both short- and long-term sales and purchase contracts and anticipated operational cash flows to the extent their realization has been deemed highly probable and therefore hedged. This analysis excludes net foreign currency investments in subsidiaries together with instruments hedging these investments. Assuming euro to appreciate or depreciate ten percent against all other currencies, the impact on cash flows, net of taxes, derived from the year-end net exposure as defined above, would be EUR +/- 4.0 million (EUR +/- 1.2 million).

Transaction exposure is spread in about 30 currencies and as of December 31, 2011 the biggest open exposures were in CNY (18%) and USD (14%). A 10 percent appreciation of CNY would have an effect, net of taxes, of EUR +1.6 million. A corresponding effect on USD would be EUR +1.3 million and on any other currency would be less than EUR 1 million.

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

EUR million	2010	2011			total
	Total	USD	SEK	others	
Effects in					
• income statement	+/-11.1	+/-14.5	+/-2.3	+/-1.4	+/-18.2
• equity	+/- 31.0	+/-14.4	+/-10.6	+/-4.3	+/-29.3

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

### Translation or equity exposure

Foreign exchange translation exposure arises when the equity of a subsidiary is denominated in currency other than the functional currency of the parent company. The major translation exposures are in CNY, BRL and USD, which altogether comprise around 60 percent of the total equity exposure. Metso is currently not hedging any equity exposure. In the previous year-end 97% of its USD denominated net investments were hedged.

### Commodity risk

Metso is exposed to variations in prices of raw materials and of supplies including energy. Metso units identify their commodity price hedging needs and hedges are executed through the Group Treasury using approved counterparties and instruments. For commodity risks

separate overall hedging limits are defined and approved. Hedging is done on a rolling basis with a declining hedging level over time.

Electricity exposure in the Scandinavian units has been hedged with electricity forwards and fixed price physical contracts, which are designated as hedges of highly probable future electricity purchases. Hedging is focused on the estimated energy consumption for the next two year period with some contracts extended to approximately five years. Execution of electricity hedging has been outsourced to an external broker. As of December 31, 2011 Metso had outstanding electricity forwards amounting to 636 GWh (755 GWh).

To reduce its exposure to the volatility caused by the surcharge for certain metal alloys (Alloy Adjustment Factor) comprised in the price of stainless steel charged by its suppliers, Metso has entered into average-price swap agreements for nickel. The Alloy Adjustment Factor is based on monthly average prices of its components of which nickel is the most significant. As of December 31, 2011 Metso had outstanding nickel swaps amounting to 528 tons (486 tons).

The following table on the sensitivity analysis of the commodity prices based on financial instruments under IFRS 7 comprises the net aggregate amount of commodities bought through forward contracts and swaps but excludes the anticipated future consumption of raw materials and electricity.

A 10 percent change upwards or downwards in commodity prices would have following effects, net of taxes:

EUR million	2010	2011
Electricity – effect in equity	+/-2.5	+/-1.7
Electricity – effect in income statement	+/-0.2	+/-0.1
Nickel – effect in income statement	+/-0.6	+/-0.5

As cash flow hedge accounting is applied, the effective portion of electricity forwards is recognized in equity. The ineffective portion is recognized through profit and loss. Hedge accounting is not applied to nickel agreements, and the change in the fair value is recorded through profit and loss.

Other commodity risks are not managed using financial derivative instruments.

### Credit and counterparty risk

Credit or counterparty risk is defined as the possibility of a customer or a financial counterparty not fulfilling its commitments towards Metso. Metso's operating units are primarily responsible for credit risks pertaining to sales and procurement activities. The units assess the credit quality of their customers, by taking into account their financial position, past experience and other relevant factors. When appropriate, advance payments, letters of credit and third party guarantees are used to mitigate credit risks. Group Treasury provides centralized services related to customer financing and seeks to ensure that the principles of the Treasury Policy

are adhered to with respect to terms of payment and required collateral. Metso has no significant concentrations of credit risks.

The maximum credit risk equals the carrying value of trade and loan receivables. The credit quality is evaluated both on the basis of aging of the trade receivables and also on the basis of customer specific analysis. The aging structure of trade receivables is presented in note 18.

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

The maximum amount of financial counterparty risk is calculated as the fair value financial assets available for sale or held for trading, derivatives and cash and cash equivalents on the balance sheet date.

### Fair value estimation

For those financial assets and liabilities which have been recognized at fair value in the balance sheet, the following measurement hierarchy and valuation methods have been applied:

- Level 1* Quoted unadjusted prices at the balance sheet date in active markets. The market prices are readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. The quoted market price used for financial assets is the current bid price. Level 1 financial instruments include debt and equity investments classified as financial instruments available-for-sale or at fair value through profit and loss.
- Level 2* The fair value of financial instruments in Level 2 is determined using valuation techniques. These techniques utilize observable market data readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. Level 2 financial instruments include:
- Over-the-counter derivatives classified as financial assets/liabilities at fair value through profit and loss or qualified for hedge accounting.
  - Debt securities classified as financial instruments available-for-sale or at fair value through profit and loss.
- Level 3* A financial instrument is categorized into Level 3 if the calculation of the fair value cannot be based on observable market data. Metso had no such instruments in 2010 or in 2011.

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

#### December 31, 2010

EUR million	Level 1	Level 2	Level 3
<b>Assets</b>			
Financial assets at fair value through profit and loss			
Derivatives	-	18	-
Securities	12	47	-
Derivatives qualified for hedge accounting	-	39	-
Available for sale investments			
Equity investments	1	-	-
Debt investments	320	27	-
<b>Total assets</b>	<b>333</b>	<b>131</b>	-
<b>Liabilities</b>			
Financial liabilities at fair value through profit and loss			
Derivatives	-	20	-
Derivatives qualified for hedge accounting	-	-	-
<b>Total liabilities</b>	-	<b>33</b>	-

#### December 31, 2011

EUR million	Level 1	Level 2	Level 3
<b>Assets</b>			
Financial assets at fair value through profit and loss			
Derivatives	-	35	-
Securities	62	25	-
Derivatives qualified for hedge accounting	-	19	-
Available for sale investments			
Equity investments	1	-	-
Debt investments	80	-	-
<b>Total assets</b>	<b>143</b>	<b>79</b>	-
<b>Liabilities</b>			
Financial liabilities at fair value through profit and loss			
Derivatives	-	15	-
Derivatives qualified for hedge accounting	-	29	-
<b>Total liabilities</b>	-	<b>44</b>	-

### 3 Critical accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and judgments affecting the amounts reported in the consolidated financial statements and accompanying notes. These estimates and judgments, based on historical evidence and plausible future scenarios, are continually evaluated. Following assets and liabilities include a high degree of management estimate and assumptions and their carrying value can therefore materially differ from current value in the next financial year.

#### Trade receivables

Metso's policy is to calculate an impairment loss based on the best estimate of the amounts that are potentially uncollectable at the balance sheet date. The estimates are based on a systematic, on-going review and evaluation performed as part of the credit-risk evaluation process. As part of this evaluation, Metso takes into account the history of collections, the size and compositions of the receivable balances, current economic events and conditions and other pertinent information.

#### Inventory

Metso's policy is to maintain a provision for slow-moving and obsolete inventory based on the best estimate of such amounts at the balance sheet date. The estimates are based on a systematic, on-going review and evaluation of inventory balances. As part of this evaluation, Metso also considers the composition and age of the inventory compared to anticipated future needs.

#### Revenue recognition

Metso delivers complete installations to its customers, where the moment of signing a sales contract (firm commitment) and the final acceptance of a delivery by the customer may take place in different financial periods. In accordance with its accounting principles, Metso applies the percentage of completion method ("POC method") for recognizing such long-term delivery contracts. In year 2011, approximately 32 percent of the net sales were recognized under the POC method, which is based on predetermined milestones and where the revenue is recognized based on the estimated realized value added or on the cost-to-cost method. A projected loss on a firm commitment is recognized through profit and loss, when it becomes known. The estimated revenue, the costs and profit, together with the planned delivery schedule of the projects are subject to regular revisions as the contract progresses to completion. Revisions in profit estimates are charged through profit and loss in the period in which the facts that give rise to the revision become known. Although Metso has significant experience using the POC method, the total costs estimated to be incurred on projects may change over time due to changes in the underlying project cost structures, which may ultimately affect the revenue recognized. Therefore, the POC method is not applied for recognizing sales commitments where the final outcome of the project and related cost structure cannot be pre-established reliably.

#### Hedging of foreign currency denominated firm commitments

Under Metso hedging policy units have to hedge their foreign currency risk when they become engaged in a firm commitment denominated in a currency different of their functional currency. The commitment can be either internal to Metso or external. When a firm commitment qualifies for recognition under the percentage of completion method, the unit applies cash flow hedge accounting and recognizes the effect of the hedging instruments in the OCI until the commitment is recognized. Though Metso has defined the characteristics triggering a firm commitment, the final realization of the unrecognized commitment depends also on factors beyond manage-

ment control, which cannot be foreseen when initiating the hedge relationship. Such factors can be a change in the market environment causing the other party to postpone or cancel the commitment. To the extent possible management tries to include in the contracts clauses reducing the impact of such adverse events to its results.

#### Accounting for income taxes

As part of the process of preparing its consolidated financial statements, Metso is required to estimate the income taxes in each of the jurisdictions and countries in which it operates. This process involves estimating the actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue and cost reserves, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. The likelihood for the recovery of deferred tax assets from future taxable income is assessed, and to the extent the recovery is not considered likely the deferred asset is adjusted in accordance.

Significant management judgment is required in determining the provision for income taxes and the deferred tax assets. Metso has recorded net deferred tax assets of EUR 127 million as of December 31, 2011, adjusted by EUR 11 million for uncertainties related to its ability to utilize some of the deferred tax assets, primarily consisting of operating losses carried forward and deductible temporary differences for certain foreign subsidiaries and the final outcome of tax audits in some subsidiaries. The adjustment is based on Metso's estimates of taxable income by country in which it operates, and the period over which the deferred tax assets will be recoverable based on estimated future taxable income and planned tax strategies to utilize these assets. In the event that actual results differ from these estimates, the deferred tax asset needs to be adjusted in coming financial years. The final outcome may also be affected by future changes in tax laws applicable in the jurisdictions where Metso operates.

#### Allocation of purchase price to acquired assets

In accordance with the accounting principles, the purchase price is allocated to the acquired assets and assumed liabilities the excess being recognized as goodwill in the balance sheet. Whenever feasible, Metso has used as a basis for such allocations readily available market values to determine the fair value to be recognized. However, when this has not been possible, as often is the case with non-current intangible assets and certain assets with no active markets or available price quotations, the valuation has been based on past performance of such asset and expected future cash generating capacity. The appraisals, which have been based on current replacement costs, discounted cash flows and estimated selling prices depending on the underlying asset, require management to make estimates and assumptions of the future performance and use of these assets and their impact on the financial position. Any change in Metso's future business priorities and orientations may affect the planned outcome of initial appraisals.

#### Impairment testing

The carrying value of identifiable intangible assets with indefinite economic life such as goodwill is tested annually or more frequently if events or changes in circumstances indicate that such carrying value may not be recoverable. The carrying values of property, plant and equipment and intangible assets, subject to depreciation and amortization are reviewed for impairment whenever there are indications that their carrying values could exceed their value in use or disposal value if disposal is considered as a possible option. Triggering events for impairment reviews include the following:

- Material permanent deterioration in the economic or political environment of the customers' or of own activity
- Business's or asset's significant under-performance relative to historical or projected future performance
- Significant changes in Metso's strategic orientations affecting the business plans and previous investment policies

The policy related to the impairment tests is based on numerous estimates. The valuation is inherently judgmental and highly susceptible to change from period to period because it requires Metso to make assumptions about future supply and demand related to its individual business units, future sales prices and achievable cost savings. The value of the benefits and savings expected from the efficiency improvement programs are inherently subjective. The fair value of the cash generating units is determined using a derived weighted average cost of capital as the rate to discount estimated future cash flows. This rate may not be indicative of actual rates obtained in the market. In the annual goodwill impairment test, a 0.5 percentage point reduction in the terminal growth rate applied for determining the fair values of the cash generating units would have reduced the total value of units tested by 4 percent and would not have caused impairment. A second sensitivity test with a two percentage point increase in the discount rates combined with the lower terminal growth rate would have reduced the fair values by 20 percent without triggering impairment.

### Reserve for warranty and guarantee costs

The warranty and guarantee reserve is based on the history of past warranty costs and claims on machines and equipment under warranty. The typical warranty period is 12 months from the date of customer acceptance of the delivered equipment. For larger projects, the average warranty period is two years. For sales involving new technology and long-term delivery contracts, additional warranty reserves can be established on a case by case basis to take into account the potentially increased risk.

### Pensions

In accordance with IAS 19, the pension benefit expense is based on assumptions that include the following:

- A weighted average expected return assessed in the beginning of the financial year on plan assets. Actual return on plan assets may differ significantly based on market activity.
- An assumed discount rate based on rates observed in the beginning of the financial year to be used in the calculation of the current year pension expense and pension liability balance. This rate may not be indicative of actual rates realized in the market.
- Estimated rates of future pay increases. Actual increases may not reflect estimated future increases. Due to the significant change in the Group's structure and the uncertainty of the global market place, these estimates are difficult to project.

The actuarial experience that differs from the assumptions and changes in the assumptions results in gains and losses, which are recognized in OCI. A one percentage point increase in the expected return on plan assets would have reduced pension benefit expense by approximately EUR 3 million, and a one percentage point decrease in the expected return on plan assets would have increased pension benefit expense by approximately EUR 3 million for the year ended December 31, 2011.

### Share-based payments

Share-based payment plans and related incentive programs include vesting conditions such as targets for operating profit, earnings per share and total shareholder return, and service year requirements subsequent to the grant date. The maximum share reward is in relation to each participant's annual salary. At each balance sheet date, the management revises its estimates for the number of shares that are expected to vest. As part of this evaluation, Metso takes into account the changes in the forecasted performance of the Group and its reporting segments, the expected turnover of the personnel benefiting from the incentive plan and other pertinent information impacting the number of shares to be vested.

### Financial instruments

In accordance with the disclosure requirements on financial instruments, the management is obliged to make certain assumptions of the future cash in- and outflows arising from such instruments. The management has also had to assume that the fair values of derivatives, especially foreign currency denominated derivatives at balance sheet date materially reflect the future realized cash in- or outflow of such instruments.

## 4 Selling, general and administrative expenses

EUR million	Year ended December 31,	
	2010	2011
Marketing and selling expenses	-527	-583
Research and development expenses, net	-110	-121
Administrative expenses	-391	-403
<b>Total</b>	<b>-1,028</b>	<b>-1,107</b>

Research and development expenses, net, consist of following:

EUR million	Year ended December 31,	
	2010	2011
Research and development expenses, total	-111	-124
Capitalized development costs	0	-
Capital expenditure	3	5
Grants received	6	6
Depreciation and amortization	-8	-8
<b>Research and development expenses, net</b>	<b>-110</b>	<b>-121</b>

## 5 Other operating income and expenses, net

EUR million	Year ended December 31,	
	2010	2011
Gain on sale of subsidiaries and businesses	1	-
Gain on sale of fixed assets	2	7
Gain on sale of available-for-sale equity investments	9	0
Royalty income	3	3
Rental income	3	2
Foreign exchange gains <sup>1)</sup>	50	50
Intellectual property settlements	32	-
Other income	11	11
<b>Other operating income, total</b>	<b>111</b>	<b>73</b>
Loss on sale of fixed assets	0	-2
Loss on sale of associated companies	-	-1
Write-downs on fixed assets	-6	-2
Costs related to bankruptcy of THINK Global A/S	-	-3
Foreign exchange losses <sup>1)</sup>	-36	-49
Net effect for prior years' ICMS (VAT) credits in Brazil	-5	0
Intellectual property lawsuits	-5	-1
Other expenses	-9	-4
<b>Other operating expenses, total</b>	<b>-61</b>	<b>-62</b>
<b>Other operating income and expenses, net</b>	<b>50</b>	<b>11</b>

<sup>1)</sup> Includes foreign exchange gains and losses resulting from trade receivables and payables and related derivatives.

## 6 Personnel expenses and the number of personnel

### Personnel expenses:

EUR million	Year ended December 31,	
	2010	2011
Salaries and wages	-1,100	-1,226
Pension costs, defined contribution plans	-84	-90
Pension costs, defined benefit plans <sup>1)</sup>	-12	-10
Other post-employment benefits <sup>1)</sup>	-3	-5
Share-based payments	-6	-3
Other indirect employee costs	-220	-242
<b>Total</b>	<b>-1,425</b>	<b>-1,576</b>

<sup>1)</sup> For more information on pension costs, see note 27.

### Number of personnel at end of year:

	2010	2011
Mining and Construction	10,206	10,771
Automation	3,639	3,892
Pulp, Paper and Power	12,114	12,528
Recycling	682	662
Valmet Automotive	1,425	1,705
Group Head Office and other	527	766
Group Head Office and others total	2,634	3,133
<b>Metso total</b>	<b>28,593</b>	<b>30,324</b>

### Average number of personnel during the period:

	2010	2011
Mining and Construction	9,812	10,629
Automation	3,603	3,757
Pulp, Paper and Power	12,129	12,394
Recycling	707	655
Valmet Automotive	840	1,497
Group Head Office and other	494	658
Group Head Office and others total	2,041	2,810
<b>Metso total</b>	<b>27,585</b>	<b>29,590</b>

### Board remuneration:

EUR thousand	2010 <sup>2)</sup>	2011 <sup>3)</sup>
<b>Serving Board members December 31, 2011:</b>		
Jukka Viinanen	-129	-106
Maija-Liisa Friman	-79	-68
Mikael von Frenckell	-51	-59
Christer Gardell	-69	-59
Ozey K. Horton, Jr.	-	-72
Yrjö Neuvo	-70	-59
Erkki Pehu-Lehtonen	-51	-58
Pia Rudengren	-68	-68
Jukka Leppänen <sup>1)</sup>	-8	-8
<b>Former Board members:</b>		
Jaakko Rauramo	-20	-
Arto Honkaniemi	-17	-
<b>Total</b>	<b>-562</b>	<b>-557</b>

<sup>1)</sup> Has attended meetings as a personnel representative, without voting right.

<sup>2)</sup> In addition to 2010 remuneration includes also remuneration until the end of Annual General Meeting in 2011.

<sup>3)</sup> Includes remuneration for 2011 and remuneration from 2011 Annual General Meeting until 2012 Annual General Meeting.

According to the resolution of the Annual General Meeting held on March 30, 2011, the annual fees of the Board members are as follows: Chairman EUR 92,000, Vice Chairman and Chairman of the Audit Committee EUR 56,000, and other members EUR 45,000 each. Based on the decision of the Annual General Meeting, the Board members have used 40 percent of their annual remuneration to buy Metso shares. The Board members acquired the shares from the market within two weeks after the publication of the first-quarter 2011 Interim Review on April 28, 2011. In addition, an attendance fee of EUR 600 per meeting is paid to members whose residence is in the Nordic countries, EUR 1,200 to members whose residence is elsewhere in Europe and for those residing outside Europe, EUR 2,400 per meeting they attend, including committee meetings. Compensations for traveling expenses and daily allowances are paid in accordance with Metso's travel policy.

### Remuneration paid to Chief Executive Officer, Executive Vice President and other Executive Team members:

EUR	Annual salary	Paid performance bonus	Fringe benefits	Share-based payment	Total
<b>2010</b>					
President and CEO Jorma Eloranta	550,790	263,752	12,812	-	827,354
Executive Vice President Olli Vaartimo from Jan 1 to Sep 30, 2010	305,973	143,722	18,234	-	467,929
Executive Vice President Matti Kähkönen from Oct 1 to Dec 31, 2010	90,315	-	3,545	-	93,860
Other Executive Team members	1,364,759	322,783	56,817	-	1,744,359
<b>Total</b>	<b>2,311,837</b>	<b>730,257</b>	<b>91,408</b>	<b>-</b>	<b>3,133,502</b>
<b>2011</b>					
President and CEO Jorma Eloranta from Jan 1 to Feb 28, 2011	117,680	253,012	2,166	-	372,858
President and CEO Matti Kähkönen from Mar 1 to Dec 31, 2011	419,357	190,113	12,349	-	621,819
Executive Vice President Matti Kähkönen from Jan 1 to Feb 28, 2011	84,942	-	2,363	-	87,305
Executive Vice President Pasi Laine from Mar 1 to Dec 31, 2011	304,900	200,340	9,500	-	514,740
Other Executive Team members	1,353,595	857,595	60,915	-	2,272,105
<b>Total</b>	<b>2,280,474</b>	<b>1,501,060</b>	<b>87,293</b>	<b>-</b>	<b>3,868,827</b>

Additionally, in 2012 a bonus of about EUR 217,500 will be paid to President and CEO Matti Kähkönen and a bonus of about EUR 197,500 to Executive Vice President Pasi Laine based on 2011 performance.

Remuneration paid to President and CEO Matti Kähkönen is presented in the table on the previous page. The fringe benefits comprised a company car and a telephone. Mr. Kähkönen participates in the remuneration programs for Metso's management, the remuneration of which consists of Metso shares and a cash-settled portion. For more information on share-based payments, see note 22.

According to his executive contract, Matti Kähkönen is eligible to retire at the age of 63 (2019) and his retirement pension is 60 percent of his pensionable compensation during the past four service years. In case of termination of contract, he is entitled to compensation equivalent to 24 months' salary.

#### Board share ownership in Metso as at December 31, 2011:

Jukka Viinanen	3,301
Maija-Liisa Friman	2,900
Mikael von Frenckell	101,125
Christer Gardell	1,125
Ozey K. Horton, Jr.	452
Yrjö Neuvo	8,225
Erkki Pehu-Lehtonen	1,875
Pia Rudengren	1,235
Jukka Leppänen <sup>1)</sup>	520
<b>Total</b>	<b>120,758</b>

<sup>1)</sup> Has attended meetings as a personnel representative, without voting right.

Remuneration paid to Executive Vice President Pasi Laine is presented in the table on the previous page. The fringe benefits comprised a company car and a telephone. Mr. Laine participates in the remuneration programs for Metso's management, the remuneration of which consists of Metso shares and a cash-settled portion.

According to his executive contract, Pasi Laine is eligible to retire at the age of 63 (2026). In case of termination of contract, he is entitled to compensation equivalent to 12 months' salary.

Metso has subscribed supplementary pension plans for senior management for retirement, the beneficiaries include the Metso Executive Team. For the years ended December 31, 2010 and 2011, these pension insurance premium payments totaled approximately EUR 3.0 million and EUR 1.8 million, respectively.

#### Executive Team share ownership in Metso as at December 31, 2011:

Matti Kähkönen	12,328
Pasi Laine	9,437
Harri Nikunen	4,931
Andrew Benko	9,989
Perttu Louhiluoto	2,750
Merja Kamppari	2,100
Kalle Reponen	4,155
<b>Total</b>	<b>45,690</b>

## 7 Depreciation and amortization

EUR million	Year ended December 31,	
	2010	2011
Intangible assets	-58	-52
Property, plant and equipment		
Buildings and structures	-24	-23
Machinery and equipment	-96	-97
<b>Total</b>	<b>-178</b>	<b>-172</b>

#### Depreciation and amortization by function are as follows:

EUR million	Year ended December 31,	
	2010	2011
Cost of goods sold	-100	-96
Selling, general and administrative expenses		
Marketing and selling	-23	-22
Research and development	-8	-8
Administrative	-47	-46
<b>Total</b>	<b>-178</b>	<b>-172</b>

## 8 Financial income and expenses, net

EUR million	Year ended December 31,	
	2010	2011
<b>Financial income</b>		
Dividends received	0	0
Interest income on cash and cash equivalents	12	21
Income on financial investments	6	5
Other financial income	3	6
<b>Financial income total</b>	<b>21</b>	<b>32</b>
<b>Financial expenses</b>		
Interest expenses from financial liabilities at amortized cost	-69	-75
Interest expenses on financial leases	0	0
Other financial expenses	-14	-19
Net loss from foreign exchange	-13	-3
<b>Financial expenses total</b>	<b>-96</b>	<b>-97</b>
<b>Financial income and expenses, net</b>	<b>-75</b>	<b>-65</b>

## 9 Income taxes

The components of income taxes are as follows:

EUR million	Year ended December 31,	
	2010	2011
Current tax expense	-123	-135
Deferred taxes	11	-14
<b>Income taxes, total</b>	<b>-112</b>	<b>-149</b>

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

EUR million	Year ended December 31,	
	2010	2011
<b>Income before taxes</b>	<b>370</b>	<b>507</b>
Income tax expense at Finnish statutory rate	-96	-132
Income tax for prior years	-3	-2
Difference between Finnish and foreign tax rates	-19	-21
Benefit of operating loss carryforward	1	1
Operating losses with no current tax benefit	-2	-1
Non-deductible expenses	-1	-1
Tax exempt income	-	3
Other	8	4
<b>Income tax expense</b>	<b>-112</b>	<b>-149</b>

### Tax effects of components in other comprehensive income:

EUR million	Year ended December 31,					
	2010			2011		
	Before taxes	Tax	After taxes	Before taxes	Tax	After taxes
Cash flow hedges	34	-10	24	-31	9	-22
Available-for-sale equity investments	-5	1	-4	0	0	0
Defined benefit plan actuarial gains (+) / losses (-)	-15	4	-11	-50	15	-35
Currency translation on subsidiary net investments	138	-17	121	-10	-1	-11
Net investment hedge gains (+) / losses (-)	-17	4	-13	14	-4	10
<b>Total comprehensive income (+) / expense (-)</b>	<b>135</b>	<b>-18</b>	<b>117</b>	<b>-77</b>	<b>19</b>	<b>-58</b>
Current tax		-5			-1	
Deferred tax		-13			20	
<b>Total</b>		<b>-18</b>			<b>19</b>	



## Reconciliation of deferred tax balances:

EUR million	Balance at beginning of year	Charged to income statement	Charged to shareholders' equity	Translation differences	Balance at end of year
<b>2010</b>					
<b>Deferred tax assets</b>					
Tax losses carried forward	41	2	-10	-	33
Fixed assets	17	1	-	-	18
Inventory	33	2	-	-	35
Provisions	29	-3	-	-	26
Accruals	29	2	-	-	31
Pension related items	32	2	5	-	39
Other	43	-	-8	5	40
Total deferred tax assets	224	6	-13	5	222
Offset against deferred tax liabilities <sup>1)</sup>	-53	-1	-	-	-54
<b>Net deferred tax assets</b>	<b>171</b>	<b>5</b>	<b>-13</b>	<b>5</b>	<b>168</b>
<b>Deferred tax liabilities</b>					
Purchase price allocations	69	-8	-	-	61
Fixed assets	26	1	-	-	27
Other	14	2	-	-	16
Total deferred tax liabilities	109	-5	-	-	104
Offset against deferred tax assets <sup>1)</sup>	-53	-1	-	-	-54
<b>Net deferred tax liabilities</b>	<b>56</b>	<b>-6</b>	<b>-</b>	<b>-</b>	<b>50</b>
<b>Deferred tax assets, net</b>	<b>115</b>	<b>11</b>	<b>-13</b>	<b>5</b>	<b>118</b>

EUR million	Balance at beginning of year	Charged to income statement	Charged to shareholders' equity	Translation differences	Balance at end of year
<b>2011</b>					
<b>Deferred tax assets</b>					
Tax losses carried forward	33	-12	-3	-	18
Fixed assets	18	5	-	-	23
Inventory	35	-5	-	-	30
Provisions	26	12	6	-	44
Accruals	31	-16	-	-	15
Pension related items	39	-3	15	-	51
Other	40	-7	2	3	38
Total deferred tax assets	222	-26	20	3	219
Offset against deferred tax liabilities <sup>1)</sup>	-54	2	-	-	-52
<b>Net deferred tax assets</b>	<b>168</b>	<b>-24</b>	<b>20</b>	<b>3</b>	<b>167</b>
<b>Deferred tax liabilities</b>					
Purchase price allocations	61	-6	-	-	55
Fixed assets	27	-1	-	-	26
Other	16	-5	-	-	11
Total deferred tax liabilities	104	-12	-	-	92
Offset against deferred tax assets <sup>1)</sup>	-54	2	-	-	-52
<b>Net deferred tax liabilities</b>	<b>50</b>	<b>-10</b>	<b>-</b>	<b>-</b>	<b>40</b>
<b>Deferred tax assets, net</b>	<b>118</b>	<b>-14</b>	<b>20</b>	<b>3</b>	<b>127</b>

<sup>1)</sup> Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

A deferred tax liability on undistributed profits of subsidiaries located in countries where distribution generates tax consequences is recognized when it is likely that earnings will be distributed in the near future. For the years ended December 31, 2010 and 2011, respectively, earnings of EUR 263 million and EUR 281 million would have been subject to recognition of a deferred tax liability, had Metso regarded a distribution in the near future as likely.

## 10 Acquisitions

During 2011, Metso made two small acquisitions for a total consideration of EUR 6 million whereof EUR 1 million is payable after 2011. These acquisitions had only an immaterial effect on Metso and no goodwill was recognized. In addition, Metso paid EUR 10 million as a deferred portion of an acquisition completed in 2010.

## 11 Earnings per share

Earnings per share are calculated as follows:

### Basic

Basic earnings per share are calculated by dividing the profit attributable to shareholders of the company by the weighted average number of shares in issue during the year, excluding own shares.

	Year ended December 31,	
	2010	2011
Profit attributable to shareholders of the company, EUR million	257	356
Weighted average number of shares issued and outstanding (in thousands)	149,683	149,630
<b>Earnings per share, basic, EUR</b>	1.71	2.38

### Diluted

The shares to be potentially issued in the future are treated as outstanding shares when calculating the "Diluted earnings per share" if they have a diluting effect. The own shares held by Metso are reissued within the terms of the share ownership plan to the key personnel if the targets defined in the plan are met. The diluted earnings per share are calculated by increasing the weighted average number of outstanding shares with the number of those shares, which would be distributed to the beneficiaries based on the results achieved, if the conditional earnings period ended at the end of the financial period in question. As at December 31, 2011, Metso held 719,060 own shares intended for the share ownership plans.

	Year ended December 31,	
	2010	2011
Profit attributable to shareholders of the company, EUR million	257	356
Weighted average number of shares issued and outstanding (in thousands)	149,683	149,630
Adjustment for potential shares distributed (in thousands)	154	203
Weighted average number of diluted shares issued and outstanding (in thousands)	149,837	149,833
<b>Earnings per share, diluted, EUR</b>	1.71	2.38

## 12 Intangible assets and property, plant and equipment

### Intangible assets

EUR million	Goodwill	Patents and licences	Capitalized software	Other intangible assets	Intangible assets total
<b>2010</b>					
Acquisition cost at beginning of year	863	74	120	342	1,399
Translation differences	16	1	3	9	29
Business acquisitions <sup>1)</sup>	4	6	-	-3	7
Disposals of businesses	-1	-	-	-	-1
Capital expenditure	-	2	2	21	25
Reclassifications	-	5	24	-29	0
Decreases	-2	-9	-2	-17	-30
Acquisition cost at end of year	880	79	147	323	1,429
Accumulated amortization at beginning of year	-	-45	-57	-122	-224
Translation differences	-	-1	-2	-1	-4
Business acquisitions	-	0	-	-	0
Disposals of businesses	-	-	-	-	-
Reclassifications	-	0	0	0	0
Decreases	-	7	0	17	24
Amortization charges for the year	-	-8	-13	-37	-58
Accumulated amortization at end of year	-	-47	-72	-143	-262
<b>Net book value at end of year</b>	<b>880</b>	<b>32</b>	<b>75</b>	<b>180</b>	<b>1,167</b>
<b>2011</b>					
Acquisition cost at beginning of year	880	79	147	323	1,429
Translation differences	3	0	0	1	4
Business acquisitions	-	-	-	6	6
Disposals of businesses	-	-	-	-	-
Capital expenditure	-	5	2	22	29
Reclassifications	-	2	17	-13	6
Decreases	-	-5	-1	-1	-7
Acquisition cost at end of year	883	81	165	338	1,467
Accumulated amortization at beginning of year	-	-47	-72	-143	-262
Translation differences	-	0	0	0	0
Business acquisitions	-	-	-	-	-
Disposals of businesses	-	-	-	-	-
Reclassifications	-	-	-5	-	-5
Decreases	-	4	1	2	7
Amortization charges for the year	-	-8	-15	-29	-52
Accumulated amortization at end of year	-	-51	-91	-170	-312
<b>Net book value at end of year</b>	<b>883</b>	<b>30</b>	<b>74</b>	<b>168</b>	<b>1,155</b>

<sup>1)</sup> Preliminary fair value allocations of Tamfelt business acquired in December 2009 were changed during 2010. The goodwill increased by EUR 3 million and other intangible assets were reduced accordingly.

Metso participates in the European Emissions Tradings Scheme (EU ETS) and has been granted CO<sub>2</sub> emission rights of 70,972 units for the current compliance period of 2008–2012 against greenhouse gases emitted by its production units.

As of December 31, 2011, the remaining emission rights amounted to 32,463 units, the market value of which was roughly EUR 0.2 million.

## Property, plant and equipment

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Property, plant and equipment total
<b>2010</b>					
Acquisition cost at beginning of year	62	595	1,502	47	2,206
Translation differences	2	22	76	3	103
Business acquisitions	0	5	10	0	15
Disposals of businesses	-	-3	-12	-	-15
Capital expenditure	0	14	35	60	109
Reclassifications	0	21	45	-66	0
Decreases	0	-18	-53	-1	-72
Acquisition cost at end of year	64	636	1,603	43	2,346
Accumulated depreciation at beginning of year	-	-334	-1,053	-	-1,387
Translation differences	-	-10	-50	-	-60
Business acquisitions	-	-1	-3	-	-4
Disposals of businesses	-	2	10	-	12
Reclassifications	-	-	-	-	-
Decreases	-	14	48	-	62
Depreciation charges for the year	-	-24	-96	-	-120
Accumulated depreciation at end of year	-	-353	-1,144	-	-1,497
<b>Net book value at end of year</b>	<b>64</b>	<b>283</b>	<b>459</b>	<b>43</b>	<b>849</b>
<b>2011</b>					
Acquisition cost at beginning of year	64	636	1,603	43	2,346
Translation differences	0	3	-3	0	0
Business acquisitions	-	-	0	-	0
Disposals of businesses	-	-	-	-	-
Capital expenditure	4	18	56	57	135
Reclassifications	0	13	35	-54	-6
Decreases	-1	-7	-76	0	-84
Acquisition cost at end of year	67	663	1,615	46	2,391
Accumulated depreciation at beginning of year	-	-353	-1,144	-	-1,497
Translation differences	-	-1	2	-	1
Business acquisitions	-	-	-	-	-
Disposals of businesses	-	-	-	-	-
Reclassifications	-	-	5	-	5
Decreases	-	8	66	-	74
Depreciation charges for the year	-	-23	-97	-	-120
Accumulated depreciation at end of year	-	-369	-1,168	-	-1,537
<b>Net book value at end of year</b>	<b>67</b>	<b>294</b>	<b>447</b>	<b>46</b>	<b>854</b>

For information on pledged assets, see note 28.

Other intangible assets with indefinite useful life, i.e. brands, amounted to EUR 16 million for the years ended December 31, 2010 and 2011, respectively. They relate to Mining and Construction segment as well as Recycling business, and have been recognized in connection with business acquisitions. As no economic useful life can be determined for these brands, the management has assessed them to have indefinite useful lives based on their continuous competitive advantage to the business. The brands are actively used in promoting the products. They are subject to annual impairment test concurrently with that of the goodwill.

For the year ended December 31, 2011 the amortization expense related to the intangible assets recognized through business acquisitions was EUR 24 million. The future amortization expense is expected to amount to EUR 20, EUR 17, EUR 14, EUR 13 and EUR 12 million for the years 2012, 2013, 2014, 2015 and 2016, respectively.

Assets leased under financial lease arrangements are included in property, plant and equipment as follows:

EUR million	Buildings and structures	Machinery and equipment	Property, plant and equipment total
<b>2010</b>			
Acquisition cost at end of year	13	6	19
Accumulated depreciation at end of year	-12	-5	-17
<b>Net book value at end of year</b>	<b>1</b>	<b>1</b>	<b>2</b>
<b>2011</b>			
Acquisition cost at end of year	13	6	19
Accumulated depreciation at end of year	-12	-6	-18
<b>Net book value at end of year</b>	<b>1</b>	<b>0</b>	<b>1</b>

## Goodwill and impairment tests

In the year ended December 31, 2011, the total amount of goodwill was EUR 883 million equal to 41% of the equity. As at December 31, 2010, the goodwill amounted to EUR 880 million being equal to 42% of the equity.

The goodwill arising from business acquisitions is allocated as of the acquisition date to cash generating units expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. In 2011, there were no acquisitions which would have generated new goodwill.

If Metso reorganizes its reporting structure by changing the composition of one or more cash generating units to which goodwill has been allocated, the goodwill is reallocated to the units affected based on their relative fair values, which correspond to the present values of the cash generating units' cash flows at the time of the reorganization. Subsequent to reorganization announced in September 2011 the number of cash generating units changed as the Fabrics business line was combined with the Paper business line and the goodwill of Fabrics was allocated to the latter.

The cash generating units are either segments, such as Mining and Construction and Automation, or separate businesses like Recycling or business lines under reporting segments. The business lines of Pulp, Paper and Power are presented in the segment note 32. In 2011, Metso had six cash generating units with goodwill.

Metso assesses the value of its goodwill for impairment annually or more frequently, if facts and circumstances indicate a risk of impairment. The assessment is done using fair value measurement techniques, such as the discounted cash flow methodology. The testing is performed on the cash generating unit level to which the goodwill has been allocated.

The recoverable amount of a cash generating unit is based on value-in-use calculations. In the discounted cash flow method, Metso discounts forecasted performance plans to their present value.

The performance plans, which include four years of projection, are calculated in the annual strategy process and subsequently reviewed by Metso's management and approved by the Board of Directors. In addition to the projection period, the discounted cash flows include an additional year, which is extrapolated from the performance of the projection period adjusted for cyclicalities of each cash generating unit. The growth rate reflecting the long-term average growth rate of businesses subject to testing, was estimated to be 1.7% in 2010 and 2011. The forecasted sales and production volumes are based on current structure and existing property, plant and equipment used by each cash generating unit. The assumptions requiring most management judgment are the market and product mix. Values assigned to key assumptions reflect past experience. Data on growth, demand and price development provided by various research institutions are utilized in establishing the assumptions for the projection period.

The discount rates used in testing are derived from the weighted average cost of capital based on comparable peer industry betas, capital structure and tax rates. The impact of the tax is eliminated to obtain pre-tax discount rates.

In the September 2011 annual test, the average EBITDAs (earnings before interest, tax, depreciation and amortization) of the tested cash generating units for the projection period 2011-2015 were following: Mining and Construction 15%, Automation 15%, Pulp, Paper and Power 10% and Recycling 10% of net sales.

As a result of the annual impairment tests, no impairment loss was recognized in 2010 and 2011.

Summary of assumptions and impacts of sensitivity tests to present values:

	Derived weighted average cost of capital applied	Sensitivity tests Reduction of present values <sup>1)</sup>	
		Terminal growth rate 1.2%	Increase of discount rate by 200 bp, terminal growth rate 1.2%
<b>2010</b>			
Mining and Construction	10.7%	4%	21%
Automation	11.3%	3%	20%
Pulp, Paper and Power	9.7–10.7%	4%	21%
Recycling	10.4%	4%	22%
<b>Total</b>	<b>9.7–11.3%</b>	<b>4%</b>	<b>21%</b>
<b>2011</b>			
Mining and Construction	10.9%	4%	21%
Automation	12.1%	3%	18%
Pulp, Paper and Power	10.7–11.1%	3%	20%
Recycling	10.4%	4%	23%
<b>Total</b>	<b>10.4–12.1%</b>	<b>4%</b>	<b>20%</b>

<sup>1)</sup> Sensitivity numbers represent the weighted average impact to segments and the total represents the impact to the combined carrying goodwill of all segments.

The sensitivity to impairment of each cash generating unit is tested by applying a change both in the discount and terminal growth rate. The discount rate is increased by 200 basis points and the terminal growth rate is dropped from 1.7% to 1.2%. The sensitivity tests did not indicate any impairment need.

Sensitivity tests using same assumptions performed in 2010 indicated that the goodwill allocated to the Fabrics business line would have been impaired by EUR 34 million if the terminal growth rate were reduced from 1.7% to 1.2% and the discount rate increased from 9.7% to 11.7%. Even if the business was combined with the Paper business line and its performance is not anymore analyzed separately by the

management, the goodwill was reviewed for impairment in September 2011. The sensitivity tests showed that there was no indication of impairment.

Management believes that no reasonably possible change of the key assumptions used would cause the carrying value of any cash generating unit to exceed its recoverable amount.

From time to time the sensitivity tests include several cash projections based on reasonable change in the future performance of a unit. However, the impact to the fair value obtained is limited as long as there is no permanent weakening expected for the business, which would affect the terminal value. These projections have not led to impairment.

A summary of changes in Metso's goodwill is as follows:

EUR million	Balance at beginning of year	Translation differences and other changes	Acquisitions	Balance at end of year	As percent of total goodwill
<b>2010</b>					
Mining and Construction	358	0	-	358	41%
Automation	31	0	-	31	3%
Pulp, Paper and Power	425	13	4	442	50%
Recycling	49	0	-	49	6%
<b>Total</b>	<b>863</b>	<b>13</b>	<b>4</b>	<b>880</b>	<b>100%</b>
<b>2011</b>					
Mining and Construction	358	1	-	359	41%
Automation	31	0	-	31	3%
Pulp, Paper and Power	442	1	-	443	50%
Recycling	49	1	-	50	6%
<b>Total</b>	<b>880</b>	<b>3</b>	<b>-</b>	<b>883</b>	<b>100%</b>

Apart from Mining and Construction, which forms one single cash generating unit, no other cash generating unit has a significant amount of goodwill in comparison with the total amount of goodwill in Metso. The second biggest goodwill allocated to a cash generating unit, Power business line, represented 24% of the total amount of

goodwill and was EUR 211 million at December 31, 2011. The remainder is evenly spread over the other cash generating units. Valmet Automotive carries no goodwill. The amount of other intangible assets with indefinite useful lives is insignificant and their carrying value is tested as part of the annual goodwill impairment tests.

## 13 Investments in associated companies

EUR million	As at December 31,	
	2010	2011
Investments in associated companies and joint ventures		
Acquisition cost at beginning of year	3	3
Translation differences	0	0
Increases	-	2
Disposals and other decreases	0	0
Acquisition cost at end of year	3	5
Equity adjustments in investments in associated companies and joint ventures		
Equity adjustments at beginning of year	10	11
Share of results	1	0
Translation differences	1	1
Dividend income	0	0
Disposals and other changes	-1	-1
Equity adjustments at end of year	11	11
<b>Carrying value of investments in associated companies and joint ventures at end of year</b>	<b>14</b>	<b>16</b>

EUR million	As at December 31,			
	2010	Carrying value	2011	Carrying value
	Ownership		Ownership	
Allimand S.A.	35.8%	4	35.8%	4
Shanghai Neles-Jamesbury Valve Co. Ltd	50.0%	8	50.0%	9
Nanjing SAC Metso Control Systems Co. Ltd	-	-	33.0%	2
Others		2		1
<b>Total investments in associated companies and joint ventures</b>		<b>14</b>		<b>16</b>

Shanghai Neles-Jamesbury Valve Co. Ltd is classified as joint venture because Metso has, together with the other shareholder, joint power to govern the company.

The amounts representing Metso's share of the assets and liabilities, net sales and results of the associated companies and joint ventures, which have been accounted for using the equity method are presented below:

EUR million	Year ended December 31,	
	2010	2011
Assets		
	35	37
Liabilities		
	21	21
Net sales		
	32	30
Profit		
	1	0

### Related party transactions

The following transactions were carried out with associated companies and joint ventures and the following balances have arisen from such transactions:

EUR million	Year ended December 31,	
	2010	2011
Net sales	1	1
Purchases	2	2
Receivables	1	0
Payables	0	4

## 14 Available-for-sale equity investments

The available-for-sale equity investments as at December 31, 2010 and 2011 comprise EUR 1 million of publicly listed shares which are valued at their market value. The remaining EUR 8 million as at December 31, 2010 and EUR 5 million as at December 31, 2011 consist of various industrial participations, shares in real estate companies and other shares for which market values do not exist and thereby they are valued at cost.

The available-for-sale equity investments have changed as follows:

EUR million	2010	2011
Carrying value at beginning of year	15	9
Additions	1	0
Changes in fair values	3	0
Disposals and other changes	-10	-3
<b>Carrying value at end of year</b>	<b>9</b>	<b>6</b>

## 15 Inventory

EUR million	As at December 31,	
	2010	2011
Materials and supplies	250	296
Work in process	570	759
Finished products	485	622
<b>Total inventory</b>	<b>1,305</b>	<b>1,677</b>

The cost of inventories recognized as expense was EUR 4,030 million and EUR 4,882 million for the years ended December 31, 2010 and 2011, respectively.

Provision for inventory obsolescence has changed as follows:

EUR million	2010	2011
Balance at beginning of year	94	104
Impact of exchange rates	6	0
Additions charged to expense	21	16
Increase from business acquisitions	0	0
Used reserve	-5	-9
Deductions / other additions	-12	-19
<b>Balance at end of year</b>	<b>104</b>	<b>92</b>

## 16 Percentage of completion

Net sales recognized under the percentage of completion method amounted to EUR 2,024 million, or 37 percent of net sales, in 2010 and EUR 2,144 million, or 32 percent of net sales, in 2011. The percentage was highest in the Pulp, Paper and Power segment, where it accounted for 57 percent in 2010 and 50 percent in 2011.

Information on balance sheet items of uncompleted projects at December 31 is as follows:

EUR million	Cost and earnings of uncompleted projects	Billings of projects	Net
<b>2010</b>			
Projects where cost and earnings exceed billings	2,019	1,732	287
Projects where billings exceed cost and earnings	1,152	1,451	299
<b>2011</b>			
Projects where cost and earnings exceed billings	2,254	1,903	351
Projects where billings exceed cost and earnings	1,544	2,141	597

## 17 Change in net working capital

### Change in net working capital, net of effect from business acquisitions and disposals:

EUR million	Year ended December 31,	
	2010	2011
Increase (-) / decrease (+) in assets and increase (+) / decrease (-) in liabilities:		
Inventory	-44	-373
Trade and other receivables	-265	-289
Percentage of completion: recognized assets and liabilities, net	-17	233
Trade and other payables	351	306
<b>Total</b>	<b>25</b>	<b>-123</b>

## 18 Interest bearing and non-interest bearing receivables

EUR million	As at December 31,					
	2010			2011		
	Non-current	Current	Total	Non-current	Current	Total
<b>Interest bearing receivables</b>						
Loan receivables	5	2	7	8	1	9
Available-for-sale financial investments	169	178	347	2	78	80
Financial instruments held for trading	-	59	59	-	87	87
Trade receivables	1	4	5	1	-	1
<b>Total</b>	<b>175</b>	<b>243</b>	<b>418</b>	<b>11</b>	<b>166</b>	<b>177</b>
<b>Non-interest bearing receivables</b>						
Loan receivables	-	1	1	-	0	0
Trade receivables	0	989	989	2	1,244	1,246
Prepaid expenses and accrued income	-	93	93	-	91	91
Other receivables	42	159	201	43	175	218
<b>Total</b>	<b>42</b>	<b>1,242</b>	<b>1,284</b>	<b>45</b>	<b>1,510</b>	<b>1,555</b>

Metso actively manages its cash by investing in financial instruments with varying maturities. Instruments exceeding maturity of three months are classified as available-for-sale financial investments or financial instruments held for trading.

As of December 31, 2010, other non-interest bearing receivables comprised EUR 46 million of Brazilian tax credits arising from circulation of goods and transfer of services (ICMS) recognized by local subsidiaries, EUR 20 million thereof was classified as long-term. As of December 31, 2011, these Brazilian tax credits amounted to EUR 55 million, of which EUR 15 million was long-term.

### Provision for impairment has changed as follows:

EUR million	2010	2011
Balance at beginning of year	39	42
Impact of exchange rates	3	0
Additions charged to expense	9	18
Increase from business acquisitions	0	0
Used reserve	-3	-7
Deductions / other additions	-6	-11
<b>Balance at end of year</b>	<b>42</b>	<b>42</b>

### Analysis of non-interest bearing trade receivables by age:

EUR million	As at December 31,	
	2010	2011
Trade receivables, not due at reporting date	702	837
Trade receivables 1-30 days overdue	133	223
Trade receivables 31-60 days overdue	78	66
Trade receivables 61-90 days overdue	16	41
Trade receivables 91-180 days overdue	28	44
Trade receivables more than 180 days overdue	32	33
<b>Total</b>	<b>989</b>	<b>1,244</b>



## 19 Financial assets and liabilities

Financial assets and liabilities divided by categories were as follows as of December 31:

EUR million	Financial assets/ liabilities at fair value through profit and loss and derivatives	Loans and receivables	Available- for-sale financial assets	Financial liabilities measured at amortized cost	Carrying value	Fair value
<b>2010</b>						
<b>Non-current assets</b>						
Available-for-sale equity investments	-	-	9	-	9	9
Loan receivables	-	5	-	-	5	5
Available-for-sale financial investments	-	-	169	-	169	169
Financial instruments held for trading	-	-	-	-	-	-
Trade receivables	-	1	-	-	1	1
Derivative financial instruments	2	-	-	-	2	2
Other receivables	-	42	-	-	42	42
<b>Total</b>	<b>2</b>	<b>48</b>	<b>178</b>	<b>-</b>	<b>228</b>	<b>228</b>
<b>Current assets</b>						
Loan receivables	-	3	-	-	3	3
Available-for-sale financial investments	-	-	178	-	178	178
Financial instruments held for trading	59	-	-	-	59	59
Trade receivables	-	993	-	-	993	993
Derivative financial instruments	55	-	-	-	55	55
Other receivables	-	252	-	-	252	252
<b>Total</b>	<b>114</b>	<b>1,248</b>	<b>178</b>	<b>-</b>	<b>1,540</b>	<b>1,540</b>
<b>Non-current liabilities</b>						
Bonds	-	-	-	578	578	649
Loans from financial institutions	-	-	-	331	331	341
Pension loans	-	-	-	26	26	26
Finance lease obligations	-	-	-	0	0	0
Other long-term debt	-	-	-	21	21	21
Derivative financial instruments	3	-	-	-	3	3
Other liabilities	-	-	-	6	6	6
<b>Total</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>962</b>	<b>965</b>	<b>1,046</b>
<b>Current liabilities</b>						
Current portion of long-term debt	-	-	-	388	388	388
Loans from financial institutions	-	-	-	29	29	29
Trade payables	-	-	-	815	815	815
Derivative financial instruments	30	-	-	-	30	30
Other liabilities	-	-	-	562	562	562
<b>Total</b>	<b>30</b>	<b>-</b>	<b>-</b>	<b>1,794</b>	<b>1,824</b>	<b>1,824</b>

EUR million	Financial assets/ liabilities at fair value through profit and loss and derivatives	Loans and receivables	Available- for-sale financial assets	Financial liabilities measured at amortized cost	Carrying value	Fair value
<b>2011</b>						
<b>Non-current assets</b>						
Available-for-sale equity investments	-	-	6	-	6	6
Loan receivables	-	8	-	-	8	8
Available-for-sale financial investments	-	-	2	-	2	2
Financial instruments held for trading	-	-	-	-	-	-
Trade receivables	-	3	-	-	3	3
Derivative financial instruments	-	-	-	-	-	-
Other receivables	-	43	-	-	43	43
<b>Total</b>	<b>-</b>	<b>54</b>	<b>8</b>	<b>-</b>	<b>62</b>	<b>62</b>
<b>Current assets</b>						
Loan receivables	-	1	-	-	1	1
Available-for-sale financial investments	-	-	78	-	78	78
Financial instruments held for trading	87	-	-	-	87	87
Trade receivables	-	1,244	-	-	1,244	1,244
Derivative financial instruments	54	-	-	-	54	54
Other receivables	-	266	-	-	266	266
<b>Total</b>	<b>141</b>	<b>1,511</b>	<b>78</b>	<b>-</b>	<b>1,730</b>	<b>1,730</b>
<b>Non-current liabilities</b>						
Bonds	-	-	-	500	500	548
Loans from financial institutions	-	-	-	239	239	248
Pension loans	-	-	-	16	16	16
Finance lease obligations	-	-	-	0	0	0
Other long-term debt	-	-	-	0	0	0
Derivative financial instruments	6	-	-	-	6	6
Other liabilities	-	-	-	7	7	7
<b>Total</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>762</b>	<b>768</b>	<b>825</b>
<b>Current liabilities</b>						
Current portion of long-term debt	-	-	-	209	209	209
Loans from financial institutions	-	-	-	63	63	63
Trade payables	-	-	-	855	855	855
Derivative financial instruments	38	-	-	-	38	38
Other liabilities	-	-	-	666	666	666
<b>Total</b>	<b>38</b>	<b>-</b>	<b>-</b>	<b>1,793</b>	<b>1,831</b>	<b>1,831</b>

For more information on derivative financial instruments, see note 30.

## 20 Cash and cash equivalents

EUR million	As at December 31,	
	2010	2011
Bank and cash	313	<b>285</b>
Commercial papers and other investments	332	<b>305</b>
<b>Total cash and cash equivalents</b>	645	<b>590</b>

## 21 Equity

### Share capital and number of shares

Metso Corporation's registered share capital, which is fully paid, was EUR 240,982,843.80 as at December 31, 2010 and 2011.

	2010	2011
Number of outstanding shares, January 1	149,938,639	<b>149,629,859</b>
Redemption of own shares by the Parent Company	-300,000	-
Shares granted/returned from share ownership plans	-8,780	<b>-663</b>
Number of outstanding shares, December 31	149,629,859	<b>149,629,196</b>
Own shares held by the Parent Company	718,397	<b>719,060</b>
<b>Total number of shares, December 31</b>	150,348,256	<b>150,348,256</b>

During 2010, Metso Corporation repurchased 300,000 of company's own shares to be used as a payment for possible rewards related to Metso share ownership plans. During the year 2010 Metso recovered 8,780 shares from share-based incentive plan participants having terminated their employment and 663 shares Parent during 2011. As of December 31, 2011, the acquisition price of 719,060 own shares held by the Parent Company was EUR 11,628,877 and was recognized in the treasury stock.

### Dividends

The Board of Directors proposes that a dividend of EUR 1.70 per share be paid based on the balance sheet to be adopted for the financial year which ended December 31, 2011 and the remaining part of the profit be retained and carried further in the Company's unrestricted equity. These financial statements do not reflect this dividend payable of EUR 254 million.

### Fair value and other reserves

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

Fair value reserve includes the change in fair values of assets classified as available-for-sale. Share-based payments are presented in fair value reserve.

Legal reserve consists of restricted equity, which has been transferred from distributable funds under the Articles of Association, local company act or by a decision of the shareholders.

Other reserves consist of the distributable fund and the invested non-restricted equity fund held by the Parent Company.

## Changes in fair value and other reserves:

EUR million	Treasury stock	Hedge reserve	Fair value reserve	Legal reserve	Other reserves	Total
<b>Balance as of December 31, 2009</b>	<b>-5</b>	<b>-12</b>	<b>9</b>	<b>26</b>	<b>692</b>	<b>710</b>
Cash flow hedges						
Fair value gains (+) / losses (-), net of taxes	-	10	-	-	-	10
Transferred to profit and loss, net of taxes						
Net sales	-	11	-	-	-	11
Cost of goods sold / Administrative expenses	-	3	-	-	-	3
Available-for-sale equity investments						
Fair value gains (+) / losses (-), net of taxes	-	-	2	-	-	2
Transferred to profit and loss, net of taxes	-	-	-6	-	-	-6
Redemption of own shares	-7	-	-	-	-	-7
Share-based payments, net of taxes	0	-	0	-	-	0
Other	-	-	-	3	-	3
<b>Balance as of December 31, 2010</b>	<b>-12</b>	<b>12</b>	<b>5</b>	<b>29</b>	<b>692</b>	<b>726</b>
Cash flow hedges						
Fair value gains (+) / losses (-), net of taxes	-	-16	-	-	-	-16
Transferred to profit and loss, net of taxes						
Net sales	-	-8	-	-	-	-8
Cost of goods sold / Administrative expenses	-	0	-	-	-	0
Interest income / expenses	-	2	-	-	-	2
Available-for-sale equity investments						
Fair value gains (+) / losses (-), net of taxes	-	-	0	-	-	0
Transferred to profit and loss, net of taxes	-	-	0	-	-	0
Redemption of own shares	0	-	-	-	-	0
Share-based payments, net of taxes	0	-	2	-	-	2
Other	-	-	-	0	-	0
<b>Balance as of December 31, 2011</b>	<b>-12</b>	<b>-10</b>	<b>7</b>	<b>29</b>	<b>692</b>	<b>706</b>

## Foreign currency translation included in the shareholders' equity:

EUR million	2010	2011
Cumulative translation adjustment as of January 1	-62	46
Currency translation on subsidiary net investments	121	-11
Hedging of net investment denominated in foreign currency	-17	14
Tax effect	4	-4
<b>Cumulative translation adjustment as of December 31</b>	<b>46</b>	<b>45</b>

## 22 Share-based payments

### Share ownership plan 2006–2008

The Board of Directors of Metso decided in December 2005 upon a share ownership plan for the 2006–2008 strategy period. The share ownership plan was part of the remuneration and commitment program of the management and covered a maximum of 360,000 own shares. The share ownership plan covered three earnings periods i.e. calendar years 2006, 2007 and 2008. The incentives consisted of both shares and cash. The cash-settled portion was dedicated to cover taxes and tax-related payments of the beneficiaries. The main earnings triggers were the operating profit targets and four years of service subsequent to grant date. The operating profit targets and potential personal earnings triggers were set separately for each year.

A maximum share price was determined annually for the share ownership plan.

The equity-settled portion for the earnings period 2006 was recognized over the vesting period i.e. from 2006 until March 2010, for the earnings period 2007 from 2007 until March 2011 and for the earnings period 2008 from 2008 until March 2012. The final amount of the granted shares was based on the share price on the payment date of the rewards.

### Share ownership plan for 2009–2011

The Board of Directors of Metso Corporation approved in October 2008 a new, share-based incentive plan for Metso's management for the years 2009–2011. The plan includes one three-year earnings period. Participation in the plan required a personal investment in Metso shares at the beginning of the earnings period. 84 key persons are participating in the plan and their initial investment was 52,550 Metso shares, which must be held until the end of the earnings period. The rewards to be paid from the plan correspond to a maximum of 354,975 shares. Earnings criteria are based on Metso's Total Shareholder Return (TSR) during three years' time and on earnings per share in the years 2009–2011. The reward will be paid in Metso shares and partly in cash. The cash-settled portion is dedicated to cover taxes and tax-related payments. The maximum share reward is capped to each participant's taxable annual basic salary, excluding performance bonuses and share-based payments, multiplied by 1.5.

The equity-settled portion of the plan is recognized over the vesting period i.e. from the beginning of 2009 until the end of April 2012 based on calculated fair value of the Metso share as of the grant date of EUR 8.64. The historical development of the Metso share and the expected dividends have been taken into account when calculating the fair value.

### Share ownership plan for 2010–2012

The Board of Directors of Metso Corporation approved in October 2009 a new, share-based incentive plan for Metso's management for the years 2010–2012. The plan includes one three-year earnings period. Participation in the plan required a personal investment in Metso shares at the beginning of the earnings period. 88 key persons are participating in the plan and their initial investment was 48,800 Metso shares, which must be held until the end of the earnings period. The rewards to be paid from the plan correspond to a maximum of 329,600 shares. Earnings criteria are based on Metso's Total Shareholder Return (TSR) during three years' time and on earnings per share in the years 2010–2012. The reward will be paid in Metso shares and partly in cash. The cash-settled portion is dedicated to cover taxes and tax-related payments. The maximum share reward is capped to each participant's taxable annual basic salary, excluding performance bonuses and share-based payments, multiplied by 1.5.

The equity-settled portion of the plan is recognized over the vesting period i.e. from the beginning of 2010 until the end of April 2013 based on calculated fair value of the Metso share as of the grant date of EUR 22.63. The historical development of the Metso share and the expected dividends have been taken into account when calculating the fair value.

### Share ownership plan for 2011–2013

The Board of Directors of Metso Corporation approved in September 2010 a new, share-based incentive plan for Metso's management for the years 2011–2013. The plan includes one three-year earnings period. Participation in the plan required a personal investment in Metso shares at the beginning of the earnings period. 72 key persons are participating in the plan and their initial investment was 35,615 Metso shares, which must be held until the end of the earnings period. The rewards to be paid from the plan correspond to a maximum of 243,898 shares. Earnings criteria are based on Metso's Total Shareholder Return (TSR) during three years' time and on earnings per share in the years 2011–2013. The reward will be paid in Metso shares and partly in cash. The cash-settled portion is dedicated to cover taxes and tax-related payments. The maximum share reward is capped to each participant's taxable annual basic salary, excluding performance bonuses and share-based payments, multiplied by 1.5.

The equity-settled portion of the plan is recognized over the vesting period i.e. from the beginning of 2011 until the end of April 2014 based on calculated fair value of the Metso share as of the grant date of EUR 37.37. The historical development of the Metso share and the expected dividends have been taken into account when calculating the fair value.

### Long-term Incentive Plan for 2012–2014

In December 2011 the Board of Directors of Metso Corporation approved a new, share-based incentive plan for Metso's management. The plan includes three performance periods, which are calendar years 2012, 2013 and 2014. The Board shall decide on the performance criteria, targets and participants in the beginning of each performance period. For the performance period 2012, the plan is targeted to approximately 100 persons in Metso's management. The potential rewards to be paid from the plan correspond to a maximum total of approximately 450,000 shares. Earnings criteria of the performance period 2012 are based on the net sales growth of the services business, return on capital employed (ROCE) before taxes and earnings per share (EPS). The reward will be paid in Metso shares and partly in cash. The cash-settled portion is dedicated to cover taxes and tax-related payments. The reward for each performance period of plan may not exceed 120 percent of a participant's total annual base salary.

### Costs recognized for the share ownership plans

The compensation expense for the shares, which is accounted for as equity-settled, is recognized as an employee benefit expense with corresponding entry in equity. The cost of the equity-settled portion, which will be evenly recognized during the required service period, is based on the market price of the Metso share on the grant date. The compensation expense resulting from the cash-settled portion is recognized as an employee benefit expense with a corresponding entry in short-term liabilities. The cash-settled portion is fair valued at each balance sheet date based on the prevailing share price and accrued until the settlement date.

## Beneficiaries and granted shares of the share ownership plan as at December 31, 2011:

	Metso Executive Team	Shares	Other beneficiaries	Shares	Beneficiaries total	Shares total
<b>Plan 2006</b>						
Granted	7	25,815	53	74,146	60	99,961
Returned during 2007			-4	-6,500	-4	-6,500
Returned during 2008			-4	-4,500	-4	-4,500
Returned during 2009			-4	-7,508	-4	-7,508
Returned during 2010			-1	-2,050	-1	-2,050
At end of year	7	25,815	40	53,588	47	79,403
<b>Plan 2007</b>						
Granted	7	15,763	83	55,186	90	70,949
Returned during 2008			-4	-990	-4	-990
Returned during 2009			-4	-5,402	-4	-5,402
Returned during 2010			-3	-4,273	-3	-4,273
At end of year	7	15,763	72	44,521	79	60,284
<b>Plan 2008</b>						
Granted	6	6,996	95	27,269	101	34,265
Returned during 2009			-1	-	-1	-
Returned during 2010			-3	-2,457	-3	-2,457
Returned during 2011			-4	-663	-4	-663
At end of year	6	6,996	87	24,149	93	31,145
<b>Total at the end of year</b>		<b>48,574</b>		<b>122,258</b>		<b>170,832</b>

## Costs recognized for the share ownership plans:

EUR thousand	Plan 2006	Plan 2007	Plan 2008	Plan 2009–2011	Plan 2010–2012	Plan 2011–2013	Total
<b>2006</b>							
Metso Executive Team	-1,365	-	-	-	-	-	-1,365
Other beneficiaries	-3,466	-	-	-	-	-	-3,466
Total	-4,831	-	-	-	-	-	-4,831
<b>2007</b>							
Metso Executive Team	-187	-685	-	-	-	-	-872
Other beneficiaries	-182	-2,059	-	-	-	-	-2,241
Total	-369	-2,744	-	-	-	-	-3,113
<b>2008</b>							
Metso Executive Team	-161	-258	-128	-	-	-	-547
Other beneficiaries	-406	-575	-300	-	-	-	-1,281
Total	-567	-833	-428	-	-	-	-1,828
<b>2009</b>							
Metso Executive Team	-161	-143	-82	-184	-	-	-570
Other beneficiaries	-229	-312	-294	-754	-	-	-1,589
Total	-390	-455	-376	-938	-	-	-2,159
<b>2010</b>							
Metso Executive Team	-38	-135	-63	-419	-1,122	-	-1,777
Other beneficiaries	-70	-347	-140	-2,022	-2,011	-	-4,590
Total	-108	-482	-203	-2,441	-3,133	-	-6,367
<b>2011</b>							
Metso Executive Team	-	-24	-29	-45	-220	-532	-850
Other beneficiaries	-	-97	-123	-126	-948	-1,222	-2,516
<b>Total</b>	-	<b>-121</b>	<b>-152</b>	<b>-171</b>	<b>-1,168</b>	<b>-1,754</b>	<b>-3,366</b>
<b>Total</b>	<b>-6,265</b>	<b>-4,635</b>	<b>-1,159</b>	<b>-3,550</b>	<b>-4,301</b>	<b>-1,754</b>	<b>-21,664</b>

As of balance sheet date, a liability of EUR 2,772 thousand was recognized as an accrued expense for the cash-settled portion of Metso Share Ownership Plan 2009–2011, EUR 2,504 thousand from Plan 2010–2012 and EUR 775 thousand from Plan 2011–2013.

## 23 Long-term debt

EUR million	As at December 31,			
	Carrying values		Fair values	
	2010	2011	2010	2011
Bonds	868	582	931	630
Loans from financial institutions	415	333	425	342
Pension loans	36	26	36	26
Finance lease obligations	2	1	2	1
Other long-term debt	23	22	23	22
	1,344	964	1,417	1,021
Less current maturities	388	209	388	209
<b>Total</b>	<b>956</b>	<b>755</b>	<b>1,029</b>	<b>812</b>

The fair values of long-term debt are equal to the present value of their future cash flows.

EUR million	Nominal interest rate Dec. 31, 2011	Effective interest rate Dec. 31, 2011	Original loan amount	Outstanding carrying value at December 31,	
				2010	2011
Public bond 2004–2011	-	-	274	222	-
Public bond 2009–2014	7.25%	7.40%	300 <sup>1)</sup>	199	199
Private placements maturing 2012–2018		2.2%–8.1%	428	447	383
<b>Bonds total</b>				868	582
Less current maturities				290	82
<b>Bonds, long-term portion</b>				578	500

<sup>1)</sup> Out of this EUR 300 million total Metso Capital Ltd – 100% owned subsidiary of Metso – has subscribed EUR 100 million for potential resale.

Metso has a Euro Medium Term Note Program (EMTN) of EUR 1.5 billion, under which EUR 868 million and EUR 582 million at carrying value were outstanding at the end of 2010 and 2011, respectively. EUR 199 million of the outstanding amount were public bonds and EUR 383 million private placements.

Loans from financial institutions consist of bank borrowings with either fixed or variable interest rates. A major share of loans is EUR

denominated. The interest rates vary from 1.0% to 11.6%. The loans are payable from year 2012 to 2018.

Interest rates of pension loans and finance lease obligations vary from 3.0% to 5.0%.

Metso's five-year revolving loan facility of EUR 500 million was renewed in 2010 and includes 14 banks. The facility was undrawn at the end of 2010 and 2011.

Contractual maturities of interest bearing debt as at December 31, 2011 are as follows:

EUR million	Bonds	Loans from financial institutions	Pension loans	Finance lease obligations	Other long-term debt	Total
Repayments	82	94	10	1	22	209
Interests	38	10	1	0	0	49
<b>Total 2012</b>	<b>120</b>	<b>104</b>	<b>11</b>	<b>1</b>	<b>22</b>	<b>258</b>
Repayments	54	80	10	0	0	144
Interests	35	7	0	0	0	42
<b>Total 2013</b>	<b>89</b>	<b>87</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>186</b>
Repayments	200	71	5	0	0	276
Interests	32	5	0	0	0	37
<b>Total 2014</b>	<b>232</b>	<b>76</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>313</b>
Repayments	0	57	0	0	0	57
Interests	18	2	0	0	0	20
<b>Total 2015</b>	<b>18</b>	<b>59</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>77</b>
Repayments	0	21	0	0	0	21
Interests	18	1	0	0	0	19
<b>Total 2016</b>	<b>18</b>	<b>22</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>40</b>
Repayments	246	10	1	0	0	257
Interests	25	0	0	0	0	25
<b>Later</b>	<b>271</b>	<b>10</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>282</b>

The maturities of derivative financial instruments are presented in note 30.

## 24 Provisions

EUR million	2010			2011		
	Non-current	Current	Total	Non-current	Current	Total
Warranty and guarantee liabilities	19	181	200	37	183	220
Accrued restructuring expenses	7	17	24	5	9	14
Environmental and product liabilities	-	5	5	1	4	5
Other provisions	33	27	60	28	38	66
<b>Total</b>	<b>59</b>	<b>230</b>	<b>289</b>	<b>71</b>	<b>234</b>	<b>305</b>

The provisions, both non-current and current, have changed as follows during the financial year 2011:

EUR million	Accrued restructuring expenses	Environmental and product liabilities	Total
Balance at beginning of year	24	5	29
Impact of exchange rates	0	0	0
Addition charged to expense	5	1	6
Used reserve	-10	-1	-11
Reversal of reserve / other changes	-5	0	-5
<b>Balance at end of year</b>	<b>14</b>	<b>5</b>	<b>19</b>

Provisions, for which the expected settlement date exceeds one year from the moment of their recognition, are discounted to their present value and adjusted in subsequent periods for the time effect.

### Accrued restructuring expenses

The costs included in a provision for restructuring are those costs that are either incremental and incurred as a direct result of the formal plan approved and committed by management, or are the result of a continuing contractual obligation with no economic benefit to Metso or a penalty incurred for a cancelled contractual obligation.

### Environmental and product liabilities

Metso accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably calculable. The amounts of accruals are adjusted later as further information develops or circumstances change. As at December 31, 2011, environmental liabilities amounted to EUR 3 million. They included clean-up costs for soil and water contamination at various sites in the United States previously operated by Mining and Construction.

Metso is occasionally involved in product liability claims. As at December 31, 2011, provisions for product liabilities amounted to EUR 2 million.

### Other provisions

Other provisions comprise among other things provisions related to personnel, delivery project costs and lawsuits.

### Warranty and guarantee provisions

Metso issues various types of contractual product warranties under which it generally guarantees the performance levels agreed in the sales contract, the performance of products delivered during the agreed warranty period and services rendered for a certain period or term. The warranty liability is based on historical realized warranty costs for deliveries of standard products and services. The usual warranty period is 12 months from the date of customer acceptance of the delivered equipment. For larger projects, the average warranty period is two years. For more complex contracts, including long-term projects, the warranty reserve is calculated contract by contract and updated regularly to ensure its sufficiency.

The provisions for warranty and guarantee liabilities have changed as follows:

EUR million	2010	2011
Balance at beginning of year	179	200
Impact of exchange rates	11	0
Increase for current year's deliveries	82	94
Increase for previous years' deliveries	27	33
Increase from business acquisitions	0	1
Used reserve	-71	-64
Reversal of reserve / other changes	-28	-44
<b>Balance at end of year</b>	<b>200</b>	<b>220</b>



## 25 Short-term debt

Metso's short-term debt comprised loans from various financial institutions amounting to EUR 29 million and EUR 63 million at December 31, 2010 and 2011, respectively.

The weighted average interest rate applicable to short-term borrowing at December 31, 2010 and 2011 was 6.7% and 4.9%, respectively. In 2012, interest amounting to EUR 1.7 million is expected to be paid concurrently with respective principals on the short-term debt.

Metso has established a Finnish commercial paper program amounting to EUR 500 million. There were no commercial papers outstanding as of December 31, 2010 and 2011.

## 26 Trade and other payables

EUR million	As at December 31,	
	2010	2011
Trade payables	815	865
Accrued interests	19	16
Accrued personnel costs	207	237
Accrued project costs	89	195
Other	247	207
<b>Total</b>	<b>1,377</b>	<b>1,520</b>

The maturities of payables rarely exceed six months. The maturities of trade payables are largely determined by local trade practices and individual agreements between Metso and its supplier.

Accrued project costs may be settled after six months depending on the issuance of the supplier invoice when the costs arise from work performed by third parties.

The accrued personnel costs, which include holiday pay, are settled in accordance with local laws and stipulations.

## 27 Post-employment benefit obligations

The companies within Metso have various pension schemes pursuant to local conditions and practices of the countries in which they operate. Some of these programs are defined benefit schemes with retirement, healthcare, death, jubilee and termination income benefits. The benefits are generally a function of years of employment and salary in Metso. The schemes are mostly funded through payments to insurance companies or to trustee-administered funds as deter-

mined by periodic actuarial calculations. Metso uses December 31 as measurement date for its defined benefit arrangements. The discount rates applied are based on yields available on high quality ("AA" rated) corporate bonds. If such reference is not available, the rates are based on government bond yields as of the balance sheet date. The terms of corporate and government bonds are consistent with the currency and the estimated term of the pension obligations.

The amounts recognized as of December 31 in the balance sheet were following:

EUR million	Pension benefits, Finnish		Pension benefits, foreign		Other post-employment benefits		Total	Total
	2010	2011	2010	2011	2010	2011		
Present value of funded obligations	21	16	337	385	-	-	358	401
Fair value of plan assets	-15	-9	-300	-313	-	-	-315	-322
	6	7	37	72	-	-	43	79
Present value of unfunded obligations	-	-	102	109	45	49	147	158
Unrecognized asset	-	-	2	0	-	-	2	0
Unrecognized past service cost	1	0	-	-	1	1	2	1
<b>Net liability recognized</b>	<b>7</b>	<b>7</b>	<b>141</b>	<b>181</b>	<b>46</b>	<b>50</b>	<b>194</b>	<b>238</b>
Amounts in the balance sheet:								
Liabilities	7	7	142	181	46	50	195	238
Assets	-	-	-1	0	-	-	-1	0
<b>Net liability recognized</b>	<b>7</b>	<b>7</b>	<b>141</b>	<b>181</b>	<b>46</b>	<b>50</b>	<b>194</b>	<b>238</b>

Movements in the net liability recognized in the balance sheet were as follows:

EUR million	Pension benefits, Finnish		Foreign pension and other post-employment benefits	
	2010	2011	2010	2011
Net liability at beginning of year	4	7	186	187
Adjustments for new plans covered	-	-	-	1
Acquisitions (+) and disposals (-)	-	-	0	-
Net expense recognized in the income statement	2	1	13	13
Employer contributions	-3	-2	-38	-20
Gain (+) / loss (-) recognized through OCI	4	1	11	48
Translation differences	-	-	15	2
<b>Net liability at end of year</b>	<b>7</b>	<b>7</b>	<b>187</b>	<b>231</b>

The amounts recognized in the income statement were as follows:

EUR million	Year ended December 31,					
	Pension benefits, Finnish		Pension benefits, foreign		Other post-employment benefits	
	2010	2011	2010	2011	2010	2011
Service cost	2	2	8	8	1	1
Interest cost	1	1	21	21	2	3
Expected return on plan assets	-1	0	-19	-19	-	-
Amortization - Past service cost	0	0	0	0	0	0
Gains (-) / losses (+) on immediate settlements	0	-2	0	-1	0	-
<b>Expense (+) / income (-) recognized in income statement</b>	<b>2</b>	<b>1</b>	<b>10</b>	<b>9</b>	<b>3</b>	<b>4</b>
Actual return (+) / loss (-) on plan assets	1	-2	24	10	-	-

The amounts recognized through OCI were following:

EUR million	Year ended December 31,							
	Pension benefits, Finnish		Pension benefits, foreign		Other post-employment benefits	Total	Total	
	2010	2011	2010	2011	2010	2011	2010	2011
Experience gain (-) / loss (+) on assets	0	2	-5	9	-	-	-5	11
Actuarial gain (-) / loss (+) on liabilities due to change in assumptions	3	2	15	37	3	5	21	44
Actuarial gain (-) / loss (+) on liabilities due to experience	1	-3	-4	2	2	-3	-1	-4
Gain (-) / loss (+) as result of asset ceiling	-	-	0	-2	-	-	0	-2
<b>Total gain (-) / loss (+) recognized through OCI</b>	<b>4</b>	<b>1</b>	<b>6</b>	<b>46</b>	<b>5</b>	<b>2</b>	<b>15</b>	<b>49</b>

The cumulative amount of actuarial gains and losses recognized through OCI amounted to net loss of EUR 81 million and EUR 130 million for the years ended December 31, 2010 and 2011, respectively. The accumulated amount does not include translation differences of previous years.

In certain countries, companies are liable to pay a specific payroll tax on employee benefits, including on defined benefits. To the extent the

changes in the benefit obligation arise from actuarial gains and losses, the related payroll tax is also recognized in the Statement of Other Comprehensive Income. For the years ended December 31, 2010 and 2011 the amount of payroll tax recognized through OCI was a loss of less than EUR 0.1 million and a loss of EUR 1.2 million, respectively.

The changes in the value of the defined benefit obligation were as follows:

EUR million	Pension benefits, Finnish		Pension benefits, foreign		Other post- employment benefits		Total 2010	Total 2011
	2010	2011	2010	2011	2010	2011		
Defined benefit obligation at beginning of year	15	21	396	439	37	45	448	505
Adjustments for new plans covered	-	-	-	1	-	-	-	1
Service cost	2	2	8	8	1	1	11	11
Interest cost	1	1	21	21	2	3	24	25
Plan participant contributions	-	-	1	2	0	0	1	2
Past service cost (+) / credit (-)	-	-	0	0	0	-	0	0
Acquisitions (+) and disposals (-)	-	-	1	-	-	-	1	-
Actuarial gain (-) / loss (+) due to change in assumptions	3	2	15	37	3	5	21	44
Actuarial gain (-) / loss (+) due to experience	1	-3	-4	2	2	-3	-1	-4
Settlements	-1	-7	-10	0	-	-	-11	-7
Translation differences	-	-	33	6	3	1	36	7
Benefits paid	-	-	-22	-22	-3	-3	-25	-25
<b>Defined benefit obligation at end of year</b>	<b>21</b>	<b>16</b>	<b>439</b>	<b>494</b>	<b>45</b>	<b>49</b>	<b>505</b>	<b>559</b>

The changes in the fair value of the plan assets during the year were as follows:

EUR million	Pension benefits, Finnish		Foreign pension and other post-employment benefits		Total 2010	Total 2011
	2010	2011	2010	2011		
Fair value of assets at beginning of year	12	15	248	300	260	315
Settlements	-1	-6	-9	-	-10	-6
Acquisitions	-	-	1	-	1	-
Actual return on plan assets	1	-2	24	10	25	8
Plan participant contributions	-	-	1	2	1	2
Employer contributions	3	2	38	20	41	22
Benefits paid	-	-	-25	-24	-25	-24
Translation differences	-	-	22	5	22	5
<b>Fair value of assets at end of year</b>	<b>15</b>	<b>9</b>	<b>300</b>	<b>313</b>	<b>315</b>	<b>322</b>

The major categories of plan assets as a percentage of total plan assets as at December 31 were as follows:

	2010	2011
Equity securities	41%	37%
Bonds	39%	42%
Other	20%	21%

The expected return on plan assets is set by reference to historical returns on each of the main asset classes, current market indicators such as long-term bond yields and the expected long-term strategic asset allocation of each plan.

Summarized information on pension liabilities and plan assets for the five periods is as follows:

EUR million	2007	2008	2009	2010	2011
Present value of defined benefit obligations at December 31	424	395	448	505	559
Fair value of plan assets at December 31	250	210	260	315	322
Deficit	174	185	188	190	237
Experience gain (+) / loss (-) on liabilities	0	1	-2	1	4
Experience gain (+) / loss (-) on assets	-1	-42	19	5	-11

The principal actuarial assumptions at December 31 (expressed as weighted averages):

	Finnish		Foreign	
	2010	2011	2010	2011
Benefit obligation: discount rate	4.75%	<b>4.75%</b>	5.38%	<b>4.78%</b>
Benefit obligation: rate of compensation increase	4.44%	<b>4.19%</b>	3.66%	<b>3.54%</b>
Benefit obligation: rate of pension increase	2.10%	<b>2.10%</b>	1.52%	<b>1.93%</b>
Expense in income statement: discount rate	5.00%	<b>4.75%</b>	5.67%	<b>5.38%</b>
Expense in income statement: rate of compensation increase	4.41%	<b>4.44%</b>	3.61%	<b>3.66%</b>
Expense in income statement: expected return on plan assets	5.37%	<b>4.60%</b>	7.47%	<b>7.26%</b>
Expense in income statement: rate of pension increase	2.10%	<b>2.10%</b>	1.55%	<b>1.52%</b>

The expected contributions in 2012 shall amount to EUR 0.5 million to Finnish plans and EUR 20 million to foreign plans. The expected benefits to be paid in 2012 shall amount to EUR 26 million.

The life expectancy of the participants is based on regularly updated mortality tables, which reflect the life expectancy of the local population. The mortality tables used for the major defined benefit plans are following:

Finland	Gompertz' model with Finnish TyEL parameters
Sweden	FFFS2011
Germany	Heubeck RT 2005 G
United Kingdom	110% S1NXA with CMI_2011 projections and 1% long-term trend
Canada	UP94 generational
United States	RP2000 projected to 2015

An increase of one percentage point in the assumed health care cost trend would increase the accumulated post-employment benefit obligation by EUR 5 million at December 31, 2011. It would increase the sum of the service and interest cost by EUR 0.5 million for 2011. A decrease of one percentage point in the assumed health care cost trend would decrease the accumulated post-employment benefit obligation by EUR 4 million at December 31, 2011. It would have decreased the sum of the service and interest cost by EUR 0.4 million for 2011. The health care cost trend is assumed to be 7.50% for members under age 65 and 7.30% for members over age 65, decreasing to 5% over the next seven years by an average of 0.35 percentage points per annum.

## 28 Mortgages and contingent liabilities

EUR million	As at December 31,	
	2010	2011
<b>On own behalf</b>		
Mortgages	4	<b>5</b>
<b>On behalf of others</b>		
Guarantees	4	<b>8</b>
<b>Other commitments</b>		
Repurchase commitments	3	<b>3</b>
Other contingencies	2	<b>3</b>
<b>Total</b>	<b>13</b>	<b>19</b>

The mortgages given as security for own commitments relate to industrial real estate and other company assets. The mortgage amount on corporate debt has been calculated as the amount of corresponding loans. The nominal value of the mortgages at December 31, 2011 was EUR 1 million higher than the amount of the corresponding loans.

The repurchase commitments represent engagements whereby Metso agrees to purchase back equipment sold to customer. The conditions triggering the buy back obligation are specific to each sales contract. The amounts in the beside table comprise the agreed value in full of each repurchase commitment.

Metso Corporation has guaranteed obligations arising in the ordinary course of business of many of its subsidiaries up to a maximum of EUR 1,344 million and EUR 1,797 million as of December 31, 2010 and 2011, respectively.

## 29 Lease contracts

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

Minimum annual rental expenses for leases in effect at December 31 are shown in the table below:

EUR million	Operating leases		Finance leases	
	2010	2011	2010	2011
Not later than 1 year	54	54	2	1
Later than 1 year and not later than 2 years	39	40	1	0
Later than 2 years and not later than 3 years	34	33	0	0
Later than 3 years and not later than 4 years	25	22	0	0
Later than 4 years and not later than 5 years	20	13	0	-
Later than 5 years	70	54	0	-
<b>Total minimum lease payments</b>	<b>242</b>	<b>216</b>	<b>3</b>	<b>1</b>
Future financial expenses			0	0
<b>Total net present value of finance leases</b>			<b>3</b>	<b>1</b>

Net present value of annual rentals for finance leases in effect at December 31 are shown in the table below:

EUR million	2010	2011
Not later than 1 year	2	1
Later than 1 year and not later than 2 years	1	0
Later than 2 years and not later than 3 years	0	0
Later than 3 years and not later than 4 years	0	0
Later than 4 years and not later than 5 years	0	-
Later than 5 years	0	-
<b>Total net present value of finance leases</b>	<b>3</b>	<b>1</b>

Total rental expenses amounted to EUR 43 million and EUR 57 million in the years ended December 31, 2010 and 2011, respectively.

Annual repayments of principal are presented in the maturities of long-term debt, see note 23.

## 30 Derivative financial instruments

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

EUR million	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
<b>2010</b>				
Forward exchange contracts <sup>1)</sup>	2,137	49	30	19
Interest rate swaps	163	0	3	-3
Cross currency swaps	-	-	-	-
Option agreements				
Bought	2	0	-	0
Sold	10	-	0	0
Electricity forward contracts <sup>2)</sup>	755	7	0	7
Nickel swap contracts <sup>3)</sup>	486	1	0	1
<b>Total</b>		<b>57</b>	<b>33</b>	<b>24</b>
<b>2011</b>				
Forward exchange contracts <sup>1)</sup>	<b>3,100</b>	<b>54</b>	<b>35</b>	<b>19</b>
Interest rate swaps	<b>75</b>	<b>0</b>	<b>2</b>	<b>-2</b>
Cross currency swaps	<b>33</b>	<b>-</b>	<b>3</b>	<b>-3</b>
Option agreements				
Bought	<b>1</b>	<b>0</b>	<b>-</b>	<b>0</b>
Sold	<b>10</b>	<b>-</b>	<b>0</b>	<b>0</b>
Electricity forward contracts <sup>2)</sup>	<b>636</b>	<b>0</b>	<b>3</b>	<b>-3</b>
Nickel swap contracts <sup>3)</sup>	<b>528</b>	<b>0</b>	<b>1</b>	<b>-1</b>
<b>Total</b>		<b>54</b>	<b>44</b>	<b>10</b>

<sup>1)</sup> Some 52 percent and 49 percent of the notional amount at the end of 2010 and 2011, respectively, qualified for cash flow hedge accounting.

<sup>2)</sup> Notional amount GWh

<sup>3)</sup> Notional amount tons

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

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

EUR million	2010		2011	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps - cash flow hedges	-	1	-	0
Interest rate swaps - non-qualifying hedges	0	2	0	2
	0	3	0	2
Cross currency swaps - cash flow hedges	-	-	-	3
Forward exchange contracts - cash flow hedges	32	19	19	23
Forward exchange contracts - non-qualifying hedges	17	11	35	12
	49	30	54	35
Electricity forward contracts - cash flow hedges	7	0	0	3
Nickel swaps - non-qualifying hedges	1	0	0	1
Options - non-qualifying hedges	0	0	0	0
<b>Total derivatives</b>	<b>57</b>	<b>33</b>	<b>54</b>	<b>44</b>

In the year ended December 31, 2011 there was ineffectiveness related to the cash flow hedges, which resulted in recognition of EUR 0.7 million loss (none in year 2010) in the income statement. As at December 31, 2011, the fixed interest rates of swaps varied from 2.5 percent to 5.4 percent.

As at December 31, 2011, the maturities of financial derivatives are the following (expressed as notional amounts):

EUR million	2012	2013	2014	2015	2016 and later
Forward exchange contracts	2,977	118	5	-	-
Interest rate swaps	20	-	-	20	35
Cross currency swaps	-	-	-	-	33
Option agreements	12	-	-	-	-
Electricity forward contracts <sup>1)</sup>	250	194	131	44	17
Nickel swap contracts <sup>2)</sup>	492	36	-	-	-

<sup>1)</sup> Notional amount GWh

<sup>2)</sup> Notional amount tons

## 31 Subsidiaries

Company name	Ownership, %
<b>Finland</b>	
Metso Minerals Oy	100.0%
Metso Minerals (Finland) Oy	100.0%
EC Technology Oy	100.0%
Metso Automation Oy	100.0%
Metso Endress+Hauser Oy	90.0%
Metso Paper Oy	100.0%
Metso Fabrics Oy	100.0%
Metso Foundries Jyväskylä Oy	100.0%
Metso Mill Service Kauttua Oy	100.0%
Metso Power Oy	100.0%
MW Power Oy	60.0%
Tampereen Verkatehdas Oy	100.0%
Valmet Automotive Oy	61.4%
Metso Shared Services Oy	100.0%
Metso Capital Oy	100.0%
Kaukotalo Oy	87.2%
Avantone Oy	96.4%
Rauma Oy	100.0%
<b>Sweden</b>	
Metso Svenska AB	100.0%
Metso Minerals (Sweden) AB	100.0%
Metso Automation AB	100.0%
Metso Paper Sweden AB	100.0%
Metso Paper Karlstad AB	100.0%
Metso Mill Service AB	100.0%
Metso Mill Service Husum AB	100.0%
Metso Power AB	100.0%
MW Power AB	60.0%
Lignoboost AB	100.0%
<b>Norway</b>	
Metso Minerals (Norway) A/S	100.0%
Metso Automation A/S	100.0%
Metso Mill Service A/S	100.0%
<b>Austria</b>	
Metso Minerals (Austria) GmbH	100.0%
Metso Automation GesmbH	100.0%
Metso Paper GesmbH	100.0%
<b>Belgium</b>	
Metso Minerals (Belux) SA	100.0%
Metso Automation SA NV	100.0%
Metso Belgium NV	100.0%
<b>Czech Republic</b>	
Metso Minerals s.r.o.	100.0%
Nordberg s.r.o.	100.0%
Metso Automation s.r.o.	100.0%
Metso Paper CR s.r.o.	100.0%
Metso Paper Steti s.r.o.	100.0%
<b>France</b>	
Metso SAS	100.0%
Metso Minerals (France) SA	100.0%
Metso Minerals (Cisa) SA	100.0%
Metso Automation SAS	100.0%
Metso Paper France SAS	100.0%
<b>Germany</b>	
Metso Deutschland GmbH	100.0%
Metso Minerals (Germany) GmbH	100.0%
Metso Automation Mapag GmbH	100.0%
Metso Automation GmbH	100.0%
Metso Paper GmbH	100.0%
Metso Mill Service Plattling GmbH	100.0%
Metso Panelboard GmbH	100.0%
Metso Lindemann GmbH	100.0%
Valmet Automotive GmbH	61.4%

Company name	Ownership, %
<b>United Kingdom</b>	
Metso Minerals (UK) Ltd	100.0%
Metso Minerals (Cappagh) Ltd	100.0%
Metso Automation Ltd	100.0%
Metso Paper Ltd	100.0%
Metso Captive Insurance Limited	100.0%
<b>Italy</b>	
Metso SpA	100.0%
Metso Minerals (Italy) SpA	100.0%
Metso Automation SpA	100.0%
Metso Paper Italy SpA	100.0%
Metso Paper Como Srl	100.0%
<b>Netherlands</b>	
Metso Minerals International BV	100.0%
Metso Minerals (Dordrecht) BV	100.0%
Metso Automation BV	100.0%
<b>Poland</b>	
Metso Minerals (Poland) Sp zoo	100.0%
Metso Automation Polska Sp zoo	100.0%
Tamfelt Sp zoo	87.0%
Valmet Automotive Poland Sp zoo	61.4%
<b>Portugal</b>	
Metso Minerals (Portugal) Lda	100.0%
Metso Automation Portugal Lda	100.0%
Metso Fabrics Portugal Lda	100.0%
<b>Spain</b>	
Metso Minerals Espana SA	100.0%
Metso Automation Espana SA	100.0%
Metso Paper SA	100.0%
Metso Mill Service SL	81.0%
<b>Russia</b>	
ZAO Metso Minerals (CIS)	100.0%
ZAO Metso Automation	100.0%
Metso Paper ZAO	100.0%
<b>United States</b>	
Metso USA Inc.	100.0%
Metso Minerals Industries Inc.	100.0%
Metso Copperstate Inc.	100.0%
Svedala Project Services Inc.	100.0%
Neles-Jamesbury Inc.	100.0%
Metso Automation USA Inc.	100.0%
Jamesbury Shanghai Valve (USA) Inc.	100.0%
Metso Paper USA Inc.	100.0%
Metso Fabrics USA Inc.	100.0%
Metso Fabrics PMC USA LLC	100.0%
Metso Wyesco Service Center Inc.	100.0%
Valmet Automotive USA Inc.	61.4%
<b>Canada</b>	
Metso Minerals Canada Inc.	100.0%
Metso Automation Canada Ltd	100.0%
Metso Paper Ltd	100.0%
Tamfelt PMC, Canada Inc.	100.0%
Metso Canada Ltd	100.0%
Metso Shared Services Ltd	100.0%
<b>Brazil</b>	
Metso Brazil Indústria e Comércio Ltda	100.0%
Metso Automation do Brasil Ltda	100.0%
Metso Paper South America Ltda	100.0%
Metso Paper Sulamericana Ltda	100.0%
Metso Fabrics Brasil Tecidos Técnicos Ltda	100.0%

Company name	Ownership, %
<b>Chile</b>	
Metso Minerals (Chile) SA	100.0%
Metso Automation Chile Ltda	100.0%
Metso Paper SA	100.0%
Metso Paper Asesorias Tecnicas SA	100.0%
<b>Mexico</b>	
Metso (Mexico) SA de CV	100.0%
Metso SA de CV	100.0%
<b>Australia</b>	
Metso Minerals (Australia) Ltd	100.0%
Metso Automation (ANZ) Pty Ltd	100.0%
Metso Paper (ANZ) Pty Ltd	100.0%
<b>China</b>	
Metso Minerals (Tianjin) Co. Ltd	100.0%
Metso Minerals (Tianjin) International Trade Co. Ltd	100.0%
Metso Minerals (Hong Kong) Ltd	100.0%
Metso Automation (Shanghai) Co. Ltd	100.0%
Metso Paper (China) Co. Ltd	100.0%
Metso Paper (Guangzhou) Co. Ltd	100.0%
Metso Paper (Shanghai) Co. Ltd	100.0%
Metso Paper Technology (Shanghai) Co. Ltd	100.0%
Metso Paper Technology (Xian) Co. Ltd	75.0%
Metso (Shanghai) Surface Treatment Co. Ltd	100.0%
Metso Fabrics (Shanghai) Co. Ltd	100.0%
Metso Fabrics (Tianjin) Co. Ltd	100.0%
Tamfelt - GMCC (Tianjin) Paper Machine Clothing Co. Ltd	60.0%
Metso (China) Investment Co. Ltd	100.0%
<b>India</b>	
Metso Minerals (India) Private Ltd	100.0%
Metso Minerals (Mumbai) Private Ltd	100.0%
Metso Automation India Private Ltd	100.0%
Metso Paper India Private Ltd	100.0%
Metso Power India Private Ltd	74.0%
<b>Indonesia</b>	
PT Metso Minerals Indonesia Ltda	100.0%
PT Metso Indonesia	100.0%
PT Metso Paper Indonesia	100.0%
<b>Japan</b>	
Metso Minerals Japan Co. Ltd	100.0%
Metso Automation KK	100.0%
Metso Paper Japan Co. Ltd	100.0%

Company name	Ownership, %
<b>Singapore</b>	
Metso Minerals (Singapore) Pte Ltd	100.0%
Metso Automation Pte Ltd	100.0%
Metso Paper (Asia-Pacific) Pte Ltd	100.0%
<b>South Korea</b>	
Metso Automation Korea Ltd	100.0%
Metso Paper Korea Inc.	100.0%
<b>Thailand</b>	
Metso Minerals (Thailand) Co. Ltd	100.0%
Metso Automation Co. Ltd	100.0%
Metso Paper (Thailand) Co. Ltd	100.0%
<b>South Africa</b>	
Metso Minerals Investment Holdings (SA) (Pty) Ltd	100.0%
Metso Minerals (South Africa) Pty Ltd	100.0%
Metso Automation RSA (Pty) Ltd	100.0%
Metso ND Engineering (Pty) Ltd	70.0%
Metso Paper South Africa (Pty) Ltd	100.0%
<b>Others</b>	
Metso Denmark A/S	100.0%
Noviter Eesti	60.0%
Metso (Kazakhstan) LLP	100.0%
Metso Minerals Dis Ticaret Limeted Sirketi	100.0%
Metso Minerals (Ukraine) LLC	100.0%
Metso Perú SA	100.0%
Metso Argentina SA	100.0%
Metso Minerals (Malaysia) Sdn Bhd	100.0%
Metso New Zealand Ltd	100.0%
Metso Minerals (Philippines) Inc.	100.0%
Svedala (Philippines) Inc.	100.0%
Metso Vietnam Co. Ltd	100.0%
Metso Minerals Algeria	100.0%
Metso Ghana Ltd	100.0%
Metso Minerals (Lebanon) sarl	100.0%
Metso Minerals (Zambia) Ltd	100.0%
Metso Minerals (Zimbabwe) PVT Ltd	100.0%
Nordberg Manufacturing (Pty)	100.0%
Nordberg Namibia (Pty)	100.0%
Metso Automation FZE (Dubai)	100.0%



## 32 Reporting segment and geographic information

### Corporate structure

Metso Group is a global supplier of sustainable technology and services for mining, construction, oil and gas, pulp, paper and power generation industries.

The Board of Directors, which has been identified as Metso's chief operating decision maker, decides on strategy, selection of key employees, major development projects, business acquisitions, investments, organization and financing. The operating segments in Metso are determined based on the reports delivered to the Board of Directors who uses them in decision making.

The operations are organized into the following three segments:

**Mining and Construction** supplies technology, processes, machinery and services for aggregates production, construction, mining and minerals processing. The segment is organized in three business lines: Minerals Processing Systems, Crushing and Screening Equipment as well as Services.

**Automation** supplies process industry flow control solutions, automation and information management systems and applications and services. Automation comprises three business lines: Flow Control, Process Automation Systems and Services.

**Pulp, Paper and Power** supplies processes, machinery, equipment, services, paper machine clothing and filter fabrics for the pulp, paper and power industries. The segment is organized in four business lines: Paper, Fiber, Power and Services.

**Group Head Office and other** is comprised of the Parent Company and shared service centers in Finland, Sweden, Canada and Brazil as well as holding companies in several countries. Valmet Automotive and Recycling are both reported as separate businesses.

Transfer pricing in intra-Metso transactions is primarily based on market prices. In some cases, cost-based prices are used, thereby including the margin (cost plus method).

The financial performance of the segments is measured through their ability to generate operating profit and earnings before inter-

est, tax and amortization (EBITA) both in absolute figures and as percentage of net sales. The performance is being measured through EBITA before non-recurring items. The effect the non-recurring items have on cost of goods sold, selling, general and administrative expenses as well as other income and expenses, net, is presented in the segment information. Financial income and expenses, net, and income taxes are not allocated to segments but included in the profit (loss) of Group Head Office and other. The treasury activities of Metso are coordinated and managed by the Group Treasury to benefit from cost efficiency obtained from pooling arrangements, financial risk management, bargaining power, cash management, and other measures. Tax planning aims at the minimization of Metso's overall tax cost and it is based on the legal structure and the utilization of holding company structure as applicable.

Segment assets comprise intangible assets, property, plant and equipment, investments in associated companies and joint ventures, available-for-sale equity investments, inventories and non-interest bearing operating assets and receivables. They exclude interest bearing assets, including also cash and cash equivalents, income tax receivables and deferred tax assets, which are included in the assets of Group Head Office and other.

Segment liabilities comprise non-interest bearing operating liabilities and exclude income tax liabilities and deferred tax liabilities, which are included in the liabilities of Group Head Office and other. Interest bearing liabilities are not allocated to segments, but included in the liabilities of Group Head Office and other.

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

Gross capital expenditure comprises investments in intangible assets, property, plant and equipment, associated companies, joint ventures and available-for-sale equity investments including additions through business acquisitions.

Information about Metso's reportable segments as of and for the years ended December 31, 2010 and 2011 is presented in the following tables.

EUR million	Mining and Construction	Automation	Pulp, Paper and Power	Recycling	Valmet Automotive	Group Head Office and other	Eliminations	Metso total
<b>2010</b>								
External net sales	2,222	606	2,450	190	84	-	-	<b>5,552</b>
Intra-Metso net sales	13	44	3	0	-	-	-60	-
Net sales	2,235	650	2,453	190	84	-	-60	<b>5,552</b>
EBITA before non-recurring items	264.8	72.2	167.9	6.5	-4.6	-15.8	-	<b>491.0</b>
% of net sales	11.8	11.1	6.8	3.4	-5.5	n/a	-	<b>8.8</b>
Operating profit (loss)	290.4	65.6	115.8	0.3	-6.4	-20.5	-	<b>445.2</b>
% of net sales	13.0	10.1	4.7	0.2	-7.6	n/a	-	<b>8.0</b>
Non-recurring items in cost of goods sold	-1.2	-2.7	-7.8	-1.9	-	-	-	<b>-13.6</b>
Non-recurring items in selling, general and administrative expenses	-0.6	-	-1.5	-0.4	-	-	-	<b>-2.5</b>
Non-recurring items in other operating income and expenses, net	34.1	-	-2.0	-	-1.8	-2.4	-	<b>27.9</b>
Total non-recurring items	32.3	-2.7	-11.3	-2.3	-1.8	-2.4	-	<b>11.8</b>
Amortization	-7	-4	-41	-4	0	-2	-	<b>-58</b>
Depreciation	-36	-13	-58	-3	-9	-1	-	<b>-120</b>
Gross capital expenditure (including business acquisitions)	-37	-19	-77	-1	-17	-5	-	<b>-156</b>
Non-cash write-downs	-9	-2	-9	-2	0	-	-	<b>-22</b>
Intangible assets and property, plant and equipment	669	123	1,071	84	50	19	-	<b>2,016</b>
Investments in associated companies	-	9	5	-	-	0	-	<b>14</b>
Available-for-sale equity investments	0	0	3	0	3	3	-	<b>9</b>
Inventories and other non-interest bearing assets	1,302	306	1,100	103	48	103	-	<b>2,962</b>
Interest bearing assets	-	-	-	-	-	1,063	-	<b>1,063</b>
Deferred tax assets	-	-	-	-	-	168	-	<b>168</b>
Total assets	1,971	438	2,179	187	101	1,356	-	<b>6,232</b>
Non-interest bearing liabilities	820	203	1,424	88	60	143	-	<b>2,738</b>
Interest bearing debt	-	-	-	-	-	1,373	-	<b>1,373</b>
Deferred tax liability	-	-	-	-	-	50	-	<b>50</b>
Total liabilities	820	203	1,424	88	60	1,566	-	<b>4,161</b>
Capital employed	1,151	235	755	99	41	1,163	-	<b>3,444</b>
Orders received	2,457	695	2,583	195	84	-	-70	<b>5,944</b>
Order backlog	1,356	308	2,347	72	-	-	-60	<b>4,023</b>

Capital employed includes only external balance sheet items.

EUR million	Mining and Construction	Automation	Pulp, Paper and Power	Recycling	Valmet Automotive	Group Head Office and other	Eliminations	Metso total
<b>2011</b>								
External net sales	2,748	714	2,692	211	281	-	-	<b>6,646</b>
Intra-Metso net sales	12	56	11	1	-	-	-80	-
Net sales	2,760	770	2,703	212	281	-	-80	<b>6,646</b>
EBITA before non-recurring items	322.1	103.9	218.8	2.3	12.0	-30.6	-	<b>628.5</b>
% of net sales	11.7	13.5	8.1	1.1	4.3	n/a	-	<b>9.5</b>
Operating profit (loss)	313.1	99.7	189.2	-0.1	3.4	-33.5	-	<b>571.8</b>
% of net sales	11.3	12.9	7.0	0.0	1.2	n/a	-	<b>8.6</b>
Non-recurring items in cost of goods sold	-	-	-	-	-	-	-	-
Non-recurring items in selling, general and administrative expenses	-	-	-	-	-3.3	-0.8	-	<b>-4.1</b>
Non-recurring items in other operating income and expenses, net	-0.8	-	2.6	-	-2.8	-	-	<b>-1.0</b>
Total non-recurring items	-0.8	-	2.6	-	-6.1	-0.8	-	<b>-5.1</b>
Amortization	-8	-4	-32	-3	-3	-2	-	<b>-52</b>
Depreciation	-35	-10	-58	-3	-13	-1	-	<b>-120</b>
Gross capital expenditure (including business acquisitions)	-49	-21	-75	-3	-23	-10	-	<b>-181</b>
Non-cash write-downs	15	1	-10	-8	-6	0	-	<b>-8</b>
Intangible assets and property, plant and equipment	667	129	1,059	83	45	26	-	<b>2,009</b>
Investments in associated companies	-	12	4	-	-	0	-	<b>16</b>
Available-for-sale equity investments	0	0	3	0	0	3	-	<b>6</b>
Inventories and other non-interest bearing assets	1,621	394	1,385	110	57	86	-	<b>3,653</b>
Interest bearing assets	-	-	-	-	-	767	-	<b>767</b>
Deferred tax assets	-	-	-	-	-	167	-	<b>167</b>
Total assets	2,288	535	2,451	193	102	1,049	-	<b>6,618</b>
Non-interest bearing liabilities	1,020	243	1,855	104	49	144	-	<b>3,415</b>
Interest bearing debt	-	-	-	-	-	1,027	-	<b>1,027</b>
Deferred tax liability	-	-	-	-	-	40	-	<b>40</b>
Total liabilities	1,020	243	1,855	104	49	1,211	-	<b>4,482</b>
Capital employed	1,268	292	596	89	53	866	-	<b>3,164</b>
Orders received	3,464	822	3,225	253	281	-	-84	<b>7,961</b>
Order backlog	2,027	364	2,863	115	-	-	-59	<b>5,310</b>

Capital employed includes only external balance sheet items.

## Entity-wide information

Metso's businesses are present in over 50 countries. The main market areas are Europe and North America accounting for over 50 percent of net sales. However, Asia and South America are becoming increasingly important. Metso has production units on all continents.

### Net sales to unaffiliated customers by destination:

EUR million	Finland	Other Nordic countries	Other European countries	North America	South and Central America	Asia-Pacific	Africa and Middle East	Metso total
2010	295	368	1,305	920	795	1,576	293	5,552
<b>2011</b>	<b>418</b>	<b>411</b>	<b>1,484</b>	<b>1,208</b>	<b>1,116</b>	<b>1,665</b>	<b>344</b>	<b>6,646</b>

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

EUR million	Other Nordic countries	Other European countries	North America	South and Central America	Asia-Pacific	Africa and Middle East	Total
2010	175	644	119	65	729	47	1,779
<b>2011</b>	<b>221</b>	<b>660</b>	<b>236</b>	<b>213</b>	<b>523</b>	<b>47</b>	<b>1,900</b>

### Long-term assets by location:

EUR million	Finland	Other Nordic countries	Other European countries	North America	South and Central America	Asia-Pacific	Africa and Middle East	Non-allocated	Metso total
2010	505	73	90	170	94	179	10	960	2,081
<b>2011</b>	<b>485</b>	<b>67</b>	<b>87</b>	<b>174</b>	<b>108</b>	<b>198</b>	<b>8</b>	<b>949</b>	<b>2,076</b>

Long-term assets comprise intangible assets, property, plant and equipment, investments in associated companies, available-for-sale equity investments and other non-interest bearing non-current assets. Non-allocated assets include mainly goodwill and other allocated assets arising from business acquisitions that have not been pushed down to the subsidiaries' books.

### Gross capital expenditure (excluding business acquisitions) by location:

EUR million	Finland	Other Nordic countries	Other European countries	North America	South and Central America	Asia-Pacific	Africa and Middle East	Metso total
2010	67	9	9	6	9	34	1	135
<b>2011</b>	<b>67</b>	<b>10</b>	<b>14</b>	<b>10</b>	<b>31</b>	<b>32</b>	<b>2</b>	<b>166</b>

### Analysis of net sales by category:

EUR million	Year ended December 31,	
	2010	2011
Sale of services	2,453	2,871
Sale of projects, equipment and goods	3,099	3,595
<b>Total</b>	5,552	6,466

### Major customers

Metso delivers large long-term construction contracts, which however rarely exceed 10 percent of its net revenue. In 2011, the Pulp, Paper and Power segment signed a delivery agreement of which EUR 100 million was recognized in net sales in 2011, the remaining amount of EUR 600 million will be recognized over the coming years.

### 33 Audit fees

EUR million	Year ended December 31,	
	2010	2011
Audit	-2.5	-2.6
Tax consulting	-2.0	-2.0
Other services	-1.0	-1.1
<b>Total</b>	<b>-5.5</b>	<b>-5.7</b>

### 34 Lawsuits and claims

Several lawsuits, claims and disputes based on various grounds are pending against Metso in various countries, including product liability lawsuits and claims as well as legal disputes related to Metso's deliveries. However, Metso's management does not expect to the best of its present understanding that the outcome of these lawsuits, claims and disputes will have a material adverse effect on Metso in view of the grounds presented for them, provisions made, insurance coverage in force and the extent of Metso's total business activities. Metso is also a plaintiff in several lawsuits.

#### Pending asbestos litigation

As of December 31, 2011, there had been a total of 1,103 complaints alleging asbestos injuries filed in the United States in which a Metso entity is one of the named defendants. Where a given plaintiff has named more than one viable Metso unit as a defendant, the cases are counted by the number of viable Metso defendants. Of these claims, 353 are still pending and 750 cases have been closed. Of the closed cases, 190 were by summary judgment, 437 were dismissed, and 123 were settled. The outcome of the pending cases is not expected to materially deviate from the outcome of the previous claims. Hence, Metso management's present belief is that the risk caused by the pending asbestos lawsuits and claims in the United States is not material in view of the extent of Metso's total business operations.

#### Lawsuits related to intellectual property rights

In December 2011, Metso won a patent infringement lawsuit against Terex Corporation, one of its subsidiaries and two of its dealers as a New York court affirmed the jury's earlier verdict that the defendants had willfully infringed on Metso's U.S. patent relating to mobile crushing and screening machines. Due to the willfulness of the infringement, the court doubled the original damages award to USD 31.6 million covering the infringing sales from March 2000 through October 2007. In addition, the defendants will have to pay additional compensation covering infringing sales after October 2007, which will be accounted for later and also doubled. The final compensation for Metso will also include interest. In July 2011, the court issued an order permanently barring the defendants from marketing their mobile screening machines that were found to infringe upon Metso's patents. Terex has appealed from the court decision and the lawsuit will continue in the appeals court. We will recognize the compensation in the financial statements only after the final outcome of the lawsuit is clear. Metso will continue to be active in protecting its intellectual property rights globally, with the objective of enhancing fair competition.

## 35 New accounting standards

### IFRS 9

In November 2009, IASB published IFRS 9 'Financial instruments: Recognition and measurement'. The standard represents the first phase in the replacement of IAS 39. It simplifies classification of financial assets and requires them to be measured either at amortized costs or at fair value.

In October 2010, IASB published the second part of IFRS 9 'Financial Liabilities – Classification and Measurement' according to which the accounting and presentation for financial liabilities shall remain unchanged except for those financial liabilities for which fair value option is applied. The next steps will involve impairment of financial assets and development of hedge accounting.

The whole standard, once completed, can now be estimated to become effective for the financial periods beginning on or after January 1, 2015.

As long as the whole standard is not finalized Metso cannot assess its impact to Metso's financial statements.

### IAS 12, amendment

In December 2010, IASB published 'Deferred Tax: Recovery of underlying assets – Amendment to IAS 12' providing an exception to the general principle on measuring deferred tax assets and tax liabilities. The amendment concerns investment property and it becomes applicable on or after January 1, 2012.

The amendment will not impact Metso's financial statements.

### IFRS 10

In May 2011, IASB published IFRS 10 'Consolidated Financial Statements', which defines the principle of control, which is the basis for consolidation to be used to identify whether an investor controls an investee and therefore must consolidate it. The standard replaces IAS27 and covers the principles for the presentation and preparation of consolidated financial statements. The standard is applicable to annual reporting periods beginning on or after January 1, 2013.

The standard is not expected to have material impact to Metso's financial statements.

### IFRS 11

In May 2011, IASB published IFRS 11 'Joint Arrangements' on how a party to a joint arrangement should account for its involvement in such an arrangement. The entity has to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and account for those rights and obligations in accordance. The joint arrangement can either be a joint operation or a joint venture. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The standard is applicable to annual reporting periods beginning on or after January 1, 2013.

The standard is not expected to have material impact to Metso's financial statements.

### IFRS 12

In May 2011, IASB published IFRS 12 'Disclosure of Interests in Other Entities' which requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, the preparer's interests in other entities and the effects of those interests on its financial position, financial performance and

cash flows. The standard is applicable to annual reporting periods beginning on or after January 1, 2013.

Metso is assessing the impact of the standard to its financial statement disclosures.

### IFRS 13

In May 2011, IASB published IFRS 13 'Fair Value Measurement' which defines fair value, sets out in one standard a framework for measuring fair value and sets disclosures requirements about fair value measurements. It increases consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorizes the inputs used in valuation techniques into three levels giving the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The standard is applicable to annual reporting periods beginning on or after January 1, 2013.

Metso is assessing the impact of the standard to its financial statement disclosures.

### IAS 1, amendment

In June 2011, IASB published an amendment to IAS 1 'Presentation of Financial Statements'. The amendment to the standard continues to allow the entity to choose between the 'one or two income statement' presentations but revises the way other comprehensive income is presented. It requires separate subtotals for those elements which may be 'recycled' at a future date such as translation differences on disposal of a subsidiary and for those elements that will not be 'recycled' such investments at fair value through other comprehensive income as defined by IFRS 9. The amendment is effective for annual periods beginning on or after July 1, 2012.

Metso will continue to present a separate income statement and a statement of comprehensive income.

### IAS 19, amendment

In June 2011, IASB published an amendment to IAS 19 'Employee Benefits'. It requires recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, eliminating the option to defer the recognition of gains and losses, known as the 'corridor method'. It requires disaggregation of the defined benefit cost into three components: service, net interest and remeasurement component, the last one being recognized under other comprehensive income. Net interest is calculated using high quality bond yield rate. The amendment requires enhanced disclosures about defined benefit plans. The amendment is applicable to annual periods beginning on or after January 1, 2013.

Apart from the effect of the immediate recognition of past service cost, the amendment will not impact the amount of the defined benefit liability (asset) in the financial statements because Metso does use not the 'corridor method'. The calculation of net interest will impact the benefit cost reported in the income statement if the annual return calculated on assets has been higher than the discount rate applied to the benefit liability. Had the amendment been applicable in 2011, the impacts to Metso's financial statements would have been following: profit before tax would have decreased by EUR 3 million and the pre-tax amount reported under other comprehensive income would have increased by EUR 4 million. The recognition of past service cost would have decreased the net liability by EUR 1 million.

Provided these standards and amendments receive endorsement by the European Union, Metso will apply them when they become effective.

## 36 Events after balance sheet date

Between the balance sheet date and the date when these financial statements were authorized for issue no favorable nor unfavorable event requiring disclosure occurred.

## Exchange Rates Used

		Average rates		Year-end rates	
		2010	2011	2010	2011
USD	(US dollar)	1.3299	<b>1.3951</b>	1.3362	<b>1.2939</b>
SEK	(Swedish krona)	9.5510	<b>9.0038</b>	8.9655	<b>8.9120</b>
GBP	(Pound sterling)	0.8585	<b>0.8704</b>	0.8608	<b>0.8353</b>
CAD	(Canadian dollar)	1.3773	<b>1.3768</b>	1.3322	<b>1.3215</b>
BRL	(Brazilian real)	2.3379	<b>2.3287</b>	2.2177	<b>2.4159</b>
CNY	(Chinese yuan)	8.9975	<b>9.0141</b>	8.8220	<b>8.1588</b>
AUD	(Australian dollar)	1.4514	<b>1.3412</b>	1.3136	<b>1.2723</b>

# Financial Indicators 2007–2011

EUR million	2007	2008	2009	2010	2011
Net sales	6,250	6,400	5,016	5,552	<b>6,646</b>
Net sales change, %	26.1	2.4	-21.6	10.7	<b>19.7</b>
Operating profit	580	637	294	445	<b>572</b>
% of net sales	9.3	10.0	5.9	8.0	<b>8.6</b>
Profit before tax	547	548	222	370	<b>507</b>
% of net sales	8.8	8.6	4.4	6.7	<b>7.6</b>
Profit	384	390	151	258	<b>358</b>
% of net sales	6.1	6.1	3.0	4.6	<b>5.4</b>
Profit attributable to shareholders of the company	381	389	150	257	<b>356</b>
Exports from Finland and international operations	5,795	5,957	4,706	5,269	<b>6,281</b>
% of net sales	92.7	93.1	93.8	94.9	<b>94.5</b>
Amortization	56	44	41	58	<b>52</b>
Depreciation	92	94	102	120	<b>120</b>
Depreciation and amortization	148	138	143	178	<b>172</b>
% of net sales	2.4	2.2	2.9	3.2	<b>2.6</b>
EBITA	636	681	334	503	<b>623</b>
% of net sales	10.2	10.6	6.7	9.1	<b>9.4</b>
EBITDA	728	775	437	623	<b>744</b>
% of net sales	11.6	12.1	8.7	11.2	<b>11.2</b>
Financial income and expenses, net	33	89	72	75	<b>65</b>
% of net sales	0.5	1.4	1.4	1.4	<b>1.0</b>
Interest expenses, net	33	71	75	69	<b>75</b>
% of net sales	0.5	1.1	1.5	1.2	<b>1.1</b>
Interest cover (EBITDA)	22.1x	8.7x	6.1x	8.3x	<b>11.4x</b>
Gross capital expenditure (excl. business acquisitions)	159	255	117	135	<b>166</b>
% of net sales	2.5	4.0	2.3	2.4	<b>2.5</b>
Business acquisitions, net of cash acquired	55	44	1	21	<b>15</b>
Net capital expenditure (excl. business acquisitions and disposals)	140	238	85	117	<b>156</b>
% of net sales	2.2	3.7	1.7	2.1	<b>2.3</b>
Cash flow from operations	294	137	770	506	<b>466</b>
Free cash flow	198	29	717	435	<b>375</b>
Cash conversion, %	52	7	475	169	<b>105</b>
Research and development	117	134	115	111	<b>124</b>
% of net sales	1.9	2.1	2.3	2.0	<b>1.9</b>
Balance sheet total	5,254	5,511	5,715	6,232	<b>6,618</b>
Equity attributable to shareholders	1,608	1,444	1,783	2,049	<b>2,115</b>
Total equity	1,615	1,453	1,792	2,071	<b>2,136</b>
Interest bearing liabilities	819	1,435	1,576	1,373	<b>1,027</b>
Net interest bearing liabilities	540	1,099	583	310	<b>260</b>
Net working capital (NWC)	375	672	242	247	<b>281</b>
% of net sales	6.0	10.5	4.8	4.5	<b>4.2</b>
Capital employed	2,434	2,888	3,368	3,444	<b>3,164</b>
Return on equity (ROE), %	25.4	26.0	9.8	13.6	<b>17.8</b>
Return on capital employed (ROCE) before tax, %	26.1	23.2	10.0	13.5	<b>18.4</b>
Return on capital employed (ROCE) after tax, %	19.0	17.3	7.7	10.2	<b>13.8</b>
Equity to assets ratio, %	37.7	30.9	35.7	38.1	<b>39.8</b>
Gearing, %	33.4	75.7	32.5	15.0	<b>12.2</b>
Debt to capital, %	33.7	49.7	46.8	39.9	<b>32.5</b>
Orders received	6,965	6,384	4,358	5,944	<b>7,961</b>
Order backlog, December 31	4,341	4,088	3,415	4,023	<b>5,310</b>
Average number of personnel	26,269	28,010	27,813	27,585	<b>29,590</b>
Personnel, December 31	26,837	29,322	27,166	28,593	<b>30,324</b>

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



# Formulas for Calculation of Indicators

## Formulas for calculation of financial indicators

### EBITA:

Operating profit + amortization + goodwill impairment

### EBITDA:

Operating profit + depreciation and amortization + goodwill impairment

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

$$\frac{\text{Profit}}{\text{Total equity (average for period)}} \times 100$$

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

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

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

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

### Gearing, %:

$$\frac{\text{Net interest bearing liabilities}}{\text{Total equity}} \times 100$$

### Equity to assets ratio, %:

$$\frac{\text{Total equity}}{\text{Balance sheet total – advances received}} \times 100$$

### Net working capital (NWC):

Inventory + trade receivables + other non-interest bearing receivables  
– trade payables – advances received – other non-interest bearing liabilities

### Capital employed:

Balance sheet total – non-interest bearing liabilities

### Free cash flow:

Net cash provided by operating activities – capital expenditures on maintenance investments + proceeds from sale of fixed assets

### Cash conversion, %:

$$\frac{\text{Free cash flow}}{\text{Profit}} \times 100$$

### Debt to capital, %:

$$\frac{\text{Interest bearing liabilities}}{\text{Total equity + interest bearing liabilities}} \times 100$$

### Interest cover (EBITDA):

$$\frac{\text{EBITDA}}{\text{Financial income and expenses, net}}$$

## Formulas for calculation of share-related indicators

### Earnings/share, basic:

$$\frac{\text{Profit attributable to shareholders of the company}}{\text{Average number of outstanding shares during period}}$$

### Earnings/share, diluted:

$$\frac{\text{Profit attributable to shareholders of the company}}{\text{Average number of diluted shares during period}}$$

### Free cash flow/share:

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

### Equity/share:

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

### Dividend/share:

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

### Dividend/earnings, %:

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

### Effective dividend yield, %:

$$\frac{\text{Dividend per share}}{\text{Share price on December 31}} \times 100$$

### P/E ratio:

$$\frac{\text{Share price on December 31}}{\text{Earnings per share}}$$

### Average share price:

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

### Market capitalization:

Number of outstanding shares x share price at end of period

### Total shareholder return (TSR), %:

$$\frac{\text{Change in share price + dividend paid during period}}{\text{Share price at end of previous period}} \times 100$$

# Parent Company Statement of Income, in Accordance with Finnish Accounting Standards, FAS

EUR million	Year ended December 31,	
	2010	2011
Net sales	-	-
Other operating income	0	0
Personnel expenses	-13	-14
Depreciation and amortization	-1	0
Other operating expenses	-15	-18
Operating loss	-29	-32
Financial income and expenses, net	212	258
Profit before extraordinary items	183	226
Group contributions	77	143
Profit before appropriations and taxes	260	369
Income taxes for the period	0	0
Change in deferred taxes	5	-16
<b>Profit</b>	265	353

# Parent Company Balance Sheet, FAS

Assets EUR million	As at December 31,	
	2010	2011
<b>Non-current assets</b>		
Intangible assets	1	1
Tangible assets	1	2
Investments		
Shares in Group companies	2,517	2,465
Other investments	339	157
<b>Total non-current assets</b>	2,858	2,625
<b>Current assets</b>		
Long-term receivables	26	9
Short-term receivables	638	799
Securities	520	272
Bank and cash	38	61
<b>Total current assets</b>	1,222	1,141
<b>Total assets</b>	4,080	3,766

Shareholders' equity and liabilities EUR million	As at December 31,	
	2010	2011
<b>Shareholders' equity</b>		
Share capital	241	241
Invested non-restricted equity fund	573	573
Other reserves	194	194
Retained earnings	759	880
<b>Total shareholders' equity</b>	1,767	1,888
<b>Liabilities</b>		
Long-term liabilities	986	832
Current liabilities	1,327	1,046
<b>Total liabilities</b>	2,313	1,878
<b>Total shareholders' equity and liabilities</b>	4,080	3,766

# Parent Company Statement of Changes in Shareholders' Equity, FAS

EUR million	Share capital	Invested non-restricted equity fund	Other reserves	Retained earnings	Total
<b>Balance at December 31, 2009</b>	<b>241</b>	<b>573</b>	<b>194</b>	<b>606</b>	<b>1,614</b>
Dividends	-	-	-	-105	-105
Other	-	-	-	-7	-7
Profit	-	-	-	265	265
<b>Balance at December 31, 2010</b>	<b>241</b>	<b>573</b>	<b>194</b>	<b>759</b>	<b>1,767</b>
Dividends	-	-	-	-232	-232
Other	-	-	-	0	0
Profit	-	-	-	353	353
<b>Balance at December 31, 2011</b>	<b>241</b>	<b>573</b>	<b>194</b>	<b>880</b>	<b>1,888</b>

# Shares and shareholders

## Shares and share capital

On December 31, 2011, Metso Corporation's share capital, fully paid up and entered in the trade register, was EUR 240,982,843.80, and the total number of shares 150,348,256. Metso has one share series, and each share entitles its holder to one vote at the General Meeting and to an equal amount of dividend. Metso's shares are registered in the Finnish book-entry system.

## Metso's own shares

On December 31, 2011, Metso Corporation held a total of 719,060 own shares, which represent 0.48 percent of all Metso shares and votes. During the year, Metso recovered 663 shares from share-based incentive plan participants having terminated their employment.

## Board authorizations

On March 30, 2011, the Annual General Meeting authorized the Board of Directors to decide on the repurchase of the company's own shares, the share issue and the granting of special rights. As of December 31, 2011, the Board had not exercised the authorizations.

## Authorization to repurchase the Corporation's own shares

The 2011 Annual General Meeting authorized the Board to decide on the repurchase of a maximum of 10,000,000 of the company's own shares. The company's own shares can be repurchased in deviation from the proportion to the holdings of the shareholders with the company's non-restricted equity and acquired through public trading on the NASDAQ OMX Helsinki Ltd at the market price at the time of repurchase.

The shares can be used to develop Metso's capital structure or to finance or carry out future acquisitions, investments or other arrangements related to the company's business or as part of the Metso's incentive program.

The company's repurchased shares can be held by the company, cancelled or conveyed. The authorization can include also the right to take the Company's own shares as pledge to secure the potential receivables of the Company. The Board of Directors

shall decide on other matters related to the repurchase of the Company's own shares.

The repurchase authorization is valid until June 30, 2012, and it revokes the repurchase authorization given by the Annual General Meeting on March 30, 2010.

## Authorizing the Board to decide on the issuance of shares as well as the issuance of special rights

Under the authorization granted, the Board is entitled to decide on the issuing of a maximum of 15,000,000 new shares and on the conveying of a maximum 10,000,000 own shares held by the company.

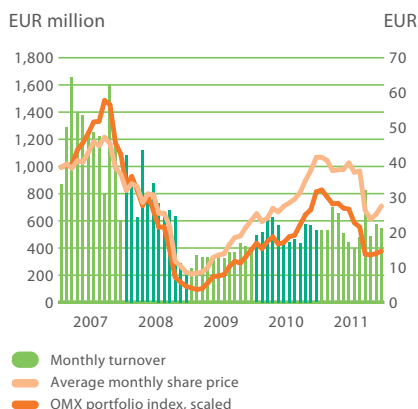
Additionally, the Board is authorized to grant special rights referred to in Chapter 10, Section 1 of the Finnish Companies Act, which carry the right to receive, against payment, new shares of the company or the company's own shares held by the company in such a manner that the subscription price is paid by using the subscriber's receivables to offset the subscription price. The maximum number of shares to be issued is 15,000,000. The maximum number is included in the maximum number of shares noted in the previous paragraph.

The new shares may be issued and the own shares held by the Company conveyed either against payment or without payment.

The Board may decide on a share issue without payment also to the company itself. The number of shares to be issued to the company shall not exceed 10,000,000 including the number of own shares acquired by the company by virtue of the authorization to repurchase the company's own shares.

The new shares and the own shares held by the company may be issued to the company's shareholders in proportion to their current holding; or by means of a directed issue, waiving the pre-emptive subscription rights of the shareholders, if there is a weighty financial reason for the company to do so, such as to develop the capital structure of the company or to finance or carry out future acquisitions, investments or other arrangements related to the company's business or as part of the company's incentive program. A directed issue can only be executed without payment if there is an especially weighty

Metso share's monthly turnover and average share price on the NASDAQ OMX Helsinki 2007–2011



Metso's and competitors' share price development 2007–2011, scaled



financial reason for the company to do so, taking the interests of all shareholders into account.

The subscription price of new shares issued shall be recorded in the invested unrestricted equity fund and the consideration paid for the conveyance of the company's own shares shall be recorded in the invested unrestricted equity fund.

The Board of Directors shall decide on other matters related to the share issues.

The share issue authorization is valid until April 30, 2014, and it revokes the share issue authorization given by the Annual General Meeting on March 30, 2010.

### Market capitalization and trading

Metso Corporation's shares are quoted on the NASDAQ OMX Helsinki (OMXH: MEO1V) since July 1, 1999. Metso's ADSs (American Depositary Shares) are traded in the United States on the OTC market under the ticker symbol MXCY.

Metso's share price on the NASDAQ OMX Helsinki in 2011 decreased by 31 percent, from EUR 41.80 to EUR 28.65. At the same time, the NASDAQ OMX Helsinki portfolio index, OMX Helsinki CAP, decreased by 28 percent. The highest quotation of Metso's share on the NASDAQ OMX Helsinki in 2011 was EUR 43.27, and the lowest EUR 19.72. The share price on December 30, 2011 was EUR 28.65 and the average trading price for the year was EUR 31.79. Metso's market capitalization at year-end, excluding own shares held by the company, was EUR 4 287 million. Total shareholder return (TSR) was 28 percent negative in 2011 (73% positive).

In 2011, 206,936,576 Metso shares were traded on the NASDAQ OMX Helsinki, equivalent to a turnover of EUR 6,578 million. The average daily trading volume was 817,931 shares, which is 5 percent less than in 2010. During the year, 140 percent of shares were traded (relative turnover in 2010: 145%). In addition to the NASDAQ OMX Helsinki, Metso shares were traded on alternative market places, for example at BOAT, Chi-X Europe and BATS.

In 2011, the highest trading price for Metso's ADSs in the United States was USD 61.45, and the lowest USD 27.00. The ADS price on the OTC market at year-end was USD 37.25. Each ADS represents one share.

### Share-based incentive plans

#### Option programs

There are no option programs in Metso.

#### Share ownership plans

Metso's share ownership plans are part of the remuneration and commitment program for Metso management. For further information, see [www.metso.com/investors](http://www.metso.com/investors). The reward shares for the plan are acquired in public trading and therefore the plans will not have a diluting effect on the share value.

#### Share Ownership Plan for 2009–2011

In October 2008, the Board approved a share ownership plan for the years 2009–2011. The plan has one three-year earnings period and required participants' personal investment in Metso shares at the beginning of the program. Any possible reward from the plan requires continued employment with Metso and reaching the financial targets set for the plan. At the end of 2011, 84 people were participating in the plan and the rewards that can be paid correspond to a maximum of 354,975 Metso shares. Members of the 2011 Executive Team may receive a maximum of 54,600 shares as share rewards.

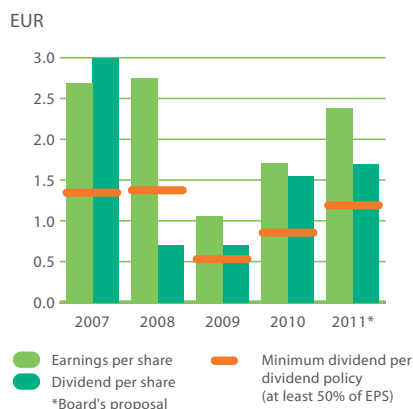
#### Share Ownership Plan for 2010–2012

In October 2009, the Board approved a similar kind of share ownership plan for the years 2010–2012. The plan has one three-year earnings period and required participants' personal investment in Metso shares at the beginning of the program. Any possible reward from the plan requires continued employment with Metso and reaching the financial targets set for the plan. At the end of 2011, 88 people were participating in the plan and the rewards that can be paid correspond to a maximum of 329,600 Metso shares. Members of the 2011 Executive Team may receive a maximum of 51,325 shares as share rewards.

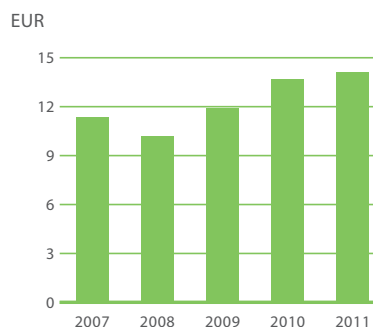
#### Share Ownership Plan for 2011–2013

In September 2010, the Board approved a similar kind of share ownership plan for the years 2011–2013. The plan includes one

Earnings per share and dividend per share



Equity/share



three-year earnings period and requires participants' personal investment in Metso shares at the beginning of the program. Any possible reward from the plan requires continued employment with Metso and reaching the financial targets set for the plan. At the end of 2011, 72 people were participating in the plan and the rewards that can be paid correspond to a maximum of around 243,898 Metso shares. Members of the Executive Team may receive a maximum of 77,400 shares as share rewards.

#### Long-term Incentive Plan for 2012–2014

In December 2011, Metso's Board decided on a new share-based incentive plan for the Group's top management. The plan includes three performance periods, which are the calendar years 2012, 2013 and 2014. Metso's Board shall decide on the performance criteria, targets and participants at the beginning of each performance period. For the performance period 2012, the plan is targeted to about 100 people in Metso's management, and the potential reward of the plan for the performance period 2012 is based on the net sales growth of the services business, return on capital employed (ROCE) before taxes, and earnings per share (EPS).

The potential rewards to be paid on the basis of the performance period 2012 will correspond to a maximum total of approximately 450,000 Metso shares. Members of the Executive Team may receive a maximum of 95,123 shares as share rewards.

More detailed information on the share-based incentive plans is presented in the Notes to the Financial Statements (Note 22, on pages 83–84).

#### Holdings of Metso's Board of Directors and executive management

At year-end, the members of Metso's Board of Directors, CEO Matti Kähkönen (from March 1, 2011), Executive Vice President Pasi Laine, and their interest

parties held altogether 143,116 Metso shares, which correspond to 0.10 percent of the paid up share capital and votes in Metso.

#### Dividend policy

Metso's dividend policy is to distribute at least 50 percent of earnings per share in annual dividends or in other forms of repatriation of capital to its shareholders. The Board of Directors proposes to the Annual General Meeting to be held on March 29, 2012 that the dividend of EUR 1.70 per share be distributed for the year ended on December 31, 2011.

The proposed dividend of EUR 1.70 (EUR 1.55 in 2010) corresponds to 71 percent of the profit attributable to shareholders for the year (91% in 2010), and the effective dividend yield is 5.9 percent (3.7% in 2010).

#### Shareholders

At the end of 2011, Metso had 47,170 shareholders in the book-entry system, the largest of which was Solidium Oy, with 11.1 percent (2010: 10.4%) ownership. Nominee-registered shares and shares in direct foreign ownership accounted for 48.3 percent (53.8%) of the total stock. Finnish institutions, companies and organizations accounted for 27.7 percent (23.3%) and Finnish private persons for 12.9 percent (12.5%) of Metso's shares. Metso is not aware of any shareholder's agreements regarding the ownership of Metso shares and voting rights.

#### Disclosure of changes in holdings

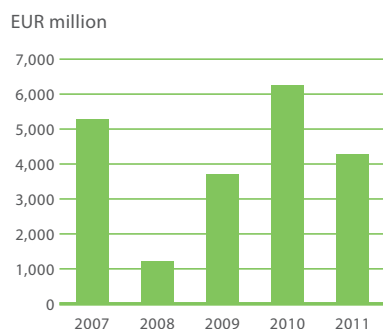
During 2011, we didn't receive any disclosures of changes in holdings in which ownership would have reached, exceeded or decreased below the 5 percent limit or the other notification thresholds as set out in the Securities Markets Act. Currently, the only shareholder exceeding 5 percent ownership in Metso is Solidium Oy with 11.1 percent of the share capital and voting rights (December 31, 2011).



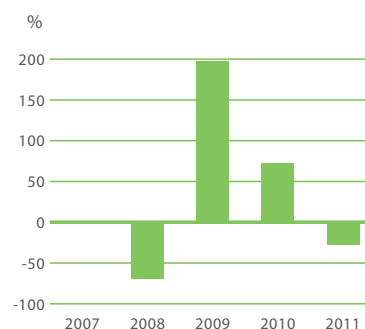
#### Links & notes

- 1 More about share ownership plans [www.metso.com/remuneration](http://www.metso.com/remuneration)
- 2 Current list of Metso's biggest shareholders and their holdings [www.metso.com/shareholders](http://www.metso.com/shareholders)
- 3 Up-to-date information on Metso's insiders and their holdings [www.metso.com/insiders](http://www.metso.com/insiders)

Market capitalization, on December 31



Total shareholder return (TSR)



## Share capital and share data 2007–2011

	2007	2008	2009	2010	2011
Share capital, December 31, EUR million	241	241	241	241	<b>241</b>
Number of shares, December 31:					
Number of outstanding shares	141,487,234	141,623,642	149,938,639	149,629,859	<b>149,629,196</b>
Own shares held by the Parent Company	60,841	60,841	409,617	718,397	<b>719,060</b>
Shares administered by a partnership (MEO1V Incentive Ky)	206,539	70,131	-	-	-
Total number of shares	141,754,614	141,754,614	150,348,256	150,348,256	<b>150,348,256</b>
Average number of outstanding shares	141,460,012	141,595,026	141,477,476	149,682,703	<b>149,629,690</b>
Average number of diluted shares	141,460,012	141,595,026	141,526,284	149,836,864	<b>149,832,989</b>
Trading volume, NASDAQ OMX Helsinki Ltd	350,168,659	359,378,566	321,093,368	217,467,633	<b>206,936,576</b>
Trading volume, NYSE <sup>1)</sup>	6,020,320	-	-	-	-
% of shares <sup>2)</sup>	251.8	253.8	214.1	145.3	<b>140.3</b>
Earnings/share, basic, EUR	2.69	2.75	1.06	1.71	<b>2.38</b>
Earnings/share, diluted, EUR	2.69	2.75	1.06	1.71	<b>2.38</b>
Free cash flow/share, EUR	1.40	0.20	5.07	2.91	<b>2.50</b>
Dividend/share <sup>3)</sup> , EUR	3.00	0.70	0.70	1.55	<b>1.70</b>
Dividend <sup>3)</sup> , EUR million	425	99	105	232	<b>254</b>
Dividend/earnings, % <sup>3)</sup>	112	25	66	91	<b>71</b>
Effective dividend yield, % <sup>3)</sup>	8.0	8.2	2.8	3.7	<b>5.9</b>
P/E ratio	13.88	3.10	23.24	24.44	<b>12.04</b>
Equity/share, EUR	11.36	10.19	11.89	13.69	<b>14.13</b>
Highest share price, EUR	49.95	38.56	24.78	43.23	<b>43.27</b>
Lowest share price, EUR	34.06	7.74	7.03	20.91	<b>19.72</b>
Average share price, EUR	41.43	23.66	13.26	28.81	<b>31.79</b>
Share price, December 31, EUR	37.33	8.52	24.63	41.80	<b>28.65</b>
Market capitalization, December 31 <sup>4)</sup> , EUR million	5,282	1,207	3,693	6,255	<b>4,287</b>

<sup>1)</sup> Trading volume until September 14, 2007.

<sup>2)</sup> Of the total amount of shares for public trading (For the year 2007 trading in both NASDAQ OMX Helsinki and NYSE, from 2008 onwards only in NASDAQ OMX Helsinki).

<sup>3)</sup> 2011 proposal by the Board of Directors.

<sup>4)</sup> Excluding own shares held by the Parent Company and shares administered by a partnership.

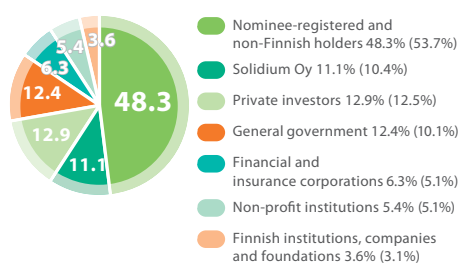
Formulas for calculation of share-related indicators are on page 103.

## Metso's biggest shareholders on December 31, 2011

	Shares and votes	% of share capital and voting rights
<b>1 Solidium Oy</b>	<b>16,695,287</b>	<b>11.1</b>
<b>2 Ilmarinen Mutual Pension Insurance Company</b>	<b>6,531,943</b>	<b>4.3</b>
<b>3 Varma Mutual Pension Insurance Company</b>	<b>5,148,682</b>	<b>3.4</b>
<b>4 Nordea Funds</b>	<b>1,847,585</b>	<b>1.2</b>
Nordea Nordenfonden	989,342	0.7
Nordea Pro Finland fund	325,000	0.2
Nordea Nordic fund	266,023	0.2
Nordea Finland Index Fund	129,085	0.1
Nordea Finland special fund	61,065	0.0
Nordea Pro Europe fund	46,579	0.0
Nordea Private banking focus Nordic special fund	19,667	0.0
Nordea Private banking focus Suomi special fund	10,824	0.0
<b>5 The State Pension Fund</b>	<b>1,840,000</b>	<b>1.2</b>
<b>6 Mandatum Life Insurance</b>	<b>1,591,435</b>	<b>1.1</b>
<b>7 The Local Government Pension Institution</b>	<b>1,575,380</b>	<b>1.1</b>
<b>8 OP Funds</b>	<b>1,435,000</b>	<b>1.0</b>
OP-Delta Fund	945,000	0.6
OP-Focus special fund	390,000	0.3
OP-Finland Value fund	100,000	0.1
<b>9 Svenska litteratursällskapet i Finland r.f.</b>	<b>1,167,706</b>	<b>0.8</b>
<b>10 Odin Funds</b>	<b>895,530</b>	<b>0.6</b>
Odin Norden	653,654	0.4
Odin Finland	211,511	0.2
Odin Norden II	24,222	0.0
Odin Finland II	6,143	0.0
<b>10 largest owner groups in total</b>	<b>38,728,548</b>	<b>25.8</b>
Nominee-registered shares <sup>1)</sup>	69,235,386	46.0
Other shareholders	41,655,682	27.7
Own shares held by the Parent Company	719,060	0.5
In the issuer account	9,580	0.0
<b>Total</b>	<b>150,348,256</b>	<b>100.0</b>

<sup>1)</sup> Shareholders have an obligation to notify the company of changes in their holdings, when the holdings have reached, exceeded or fallen below 5 percent of Metso's voting rights or share capital. An up-to-date list of all flagging notifications made can be found at [www.metso.com/investors](http://www.metso.com/investors).

## Breakdown by shareholder category on December 31, 2011



Links & notes

- 1 Up-to-date list of flagging notifications  
[www.metso.com/flagging](http://www.metso.com/flagging)



## Changes in number of shares and share capital

		Number of shares	Change in number of shares	Share capital, EUR	Change in share capital, EUR
2001	New shares subscribed with the Metso 1994 options, which were transferred from Valmet Corporation	136,250,545	793,270	231,625,926.50	1,348,559.00
2005	New shares subscribed with the Metso 2000A/B and 2001A/B options	141,654,614	5,404,069	240,812,843.80	9,186,917.30
2006	New shares subscribed with the Metso 2003A options	141,719,614	65,000	240,923,343.80	110,500.00
2007	New shares subscribed with the Metso 2003A options	141,754,614	35,000	240,982,843.80	59,500.00
2008	No changes in number of shares nor in share capital	141,754,614	-	240,982,843.80	-
2009	New shares issued as consideration for Tamfelt acquisition	150,348,256	8,593,642	240,982,843.80	-
<b>2010, 2011</b>	No changes in number of shares nor in share capital	150,348,256	-	240,982,843.80	-

## Breakdown of share ownership on December 31, 2011

Number of shares	Shareholders	% of share- holders	Total number of shares and votes	% of share capital and voting rights
1-100	19,071	40.4	1,001,394	0.7
101-500	19,018	40.3	4,886,344	3.2
501-1,000	4,613	9.8	3,492,355	2.3
1,001-5,000	3,681	7.8	7,625,092	5.1
5,001-10,000	385	0.8	2,816,756	1.9
10,001-50,000	300	0.7	6,148,224	4.1
50,001-100,000	38	0.1	2,685,719	1.8
100,001-500,000	48	0.1	10,906,513	7.3
over 500,001	16	0.0	40,821,833	27.1
<b>Total</b>	<b>47,170</b>	<b>100.0</b>	<b>81,103,290</b>	<b>53.5</b>
Nominee-registered shares	18		69,235,386	46.0
Own shares held by the Parent Company			719,060	0.5
In the issuer account			9,580	0.0
<b>Number of shares issued</b>			<b>150,348,256</b>	<b>100.0</b>

# Auditor's Report

## To the Annual General Meeting of Metso Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Metso Corporation for the year ended December 31, 2011. The financial statements comprise the consolidated income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's income statement, balance sheet, cash flow statement and notes to the financial statements.

## Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

## Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company and the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

## Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

## Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

## Other Opinions

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the President and CEO of the parent company should be discharged from liability for the financial period audited by us.

Helsinki, February 13, 2012

PricewaterhouseCoopers Oy  
Authorised Public Accountants

Johan Kronberg  
Authorised Public Accountant

# Corporate Governance

We have prepared a separate Corporate Governance Statement for 2011 which complies with the recommendations of the Finnish Corporate Governance Code for listed companies. It also covers other central areas of corporate governance. The complete statement is published on our website, at [www.metso.com/governance](http://www.metso.com/governance).

On the following pages, we present all the key governance information for 2011, including the Board's nomination and agenda for the year, tasks and duties of the Board committees, as well as Metso's management structure and remuneration of the Board and the top management.

## Metso's governing bodies



## Regulatory framework

The duties of Metso Corporation's bodies are governed by Finnish legislation and the duties of its subsidiaries' bodies by the legislations of their place of business. Metso complies with the Finnish Corporate Governance Code ("the Code") issued by the Securities Market Association and which came into effect on October 1, 2010, as well as with the corporate governance principles defined by our Board of Directors; these principles are based on the Finnish Companies Act and the Finnish Securities Markets Act. The Code

is publicly available on [www.cgfinland.fi](http://www.cgfinland.fi). Metso complies with the Code entirely and has not deviated from its recommendations. In our decision-making and governance, we also comply with other Finnish legislation and regulations, our Articles of Association, the guidelines for insiders published by NASDAQ OMX Helsinki Ltd (hereinafter the Helsinki Exchange) as well as the Finnish Central Chamber of Commerce's Helsinki Takeover Code.

The Audit Committee of Metso's Board of Directors has reviewed this Corporate Governance Statement.

Our independent auditor, PricewaterhouseCoopers Oy, has verified that this statement has been issued and that the statement-related description of the main features of the internal control and risk management systems related to the financial reporting process is consistent with our financial statements.

We prepare consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by EU, the Finnish Securities Markets Act as well as the applicable Finnish Financial Supervision Authority's standards and Helsinki Exchange's rules. The Board of Directors' report of Metso and the Parent Company financial statements are prepared in accordance with the Finnish Accounting Act and the guidelines and statements of the Finnish Accounting Board.

## Governing bodies of Metso

### Annual General Meeting of Shareholders

**2011** The Annual General Meeting was held in Helsinki on March 30, 2011. A total of 1,464 shareholders representing about 49.5 percent of the company's votes participated in it either in person or by power of attorney. All members of the Board, Board candidate Ozey K Horton, Jr., the chairman of Metso's Nomination Board Kari Järvinen, Metso's CEO Matti Kähkönen, and Metso's Executive Team as well as the responsible auditor representing the audit firm appointed by the Annual General Meeting participated in the meeting.

>> [SEE LINK 1](#)

### Nomination Board

#### *Nomination Board ahead of 2012 AGM*

Metso's four largest shareholders as of October 3, 2011, announced the following representatives for the Nomination Board: Kari Järvinen (M.Sc. Engineering, MBA, b. 1962), Managing Director, Solidium Oy; Lars Förberg (M.Sc. Econ. & Bus. Adm., b. 1965), Managing Partner of Cevian Capital; Harri Sailas (M.Sc. Econ. & Bus. Adm., b. 1951), CEO of Ilmarinen Mutual Pension Insurance Company; and Matti Vuoria (Master of Laws, BA, b. 1951), Managing Director, President and CEO of Varma Mutual Pension Insurance Company. The Nomination Board elected Kari Järvinen as its Chairman, and Jukka Viinanen, Chairman of the Board of Directors, served as its expert member.

The Nomination Board convened four times and made one unanimous resolution without convening. All members were present in all meetings. On January 30, 2012, the Nomination Board provided Metso's Board its proposal for the Annual General Meeting to be held on March 29, 2012. The Nomination Board proposes that Jukka Viinanen, Mikael von Frenckell, Christer Gardell, Ozey K. Horton, Jr., Erkki Pehu-Lehtonen and Pia Rudengren be re-elected and that Eeva Sipilä be elected as a new member. It is proposed to elect Jukka Viinanen as Chairman of the Board of Directors and Mikael von Frenckell as Vice Chairman of the Board of Directors.

The Nomination Board proposes that the members of the Board of Directors be paid the following annual remuneration: to the Chairman EUR 100,000; to the Vice Chairman and the Chairman of the Audit Committee EUR 60,000; and to the other

members EUR 48,000 each. The Nomination Board furthermore proposes that for each meeting of the Board of Directors or the committees of the Board of Directors a fee of EUR 700 be paid to the members of the Board that reside in the Nordic countries, a fee of EUR 1,400 be paid to the members of the Board that reside in other European countries and a fee of EUR 2,800 be paid to the members of the Board that reside outside Europe. As a condition for the annual remuneration, the members of the Board are obliged to use 40 percent of the fixed annual remuneration for purchasing Metso Corporation shares.

The Nomination Board notes that a personnel representative will participate as an external expert in the Metso Board meetings also in the next Board term within the limitations imposed by Finnish law. The new Board of Directors will invite the personnel representative as its external expert in its organizing meeting after the Annual General Meeting.

### Board of Directors

**2011** The key theme of the Board's agenda was strategic development of Metso's business. The agenda covered developing Metso's global presence, Metso's HR processes, developing the services business, and regularly monitoring the financial development of Metso and its different businesses.

The Board carried out a self-assessment of its performance by using an external advisor. The assessment covered, among other things, composition of the Board, efficiency and quality of the Board and its Committees' work, the Board's strategy work, collaboration between the Board and operative management, quality of information, materials, and reporting and control systems provided to and used by the Board. The results of the assessment are used in developing the Board work.

The 2011 Annual General Meeting elected eight members to the Board. Jukka Viinanen was elected as Chairman and Maija-Liisa Friman as Vice Chairman. The Board members re-elected were Erkki Pehu-Lehtonen, Mikael von Frenckell, Christer Gardell, Yrjö Neuvo and Pia Rudengren. Ozey K. Horton, Jr. was elected as a new member of the Board. Jukka Leppänen, the personnel representative, participated in the meetings as an invited expert. All Board members were independent of the company and independent of Metso's significant shareholders. The Board did not allocate to its members any specific operational focus areas to monitor. The Board met 14 times during 2011, and attendance by its members was 98 percent.

### Board committees

#### *Audit Committee*

**2011** In addition to its regulatory duties, among other things, the Audit Committee discussed Metso's financing situation and reporting practices. In addition, the committee assessed Metso's tax issues and reviewed the success of business acquisitions made in recent years, and it monitored the progress of global ERP projects. Additionally, the Audit Committee reviewed the impairment tests performed on the intangible assets with indefinite useful lives. As a result of these tests, no impairment was recognized. The Audit Committee also reviewed Metso's Corpo-

rate Governance Statement. The Audit Committee did not use any external advisors.

The Audit Committee comprised Pia Rudengren (Chairman), Maija-Liisa Friman and Erkki Pehu-Lehtonen. All committee members are independent of the company and of significant shareholders. The Audit Committee convened 5 times, and member attendance was 100 percent. Metso's CFO Harri Nikunen was the secretary of the Audit Committee. Metso's CEO and the independent auditor also participated in the meetings.

### Remuneration and HR Committee

**2011** The main tasks of the Remuneration and HR Committee included planning Metso's new share-based incentive scheme for 2012-2014, monitoring the realization of the 2011 performance bonus plan and planning of the 2012 plan. The committee used external advisors relating to the share-based incentive scheme and has ensured that the advisors were not simultaneously advisors to the HR department or the operating management.

The Remuneration and HR Committee comprised Jukka Viinanen (Chairman), Christer Gardell, Yrjö Neuvo and Mikael von Frenckell. Merja Kamppari, Senior Vice President, HR, was the committee secretary. The committee convened 7 times during the year. One member was absent from one committee meeting.

### Board member meeting participation

The Board convened 14 times in 2011. The member participation rate was 98 percent. The Audit Committee convened 5 times, and the member participation rate was 100 percent. The Remuneration and HR Committee convened 7 times, and its member participation rate was 96 percent.

	Board	Audit Committee	Remuneration and HR Committee
Jukka Viinanen <sup>1)</sup>	13/14		7/7
Maija-Liisa Friman <sup>2)</sup>	13/14	5/5	
Mikael von Frenckell <sup>1)</sup>	14/14		7/7
Christer Gardell <sup>1)</sup>	14/14		6/7
Ozey K. Horton, Jr. <sup>3)</sup>	11/11		
Yrjö Neuvo <sup>1)</sup>	14/14		7/7
Erkki Pehu-Lehtonen <sup>2)</sup>	14/14	5/5	
Pia Rudengren <sup>2)</sup>	13/14	5/5	
Jukka Leppänen (personnel representative)	14/14		

<sup>1)</sup> Board member and Remuneration and HR Committee member. The Board convened 14 times and the Remuneration and HR Committee 7 times.

<sup>2)</sup> Board member and Audit Committee member. The Board convened 14 times and the Audit Committee 5 times.

<sup>3)</sup> Elected as a Board member at the AGM on March 30. After the AGM, the Board convened 11 times.

### Management structure

**2011** The Metso Executive Team met 12 times during the year. Among its main tasks were strategic development of Metso's business and structure and monitoring financial development. The MET also focused on development of Metso's global presence, HR processes, development of the services business, as well as acquisitions and divestments. The Metso Executive Team also reviewed and updated Metso's strategy for the Board review.

The Metso Executive Forum, discontinued in December, did not meet during the year.

Metso's President and CEO was Jorma Eloranta until his retirement on February 28, 2011, after which Matti Kähkönen became the President and CEO. As of March 1, 2011, the Metso Executive Team comprises of Matti Kähkönen (Chairman); Andrew Benko, President, Mining and Construction segment; Perttu Louhiluoto, President, Automation segment; Pasi Laine, President, Pulp, Paper and Power segment, and Executive Vice President and Deputy to the CEO; Harri Nikunen, CFO; Merja Kamppari, Senior Vice President, HR; and Kalle Reponen, Senior Vice President, Strategy and M&A. Olli Vaartimo and Bertel Langenskiöld, who were previously members of the MET, reached their retirement age according to their executive contracts in autumn 2010 and did not continue in the MET after March 1, 2011.

>> SEE LINK 2

## Compliance with laws and Code of Conduct

### Control activities

**2011** Metso's Compliance Program continued in 2011 with the integration of internal audit and compliance testing into a single package. In terms of control requirements, there was more emphasis on the key business issues. Sustainability and worksite safety are currently part of the Metso Compliance Program requirements. Additionally, the new systems adopted by Metso will enable significantly more effective control procedures, which will be taken into consideration also in the program.

### Monitoring

**2011** In monitoring, we focused on the management of net working capital, cost structure competitiveness and the functioning of the new ERP systems.

### Reporting of suspected financial misconduct

**2011** We received 11 reports of suspected financial misconduct via the Whistleblower channel. Additionally, internal audit received four direct contacts. A total of six cases were investigated, two of the suspicions were classifiable as misconduct. There were no cases of misconduct revealed in conjunction with internal audits. The cases of misconduct were reviewed by the Audit Committee in line with our guidelines on reporting misconduct. The cases did not have a significant impact on the financial results we reported.

### Auditors

**2011** PricewaterhouseCoopers Oy, Authorized Public Accountants, has been Metso's auditor since 1999. In 2011, the principal auditor was Johan Kronberg, who has been the company's principal auditor since 2005. The Audit Committee decided in autumn to invite tenders for the auditor; as a result, the Board of Directors proposes to the Annual General Meeting of Shareholders that Ernst & Young Oy be selected as the auditor. Our auditor was last put out to tender in 2004. The fees related to auditing work in 2011 amounted to EUR 2.6 million.

## Links & notes

- 1 Annual General Meeting decisions [www.metso.com/agm](http://www.metso.com/agm)
- 2 Current information about Metso's management [www.metso.com/management](http://www.metso.com/management)
- 3 Additional information about Metso's management, p. 118-121
- 4 The auditor's report, presented on page 112, covers the Board of Directors' report, consolidated financial statements and the Parent Company financial statements
- 5 Metso's risk management is presented on pages 24-25 and on our website [www.metso.com/risks](http://www.metso.com/risks)
- 6 Internal Audit's Charter [www.metso.com/audit](http://www.metso.com/audit)

### Audit fees

EUR million	2008	2009	2010	2011
Audit	2.7	2.5	2.5	<b>2.6</b>
Tax consulting	1.8	1.7	2.0	<b>2.0</b>
Other services	1.1	0.8	1.0	<b>1.1</b>
<b>Total</b>	<b>5.6</b>	<b>5.0</b>	<b>5.5</b>	<b>5.7</b>

### Management remuneration

#### Remuneration of the Board

The Annual General Meeting decides on the remuneration to the members of the Board for one term of office at a time. The Annual General Meeting in 2011 decided to keep the fees paid to Board members unchanged. The annual fees are:

- Chairman of the Board EUR 92,000
- Vice Chairman of the Board EUR 56,000
- Chairman of the Audit Committee EUR 56,000
- Other Board members EUR 45,000

In addition, for Board members whose place of domicile is in the Nordic countries, a fee of EUR 600 per meeting is paid for each Board and committee meeting they attend. The meeting fee for members residing elsewhere in Europe is EUR 1,200 and for those residing outside of Europe EUR 2,400. Compensation for travel expenses and daily allowances is paid in accordance with Metso's travel policy.

Based on the decision of the Annual General Meeting in 2011, 40 percent of the annual fees were used to buy Metso shares from the market. The shares were acquired within the two weeks following the April 28, 2011 publication of the interim report. Altogether, 4,308 shares were acquired, which is 0.003 percent of Metso's total share capital. There are no special terms or conditions associated with owning these shares. The number of shares acquired in this conjunction for Board members are listed in the table below.

Board member	Number of shares
Jukka Viinanen	924
Maija-Liisa Friman	562
Mikael von Frenckell	452
Christer Gardell	452
Ozey K. Horton, Jr.	452
Yrjö Neuvo	452
Erkki Pehu-Lehtonen	452
Pia Rudengren	562
<b>Total</b>	<b>4,308</b>

The Board members, none of whom are employees of Metso, were paid annual remuneration and meetings fees totaling EUR 556,800 during the financial year that ended December 31, 2011. The Board members are not covered by Metso's bonus plans, share-based incentive schemes or pension plans.

### Share-based incentive plans

#### Long-term Incentive Plan 2012–2014

In December 2011, Metso's Board decided to establish a new share-based incentive plan that has three performance periods, which are calendar years 2012, 2013 and 2014. The Board shall decide on the performance criteria, targets and participants in the beginning of each performance period. The plan is targeted to approximately 100 persons in Metso management for the performance period 2012. The potential rewards to be paid on the basis of the performance period 2012 will correspond to a maximum total of approximately 450,000 Metso shares. The Executive Team's share of the 2012 earnings period can be a maximum of 95,132 shares.

The potential reward from the performance period 2012 is based on the net sales growth of the services business, return on capital employed (ROCE, %) before taxes and earnings per share (EPS). The potential reward of the plan from the performance period 2012 will be paid at the end of an approximately two-year vesting period in 2015, partly in company shares and partly in cash. The proportion to be paid in cash is intended to cover taxes and tax-related costs arising from the reward to the participants. If a participant's employment or service ends for reasons relating to the participant before the reward payment, no reward will be paid. The reward for each performance period of the plan may not exceed 120 percent of a participant's annual total base salary.

The Metso shares to be transferred in possible rewards will be obtained in public trading, and therefore the incentive plan will have no diluting effect on the share value.

#### Remuneration of the President and CEO President and CEO until February 28, 2011

Former President and CEO Jorma Eloranta retired at the end of February 2011 in accordance with the terms of his contract. The amount of the performance bonus paid to him in 2011 corresponded to approximately a salary of six months. He is included in Metso's share ownership plans launched before 2011 and has a supplementary defined benefit pension plan. His retirement pension is 60 percent of his pensionable compensation during the last four service years.

#### President and CEO from March 1, 2011 onwards

Matti Kähkönen became Metso's President and CEO on March 1, 2011. The CEO is entitled to participate in Metso's short- and long-term incentive programs according to the respective terms and conditions of those programs. The terms and conditions are decided by the Board. The Board assesses the work and performance of the President and CEO and decides on his remuneration. The remuneration of Matti Kähkönen is described in more detail in the table on the following page.

>> [SEE LINK 1](#)

### Links & notes

- 1 Current information on management's ownership [www.metso.com/insiders](http://www.metso.com/insiders)
- 2 Detailed information about Board member remuneration is available in the Notes to the Financial Statements, p. 68–70
- 3 Read more about our share ownership plan: note 22 to the Financial Statements, p. 83
- 4 More detailed information about the President and CEO's and other Executive Team members' compensation and benefits is available in the Notes to the Financial Statements, p. 68–70

### Remuneration paid to the President and CEO, Executive Vice President and other Executive Team members

EUR	Annual salary	Paid performance bonus	Fringe benefits	Share-based payment	Total
<b>2010</b>					
President and CEO Jorma Eloranta	550,790	263,752	12,812	-	827,354
Executive Vice President Olli Vaartimo from Jan 1 to Sep 30, 2010	305,973	143,722	18,234	-	467,929
Executive Vice President Matti Kähkönen from Oct 1 to Dec 31, 2010	90,315	-	3,545	-	93,860
Other Executive Team members	1,364,759	322,783	56,817	-	1,744,359
<b>Total</b>	<b>2,311,837</b>	<b>730,257</b>	<b>91,408</b>	<b>-</b>	<b>3,133,502</b>
<b>2011</b>					
President and CEO Jorma Eloranta from Jan 1 to Feb 28, 2011	117,680	253,012	2,166	-	372,858
President and CEO Matti Kähkönen from Mar 1 to Dec 31, 2011	419,357	190,113	12,349	-	621,819
Executive Vice President Matti Kähkönen from Jan 1 to Feb 28, 2011	84,942	-	2,363	-	87,305
Executive Vice President Pasi Laine from Mar 1 to Dec 31, 2011	304,900	200,340	9,500	-	514,740
Other Executive Team members	1,353,595	857,595	60,915	-	2,272,105
<b>Total</b>	<b>2,280,474</b>	<b>1,501,060</b>	<b>87,293</b>	<b>-</b>	<b>3,868,827</b>

In 2012, an estimated bonus of about EUR 217,500 will be paid to President and CEO Matti Kähkönen and an estimated bonus of about EUR 197,500 to Executive Vice President Pasi Laine based on 2011 performance. Metso has subscribed pension plans for senior management and the beneficiaries include members of the Metso Executive Team. For the years ended December 31, 2010 and 2011, the pension insurance premium payments totaled approximately EUR 3.0 million and EUR 1.8 million, respectively.

### Employment terms and conditions of President and CEO Matti Kähkönen as of March 1, 2011

Base salary and fringe benefits	Total monthly salary EUR 41,100, including salary and fringe benefits (company car and mobile phone).
Short-term incentive (annual bonus)	Annual bonus can be earned in accordance with terms approved by the Board. The maximum bonus is 60 percent of total annual salary.
Long-term incentives	According to Metso's Share Ownership Plans. The annual reward payment cannot exceed the annual total salary, defined as taxable annual gross income without annual bonus and long-term incentives, multiplied by 1.5. In the new plan starting in 2012, the maximum bonus is 120 percent of the total annual salary.
Pension	Retirement age is 63 years. Kähkönen has a supplementary defined benefit pension plan. His total pension is 60 percent of average monthly earnings during the past four full calendar years prior to retirement, adjusted by the pension index.
Termination of assignment	Notice period for both parties is six months. Severance pay (if the company terminates the agreement) is six months' notice period compensation plus severance pay corresponding to the last total monthly salary multiplied by 18.

# Board of Directors Dec 31, 2011



Mikael von Frenckell

Jukka Viinanen

Yrjö Neuvo



Christer Gardell

Pia Rudengren

Ozey K. Horton, Jr.



Jukka Leppänen

Majja-Liisa Friman

Erkki Pehu-Lehtonen



## Jukka Viinanan

Born 1948.  
Finnish citizen.

**Main occupation:** Chairman of the Board.  
MSc. Chemical Engineering.  
Independent of the company and independent of significant shareholders.  
Board member since 2008.  
Chairman of the Board since 2009.  
Chairman of the Board's Remuneration and HR Committee.

**Metso shares Dec 31, 2011:** 3,301

**Key work experience:** President and CEO, Orion Corporation 2000–2007, various management positions, Neste Corporation 1980–1999, President and CEO and Vice Chairman of the Board 1997–1999.

## Christer Gardell

Born 1960.  
Swedish citizen.

**Main occupation:** CEO.  
MSc. Business Administration and Economics, MBA-program on-going.  
Independent of the company and independent of significant shareholders.  
Metso Board member since 2006.  
Member of the Board's Remuneration and HR Committee.

**Metso shares Dec 31, 2011:** 1,125

**Key work experience:** Founder and Managing Partner, Cevian Capital 2001–, CEO, AB Custos 1996–2001, Partner at Nordic Capital and McKinsey & Company.

## Erkki Pehu-Lehtonen

Born 1950.  
Finnish citizen.

**Main occupation:** -  
MSc. Mechanical Engineering.  
Independent of the company and independent of significant shareholders.  
Metso Board member since 2010.  
Member of the Board's Audit Committee.

**Metso shares Dec 31, 2011:** 1,875

**Key work experience:** President and CEO, Pöyry Plc 1999–2008, other management positions, Pöyry Plc, Neles-Jamesbury Inc. and Valmet Paper Machinery Inc.

## Maija-Liisa Friman

Born 1952.  
Finnish citizen.

**Main occupation:** Board professional.  
MSc. Chemical Engineering.  
Independent of the company and independent of significant shareholders.  
Metso Board member since 2003.  
Vice Chairman of the Board since 2010.  
Member of the Board's Audit Committee.

**Metso shares Dec 31, 2011:** 2,900

**Key work experience:** President and CEO in various companies 1993–2004 (Aspocomp Group Plc, Vattenfall Oy, Gyproc Oy).

## Yrjö Neuvo

Born 1943.  
Finnish citizen.

**Main occupation:** Professor.  
Ph.D., Cornell University.  
Independent of the company and independent of significant shareholders.  
Metso Board member since 2006.  
Member of the Board's Remuneration and HR Committee.

**Metso shares Dec 31, 2011:** 8,225

**Key work experience:** Chief Technology Officer, member of the Group Executive Board, Nokia Corporation 1993–2005, several professorial positions in different universities.

## Ozey K. Horton, Jr.

Born 1951.  
U.S. citizen.

**Main occupation:** Board professional, independent advisor.  
MBA, BSE.  
Metso Board member since 2011.  
Independent of the company and independent of significant shareholders.

**Metso shares Dec 31, 2011:** 452

**Key work experience:** Various management positions, McKinsey & Company 1981–2011.

## Pia Rudengren

Born 1965.  
Swedish citizen.

**Main occupation:** Board professional.  
MSc. Business Administration and Economics.  
Independent of the company and independent of significant shareholders.  
Metso Board member since 2009.  
Chairman of the Board's Audit Committee.

**Metso shares Dec 31, 2011:** 1,235

**Key work experience:** CFO, (member of management team 1998–2001) Investor AB 1990–2001, Executive Vice President, W Capital Management AB 2001–2005, Board professional 2006–.

## Mikael von Frenckell

Born 1947.  
Finnish citizen.

**Main occupation:** Chairman of the Board.  
MSc. Soc.  
Independent of the company and independent of significant shareholders.  
Metso Board member since 2010.  
Member of the Board's Remuneration and HR Committee.

**Metso shares Dec 31, 2011:** 101,125

**Key work experience:** Various management positions, Union Bank of Finland 1990–1995, various management positions (incl. Sponsor Oy, Ekström Oy).

## Personnel representative

### Jukka Leppänen

Born 1949.  
Finnish citizen.

**Main occupation:** Testing Engineer.  
Personnel representative in Metso Board. Participates in Board meetings as an invited expert with no voting rights; term of office is the same as Board members' term.

**Metso shares Dec 31, 2011:** 520

**Key work experience:** Metso employee since 1976. Shop steward for senior clerical employees and an industrial safety delegate.



Links & notes

1 Current information on Metso's Board of Directors [www.metso.com/management](http://www.metso.com/management)

# Executive Team Dec 31, 2011



## Matti Kähkönen

Born 1956.  
Finnish citizen.  
MSc. Engineering.

**Main occupation:** President and CEO.  
Chairman of the Executive Team since 2011.  
Member of the Executive Team since 2001.  
Joined the company in 1980.

**Metso shares, Dec 31, 2011:** 12,328

**Key experience:** President, Metso Minerals 2006–2011, Metso Automation 2001–2006.

## Pasi Laine

Born 1963.  
Finnish citizen.  
MSc. Engineering.

**Main occupation:** President,  
Pulp, Paper and Power.  
Executive Vice President and Deputy to CEO.  
Member of the Executive Team since 2006.  
Joined the company in 1998.

**Metso shares Dec 31, 2011:** 9,437

**Key experience:** President, Paper and  
Fiber Technology 2011; President, Energy  
and Environmental Technology 2008–2011;  
President, Metso Automation 2006–2008,  
Metso Automation's Field Systems business  
line 2003–2006.

## Kalle Reponen

Born 1965.  
Finnish citizen.  
MSc. Economics.

**Main occupation:** Senior Vice President,  
Strategy and M&A.  
Member of the Executive Team since 2008.  
Joined the company in 2006.

**Metso shares Dec 31, 2011:** 4,155

**Key experience:** Partner, MCF Corporate  
Finance 2003–2006; Head of Capital Goods,  
Nordea Corporate Finance 2000–2003;  
various positions, Wärtsilä Corporation  
1991–2000.

## Andrew Benko

Born 1949.  
U.S. citizen.  
MSc. Engineering.

**Main occupation:** President,  
Mining and Construction.  
Member of the Executive Team since 2011.  
Joined the company in 2001.

**Metso shares Dec 31, 2011:** 9,989

**Key experience:** President, Metso's  
Equipment and Systems- (2009–2011),  
and Mining business line (2007–2009);  
President, Minerals Processing business  
line 2001–2006; various top management  
positions at Svedala 1993–2001.

## Harri Nikunen

Born 1955.  
Finnish citizen.  
BA, Finance and Business Administration.

**Main occupation:** CFO.  
Member of the Executive Team since 2011.  
Joined the company in 1994.

**Metso shares Dec 31, 2011:** 4,931

**Key experience:** Various senior  
management positions, Metso 1994–2011;  
various finance management positions,  
Rosenlew Group 1986–1994.

## Perttu Louhiluoto

Born 1964.  
Finnish citizen.  
Master of Laws, MSc. Economics.

**Main occupation:** President, Automation.  
Member of the Executive Team 2009  
and since 2011.  
Joined the company in 2008.

**Metso shares Dec 31, 2011:** 2,750

**Key experience:** President, Energy and  
Environmental Technology 2011; Senior Vice  
President, EMEA Market Area, Mining and  
Construction Technology 2009–2011; Senior  
Vice President, Operational Excellence, Metso  
Corporation 2008–2009; Partner, McKinsey  
& Company 2000–2008, various positions at  
McKinsey & Company 1991–1999.

## Merja Kamppari

Born 1958.  
Finnish citizen.  
MSc. Economics.

**Main occupation:** Senior Vice  
President, Human Resources.  
Member of the Executive Team since 2011.  
Joined the company in 2009.

**Metso shares Dec 31, 2011:** 2,100

**Key experience:** Various top management  
HR positions, Nokia Networks, and Nokia  
Siemens Networks 1994–2009.

## Group Head Office

**President and CEO**  
Matti Kähkönen  
**Communications**  
Jussi Ollila  
**Legal Matters**  
Aleksanteri Lebedeff  
**Human Resources**  
Merja Kamppari  
**CFO**  
Harri Nikunen  
**Finance**  
Reijo Kostiainen  
**Information Technology**  
Pauli Nuutinen  
**Internal Audit**  
Jarmo Kääriäinen

**Investor Relations**  
Juha Rouhiainen  
**Metso Shared Services**  
Juha Seppälä  
**Treasury**  
Pekka Hölttä  
**Strategy and  
Corporate Development**  
Kalle Reponen  
**Indirect Procurement**  
Jouni Peltomäki  
**Stakeholder Relations and  
Trade Policy**  
Jukka Seppälä  
**Sustainability and  
Technology Development**  
Lennart Ohlsson



Links &  
notes

1 Current information on  
Metso Executive Team  
[www.metso.com/  
management](http://www.metso.com/management)

# Investor information

## Investor relations



Anu Haapamäki

Marja Mäkinen

Juha Rouhiainen

### Investor relations contact information

**Juha Rouhiainen**  
Vice President,  
Investor Relations  
Tel.: +358 20 484 3253  
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**Marja Mäkinen**  
Investor Relations Manager  
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IR Coordinator  
Tel.: +358 20 484 3117  
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Investor Relations  
metso.ir@metso.com

### Providing current information about the company

Our main task at Metso's Investor Relations is to support the correct valuation of Metso's share by providing information on matters concerning our operations and operating environment, strategy, objectives and financial situation. We anticipate that capital market participants will find this information valuable when forming a balanced view of Metso as an investment. In recent years, the dialogue has increased: we regularly gather and analyze market information and investor feedback for use by top management and the Board of Directors. Our goal is to provide correct, adequate and current information regularly and impartially to all market participants. In our work, we aim for promptness, transparency and good service every day.

### Working closely and interacting with our stakeholders

Investor Relations is responsible for investor communications and for daily contact with investors. We are responsible for organizing all investor meeting requests with our management or with an IR representative. Our investor communications consists of financial reporting, releases, our website as well as investor meetings and seminars, in which also our top management actively participates. We also arrange an annual Capital Markets Day event.

In connection with the publication of our financial results, we always arrange a news conference for investors and analysts in English. It is possible to participate in these events also by phone or on the Internet, and a webcast is available also for later viewing on our website.

In 2011, we travelled 38 days in Europe, the United States and Asia, frequently with our top management, to meet with investors. During the year, we met over 450 professional investors and analysts, and we participated in 10 investor seminars around the world. In November, we arranged a Capital Markets Day seminar in London, UK. More than 30 analysts and investors from Helsinki, Stockholm, Oslo and London took part in the event. The theme for the event was our new strategy and growth outlook.

Metso's Disclosure Policy outlines the principles of financial communications and lays down our operational models and practices in various communications situations. The entire Disclosure Policy is available at [www.metso.com/investors](http://www.metso.com/investors).

### Investor services on the Internet

The investor information included on Metso's website contains a share monitor, which is an interactive tool for viewing and analyzing the performance of Metso's share traded on the NASDAQ OMX Helsinki exchange. The data in the monitor is updated every 15 minutes. You can also find monthly updates on Metso's largest shareholders, the company's insider register, an archive of presentations and financial reports, as well as services, such as consensus estimates on Metso's financial performance provided by analysts, a historical price lookup and an investment calculator that enables you to calculate the value of your Metso investment. In addition, the website contains a financial calendar showing the publication dates of our financial reports, as well as the dates and times of events planned for investors, such as the Annual General Meeting, along with the presentations used at these events. A list of the banks and brokerage firms that analyze Metso as an investment as well as the analysts and their contact information is also available. Most recently, we have published ir 2.0, a service where we have collected information about the social media and mobile channels through which you can follow Metso.

Check out our Investor Relations services and activities on our website:

- Financial reports and results presentations
- Calendar: investor meetings and seminars, results publications
- Annual General Meeting details
- Metso's Capital Markets Day presentations
- Disclosure Policy
- Contact information for Metso's Investor Relations as well as for analysts monitoring Metso
- ir 2.0: Metso in social media and mobile solutions

>> [SEE LINK 1](#)

### Silent period

During the three-week period prior to publication of the annual or interim financial results, we are not in contact with capital market representatives. At other times, we will be happy to answer the enquiries of analysts and investors by phone, email or at arranged investor meetings.

## For Shareholders

### Annual General Meeting

The 2012 Annual General Meeting (AGM) of Metso Corporation will be held at 3:00 p.m. on Thursday, March 29, 2012, at Helsinki Fair Centre (Messuaukio 1, FI-00520 Helsinki, Finland). We published a Notice to the AGM on February 28, 2012; since that time, also the agenda and meeting materials have been available on our website.

Shareholders who are entered as shareholders in Metso's shareholder register maintained by Euroclear Finland Ltd by March 19, 2012, have the right to participate in the AGM. The meeting will be held in Finnish, but simultaneous interpretation in English will be provided.

### Registration

Shareholders who wish to participate in the meeting should notify Metso of their intention to participate by March 23, 2012, at the latest.

A notice of participation can be submitted at [www.metso.com/agm](http://www.metso.com/agm), by phone at +358 1080 8300 (from Monday to Friday between 8:00 a.m. and 6:00 p.m. EET), by fax at +358 20 484 3125, or by mail to Metso Corporation, Ritva Tyventö-Saari, PO Box 1220, FI-00101 Helsinki, Finland. Notice of participation must be received before the deadline. In connection with the registration, shareholders are required to provide their name, personal or company identification number, address, telephone number and the name of a possible assistant, authorized representative or statutory representative. Any proxy documents should also be sent to the above-mentioned address during the registration period.

Shareholders holding nominee-registered shares and wishing to participate in the AGM can be entered into the temporary shareholder register by no later than 10:00 a.m. on March 26, 2012, in order to be able to participate in the AGM, if the shareholder has the right to be entered in Metso's shareholder register on the basis of the same shares on the AGM's record date March 19, 2012. Shareholders holding nominee-registered shares are urged to ask their custodian bank for instructions on registering in the shareholder register, the issuing of proxy documents and registering for the AGM.

### Payment of dividends

The Board of Directors proposes to the AGM that a dividend of EUR 1.70 per share be paid for 2011. The dividend will be paid to those shareholders who are entered in the Corporation's shareholder register maintained by Euroclear Finland Ltd on the record date of the dividend payment, April 3, 2012.

#### Important dates related to the AGM

Record date of AGM participation	March 19, 2012
Registration period ends	March 23, 2012
Annual General Meeting	March 29, 2012
Dividend ex-date	March 30, 2012
Record date of dividend payment	April 3, 2012
Date of dividend payment	April 12, 2012

Read more about AGM-related issues on our website:

- Notice of AGM
- Registering for the AGM
- Proposal on composition of the Board
- Board's proposal on profit distribution
- Proposals on Board's authorizations

>> [SEE LINK 2](#)

### Trading of Metso's shares

Metso Corporation has one share series. Metso's shares are listed on the NASDAQ OMX Helsinki Ltd and are registered in the Finnish book entry register maintained by Euroclear Finland Ltd. Trading of Metso's ADS (American Depositary Shares) in the United States is carried out on the over-the-counter (OTC) market. Each Metso ADS represents one Metso share. The Bank of New York Mellon acts as the depository for the Metso ADS.

### Credit ratings

#### Standard & Poor's

August 12, 2010

Corporate credit rating: BBB, outlook: stable

Short-term rating: A-2. Ratings for outstanding

bonds and EMTN program: BBB

#### Moody's

December 22, 2011

Long-term credit rating: Baa2, outlook positive

(raised from stable)

### Financial publications

We publish the printed Annual Report for 2011 in Finnish and English and the Online Annual Report 2011 in English at [www.metso.com/2011](http://www.metso.com/2011). The printed report is mailed to those who have ordered it. A pdf version of the report is also available on our website at [www.metso.com](http://www.metso.com).

We publish interim reviews in Finnish and English on our website. Live webcasts of the related news conferences can be viewed in English on our website.

We publish releases in Finnish and English, and they are available on our website.

#### Publication dates of reviews and reports in 2012

Financial statements review 2011	February 9, 2012
Annual Report 2011	week 10, 2012
Interim review for January–March	April 26, 2012
Interim review for January–June	July 26, 2012
Interim review for January–September	October 25, 2012



Links & notes

- 1 [www.metso.com/investors](http://www.metso.com/investors)
- 2 Read more about Metso's AGM [www.metso.com/agm](http://www.metso.com/agm)
- 3 Trading information for Metso's share: [www.metso.com/share](http://www.metso.com/share)
- 4 Metso's share is included in several indices: [www.metso.com/indices](http://www.metso.com/indices)
- 5 Order Metso publications and releases: [www.metso.com/subscriptions](http://www.metso.com/subscriptions)
- 6 Read more about Metso's share and shareholders, p. 106–111
- 7 How to submit a change of address for shareholders: [www.metso.com/share](http://www.metso.com/share)

# Independent Assurance Report

## (Translation from the Finnish original)

### To the Management of Metso Corporation

We have been engaged by the Management of Metso Corporation to perform a limited assurance engagement on the information on economic, social and environmental responsibility disclosed in Metso Corporation's annual sustainability reporting for the period of January 1, 2011 to December 31, 2011. The annual sustainability reporting (hereinafter "Sustainability Reporting") consists of sustainability information disclosed in Metso Corporation's printed Annual Report 2011 and in sections "Financial Performance" and "Sustainability Results" of the Online Annual Report 2011 on Metso Corporation's website.

The scope of the Sustainability Reporting covers Metso Group.

### Management's Responsibility

The Management of Metso Corporation is responsible for preparing the Sustainability Reporting in accordance with the Reporting criteria as set out in Metso Corporation's reporting instructions and the Sustainability Reporting Guidelines of the Global Reporting Initiative (version 3.1).

### Practitioner's Responsibility

Our responsibility is to express a conclusion on the Sustainability Reporting based on our work performed. Our assurance report has been made in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Metso Corporation for our work, for this report, or for the conclusions that we have reached.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance whether any matters come to our attention that cause us to believe that the Sustainability Reporting has not been prepared, in all material respects, in accordance with the Reporting criteria.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the Sustainability Reporting. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the Sustainability Reporting. Our work consisted of, amongst others, the following procedures:

- Interviewing senior management of Metso Corporation.
- Assessing how Metso Group employees apply Metso Corporation's reporting instructions and procedures.
- Visiting Metso Corporation's Head Office as well as six production units in South Africa, India, China, France, Sweden and Finland.
- Interviewing employees responsible for collection and reporting of the information presented in the Sustainability Reporting at Metso Group level and at the different production units where our visits took place.
- Inspecting relevant documents and systems for gathering, analysing and aggregating the information presented in the Sustainability Reporting as well as testing on a sample basis.
- Assessing the data consolidation process of the information presented in the Sustainability Reporting at Metso Group level.

### Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the Sustainability Reporting has not been prepared, in all material respects, in accordance with the Reporting criteria. Our assurance report should be read in conjunction with the inherent limitations of accuracy and completeness for sustainability information. This independent assurance report should not be used on its own as a basis for interpreting Metso Corporation's performance in relation to its principles of sustainability.

Helsinki, 23 February 2012

### PricewaterhouseCoopers Oy

Johan Kronberg  
Authorised Public Accountant

Sirpa Juutinen  
Partner  
Sustainability & Climate Change

### Forward-looking statements

It should be noted that certain statements herein which are not historical facts, including, without limitation, those regarding expectations for general economic development and the market situation, expectations for customer industry profitability and investment willingness, expectations for company growth, development and profitability and the realization of synergy benefits and cost savings, and statements preceded by "expects," "estimates," "forecasts" or similar expressions, are forward-looking statements.

These statements are based on current decisions and plans and currently known factors. They involve risks and uncertainties which may cause the actual results to materially differ from the results currently expected by the company.

Such factors include, but are not limited to:

- 1 General economic conditions, including fluctuations in exchange rates and interest levels which influence the operating environment and profitability of customers and thereby the orders received by the company and their margins
- 2 The competitive situation, especially significant technological solutions developed by competitors
- 3 The company's own operating conditions, such as the success of production, product development and project management and their continuous development and improvement
- 4 The success of pending and future acquisitions and restructuring

### Group Head Office

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## About this report

### Concept, design and production

Miltton Oy

### Photos

Metso,  
Tomi Parkkonen,  
Getty Images

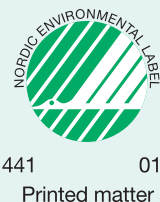
### Paper

Galerie Art Silk 300g  
Galerie Art Silk 130g  
Galerie Fine Silk 90g

### Printing

Libris

The paper, and the pulp used in making the paper, was produced with machines and equipment manufactured by Metso. The report is printed on Galerie Art Silk and Galerie Fine Silk paper, which are PEFC-certified and meet the environmental criteria for the Swan ecolabel. PEFC certification confirms that the forests are being sustainably managed. The printing inks and chemicals used in printing comply with the requirements for the Swan ecolabel. The printing ink is plant oil-based, and the other materials used are recyclable and eco-friendly. The operations of the Libris Oy printing house are ISO 9001 and ISO 14001 certified.



Our 30,000 professionals based in over 50 countries deliver sustainability and profitability to customers worldwide.



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