Metso Corporation Financial Statements 2012

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Board of Directors' report

Operating environment and demand in 2012

Ongoing uncertainty in the world economy was reflected to some degree in our customer industries. This uncertainty had somewhat negative impact on market activity, and certain customers have delayed their decisions on major projects. There were no notable geographical changes in demand. Raw material prices were stable, and wage inflation in emerging markets leveled off. Good capacity utilization rates within customer industries kept demand for our services business at a good level.

Demand for mining equipment and projects leveled off from the high activity seen during 2011, especially during the second half of 2012. Due to high utilization rates at mines and our large installed equipment base, demand for our mining services remained excellent.

Demand for construction equipment slowed in China and India, and in the rest of Asia-Pacific. In Brazil, ongoing infrastructure projects kept demand for construction equipment active. Demand in Europe and North America remained at a relatively low level, and was satisfactory. Demand for our construction industry services remained satisfactory.

Demand for products and services supplied by our Automation businesses to the energy and oil and gas industries remained good, while demand among pulp and paper customers softened.

The pulp mill market remained satisfactory, but customers have postponed their decision-making relating to orders under negotiation. Demand for rebuilds and services was good, as a result of more stable pulp prices and good capacity utilization rates at customer sites.

Demand for paper and board lines was weak. Activity in the Chinese market remained low, partly due to general economic uncertainty. Stable capacity utilization rates in the paper and board industry kept demand for our services at a good level.

Demand for power plants utilizing renewable energy sources, as well as power plant services, was satisfactory in 2012, however, a number of customers have postponed decisions on larger projects.

Orders received

We received new orders worth EUR 6,865 million in January–December, i.e. 14 percent less than in 2011. This decrease is mainly attributable to the exceptionally large pulp and mining equipment orders booked in 2011. Using comparable exchange rates, new orders were down 16 percent. Emerging markets accounted for 48 percent (51%) of orders. Orders received by the services business increased 5 percent and were EUR 3,264 million, i.e. 49 percent of all orders received (EUR 3,100 million and 40%). Using comparable exchange rates, services business orders increased 2 percent. Emerging markets accounted for 41 percent (43%) of services orders received. The top three countries for new orders were the US, Sweden, and China, which accounted for 31 percent of all orders received.

Orders from mining customers during 2012 were down 5 percent, and those from construction customers decreased 10 percent. Orders received by the Flow Control business increased 13 percent, while those received by Process Automation Systems decreased 18 percent. Orders received were lower than during 2011 in all of the Pulp, Paper and Power segment's capital businesses.

Major orders received during the year included:

Mining and Construction segment:

- crushing, screening, and grinding equipment, as well as a six-year life-cycle service contract, for Russian Copper Company's copper mine in southwest Russia,
- mining equipment for OAO Severstal's Olkon mine in Russia,

- the world's largest fully mobile, track-mounted crushing plant for Altay Polimetally's copper mine in Kazakhstan and
- a multi-year service contract for Northland Resources' Kaunisvaara iron ore project in Sweden.

Automation segment:

- an extensive automation package for the Kipas Kagit container board machine in Turkey,
- process automation for a Metso-supplied board line in China,
- automation technology for two major infrastructure projects in South America,
- over 700 automated valves for Sappi's fiberline expansion at the Ngodwana mill in South Africa,
- high-performance on-off valves and actuators supplied to Technip for Algiers Refinery's modernization project in Algeria, and
- intelligent controllers for the Norwegian Goliat floating production storage and offloading plant in the Barents Sea.

Pulp, Paper and Power segment:

- a board production line in China,
- a recovered fuel-fired boiler for Mälarenergi in Sweden,
- a complete containerboard machine for Kipas Kagit in Turkey,
- four complete tissue production lines for HengAn Group in China,
- two power boilers, including a Metso DNA control system, for PT Cikarang Listrindo in Babelan, Indonesia,
- a biomass-fired combined heat and power plant for Värnamo Energi in Värnamo, Sweden,
- pulp drying line for Hyogo Pulp in Japan,
- a multi-year mill agreement covering the supply of maintenance services for Greenpac Mill's board mill in the US and
- a grade conversion rebuild for Norske Skog's Boyer plant in Tasmania, Australia, including a cooperation agreement aimed at achieving the key objectives of the conversion and

Order backlog

As of the end of the year, our order backlog was EUR 4,515 million, which was 15 percent lower than at the end of 2011 (EUR 5,310 million). Around 80 percent of the backlog, i.e. EUR 3.6 billion, is expected to be recognized as net sales in 2013 (75%, i.e. EUR 4.0 billion); around 28 percent of this relates to the services business (24%). The proportion of order backlog expected to be recognized as net sales in 2013, by segment, is as follows:

- Mining and Construction: 83 percent (83%),
- Automation: 95 percent (95%), and
- Pulp, Paper and Power: 75 percent (69%).

There were no major cancellations or exceptional postponements of orders during 2012. The only uncertain order in our backlog at the end of the year was the Fibria pulp mill project in Brazil, which is valued at around EUR 330 million.

Orders received and order backlog by reporting segment

EUR million	**2012**	2011	Change %
Mining and Construction	**3,436**	3,714	-7
Services business	**1,771**	1,603	10
Equipment, product and project business	**1,658**	2,103	-21
Intra-Metso orders received	**7**	8	
Order backlog at the end of year	**1,983**	2,144	-8
Automation	**845**	822	3
Services business	**382**	352	9
Equipment, product and project business	**404**	407	-1
Intra-Metso orders received	**59**	63	
Order backlog at the end of year	**343**	364	-6
Pulp, Paper and Power	**2,444**	3,225	-24
Services business	**1,111**	1,145	-3
Equipment, product and project business	**1,323**	2,069	-36
Intra-Metso orders received	**10**	11	
Order backlog at the end of year	**2,249**	2,863	-21
Valmet Automotive	**216**	281	-23
Intra-Metso orders received	**-76**	-81	
Metso total	**6,865**	7,961	-14
Order backlog at the end of year	**4,515**	5,310	-15

Orders received by market area

EUR million	**2012**	2011	Change %
Emerging markets	**3,278**	4,084	-20
% of Mining and Construction orders received	**58**	56	
% of Automation orders received	**42**	41	
% of Pulp, Paper and Power orders received	**38**	52	
Developed markets	**3,587**	3,877	-7
Metso total	**6,865**	7,961	-14

Financial performance

Net sales increased 13 percent compared to 2011 and totaled EUR 7,504 million (EUR 6,646 million). Growth was organic and was seen in all segments. Using comparable exchange rates, growth was 10 percent. Net sales in the services business increased 11 percent and accounted for 44 percent (45%) of total net sales. All segments, particularly Mining and Construction, contributed to this growth in services. Using comparable exchange rates, growth in the services business was 7 percent. Measured by net sales, the top three countries were the US, Brazil, and China, which together accounted for 35 percent of total net sales. Net sales from emerging markets increased 15 percent and accounted for 50 percent (49%) of total net sales.

Earnings before interest, tax and amortization (EBITA), and before non-recurring items, in 2012 increased 9 percent and were EUR 684 million, i.e. 9.1 percent of net sales (EUR 629 million and 9.5%). The Mining and Construction segment's EBITA before non-recurring items increased significantly, while that of Pulp, Paper and Power declined. Automation's result remained comparable to that in 2011. Metso's operating profit (EBIT) in 2012 was EUR 599 million, i.e. 8.0 percent of net sales (EUR 572 million and 8.6%). EBIT included EUR 36.0 million in non-recurring expenses (EUR 5.1 million), mainly related to capacity adjustment measures.

BOARD OF DIRECTORS' REPORT

Net financing expenses in 2012 were EUR 49 million (EUR 65 million). These included EUR 63 million in interest expenses (EUR 75 million), EUR 21 million in interest income (EUR 26 million), EUR 0 million in foreign exchange gains (EUR 3 million in foreign exchange losses), and EUR 7 million in other net financial expenses (EUR 13 million).

Profit before taxes was EUR 550 million (EUR 507 million) and tax rate was 32 percent (29%). Tax rate in 2013 is expected to be similar to that in 2012.

Profit attributable to shareholders for the year was EUR 373 million (EUR 356 million), corresponding to earnings per share (EPS) of EUR 2.49 (EUR 2.38). Profit was impacted by restructuring expenses.

Return on capital employed (ROCE) before taxes during 2012 was 19.6 percent (18.4%) and return on equity (ROE) was 17.5 percent (17.8%).

Net sales by reporting segment

EUR million	**2012**	2011	Change %
Mining and Construction	**3,492**	2,967	18
Services business	**1,692**	1,478	14
Equipment, product and project business	**1,793**	1,481	21
Intra-Metso net sales	**7**	8	
Automation	**859**	770	12
Services business	**380**	345	10
Equipment, product and project business	**416**	368	13
Intra-Metso net sales	**63**	57	
Pulp, Paper and Power	**3,014**	2,703	12
Services business	**1,102**	1,048	5
Equipment, product and project business	**1,903**	1,644	16
Intra-Metso net sales	**9**	11	
Valmet Automotive	**216**	281	-23
Intra-Metso net sales	**-77**	-75	
Metso total	**7,504**	6,646	13

Net sales by market area

EUR million	**2012**	2011	Change %
Emerging markets	**3,718**	3,247	15
Developed markets	**3,786**	3,399	11
Metso total	**7,504**	6,646	13

EBITA before non-recurring items and percentage of net sales

EUR million	**2012**	2011	Change %
Mining and Construction	**418.5**	324.4	29
% of net sales	**12.0**	10.9	
Automation	**103.1**	103.9	-1
% of net sales	**12.0**	13.5	
Pulp, Paper and Power	**200.3**	218.8	-8
% of net sales	**6.6**	8.1	
Metso total	**684.3**	628.5	9
% of net sales	**9.1**	9.5	

Non-recurring items and amortization of intangible assets

2012

EUR million	Mining and Construction	Automation	Pulp, Paper and Power	**Metso total**
EBITA before non-recurring items	**418.5**	**103.1**	**200.3**	**684.3**
% of net sales	**12.0**	**12.0**	**6.6**	**9.1**
Capacity adjustment expenses	-10.7	-1.0	-23.7	**-35.6**
Intellectual property items	2.5	-	-	**2.5**
Costs related to business acquisition projects	-	-	-	**-1.8**
Costs related to bankruptcy of THINK Global A/S	-	-	-	**-1.1**
Amortization of intangible assets [*)]	-10.4	-4.5	-29.0	**-49.8**
Operating profit (EBIT)	399.9	97.6	147.6	**598.5**

[*)] Includes EUR 20.4 million amortization of intangible assets acquired through business acquisitions.

2011

EUR million	Mining and Construction	Automation	Pulp, Paper and Power	**Metso total**
EBITA before non-recurring items	**324.4**	**103.9**	**218.8**	**628.5**
% of net sales	**10.9**	**13.5**	**8.1**	**9.5**
Intellectual property items	-0.8	-	-	**-0.8**
Gain on sale of production plant in Sweden	-	-	2.6	**2.6**
Costs related to business acquisition projects	-	-	-	**-0.8**
Costs related to bankruptcy of THINK Global A/S	-	-	-	**-6.1**
Amortization of intangible assets [*)]	-10.6	-4.2	-32.2	**-51.6**
Operating profit (EBIT)	313.0	99.7	189.2	**571.8**

[*)] Includes EUR 23.8 million amortization of intangible assets acquired through business acquisitions.

Reporting Segments

Mining and Construction

Our Recycling business was integrated into the Mining and Construction segment at the end of 2012, and its figures have been restated here accordingly.

Net sales in Mining and Construction increased 18 percent to EUR 3,492 million in 2012. Net sales from mining customers were up 27 percent and from construction customers up 2 percent. Net sales in the services business increased 14 percent, with growth primarily coming from mining customers. The services business accounted for 49 percent of the segment's net sales.

Mining and Construction's EBITA before non-recurring items increased 29 percent to EUR 419 million, i.e. 12.0 percent of net sales. This favorable development was mainly due to growth in volumes, while margins remained stable.

Operating profit (EBIT) for the entire year was EUR 400 million, i.e. 11.5 percent of net sales.

The segment's return on operative capital employed (ROCE) was 28.8 percent (25.3%).

Automation

Net sales in the Automation segment in 2012 rose 12 percent and were EUR 859 million. Net sales of th Flow Control business increased 19 percent and those of the Process Automation Systems business 3 percent compared to 2011. Net sales of the services business increased 10 percent and accounted for 48 percent of the segment's net sales.

Automation's EBITA before non-recurring items remained at 2011 levels, at EUR 103 million, i.e. 12.0 percent of net sales. The Flow Control business recorded a stronger EBITA, while Process Automation Systems' EBITA declined compared to 2011, which was a very strong year for this business.

Automation's operating profit (EBIT) for 2012 was EUR 98 million, i.e. 11.4 percent of net sales.

The segment's return on operative capital employed (ROCE) was 32.5 percent (39.0%).

Pulp, Paper and Power

Pulp, Paper and Power's net sales in 2012 increased 12 percent, to EUR 3,014 million. Net sales were higher in all the segment's businesses, particularly in Power business. Net sales of the services business increased 5 percent and accounted for 37 percent of the segment's net sales.

The segment's EBITA before non-recurring items declined 8 percent and was EUR 200 million, i.e. 6.6 percent of net sales. This was mainly due to unfavorable business mix as well as weaker project performance and underabsorption in the Paper business

Operating profit (EBIT) for 2012 was EUR 148 million, i.e. 4.9 percent of net sales. This figure included restructuring costs in Finland and China totaling EUR 23 million, of which around EUR 10 million related to personnel and more than EUR 10 million took the form of write-downs on fixed assets. Restructuring measures are expected to yield annual savings of approximately EUR 25 million.

The segment's return on operative capital employed (ROCE) was 23.2 percent (27.2%).

Separate business entity
Valmet Automotive

Valmet Automotive's net sales decreased 23 percent in 2012 and were EUR 216 million (EUR 281 million). EBITA before non-recurring items was EUR 0.7 million, i.e. 0.3 percent of net sales (EUR 12 million and 4.3%). Valmet Automotive employed 1,093 people as of the end of December, excluding 585 people who were temporarily laid-off (1,705 employed at the end of 2011). About half of personnel were employed in Finland and the rest mainly in Germany and Poland. In October, Valmet Automotive and Daimler AG finalized the contract to manufacture new Mercedes-Benz A-Class cars at Valmet Automotive's plant in Uusikaupunki, Finland. Production is scheduled to start during 2013.

Cash flow and financing

Net cash provided by operating activities amounted to EUR 359 million (EUR 466 million) in 2012.

Higher business volumes and progress on customer projects were reflected in an increase in net working capital levels during the year, mainly in Pulp, Paper and Power. No large project orders and related advances similar to those booked during the first half of last year were received. Net working capital increased by EUR 176 million (EUR 123 million) and totaled EUR 452 million (EUR 281 million). Free cash flow was EUR 257 million (EUR 375 million). Net interest-bearing liabilities totaled EUR 316 million at the end of December (EUR 260 million).

Our liquidity position remains strong. Total cash assets at the end of December were EUR 964 million, of which EUR 233 million has been invested in financial instruments with an initial maturity exceeding three months. The remaining EUR 731 million has been accounted for as cash and cash equivalents. In addition, we have an undrawn syndicated EUR 500 million revolving credit facility available until 2015 and primarily intended for short-term funding purposes. A EUR 400 million, 7-year Eurobond was issued under Metso's EMTN (Euro Medium Term Note) program in September.

A dividend of EUR 254 million was paid in April, following the Annual General Meeting. Gearing at the end of December was 14.2 percent (12.2%) and the equity to assets ratio 40.5 percent (39.8%).

Capital expenditure

Our gross capital expenditure in 2012, excluding business acquisitions, was EUR 156 million (EUR 166 million). Maintenance investments accounted for 72 percent of this figure, i.e. EUR 112 million (61% and EUR 101 million). Capital expenditure in 2013 is expected to remain at around 2012 level, not including investments related to Valmet Automotive's Daimler contract, which will increase total investments.

Investments during 2012 included:

- completion of the expansion of valve production facilities in Massachusetts in the US,
- completion of the second phase of Metso Park in Rajasthan, our largest single investment so far in India,
- a new facility for regional pulping and power operations in Araucária, Brazil,
- a new valve delivery and service center in Vadodara, India, to boost the global presence of the valve business and enhance our service capabilities for energy, oil and gas customers,
- new service hubs in Chile, Peru, Mexico, and Sweden to serve our mining and construction industry customers more effectively,
- expansion of wear and rubber parts production capacity in India, Finland, and the Czech Republic,
- an expansion of our rubber mill lining production capacity globally by 30 percent by investing in new presses, at the first phase in Chile, Sweden, Canada, Mexico, and Peru, and
- an ongoing global enterprise resource planning (ERP) system project in the Automation segment.

Acquisitions, divestments and associated companies

In December, Metso strengthened its plant optimization services by acquiring a US software company, ExperTune, which was integrated into Automation's services business in December, and has been recognized as a technology acquisition.

In August, iron ore pelletizing technology and know-how was acquired from Jacobs Engineering Group in the US. With the purchase of Jacobs' Straight Grate Technology, Metso became the world's only supplier of two key pelletizing systems. The acquisition was recognized in capital expenditure on fixed assets.

In May, Metso acquired Wärtsilä's 40 percent holding in the MW Power joint venture, in accordance with the contract between the two companies. The acquisition was finalized in early July.

In March, Metso acquired Valstone Control, a South Korean valve technology company, to extend our valve and service offering for customers in the oil and gas and power industries. Valstone's annual net sales are less than EUR 10 million, and the company was consolidated into Metso's figures during the second quarter.

In addition to the above, the following transactions were agreed and will be finalized in due course:
In November, Metso agreed to form a 50-50 joint venture with China's LiuGong Group to develop the track-mounted crushing business in China. The transaction is subject to local regulatory approvals, which are expected in the next six months.

Also, in November, Metso agreed to acquire 75 percent of Shaorui Heavy Industries, one of China's leading mid-market crushing and screening equipment producers. Metso also has an option to purchase the remaining 25 percent of the company in the future. The transaction is subject to local regulatory approvals, which are expected in the next few months.

Research and technology development

Our research and technology development (RTD) network encompasses approximately 40 units around the world. RTD employed 831 people in 2012 (852) in engineering offices, RTD centers, and testing facilities. New technologies, processes, and service solutions are actively developed and rigorously protected. The RTD network made about 680 invention disclosures (650) during 2012, which led to over 200 priority patent applications (180). As of the end of 2012, approximately 2,800 Metso inventions were protected by patents (2,950). Research and development expenses (gross) in 2012 totaled EUR 126 million, representing 1.7 percent of net sales (EUR 121 million and 1.9%). In addition, expenses related to intellectual property rights amounted to EUR 13 million in 2012 (EUR 13 million).

Our research and technology development activities focus on several present and future challenges, such as energy and raw materials efficiency, utilizing renewable and recycled raw materials and fuels, advanced process control technology, and new solutions for the services business. RTD activities are based on cooperation with customers and on our network of partnerships with research facilities and universities.

Metso's RTD portfolio includes many projects devoted to developing technologies, products, and solutions for the needs of growth markets such as Brazil, India, and China.

Minimizing engine emissions, as well as dust and noise, was emphasized in product design at Mining and Construction. New-generation Lokotrack products were launched, combining superior capacity with excellent fuel economy and providing the lowest sustainable cost per ton. Metso's new Megaliner shell liner maximizes grinding mill availability while improving worker safety. The sale of the world's largest roller crusher to a US customer marked a break-through for Metso's new concept in high-pressure grinding roll technology.

The Flow Control business developed new-generation noise attenuation technology for ball valves that significantly reduces noise in gas flow control applications. We are also developing valves to minimize hazardous gas emissions from the process and ensure that valves meet the requirements of the latest stringent international standards. In the Process Automation Systems business, several new analyzer and measurement products were launched for pulp and paper customers based on state-of-the-art optical, titration, and camera technologies. We are expanding the product offering to new customer segments, particularly power generation. The first products have been delivered successfully for joint field tests with customers.

The Pulp, Paper and Power segment started up the first fluting machine based on our new modular OptiConcept M concept, which features lower total investment, improved usability, and personal safety, as well as a smaller environmental footprint.

Metso successfully developed and commercialized gasification technology that can substitute oil, natural gas, and coal in energy generation. Metso has integrated a biomass gasification plant with a coal-fired power plant to enable biomass to be used safely and reliably in an existing high-efficiency power boiler. This is the first time in the world that biomass gasification technology is being adopted on such a large scale.

Development work on new tissue technology providing higher quality with improved energy efficiency continued. The first machine based on this NTT technology will start in spring 2013. A new metal belt calendering technology that creates better print surfaces with less fiber materials and higher production efficiency has also been developed.

New products and technologies to improve the competitiveness of pulping customers have been launched. A new generation of TwinRoll presses, the Evolution series, is unique in combining existing know-how with new technology, increasing capacity by up to 30%.

Health, safety and environment

Metso's health, safety and environmental policy supports the development of a safe, healthy work environment that promotes employee wellbeing. Our long-term objective is to have zero work-related incidents. Short-term, Metso is targeting a lost-time incident frequency (LTIF, number of incidents resulting in an absence of at least one workday per million hours worked) of less than 5 by 2015. The LTIF in 2012 was 7.1 (9.1).

In 2012, we implemented a new way to support safety thinking by defining minimum safety standards. These standards include guidance for frequent operating tasks: tag out procedures, working at heights, lifting, working in confined spaces, operating tools and equipment, working with hazardous substances, personal protective equipment, and maintaining good order.

Many of our technology solutions have been developed in close cooperation with our customers – in areas such as renewable energy sources, the energy efficiency of 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. The environmental impact of our own production relates mainly to the consumption of raw materials, energy and water, that produces carbon dioxide emissions and waste. We are continuously improving our environmental management practices and the eco-efficiency of our production units, and we strive to develop sustainable business operations within our supply chain.

We have set global energy savings and carbon dioxide emissions targets for our own production. Our goal is to boost our energy efficiency and reduce carbon dioxide emissions by 15 percent by 2015 and 20 percent by 2020. In 2012, we continued a Metso-wide project to survey opportunities for saving energy and reducing carbon dioxide emissions in production units that consume the most energy, and we saved 2.4 percent of the energy of our own production, a total of 24,300 MWh. Since the beginning of the program, 5.3 percent, i.e. a total of 52,800 MWh of energy, has been saved through a wide range of actions in Metso's units around the world. This work on Metso's most energy-intensive units is continuing and is due to be completed in 2013, by when 80 percent of our energy consumption will b surveyed. Metso's largest energy-saving opportunities relate to the use of fuel and heat. Potential savings outside our production processes have been identified in areas such as cooling and compressed air systems. Production units report their energy consumption on a quarterly basis, which promotes energy-efficiency improvements and monitoring.

We were the best Nordic industrial company in Carbon Disclosure Project's Carbon Disclosure Leadership Index in 2012. Metso has taken part in the Carbon Disclosure project for several years and received a score of 97/100 in 2012, which raised us in the Nordic Carbon Disclosure Leadership Index for the first time.

Risks and business uncertainties

Our operations are affected by various strategic, financial, operational, and hazard risks. We take measures to exploit emerging opportunities and 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 these risks and their estimated impact on net sales and financial results. Management estimates that the company's overall risk level is currently manageable in proportion to the scope of our operations and the practical measures available for managing these risks.

Financial uncertainty in the euro zone and the US budget deficit, coupled with fluctuations in exchange rates and tightening financial market regulations, may have an adverse effect on the availability of financing from banks and capital markets, and could reduce our customers' investment appetite. Despite this, we estimate that the business environment in our customer industries will, in the long term, 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 proportion of our business derived from services and emerging markets will reduce the possible negative effects that market uncertainties may have.

Turbulence in terms of global economic growth, especially in emerging markets and particularly in China, may have an adverse impact on new projects under negotiation or on projects in our order backlog. Some projects may be postponed, suspended, or canceled. As of the end of December, Metso's order backlog included uncertain orders valued at around EUR 330 million related to a pulp mill project for Fibria in Brazil. The delivery schedule for this project is still open. In the case of long-term delivery projects, initial customer down-payments are typically 10–30 percent of the value of the project, and customers make progress payments as a project is implemented. This significantly reduces our risk and financing requirements related to these projects. We continually assess our customers' creditworthiness and their ability to meet their obligations. As a rule, we do not finance customer projects. If growth in the global economy slows significantly, the markets for our products may shrink, which may among other things, lead to tougher price competition.

We may see changes in the competitive situation of individual businesses, such as the emergence of new, cost-effective players in emerging 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 964 million and available credit facilities are sufficient to secure our short-term liquidity and overall financial flexibility. The average maturity of our long-term debt is 4.9 years. There are no prepayment covenants in our debt facilities that would be triggered by changes in credit ratings. Some debt facilities include financial covenants related to capital structure. We fully meet the requirements of our covenants and the other terms related to our financing agreements.

Net working capital and capital expenditure levels have a key impact on the adequacy of our financing. We have developed our practices and information systems related to the management of net working capital, and expect that these measures will help us manage changes in our net working capital more effectively. We believe that we are well-positioned to keep capital expenditure at the level of total amortization and depreciation.

As of the end of 2012, we had EUR 887 million of goodwill on our balance sheet. Most of it is related to business acquisitions made over the last 12 years. We conduct regular impairment tests annually and more frequently if needed, and have not detected any impairment. The principles used for impairment testing are presented in the note 12.

Changes in labor costs and the prices of raw materials and components can affect our profitability. Wage inflation is continuing, but our goal is to offset this by increasing productivity and price discipline. It is possible, however, that tough competition in some product categories will make it difficult to pass on cost increases to product prices. On the other hand, some of our customers are raw material producers, and their 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 Metso's most substantial financial risks. Exchange rate changes can affect our business, although the wide geographical scope of our operations reduces the impact of any individual currency. In general, economic uncertainty is likely to increase exchange rate fluctuations. We hedge currency exposures linked to firm delivery and purchase agreements.

Legal proceedings and claims
In February, we received an arbitration award in our favor relating to a major project delivery by Metso's Paper business in Turkey. The case was settled and closed at the end of the year.

Personnel
As of the end of December, Metso had 30,212 employees, which was 112 less than at the end of 2011 (30,324). The number of personnel increased in the Automation segment in particular, and declined in the Pulp, Paper and Power segment. Geographically increases was seen in South America, while the number of personnel declined in Finland. The proportion of personnel in emerging markets was 35 percent (34%). Metso employed an average of 30,596 employees in 2012.

Mining and Construction employed 39 percent of personnel, Automation 14 percent, Pulp, Paper and Power 41 percent, and Valmet Automotive, Metso Shared Services and Group Head Office 6 percent. The countries with the largest numbers of personnel were Finland, the US, China, Sweden, and Brazil – which accounted for 66 percent of total personnel.

In line with its strategy, Metso aims to develop a working environment that attracts the right people, helps them develop, allows everyone to reach their full potential, and enables our business success. In 2012, we focused on leadership, performance, capabilities, and resourcing. A global Leadership Essentials Workshop program was launched to ensure that supervisors understand their role as managers and know what is expected of them and promote the global adoption of the Group's leadership principles. The first Leadership Essentials Workshops were held in the autumn of 2012, covering roughly 400 line managers. A global employee engagement survey was also conducted in 2012 and achieved a 76 percent response rate. Based on the results of the survey, teams have selected focus areas for developing team engagement and performance. Also, in 2012, the Remuneration and HR Committee approved performance and rewards principles to guide the development of reward practices.

The salaries and wages of Metso employees 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. A total of EUR 1,333 million was paid in salaries and wages (EUR 1,229 million) in 2012. Indirect employee costs totaled EUR 367 million (EUR 347 million).

Personnel by area

	Dec 31, 2012	**% of total personnel**	Dec 31, 2011	% of total personnel	Change %
Finland	**8,464**	**28**	9,222	30	-8
Other Nordic countries	**2,934**	**10**	2,935	10	0
Rest of Europe	**4,546**	**15**	4,434	15	3
North America	**3,974**	**13**	3,845	13	3
South and Central America	**3,406**	**11**	3,164	10	8
China	**3,156**	**10**	3,199	10	-1
Other Asia-Pacific	**2,313**	**8**	2,110	7	10
Africa and Middle East	**1,419**	**5**	1,415	5	0
Metso total	**30,212**	**100**	30,324	100	0

	Dec 31, 2012	**% of total personnel**	Dec 31, 2011	% of total personnel	Change %
Emerging markets	**10,669**	**35**	10,319	34	3
Developed markets	**19,543**	**65**	20,005	66	-2
Metso total	**30,212**	**100**	30,324	100	0

BOARD OF DIRECTORS' REPORT

Corporate Governance Statement
We have prepared a separate Corporate Governance Statement for 2012 that complies with the recommendations of the Finnish Corporate Governance Code for listed companies. It also covers other central areas of corporate governance.

Changes in operating structure
In October, we concluded an evaluation of strategic alternatives for Metso's Recycling business. Based on the results of this evaluation, the business was integrated into the Mining and Construction segment as of December 1, 2012. The Recycling business is included in the Mining and Construction segment in respect of all figures reported in this financial review.

Decisions of the Annual General Meeting
The Annual General Meeting (AGM) on March 29, 2012 approved the Financial Statements for 2011 and discharged 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. In addition, the company's Articles of Association were amended according to the Board's proposal.

The Annual General Meeting decided that a dividend of EUR 1.70 per share would be paid for the financial year ending on December 31, 2011. The dividend was paid on April 12, 2012.

The AGM elected Jukka Viinanen as Chairman of the Board and Mikael von Frenckell as Vice Chairman. Eeva Sipilä was elected as a new member of the Board. Christer Gardell, Ozey K. Horton, Jr, Erkki Pehu-Lehtonen, and Pia Rudengren were re-elected for a new term.

The Annual General Meeting decided the following annual remuneration for Board members: EUR 100,000 for the Chairman, EUR 60,000 for the Vice Chairman and for the Chairman of the Audit Committee, and EUR 48,000 for members. It was decided that a meeting fee of EUR 700 will be paid to those members whose place of residence is in the Nordic countries, EUR 1,400 to those members whose place of residence is elsewhere in Europe and EUR 2,800 to those members whose place of residence is outside Europe for each meeting they attend, including committee meetings. Based on the decision of the AGM, Board members have used 40 percent of their annual remuneration to buy Metso shares. Board members acquired the shares from the market within two weeks after the publication of the first-quarter Interim Review on April 26, 2012. A total of 5,545 shares were acquired at the beginning of May.

Authorized Public Accountant Ernst & Young Oy was elected to act as the company's Auditor until the end of the next Annual General Meeting.

The Annual General Meeting decided to establish a Nomination Board of the Annual General Meeting to prepare proposals for the following Annual General Meeting regarding the composition of the Board of Directors and directors' remuneration. Representatives of the four largest shareholders entered in the shareholder register on October 1, 2012 were elected to the Nomination Board, and the Chairman of the Board of Directors serves as the Nomination Board's expert member. The four largest shareholders were Solidium Oy, Cevian Capital II Master Fund L.P., 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). Jukka Viinanen, Chairman of the Board, serves as the Nomination Board's expert member.

Members of the Board committees and personnel representative
The Board of Directors elected the members of the Audit Committee and Remuneration and HR Committee at its assembly meeting on March 29, 2012. The Audit Committee consists of Pia Rudengren

(Chairman), Erkki Pehu-Lehtonen, and Eeva Sipilä. The Remuneration and HR Committee consists of Jukka Viinanen (Chairman), Mikael von Frenckell, and Christer Gardell. Metso's personnel groups in Finland have elected Eija Lahti-Jäntti as personnel representative. She participates in the meetings of Metso's Board of Directors as an invited expert, and her term of office is the same as that of Board members.

Shares and share capital

As of the end of December 2012, Metso's share capital was EUR 240,982,843.80 and the number of shares was 150,348,256. The number of shares included 592,222 shares held by the Parent Company, which represented 0.39 percent of all shares and votes. The average number of shares outstanding in January–December, excluding shares held by the Parent Company, was 149,715,383 and the average number of diluted shares was 149,870,074.

Metso's market capitalization, excluding shares held by the Parent Company, was EUR 4,798 million on December 31, 2012 (EUR 4,287 million).

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.

As reward shares for the plans are acquired in public trading, these plans do not have a diluting effect on share value.

Share Ownership Plan for 2009–2011 (SOP 2009–2011)
In April 2012, Metso distributed rewards to 82 participants amounting to 127,356 shares, of which 19,459 shares were allocated to the Executive Team. These shares represented the reward after taxes, and the total reward including the cash portion corresponded to 264,836 shares. The shares were conveyed through a directed share issue without consideration.

Additionally, the following share ownership plans are effective:

- SOP 2010–2012. This plan had 80 participants as of the end of 2012 and potential rewards correspond to a maximum of 308,800 Metso shares,
- SOP 2011–2013. This plan had 68 participants as of the end of 2012 and potential rewards correspond to a maximum of 236,748 Metso shares,
- Long-term Incentive Plan for 2012–2014. This plan had 93 participants in the end of 2012 performance period and is expected to have around 100 participants during the 2013 performance period.

Events after the review period

Nomination Board's proposals for Board members and Board remuneration

The Nomination Board established by Metso's Annual General Meeting will propose to the next Annual General Meeting due to be held on March 28, 2013 that the Board of Directors should have eight members.

The Nomination Board will propose that Jukka Viinanen, Mikael von Frenckell, Christer Gardell, Ozey K. Horton, Jr., Erkki Pehu-Lehtonen, Pia Rudengren, and Eeva Sipilä should be re-elected. In addition, Mikael Lilius will be proposed for election as a new member.

The Nomination Board will propose that Board members should 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 other members of the Board of Directors, EUR 48,000 each. The Nomination Board also proposes that for each Board and committee meeting a fee of EUR 700 should be paid to members of the Board that reside in the Nordic countries, EUR 1,400 to members that reside in other European countries, and EUR 2,800 to members that reside outside Europe. The Nomination Board will propose that, as a condition for annual remuneration, members of the Board of Directors should be obliged, directly based on the General Meeting's decision, to use 40 percent of the agreed annual remuneration paid to them for purchasing Metso's shares from the market at a price formed in public trading and that the purchase be carried out within the two weeks following the publication of the interim review for January 1 to March 31, 2013.

The Nomination Board notes that a personnel representative will also participate as an external expert in 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 the organizing meeting held after the Annual General Meeting.

Metso is acquiring a manganese steel foundry in China

In February 2013, Metso agreed to acquire a manganese steel foundry (JX) in Quzhou City, about 400 km Southwest of Shanghai. The acquisition of JX will improve our capabilities to supply wear parts to our mining and construction industry customers in China and other markets in Asia-Pacific. The acquired assets and approximately 275 employees are expected to be transferred to Metso as of closing. The value of the acquisition will not be disclosed. The transaction is subject to the relevant regulatory approvals, which are expected in the next few months.

Short-term outlook

Market development

The global economic situation, together with demand in our customer industries, are largely unchanged from the last quarter of 2012. There are some signs of positive development in the US and China, which could potentially support customer industries in the second half of 2013. Stable capacity utilization rates and the need to increase operational efficiency are continuing to support our services businesses.

We expect underlying demand in the mining market to remain at the good level seen in late 2012. Due to expected high utilization rates at mines, our large installed equipment base and stronger services presence, we expect demand for our mining services to remain excellent. Demand for construction equipment is projected to remain flat and be satisfactory in the Asia-Pacific region. In Brazil, we expect the market to continue active. We anticipate that demand in Europe and North America will stay at current relatively low levels going forward. Demand for our construction industry services is expected to remain satisfactory.

Demand for our process automation systems and flow control products and services is expected to remain good. Strong demand in the oil and gas industry is expected to offset continuing softness in the pulp and paper industry.
The market for pulp mills is expected to remain satisfactory, with good demand for rebuilds and services. Demand for papermaking lines is expected to remain weak. Capacity utilization rates in the paper and board industry may decline somewhat, although the outlook for services is good. Demand for power plants that use renewable energy sources and for related services is expected to remain satisfactory.

Financial development

Based on the current economic situation, market outlook, and our order backlog for 2013, as well as foreign exchange rates remaining similar to those in December 2012, we estimate that in 2013 our

EBITA before non-recurring items will be at around 2012 levels and our net sales at 2012 level or slightly below.

Board of Director's proposal for the use of profit

The Parent Company's distributable funds totaled EUR 1,663,254,494.14 on December 31, 2012, of which the net profit for the year 2012 was EUR 266,335,290.98.

The Board of Directors proposes that a dividend of EUR 1.85 per share be paid based on the balance sheet to be adopted for the financial year which ended December 31, 2012 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 4, 2013 are registered in the Company's shareholders' register held by Euroclear Finland Ltd. The dividend shall be paid on April 11, 2013. All the shares in the Company are entitled to a dividend with the exception of own shares held by the Company.

Annual General Meeting 2013

The Annual General Meeting of Metso Corporation will be held at 1:00 p.m. on Thursday, March 28, 2013 at the Helsinki Fair Centre (Messuaukio 1, FI–00520 Helsinki).

Helsinki, February 7, 2013

Metso Corporation's Board of Directors

Shares and shareholders

Shares and share capital

On December 31, 2012, 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.

Changes in number of shares and share capital during January 1, 2001 – December 31, 2012:

		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	-
2010 - 2012	No changes in number of shares nor in share capital	150,348,256	-	240,982,843.80	-

Metso's own shares

On December 31, 2012, Metso Corporation held a total of 592,222 of the company's own shares, which represent 0.39 percent of all Metso shares and votes. During the year, Metso recovered 518 shares from share-based incentive plan participants having terminated their employment.

Board authorizations

On March 29, 2012, 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.

Authorization to repurchase and/or accept as a pledge the Corporation's own shares

The 2012 Annual General Meeting authorized the Board to decide on the repurchase and/or acceptance as a pledge of a maximum of 10,000,000 of the company's own shares. The company's own shares can be repurchased and/or accepted as a pledge 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 repurchased or accepted as a pledge 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 Metso's incentive program.

The company's repurchased shares can be held by the company, cancelled or conveyed. The Board of Directors shall decide on other matters related to the repurchase and/or acceptance as a pledge of the company's own shares.

The repurchase authorization is valid until June 30, 2013, and it revokes the repurchase authorization given by the Annual General Meeting on March 30, 2011.

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 company's own shares 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, special rights and 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 financial reason for the company to do so, taking the interests of all shareholders into account.

The Board of Directors shall decide on other matters related to the share issues and granting of special rights. The authorization is valid until April 30, 2015, and it revokes the authorization given by the Annual General Meeting on March 30, 2011.

Metso's Board of Directors decided on April 13, 2012 to use the share issue authorization, on which grounds it conveyed 127,356 Metso shares to key personnel.

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 International OTCQX market under the ticker symbol MXCYY. The Bank of New York Mellon serves as the depository bank for Metso's ADRs.

OTCQX is the premier tier of the OTC (over-the-counter) markets, and requires more comprehensive financial reporting and availability of financial data from listed companies.

Metso's share price on the NASDAQ OMX Helsinki in 2012 increased 12 percent, from EUR 28.65 to EUR 32.04. At the same time, the NASDAQ OMX Helsinki portfolio index, OMX Helsinki CAP, decreased 10 percent. The highest quotation of Metso's share on the NASDAQ OMX Helsinki in 2012 was EUR 37.27, and the lowest EUR 24.88. The share price on the last trading day of the year, December 28, 2012, was EUR 32.04 and the average trading price for the year was EUR 30.02. Metso's market capitalization at year-end, excluding shares held by the company, was EUR 4,798 million. Total shareholder return (TSR) was 17.8 percent positive in 2012 (27.8% negative).

In 2012, 223,439,548 Metso shares were traded on the NASDAQ OMX Helsinki, equivalent to a turnover of EUR 6,709 million. The average daily trading volume was 893,758 shares, which is

9 percent more than in 2011. During the year, the relative turnover was 149 percent (138%). In addition to the NASDAQ OMX Helsinki, Metso shares were traded on alternative market places, for example on BOAT, BATS Chi-X and Turquoise.

In 2012, the highest trading price for Metso's ADSs in the United States was USD 48.62, and the lowest USD 31.14. The ADS price on the OTCQX market at year-end was USD 42.59. Each ADS represents one share.

Share-based incentive plans
Option programs
There are no option programs in Metso.

Share-based incentive plans
Metso's share ownership plans are part of the remuneration program for Metso management.

The reward shares for the plan are acquired in public trading and therefore the plans do not have a diluting effect on share value.

Share Ownership Plan for 2009–2011
In October 2008, the Board approved a share ownership plan for 2009–2011. The plan had one three-year earnings period and required participants' personal investment in Metso shares at the beginning of the program. The plan's performance targets (TSR and EPS) were achieved at 69 percent of the maximum. In April 2012, Metso distributed the rewards to 82 participants, amounting to 127,356 shares, of which 19,459 shares were allocated to the Executive Team. These shares represent the reward after taxes, and the total reward including the cash portion corresponds to approximately 264,836 shares. The shares were conveyed through a directed share issue without consideration. Shares earned on the basis of the plan cannot be transferred within one year from the reward payment.

Share ownership plan for 2010–2012
In October 2009, the Board approved a similar share ownership plan for 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 2012, 80 people were participating in the plan and the rewards that can be paid correspond to a maximum of 308,800 Metso shares. Members of the Executive Team may receive a maximum of 51,325 shares as share rewards.

Share ownership plan for 2011–2013
In September 2010, the Board of Directors decided on a new Metso Share Ownership Plan for 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 reaching the financial targets set for the plan.
At the end of 2012, 68 people were participating in the plan and the rewards that can be paid correspond to a maximum of 236,748 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 2012 performance period, the plan covered 93 people in Metso's management, and the reward of the plan was based on the net sales growth of the services business, return on capital employed (ROCE) before taxes, and earnings per share (EPS). The rewards to be paid on the basis of the 2012 performance period will correspond to a maximum of 414,880 Metso shares. Members of the Executive Team may receive a maximum of 95,132 shares as share rewards.

Payment for the 2012 performance period will be made at the end of an approximately two-year vesting period, in 2015, partly in company shares and partly in cash. The proportion paid in cash is intended to cover the taxes and tax-related costs arising from payment incurred by participants. Should a participant’s employment or service end for reasons related to the participant concerned before payment falls due, no payment will be made. The reward for each performance period may not exceed 120 percent of a participant’s annual total base salary.

In December 2012, Metso’s Board decided to continue the long-term incentive plan for senior management that was approved in 2011. For the performance period 2013, the plan will cover approximately 100 Metso managers, and the reward is based on the net sales growth of the services business, Metso’s return on capital employed (ROCE) before taxes, and earnings per share (EPS).

The potential rewards to be paid on the basis of the 2013 performance period will correspond to a maximum total of about 460,000 Metso shares. Members of the Executive Team may receive a maximum of 92,392 shares as share rewards. The potential reward generated by the plan for the 2013 performance period will be paid at the end of an approximately two-year vesting period, in 2016, partly in company shares and partly in cash. Should a participant’s employment or service end for reasons related to the participant concerned before payment falls due, no payment will be made.

More detailed information on Metso’s share-based incentive plans is presented in the Notes to the Financial Statements.

Holdings of Metso’s Board of Directors and executive management
At year-end, the members of Metso’s Board of Directors, CEO Matti Kähkönen, Executive Vice President Pasi Laine, and their interest parties held altogether 145,809 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 28, 2013 that the dividend of EUR 1.85 per share be distributed for the year ended on December 31, 2012. The proposed dividend of EUR 1.85 (EUR 1.70 in 2011) corresponds to 74 percent (71%) of the profit attributable to shareholders for the year, and the effective dividend yield is 5.8 percent (5.9%).

Shareholders
At the end of 2012, Metso had 54,048 shareholders in the book-entry system, the largest of which was Solidium Oy, with 11.1 percent (11.1%) ownership. Nominee-registered shares and shares in direct foreign ownership accounted for 48.2 percent (48.3%) of the total stock. Finnish institutions, companies and organizations accounted for 26.0 percent (27.7%) and Finnish private persons for 14.7 percent (12.9%) of Metso’s shares. Metso is not aware of any shareholders’ agreements regarding the ownership of Metso shares and voting rights.

SHARES AND SHAREHOLDERS

Metso´s biggest shareholders on December 31, 2012:

		Shares and votes	% of share capital and voting rights
1	**Solidium Oy**	**16,695,287**	**11.1**
2	**Ilmarinen Mutual Pension Insurance Company**	**3,756,964**	**2.5**
3	**Varma Mutual Pension Insurance Company**	**2,908,465**	**1.9**
4	**Nordea Funds**	**2,561,906**	**1.7**
	Nordea Finland Investment Fund	920,000	0.6
	Nordea Nordenfonden	804,458	0.5
	Nordea Pro Finland Investment Fund	365,000	0.2
	Nordea Nordics Investoment Fund	251,983	0.2
	Nordea Finland Index Fund	116,220	0.1
	Nordea Technology Investment Fund	43,400	0.0
	Nordea Finland Special Investment Fund	38,200	0.0
	Nordea Private Banking Focus Finland Special Investment fund	22,645	0.0
5	**The state Pension Fund**	**2,040,000**	**1.4**
6	**Mandatum Life Insurance**	**1,525,000**	**1.0**
7	**OP Funds**	**1,495,000**	**1.0**
	OP-Focus Special Investment Fund	630,000	0.4
	OP-Delta Investment Fund	540,000	0.4
	OP-Finland Value Fund	245,000	0.2
	OP-Europe Growth Fund	80,000	0.1
8	**Keva**	**1,362,233**	**0.9**
9	**Svenska litteratursällskapet i Finland r.f.**	**1,181,076**	**0.8**
10	**Odin Funds**	**919,596**	**0.6**
	Odin Norden Fund	678,172	0.5
	Odin Finland Fund	241,424	0.2
	10 largest owner groups in total	**34,445,527**	**22.9**
	Nominee-registered shares	68,247,133	45.4
	Other shareholders	47,053,894	31.3
	Own shares held by the Parent Company	592,222	0.4
	In the issuer account	9,480	0.0
	Total	**150,348,256**	**100.0**

SHARES AND SHAREHOLDERS

Breakdown of share ownership on December 31, 2012:

Number of shares	Share-holders	% of share-holders	Total number of shares and votes	% of share capital and voting rights
1-100	22,216	40.4	1,169,532	0.8
101-500	21,236	40.3	5,503,063	3.6
501-1 000	5,420	9.8	4,077,458	2.7
1 001-5 000	4,246	7.8	8,811,315	5.9
5 001-10 000	458	0.8	3,283,707	2.2
10 001-50 000	340	0.7	7,119,630	4.7
50 001-100 000	42	0.1	3,027,955	2.0
100 001-500 000	50	0.1	10,951,414	7.3
over 500 001	19	0.0	37,555,347	25.0
Total	54,027	100.0	81,499,421	54.2
Nominee-registered shares	20		68,247,133	45.4
Own shares held by the Parent Company			592,222	0.4
In the issuer account			9,480	0.0
Number of shares issued			**150,348,256**	**100.0**

Flagging notifications

August 6, 2012 Cevian Capital II Master Fund L.P. announced that its holding in shares of Metso Corporation exceeded the 5 percent threshold on August 3, 2012. The holding amounted to 7,790,060 shares, which corresponded to 5.18 percent of the total amount of shares and votes in Metso Corporation.

December 18, 2012 Cevian Capital II Master Fund L.P. transferred its aggregate holding of 12,508,060 Metso shares to Cevian Capital Partners Ltd, which is a wholly-owned subsidiary of Cevian Capital II Master Fund L.P. Following the transfer, Cevian Capital Partners Ltd. holds a total of 12,508,060 shares, which corresponds to 8.32 percent of Metso’s shares. The transfer did not have any impact on the total amount of shares held by Cevian.

A second shareholder exceeding 5 percent ownership in Metso is Solidium Oy, with 11.1 percent of the share capital and voting rights (December 31, 2012).

CONSOLIDATED STATEMENTS OF INCOME

EUR million	Note	Year ended December 31, 2011	**2012**
Net sales	32	6,646	**7,504**
Cost of goods sold	6, 7	-4,978	**-5,703**
Gross profit		1,668	**1,801**
Selling, general and administrative expenses	4, 6, 7	-1,107	**-1,187**
Other operating income and expenses, net	5	11	**-16**
Share in profits and losses of associated companies	13	0	**1**
Operating profit	32	572	**599**
Financial income and expenses, net	8	-65	**-49**
Profit before taxes		507	**550**
Income taxes	9	-149	**-178**
Profit		358	**372**
Attributable to:			
Shareholders of the company		356	**373**
Non-controlling interests		2	**-1**
Profit		358	**372**
Earnings per share			
Basic, EUR	11	2.38	**2.49**
Diluted, EUR	11	2.38	**2.49**

Consolidated Statements of Comprehensive Income

EUR million	Note	Year ended December 31, 2011	**2012**
Profit		358	**372**
Cash flow hedges, net of tax	21, 30	-22	**7**
Available-for-sale equity investments, net of tax	14, 21	0	**0**
Currency translation on subsidiary net investments	21	-11	**-22**
Net investment hedge gains (+) / losses (-), net of tax	21	10	**-**
Defined benefit plan actuarial gains (+) / losses (-), net of tax	27	-35	**-16**
Other comprehensive income (+) / expense (-)		-58	**-31**
Total comprehensive income (+) / expense (-)		300	**341**
Attributable to:			
Shareholders of the company		298	**342**
Non-controlling interests		2	**-1**
Total comprehensive income (+) / expense (-)		300	**341**

CONSOLIDATED BALANCE SHEETS

Assets

EUR million	Note	As at December 31, 2011	**2012**
Non-current assets			
Intangible assets	12		
Goodwill		883	**887**
Other intangible assets		272	**253**
		1,155	**1,140**
Property, plant and equipment	12		
Land and water areas		67	**69**
Buildings and structures		294	**289**
Machinery and equipment		447	**429**
Assets under construction		46	**46**
		854	**833**
Financial and other assets			
Investments in associated companies	13	16	**17**
Available-for-sale equity investments	14, 19	6	**6**
Loan and other interest bearing receivables	18, 19	9	**9**
Available-for-sale financial investments	18, 19	2	**0**
Derivative financial instruments	19, 30	-	**3**
Deferred tax asset	9	167	**177**
Other non-current assets	18, 19	45	**38**
		245	**250**
Total non-current assets		2,254	**2,223**
Current assets			
Inventories	15	1,677	**1,529**
Receivables			
Trade and other receivables	18, 19	1,510	**1,442**
Cost and earnings of projects under construction in excess of advance billings	16	351	**420**
Loan and other interest bearing receivables	18, 19	1	**1**
Available-for-sale financial investments	18, 19	78	**1**
Financial instruments held for trading	18, 19	87	**232**
Derivative financial instruments	19, 30	54	**36**
Income tax receivables		16	**27**
		2,097	**2,159**
Cash and cash equivalents	20	590	**731**
Total current assets		4,364	**4,419**
Total assets		6,618	**6,642**

CONSOLIDATED BALANCE SHEETS

Shareholders' equity and liabilities

EUR million	Note	As at December 31, 2011	**2012**
Equity	21		
Share capital		241	**241**
Cumulative translation adjustments		45	**23**
Fair value and other reserves		706	**718**
Retained earnings		1,123	**1,225**
Equity attributable to shareholders		2,115	**2,207**
Non-controlling interests		21	**20**
Total equity		2,136	**2,227**
Liabilities			
Non-current liabilities			
Long-term debt	19, 23	755	**1,086**
Post-employment benefit obligations	27	238	**245**
Provisions	24	71	**58**
Derivative financial instruments	19, 30	6	**10**
Deferred tax liability	9	40	**34**
Other long-term liabilities	19	7	**6**
Total non-current liabilities		1,117	**1,439**
Current liabilities			
Current portion of long-term debt	19, 23	209	**136**
Short-term debt	19, 25	63	**68**
Trade and other payables	19, 26	1,520	**1,349**
Provisions	24	234	**198**
Advances received		659	**570**
Billings in excess of cost and earnings of projects under construction	16	597	**567**
Derivative financial instruments	19, 30	38	**31**
Income tax liabilities		45	**57**
Total current liabilities		3,365	**2,976**
Total liabilities		4,482	**4,415**
Total shareholders' equity and liabilities		6,618	**6,642**

CONSOLIDATED STATEMENTS OF CASH FLOWS

EUR million	Note	Year ended December 31, 2011	**2012**
Cash flows from operating activities:			
Profit		358	**372**
Adjustments to reconcile profit to net cash provided by operating activities			
Depreciation and amortization	7	172	**166**
Gain (-) / loss (+) on sale of fixed assets	5	-5	**-4**
Gain (-) / loss (+) on sale of subsidiaries and associated companies	5	1	-
Gain on sale of available-for-sale equity investments	5	0	-
Share of profits and losses of associated companies	13	0	**-1**
Dividend income and interests, net	8	48	**42**
Income taxes	9	149	**178**
Other non-cash items		38	**9**
Change in net working capital, net of effect from business acquisitions and disposals	17	-123	**-176**
Interest paid		-78	**-61**
Interest received		28	**22**
Dividends received		0	**0**
Income taxes paid		-122	**-188**
Net cash provided by operating activities		466	**359**
Cash flows from investing activities:			
Capital expenditures on fixed assets	12	-164	**-156**
Proceeds from sale of fixed assets		10	**10**
Business acquisitions, net of cash acquired	10	-15	**-5**
Investments in associated companies		-2	**-**
Proceeds from sale of available-for-sale equity investments		0	**0**
Proceeds from sale of available-for-sale financial investments		268	**80**
Investments in financial instruments held for trading		-119	**-219**
Proceeds from sale of financial instruments held for trading		86	**77**
Increase in loan receivables		-3	**-1**
Decrease in loan receivables		6	**1**
Net cash provided by (+) / used in (-) investing activities		67	**-213**
Cash flows from financing activities:			
Dividends paid		-232	**-254**
Net borrowings (+) / payments (-) on short-term debt		36	**8**
Proceeds from issuance of long-term debt		49	**506**
Principal payments of long-term debt		-436	**-245**
Principal payments of finance leases		-1	**-1**
Other items		-3	**-1**
Net cash used in financing activities		-587	**13**
Net increase (+) / decrease (-) in cash and cash equivalents		-54	**159**
Effect of changes in exchange rates on cash and cash equivalents		-1	**-18**
Cash and cash equivalents at beginning of year	20	645	**590**
Cash and cash equivalents at end of year		590	**731**

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**
Balance at December 31, 2010	**241**	**46**	**726**	**1,036**	**2,049**	**22**	**2,071**
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 acturial 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
Balance at December 31, 2011	**241**	**45**	**706**	**1,123**	**2,115**	**21**	**2,136**
Profit	-	-	-	373	373	-1	372
Other comprehensive income (+) / expense (-)							
Cash flow hedges, net of tax	-	-	7	-	7	-	7
Available-for-sale equity investments, net of tax	-	-	0	-	0	-	0
Currency translation on subsidiary net investments	-	-22	-	-	-22	-	-22
Net investment hedge gains (+) / losses (-), net of tax	-	-	-	-	-	-	-
Defined benefit plan acturial gains (+) / losses (-), net of tax	-	-	-	-16	-16	-	-16
Total comprehensive income (+) / expense (-)	-	-22	7	357	342	-1	341
Dividends	-	-	-	-254	-254	-1	-255
Redemption of own shares	-	-	0	-	0	-	0
Share-based payments, net of tax	-	-	3	0	3	-	3
Other	-	-	2	-1	1	1	2
Changes in non-controlling interests	-	-	-	0	0	0	0
Balance at December 31, 2012	**241**	**23**	**718**	**1,225**	**2,207**	**20**	**2,227**

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 customers operate in mining, construction, oil and gas, pulp, paper as well as in 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 7, 2013 after which, in accordance with Finnish Company Law, the financial statements are either approved, amended or rejected in the Annual General 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 International Accounting Standards Board ("IASB").

There are no new standards or amendments to existing standards applicable from January 1, 2012 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 the segments 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 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. If the equity of a foreign currency denominated subsidiary is reduced by reimbursement of invested funds, the translation difference relating to the reduction is reversed through the OCI and recognized in the consolidated statements of income.

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 fixed rate debt (fair value hedge), or as hedges of net investment in a foreign operation (net investment hedge), or as derivatives at fair value through profit and loss that do not meet the hedge accounting criteria.

In case of hedge accounting, Metso 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.

Fair value hedge

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

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 cost-to-cost 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_2 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' taxable 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. Deferred taxes are accounted for asset and liabilities acquired in business combinations.

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 subsidiaries where Metso has elected to distribute earnings in prior years and, 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 and if in the previous testing the recoverable value clearly exceeded the carrying values tested, and 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 costs

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 significant or prolonged 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 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.

Fixed rate debt hedged with derivatives are qualified for hedge accounting (fair value hedge) and fair valued quarterly through profit and loss. Gains and losses at disposal 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 instruments, 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

Loans 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 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. 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 identifies, evaluates and hedges financial risks in close co-operation with the operating units. Group Treasury functions as counterparty to the operating units, manages centrally external funding and is responsible for the management of financial assets and appropriate hedging measures. The objective of financial risk management is to minimize potential adverse effects on Metso'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 2012 (end of 2011 respectively) cash and cash equivalents amounted to EUR 731 million (EUR 590 million), available-for-sale financial investments to EUR 1 million (EUR 80 million), financial instruments held for trading EUR 232 million (EUR 87 million) and committed 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.

Maturities as of December 31, 2011:

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

Maturities as of December 31, 2012:

EUR million	<1 year	1-5 years	>5 years
Long-term debt			
Repayments	136	342	744
Interests	52	143	46
Short-term debt			
Repayments	68	-	-
Interests	1	-	-
Trade payables	518	-	-
Other liabilities	837	-	-
Total	1,612	485	790
Financial guarantee contracts	0		

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, 2012 the equity attributable to shareholders was EUR 2,207 million (EUR 2,115 million) and the amount of interest bearing debt was EUR 1,290 million (EUR 1,027 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, 2012:

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.

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 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 2.7 years on December 31, 2012 (1.8 years).

At the end of 2012 the balance sheet items exposed to interest rate risk were interest bearing assets of EUR 974 million (EUR 767 million) and interest bearing debt of EUR 1,290 million (EUR 1,027 million). Of the total of the interest bearing debt 79 percent (68%) 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 -/+ 2.6 million (EUR -/+ 2.5 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	2011	**2012**
Effects in		
• income statement	+/- 1.0	**+/- 0.4**
• equity	+/- 1.4	**+/- 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 as well as financial instruments under fair value hedge accounting. The effect in the equity is comprised of the changes in the fair value of 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 80 percent of Metso's net sales originate from outside euro zone; the main currencies being USD, EUR, BRL, CNY, SEK 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

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

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

EUR million	2011	**2012**
Operational items	804	**682**
Financial items	-365	**-110**
Hedges	-479	**-531**
Total exposure	-40	**41**

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 10 percent against all other currencies, the impact on cash flows, net of taxes, derived from the year-end net exposure as defined above, would be EUR -/+ 1.8 million (EUR -/+ 4.0 million).

Transaction exposure is spread in about 30 currencies and as of December 31, 2012 the biggest open exposures were in USD, 36 percent. A 10 percent appreciation of USD would have an effect, net of taxes, of EUR +2.6 million. A corresponding effect 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	2011	**2012**			
	Total	**USD**	**SEK**	**others**	**Total**
Effects in					
• income statement	+/- 18.2	**+/- 6.4**	**+/- 2.3**	**+/- 0.8**	**+/- 9.5**
• equity	+/- 29.3	**+/- 5.8**	**+/- 9.2**	**+/- 3.3**	**+/- 18.3**

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 over 60 percent of the total equity exposure. Metso is currently not hedging any equity exposure

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, 2012 Metso had outstanding electricity forwards amounting to 648 GWh (636 GWh).

Metso has entered into average-price swap agreements for nickel 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. The Alloy Adjustment Factor is based on monthly average prices of its components of which nickel is the most significant. As of December 31, 2012 Metso had outstanding nickel swaps amounting to 504 tons (528 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	2011	**2012**
Electricity – effect in equity	+/- 1.7	**+/- 1.0**
Electricity – effect in income statement	+/- 0.1	**+/- 0.8**
Nickel – effect in income statement	+/- 0.5	**+/- 0.4**

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.

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 of 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.
- Fixed rate debt under fair value hedge accounting.

Level 3 A financial instrument is categorized into Level 3 if the calculation of the fair value cannot be based on observable market data. Metso had no such instruments in 2011 or in 2012.

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

December 31, 2011

EUR million	Level 1	Level 2	Level 3
Assets			
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	-	-
Total assets	**143**	**79**	**-**
Liabilities			
Financial liabilities at fair value through profit and loss			
• Derivatives	-	15	-
Derivatives qualified for hedge accounting	-	29	-
Total liabilities	**-**	**44**	**-**

December 31, 2012

EUR million	Level 1	Level 2	Level 3
Assets			
Financial assets at fair value through profit and loss			
• Derivatives	-	11	-
• Securities	25	207	-
Derivatives qualified for hedge accounting	-	28	-
Available for sale investments			
• Equity investments	1	-	-
• Debt investments	1	-	-
Total assets	**27**	**246**	**-**
Liabilities			
Financial liabilities at fair value through profit and loss			
• Derivatives	-	24	-
• Long term debt at fair value	-	201	-
Derivatives qualified for hedge accounting	-	17	-
Total liabilities	**-**	**242**	**-**

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.

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 2012, approximately 39 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 management control, which cannot be foreseen when initiating the hedge relationship. Such a factor 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 the result.

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 143 million as of December 31, 2012, adjusted by EUR 15 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. When recording the deferred tax assets judgement has been used based on Metso's estimates of taxable income in each subsidiary and 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. In 2012, Metso recognized an impairment of EUR 17 million on fixed assets.

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 23 percent without triggering impairment.

Reserves for restructuring costs

Reserves for capacity adjustments and restructuring costs are recognized when the requirements for recognition are satisfied. For reason beyond the control of management the final costs may differ from the initial amount reserved. At December 31, 2012 the amount of reserves for restructuring costs amounted to EUR 24 million.

Reserves 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 benefit expense for defined benefit arrangments 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, 2012.

Share-based payments

Share-based payment plans and related incentive programs include vesting conditions such as targets for earnings per share, return on capital employed (ROCE) before taxes 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 Selling, general and administrative expenses

EUR million	Year ended December 31, 2011	**2012**
Marketing and selling expenses	-583	**-638**
Research and development expenses, net	-121	**-126**
Administrative expenses	-403	**-423**
Total	-1,107	**-1,187**

Research and development expenses, net, consist of following:

EUR million	Year ended December 31, 2011	**2012**
Research and development expenses, total	-124	**-124**
Capitalized development costs	-	**-**
Capital expenditure	5	**2**
Grants received	6	**5**
Depreciation and amortization	-8	**-9**
Research and development expenses, net	-121	**-126**

5 Other operating income and expenses, net

EUR million	Year ended December 31, 2011	**2012**
Gain on sale of subsidiaries and businesses	0	**-**
Gain on sale of fixed assets	7	**5**
Gain on sale of available-for-sale equity investments	0	**0**
Royalty income	3	**2**
Rental income	2	**2**
Foreign exchange gains [1]	50	**53**
Legal costs compensations	-	**3**
Other income	11	**9**
Other operating income, total	73	**74**
Loss on sale of fixed assets	-2	**-1**
Loss on sale of associated companies	-1	**-**
Impairment on fixed assets [2]	-2	**-17**
Costs related to bankruptcy of THINK Global A/S	-3	**-1**
Foreign exchange losses [1]	-49	**-62**
Intellectual property lawsuits	-1	**0**
Other expenses	-4	**-9**
Other operating expenses, total	-62	**-90**
Other operating income and expenses, net	11	**-16**

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

[2] of which EUR 14 million subsequent to capacity adjustment recognized in 2012.

6 Personnel expenses and the number of personnel

Personnel expenses:

EUR million	Year ended December 31, 2011	**2012**
Salaries and wages	-1,226	**-1,325**
Pension costs, defined contribution plans	-90	**-94**
Pension costs, defined benefit plans [1)]	-10	**-10**
Other post-employment benefits [1)]	-5	**-5**
Share-based payments	-3	**-8**
Other indirect employee costs	-242	**-258**
Total	-1,576	**-1,700**

[1)] For more information on pension costs, see note 27.

Number of personnel at end of year:

	2011	**2012**
Mining and Construction	11,433	**11,721**
Automation	3,892	**4,128**
Pulp, Paper and Power	12,528	**12,439**
Valmet Automotive	1,705	**1,093**
Group Head Office and other	766	**831**
Group Head Office and others total	2,471	**1,924**
Metso total	30,324	**30,212**

Average number of personnel during the period:

	2011	**2012**
Mining and Construction	11,284	**11,653**
Automation	3,757	**4,061**
Pulp, Paper and Power	12,394	**12,649**
Valmet Automotive	1,497	**1,421**
Group Head Office and other	658	**812**
Group Head Office and others total	2,155	**2,233**
Metso total	29,590	**30,596**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Board remuneration:

EUR thousand	2011	**2012**
Serving Board members December 31, 2012:		
Jukka Viinanen	-106	**-111**
Mikael von Frenckell	-59	**-70**
Christer Gardell	-59	**-57**
Ozey K. Horton, Jr.	-72	**-78**
Erkki Pehu-Lehtonen	-58	**-59**
Pia Rudengren	-68	**-71**
Eeva Sipilä	-	**-55**
Eija Lahti-Jäntti[1)]	-	**-6**
Former Board members:		
Maija-Liisa Friman	-68	**-2**
Yrjö Neuvo	-59	**-3**
Jukka Leppänen[1)]	-8	**-2**
Total	-557	**-514**

[1)] Has attended meetings as a personnel representative, without voting right.

According to the resolution of the Annual General Meeting held on March 29, 2012, the annual fees of the Board members are as follows: Chairman EUR 100,000, Vice Chairman and Chairman of the Audit Committee EUR 60,000 and other members EUR 48,000 each. In accordance with 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 2012 Interim Review on April 26, 2012. In addition, an attendance fee of EUR 700 per meeting is paid to members whose residence is in the Nordic countries, EUR 1,400 to members whose residence is elsewhere in Europe and for those residing outside Europe, EUR 2,800 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
2011					
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
Total	**2,280,474**	**1,501,060**	**87,293**	**-**	**3,868,827**
2012					
President and CEO Matti Kähkönen	551,820	201,965	16,487	300,489	1,070,761
Executive Vice President Pasi Laine	383,386	222,348	11,624	300,489	917,847
Other Executive Team members	1,504,274	428,050	74,326	776,085	2,782,735
Total	**2,439,480**	**852,363**	**102,437**	**1,377,063**	**4,771,343**

Additionally, in 2013 a bonus of about EUR 213,000 will be paid to President and CEO Matti Kähkönen and a bonus of about EUR 156,000 to Executive Vice President Pasi Laine based on 2012 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 incentive 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 full calendar years prior to retirement. In case of termination of contract, he is entitled to compensation equivalent to 24 months' salary.

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 incentive 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 members of Metso Executive Team. For the years ended December 31, 2011 and 2012, these pension insurance premium payments totaled approximately EUR 1.8 million and EUR 0.6 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Board share ownership in Metso as at December 31, 2012:

Jukka Viinanen	**4,647**
Mikael von Frenckell	**101,932**
Christer Gardell	**1,771**
Ozey K. Horton, Jr.	**1,098**
Erkki Pehu-Lehtonen	**2,521**
Pia Rudengren	**2,042**
Eeva Sipilä	**646**
Eija Lahti-Jäntti[1)]	**30**
Total	**114,687**

[1)] Has attended meetings as a personnel representative, without voting right.

Executive Team share ownership in Metso as at December 31, 2012:

Matti Kähkönen	**16,465**
Pasi Laine	**13,574**
Harri Nikunen	**6,539**
Andrew Benko	**12,286**
Perttu Louhiluoto	**4,336**
Merja Kamppari	**3,708**
Kalle Reponen	**5,741**
Total	**62,649**

7 Depreciation and amortization

	Year ended December 31,	
EUR million	2011	**2012**
Intangible assets	-52	**-50**
Property, plant and equipment		
Buildings and structures	-23	**-24**
Machinery and equipment	-97	**-92**
Total	-172	**-166**

Depreciation and amortization by function are as follows:

	Year ended December 31,	
EUR million	2011	**2012**
Cost of goods sold	-96	**-95**
Selling, general and administrative expenses		
Marketing and selling	-22	**-22**
Research and development	-8	**-9**
Administrative	-46	**-40**
Total	-172	**-166**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 Financial income and expenses, net

EUR million	Year ended December 31, 2011	**2012**
Financial income		
Dividends received	0	**0**
Interest income on cash and cash equivalents	21	**17**
Income on financial investments	5	**4**
Other financial income	6	**6**
Financial income total	32	**27**
Financial expenses		
Interest expenses on financial liabilities at amortized cost	-75	**-63**
Interest expenses on financial leases	0	**0**
Other financial expenses	-19	**-13**
Net loss from foreign exchange	-3	**0**
Financial expenses total	-97	**-76**
Financial income and expenses, net	-65	**-49**

9 Income taxes

The components of income taxes are as follows:

EUR million	Year ended December 31, 2011	**2012**
Current tax expense	-135	**-183**
Deferred taxes	-14	**5**
Income taxes, total	-149	**-178**

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, 2011	**2012**
Income before taxes	507	**550**
Income tax expense at Finnish statutory rate	-132	**-135**
Income tax for prior years	-2	**2**
Difference between Finnish and foreign tax rates	-21	**-42**
Benefit of operating loss carryforward	1	**0**
Operating losses with no current tax benefit	-1	**-6**
Non-deductible expenses	-1	**-4**
Tax exempt income	3	**0**
Other	4	**7**
Income tax expense	-149	**-178**

Tax effects of components in other comprehensive income:

	Year ended December 31,					
	2011			**2012**		
EUR million	Before taxes	Tax	After taxes	**Before taxes**	**Tax**	**After taxes**
Cash flow hedges	-31	9	-22	9	-2	**7**
Available-for-sale equity investments	0	0	0	0	0	**0**
Defined benefit plan acturial gains (+) / losses (-)	-50	15	-35	-20	4	**-16**
Currency translation on subsidiary net investments	-10	-1	-11	-17	-5	**-22**
Net investment hedge gains (+) / losses (-)	14	-4	10	**-**	**-**	**-**
Total comprehensive income (+) / expense (-)	-77	19	-58	**-28**	**-3**	**-31**
Current tax		-1			-5	
Deferred tax		20			2	
Total		19			**-3**	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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
2011					
Deferred tax assets					
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 [1]	-54	2	-	-	-52
Net deferred tax assets	168	-24	20	3	167
Deferred tax liabilities					
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 [1]	-54	2	-	-	-52
Net deferred tax liabilities	50	-10	-	-	40
Deferred tax assets, net	**118**	**-14**	**20**	**3**	**127**

EUR million	Balance at beginning of year	Charged to income statement	Charged to shareholders' equity	Translation differences	Balance at end of year
2012					
Deferred tax assets					
Tax losses carried forward	18	7	0	-	25
Fixed assets	23	5	-	-	28
Inventory	30	0	-	-	30
Provisions	44	-1	-2	-	41
Accruals	15	17	-	-	32
Pension related items	51	0	4	-	55
Other	38	-9	0	9	38
Total deferred tax assets	219	19	2	9	249
Offset against deferred tax liabilities [1]	-52	-20	-	-	-72
Net deferred tax assets	167	-1	2	9	177
Deferred tax liabilities					
Purchase price allocations	55	-5	-	-	50
Fixed assets	26	-1	-	-	25
Other	11	20	-	-	31
Total deferred tax liabilities	92	14	-	-	106
Offset against deferred tax assets [1]	-52	-20	-	-	-72
Net deferred tax liabilities	40	-6	-	-	34
Deferred tax assets, net	**127**	**5**	**2**	**9**	**143**

[1] Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against 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, 2011 and 2012, respectively, earnings of EUR 281 million and EUR 360 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 2012, Metso made two minor acquisitions for a total consideration of EUR 5 million. These acquisitions had only an immaterial effect on Metso.

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,	
	2011	**2012**
Profit attributable to shareholders of the company, EUR million	356	**373**
Weighted average number of shares issued and outstanding (in thousands)	149,630	**149,715**
Earnings per share, basic, EUR	2.38	**2.49**

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, 2012, Metso held 592,222 own shares intended for the share ownership plans.

	Year ended December 31,	
	2011	**2012**
Profit attributable to shareholders of the company, EUR million	356	**373**
Weighted average number of shares issued and outstanding (in thousands)	149,630	**149,715**
Adjustment for potential shares distributed (in thousands)	203	**155**
Weighted average number of diluted shares issued and outstanding (in thousands)	149,833	**149,870**
Earnings per share, diluted, EUR	2.38	**2.49**

12 Intangible assets and property, plant and equipment

Intangible assets

EUR million	Goodwill	Patents and licences	Capitalized software	Other intangible assets	Intangible assets total
2011					
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
Other changes	-	-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
Other changes	-	4	1	2	7
Amortization charges for the year	-	-8	-15	-29	-52
Accumulated amortization at end of year	-	-51	-91	-170	-312
Net book value at end of year	**883**	**30**	**74**	**168**	**1,155**
2012					
Acquisition cost at beginning of year	883	81	165	338	1,467
Translation differences	2	0	-1	1	2
Business acquisitions	1	0	-	3	4
Disposals of businesses	-	-	-	-	-
Capital expenditure	-	3	2	25	30
Reclassifications	-	4	7	-11	0
Other changes	1	-6	3	-6	-8
Acquisition cost at end of year	887	82	176	350	1,495
Accumulated amortization at beginning of year	-	-51	-91	-170	-312
Translation differences	-	0	1	0	1
Business acquisitions	-	-	-	-	-
Disposals of businesses	-	-	-	-	-
Reclassifications	-	-	-	-	-
Other changes	-	5	-3	4	6
Amortization charges for the year	-	-8	-15	-27	-50
Accumulated amortization at end of year	-	-54	-108	-193	-355
Net book value at end of year	**887**	**28**	**68**	**157**	**1,140**

Metso participates in the European Emissions Tradings Scheme (EU ETS) and has been granted CO_2 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, 2012, the remaining emission rights amounted to 32,412 units, the market value of which was roughly EUR 0.2 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property, plant and equipment

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Property, plant and equipment total
2011					
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
Other changes	-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
Other changes	-	8	66	-	74
Depreciation charges for the year	-	-23	-97	-	-120
Accumulated depreciation at end of year	-	-369	-1,168	-	-1,537
Net book value at end of year	**67**	**294**	**447**	**46**	**854**
2012					
Acquisition cost at beginning of year	67	663	1,615	46	2,391
Translation differences	0	-1	-9	-1	-11
Business acquisitions	0	1	0	-	1
Disposals of businesses	-	-	-	-	-
Capital expenditure	0	7	61	58	126
Reclassifications	2	21	36	-59	0
Other changes	0	-15	-60	2	-73
Acquisition cost at end of year	69	676	1,643	46	2,434
Accumulated depreciation at beginning of year	-	-369	-1,168	-	-1,537
Translation differences	-	0	4	-	4
Business acquisitions	-	-	-	-	-
Disposals of businesses	-	-	-	-	-
Reclassifications	-	-	-	-	-
Other changes	-	6	42	-	48
Depreciation charges for the year	-	-24	-92	-	-116
Accumulated depreciation at end of year	-	-387	-1,214	-	-1,601
Net book value at end of year	**69**	**289**	**429**	**46**	**833**

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, 2011 and 2012, respectively. They relate to Mining and Construction segment 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, 2012 the amortization expense related to the intangible assets recognized through business acquisitions was EUR 20 million. The future amortization expense is expected to amount to EUR 18, EUR 14, EUR 13, EUR 13 and EUR 12 million for the years 2013, 2014, 2015, 2016 and 2017, 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
2011			
Acquisition cost at end of year	13	6	19
Accumulated depreciation at end of year	-12	-6	-18
Net book value at end of year	**1**	**0**	**1**
2012			
Acquisition cost at end of year	13	6	19
Accumulated depreciation at end of year	-12	-6	-18
Net book value at end of year	**1**	**0**	**1**

Goodwill and impairment tests

In the year ended December 31, 2011, the total amount of goodwill was EUR 883 million equal to 41 percent of the equity. As at December 31, 2012, the goodwill amounted to EUR 887 million being equal to 40% 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. The acquisitions in 2012 generated EUR 1 million 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 October 2012 the number of cash generating units changed as the Recycling business line was combined into Mining and Construction segment and the goodwill of Recycling business line was allocated to the latter.

The cash generating units are either segments, such as Mining and Construction and Automation or business lines under reporting segments. Power business line is a separate cash generating unit whereas the remainder business lines of Pulp, Paper and Power segment forms one cash generating unit. In 2012, Metso had four 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. The growth estimates of sales used in the impairment testing did not exceed 4 percentage points in any of the years in question. 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 cyclicality 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 percent in 2011 and 2012. 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 2012 annual test, the average EBITDAs (earnings before interest, tax, depreciation and amortization) of the tested cash generating units for the projection period 2012-2016 were following: Mining and Construction 14 percent, Automation 15 percent and Pulp, Paper and Power 10 percent of net sales.

As a result of the annual impairment tests, no impairment loss was recognized in 2011 and 2012.

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

	Derived weighted average cost of capital applied	Sensitivity tests Reduction of present values *) Terminal growth rate 1.2%	Increase of discount rate by 200 bp, terminal growth rate 1.2%
2011			
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 %
Total	10.4 - 12.1%	4 %	20 %
2012			
Mining and Construction	9.7%	4 %	23 %
Automation	10.9%	4 %	20 %
Pulp, Paper and Power	8.9 - 10.1%	5 %	26 %
Total	**8.9 - 10.9%**	**4 %**	**23 %**

*) 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 percent to 1.2 percent. The sensitivity tests in 2012 did not indicate any impairment need.

The Recycling business line was integrated into Mining and Construction segment, and even though its performance is not anymore analyzed separately by the management, the goodwill was reviewed for impairment in September 2012. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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
2011					
Mining and Construction	407	2	-	409	46 %
Automation	31	0	-	31	4 %
Pulp, Paper and Power	442	1	-	443	50 %
Total	880	3	-	883	100 %
2012					
Mining and Construction	409	-1	-	408	46 %
Automation	31	1	1	33	4 %
Pulp, Paper and Power	443	3	-	446	50 %
Total	**883**	**3**	**1**	**887**	**100 %**

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 percent of the total amount of goodwill and was EUR 212 million at December 31, 2012. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associated companies

EUR million	As at December 31, 2011	**2012**
Investments in associated companies and joint ventures		
Acquisition cost at beginning of year	3	**5**
Translation differences	0	**0**
Increases	2	**-**
Disposals and other decreases	0	**-**
Acquisition cost at end of year	5	**5**
Equity adjustments in investments in associated companies and joint ventures		
Equity adjustments at beginning of year	11	**11**
Share of results	0	**1**
Translation differences	1	**0**
Dividend income	0	**0**
Disposals and other changes	-1	**-**
Equity adjustments at end of year	11	**12**
Carrying value of investments in associated companies and joint ventures at end of year	16	**17**

EUR million	2011 Ownership	2011 Carrying value	**2012 Ownership**	**2012 Carrying value**
Allimand S.A.	35.8%	4	**35.8%**	**4**
Shanghai Neles-Jamesbury Valve Co. Ltd	50.0%	9	**50.0%**	**9**
Nanjing SAC Metso Control Systems Co. Ltd	33.0%	2	**33.0%**	**3**
Others		1		**1**
Total investments in associated companies and joint ventures		16		**17**

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, 2011	**2012**
Assets	37	**49**
Liabilities	21	**32**
Net sales	30	**43**
Profit	0	**1**

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, 2011	**2012**
Net sales	1	**6**
Purchases	2	**2**
Receivables	0	**0**
Payables	4	**0**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 Available-for-sale equity investments

The available-for-sale equity investments as at December 31, 2011 and 2012 comprise EUR 1 million publicly listed shares which are valued at their market value. The remaining EUR 5 million as at December 31, 2011 and 2012 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	2011	**2012**
Carrying value at beginning of year	9	**6**
Additions	0	-
Changes in fair values	0	**0**
Disposals and other changes	-3	-
Carrying value at end of year	6	**6**

15 Inventory

	As at December 31,	
EUR million	2011	**2012**
Materials and supplies	296	**260**
Work in process	759	**682**
Finished products	622	**587**
Total inventory	1,677	**1,529**

The cost of inventories recognized as expense was EUR 4,882 million and EUR 5,608 million for the years ended December 31, 2011 and 2012, respectively.

Provision for inventory obsolescence has changed as follows:

EUR million	2011	**2012**
Balance at beginning of year	104	**92**
Impact of exchange rates	0	**-2**
Additions charged to expense	16	**17**
Increase from business acquisitions	0	**0**
Used reserve	-9	**-5**
Deductions / other additions	-19	**-17**
Balance at end of year	92	**85**

16 Percentage of completion

Net sales recognized under the percentage of completion method amounted to EUR 2,144 million, or 32 percent of net sales, in 2011 and EUR 2,906 million, or 39 percent of net sales, in 2012. The percentage was highest in the Pulp, Paper and Power segment, where it accounted for 50 percent in 2011 and 59 percent in 2012.

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
2011			
Projects where cost and earnings exceed billings	2,254	1,903	351
Projects where billings exceed cost and earnings	1,544	2,141	597
2012			
Projects where cost and earnings exceed billings	**2,697**	**2,277**	**420**
Projects where billings exceed cost and earnings	**2,079**	**2,646**	**567**

17 Change in net working capital

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

	Year ended December 31,	
EUR million	2011	**2012**
Increase (-) / decrease (+) in assets and increase (+) / decrease (-) in liabilities:		
Inventory	-373	**136**
Trade and other receivables	-289	**71**
Percentage of completion: recognized assets and liabilities, net	233	**-90**
Trade and other payables	306	**-293**
Total	-123	**-176**

18 Interest bearing and non-interest bearing receivables

	As at December 31,					
		2011			**2012**	
EUR million	Non-current	Current	Total	**Non-current**	**Current**	**Total**
Interest bearing receivables						
Loan receivables	8	1	9	**8**	**1**	**9**
Available-for-sale financial investments	2	78	80	**0**	**1**	**1**
Financial instruments held for trading	-	87	87	**-**	**232**	**232**
Trade receivables	1	-	1	**1**	**-**	**1**
Total	11	166	177	**9**	**234**	**243**
Non-interest bearing receivables						
Loan receivables	-	0	0	**-**	**0**	**0**
Trade receivables	2	1,244	1,246	**0**	**1,159**	**1,159**
Prepaid expenses and accrued income	-	91	91	**-**	**91**	**91**
Other receivables	43	175	218	**38**	**192**	**230**
Total	45	1,510	1,555	**38**	**1,442**	**1,480**

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, 2011, other non-interest bearing receivables comprised EUR 55 million of Brazilian tax credits arising from circulation of goods and transfer of services (ICMS) recognized by local subsidiaries, EUR 15 million thereof was classified as long-term. As of December 31, 2012, these Brazilian tax credits amounted to EUR 54 million, of which EUR 15 million was long-term.

Provision for impairment has changed as follows:

EUR million	2011	**2012**
Balance at beginning of year	42	**42**
Impact of exchange rates	0	**0**
Additions charged to expense	18	**10**
Increase from business acquisitions	0	**0**
Used reserve	-7	**-2**
Deductions / other additions	-11	**-8**
Balance at end of year	42	**42**

Analysis of non-interest bearing trade receivables by age:

	As at December 31,	
EUR million	2011	**2012**
Trade receivables, not due at reporting date	837	**745**
Trade receivables 1-30 days overdue	223	**206**
Trade receivables 31-60 days overdue	66	**81**
Trade receivables 61-90 days overdue	41	**36**
Trade receivables 91-180 days overdue	44	**44**
Trade receivables more than 180 days overdue	33	**47**
Total	1,244	**1,159**

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19 Financial assets and liabilities

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

EUR million	Assets at fair value through profit and loss	Derivatives qualified for hedge accounting	Loans and receivables	Available-for-sale financial assets	Carrying value	Fair value
2011						
Non-current assets						
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
Total	**-**	**-**	**54**	**8**	**62**	**62**
Current assets						
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	35	19	-	-	54	54
Other receivables	-	-	266	-	266	266
Total	**122**	**19**	**1,511**	**78**	**1,730**	**1,730**

	Liabilities at fair value through profit and loss	Derivatives qualified for hedge accounting	Financial liabilities measured at amortized cost	Carrying value	Fair value
Non-current liabilities					
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	2	4	-	6	6
Other liabilities	-	-	7	7	7
Total	**2**	**4**	**762**	**768**	**825**
Current liabilities					
Current portion of long-term debt	-	-	209	209	209
Short-term debt	-	-	63	63	63
Trade payables	-	-	865	865	865
Derivative financial instruments	13	25	-	38	38
Other liabilities	-	-	656	656	656
Total	**13**	**25**	**1,793**	**1,831**	**1,831**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EUR million	Assets at fair value through profit and loss	Derivatives qualified for hedge accounting	Loans and receivables	Available-for-sale financial assets	Carrying value	Fair value
2012						
Non-current assets						
Available-for-sale equity investments	-	-	-	6	6	6
Loan receivables	-	-	8	-	8	8
Available-for-sale financial investments	-	-	-	-	-	-
Financial instruments held for trading	0	-	-	-	0	0
Trade receivables	-	-	1	-	1	1
Derivative financial instruments	-	3	-	-	3	3
Other receivables	-	-	38	-	38	38
Total	**0**	3	**47**	**6**	**56**	**56**
Current assets						
Loan receivables	-	-	1	-	1	1
Available-for-sale financial investments	-	-	-	1	1	1
Financial instruments held for trading	232	-	-	-	232	232
Trade receivables	-	-	1,159	-	1,159	1,159
Derivative financial instruments	11	25	-	-	36	36
Other receivables	-	-	283	-	283	283
Total	**243**	25	**1,443**	**1**	**1,712**	**1,712**

	Liabilities at fair value through profit and loss	Derivatives qualified for hedge accounting	Financial liabilities measured at amortized cost	Carrying value	Fair value
Non-current liabilities					
Bonds	201	-	718	919	958
Loans from financial institutions	-	-	162	162	177
Pension loans	-	-	5	5	5
Finance lease obligations	-	-	0	0	0
Other long-term debt	-	-	0	0	0
Derivative financial instruments	5	5	-	10	10
Other liabilities	-	-	6	6	6
Total	**206**	**5**	**891**	**1,102**	**1,156**
Current liabilities					
Current portion of long-term debt	-	-	136	136	136
Short-term debt	-	-	68	68	68
Trade payables	-	-	518	518	518
Derivative financial instruments	19	12	-	31	31
Other liabilities	-	-	831	831	831
Total	**19**	**12**	**1,553**	**1,584**	**1,584**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20 Cash and cash equivalents

EUR million	As at December 31, 2011	2012
Bank and cash	285	**333**
Commercial papers and other investments	305	**398**
Total cash and cash equivalents	590	**731**

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, 2011 and 2012.

	2011	2012
Number of outstanding shares, January 1	149,629,859	**149,629,196**
Redemption of own shares by the Parent Company	-	**-**
Shares granted from share ownership plans	-	**127,356**
Shares returned from share ownership plans	-663	**-518**
Number of outstanding shares, December 31	149,629,196	**149,756,034**
Own shares held by the Parent Company	719,060	**592,222**
Total number of shares, December 31	150,348,256	**150,348,256**

During the year 2011 Metso recovered 663 shares from share-based incentive plan participants having terminated their employment and 518 shares during 2012. As of December 31, 2012, the acquisition price of 592,222 own shares held by the Parent Company was EUR 7,417,548 and was recognized in the treasury stock.

Dividends

The Board of Directors proposes that a dividend of EUR 1.85 per share be paid based on the balance sheet to be adopted for the financial year which ended December 31, 2012 and the remaining part of the profit be retained and carried further in the Parent Company’s unrestricted equity. These financial statements do not reflect this dividend payable of EUR 277 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
Balance as of December 31, 2010	**-12**	**12**	**5**	**29**	**692**	**726**
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
Balance as of December 31, 2011	**-12**	**-10**	**7**	**29**	**692**	**706**
Cash flow hedges						
Fair value gains (+) / losses (-), net of taxes	-	4	-	-	-	4
Transferred to profit and loss, net of taxes						
Net sales	-	1	-	-	-	1
Cost of goods sold / Administrative expenses	-	2	-	-	-	2
Interest income / expenses	-	0	-	-	-	0
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	4	-	-1	-	-	3
Other	-	-	-	2	-	2
Balance as of December 31, 2012	**-8**	**-3**	**6**	**31**	**692**	**718**

Foreign currency translation included in the shareholders' equity:

EUR million	2011	**2012**
Cumulative translation adjustment as of January 1	46	**45**
Currency translation on subsidiary net investments	-11	**-22**
Hedging of net investment denominated in foreign currency	14	**-**
Tax effect	-4	**-**
Cumulative translation adjustment as of December 31	45	**23**

22 Share-based payments

Share ownership plan 2006-2008

The Board of Directors of Metso Corporation 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 2008 was recognized over the vesting period i.e. from 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

In October 2008, the Board of Directors of Metso Corporation approved a share-based incentive plan for Metso's management. The plan had one three-year earnings period and required participants' personal investment in Metso shares at the beginning of the program. Earnings criteria was based on Metso's Total Shareholder Return (TSR) during three year's time and on earnings per share in the years 2009-2011. In April 2012 the reward was paid in Metso shares and partly in cash.

The equity-settled portion of the plan was 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 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. 80 key persons are participating in the plan and their initial investment was 45,600 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 308,800 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 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. 68 key persons are participating in the plan and their initial investment was 34,515 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 236,748 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 2012 performance period, the plan was targeted to 93 persons in Metso's management. The potential rewards to be paid from the plan correspond to a maximum total of 414,880 shares. The earnings criteria of the performance period 2012 was 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.

The equity-settled portion of the plan is recognized over the vesting period i.e. from the beginning of 2012 until the end of February 2015 based on the average share price on the grant date of EUR 33.89.

In December 2012, the Board of Directors of Metso Corporation decided to continue the share-based incentive plan approved in December 2011. The plan will cover around 100 Metso managers during the 2013 performance period. The potential rewards to be paid from the plan correspond to a maximum total of 460,000 shares. The earnings criteria are based on the net sales growth of the services business, Metso's return on capital employed (ROCE) before taxes and earnings per share (EPS). The reward will be paid in Metso shares and partly in cash.

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, 2012:

	Metso Executive Team	Shares	Other beneficiaries	Shares	Beneficiaries total	Shares total
Plan 2006						
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
Plan 2007						
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
Plan 2008						
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			-2	-663	-2	-663
Returned during 2012			-1	-518	-1	-518
At end of year	6	6,996	88	23,631	94	30,627
Plan 2009-2011						
Granted	7	19,459	75	107,897	82	127,356
Total at the end of year		**68,033**		**229,637**		**297,670**

Costs recognized for the share ownership plans:

EUR thousand	Plan 2006	Plan 2007	Plan 2008	Plan 2009-2011	Plan 2010-2012	Plan 2011-2013	Plan 2012-2014	Total
2006								
Metso Executive Team	-1,365	-	-	-	-	-	-	-1,365
Other beneficiaries	-3,466	-	-	-	-	-	-	-3,466
Total	-4,831	-	-	-	-	-	-	-4,831
2007								
Metso Executive Team	-187	-685	-	-	-	-	-	-872
Other beneficiaries	-182	-2,059	-	-	-	-	-	-2,241
Total	-369	-2,744	-	-	-	-	-	-3,113
2008								
Metso Executive Team	-161	-258	-128	-	-	-	-	-547
Other beneficiaries	-406	-575	-300	-	-	-	-	-1,281
Total	-567	-833	-428	-	-	-	-	-1,828
2009								
Metso Executive Team	-161	-143	-82	-184	-	-	-	-570
Other beneficiaries	-229	-312	-294	-754	-	-	-	-1,589
Total	-390	-455	-376	-938	-	-	-	-2,159
2010								
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
2011								
Metso Executive Team	-	-24	-29	-45	-220	-532	-	-850
Other beneficiaries	-	-97	-123	-126	-948	-1,222	-	-2,516
Total	-	-121	-152	-171	-1,168	-1,754	-	-3,366
2012								
Metso Executive Team	-	-	-9	-245	-383	-501	-545	-1,683
Other beneficiaries	-	-	-35	-1,659	-1,412	-1,084	-1,833	-6,023
Total	**-**	**-**	**-44**	**-1,904**	**-1,795**	**-1,585**	**-2,378**	-7,706
Total	**-6,265**	**-4,635**	**-1,203**	**-5,454**	**-6,096**	**-3,339**	**-2,378**	**-29,370**

As of balance sheet date, a liability of EUR 3,768 thousand was recognized as an accrued expense for the cash-settled portion of Metso Share Ownership Plan 2010-2012, EUR 1,519 thousand from Plan 2011-2013 and EUR 1,104 thousand from Plan 2012-2014.

23 Long-term debt

	As at December 31,			
	Carrying values		Fair values	
EUR million	2011	**2012**	2011	**2012**
Bonds	582	**970**	630	**1,009**
Loans from financial institutions	333	**236**	342	**251**
Pension loans	26	**15**	26	**15**
Finance lease obligations	1	**1**	1	**1**
Other long-term debt	22	**0**	22	**0**
	964	**1,222**	1,021	**1,276**
Less current maturities	209	**136**	209	**136**
Total	755	**1,086**	812	**1,140**

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

Bonds:

EUR million	Nominal interest rate Dec. 31, 2012	Effective interest rate Dec. 31, 2012	Original loan amount	Outstanding carrying value at December 31, 2011	**2012**
Public bond 2009-2014	7.25 %	7.40 %	300 [1)]	199	**176**
Public bond 2012-2019	2.75 %	2.91 %	400	-	**399**
Private placements maturing 2013-2018		2.9 - 8.1%	440	383	**395**
Bonds total				582	**970**
Less current maturities				82	**52**
Bonds, long-term portion				500	**918**

[1)] 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 582 million and EUR 970 million at carrying value were outstanding at the end of 2011 and 2012, respectively. EUR 575 million of the outstanding amount were public bonds and EUR 395 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 0.3 percent to 11.2 percent.The loans are payable from year 2013 to 2018.

Interest rates of pension loans and finance lease obligations vary from 3.0 percent to 4.0 percent.

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 2011 and 2012.

Contractual maturities of interest bearing debt as at December 31, 2012 are as follows:

EUR million	Bonds	Loans from financial institutions	Pension loans	Finance lease obligations	Other long-term debt	**Total**
Repayments	51	74	10	1	0	**136**
Interests	46	6	0	0	0	**52**
Total 2013	**97**	**80**	**10**	**1**	**0**	**188**
Repayments	180	73	5	0	0	**258**
Interests	44	4	0	0	0	**48**
Total 2014	**224**	**77**	**5**	**0**	**0**	**306**
Repayments	-	57	-	0	0	**57**
Interests	31	2	-	0	0	**33**
Total 2015	**31**	**59**	-	**0**	**0**	**90**
Repayments	-	21	-	0	0	**21**
Interests	31	0	-	0	0	**31**
Total 2016	**31**	**21**	-	**0**	**0**	**52**
Repayments	-	6	-	0	0	**6**
Interests	31	0	-	0	0	**31**
Total 2017	**31**	**6**	-	**0**	**0**	**37**
Repayments	739	5	-	0	0	**744**
Interests	46	0	-	0	0	**46**
Later	**785**	**5**	-	**0**	**0**	**790**

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

24 Provisions

	As at December 31,					
		2011			**2012**	
EUR million	Non-current	Current	Total	**Non-current**	**Current**	**Total**
Warranty and guarantee liabilities	37	183	220	**25**	**152**	**177**
Accrued restructuring expenses	5	9	14	**4**	**20**	**24**
Environmental and product liabilities	1	4	5	**1**	**3**	**4**
Other provisions	28	38	66	**28**	**23**	**51**
Total	71	234	305	**58**	**198**	**256**

The provisions, both non-current and current, have changed as follows during the financial year 2012:

EUR million	Accrued restructuring expenses	Environmental and product liabilities	Total
Balance at beginning of year	14	5	19
Impact of exchange rates	0	0	0
Addition charged to expense	19	0	19
Used reserve	-8	0	-8
Reversal of reserve / other changes	-1	-1	-2
Balance at end of year	**24**	**4**	**28**

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, 2012, environmental liabilities amounted to EUR 2 million. They included clean-up costs for soil and water contamination at various sites in the Unites States previously operated by Mining and Construction.

Metso is occasionally involved in product liability claims. As at December 31, 2012, 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	2011	**2012**
Balance at beginning of year	200	**220**
Impact of exchange rates	0	**0**
Increase for current year's deliveries	94	**85**
Increase for previous years' deliveries	33	**26**
Increase from business acquisitions	1	-
Used reserve	-64	**-84**
Reversal of reserve / other changes	-44	**-70**
Balance at end of year	220	**177**

25 Short-term debt

Metso's short-term debt comprised loans from various financial institutions amounting to EUR 63 million and EUR 68 million at December 31, 2011 and 2012, respectively.

The weighted average interest rate applicable to short-term borrowing at December 31, 2011 and 2012 was 4.9 percent and 7.5 percent, respectively. In 2013, interest amounting to EUR 1.1 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, 2011 and 2012.

26 Trade and other payables

	As at December 31,	
EUR million	2011	**2012**
Trade payables	865	**518**
Accrued interests	16	**18**
Accrued personnel costs	237	**239**
Accrued project costs	195	**378**
Other	207	**196**
Total	1,520	**1,349**

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 determined 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 2011	Pension benefits, Finnish **2012**	Pension benefits, foreign 2011	Pension benefits, foreign **2012**	Other post-employment benefits 2011	Other post-employment benefits **2012**	Total 2011	**Total 2012**
Present value of funded obligations	16	**12**	385	**411**	-	-	401	**423**
Fair value of plan assets	-9	**-6**	-313	**-340**	-	-	-322	**-346**
	7	**6**	72	**71**	-	**-**	79	**77**
Present value of unfunded obligations	-	-	109	**121**	49	**47**	158	**168**
Unrecognized asset	-	-	0	**0**	-	-	0	**0**
Unrecognized past service cost	0	**-1**	-	**-**	1	**1**	1	**0**
Net liability recognized	7	**5**	181	**192**	50	**48**	238	**245**
Amounts in the balance sheet:								
Liabilities	7	**5**	181	**192**	50	**48**	238	**245**
Assets	-	-	0	**0**	-	-	0	**0**
Net liability recognized	7	**5**	181	**192**	50	**48**	238	**245**

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

EUR million	Pension benefits, Finnish 2011	Pension benefits, Finnish **2012**	Foreign pension and other post-employment benefits 2011	Foreign pension and other post-employment benefits **2012**
Net liability at beginning of year	7	**7**	187	**231**
Adjustments for new plans covered	-	-	1	**1**
Acquisitions (+) and disposals (-)	-	-	-	-
Net expense recognized in the income statement	1	**1**	13	**12**
Employer contributions	-2	**-2**	-20	**-26**
Gain (+) / loss (-) recognized through OCI	1	**-1**	48	**21**
Translation differences	-	-	2	**1**
Net liability at end of year	7	**5**	231	**240**

The amounts recognized in the income statement were as follows:

Year ended December 31,

EUR million	Pension benefits, Finnish 2011	Pension benefits, Finnish **2012**	Pension benefits, foreign 2011	Pension benefits, foreign **2012**	Other post-employment benefits 2011	Other post-employment benefits **2012**
Service cost	2	**2**	8	**11**	1	**1**
Interest cost	1	**1**	21	**21**	3	**2**
Expected return on plan assets	0	**-1**	-19	**-20**	-	-
Amortization - Past service cost	0	**-1**	0	**0**	0	**-3**
Gains (-) / losses (+) on immediate settlements	-2	**0**	-1	**0**	-	-
Expense (+) / income (-) recognized in income statement	1	**1**	9	**12**	4	**0**
Actual return (+) / loss (-) on plan assets	-2	**2**	10	**30**	-	**-**

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The amounts recognized through OCI were following:

	Year ended December 31,							
	Pension benefits, Finnish		Pension benefits, foreign		Other post-employment benefits		Total	**Total**
EUR million	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**
Experience gain (-) / loss (+) on assets	2	**-1**	9	**-10**	-	-	11	**-11**
Actuarial gain (-) / loss (+) on liabilities due to change in assumptions	2	**3**	37	**29**	5	**2**	44	**34**
Actuarial gain (-) / loss (+) on liabilities due to experience	-3	**-3**	2	**2**	-3	**-2**	-4	**-3**
Gain (-) / loss (+) as result of asset ceiling	-	-	-2	**0**	-	-	-2	**0**
Total gain (-) / loss (+) recognized through OCI	1	**-1**	46	**21**	2	**0**	49	**20**

The cumulative amount of actuarial gains and losses recognized through OCI amounted to net loss of EUR 131 million and EUR 151 million for the years ended December 31, 2011 and 2012, 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, 2011 and 2012 the amount of payroll tax recognized through OCI was a loss of EUR 1.2 million.

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

	Pension benefits, Finnish		Pension benefits, foreign		Other post-employment benefits		Total	**Total**
EUR million	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**
Defined benefit obligation at beginning of year	21	**16**	439	**494**	45	**49**	505	**559**
Adjustments for new plans covered	-	**-**	1	**1**	-	**-**	1	**1**
Service cost	2	**2**	8	**11**	1	**1**	11	**14**
Interest cost	1	**1**	21	**21**	3	**2**	25	**24**
Plan participant contributions	-	**-**	2	**2**	0	**0**	2	**2**
Past service cost (+) / credit (-)	-	**-**	0	**-**	-	**-3**	0	**-3**
Acquisitions (+) and disposals (-)	-	**-**	-	**-**	-	**-**	-	**-**
Actuarial gain (-) / loss (+) due to change in assumptions	2	**3**	37	**29**	5	**2**	44	**34**
Actuarial gain (-) / loss (+) due to experience	-3	**-3**	2	**2**	-3	**-2**	-4	**-3**
Settlements	-7	**-7**	0	**0**	-	**1**	-7	**-6**
Translation differences	-	**-**	6	**-4**	1	**0**	7	**-4**
Benefits paid	-	**-**	-22	**-24**	-3	**-3**	-25	**-27**
Defined benefit obligation at end of year	16	**12**	494	**532**	49	**47**	559	**591**

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

	Pension benefits, Finnish		Foreign pension and other post-employment benefits		Total	**Total**
EUR million	2011	**2012**	2011	**2012**	2011	**2012**
Fair value of assets at beginning of year	15	**9**	300	**313**	315	**322**
Settlements	-6	**-6**	-	-	-6	**-6**
Acquisitions	-	**-**	-	-	-	**-**
Actual return on plan assets	-2	**2**	10	**30**	8	**32**
Plan participant contributions	-	**-**	2	**2**	2	**2**
Employer contributions	2	**1**	20	**26**	22	**27**
Benefits paid	-	**-**	-24	**-26**	-24	**-26**
Translation differences	-	**-**	5	**-5**	5	**-5**
Fair value of assets at end of year	9	**6**	313	**340**	322	**346**

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

	2011	**2012**
Equity securities	37 %	**42 %**
Bonds	42 %	**52 %**
Other	21 %	**6 %**

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	2008	2009	2010	2011	**2012**
Present value of defined benefit obligations at December 31	395	448	505	559	**591**
Fair value of plan assets at December 31	210	260	315	322	**346**
Deficit	185	188	190	237	**245**
Experience gain (+) / loss (-) on liabilities	1	-2	1	4	**3**
Experience gain (+) / loss (-) on assets	-42	19	5	-11	**11**

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

	Finnish		Foreign	
	2011	**2012**	2011	**2012**
Benefit obligation: discount rate	4.75 %	**4.25 %**	4.78 %	**4.14 %**
Benefit obligation: rate of compensation increase	4.19 %	**3.50 %**	3.54 %	**3.32 %**
Benefit obligation: rate of pension increase	2.10 %	**2.10 %**	1.93 %	**1.77 %**
Expense in income statement: discount rate	4.75 %	**4.25 %**	5.38 %	**4.14 %**
Expense in income statement: rate of compensation increase	4.44 %	**3.50 %**	3.66 %	**3.32 %**
Expense in income statement: expected return on plan assets	4.60 %	**4.25 %**	7.26 %	**6.13 %**
Expense in income statement: rate of pension increase	2.10 %	**2.10 %**	1.52 %	**1.77 %**

The expected contributions in 2013 shall amount to EUR 1.3 million to Finnish plans and EUR 21 million to foreign plans. The expected benefits to be paid in 2013 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 4 million at December 31, 2012. It would increase the sum of the service and interest cost by EUR 0.4 million for 2012. A decrease of one percentage point in the assumed health care cost trend would decrease the accumulated post-employment benefit obligation by EUR 3 million at December 31, 2012. It would have decreased the sum of the service and interest cost by EUR 0.3 million for 2012. The health care cost trend is assumed to be 7.50 percent for members under age 65 and 7.30 percent for members over age 65, decreasing to 5 percent 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, 2011	**2012**
On own behalf		
Mortgages	5	**5**
On behalf of others		
Guarantees	8	**2**
Other commitments		
Repurchase commitments	3	**3**
Other contingencies	3	**2**
Total	19	**12**

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, 2012 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 above 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 1,797 million and EUR 1,614 million as of December 31, 2011 and 2012, 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:

	Operating leases		Finance leases	
EUR million	2011	**2012**	2011	**2012**
Not later than 1 year	54	**64**	1	**1**
Later than 1 year and not later than 2 years	40	**46**	0	**0**
Later than 2 years and not later than 3 years	33	**32**	0	**0**
Later than 3 years and not later than 4 years	22	**19**	0	**0**
Later than 4 years and not later than 5 years	13	**15**	-	**-**
Later than 5 years	54	**47**	-	**-**
Total minimum lease payments	216	**223**	1	**1**
Future financial expenses			0	**0**
Total net present value of finance leases			1	**1**

Net present value of annual rentals for finance leases in effect at December 31 are shown in the table below:

EUR million	2011	**2012**
Not later than 1 year	1	**1**
Later than 1 year and not later than 2 years	0	**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	-	**-**
Later than 5 years	-	**-**
Total net present value of finance leases	1	**1**

Total rental expenses amounted to EUR 57 million and EUR 82 million in the years ended December 31, 2011 and 2012, respectively.

Annual repayments of principal are presented in the maturities of long-term debt, see note 23.

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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
2011				
Forward exchange contracts [1]	3,100	54	35	19
Interest rate swaps	75	0	2	-2
Cross currency swaps	33	-	3	-3
Option agreements				
Bought	1	0	-	0
Sold	10	-	0	0
Electricity forward contracts [2]	636	0	3	-3
Nickel swap contracts [3]	528	0	1	-1
Total		54	44	10
2012				
Forward exchange contracts [1]	**2,488**	**36**	**29**	**7**
Interest rate swaps	**285**	**2**	**4**	**-2**
Cross currency swaps	**33**	**-**	**3**	**-3**
Option agreements				
Bought	-	**-**	**-**	**-**
Sold	**20**	**-**	**1**	**-1**
Electricity forward contracts [2]	**648**	**0**	**3**	**-3**
Nickel swap contracts [3]	**504**	**0**	**0**	**0**
Total		**38**	**40**	**-2**

[1] Some 49 percent and 45 percent of the notional amount at the end of 2011 and 2012, respectively, qualified for cash flow hedge accounting.
[2] Notional amount in GWh
[3] Notional amount in 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:

	2011		**2012**	
EUR million	Assets	Liabilities	**Assets**	**Liabilities**
Interest rate swaps - cash flow hedges	-	0	**-**	-
Interest rate swaps - fair value hedges	-	-	**2**	-
Interest rate swaps - non-qualifying hedges	0	2	**0**	**4**
	0	2	**2**	**4**
Cross currency swaps - cash flow hedges	-	3	**-**	**3**
Forward exchange contracts - cash flow hedges	19	23	**25**	**11**
Forward exchange contracts - non-qualifying hedges	35	12	**11**	**18**
	54	35	**36**	**29**
Electricity forward contracts - cash flow hedges	0	3	**0**	**3**
Nickel swaps - non-qualifying hedges	0	1	**0**	**0**
Options - non-qualifying hedges	0	0	**-**	**1**
Total derivatives	54	44	**38**	**40**

In the year ended December 31, 2012 there was ineffectiveness related to the cash flow hedges, which resulted in recognition of EUR 1.2 million loss (a loss of EUR 0.7 million in year 2011) in the income statement. As at December 31, 2012, the fixed interest rates of swaps varied from 1.3 percent to 3.9 percent.

As at December 31, 2012, the maturities of financial derivatives are the following (expressed as notional amounts):

EUR million	2013	2014	2015	2016	2017 and later
Forward exchange contracts	2,386	86	16	-	-
Interest rate swaps	-	-	20	40	225
Cross currency swaps	-	-	-	-	33
Option agreements	-	-	-	20	-
Electricity forward contracts [1]	223	180	145	83	17
Nickel swap contracts [2]	426	78	-	-	-

[1] Notional amount GWh
[2] Notional amount tons

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31 Subsidiaries

Company name	Ownership, %
Finland	
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	100.0%
Tampereen Verkatehdas Oy	100.0%
Valmet Automotive Oy	61.0%
Metso Shared Services Oy	100.0%
Metso Capital Oy	100.0%
Kaukotalo Oy	87.2%
Avantone Oy	100.0%
Rauma Oy	100.0%
Sweden	
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	100.0%
Lignoboost AB	100.0%
Norway	
Metso Minerals (Norway) A/S	100.0%
Metso Automation A/S	100.0%
Metso Mill Service A/S	100.0%
Austria	
Metso Minerals (Austria) GmbH	100.0%
Metso Automation GesmbH	100.0%
Metso Paper GesmbH	100.0%
Belgium	
Metso Minerals (Belux) SA	100.0%
Metso Automation SA NV	100.0%
Metso Belgium NV	100.0%
Czech Republic	
Metso Minerals 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%
France	
Metso SAS	100.0%
Metso Minerals (France) SA	100.0%
Metso Automation SAS	100.0%
Metso Paper France SAS	100.0%
Germany	
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	61.0%
Valmet Automotive Engineering GmbH	61.0%
United Kingdom	
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%
Italy	
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%
Netherlands	
Metso Minerals International BV	100.0%
Metso Minerals (Dordrecht) BV	100.0%
Metso Automation BV	100.0%
Poland	
Metso Minerals (Poland) Sp zoo	100.0%
Metso Automation Polska Sp zoo	100.0%
Metso Fabrics Sp zoo	94.0%
Valmet Automotive Poland Sp zoo	61.0%
Portugal	
Metso Minerals (Portugal) Lda	100.0%
Metso Automation Portugal Lda	100.0%
Metso Fabrics Portugal Lda	100.0%
Spain	
Metso Minerals Espana SA	100.0%
Metso Automation Espana SA	100.0%
Metso Paper SA	100.0%
Metso Mill Service SL	81.0%
Russia	
ZAO Metso Minerals (CIS)	100.0%
ZAO Metso Automation	100.0%
Metso Paper ZAO	100.0%
United States	
Metso USA Inc.	100.0%
Metso Minerals Industries Inc.	100.0%
Metso Copperstate 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.	61.0%
ExperTune Inc.	100.0%

Company name	Ownership, %
Canada	
Metso Minerals Canada Inc.	100.0%
Metso Automation Canada Ltd	100.0%
Metso Paper Ltd	100.0%
Metso Canada Ltd	100.0%
Metso Shared Services Ltd	100.0%
Enerdry Constructors Ltd	100.0%
Brazil	
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%
Chile	
Metso Minerals (Chile) SA	100.0%
Metso Automation Chile Ltda	100.0%
Metso Paper SA	100.0%
Mexico	
Metso (Mexico) SA de CV	100.0%
Metso SA de CV	100.0%
Australia	
Metso Minerals (Australia) Ltd	100.0%
Metso Automation (ANZ) Pty Ltd	100.0%
Metso Paper (ANZ) Pty Ltd	100.0%
China	
Metso Minerals (Tianjin) Co. Ltd	100.0%
Metso Minerals (Tianjin) International Trade Co. 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%
Metso (China) Investment Co. Ltd	100.0%
Valmet Automotive (China) Inc	100.0%
Metso Minerals (Hong Kong) Ltd	100.0%
India	
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%
Indonesia	
PT Metso Minerals Indonesia Ltda	100.0%
PT Metso Indonesia	100.0%
PT Metso Paper Indonesia	100.0%
Japan	
Metso Minerals Japan Co. Ltd	100.0%
Metso Automation KK	100.0%
Metso Paper Japan Co. Ltd	100.0%
Singapore	
Metso Minerals (Singapore) Pte Ltd	100.0%
Metso Singapore Pte Ltd	100.0%
Metso Paper (Asia-Pasific) Pte Ltd	100.0%
South Korea	
Metso Automation Korea Ltd	100.0%
Metso Paper Korea Inc.	100.0%
Valstone Control Ltd	100.0%
Thailand	
Metso Minerals (Thailand) Co. Ltd	100.0%
Metso Automation Co. Ltd	100.0%
Metso Paper (Thailand) Co. Ltd	100.0%
South Africa	
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%
Metso Mining and Construction (South Africa) (Pty) Ltd	75.0%
Others	
Metso Denmark A/S	100.0%
Noviter Eesti Oü	100.0%
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%
Metso Otomasyon Anosim Sirketi	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 as well as 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. Recycling business line was integrated into Mining and Construction segment at the beginning of December 2012, and is restated in the segment's figures.

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 as well as holding companies in several countries. Valmet Automotive is reported as separate business.

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 interest, 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, 2011 and 2012 is presented in the following tables.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EUR million	Mining and Construction	Automation	Pulp, Paper and Power	Valmet Automotive	Group Head Office and other	Eliminations	**Metso total**
2011							
External net sales	2,959	714	2,692	281	-	-	**6,646**
Intra-Metso net sales	8	56	11	-	-	-75	**-**
Net sales	2,967	770	2,703	281	-	-75	**6,646**
EBITA before non-recurring items	324.4	103.9	218.8	12.0	-30.6	-	**628.5**
% of net sales	10.9	13.5	8.1	4.3	n/a	-	**9.5**
Operating profit (loss)	313.0	99.7	189.2	3.4	-33.5	-	**571.8**
% of net sales	10.5	12.9	7.0	1.2	n/a	-	**8.6**
Non-recurring items in cost of goods sold	-	-	-	-	-	-	**-**
Non-recurring items in selling, general and administrative expenses	-	-	-	-3.3	-0.8	-	**-4.1**
Non-recurring items in other operating income and expenses, net	-0.8	-	2.6	-2.8	-	-	**-1.0**
Total non-recurring items	-0.8	-	2.6	-6.1	-0.8	-	**-5.1**
Amortization	-11	-4	-32	-3	-2	-	**-52**
Depreciation	-38	-10	-58	-13	-1	-	**-120**
Gross capital expenditure (including business acquisitions)	-52	-21	-75	-23	-10	-	**-181**
Non-cash write-downs	7	1	-10	-6	0	-	**-8**
Intangible assets and property, plant and equipment	750	129	1,059	45	26	-	**2,009**
Investments in associated companies	-	12	4	-	0	-	**16**
Available-for-sale equity investments	0	0	3	0	3	-	**6**
Inventories and other non-interest bearing assets	1,731	394	1,385	57	86	-	**3,653**
Interest bearing assets	-	-	-	-	767	-	**767**
Deferred tax assets	-	-	-	-	167	-	**167**
Total assets	2,481	535	2,451	102	1,049	-	**6,618**
Non-interest bearing liabilities	1,124	243	1,855	49	144	-	**3,415**
Interest bearing debt	-	-	-	-	1,027	-	**1,027**
Deferred tax liability	-	-	-	-	40	-	**40**
Total liabilities	1,124	243	1,855	49	1,211	-	**4,482**
Capital employed	1,357	292	596	53	866	-	**3,164**
Orders received	3,714	822	3,225	281	-	-81	**7,961**
Order backlog	2,144	364	2,863	-	-	-61	**5,310**

Capital employed includes only external balance sheet items.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EUR million	Mining and Construction	Automation	Pulp, Paper and Power	Valmet Automotive	Group Head Office and other	Eliminations	**Metso total**
2012							
External net sales	3,486	797	3,005	216	-	-	**7,504**
Intra-Metso net sales	6	62	9	-	-	-77	**-**
Net sales	3,492	859	3,014	216	-	-77	**7,504**
EBITA before non-recurring items	418.5	103.1	200.3	0.7	-38.3	-	**684.3**
% of net sales	12.0	12.0	6.6	0.3	n/a	-	**9.1**
Operating profit (loss)	399.9	97.6	147.6	-3.5	-43.1	-	**598.5**
% of net sales	11.5	11.4	4.9	-1.6	n/a	-	**8.0**
Non-recurring items in cost of goods sold	-8.4	-0.3	-8.5	-	-	-	**-17.2**
Non-recurring items in selling, general and administrative expenses	-1.4	-0.7	-2.1	-	-2.0	-	**-6.2**
Non-recurring items in other operating income and expenses, net	1.6	-	-13.1	-1.1	-	-	**-12.6**
Total non-recurring items	-8.2	-1.0	-23.7	-1.1	-2.0	-	**-36.0**
Amortization	-10	-5	-29	-3	-3	-	**-50**
Depreciation	-41	-11	-59	-4	-1	-	**-116**
Gross capital expenditure (including business acquisitions)	-67	-25	-58	-7	-4	-	**-161**
Non-cash write-downs	2	-5	-17	-1	-	-	**-21**
Intangible assets and property, plant and equipment	752	138	1,012	45	26	-	**1,973**
Investments in associated companies	-	13	4	-	0	-	**17**
Available-for-sale equity investments	0	0	3	0	3	-	**6**
Inventories and other non-interest bearing assets	1,757	374	1,261	34	69	-	**3,495**
Interest bearing assets	-	-	-	-	974	-	**974**
Deferred tax assets	-	-	-	-	177	-	**177**
Total assets	2,509	525	2,280	79	1,249	-	**6,642**
Non-interest bearing liabilities	1,152	236	1,494	44	165	-	**3,091**
Interest bearing debt	-	-	-	-	1,290	-	**1,290**
Deferred tax liability	-	-	-	-	34	-	**34**
Total liabilities	1,152	236	1,494	44	1,489	-	**4,415**
Capital employed	1,357	289	786	35	1,050	-	**3,517**
Orders received	3,436	845	2,444	216	-	-76	**6,865**
Order backlog	1,983	343	2,249	-	-	-60	**4,515**

Capital employed includes only external balance sheet items.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 procent 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**
2011	418	411	1,484	1,208	1,116	1,665	344	6,646
2012	**414**	**585**	**1,481**	**1,401**	**1,509**	**1,688**	**426**	**7,504**

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**
2011	221	660	236	213	523	47	1,900
2012	**247**	**677**	**216**	**204**	**459**	**50**	**1,853**

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**
2011	485	67	87	174	108	198	8	949	2,076
2012	**439**	**67**	**90**	**175**	**110**	**199**	**8**	**946**	**2,034**

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**
2011	67	10	14	10	31	32	2	166
2012	**45**	**9**	**17**	**30**	**26**	**27**	**2**	**156**

Analysis of net sales by category:

	Year ended December 31,	
EUR million	2011	**2012**
Sale of services	2,871	**3,174**
Sale of projects, equipment and goods	3,775	**4,330**
Total	6,646	**7,504**

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 and EUR 350 million in 2012, the remaining amount of EUR 250 million will be recognized during 2013.

33 Audit fees

	Year ended December 31,	
EUR million	2011	**2012**
Audit	-2.6	**-3.3**
Tax consulting	-2.0	**-2.0**
Other services	-1.1	**-0.6**
Total	-5.7	**-5.9**

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, 2012, there had been a total of 1,200 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 entity as a defendant, the cases are counted by the number of viable Metso defendants. Of these cases, 340 are pending, 783 have been closed and 77 are inactive. Of the closed cases, 127 cases were settled and 656 were closed by summary judgment or dismissals. The outcome of the pending cases is not expected to materially deviate from the outcome of the previous cases. Hence, Metso management's present belief is that the risk caused by the pending asbestos cases in the United States is not material in the context of Metso's total business operations.

Lawsuits related to intellectual property rights

Metso won in 2011 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 against 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 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 will apply to accounting periods beginning on or after January 1, 2013, however, its application becomes compulsory for accounting periods beginning after December 31, 2013.

The standard will not have a material impact on our 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 apply to accounting periods beginning on or after January 1, 2013, however, its application becomes compulsory for accounting periods beginning after December 31, 2013.

The standard will not have a material impact on our 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 will apply to accounting periods beginning on or after January 1, 2013, however, its application becomes compulsory for accounting periods beginning after December 31, 2013.

The standard will not have a material impact on our 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 accounting periods beginning on or after January 1, 2013.

The standard will not have a material impact on our 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 as actuarial gains and losses under IAS19. The amendment is effective for annual periods beginning on or after July 1, 2012. Metso will start applying the standard in the accounting period beginning on January 1, 2013.

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 not use 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 2012, the impacts to Metso’s financial statements would have been following: profit before tax would have decreased by EUR 6 million and the pre-tax amount reported under other comprehensive income would have increased by EUR 6 million. The recognition of past service cost would not have had impact to net liability.

The amendment was endorsed by the European Union in September 2012, and we will apply it to accounting period beginning on January 1, 2013.

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 entire standard, once completed, is now expected to become effective for accounting periods beginning on or after January 1, 2015.

Until the entire standard is finalized, we cannot assess its impact on our financial statements.

36 Events after balance sheet date

Divestment of service workshop in Sweden

Metso has divested its shares of Metso Mill Service Husum AB, a service workshop, to Pichano Holding AB as of January 1, 2013. The divestment was not material to Metso.

Metso Mill Service Husum AB was part of Metso's Pulp, Paper and Power segment. Its annual net sales has been around EUR 1.5 million. The whole personnel, 12 people, was transferred to Pichano Holding AB.

Acquisition of manganese steel foundry in China

In February 2013 Metso agreed to acquire a manganese steel foundry (JX) in Zheijang Province in China. The transaction covers the acquisition of assets of Quzhou Juxin Machinery Co., Ltd and Quzhou Chixin Machinery Co., Ltd from the current owner and his associates.

The acquired assets and approximately 275 employees are expected to be transferred to Metso as of closing. The transaction is subject to the relevant regulatory approvals, which are expected in the next few months.

EXCHANGE RATES USED

		Average rates		Year-end rates	
		2011	**2012**	2011	**2012**
USD	(US dollar)	1.3951	**1.2932**	1.2939	**1.3194**
SEK	(Swedish krona)	9.0038	**8.7015**	8.9120	**8.5820**
GBP	(Pound sterling)	0.8704	**0.8137**	0.8353	**0.8161**
CAD	(Canadian dollar)	1.3768	**1.2930**	1.3215	**1.3137**
BRL	(Brazilian real)	2.3287	**2.5220**	2.4159	**2.7036**
CNY	(Chinese yuan)	9.0141	**8.1462**	8.1588	**8.2207**
AUD	(Australian dollar)	1.3412	**1.2468**	1.2723	**1.2712**

FINANCIAL INDICATORS 2008 - 2012

EUR million	2008	2009	2010	2011	**2012**
Net sales	6,400	5,016	5,552	6,646	**7,504**
Net sales change, %	2.4	-21.6	10.7	19.7	**12.9**
Operating profit	637	294	445	572	**599**
% of net sales	10.0	5.9	8.0	8.6	**8.0**
Profit before tax	548	222	370	507	**550**
% of net sales	8.6	4.4	6.7	7.6	**7.3**
Profit	390	151	258	358	**372**
% of net sales	6.1	3.0	4.6	5.4	**5.0**
Profit attributable to shareholders of the company	389	150	257	356	**373**
Exports from Finland and international operations	5,957	4,706	5,269	6,281	**7,097**
% of net sales	93.1	93.8	94.9	94.5	**94.6**
Amortization	44	41	58	52	**50**
Depreciation	94	102	120	120	**116**
Depreciation and amortization	138	143	178	172	**166**
% of net sales	2.2	2.9	3.2	2.6	**2.2**
EBITA	681	334	503	623	**649**
% of net sales	10.6	6.7	9.1	9.4	**8.6**
EBITDA	775	437	623	744	**765**
% of net sales	12.1	8.7	11.2	11.2	**10.2**
Financial income and expenses, net	89	72	75	65	**49**
% of net sales	1.4	1.4	1.4	1.0	**0.7**
Interest expenses	71	75	69	75	**63**
% of net sales	1.1	1.5	1.2	1.1	**0.8**
Interest cover (EBITDA)	8.7x	6.1x	8.3x	11,4x	**15,6x**
Gross capital expenditure (excl. business acquisitions)	255	117	135	166	**156**
% of net sales	4.0	2.3	2.4	2.5	**2.1**
Business acquisitions, net of cash acquired	44	1	21	15	**5**
Net capital expenditure (excl. business acquisitions and disposals)	238	85	117	156	**146**
% of net sales	3.7	1.7	2.1	2.3	**1.9**
Net cash provided by operating activities	137	770	506	466	**359**
Free cash flow	29	717	435	375	**257**
Cash conversion, %	7	475	169	105	**69**
Research and development	134	115	111	124	**124**
% of net sales	2.1	2.3	2.0	1.9	**1.7**
Balance sheet total	5,511	5,715	6,232	6,618	**6,642**
Equity attributable to shareholders	1,444	1,783	2,049	2,115	**2,207**
Total equity	1,453	1,792	2,071	2,136	**2,227**
Interest bearing liabilities	1,435	1,576	1,373	1,027	**1,290**
Net interest bearing liabilities	1,099	583	310	260	**316**
Net working capital (NWC)	672	242	247	281	**452**
% of net sales	10.5	4.8	4.5	4.2	**6.0**
Capital employed	2,888	3,368	3,444	3,164	**3,517**
Return on equity (ROE), %	26.0	9.8	13.6	17.8	**17.5**
Return on capital employed (ROCE) before tax, %	23.2	10.0	13.5	18.4	**19.6**
Return on capital employed (ROCE) after tax, %	17.3	7.7	10.2	13.8	**14.0**
Equity to assets ratio, %	30.9	35.7	38.1	39.8	**40.5**
Gearing, %	75.7	32.5	15.0	12.2	**14.2**
Debt to capital, %	49.7	46.8	39.9	32.5	**36.7**
Orders received	6,384	4,358	5,944	7,961	**6,865**
Order backlog, December 31	4,088	3,415	4,023	5,310	**4,515**
Average number of personnel	28,010	27,813	27,585	29,590	**30,596**
Personnel, December 31	29,322	27,166	28,593	30,324	**30,212**

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

SHARE CAPITAL AND SHARE DATA 2008 - 2012

	2008	2009	2010	2011	**2012**
Share capital, December 31, EUR million	241	241	241	241	**241**
Number of shares, December 31:					
Number of outstanding shares	141,623,642	149,938,639	149,629,859	149,629,196	**149,756,034**
Own shares held by the Parent Company	60,841	409,617	718,397	719,060	**592,222**
Shares administered by a partnership (MEO1V Incentive Ky)	70,131	-	-	-	**-**
Total number of shares	141,754,614	150,348,256	150,348,256	150,348,256	**150,348,256**
Average number of outstanding shares	141,595,026	141,477,476	149,682,703	149,629,690	**149,715,383**
Average number of diluted shares	141,595,026	141,526,284	149,836,864	149,832,989	**149,870,074**
Trading volume, NASDAQ OMX Helsinki Ltd	359,378,566	321,093,368	217,467,633	206,936,576	**223,439,548**
% of shares [1)]	253.8	214.1	145.3	138.3	**149.2**
Earnings/share, basic, EUR	2.75	1.06	1.71	2.38	**2.49**
Earnings/share, diluted, EUR	2.75	1.06	1.71	2.38	**2.49**
Free cash flow/share, EUR	0.20	5.07	2.91	2.50	**1.72**
Dividend/share [2)], EUR	0.70	0.70	1.55	1.70	**1.85**
Dividend [2)], EUR million	99	105	232	254	**277**
Dividend/earnings [2)], %	25	66	91	71	**74**
Effective dividend yield [2)], %	8.2	2.8	3.7	5.9	**5.8**
P/E ratio	3.10	23.24	24.44	12.04	**12.87**
Equity/share, EUR	10.19	11.89	13.69	14.13	**14.74**
Highest share price, EUR	38.56	24.78	43.23	43.27	**37.27**
Lowest share price, EUR	7.74	7.03	20.91	19.72	**24.88**
Average share price, EUR	23.66	13.26	28.81	31.79	**30.02**
Share price, December 31, EUR	8.52	24.63	41.80	28.65	**32.04**
Market capitalization, December 31 [3)], EUR million	1,207	3,693	6,255	4,287	**4,798**

[1)] Of the total amount of shares for public trading
[2)] 2012 proposal by the Board of Directors
[3)] Excluding own shares held by the Parent Company and shares administered by a partnership

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 taxes, %:

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

Return on capital employed (ROCE) after taxes, %:

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

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

EUR	Note	Year ended December 31, 2011	**2012**
Other operating income	2	205,960.54	**52,009.43**
Personnel expenses	3	-13,851,302.74	**-13,953,418.03**
Depreciation and amortization	4	-497,696.50	**-515,451.03**
Other operating expenses		-17,784,336.11	**-18,423,187.96**
Operating profit (loss)		-31,927,374.81	**-32,840,047.59**
Financial income and expenses, net	6	257,522,997.70	**199,780,191.37**
Profit before extraordinary items		225,595,622.89	**166,940,143.78**
Extraordinary items	7	143,685,000.00	**106,445,100.00**
Profit before appropriations and taxes		369,280,622.89	**273,385,243.78**
Income taxes	8		
Current tax expense		-100,322.46	**-360,796.82**
Income taxes, previous years		-	**-593,459.86**
Change in deferred taxes		-16,024,909.36	**-6,095,696.12**
Profit		353,155,391.07	**266,335,290.98**

PARENT COMPANY BALANCE SHEET

Assets

EUR	Note	2011	As at December 31, **2012**
Non-current assets			
Intangible assets	9	607,196.52	**460,424.49**
Tangible assets	9	2,185,687.85	**2,075,172.78**
Investments			
Shares in Group companies	10	2,465,575,282.09	**2,471,852,238.73**
Other investments	10	157,042,533.72	**154,997,662.24**
Total non-current assets		2,625,410,700.18	**2,629,385,498.24**
Current assets			
Long-term receivables	12	8,944,321.86	**2,002,444.64**
Short-term receivables	12	798,837,914.87	**718,168,451.95**
Securities		272,354,674.15	**438,893,494.85**
Bank and cash		60,540,770.52	**117,405,043.48**
Total current assets		1,140,677,681.40	**1,276,469,434.92**
Total assets		3,766,088,381.58	**3,905,854,933.16**

Shareholders' equity and liabilities

EUR		2011	As at December 31, **2012**
Shareholders' equity	13		
Share capital		240,982,843.80	**240,982,843.80**
Invested non-restricted equity fund		573,236,541.58	**573,236,541.58**
Other reserves		194,210,758.91	**194,210,758.91**
Retained earnings		526,473,935.01	**629,471,902.67**
Profit		353,155,391.07	**266,335,290.98**
Total shareholders' equity		1,888,059,470.37	**1,904,237,337.94**
Liabilities			
Long-term liabilities	14	831,631,976.28	**1,171,263,340.55**
Current liabilities	15	1,046,396,934.93	**830,354,254.67**
Total liabilities		1,878,028,911.21	**2,001,617,595.22**
Total shareholders' equity and liabilities		3,766,088,381.58	**3,905,854,933.16**

PARENT COMPANY STATEMENT OF CASH FLOWS

EUR thousand	Year ended December 31, 2011	**2012**
Cash flows from operating activities:		
Profit	353,155	**266,335**
Adjustments to operating profit (loss)		
Depreciation and amortization	498	**515**
Unrealized foreign exchange gains (+) / losses (-)	-4,730	**38,048**
Financial income and expenses, net	-246,240	**-203,330**
Gains (+) / losses (-) on sale, net	-21	**-41**
Group contributions	-143,685	**-106,445**
Other non-cash items	-22	**972**
Taxes	16,125	**7,050**
Total adjustments to operating profit (loss)	-378,075	**-263,231**
Increase (-) / decrease (+) in short-term non-interest bearing trade receivables	7,936	**-12,293**
Increase (+) / decrease (-) in short-term non-interest bearing debt	-2,114	**10,558**
Change in working capital	5,822	**-1,735**
Interest and other financial expenses paid	-80,170	**-61,256**
Dividends received	313,323	**247,883**
Interest received	4,775	**6,462**
Income taxes paid	-289	**-6,585**
Net cash provided by operating activities	218,541	**187,873**
Cash flows from investing activities:		
Investments in tangible and intangible assets	-1,211	**-257**
Proceeds from sale of tangible and intangible assets	21	**41**
Long-term loans granted	-30,423	**-69,243**
Repayments of long-term loans	70,727	**61,926**
Short-term loans granted	-426,160	**-554,502**
Repayments of short-term loans	520,354	**579,024**
Purchase of other investments	289,440	**-71,410**
Interest received from investments	16,124	**9,536**
Dividends received from investments	20	**19**
Net cash used in investing activities	438,892	**-44,866**
Cash flows from financing activities:		
Withdrawals (+) and instalments (-) of short-term loans, net	31,895	**8,977**
Withdrawal of long-term loans	39,856	**496,096**
Repayments of long-term loans	-399,300	**-185,009**
Dividends paid	-231,926	**-254,369**
Change in Group pool accounts	-328,190	**-196,067**
Group contributions	76,593	**143,685**
Net cash provided by (+) / used in (-) financing activities	-811,072	**13,313**
Net increase (+) / decrease (-) in bank and cash	-153,639	**156,320**
Bank and cash at beginning of year	321,417	**167,778**
Bank and cash at end of year	167,778	**324,098**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1 Accounting principles

The parent company financial statements have been prepared in accordance with the Finnish Generally Accepted Accounting Principles.

Tangible and intangible assets

Tangible and intangible assets are valued at historical cost, less accumulated depreciation according to plan. Land and water areas are not depreciated.

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

Computer software	3–5 years
Other intangibles	10 years
Buildings and structures	20 years
Machinery and equipment	3–5 years
Other tangible assets	20 years

Financial Instruments

Metso's financial risk management is carried out by a central treasury department (Group Treasury) under the policies approved by the Board of Directors. Group Treasury functions in co-operation with the operating units to minimize financial risks in both the Parent Company and the Group.

The Group's external and internal forward exchange contracts are measured at fair value. The change in fair value is recognized as income or expense in the income statement. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

Transaction costs arising from issuance of bonds are recognized over the life of the bond using the effective yield method. The unrecognized portion as of the balance sheet date is presented as a decrease in liabilities.

Other financial instruments are measured at historical cost, less possible impairment loss.

Deferred taxes

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 recognized when it is probable that there will be sufficient taxable profit against which the asset can be utilized.

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

2 Other operating income

EUR thousand	Year ended December 31, 2011	**2012**
Gain on sale of fixed assets	21	**41**
Other	185	**11**
Total	206	**52**

3 Personnel expenses

EUR thousand	Year ended December 31, 2011	**2012**
Salaries and wages	-9,747	**-10,850**
Pension costs	-3,622	**-2,476**
Other indirect employee costs	-482	**-627**
Total	-13,851	**-13,953**

EUR thousand	Year ended December 31, 2011	**2012**
Fringe benefits	282	**320**

Remuneration paid to Executive Team:

EUR thousand	Year ended December 31, 2011	**2012**
Chief Executive Officer and his deputy	-1,570	**-1,360**
Board members [1)]	-557	**-514**
Total	-2,127	**-1,874**

[1)] Board remuneration is presented in note 6 for Consolidated Financial Statements.

Number of personnel:

	2011	**2012**
Personnel at end of year	101	**103**
Average number of personnel during the year	103	**98**

4 Depreciation and amortization

Depreciation and amortization expenses consist of the following:

EUR thousand	Year ended December 31, 2011	**2012**
Buildings and structures	-17	**-17**
Machinery and equipment	-101	**-119**
Other tangible assets	-5	**-28**
Intangible assets	-375	**-351**
Total	-498	**-515**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

5 Audit fees

EUR thousand	Year ended December 31, 2011	**2012**
Audit	636	**664**
Tax consulting	522	**469**
Other services	281	**187**
	1,439	**1,320**

6 Financial income and expenses

EUR thousand	Year ended December 31, 2011	**2012**
Dividends received from		
Group companies	313,323	**247,883**
Others	20	**19**
	313,343	**247,902**
Interest income from investments from		
Group companies	10,144	**10,338**
Others	4,728	**54**
	14,872	**10,392**
Other interest and financial income from		
Others	16,508	**6,078**
Interest and financial income, total	344,723	**264,372**
Interest and other financial expenses to		
Group companies	-13,301	**-11,254**
Others	-73,899	**-53,338**
Interest and other financial expenses, total	-87,200	**-64,592**
Financial income and expenses, net	257,523	**199,780**
Other interest and financial income includes net gain from foreign exchange	13,558	**565**

7 Extraordinary items

EUR thousand	Year ended December 31, 2011	**2012**
Group contributions received	143,685	**106,445**

8 Income taxes

EUR thousand	Year ended December 31, 2011	**2012**
Income taxes, previous years	-	**-593**
Withheld taxes recorded for the financial year	-100	**-361**
Change in deferred taxes	-16,025	**-6,096**
Total	-16,125	**-7,050**

9 Fixed assets

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2011							
Acquisition cost at Jan 1	4,123	297	476	2,838	403	4,014	8,137
Additions	39	500	-	190	521	1,211	1,250
Decreases	0	-	-	-208	-	-208	-208
Acquisition cost at Dec 31	4,162	797	476	2,820	924	5,017	9,179
Accumulated depreciation at Jan 1	-3,179	-	-262	-2,634	-20	-2,916	-6,095
Accumulated depreciation of decreases	0	-	-	207	-	207	207
Depreciation charges for the year	-376	-	-16	-101	-5	-122	-498
Accumulated depreciation at Dec 31	-3,555	-	-278	-2,528	-25	-2,831	-6,386
Net carrying value at Dec 31	**607**	**797**	**198**	**292**	**899**	**2,186**	**2,793**
2012							
Acquisition cost at Jan 1	4,162	797	476	2,820	924	5,017	9,179
Additions	204	-	-	55	-	55	259
Decreases	-	0	-	-1	-	-1	-1
Acquisition cost at Dec 31	4,366	797	476	2,874	924	5,071	9,437
Accumulated depreciation at Jan 1	-3,555	-	-278	-2,528	-25	-2,831	-6,386
Accumulated depreciation of decreases	-	-	-	-1	-	-1	-1
Depreciation charges for the year	-351	-	-17	-119	-28	-164	-515
Accumulated depreciation at Dec 31	-3,906	-	-295	-2,648	-53	-2,996	-6,902
Net carrying value at Dec 31	**460**	**797**	**181**	**226**	**871**	**2,075**	**2,535**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

10 Investments

EUR thousand	Shares Group companies	Shares Others	Receivables Group companies	Receivables Other companies	Other invest-ments total
2011					
Acquisition cost at Jan 1	2,516,610	2,332	168,533	168,600	339,465
Additions	3,572	-	30,423	-	30,423
Decreases	-54,607	-39	-46,156	-166,650	-212,845
Acquisition cost at Dec 31	2,465,575	2,293	152,800	1,950	157,043
Accumulated impairment at Jan 1	-	-	-	-	-
Other change	-	-	-	-	-
Accumulated impairment at Dec 31	-	-	-	-	-
Net carrying value at Dec 31	**2,465,575**	**2,293**	**152,800**	**1,950**	**157,043**
2012					
Acquisition cost at Jan 1	2,465,575	2,293	152,800	1,950	157,043
Additions	6,277	-	69,243	-	69,243
Decreases	-	-	-69,338	-1,950	-71,288
Acquisition cost at Dec 31	2,471,852	2,293	152,705	0	154,998
Accumulated impairment at Jan 1	-	-	-	-	-
Other change	-	-	-	-	-
Accumulated impairment at Dec 31	-	-	-	-	-
Net carrying value at Dec 31	**2,471,852**	**2,293**	**152,705**	**0**	**154,998**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

11 Shareholdings

Subsidiaries

	Domicile	Ownership %
Metso Shared Services Oy	Finland, Helsinki	100.0
Kaukotalo Oy	Finland, Helsinki	87.2
Metso Automation Oy	Finland, Helsinki	100.0
Metso Automation Canada Ltd.	Canada, St. Laurent	100.0
Metso Belgium N.V.	Belgium, Wemmel	100.0
Metso Canada Ltd.	Canada, Toronto	100.0
Metso Capital Oy	Finland, Helsinki	100.0
Metso Captive Insurance Limited	Great Britain, Guernsey	100.0
Metso (China) Investment Co Ltd	China, Shanghai	100.0
Metso Minerals Oy	Finland, Helsinki	100.0
Metso Minerals Canada Inc.	Canada, Belleville	100.0
Metso Paper Oy	Finland, Helsinki	100.0
Metso SAS	France, Neuilly sur Seine	100.0
Metso Svenska AB	Sweden, Karlstad	100.0
Metso USA Inc.	USA, Norcross	100.0
Metso Fabrics Oy	Finland, Tampere	100.0
Valmet Automotive Oy	Finland, Uusikaupunki	61.0
Rauma Oy	Finland, Helsinki	100.0
Avantone Oy	Finland, Tampere	100.0

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

12 Specification of receivables

Long-term receivables

EUR thousand	As at December 31, 2011	**2012**
Deferred tax asset	7,811	**1,448**
Long-term receivables from others	1,133	**554**
Long-term receivables total	8,944	**2,002**

Short-term receivables

EUR thousand	As at December 31, 2011	**2012**
Trade receivables from		
Group companies	1,574	**2,009**
Others	2	**354**
	1,576	**2,363**
Loan receivables from		
Group companies	584,046	**561,173**
Prepaid expenses and accrued income from		
Group companies	145,243	**109,839**
Others	67,474	**44,433**
	212,717	**154,272**
Other receivables		
VAT receivable	498	**354**
Other receivables	1	**6**
	499	**360**
Short-term receivables total	798,838	**718,168**

Specification of prepaid expenses and accrued income

EUR thousand	As at December 31, 2011	**2012**
Prepaid expenses and accrued income from Group companies		
Group contribution receivables	143,685	**106,445**
Accrued interest income	1,369	**2,228**
Other accrued items	189	**1,166**
Total	145,243	**109,839**
Prepaid expenses and accrued income from others		
Accrued interest income	1,881	**930**
Accrued derivatives	63,623	**34,922**
Other accrued items	1,970	**8,581**
Total	67,474	**44,433**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

13 Statement of changes in shareholders' equity

EUR thousand	2011	**2012**
Share capital at Jan 1	240,982	**240,982**
Share capital at Dec 31	240,982	**240,982**
Invested non-restricted equity fund at Jan 1	573,237	**573,237**
Invested non-restricted equity fund at Dec 31	573,237	**573,237**
Other reserves at Jan 1	194,211	**194,211**
Other reserves at Dec 31	194,211	**194,211**
Retained earnings at Jan 1	758,422	**879,629**
Dividend distribution	-231,926	**-254,369**
Other change	-22	**4,212**
Retained earnings at Dec 31	526,474	**629,472**
Profit	353,155	**266,335**
Total shareholders' equity at Dec 31	1,888,059	**1,904,237**

Statement of distributable funds at December 31

EUR	2011	**2012**
Invested non-restricted equity fund	573,236,541.58	**573,236,541.58**
Other reserves	194,210,758.91	**194,210,758.91**
Retained earnings	526,473,935.01	**629,471,902.67**
Profit	353,155,391.07	**266,335,290.98**
Total distributable funds	1,647,076,626.57	**1,663,254,494.14**

At the end of the year, Metso Oyj held 592,222 treasury shares, which acquisition price EUR 7 417 547,98 has been deducted from retained earnings.

14 Long-term liabilities

EUR thousand	2011	As at December 31, **2012**
Bonds from [1]		
Group companies	99,747	**99,847**
Others	499,372	**915,913**
Loans from financial institutions	217,513	**150,503**
Pension loans	15,000	**5,000**
Total	831,632	**1,171,263**

[1] Specification of bonds in note 23 for Consolidated Financial Statements.

Debt maturing later than in five years time

EUR thousand	2011	As at December 31, **2012**
Bonds	245,822	**739,075**
Loans from financial institutions	9,816	**4,822**
Total	255,638	**743,897**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

15 Short-term liabilities

EUR thousand	As at December 31, 2011	**2012**
Current portion of long-term liabilities		
Bonds	82,847	**51,746**
Loans from financial institutions	66,785	**66,555**
Pension loans	10,000	**10,000**
	159,632	**128,301**
Trade payables to		
Group companies	2,333	**1,560**
Others	1,606	**1,762**
	3,939	**3,322**
Accrued expenses and deferred income to		
Group companies	4,619	**5,631**
Others	54,773	**63,405**
	59,392	**69,036**
Other short-term interest bearing debt to		
Group companies	310,648	**318,781**
Group pool accounts	512,521	**310,404**
Others	8	**217**
	823,177	**629,402**
Other short-term non-interest bearing debt to		
Others	257	**293**
	257	**293**
Short-term liabilities total	1,046,397	**830,354**
Short-term liabilities to Group companies total	830,121	**636,376**

Specification of accrued expenses and deferred income

EUR thousand	As at December 31, 2011	**2012**
Accrued expenses and deferred income to Group companies		
Accrued interest expenses	4,511	**4,283**
Other accrued items	108	**1,348**
	4,619	**5,631**
Accrued expenses and deferred income to others		
Accrued interest expenses	15,404	**17,340**
Accrued derivatives	36,175	**43,688**
Accrued salaries, wages and social costs	2,953	**2,017**
Other accrued items	241	**360**
	54,773	**63,405**

16 Other contingencies

Guarantees

EUR thousand	As at December 31, 2011	**2012**
Guarantees on behalf of subsidiaries	1,797,358	**1,614,110**
Guarantees on behalf of others	3,407	**-**
Total	1,800,765	**1,614,110**

Lease commitments

EUR thousand	As at December 31, 2011	**2012**
Payments in the following year	507	**501**
Payments later	394	**216**
Total	901	**717**

SIGNATURES OF BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Helsinki, February 7, 2013

Jukka Viinanen
Chairman of the Board

Mikael von Frenckell
Vice Chairman of the Board

Christer Gardell
Member of the Board

Ozey K. Horton, Jr.
Member of the Board

Erkki Pehu-Lehtonen
Member of the Board

Pia Rudengren
Member of the Board

Eeva Sipilä
Member of the Board

Matti Kähkönen
President and CEO

THE AUDITOR'S NOTE

Our auditor's report has been issued today.

Helsinki, February , 2013

Ernst & Young Oy
Authorised Public Accountants

Roger Rejström
Authorised Public Accountant

LIST OF ACCOUNT BOOKS USED IN PARENT COMPANY

	Voucher class	
General journal and general ledger		in electronic format
Specifications of accounts receivable and payable		on paper
Bank vouchers	16,42	in electronic format
Sales invoices	RV,11	in electronic format
Purchase invoices	23	in electronic format
Payroll accounting with vouchers	33	in electronic format
Journal entries	01,02,31,46,51,52,59,64,79	in electronic format
Journal entries	34,35	in electronic format