



Metso Corporation Financial Statements 2009

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Board of Directors' Report

Operating environment and demand for products in 2009

Our operating environment continued to be demanding throughout the year. As a result of the decline in the global economy and uncertainty in the financial markets, our customers were cautious in their investment decisions. However, the first signs of a recovery in demand in some of our customer industries were visible during the fourth quarter. The demand situation was particularly tough for our new equipment and project business. As a consequence of our customers' low capacity utilization rates, demand for our services business also declined, but remained satisfactory thanks to our large installed equipment base. Economic stimulus measures launched in many countries, mostly aimed at developing infrastructure, have so far, with the exception of China, had little effect on the demand for our products.

Low demand for new equipment and the decline in suppliers' order backlogs led to increased price competition in the latter half of the year in all customer segments. This was partly offset by the reduction in procurement costs caused by the intensified competition among raw materials and components suppliers and subcontractors.

In the first half of 2009, most mining companies cut their investment plans significantly and curtailed their production. The positive development in demand for and prices of minerals and metals during the year, however, improved the situation towards the end of the year and led to an increase in requests for quotations on mining equipment during the fourth quarter. In the construction industry, demand for equipment used in aggregates production was weak throughout the year.

The demand for power plants fuelled by biomass and waste has been boosted as several countries have announced plans to increase the use of renewable energy sources. However, the limited availability of financing has delayed the implementation of these projects. Towards the end of the year, however, the availability of financing improved, which led to several new orders during the fourth quarter. The oil and gas industry, which is important for Metso's automation solutions, made considerable cuts to their investment plans early in the year. Those cuts, coupled with the very low level of pulp and paper industry investments, clearly decreased demand for our automation solutions from the previous year. Signs of gradual improvement in the demand in the oil and gas industry were visible by the end of the year. Demand for metals recycling equipment continued to be weak due to low scrap metal prices and the clear decrease in steel production, particularly in Europe and North America. Demand in our services business for power generation and automation solutions was satisfactory and for metal recycling weak.

Economic stimulus measures in China and the subsequent new orders contributed to a mini-boom in demand for paper and board production lines during the second and third quarter. Elsewhere in the world, demand for paper and board lines remained weak throughout the year. Demand for complete fiber lines remained low all year, but by the end of the year demand for fiber line rebuild projects improved, leading to several small and mid-sized orders in the fourth quarter. Demand for tissue machines was satisfactory. Capacity utilization rates in the pulp and paper industry remained low for all of 2009. As a consequence, the demand for services business was low but showed some improvement towards the end of the year.

Orders received and order backlog

In 2009, we received new orders worth EUR 4,358 million, i.e. 32 percent less than in the comparison period. Orders increased towards the end of the year and the final quarter was clearly the strongest in terms of new orders. During the year, previously received orders worth some EUR 335 million were cancelled. These cancellations were booked off directly from our order backlog and therefore had no impact on reported new orders in 2009 or on the comparison period. Almost EUR 200 million of the cancellations related to the Zhanjiang Chenming pulp project,

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around EUR 65 million to our Construction business line, some EUR 48 million to our Mining business line and some EUR 28 million to our Recycling business line.

Regarding the value of new orders, the most important countries were China, the United States and Finland. When combined, these countries accounted for 39 percent of all orders received. As a result of the global economic downturn, the value of new orders was down on the comparison period in all reporting segments and in all geographical areas. The share of emerging markets in orders received was 48 percent (48% in 2008).

At the end of December, our order backlog was EUR 3,415 million, which is 16 percent less than at the end of 2008. Uncertainties in the order backlog decreased by approximately EUR 100 million during the fourth quarter as customers restarted previously suspended projects. Around EUR 2.7 billion of the deliveries in our end-of- December order backlog are expected to be completed in 2010, and around EUR 700 million of these are services business orders. The order backlog includes some EUR 500 million in projects with somewhat uncertain delivery schedules and which will, according to present estimates, be delivered after 2010. The pulp mill project for Fibria, Brazil, is included in these projects.

Orders received by reporting segments:

	2007		2008		2009	
	EUR	million	%	EUR	million	%
Mining and Construction Technology	2,776	39		2,709	42	
Energy and Environmental Technology	1,884	27		1,658	26	
Paper and Fiber Technology	2,293	33		2,021	31	
Valmet Automotive	85	1		65	1	
Intra-Metso orders received	-73			-69		
Total	6,965	100		6,384	100	

Orders received by market area:

	2007		2008		2009	
	EUR	million	%	EUR	million	%
Europe	3,135	44		2,375	38	
North America	1,033	15		1,070	17	
South and Central America	818	12		1,056	16	
Asia-Pacific	1,514	22		1,476	23	
Rest of the world	465	7		407	6	
Total	6,965	100		6,384	100	

Net sales

Our net sales for 2009 declined by 22 percent on the comparison period and stood at EUR 5,016 million (EUR 6,400 million in 2008). Net sales decreased in all reporting segments: in Mining and Construction Technology by 20 percent, in Energy and Environmental Technology by 14 percent and in Paper and Fiber Technology by 31 percent. The net sales of our services business declined by 12 percent and its share of total net sales was 41 percent (37% in 2008).

Measured by net sales, the largest countries were the United States, China and Germany, which together accounted for about 29 percent of our total net sales.

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Net sales by reporting segments:

	2007			2008			2009		
	EUR	million	%	EUR	million	%	EUR	million	%
Mining and Construction Technology		2,330	37		2,586	40		2,075	41
Energy and Environmental Technology		1,543	25		1,775	27		1,523	30
Paper and Fiber Technology		2,364	37		2,044	32		1,408	28
Valmet Automotive		85	1		65	1		56	1
Intra Metso net sales		-72			-70			-46	
Total		6,250	100		6,400	100		5,016	100

Net sales by market area:

	2007			2008			2009		
	EUR	million	%	EUR	million	%	EUR	million	%
Europe		2,551	40		2,680	41		2,167	44
North America		1,049	17		1,015	16		774	15
South and Central America		859	14		770	12		609	12
Asia-Pacific		1,488	24		1,516	24		1,080	21
Rest of the world		303	5		419	7		386	8
Total		6,250	100		6,400	100		5,016	100

Financial result

Our earnings before interest, tax and amortization (EBITA) for 2009 weakened from the comparison period and were EUR 334.3 million, or 6.7 percent of net sales (EUR 680.9 million and 10.6% in 2008). Our financial result includes non-recurring expenses of some EUR 75 million resulting from capacity adjustment measures, of which around EUR 42 million are related to Paper and Fiber Technology, some EUR 22 million to Mining and Construction Technology and some EUR 11 million to Energy and Environmental Technology. EBITA before these non-recurring capacity adjustment expenses was EUR 409.0 million, i.e. 8.2 percent of net sales. Other significant non-recurring items included in our result were some EUR 23 million in capital gains from the sale of Talvivaara Mining Company Plc's shares, EUR 9 million in non-recurring expenses from dissolving hedging arrangements related to the cancellation of our Chinese customer Zhanjiang Chenming's pulp mill project and EUR 4 million credit loss reserve related to the initiation of the debt restructuring proceedings of two of our paper industry customers.

The EBITA of Mining and Construction Technology before nonrecurring capacity adjustment expenses was EUR 224.7 million in 2009, i.e. 10.8 percent of net sales, down 38 percent from the year before. The reduced profitability is mainly attributed to the 20 percent decrease in delivery volumes, low capacity utilization rates of production units and tougher price competition towards the end of the year.

The EBITA of Energy and Environmental Technology before nonrecurring capacity adjustment expenses was EUR 147.5 million, i.e. 9.7 percent of net sales, representing a decrease of 26 percent on the previous year. The weakened profitability was due to the decrease in delivery volumes and the low capacity utilization rate of some production units and tougher pricing environment towards the end of the year.

The EBITA of Paper and Fiber Technology before non-recurring capacity adjustment expenses was EUR 58.2 million, i.e. 4.1 percent of net sales, representing a decrease of 60 percent on the previous year. The lower profitability was due to a 31 percent decline in net sales and low capacity utilization rates.

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Our operating profit in 2009 was EUR 293.6 million, or 5.9 percent of net sales (EUR 637.2 million and 10.0% in 2008). Operating profit before non-recurring expenses related to capacity adjustment measures was EUR 368.3 million or 7.3 percent of net sales.

Our net financing expenses in 2009 were EUR 72 million (EUR 89 million in 2008). Although our cash situation was strong throughout the year, our gross debt level was higher than in 2008 and this increased our interest expenses to EUR 75 million (EUR 71 million in 2008).

Our profit before tax was EUR 222 million (EUR 548 million) and our tax rate for 2009 was 32 percent (29% in 2008). Our taxes include a EUR 6 million tax charge related to the taxation of our Brazilian operations in 1995–96, which increased our tax rate by approximately 3 percentage points.

The profit attributable to shareholders in 2009 was EUR 150 million (EUR 389 million), corresponding to earnings per share (EPS) of EUR 1.06 (EUR 2.75 per share).

The return on capital employed (ROCE) before taxes was 10.0 percent (23.2%) and the return on equity (ROE) was 9.8 percent (26.0%). Financial indicators for the years 2005–2009 are presented on pages 103–104.

Cash flow and financing

Net cash provided by operating activities in 2009 was EUR 770 million (EUR 137 million in 2008).

One of our main goals has been to release at least EUR 500 million from our net working capital during 2009–2010. Our efforts paid off and we managed to release EUR 518 million already in 2009. EUR 530 million of this release came from inventories and EUR 272 million from trade receivables. Simultaneously, trade payables decreased by EUR 173 million and advances received by EUR 160 million. As a result of the special inventory control initiative in Mining and Construction Technology, its inventories had decreased by EUR 360 million during 2009 by the end of the year.

As a result of the strong decrease of net working capital and the low level of capital expenditure, our free cash flow in 2009 was a strong EUR 717 million (EUR 29 million in 2008).

Net interest bearing liabilities decreased considerably and were EUR 583 million at the end of the year (December 31, 2008: EUR 1,099 million). The decrease was mainly due to the strong release of net working capital. The total amount of short-term debt maturing over the next 12 months was EUR 242 million at the end of December. EUR 17 million of the short-term debt consisted of commercial papers issued in the Finnish markets, EUR 173 million were current portions of long-term debt and the remainder was local working capital financing of subsidiaries, mainly in Brazil.

We obtained EUR 365 million of new long-term debt with maturity of 4–5 years. The largest single transaction was a EUR 200 million five-year funding arrangement under the Euro Medium Term Note (EMTN) program. New loans were primarily meant for the refinancing of our existing debt and for the extension of the debt maturity structure. The amount of this new long-term debt exceeds the repayments of our earlier long-term loans from 2009 until mid 2011. At the end of the year, our total cash assets amounted to EUR 976 million. Out of this EUR 249 million has been invested in instruments with initial maturity exceeding three months and the remaining EUR 727 million is being accounted for as cash and cash equivalents. The syndicated EUR 500 million revolving loan facility is available until late 2011, and it is currently undrawn. Metso's liquidity position is good.

In April, following the Annual General Meeting, we paid EUR 99 million in dividends for 2008.

As a result of strong operating cash flow and low level of capital expenditure, our gearing clearly improved in 2009 and was at the end of December 32.5 percent (75.7%). The equity-to-assets ratio was at the year-end 35.7 percent (30.9%). The Tamfelt acquisition, which was carried out as a share exchange, strengthened our equity to assets ratio by 2 percentage points and lowered our gearing by 3 percentage points.

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Capital expenditure

Our gross capital expenditure in 2009, excluding business acquisitions, decreased by 54 percent on the comparison period, to EUR 117 million (EUR 255 million in 2008). The share of maintenance investments was 52 percent, i.e. EUR 61 million. We maintained strict criteria for new capital expenditure and postponed spending in some projects approved in 2007–2008. We will continue strict criteria for new capital expenditure in 2010 and estimate them to be about on par with the 2009 level.

We are constructing new plant and office premises for the Automation business line in Shanghai, China. The Metso Park industrial facility, designed especially to serve the mining and construction industry, is under construction in Rajasthan, India. In Finland, we are upgrading a pilot machine at the Paper Technology Center in Jyväskylä. In Zibo we are establishing our third service center in China for the pulp and paper industry. We have extended the implementation schedules of our Metso Park and Zibo Service Center investments due to slowdown in global economic growth. Investment projects in global enterprise resource planning systems are underway in Mining and Construction Technology and in the Automation business line.

Acquisitions, divestments and joint ventures

In November, we purchased the American Pacific/Hoe Saw&Knife Company's coater and doctor blade business, consumables for pulp and paper industry. The annual net sales of the purchased business are about USD 5 million.

In October we purchased the Danish M&J Industries A/S, a manufacturing company of mobile and stationary products for solid-waste crushing. The debt-free acquisition price was approximately EUR 15 million. M&J Industries employs some 100 people and the company's annual net sales are approximately EUR 30 million.

In May, we sold Metso Paper Turku Works Oy, a manufacturer of air systems for the pulp and paper industry, to Stairon Oy. The air system technology and the related business remained in Metso's ownership. Metso Paper Turku Works Oy employed 91 people.

In January, we sold our composites manufacturing business, part of our Paper business line, and related assets in Oulu, Finland, to xperion Oy. The annual net sales of the divested business were less than EUR 5 million and the number of personnel was 21.

The joint venture MW Power Oy, the result of a combination of Wärtsilä's Biopower business and Metso's Heat & Power business, began operations on January 1, 2009. We own 60 percent of the company, and as of January 1, 2009, it has been entirely consolidated into our Power business line. An order backlog of approximately EUR 116 million was transferred with Wärtsilä Biopower Oy to the joint venture. The net sales of the company in 2009 were approximately EUR 100 million and the number of employees about 100.

Tamfelt acquisition

In November, we concluded a combination agreement with Tamfelt, one of the world's leading suppliers of technical textiles, and subsequently made a public exchange offer for all of Tamfelt's shares. The acquisition strengthened our services business, particularly in the pulp and paper industry. The acquisition creates new growth opportunities for Tamfelt products, especially outside of Europe, where Metso has an extensive installed base and a wide sales and services network.

The exchange offer, in which Metso offered three new shares in Metso for every ten Tamfelt shares, was carried out in November–December of 2009 and successfully completed on December 23, 2009. The shares tendered in the share exchange offer represent 95.2 percent of all shares and votes in Tamfelt. Metso held 2.8 percent of Tamfelt's shares worth EUR 4 million already before the offer. The remainder of Tamfelt's shares, 2.0 percent, will be redeemed with cash in the

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spring of 2010 as per the Finnish Companies Act. A total of 8,593,642 new Metso shares were subscribed for in the share issue relating to the share exchange offer and were registered with the Trade Register on December 28, 2009. The share issue totaling EUR 206 million, corresponding to EUR 23.98 per share, was recorded into the invested non-restricted equity fund.

The value of the Tamfelt transaction was EUR 215 million, and when assuming net interest bearing debt of EUR 17 million transferred in the transaction, the debt free transaction value was EUR 232 million. The transaction value exceeded the net assets of Tamfelt by EUR 117 million, of which EUR 53 million was allocated to acquired customer base, order backlog and technology, and EUR 10 million to acquired buildings. We recorded deferred tax liability of EUR 16 million resulting from these allocations. The goodwill from the acquisition is EUR 70 million. The allocated values to intangible assets and buildings are amortized during their economically useful lives. The amortization is about EUR 15 million in 2010, EUR 7 million in 2011 and 2012, and EUR 4 million thereafter. Tamfelt's balance sheet and personnel were consolidated into Metso as of December 31, 2009, and as of January 1, 2010, Tamfelt is functionally and administratively a part of our Paper and Fiber Technology segment.

Research and development

Our research and development activities focus on environmental technology, such as energy and raw material efficiency, utilization of recycled raw materials, process control technology and, increasingly, on new services business solutions, which also play a role in supporting sustainable development. As a result of the global economic downturn, we have concentrated our R&D work on projects that offer the best potential for capitalizing on our future growth opportunities.

Our R&D expenses were EUR 115 million in 2009, i.e. 2.3 percent of Metso's net sales (EUR 134 million and 2.1% in 2008). In addition to this, expenses for intellectual property rights amounted to EUR 15 million (EUR 14 million). R&D employed 763 people (905) in 2009. Our R&D resources are spread throughout 40 networked units in Europe, North America, South America and Asia. Our personnel made approximately 620 invention disclosures (900), which led to more than 200 priority patent applications (230). At the end of the year, approximately 3,000 Metso inventions were protected by patents (3,000).

During 2009, we launched about 80 new products. One example, DNAmachineAssessor, a product that complements our automation solutions, helps to predict equipment maintenance needs and prevent disruptions in production. We have also developed new crushing and screening solutions that provide higher capacity utilization and eco-efficiency through improved process optimization. We strengthened our offering for the pulp and paper industry by introducing several new solutions and services that improve the energy and process efficiency of production lines.

Environment and environmental technology

The environmental impact of our own production is minor and relates mainly to the consumption of raw materials and energy, emissions to air, water consumption and waste. We are continuously improving our environmental management practices and the eco-efficiency of our production facilities, as well as developing our co-operation, aiming at environmental efficiency with our subcontractors and the entire supply chain.

In 2009, we set global energy savings and carbon dioxide emissions targets for our production operations in an effort to reduce our energy consumption and emissions by 15 percent by 2015 and 20 percent by 2020, in line with the EU goals.

Many of Metso's environmental technology solutions have been developed in close co-operation with our customers. The solutions are related to renewable energy solutions, energy efficiency of our customers' production processes, waste management, recycling, efficient utilization of raw materials and water, reducing dust, noise, carbon dioxide and particle emissions, and process

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optimization, to name a few. About 60 percent of Metso's net sales can be classified as environmental business, according to the OECD definition.

During the year, we launched several co-operation projects with our partners like UPM, Fortum and VTT (Technical Research Center of Finland). These projects cover, for example, the manufacture of bio-oil from biomass and the utilization of bio-oil as an alternative to fossil fuels and exploring oxyfuel combustion technology. Oxyfuel combustion enables carbon capture in power and heat generation.

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

Risks and business uncertainties

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

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

Due to the uncertainty in the financial markets and the slowdown of global economic growth, our operating environment was demanding in 2009, and in particular the risks related to cyclical fluctuations and financing were in focus. We estimate that the operating environment will continue to be demanding, even though financial markets have stabilized and there are first signs of gradual recovery in the global economy and in demand.

Uncertainty surrounding projects in our order backlog has decreased, and about 14 percent of our order backlog had uncertain delivery schedules at the end of the year. We apply the percentage-of-completion method to long-term delivery agreements, meaning that we recognize revenue on long-term delivery agreements according to the progress of the delivery. The customer advance payment is typically 10–30 percent of the value of the project, in addition to which the customer makes progress payments based on the milestones during the project execution, which significantly decreases risk related to projects as well as our need for financing. We continually assess our customers' creditworthiness and ability to meet their obligations. If a customer faces liquidity problems, we will discuss the possibility of changing project delivery schedules and terms of payment and any other measures needed. As a rule, we do not finance customer projects.

We have adjusted our capacity and cost structure to correspond with the current demand, in order to maintain our competitiveness. The slowdown in global economic growth has led to tougher price competition, which we are partly able to compensate in lower procurement costs. Although there have been no major changes in our competitive field in 2009, the situation might change due to bankruptcies, acquisitions and the arrival of new players.

The levels of net working capital and capital expenditure have a fundamental effect on the adequacy of financing. We have successfully released cash from net working capital in 2009. Although we have developed our net working capital management practices, there is a risk that working capital will start to grow again when economic activity picks up. We do not have any large-scale investment projects underway, and we estimate that we are well positioned to keep our capital expenditure at a moderate level in the coming years.

Securing the continuity of our operations requires that sufficient funding is available under all circumstances. The financial crisis, which is still affecting the financial markets, could make the availability of debt financing more difficult and/or raise the cost thereof. We estimate that our cash

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assets, totaling EUR 976 million in December 31, 2009, and available credit facilities are sufficient to secure short-term liquidity. Our committed credit facilities available for withdrawal amounted at the year-end to EUR 500 million. The average repayment period for our long-term loan capital is 3.4 years and more than half of our long-term debt will mature after 2011. There are no prepayment covenants in our debt facilities that would be triggered by changes in credit ratings. Some of our debt facilities include financial covenants related to capital structure. Currently we fully meet the covenants and other terms related to our financing agreements and we consider our flexibility in relation to these to be adequate.

Changes in the prices of raw materials and components could affect our profitability. However, the risk of increased direct procurement costs typically diminishes during an economic downturn. On the other hand, some of our customers are raw material producers, whose ability to operate and invest may be hampered by declining raw material prices.

We had EUR 863 million of goodwill on our balance sheet at the end of 2009, which was related to business acquisitions made over the last 10 years. Following the significant changes in our business environment, we have conducted impairment testing reviews at the end of every quarter since September 2008, and have not found any impairment necessary. The quarterly testing reviews have been conducted with the same principles as the annual tests and the discount rates have been adjusted when appropriate.

Around EUR 350 million of the goodwill on our balance sheet arises from the acquisition of Svedala in 2001, and is thereby related to the Mining and Construction Technology segment and the Recycling business line. EUR 260 million of our goodwill stems from the Aker Kvaerner Pulp and Power business operations, which were acquired at the end of 2006. This is allocated to our Power and Fiber business lines. EUR 50 million of our goodwill arises from the Beloit paper machine maintenance operations acquired in 2000, which is allocated to our Paper and Fiber Technology segment. EUR 70 million of the goodwill is the result of our acquisition of Tamfelt's technical textile business at the end of 2009. The remainder of our goodwill stems from several smaller acquisitions. In proportion to net sales and profitability, the largest share of goodwill is held by our Power business line. Its outlook is good due to the favorable growth outlook for power generation based on renewable energy sources. Goodwill related to the Tamfelt business is relatively high, as a consequence of the increase in Metso's share price between the launch of the share exchange offer in November 2009 and the completion of it towards the end of December 2009.

Currency exchange rate risks are among the most substantial financial risks. Exchange rate changes can affect our business, although the wide geographical scope of our operations decreases the impact of any individual currency. The general uncertainty in the economy is likely to increase exchange rate fluctuations. We hedge the currency exposures that arise from firm delivery and purchase agreements. In addition, our units can hedge anticipated foreign currency denominated cash flows by taking into account the significance of such cash flows, the competitive situation and other opportunities to adapt.

Subpoena from the United States Department of Justice requiring Metso to produce documents

In November 2006, Metso Minerals Industries, Inc., our U.S. subsidiary, received a subpoena from the Antitrust Division of the United States Department of Justice calling for Metso Minerals Industries, Inc. to produce certain documents. The subpoena relates to an investigation of potential antitrust violations in the rock crushing and screening equipment industry. We are co-operating fully with the Department of Justice. We recognized about EUR 1.5 million in expenses resulting from the inquiry in 2009. No separate provision relating to the investigation has been recognized in the 2009 financial statements.

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Adjusting capacity to demand

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

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

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

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

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

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

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

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

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Personnel

At the end of the year, Metso had 27,166 employees, which was 2,156 less than at the end of 2008 (29,322 employees on December 31, 2008). The number of employees declined in all reporting segments and especially in Finland and Sweden, as a result of capacity adjustment measures. The acquisitions concluded during the year brought about 1,600 new employees to Metso and when excluding this, personnel reduction was about 3,750. The share of our personnel working in the emerging markets stayed on par with the previous year and was 31 percent. During January – December, we had an average of 27,813 employees.

Mining and Construction Technology employed 35 percent of our personnel, the Energy and Environmental Technology 22 percent, and the Paper and Fiber Technology 39 percent, while Valmet Automotive, service centers and Group Head Office employed 4 percent of the personnel. The countries with the largest numbers of personnel were Finland, the United States, Sweden, China and Brazil. These countries employed 69 percent of Metso's total personnel.

Despite the demanding environment, we continued renewing our global HR management practices and the supporting processes, systems and organization. We also carried out our key training programs and continued developing work safety.

During 2009, we decided to set new Metso-wide targets for occupational health and safety. We set a common, global target to decline the amount of lost time incidents in our units. Our goal for every Metso unit is less than 10 lost time incidents per million working hours from 2012 onwards.

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. In 2009, altogether EUR 991 million were paid in salaries and wages (EUR 1,066 million in 2008).

Personnel by area:

	Dec 31, 2007	Dec 31, 2008	Dec 31, 2009	Change %
Finland	9,386	9,252	8,746	-5
Other Nordic countries	3,602	3,332	2,995	-10
Other European countries	3,183	3,842	3,678	-4
North America	3,865	3,964	3,428	-14
South and Central America	2,675	2,991	2,618	-12
Asia-Pacific	2,705	4,469	4,316	-3
Other countries	1,421	1,472	1,385	-6
Total	26,837	29,322	27,166	-7

Corporate Governance Statement

We have prepared a separate Corporate Governance Statement which follows the recommendations of the Finnish Corporate Governance Code for listed companies. It also covers other central areas of corporate governance. The statement is published separately from the Board of Directors' Report. The statement is also available on our website at www.metso.com.

Changes in top management

Perttu Louhiluoto was appointed Senior Vice President, EMEA market area, Mining and Construction Technology in July. In his new position he renounced his membership of the Metso Executive Team and Metso Executive Forum.

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In July, the Group's Senior Vice President, HR Merja Kamppari was appointed as a member of the Metso Executive Forum. Heinz Gerdes, former President of our Recycling business line, retired at the end of 2009 and renounced his membership in the Metso Executive Forum.

Mr. Celso Tacla, the President of Paper and Fiber Technology in South America, was appointed as a new member to our Metso Executive Forum from January 22, 2010 onwards.

Financial targets and dividend policy

In connection with our annual strategy round in August, our long-term financial targets were evaluated and kept unchanged.

Decisions of our Annual General Meeting

Our Annual General Meeting on March 31, 2009 approved the accounts for 2008 and decided to discharge the members of the Board of Directors and the President and CEO from liability for the financial year 2008. In addition, the Annual General Meeting approved the proposals of the Board of Directors to authorize the Board of Directors to resolve of a repurchase of Metso's own shares, to issue new shares and to grant special rights.

The Annual General Meeting decided that a dividend of EUR 0.70 per share will be paid for the financial year which ended on December 31, 2008. The dividend was paid on April 15, 2009. In addition, the Annual General Meeting authorized the Board of Directors to decide, at its discretion and when the economic situation of Metso favors it, on the payment of a dividend of no more than EUR 0.68 per share in addition to the above-mentioned dividend. In July 2009, the Board of Directors decided not to pay any additional dividends. At the time, Metso's financial result and position were stable and had developed according to the expectations of Metso's management, but the market outlook for 2010 continued to be uncertain.

The Annual General Meeting elected Jukka Viinanen Chairman of the Board and Jaakko Rauramo Vice Chairman of the Board. Pia Rudengren was elected as a new member of the Board. The Board members re-elected were Maija-Liisa Friman, Christer Gardell, Arto Honkaniemi and Yrjö Neuvo. Our long-term Chairman of the Board, Matti Kavetvuo, had announced that he is not available for re-election. The term of office of Board members lasts until the end of the next Annual General Meeting.

The Annual General Meeting decided that the annual remunerations for Board members would be EUR 92,000 for the Chairman, EUR 56,000 for the Vice Chairman and EUR 45,000 for the members and that the meeting fee including committee meetings be EUR 600 for each meeting they attend.

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

The Annual General Meeting decided to establish a Nomination Committee of the Annual General Meeting to prepare proposals for the following Annual General Meeting regarding the composition of the Board of Directors and director remuneration.

Members of Metso Board Committees and personnel representatives

Our Board of Directors elected members from among the Board for the Audit Committee and Remuneration and HR Committee at its assembly meeting on March 31, 2009. The Board's Audit Committee consists of Maija-Liisa Friman (Chairman), Arto Honkaniemi and Pia Rudengren. The Board's Remuneration and HR Committee consists of Jukka Viinanen (Chairman), Christer Gardell, Yrjö Neuvo and Jaakko Rauramo.

BOARD OF DIRECTORS' REPORT

Metso's personnel groups in Finland have elected Jukka Leppänen as the personnel representative. He participates in the meetings of our Board of Directors as an invited external expert, and his term of office is the same as the Board members' term.

Shares and share capital

At the end of 2009, our share capital was EUR 240,982,843.80 and the number of shares was 150,348,256. The number of shares includes 409,617 Metso shares held by the Parent Company, which represent 0.27 percent of all the shares and votes. The average number of shares outstanding in 2009, excluding Metso shares held by the Parent Company, was 141,477,476.

In December 2009, 8,593,642 new Metso shares were issued and entered in the trade register. The new shares were related to the execution of Metso's share exchange offer for Tamfelt Corporation. The new shares carry the right to dividend and other distribution of assets as well as other shareholder rights in Metso as of the registration date.

In December 2009, MEO1V Incentive Ky, a limited partnership established to manage Metso's share ownership plans, was dissolved and the remaining 48,776 Metso shares it had were transferred to Metso Corporation's direct ownership.

In February 2009, we executed a repurchase of 300,000 of our own shares relating to our share-based management incentive program decided on in October 2008 (Metso Share Ownership Plan 2009–2011). The average purchase price of the shares was EUR 8.28 and the total amount EUR 2,483,495.48.

Our market capitalization, excluding Metso shares held by the Parent Company, was EUR 3,693 million on December 31, 2009.

Metso Board members and their interest parties held altogether 15,600 shares on December 31, 2009, which is 0.01 percent of the paid up share capital and votes in Metso. The Metso Executive Team and their interest parties held altogether 75,251 Metso Corporation shares at the end of December, which is 0.05 percent of the paid up share capital and votes. The holdings of the Board of Directors and Metso Executive Team equaled 0.06 percent of the paid up share capital and votes in Metso.

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

Share-based incentive plans

Metso's share ownership plans are part of the remuneration and commitment program for the management of the Group and the businesses.

Share ownership plan 2006–2008

In March 2009, we distributed the rewards from the 2008 share ownership plan according to the earnings criteria determined by the Board of Directors. Shares amounting to 34,265 were distributed as rewards, corresponding to approximately 0.02 percent of all Metso shares. Members of the Executive Team received 6,996 shares, i.e. 25 percent of the maximum amount.

Share ownership plan for 2009–2011

In October 2008, the Board of Directors approved a new share ownership plan for the years 2009–2011. The plan includes 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. 89 key persons are participating in the program and the rewards paid may correspond with a maximum of 373,175 Metso shares. The shares for the plan are acquired in public trading and therefore the plan

BOARD OF DIRECTORS' REPORT

will not have diluting effect on the share value. Members of the Executive Team may receive a maximum of 77,400 shares as share rewards in the 2009–2011 plan.

Share ownership plan for 2010–2012

In October 2009, the Board of Directors approved a similar share ownership plan for the years 2010–2012. The plan includes one three-year earnings period and requires participants' personal investment in Metso shares. Any possible reward from the plan requires continued employment with Metso and reaching the financial targets set for the plan. 92 key persons are participating in the program and the rewards paid may correspond with a maximum of 343,000 Metso shares. The shares for the plan are acquired in public trading and therefore the plan will not have diluting effect on the share value. Members of the Executive Team may receive a maximum of 77,400 shares as share rewards in the 2010–2012 plan.

Reporting segments

Mining and Construction Technology

EUR million	2007	2008	2009
Net sales	2,330	2,586	2,075
Net sales of services business	960	1,078	967
% of net sales	41	42	47
Earnings before interest, tax and amortization (EBITA)	323.0	361.2	202.8
% of net sales	13.9	14.0	9.8
Operating profit	319.8	358.4	198.8
% of net sales	13.7	13.9	9.6
Orders received	2,776	2,709	1,660
Order backlog, Dec 31	1,496	1,492	1,041
Personnel, Dec 31	9,754	11,259	9,541

Net sales of Mining and Construction Technology decreased by 20 percent on the comparison period and were EUR 2,075 million in 2009. The Mining business line's net sales declined by about 12 percent, while the net sales of the Construction business line were down by about 31 percent. While the services business net sales decreased by 10 percent on the comparison period, they accounted for 47 percent of the segment's net sales (42% in 2008).

Mining and Construction Technology's operating profit for 2009 was EUR 198.8 million, i.e. 9.6 percent of net sales (EUR 358.4 million and 13.9%). Operating profit was burdened by about EUR 22 million in non-recurring expenses relating to capacity adjustment measures that were carried out in several units. The operating profit included also about EUR 23 million in capital gains relating to the sale of shares in Talvivaara Mining Company Plc. The profitability of the Mining business line weakened, but remained good. The profitability of the Construction business line, on the other hand, weakened clearly from 2008 due to the low delivery volumes and capacity utilization rates in the manufacturing units and non-recurring expenses relating to the capacity adjustment measures. Towards the end of the year, the profitability was also negatively affected by tougher price competition and the use of promotional pricing to de-stock equipment and parts from inventories.

The value of orders received decreased by 39 percent on the comparison period and was at the end of the year at EUR 1,660 million (EUR 2,709 million in 2008). The value of new orders received declined in both business lines, and in all geographical areas. The relative share of orders received from emerging markets remained on par with the previous year, amounting to 51 percent (50% in 2008). About EUR 112 million worth of previously received orders were cancelled during the year. Among the biggest new orders of the year was a fine crushing and screening system for Norsk Stein in Norway. We also signed a multiyear service agreement with AngloGold Ashanti Iduapriem

BOARD OF DIRECTORS' REPORT

Mine in Ghana including the maintenance management services and technical support as well as hands-on training.

At the end of December, the order backlog was 30 percent lower than at the end of December 2008, amounting to EUR 1,041 million (EUR 1,492 million at December 31, 2008). When eliminating the impact of cancelled orders, the order backlog was 23 percent lower than the year before. Around EUR 150 million of the mining equipment orders in the order backlog have open delivery schedules.

Energy and Environmental Technology

EUR million	2007	2008	2009
Net sales	1,543	1,775	1,523
Net sales of services business	486	548	516
% of net sales	33	32	35
Earnings before interest, tax and amortization (EBITA)	182.4	198.3	136.3
% of net sales	11.8	11.2	8.9
Operating profit	150.3	176.0	118.1
% of net sales	9.7	9.9	7.8
Orders received	1,884	1,658	1,297
Order backlog, Dec 31	1,337	1,204	1,032
Personnel, Dec 31	5,857	6,357	6,060

The net sales of Energy and Environmental Technology declined by 14 percent on the comparison period and were EUR 1,523 million. Net sales decreased the most in the Recycling business line, by 34 percent. Net sales of the Power business line fell by 6 percent and the Automation business line 14 percent. The net sales of services business decreased by 6 percent on the comparison period and accounted for 35 percent of the segment's net sales (32% in 2008).

Energy and Environmental Technology's earnings before interest, tax and amortization (EBITA) weakened from the comparison year and were EUR 136.3 million, or 8.9 percent of net sales (EUR 198.3 million and 11.2% in 2008). EBITA includes about EUR 11 million in non-recurring expenses relating to capacity adjustment measures before which the EBITA margin was 9.7 percent.

The Power business line's EBITA-margin improved slightly over the previous year and in the Automation business line it weakened but remained good. The profitability of the Recycling business line fell to a weak level, due to low delivery volumes, tight price competition and low capacity utilization rates.

The value of orders received fell by 22 percent from the comparison period and totaled EUR 1,297 million. Orders received by the Power business line stayed at about the same level as the year before. In the Automation business line, new orders declined by about one fourth from 2008. In the Recycling business line new orders dropped to a clearly lower level than in the previous year. EUR 96 million worth of orders previously received by the Energy and Environmental Technology segment were cancelled. The biggest single cancelled order was Zhanjiang Chenming recovery boiler, worth about EUR 60 million. The remaining cancellations were related to the Recycling business line. Energy customers in particular accounted for the largest new orders such as a new waste-to-energy power boiler for Industrias Celulosa Aragonesa (SAICA) in Spain, a power boiler and automation system for PGE Zespół Elektrowni Dolna Odra S.A. in Poland, a biomass boiler with automation system to Nacogdoches in the United States and a waste gasification plant and automation system for Lahti Energy Oy in Finland. We also received a large automation package order for Shandong Huatai Paper's new paper machine line in China.

The order backlog at the end of the year, EUR 1,032 million, was 14 percent lower (or 6 percent lower when eliminating the impact of cancelled orders) than at the end of 2008. The order backlog

BOARD OF DIRECTORS' REPORT

includes projects worth approximately EUR 100 million with uncertain delivery schedules. These include, among others, the deliveries of power boiler and automation technology for Fibria's pulp mill project in Brazil.

Paper and Fiber Technology

EUR million	2007	2008	2009
Net sales	2,364	2,044	1,408
Net sales of services business	718	718	569
% of net sales	30	35	41
Earnings before interest, tax and amortization (EBITA)	146.6	146.1	16.5
% of net sales	6.2	7.1	1.2
Operating profit	128.2	130.1	0.8
% of net sales	5.4	6.4	0.1
Orders received	2,293	2,021	1,384
Order backlog, Dec 31	1,553	1,434	1,380
Personnel, Dec 31	10,093	10,544	10,459

The net sales of Paper and Fiber Technology decreased by 31 percent in 2009 and were EUR 1,408 million. Net sales of the services business declined by 21 percent in 2009 due to the overall slowdown in the markets and low capacity utilization rates in our customer industries. However, services business accounted for 41 percent of net sales (35% in 2008), and the increase was mainly due to low equipment sales.

Paper and Fiber Technology's EBITA was EUR 16.5 million, i.e. 1.2 percent of net sales (EUR 146.1 million and 7.1% in 2008). EBITA includes about EUR 42 million in non-recurring expenses resulting from capacity adjustment measures. EBITA before the above-mentioned capacity adjustment expenses was EUR 58.2 million, i.e. 4.1 percent of net sales. Other non-recurring items affecting the financial result were EUR 9 million in hedging arrangement dissolution costs related to the cancellation of the Zhanjiang Chenming pulp mill project, and a credit loss provision of around EUR 4 million due to the initiation of the debt restructuring proceedings of two of our U.S. customers. The Paper business line's EBITA before capacity adjustment expenses remained satisfactory, while the Fiber business line's EBITA before capacity adjustment expenses was negative, mainly due to the dramatic decrease in volumes. The segment's profitability was also weakened by the lower capacity utilization rates of our production and engineering units.

Demand for new production lines and machinery for the paper and board and the tissue industries remained satisfactory. Demand for machinery and equipment for the pulp industry was weak, although it improved in the fourth quarter. Overall, the value of orders received by Paper and Fiber Technology decreased by 32 percent on the comparison period and was EUR 1,384 million. Among the largest orders received were a fine paper production line for Zhanjiang Chenming, a coated fine paper line for Shandong Huatai Paper and a coated fine paper production line for Shouguang MeiLun Paper Co. Ltd.

The order backlog at the end of December was EUR 1,380 million and around EUR 240 million of this relates to the pulp mill project for Fibria, where the delivery schedule is open. When eliminating the impact of cancelled orders, the order backlog was 5 percent higher than year before.

Valmet Automotive

Valmet Automotive's net sales in 2009 totaled EUR 56 million (EUR 65 million in 2008). The operating loss was EUR 8.2 million (EUR 3.5 million loss in 2008). During the year, Valmet Automotive's production volumes decreased dramatically and it produced an average of 63

BOARD OF DIRECTORS' REPORT

vehicles a day (87 vehicles a day in 2008). At the end of December, Valmet Automotive employed 679 people (783 employees on December 31, 2008).

In August, Valmet Automotive signed an agreement with the Norwegian company THINK Global AS for manufacturing and engineering the THINK City electric car. Planned production volumes amount to several thousand cars annually. The series production began at the end of 2009.

In January, Valmet Automotive signed an agreement with the Danish company Garia A/S for the engineering and manufacturing of an electric golf car. The agreement spans several years and involves the production of a few thousand Garia golf cars annually. The series production started at the end of 2009.

At the end of 2008, Valmet Automotive and the U.S. company Fisker Automotive Inc. signed a long-term co-operation agreement on the engineering and manufacturing of Fisker Karma plug-in hybrid cars in Finland. The first Fisker Karma hybrid vehicles will be delivered in 2010. The annual production is projected to reach 15,000 cars in full production.

Valmet Automotive's current assembly contract with Porsche AG will continue until 2012.

Metso's Nomination Committee proposes seven members to the Board

The Nomination Committee established by Metso's Annual General Meeting proposes to the next Annual General Meeting, which will be held on March 30, 2010, that the number of Board members is seven.

The Nomination Committee proposes that from the current Board members Maija-Liisa Friman, Christer Gardell, Yrjö Neuvo, Pia Rudengren and Jukka Viinanen be re-elected. Jukka Viinanen is proposed to be elected as Chairman of the Board and Maija-Liisa Friman as Vice Chairman. The Nomination Committee also proposes that Mr. Erkki Pehu-Lehtonen and Mr. Mikael von Frenckell shall be elected as the new members of Metso Board.

The Nomination Committee proposes that the annual remuneration payable to the members of the Board to be elected at the Annual General Meeting for the term until the close of the Annual General Meeting in 2011 be equal to the remuneration payable to for the term until the close of the Annual General Meeting in 2010: EUR 92,000 for the Chairman, EUR 56,000 for the Vice Chairman, and EUR 45,000 for each member. Additional compensation of EUR 600 shall be paid for the meetings attended including the meetings of the committees of the Board of Directors. The Nomination Committee proposes that 40% of the fixed annual remuneration be paid in Metso shares purchased from the market. The shares will be purchased directly on behalf of the members of the Board within two weeks from the release of the Interim Review January 1–March 31, 2010 of Metso Corporation.

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

The members of the Nomination Committee were Kari Järvinen (Chairman), Lars Förberg, Matti Vuoria and Harri Sailas. Jukka Viinanen and Jaakko Rauramo were the Committee's expert members.

Short-term outlook

In the fourth quarter of 2009 we began to see the first signs of gradual recovery in the global economy and in the demand of some of our customer industries. Nevertheless, we estimate that our operating environment will continue to be demanding at least in the first half of 2010. Our customers are still cautious in their investment decisions, which will affect our equipment and

BOARD OF DIRECTORS' REPORT

project businesses in particular. We estimate that our customers' capacity utilization rates will slowly improve, assuming that the general positive development of the global economy continues. We expect this to have a gradual positive effect on our services business.

There have been signs of improvement in mining companies' demand for equipment and projects. We expect that this will gradually have a positive impact on orders in 2010. Due to our strong product and services offering, as well as our large installed equipment base, we expect the demand for our mining equipment spare and wear parts as well as related services to gradually improve from the current level.

We anticipate that demand for equipment used in aggregates production by the construction industry will continue to be weak, with the exception of the Asia-Pacific and Brazilian markets, where infrastructure construction projects are maintaining demand. Many countries have introduced stimulus measures relating to infrastructure development. Though these measures have not yet had any significant effect, we expect them to positively affect the demand in the long-term. We estimate that demand for our services business for the construction industry will remain satisfactory.

Demand for power plants that utilize renewable energy sources is expected to strengthen in Europe and North America and to be good as the availability of financing improves. Several countries have published targets to increase the use of renewable energy. This is expected to support demand for our power plant solutions fuelled by biomass and waste. Demand for services business is expected to be satisfactory.

We estimate that demand for our automation products will gradually increase in 2010, as the oil, gas and petrochemical industries increase their investments due to the improvement in energy prices and demand. Demand for our services business for automation solutions is expected to be satisfactory.

We expect the demand for metal recycling equipment to be weak due to the low production volumes of steel, and demand for solidwaste recycling equipment to be satisfactory. Demand for services in metal recycling is expected to remain weak in 2010.

We estimate that demand for new fiber lines will continue to be weak, but demand for rebuilds and services will strengthen during the year. Demand for paper, board and tissue lines is expected to be satisfactory. We expect the capacity utilization rates of the paper and board industry to improve during the year, which should gradually increase the demand for our services business.

We estimate our net sales in 2010 to remain at about the same EUR 5 billion level as in 2009, and profitability to remain satisfactory. Our estimate is based on our order backlog, which contains about EUR 2.7 billion worth of deliveries for 2010, and on the expectation of continued gradual recovery of global economy.

The net sales and profitability estimates are based on Metso's current market outlook and business scope.

BOARD OF DIRECTORS' REPORT**Board of Director's proposal for the distribution of profit**

The Parent Company's distributable funds totaled EUR 1,373,256,006.77 on December 31, 2009, of which the net profit for the year was EUR 252,714,943.24.

The Board proposes to the Annual General Meeting that the dividend of EUR 0.70 per share be distributed for the year ended on December 31, 2009 and that the rest be retained and carried further. It is proposed that the record date for the payment of the dividend will be April 6, 2010 and that the dividend will be paid on April 13, 2010.

All the shares outstanding on the dividend record date will be entitled to a dividend, except for the own shares held by the Parent Company.

Annual General Meeting 2010

The Annual General Meeting of Metso Corporation will be held at 3:00 p.m. on Tuesday, March 30, 2010 at the Helsinki Fair Centre (Messuaukio 1, FI-00520 Helsinki).

*Helsinki, February 8, 2010
Metso Corporation's Board of Directors*

SHARES AND SHAREHOLDERS

Shares and Shareholders

Shares and share capital

On December 31, 2009, 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. During the year there was a change in the number of Metso's shares, when Tamfelt Corporation was acquired as a share exchange offer. The number of shares increased on December 28, 2009 by 8,593,642 and the share capital remained the same.

Changes in number of shares and share capital during January 1, 2001 – December 31, 2009:

	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	-

Metso's own shares

In December 2009, MEO1V Incentive Ky, a limited partnership established to manage Metso's share ownership plan for 2006–2008, was dissolved. It held 48,776 Metso shares, which were transferred to the direct ownership of the Metso Corporation on December 22, 2009. As of December 31, 2009, Metso Corporation owned a total of 409,617 own shares, which represents 0.27 percent of all Metso shares and votes.

Board authorizations

On March 31, 2009, 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 convey the Corporation's own shares

Under the authorization granted by the 2008 Annual General Meeting, Metso decided on February 4, 2009 to repurchase a maximum of 300,000 of the company's own shares. The repurchases were completed by March 2, 2009. The repurchase of the shares was related to the Metso Share Ownership Plan 2009–2011, which was approved in October 2008, to be used as payment for possible rewards, according to the criteria of the plan.

Own shares were repurchased with the company's non-restricted equity thus reducing distributable funds. The shares were purchased at market price in public trading on the NASDAQ OMX Helsinki. The average purchase price per share was EUR 8.28 and the total amount EUR 2,483,495.48.

SHARES AND SHAREHOLDERS

The 2009 Annual General Meeting authorized the Board of Directors to decide on the repurchase of a maximum of 10,000,000 of the company's own shares. The company's own shares are repurchased, in a proportion other than shareholders' holdings, with the company's non-restricted equity at the market price at the time of repurchase from NASDAQ OMX Helsinki.

The company's repurchased shares can be held by the company, cancelled, or conveyed. The shares can be used to develop Metso's capital structure, for acquisitions, capital expenditure, to finance or implement other arrangements pertaining to the company's business operations or as part of Metso's incentive plans. As of December 31, 2009, the Board of Directors had not exercised this authorization.

Authorization to issue shares

Under the authorization granted, the Board of Directors is entitled to decide on the issue of a maximum of 15,000,000 new shares, and on the convey of a maximum of 10,000,000 of Metso's own shares held by the company. The new shares can be issued, and Metso's own shares held by the company can be conveyed against payment received or without payment.

The Board of Directors can decide on share issue without payment to the company as well. A maximum of 10,000,000 shares, including the company's own shares repurchased by the authorization granted, can be granted to the company.

New shares may be issued and the own shares held by the company may be conveyed to the company's shareholders in proportion to their current shareholdings in the company or, by waiving the shareholder's pre-emption right, through a directed share issue, if the company has a weighty financial reason to do so. Such reasons may include using the shares as payment in potential business acquisitions or in other arrangements related to the company's business operations, to finance capital expenditure or as part of Metso's incentive plans. A directed share issue may only be executed without payment if there is especially weighty financial reason for the company to do so, taking the interests of all shareholders into account.

Metso's Board of Directors decided on a directed share issue related to the Tamfelt acquisition. The acquisition was carried out as a share exchange offer, and a total of 8,593,642 new Metso shares were entered in the trade register on December 28, 2009.

Market capitalization and trading

Metso Corporation's shares are quoted on the NASDAQ OMX Helsinki (OMXH: MEO1V) since July 1, 1999. Metso's ADSs (American Depositary Shares) are traded in the United States on the OTC market under the ticker symbol MXCYY.

Metso's share price on the NASDAQ OMX Helsinki in 2009 rose by 189 percent, from EUR 8.52 to EUR 24.63. At the same time, the NASDAQ OMX Helsinki portfolio index, OMX Helsinki CAP, increased by 40 percent. The highest quotation of Metso's share on the NASDAQ OMX Helsinki in 2009 was EUR 24.78, and the lowest EUR 7.03. The share price on December 31, 2009 was EUR 24.63 and the average trading price for the year was EUR 13.26. Metso's market capitalization at year-end, excluding own shares held by the company, was EUR 3,693 million.

In 2009, 321,093,368 Metso shares were traded on the NASDAQ OMX Helsinki, equivalent to a turnover of EUR 4,258 million. The average daily trading volume was 1.3 million shares, which is 10 percent less than in 2008. During the year, 214 percent of shares were traded (relative turnover in 2008: 254%).

In 2009, the highest trading price for Metso's ADSs in the United States was USD 35.28, and the lowest USD 9.18. The ADS price on the OTC market at year-end was USD 35.14. Each ADS represents one share.

SHARES AND SHAREHOLDERS

Share-based incentive plans

Option programs

There are no options outstanding or available from any of Metso's option programs for subscription of shares in Metso.

Share ownership plans

Metso's share ownership plans are part of the remuneration and commitment programs for the management of the Group and the businesses. Below is a brief description of the programs.

Share Ownership Plan 200–2008

The shares distributed as rewards, based on the Share Ownership Plan for 2008, were paid in March 2009 according to the earnings criteria determined by the Board of Directors. 34,265 shares were distributed as rewards, corresponding to approximately 0.02 percent of all Metso shares. Members of the Executive Team received 6,996 shares.

Share Ownership Plan 2009–2011

The plan includes 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 targets set for the plan. 89 key persons are participating in the program. The rewards paid through the system may correspond with a maximum of 373,175 Metso shares. The shares for the plan have been acquired in public trading and therefore the plan will not have diluting effect on the share value. Members of Metso's Executive Team may receive a maximum of 77,400 shares as share rewards.

Share Ownership Plan 2010–2012

In October 2009, the Board of Directors decided on a new Share Ownership Plan for the years 2010–2012. The plan includes one three-year earnings period and requires participants' personal investment in Metso shares. Any possible reward from the plan requires continued employment with Metso and reaching the targets set for the plan. 92 key persons are participating in the program and the rewards paid through the system may correspond with a maximum of 343,000 Metso shares. The shares for the plan are acquired in public trading and therefore the plan will not have diluting effect on the share value. Members of the Executive Team may receive a maximum of 77,400 shares as share rewards.

More detailed information on the share-based incentive plans is presented in the Notes to the Financial Statements (Note 22, on pages 80–82).

Holdings of Metso's Board of Directors and executive management on December 31, 2009

At year-end, the members of Metso's Board of Directors, CEO Jorma Eloranta and Executive Vice President and CFO Olli Vaartimo and their interest parties held altogether 59,406 Metso shares, which correspond to 0.04 percent of the paid up share capital and votes in Metso.

Up-to-date information concerning the holdings of Metso's statutory insiders is available on Metso's website.

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 30, 2010 that the dividend of EUR 0.70 per share be distributed for the year ended on December 31, 2009.

The proposed dividend of EUR 0.70 corresponds to 66 percent of the profit attributable to shareholders for the year, and the effective dividend yield is 2.8 percent.

SHARES AND SHAREHOLDERS

Shareholders

At the end of 2009, Metso had 45,227 shareholders in the book-entry system, the largest of which was Solidium Oy, with 10.4 percent (2008: 11.1%) ownership. Nominee-registered shares and shares in direct foreign ownership accounted for 53.4 percent (55.4%) of the total stock. Finnish institutions, companies and organizations accounted for 22.0 percent (20.7%) and Finnish private persons for 14.2 percent (12.8%) of Metso's shares. More information on biggest shareholders can be found on Metso's website.

Metso's biggest shareholders on December 31, 2009:

	Number of shares and votes	% of share capital and voting rights
1 Solidium Oy	15,695,287	10.4
2 Ilmarinen Mutual Pension Insurance Company	4,503,689	3.0
3 Varma Mutual Pension Insurance Company	4,081,552	2.7
4 The State Pension Fund	1,910,000	1.3
5 Svenska litteratursällskapet i Finland r.f.	1,206,706	0.8
6 Odin Funds	982,912	0.7
Odin Norden	722,678	0.5
Odin Finland	226,036	0.2
Odin Norden II	34,198	0.0
7 The Local Government Pension Institution	934,686	0.6
8 Mandatum Life Insurance Company Limited	723,916	0.5
9 Nordea Funds	718,932	0.5
Nordea Fennia Fund	275,000	0.2
Nordea Life Assurance Finland Ltd.	162,500	0.1
Nordea Pro Finland Fund	158,000	0.1
Nordea Finland Index Fund	123,432	0.1
10 OP Funds	567,819	0.4
OP-Delta Fund	260,046	0.2
OP-Focus Non-UCITS Fund	154,658	0.1
OP-Finland Value Fund	100,000	0.1
OP Life Insurance	30,095	0.0
OP-ryhmän Tutkimussäätiö	23,020	0.0
10 largest owner groups in total	31,325,499	20.9
Nominee-registered shares *)	78,426,642	52.2
Other shareholders	40,174,716	26.6
Own shares held by the Parent Company	409,617	0.3
In the issuer account	9,900	0.0
In special accounts	1,882	0.0
Total	150,348,256	100.0

*) Below is a list of flagging notifications for Metso's shareholders whose holdings have gone over or below 5 percent of Metso's voting rights or share capital. The list indicates the situation at December 31, 2009. An up-to-date list of all flagging notifications made can be found at www.metso.com/investors.

UBS AG's announced on March 26, 2009 that on March 24, 2009 the group's holding in Metso shares exceeded the 5 percent threshold. The holding amounted to 7,541,753 shares, which corresponds to 5.32 percent of the paid up share capital and votes in Metso.

UBS AG has announced on March 31, 2009 that on March 27, 2009 the group holding in shares of Metso Corporation fell below the 5 percent threshold. The holding amounted to 561,306 shares, which corresponds to 0.40 percent of the paid up share capital and votes in Metso.

SHARES AND SHAREHOLDERS

Breakdown of share ownership on December 31, 2009:

Number of shares	Share-holders	% of share-holders	Total number of shares and votes	% of share capital and voting rights
1-100	17,505	38.7	951,624	0.6
101-1,000	22,996	50.8	8,446,968	5.6
1,001-10,000	4,328	9.6	11,088,671	7.4
10,001-100,000	348	0.8	9,355,771	6.2
over 100,001	50	0.1	41,657,181	27.7
Total	45,227	100.0	71,500,215	47.5
Nominee-registered shares	15		78,426,642	52.2
Own shares held by the Parent Company	1		409,617	0.3
In the issuer account			9,900	0.0
In special accounts			1,882	0.0
Number of shares issued			150,348,256	100.0

Up-to-date information on Metso's share price, ownership structure and the holdings of statutory insiders is available on our website at www.metso.com/investors.

CONSOLIDATED STATEMENTS OF INCOME

EUR million	Note	Year ended December 31,		
		2007	2008	2009
Net sales	32	6,250	6,400	5,016
Cost of goods sold	6, 7	-4,702	-4,733	-3,808
Gross profit		1,548	1,667	1,208
Selling, general and administrative expenses	4, 6, 7	-972	-1,043	-938
Other operating income and expenses, net	5, 32	1	11	24
Share in profits and losses of associated companies	14, 32	3	2	0
Operating profit	32	580	637	294
% of net sales		9.3%	10.0%	5.9%
Financial income and expenses, net	8	-33	-89	-72
Profit before tax		547	548	222
Income taxes	9	-163	-158	-71
Profit		384	390	151

Attributable to:

Shareholders of the company	381	389	150
Minority interests	3	1	1
Profit	384	390	151

Earnings per share

Basic, EUR	12	2.69	2.75	1.06
Diluted, EUR	12	2.69	2.75	1.06

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

EUR million	Note	Year ended December 31,		
		2007	2008	2009
Profit		384	390	151
Cash flow hedges, net of tax	21, 30	-2	-33	14
Available-for-sale equity investments, net of tax	15, 21	22	-19	-1
Currency translation on subsidiary net investments	21	-29	-49	74
Net investment hedge gains (+) / losses (-), net of tax	21	-2	-11	0
Defined benefit plan actuarial gains (+) / losses (-), net of tax	27	-1	-22	-2
Other		2	0	0
Other comprehensive income (+) / expense (-)		-10	-134	85
Total comprehensive income (+) / expense (-)		374	256	236

Attributable to:

Shareholders of the company	371	255	235
Minority interests	3	1	1
Total comprehensive income (+) / expense (-)	374	256	236

CONSOLIDATED BALANCE SHEETS

Assets

EUR million	Note	As at December 31,	
		2008	2009
Non-current assets			
Intangible assets	13		
Goodwill		778	863
Other intangible assets		254	312
		1,032	1,175
Property, plant and equipment	13		
Land and water areas		58	62
Buildings and structures		239	261
Machinery and equipment		366	449
Assets under construction		63	47
		726	819
Financial and other assets			
Investments in associated companies	14	14	13
Available-for-sale equity investments	15, 19	18	15
Loan and other interest bearing receivables	18, 19	8	9
Available-for-sale financial investments	18, 19	5	130
Financial instruments held for trading	18, 19	-	40
Derivative financial instruments	19, 30	-	0
Deferred tax asset	9	174	171
Other non-current assets	18, 19	26	44
		245	422
Total non-current assets		2,003	2,416
Current assets			
Inventories	17	1,606	1,172
Receivables			
Trade and other receivables	18, 19	1,146	938
Cost and earnings of projects under construction in excess of advance billings	16	362	312
Loan and other interest bearing receivables	18, 19	9	8
Available-for-sale financial investments	18, 19	-	79
Derivative financial instruments	19, 30	48	21
Income tax receivables		23	42
		1,588	1,400
Cash and cash equivalents	20	314	727
Total current assets		3,508	3,299
Total assets		5,511	5,715

CONSOLIDATED BALANCE SHEETS

Shareholders' equity and liabilities

EUR million	Note	As at December 31,	
		2008	2009
Equity	21		
Share capital		241	241
Share premium reserve		-	-
Cumulative translation adjustments		-136	-62
Fair value and other reserves		490	710
Retained earnings		849	894
Equity attributable to shareholders		1,444	1,783
Minority interests		9	9
Total equity		1,453	1,792
Liabilities			
Non-current liabilities			
Long-term debt	19, 23	1,089	1,334
Post-employment benefit obligations	27	191	190
Provisions	24	36	52
Derivative financial instruments	19, 30	8	5
Deferred tax liability	9	45	56
Other long-term liabilities	19	4	4
Total non-current liabilities		1,373	1,641
Current liabilities			
Current portion of long-term debt	19, 23	101	173
Short-term debt	19, 25	245	69
Trade and other payables	19, 26	1,189	1,065
Provisions	24	218	235
Advances received		479	363
Billings in excess of cost and earnings of projects under construction	16	323	330
Derivative financial instruments	19, 30	82	21
Income tax liabilities		48	26
Total current liabilities		2,685	2,282
Total liabilities		4,058	3,923
Total shareholders' equity and liabilities		5,511	5,715

CONSOLIDATED STATEMENTS OF CASH FLOWS

EUR million	Note	Year ended December 31,		
		2007	2008	2009
Cash flows from operating activities:				
Profit		384	390	151
Adjustments to reconcile profit to net cash provided by operating activities				
Depreciation and amortization	7	148	138	143
Gain (-) / loss (+) on sale of fixed assets	5	-2	-2	-4
Gain (-) / loss (+) on sale of subsidiaries and associated companies	11	-4	-4	1
Gain on sale of available-for-sale equity investments	5	-7	-2	-23
Share of profits and losses of associated companies	14	-3	-3	0
Dividend income and interests, net	8	32	57	58
Income taxes	9	163	158	71
Other non-cash items		12	45	44
Change in net working capital, net of effect from business acquisitions and disposals				
		-286	-437	518
Interest paid		-45	-64	-68
Interest received		14	13	16
Dividends received		2	2	1
Income taxes paid		-114	-154	-138
Net cash provided by operating activities		294	137	770
Cash flows from investing activities:				
Capital expenditures on fixed assets	13	-159	-255	-116
Proceeds from sale of fixed assets		16	10	8
Business acquisitions, net of cash acquired	10	-55	-44	-1
Proceeds from sale of businesses, net of cash sold	11	9	12	2
Investments in available-for-sale equity investments		0	0	-1
Proceeds from sale of available-for-sale equity investments		3	7	24
Investments in available-for-sale financial investments		0	-	-204
Proceeds from sale of available-for-sale financial investments		10	-	0
Investments in financial instruments held for trading		-	-	-40
Increase in loan receivables		-2	-8	-3
Decrease in loan receivables		2	1	4
Net cash used in investing activities		-176	-277	-327
Cash flows from financing activities:				
Redemption of own shares	21	-	-	-2
Dividends paid		-212	-425	-99
Hedging of net investment in foreign subsidiaries		15	13	-4
Net borrowings (+) / payments (-) on short-term debt		-37	163	-200
Proceeds from issuance of long-term debt		122	486	402
Principal payments of long-term debt		-87	-25	-141
Principal payments of finance leases		-3	-3	-2
Other items		-	2	-2
Net cash provided by (+) / used in (-) financing activities		-202	211	-48
Net increase (+) / decrease (-) in cash and cash equivalents		-84	71	395
Effect of changes in exchange rates on cash and cash equivalents		-2	-24	18
Cash and cash equivalents at beginning of year	20	353	267	314
Cash and cash equivalents at end of year		267	314	727

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

EUR million	Year ended December 31,		
	2007	2008	2009
Increase (-) / decrease (+) in assets and			
increase (+) / decrease (-) in liabilities:			
Inventory	-335	-230	530
Trade and other receivables	-64	58	339
Percentage of completion: recognized assets and liabilities, net	31	-7	33
Trade and other payables	82	-258	-384
Total	-286	-437	518

Breakdown of business combinations is presented in note 10.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

EUR million	Share capital	Share premium reserve	Cumulative translation adjustments	Fair value and other reserves	Retained earnings	Equity attributable to shareholders	Minority interests	Total equity
Balance at December 31, 2006	241	77	-45	432	739	1,444	6	1,450
Other comprehensive income (+) / expense (-)	-	-	-31	20	1	-10	-	-10
Profit	-	-	-	-	381	381	3	384
Total comprehensive income (+) / expense (-)	-	-	-31	20	382	371	3	374
Dividends	-	-	-	-	-212	-212	0	-212
Share-based payments, net of tax	-	-	-	5	-	5	-	5
Other	-	-	-	-1	1	0	-2	-2
Balance at December 31, 2007	241	77	-76	456	910	1,608	7	1,615
Other comprehensive income (+) / expense (-)	-	-	-60	-52	-22	-134	-	-134
Profit	-	-	-	-	389	389	1	390
Total comprehensive income (+) / expense (-)	-	-	-60	-52	367	255	1	256
Dividends	-	-	-	-	-425	-425	-2	-427
Share-based payments, net of tax	-	-	-	4	-	4	-	4
Decrease and transfer of share premium and legal reserve	-	-77	-	77	-	-	-	-
Other	-	-	-	5	-3	2	3	5
Balance at December 31, 2008	241	-	-136	490	849	1,444	9	1,453
Other comprehensive income (+) / expense (-)	-	-	74	13	-2	85	-	85
Profit	-	-	-	-	150	150	1	151
Total comprehensive income (+) / expense (-)	-	-	74	13	148	235	1	236
Dividends	-	-	-	-	-99	-99	-1	-100
Share issue	-	-	-	206	-2	204	-	204
Redemption of own shares	-	-	-	-2	-	-2	-	-2
Share-based payments, net of tax	-	-	-	1	-	1	-	1
Other	-	-	-	2	-2	0	-	0
Balance at December 31, 2009	241	-	-62	710	894	1,783	9	1,792

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting principles

Description of businesses

Metso Corporation (the "Parent Company") and its subsidiaries (together with the Parent Company, "Metso" or the "Group") form a global supplier of sustainable technology and services, which designs, develops and produces systems, automation solutions, machinery and equipment for process industries. The main customer industries are mining and construction, energy, metal recycling as well as pulp and paper industries. Metso Corporation was formed in 1999 as a result of the merger of Rauma Corporation and Valmet Corporation. The merger was consummated on July 1, 1999 and is accounted for by the pooling-of-interests method.

Metso Corporation is a public listed company and the shares have been listed on the NASDAQ OMX Helsinki (OMXH:MEO1V) since July 1, 1999. The address of the Group Head Office is Fabianinkatu 9A, 00130 Helsinki.

These consolidated financial statements were authorized for issue by the Board of Directors on February 8, 2010.

Basis of preparation and changes in accounting policies

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

Amendments to IFRS 7 'Financial Instruments: Disclosures', which was issued in March 2009, require enhanced disclosures about fair value measurements and liquidity risk. The extended disclosure requirements have been applied to the financial statements of December 31, 2009.

From January 1, 2009 onwards Metso has applied IFRS 8 'Operating Segments' requiring the company to adopt a 'management approach' to reporting on the financial performance of its operating segments. Thus, the information to be reported is the same management uses internally for evaluating segment performance. IFRS 8 had no effect on the reported segments as Metso's segment information has already been published in accordance with the internal reporting structure.

From January 1, 2009 onwards Metso has applied IAS 1 (Revised) 'Presentation of Financial Statements'. The revised standard is aimed at improving users' ability to analyze and compare the information provided in financial statements. It requires all non-owner changes in equity (comprehensive income) to be presented in one statement of comprehensive income or in two statements, a separate income statement and a statement of comprehensive income. However, components of total comprehensive income are not permitted to be presented separately in the statement of changes in equity. Metso presents separately the income statement and the statement of comprehensive income.

From January 1, 2009 onwards Metso has applied the amendment to IAS 23 'Borrowing Costs', which requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. A qualifying asset can be intended for own use (self-constructed asset) or for sale. The option of immediately expensing these borrowing costs was removed. As Metso capitalizes interest costs on self-constructed long-lived assets, the amendment had no impact on Metso's financial statements.

From January 1, 2009 onwards Metso has applied an amendment to IFRS 2 'Share-based payments' clarifying the accounting of vesting conditions and cancellations. Vesting conditions are limited to service and performance conditions, other features are not vesting conditions and only impact the grant date fair value. Cancellations whether by Metso or by other parties are accounted for in similar manner. The amendment did not have any effect on Metso's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

From January 1, 2009 onwards Metso has applied an amendment to IAS 39 'Financial instruments: Recognition and measurement'. The amendment clarifies among other things the classification of derivative instruments where there is a change in the hedge accounting, the definition of financial asset or financial liability at fair value through profit or loss and requires use of a revised effective interest rate to remeasure the carrying amount of a debt instrument on cessation of fair value hedge accounting. The amendment had no effect on Metso's 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. Minority interests are presented in the consolidated balance sheets within equity, separate from the equity attributable to shareholders. Minority interests are separately disclosed in the consolidated statements of income.

Acquisitions of companies are accounted for using the purchase method. The cost 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 including any costs directly attributable to the acquisition. The excess acquisition cost over the fair value of net assets acquired is recognized as goodwill (see also intangible assets). If the cost of acquisition 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.

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.

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.

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. Metso's share of post-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

acquisition retained profits and losses of associated companies and joint ventures is reported as part of investments in associated companies in the consolidated balance sheets.

Segment reporting

Metso's operations are divided into three reporting segments: Mining and Construction Technology, Energy and Environmental Technology, and Paper and Fiber Technology.

Mining and Construction Technology provides equipment and services for quarrying, aggregates production, construction, civil engineering and mining and minerals processing. The segment consists of Services as well as Equipment and Systems business lines.

Energy and Environmental Technology consists of Power, Automation and Recycling business lines. Through Energy and Environmental Technology Metso supplies power generation, automation, field controls as well as recycling and waste management solutions for power, oil and gas, metals recycling, and pulp and paper industries.

Paper and Fiber Technology supplies processes, machinery, equipment and services for the pulp and paper industry. The offering covers the entire process life-cycle and includes new lines, rebuilds and the services business. The segment consists of Paper, Fiber and Tissue business lines and of the in December 2009 acquired Tamfelt specializing in technical textiles.

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, net, 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, net.

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. The resulting translation differences are recorded in the cumulative translation adjustment line item in equity. The resulting translation differences from subsidiary net investments and comparable loans are recognized through the Consolidated Statement of Other Comprehensive Income (OCI) to the cumulative translation adjustments. When Metso hedges the equity of its foreign subsidiaries with foreign currency loans and with financial derivatives, the translation difference is adjusted by the currency effect of hedging instruments and recorded through the OCI in equity, net of taxes. When a foreign entity is disposed of the accumulated translation difference is reversed through OCI and recognized in the consolidated statements of income as part of the gain or loss on the sale.

Derivative financial instruments

Derivatives are initially recognized in the balance sheet at fair value and subsequently measured at their fair value at each balance sheet date. Derivatives are designated at inception either as hedges of firm commitments or forecasted transactions (cash flow hedge), or as fair value hedges of assets or liabilities, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In case of hedge accounting, Metso documents at inception the relationship between the hedging instruments and hedged items according to 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 is more than 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 for electricity forwards.

Metso designates only the currency component of the foreign currency forward contracts as a hedging instrument. 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 the effectiveness of the fair value changes of the electricity forwards to offset the changes in the fair value changes of the underlying forecasted electricity purchases in different countries on an ongoing basis.

The effective portion of the derivatives is recognized through OCI in the hedge reserve of 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 or to a portion, which has not been designated as a hedging instrument, is reported under other operating income and expenses, net. Should a hedged transaction no longer be expected to occur, any cumulative gain or loss previously recognized under equity is reversed through OCI to profit and loss.

Net investment hedge

Metso hedges its net foreign investments in certain currencies to reduce the effect of exchange rate fluctuations. The hedging instruments are mainly foreign currency loans and 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 that these hedges are effective. The interest portion of derivatives qualifying as hedges of net investment is recognized under financial income and expenses, net.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in financial income and expenses, net, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged interest rate risk.

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 activities, comprise foreign currency 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, and changes in the fair value of other derivative 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. The fair value of the commodity forwards and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Metso's 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 fair value of Metso's 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.

Non-market vesting conditions (such as operating profit 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 of 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 in 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 delivery terms clause of the contract. The credit worthiness of the buyer is verified before engaging into a sale. However, should a risk of non-payment arise after revenue recognition, a provision for non-collectability is established.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. In certain cases, subcontractor materials, labor and equipment, are included in sales and costs of goods sold when management believes that Metso is responsible for the ultimate acceptability of the project. Changes to total estimated contract costs and losses, if any, are recognized in the period in which they are determined.

Service revenue

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

Sales with repurchase commitments

If the conditions of a sales contract with repurchase commitment indicate that the transfer of risks and rewards has not taken place at initial delivery of equipment and transfer of ownership, the revenue is deferred. The monies received for the machines, net of the guaranteed amount, are recognized over the contract term as lease income concurrently with the depreciation of the equipment until the expiry of the resale right. If the repurchase commitment expires unexercised, the remaining deferred revenue is recognized as income.

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 CO₂ 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,

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are reported in other operating income and expenses. These include for example foreign taxes and/or suchlike payments not based on Double Tax Treaties in force.

Income taxes

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

A deferred tax liability or asset has been determined for all temporary differences between the tax bases of assets and liabilities and their amounts in financial reporting, using the enacted tax rates effective for the future years. The deferred tax liabilities are recognized in the balance sheet in full, and the deferred tax assets are only recognized when it is probable that there will be sufficient taxable profit against which the asset can be utilized. No deferred income tax is accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination.

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

Earnings per share

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

Diluted earnings per share are calculated by including the potentially diluting ordinary shares to the weighted average number of ordinary shares in issue. 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 trademarks, 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.

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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 climate, suggest that its carrying value may not be recoverable. The testing of goodwill is performed at the cash generating unit level, whereas the testing of other intangible assets with an indefinite useful life is either performed as part of a cash generating unit or separately if the asset generates independent cash flows. The annual testing may be performed using previous year's recoverable amounts of the cash generating units if there has not been any significant changes to the assets and liabilities of the cash generating unit, if in the previous testing the recoverable value clearly exceeded the carrying values tested, or if the likelihood that the current recoverable value would be less than the current carrying value of the cash generating unit is remote. Metso uses a discounted cash flow analysis to assess the fair value of goodwill or of another intangible asset subject to testing. A previously recognized impairment loss on goodwill is not reversed even if there is a significant improvement in circumstances having initially caused the impairment, whereas an impairment loss on another intangible asset with an indefinite life may be reversed should there be a significant improvement to cash flows compared to the projections having generated the impairment loss in the first place. However, the impairment loss may not be reversed to exceed the carrying amount, which would have been recorded had there been no impairment in prior years.

Research and development

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

Property, plant and equipment

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

Depreciation and amortization 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 and liabilities at fair value through profit and loss comprise derivatives and financial instruments held for trading.

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

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

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

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

Assets and liabilities at fair value through profit and loss

Financial instruments held for trading, which are fair valued through profit and loss, comprise investments in financial instruments, e.g. bonds. The instruments are fair valued quarterly and the change in fair value is recognized through profit and loss. Gains and losses at disposal and impairment, if any, are recorded in profit and loss.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Available-for-sale equity investments

Available-for-sale equity investments include mainly shares in 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 at acquisition or with an undefined maturity and which Metso plans to hold for more than one year. The instruments are fair valued quarterly and the change in fair value is recognized through OCI in the fair value reserve of equity. Gains and losses at disposal and impairment, if any, are recorded in profit and loss and the accumulated change in fair value previously recorded in the fair value reserve of equity is reversed through OCI.

Current available-for-sale financial investments

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

Loans and receivables

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

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

Inventories

Inventories are stated at the lower of historical cost calculated on average cost basis or net realizable value. Costs include purchase costs as well as transportation and processing costs. The costs of finished goods include direct materials, wages and salaries plus social costs, subcontracting and other direct costs. In addition, production costs include an allocable portion of production and project administration overheads. Net realizable value is the estimated amount that can be realized from the sale of the asset in the normal course of business after allowing for the costs of realization.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Trade receivables

Trade receivables are recognized at original invoice amount to customers and reported in the balance sheet, net of provision for doubtful receivables. The provision, 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 original 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, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 exchange of debt instruments

Transaction costs arising from exchange 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 exchange 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 costs

A provision for restructuring is recognized only after management has developed and approved a formal plan to which it is committed. Employee termination benefits are only recognized when 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 restructuring 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 expenses are recognized in either cost of goods sold or selling, general and administrative expenses depending on the nature of the restructuring expenses. Should there be a Metso or segment wide restructuring program, the related costs are recognized in other operating income and expenses, net. Restructuring costs can also include other costs incurred as a result of the plan, which are recorded under other operating income and expenses, net, such as asset write-downs.

Environmental remediation costs

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

Warranty costs

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

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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 CFO. Group Treasury functions as counterparty to the operating units, manages centrally external funding and is responsible for the management of financial assets and appropriate hedging measures. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the operating units. The objective of financial risk management is to minimize potential adverse effects on Metso's financial performance.

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 consolidates cash resources.

At the end of 2009 (end of 2008 respectively) cash and cash equivalents amounted to EUR 727 million (EUR 314 million), available-for-sale financial investments to EUR 209 million (EUR 5 million), financial instruments held for trading EUR 40 million (-) and committed undrawn credit facilities to EUR 500 million (EUR 500 million). The five year revolving credit facility matures in 2011.

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 following tables analyze the repayments and interests on Metso's liabilities by the remaining maturities from the balance sheet date to the contractual maturity date. Subsequent to changes in IFRS 7, the maturity analysis no longer includes other derivative cash flows than those connected to interest rate swaps.

December 31, 2008

EUR million	<1 year	1-5 years	>5 years
Long-term debt			
Repayments	101	774	315
Interests	59	141	43
Short-term debt			
Repayments	245	-	-
Interests	10	-	-
Trade payables	733	-	-
Other liabilities	456	-	-
Interest rate derivatives	1	2	2
Total	1,605	917	360
Financial guarantee contracts	7		

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December 31, 2009

EUR million	<1 year	1-5 years	>5 years
Long-term debt			
Repayments	173	1,103	231
Interests	65	158	27
Short-term debt			
Repayments	69	-	-
Interests	1	-	-
Trade payables	605	-	-
Other liabilities	460	-	-
Interest rate derivatives	4	5	2
Total	1,377	1,266	260
Financial guarantee contracts	3		

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, 2009 the equity attributable to shareholders was EUR 1,783 million (EUR 1,444 million) and the amount of interest bearing debt was EUR 1,576 million (EUR 1,435 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 currently:

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 Group Treasury.

Capital structure ratios are included in financial indicators for years 2005-2009 on pages 103–104 in these financial statements. The formulas for calculating the financial indicators are presented on page 106.

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 2.0 years on December 31, 2009 (2.0 years).

At the end of 2009 the balance sheet items exposed to interest rate risk were interest bearing assets of EUR 993 million (EUR 336 million) and interest bearing debt of EUR 1,576 million (EUR 1,435 million). Of the total of the interest bearing debt 77 percent (74%) was denominated in EUR.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 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 (100 basis points) 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 +/- 2.9 million (EUR +/- 2.1 million).

A one percentage point (100 basis points) 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	2008	2009
Effects in		
• income statement	+/- 1.2	+/- 0.9
• equity	+/- 1.6	+/- 0.1

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

Foreign exchange risk

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

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 Treasury Policy, operating units are required to hedge in full the foreign currency exposures arising from firm sales and purchase 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. The majority of the hedged future currency cash flows relate to foreign currency denominated order backlog. In addition, units can hedge anticipated foreign currency denominated cash flows.

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

Total foreign exchange transaction exposure on December 31 was as follows:

EUR million	2008	2009
Operational items	508	418
Financial items	-178	-172
Hedges	-359	-243
Total exposure	-28	3

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This aggregate group level currency exposure is the basis for the sensitivity analysis of foreign exchange risk. This exposure, net of respective hedges, is composed of all assets and liabilities denominated in foreign currencies, projected cash flows for unrecognized firm commitments, both short- and long-term sales and purchase contracts and anticipated operational cash flows to the extent their realization has been deemed highly probable and therefore hedged. This analysis excludes net foreign currency investments in subsidiaries together with instruments hedging these investments. Assuming euro to appreciate or depreciate ten percent against all other currencies, the impact on cash flows, net of taxes, derived from the year-end net exposure as defined above, would be EUR +/- 0.3 million (EUR +/- 0.4 million).

Transaction exposure is spread in 30 currencies and as of December 31, 2009 the biggest open exposures were in USD (35%), CNY (9%) and RUB (6%). A 10 percent appreciation of USD would have an effect, net of taxes, of EUR +2.4 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	2008				2009
	total	USD	SEK	others	total
Effects in					
• income statement	+/- 27.1	+/- 6.0	-/+ 2.0	+/- 0.3	+/- 4.3
• equity	+/- 4.7	+/- 22.1	+/- 2.2	+/- 0.5	+/- 24.8

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 USD, BRL and CNY. Metso is not extensively hedging equity exposure. As of December 31, 2009 Metso had hedged 82 percent (74%) of USD denominated net investments to reduce the effect of exchange rate fluctuations. Currently hedging instruments are foreign currency loans.

A sensitivity analysis of financial instruments includes foreign currency loans qualified as net investment hedges. A 10 percent change in EUR/USD foreign exchange rates would have an effect of EUR 17.2 million (EUR 14.8 million), net of taxes, in equity.

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 twelve-month period with some contracts extended to approximately three years. Execution of electricity hedging

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has been outsourced to an external broker. As of December 31, 2009 Metso had outstanding electricity forwards amounting to 640 GWh (635 GWh).

To reduce its exposure to the volatility caused by the surcharge for certain metal alloys (Alloy Adjustment Factor) comprised in the price of stainless steel charged by its suppliers, Metso has entered into average-price swap agreements for nickel. The Alloy Adjustment Factor is based on monthly average prices of its components of which nickel is the most significant. As of December 31, 2009 Metso had outstanding nickel swaps amounting to 252 tons (258 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 parallel change upwards or downwards in commodity price curves would have following effects, net of taxes:

EUR million	2008	2009
Electricity – effect in equity	+/- 1.5	+/- 1.7
Electricity – effect in income statement	+/- 0.3	+/- 0.2
Nickel – effect in income statement	+/- 0.1	+/- 0.2

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

Other commodity risks are not managed using financial derivative instruments.

Credit and counterparty risk

Credit or counterparty risk is defined as the possibility of a customer or a financial counterparty not fulfilling its commitments towards Metso. Metso's operating units are primarily responsible for credit risks pertaining to sales and procurement activities. The units assess the credit quality of their customers, by taking into account their financial position, past experience and other relevant factors. When appropriate, advance payments, letters of credit and third party guarantees are used to mitigate credit risks. Group Treasury provides centralized services related to customer financing and seeks to ensure that the principles of the Treasury Policy are adhered to with respect to terms of payment and required collateral. Metso has no significant concentrations of credit risks.

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

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

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

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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 available-for-sale financial assets.
- Level 2 The fair value of financial instruments in Level 2 is determined using valuation techniques. These techniques utilize observable market data readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. Level 2 financial instruments include:
- Over-the-counter derivatives classified as financial assets/liabilities at fair value through profit and loss or qualified for hedge accounting.
 - Debt securities classified as financial instruments available-for-sale or at fair value through profit and loss.
- Level 3 A financial instrument is categorized into Level 3 if the calculation of the fair value cannot be based on observable market data. Metso had no such instruments in 2009.

The following table presents Metso's financial assets and liabilities that are measured at fair value at December 31, 2009.

EUR million	Level 1	Level 2	Level 3
Assets			
Financial assets at fair value through profit and loss			
• Derivatives	-	14	-
• Securities	-	40	-
Derivatives qualified for hedge accounting	-	7	-
Available for sale investments			
• Equity investments	9	-	-
• Debt investments	130	79	-
Total assets	139	140	-
Liabilities			
Financial liabilities at fair value through profit and loss			
• Derivatives	-	10	-
Derivatives qualified for hedge accounting	-	17	-
Total liabilities	-	26	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 maintain a provision for bad debt based on the best estimate of the amounts that are potentially uncollectable at the balance sheet date. The estimates are based on a systematic, on-going review and evaluation performed as part of the credit-risk evaluation process. As part of this evaluation, Metso takes into account the history of collections, the size and compositions of the receivable balances, current economic events and conditions and other pertinent information.

Inventory

Metso's policy is to maintain a provision for slow-moving and obsolete inventory based on the best estimate of such amounts at the balance sheet date. The estimates are based on a systematic, on-going review and evaluation of inventory balances. As part of this evaluation, Metso also considers the composition and age of the inventory as 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 2009, approximately 35 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 policies 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 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 factors can be a change in the market environment causing the other party to postpone or cancel the commitment. To the extent possible management tries to include in the contracts clauses reducing the impact of such adverse events to its results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 115 million as of December 31, 2009, adjusted by EUR 16 million for uncertainties related to its ability to utilize some of the deferred tax assets, primarily consisting of operating losses carried forward and deductible temporary differences for certain foreign subsidiaries and the final outcome of tax audits in some subsidiaries. The adjustment is based on Metso's estimates of taxable income by country in which it operates, and the period over which the deferred tax assets will be recoverable based on estimated future taxable income and planned tax strategies to utilize these assets. In the event that actual results differ from these estimates, the deferred tax asset needs to be adjusted in coming financial years. The final outcome may also be affected by future changes in tax laws applicable in the jurisdictions where Metso operates.

Allocation of purchase price to acquired assets

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

Impairment testing

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

- Material permanent deterioration in the economic or political environment of the customers' or of own activity.
- 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 accounting 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 impairment test, a two percentage point increase in the discount rates applied for determining the fair values of the cash generating units would have reduced the total fair value of units tested by little over 15 percent and would not have caused impairment. A second sensitivity test using these higher discount rates together with a 30 percent reduction in the terminal growth rate assumption would have reduced the fair values by a further two percent indicating no impairment as the present values of the discounted cash flows exceeded the carrying values of the units being tested.

Reserve for warranty and guarantee costs

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

Pensions

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

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

The actuarial experience that differs from the assumptions and changes in the assumptions results in gains and losses, which are recognized in OCI. A one percentage point increase in the expected return on plan assets would have reduced pension benefit expense by approximately EUR 2 million, and a one percentage point decrease in the expected return on plan assets would have increased pension benefit expense by approximately EUR 2 million for the year ended December 31, 2009.

Share-based payments

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financial instruments

In accordance with the disclosure requirements of financial instruments, the management is obliged to make certain assumptions of the future cash in- and outflows arising from financial instruments and of the calculation of the sensitivity of such instruments:

- It is impossible to predict the movements of different currencies in relation to one another, hence the realized cash in- and outflows of a foreign currency denominated financial instruments and their impact to the consolidated bank and cash can materially differ from the forecasted flows as calculated 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. The sensitivity analysis does not either take into account the timing of the change.
- Sensitivity analysis is based on the risk exposures at the balance sheet date. The final outcome can be affected by other factors, such as future profitability and its impact to borrowing costs, which are not included in sensitivity analysis.

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. When calculating the sensitivity, Metso has chosen to use market conventions in assuming a 100 basis point variation in interest rates, 10 percent change in currency parities 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; they are not intended to reflect the future development of the volatility. The management 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 Selling, general and administrative expenses

EUR million	Year ended December 31,		
	2007	2008	2009
Marketing and selling expenses	-521	-543	-480
Research and development expenses, net	-112	-127	-105
Administrative expenses	-339	-373	-353
Total	-972	-1,043	-938

Research and development expenses, net, consist of following:

EUR million	2007	2008	2009
Research and development expenses, total	-117	-134	-115
Capitalized development costs	0	0	0
Capital expenditure	5	7	9
Grants received	6	5	5
Depreciation and amortization	-6	-5	-4
Research and development expenses, net	-112	-127	-105

5 Other operating income and expenses, net

EUR million	Year ended December 31,		
	2007	2008	2009
Gain on sale of subsidiaries and businesses ¹⁾	4	4	0
Gain on sale of fixed assets	3	2	4
Gain on sale of available-for-sale equity investments	7	2	23
Rental income	3	3	2
Foreign exchange gains ²⁾	19	28	34
Change in fair value of derivatives ³⁾	2	15	21
Other income	11	9	9
Other operating income, total	49	63	93
Loss on sale of subsidiaries and businesses	0	0	-1
Write-downs on fixed assets	-5	-4	-5
Foreign exchange losses ²⁾	-19	-22	-36
Change in fair value of derivatives ³⁾	-6	-19	-19
Other expenses	-18	-7	-8
Other operating expenses, total	-48	-52	-69
Other operating income and expenses, net	1	11	24

¹⁾ Gain on sale of the assets of panelboard operations in Hannover, Germany, for the year ended December 31, 2007, and gains on sale of panelboard operations in Nastola, Finland and Sundsvall, Sweden, as well as spreader roll manufacturing business (Finbow) and shares in Sweden-based Metso Foundries Karlstad AB for the year ended December 31, 2008.

²⁾ Includes foreign exchange gains and losses resulting from trade receivables and payables and related derivatives.

³⁾ For more information on derivative financial instruments, see note 30.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 Personnel expenses and the number of personnel

Personnel expenses:

EUR million	2007	2008	2009
Salaries and wages	-1,033	-1,064	-989
Pension costs, defined contribution plans	-89	-86	-84
Pension costs, defined benefit plans ¹⁾	-8	-10	-13
Other post-employment benefits ¹⁾	-3	-3	-3
Share-based payments	-3	-2	-2
Other indirect employee costs	-203	-208	-203
Total	-1,339	-1,373	-1,294

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

Board remuneration:

EUR thousand	Year ended December 31,		2009
	2007	2008	
Serving Board members December 31, 2009:			
Jukka Viinanen	-	-44	-88
Jaakko Rauramo	-56	-67	-64
Maija-Liisa Friman	-59	-58	-53
Christer Gardell	-48	-56	-53
Arto Honkaniemi	-	-46	-53
Yrjö Neuvo	-48	-56	-53
Pia Rudengren	-	-	-40
Jukka Leppänen ¹⁾	-7	-7	-7
Former Board members:			
Matti Kavetvuori	-89	-105	-25
Svante Adde	-50	-12	-
Eva Liljeblom	-38	-12	-
Satu Huber	-12	-	-
Total	-407	-463	-436

¹⁾ Has attended meetings as a personnel representative, no voting right.

According to the resolution of the Annual General Meeting held on March 31, 2009, the annual fees of the Board members are as follows: Chairman EUR 92,000, Vice Chairman EUR 56,000, and other members EUR 45,000 each. In addition, an attendance fee of EUR 600 per meeting is paid to all members for meetings of the Board and its Committees. Compensation for traveling expenses and daily allowances are paid in accordance with Metso's travel policy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Remuneration paid to Chief Executive Officer, Chief Financial Officer and other Executive Team members:

EUR	Annual basic salary	Performance bonus from previous year	Fringe benefits	Share- based payment	Total	Number of shares granted
2007						
President and CEO	512,096	249,530	13,172	415,848	1,190,646	5,000
Executive Vice President and CFO	361,185	175,173	22,071	401,709	960,138	4,830
Other Executive Team members	908,142	386,174	54,207	1,329,494	2,678,017	15,985
Total	1,781,423	810,877	89,450	2,147,051	4,828,801	25,815
2008						
President and CEO	546,034	232,283	13,604	254,453	1,046,374	3,717
Executive Vice President and CFO	382,999	159,448	21,776	181,752	745,975	2,655
Other Executive Team members	1,207,033	385,852	72,182	642,874	2,307,941	9,391
Total	2,136,066	777,583	107,562	1,079,079	4,100,290	15,763
2009						
President and CEO	525,232	133,178	13,999	32,831	705,240	1,668
Executive Vice President and CFO	367,951	74,445	23,847	23,140	489,383	1,192
Other Executive Team members	1,222,041	299,330	56,466	79,843	1,657,680	4,136
Total	2,115,224	506,953	94,312	135,814	2,852,303	6,996

Additionally, in 2010 a bonus of about EUR 180,000 will be paid to President and CEO Jorma Eloranta and a bonus of about EUR 144,000 to Executive Vice President and CFO Olli Vaartimo based on year 2009 performance.

Metso has subscribed pension plans for senior management for retirement at the age of 60, the beneficiaries include some members of the Metso Executive Team. For the years ended December 31, 2007, 2008 and 2009, the pension insurance premium payments totaled approximately EUR 1.8 million, EUR 2.3 million and EUR 3.0 million, respectively.

Remuneration paid to President and CEO Jorma Eloranta is presented in the table above. The fringe benefits comprised a company car and a telephone. Mr. Eloranta participates in the remuneration and commitment program 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, Jorma Eloranta is eligible to retire at the age of 60 (February 2011) and his retirement pension is 60 percent of his pensionable compensation during the past four or ten service years, whichever results in a greater amount. In case of termination of contract, he is entitled to compensation equal to 24 months' salary.

Remuneration paid to Executive Vice President and CFO Olli Vaartimo is presented in the table above. The fringe benefits comprised a company car, an apartment and a telephone. Mr. Vaartimo participates in the remuneration and commitment program 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, Olli Vaartimo is eligible to retire at the age of 60 (September 2010) and his retirement pension is 60 percent of his pensionable compensation during the past four or ten service years, whichever results in a greater amount. In case of termination of contract, he is entitled to compensation equivalent to 24 months' salary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Board share ownership in Metso as at December 31, 2009:

Jukka Viinanen	1,000
Jaakko Rauramo	6,000
Maija-Liisa Friman	1,500
Christer Gardell	-
Arto Honkaniemi	-
Yrjö Neuvo	7,100
Pia Rudengren	-
Jukka Leppänen ¹⁾	520
Total	16,120

¹⁾ Has attended meetings as a personnel representative, no voting right.

Executive Team share ownership in Metso as at December 31, 2009:

Jorma Eloranta	32,185
Olli Vaartimo	11,621
Matti Kähkönen	10,728
Pasi Laine	7,837
Bertel Langenskiöld	8,854
Kalle Reponen	3,155
Total	74,380

Number of personnel at end of year:

	2007	2008	2009
Mining and Construction Technology	9,754	11,259	9,541
Energy and Environmental Technology	5,857	6,357	6,060
Paper and Fiber Technology	10,093	10,544	10,459
Valmet Automotive	789	783	679
Group Head Office and other	344	379	427
Group Head Office and others total	1,133	1,162	1,106
Metso total	26,837	29,322	27,166

Average number of personnel during the period:

	2007	2008	2009
Mining and Construction Technology	9,259	10,481	10,397
Energy and Environmental Technology	5,716	6,160	6,254
Paper and Fiber Technology	10,109	10,256	10,085
Valmet Automotive	852	744	670
Group Head Office and other	333	369	407
Group Head Office and others total	1,185	1,113	1,077
Metso total	26,269	28,010	27,813

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 Depreciation and amortization

Depreciation and amortization expenses consist of the following:

EUR million	Year ended December 31,		
	2007	2008	2009
Intangible assets	-56	-44	-41
Property, plant and equipment			
Buildings and structures	-19	-20	-21
Machinery and equipment	-73	-74	-81
Total	-148	-138	-143

Depreciation and amortization by function are as follows:

EUR million	Year ended December 31,		
	2007	2008	2009
Cost of goods sold	-91	-80	-82
Selling, general and administrative expenses			
Marketing and selling	-14	-14	-15
Research and development	-6	-5	-4
Administrative	-37	-39	-42
Total	-148	-138	-143

8 Financial income and expenses, net

EUR million	Year ended December 31,		
	2007	2008	2009
Financial income			
Dividends received	1	0	0
Interest income on cash and cash equivalents	14	14	15
Income on financial investments	0	0	2
Other financial income	3	2	3
Financial income total	18	16	20
Financial expenses			
Interest expenses from financial liabilities at amortized cost	-46	-70	-74
Interest expenses on financial leases	-1	-1	-1
Other financial expenses	-11	-10	-13
Net gain (+) / loss (-) from foreign exchange	7	-24	-4
Financial expenses total	-51	-105	-92
Financial income and expenses, net	-33	-89	-72

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 Income taxes

The components of income taxes are as follows:

EUR million	Year ended December 31,		
	2007	2008	2009
Current tax expense	-109	-145	-96
Deferred taxes	-54	-13	25
Income taxes, total	-163	-158	-71

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,		
	2007	2008	2009
Income before taxes	547	548	222
Income tax expense at Finnish statutory rate	-142	-142	-58
Income tax for prior years	4	11	-9
Difference between Finnish and foreign tax rates	-31	-25	-13
Benefit of operating loss carryforward	5	0	0
Operating losses with no current tax benefit	-1	-2	-2
Non-deductible expenses	-2	-2	-1
Other	4	2	12
Income tax expense	-163	-158	-71

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation of deferred tax balances:

EUR million	Balance at beginning of year	Charged to income statement	Charged to share-holders' equity	Trans-lation differ-ences	Acqui-sitions and disposals	Balance at end of year
2008						
Deferred tax assets						
Tax losses carried forward	41	-19	14	-1	-	35
Fixed assets	14	-	-	-	-	14
Inventory	29	5	-	-	-	34
Provisions	22	-1	6	-	-	27
Accruals	29	3	-	-	-	32
Pension related items	23	-3	13	-	-	33
Other	40	-3	8	-3	-	42
Total deferred tax assets	198	-18	41	-4	-	217
Offset against deferred tax liabilities ¹⁾	-54	11	-	-	-	-43
Net deferred tax assets	144	-7	41	-4	-	174
Deferred tax liabilities						
Purchase price allocations	54	-4	-	-	4	54
Fixed assets	11	4	-	-	-	15
Other	30	-5	-7	-	1	19
Total deferred tax liabilities	95	-5	-7	-	5	88
Offset against deferred tax assets ¹⁾	-54	11	-	-	-	-43
Net deferred tax liabilities	41	6	-7	-	5	45
Deferred tax assets, net	103	-13	48	-4	-5	129
2009						
Deferred tax assets						
Tax losses carried forward	35	14	-9	1	-	41
Fixed assets	14	2	-	-	1	17
Inventory	34	-1	-	-	-	33
Provisions	27	6	-4	-	-	29
Accruals	32	-3	-	-	-	29
Pension related items	33	0	-1	-	-	32
Other	42	-1	-3	5	-	43
Total deferred tax assets	217	17	-17	6	1	224
Offset against deferred tax liabilities ¹⁾	-43	-10	-	-	-	-53
Net deferred tax assets	174	7	-17	6	1	171
Deferred tax liabilities						
Purchase price allocations	54	-4	-	-	19	69
Fixed assets	15	1	-	-	10	26
Other	19	-5	-1	-	1	14
Total deferred tax liabilities	88	-8	-1	-	30	109
Offset against deferred tax assets ¹⁾	-43	-10	-	-	-	-53
Net deferred tax liabilities	45	-18	-1	-	30	56
Deferred tax assets, net	129	25	-16	6	-29	115

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

A deferred tax liability on undistributed profits of subsidiaries located in countries where distribution generates tax consequences is recognized when it is likely that earnings will be distributed in the near future. For the years ended December 31, 2008 and 2009, respectively, earnings of EUR 137 million and EUR 196 million would have been subject to recognition of a deferred tax liability, had Metso regarded a distribution in the near future as likely.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 Acquisitions

Acquisition of Tamfelt in 2009

Metso acquired Tamfelt Corporation, a Finnish corporation listed in the NASDAQ OMX Helsinki exchange, through a public share exchange offer that was completed at the end of December 2009. The total transaction value was EUR 215 million whereof EUR 206 million was compensated by offering 8,593,642 new Metso shares representing 95.2% of Tamfelt's shares and votes. Prior to the transaction, Metso held Tamfelt shares worth EUR 4 million i.e. 2.8% of Tamfelt's shares and votes. The remaining 2.0% of Tamfelt's shares, estimated to amount to about EUR 4 million, will be redeemed with cash in 2010 as per the Finnish Companies Act. The transaction value includes EUR 5 million in expenses and transfer taxes related to the acquisition.

The transaction value, together with the shares already held, exceeded the net assets of Tamfelt by EUR 117 million, whereof EUR 53 million was allocated to intangible assets, representing the fair values of acquired customer base, order backlog and technology. Furthermore, EUR 10 million was allocated to the property, plant and equipment, to reflect their appraisal to fair values. The deferred tax liability resulting from these allocations was EUR 16 million. The remaining EUR 70 million represents goodwill, which reflects the value of assembled workforce, significant synergy benefits and widened business portfolio offering Metso potential to expand its operations into new markets and customer segments.

Had the acquisition occurred on January 1, 2009, Metso's net sales would have increased by EUR 130 million. The calculation of pro forma net income of the acquired business would be impractical considering the effects of the acquisition cost.

Preliminary details of the acquired net assets and goodwill are as follows:

EUR million	Carrying value	Fair value allocations	Fair value
Intangible assets	4	53	57
Property, plant and equipment	87	10	97
Inventories	30	-	30
Trade and other receivables	30	-	30
Deferred tax liabilities, net	-9	-16	-25
Other liabilities assumed	-22	-	-22
Non-interest bearing net assets	120	47	167
Cash and cash equivalents acquired			19
Debt assumed			-36
Transaction value			-215
Pre-acquisition holding of Tamfelt shares			-4
Costs related to acquisition			-1
Goodwill			70
Transaction value settled in cash			-4
Costs related to acquisition			-1
Cash and cash equivalents acquired			19
Net cash inflow on acquisitions			14

Metso recognized intangible assets relating to the acquired business as follows:

EUR million	Amortization periods	Fair value
Technology	8 years	1
Customer relationships	9 to 10 years	36
Customer agreements	1 to 3 years	9
Order backlog	12 months	7
Other intangible assets	1 to 9 years	4
Total		57

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other acquisitions in 2009

In November Metso acquired Kromatek (Shanghai) Co. Ltd., a Chinese company in the chromium plating business. The purchase price was less than EUR 1 million and the company was combined into Metso's Paper and Fiber Technology segment from December 1, 2009 onwards.

In November Metso also acquired the coater, creping and doctor blade business of Pacific International, a division of Pacific/Hoe Saw&Knife Company, located in Portland, Oregon, USA. The acquisition amounted to EUR 1 million. The unit was combined into the Paper and Fiber Technology segment on November 12, 2009.

In October Metso acquired M&J Industries A/S, a Danish manufacturer of mobile and stationary products for solid-waste crushing. The company was integrated into the Recycling business line of Metso's Energy and Environmental Technology segment on October 7, 2009. The net debt free acquisition price was EUR 15 million, of which EUR 6 million was allocated to intangible assets, representing the fair values of the acquired customer base, technology, and order backlog. EUR 3 million was allocated to property, plant and equipment representing their appraisal to fair values. The excess purchase price of EUR 4 million represents goodwill associated to Metso's improved market position in new and rapidly growing industrial markets.

In January Metso and Wärtsilä finalized the combination of Metso's Heat & Power business with Wärtsilä's Biopower business into a new company MW Power Oy, of which Metso owns 60% and Wärtsilä 40%. In this non-cash transaction Wärtsilä contributed its business into MW Power Oy in exchange of the shares in the company. The company is fully consolidated into the Energy and Environmental Technology segment's Power business line from January 1, 2009 onwards. Goodwill of EUR 7 million arose from this transaction, representing Metso's increased potential to offer competitive solutions for the markets utilizing renewable energy sources through complementing technologies of the two businesses.

In January Metso also acquired Oktokon Oy, a Finnish engineering company, into its Power business line.

The acquired businesses contributed net sales of EUR 115 million and net profit of EUR 6 million for the period from their acquisition to December 31, 2009. Had these acquisitions taken place on January 1, 2009, Metso's net sales for 2009 would have increased by EUR 20 million and net profit would have decreased by EUR 1 million.

Summary information on other acquisitions made 2009 is as follows:

EUR million	Carrying value	Fair value allocations	Fair value
Intangible assets	1	8	9
Property, plant and equipment	5	3	8
Inventories	28	-	28
Trade and other receivables	21	-	21
Deferred tax liabilities	-1	-3	-4
Other liabilities assumed	-44	-	-44
Non-interest bearing net assets	10	8	18
Cash and cash equivalents acquired			9
Debt assumed			-20
Purchase price			-19
Goodwill			12
Purchase price settled in cash			-19
Deferred payments on prior year acquisitions			-5
Cash and cash equivalents acquired			9
Net cash outflow on acquisitions			-15

Metso recognized intangible assets relating to the acquired businesses as follows:

EUR million	Amortization periods	Fair value
Technology	3 to 10 years	2
Customer relationships	5 years	4
Order backlog	12 months	2
Other intangible assets	5 years	1
Total		9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisitions in 2008

In October Metso acquired G & F Beltline Services Pty Ltd, a provider of conveyer belt line installations and maintenance services based in Australia. The acquisition price was approximately EUR 6 million and EUR 2 million thereof was allocated to intangible assets being the fair value of Beltline's customer base. Goodwill of EUR 3 million arose from the acquisition. The company was integrated into Metso's Mining and Construction Technology segment on October 15, 2008.

In September Metso acquired PSP Slévárna a.s. in Czech Republic. The company is a producer of finished manganese wear parts. The transaction was valued at about EUR 6 million whereof EUR 2 million was allocated to property, plant and equipment representing their fair values. The company was transferred into Metso's ownership on October 1, 2008 and was integrated into the Mining and Construction Technology segment.

In September Metso also acquired from Finnish Fastpap Oy Ab its paper quality control business comprising the manufacturing and final assembly of measuring scanners used in Metso's Quality Control Systems as well as after sales services. The unit was combined into the Energy and Environmental Technology segment on October 1, 2008.

In September Metso increased its ownership in associated company Valmet-Xi'an Paper Machinery Co. Ltd in China. Metso's holding increased from 48.3% to 75% and the company was consolidated into Metso's balance sheet in September. The cash paid for the incremental portion was EUR 5 million and the value of the previously held investment in associated companies was EUR 6 million. The company held a cash balance of EUR 13 million. A goodwill of EUR 1 million was recognized from the transaction.

Metso acquired in June Mapag Valves GmbH, a German manufacturer of butterfly valves which was combined into the Energy and Environmental Technology segment. The debt-free acquisition price was EUR 36 million, of which EUR 10 million was allocated to intangible assets, representing the fair values of the acquired technology, customer base and order backlog. The excess purchase price of EUR 10 million represents goodwill associated to Metso's improved market position in new and rapidly growing industrial markets.

In May, Metso acquired Kemotron A/S, a Danish manufacturer of advanced measurement systems mainly to the pulp, paper and chemical industry. The purchase price was about EUR 3 million and the company was combined into the Energy and Environmental Technology segment.

The acquired businesses contributed net sales of EUR 32 million and net profit of EUR 0 million for the period from their acquisition to December 31, 2008. Had these acquisitions taken place on January 1, 2008, Metso's net sales and net profit would have increased by EUR 55 million and EUR 1 million, respectively.

Summary information on acquisitions made in 2008:

EUR million	Carrying value	Fair value allocations	Fair value
Intangible assets	0	12	12
Property, plant and equipment	10	3	13
Inventories	24	-	24
Trade and other receivables	18	-	18
Deferred tax liabilities	-1	-4	-5
Minority interest	-3	-	-3
Other liabilities assumed	-24	-	-24
Non-interest bearing net assets	24	11	35
Cash and cash equivalents acquired			13
Pre-acquisition investment in associated companies (Valmet-Xi'an)			-6
Debt assumed			-11
Purchase price			-48
Goodwill			17
Purchase price settled in cash			-48
Settlement of acquired debt			-9
Cash and cash equivalents acquired			13
Net cash outflow on acquisitions			-44

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Metso recognized intangible assets relating to the acquired businesses as follows:

EUR million	Amortization periods	Fair value
Technology	10 years	3
Customer relationships	5 to 7 years	7
Order backlog	12 months	2
Total		12

Acquisitions in 2007

Metso acquired North American metal recycling provider, Bulk Equipment Systems and Technologies Inc (B.E.S.T. Inc), on March 30, 2007 and it was consolidated into the Energy and Environmental Technology segment. The acquisition price was approximately EUR 9 million, of which EUR 3 million was allocated to intangible assets, representing the fair values of the acquired customer base, brands, technology and order backlog. The excess purchase price of EUR 7 million represents goodwill associated to Metso's improved position in the North American metal recycling market.

On June 27, 2007, Metso acquired Mecanique et Dépannage Industries s.a.r.l. (MDI), a French company supplying maintenance services to the paper industry. The purchase price was less than EUR 1 million. The company became part of Metso's Paper and Fiber Technology.

Metso's Paper and Fiber Technology acquired on July 18, 2007 a UK based service provider Bender Holdings Limited with its subsidiaries. The purchase price was EUR 16 million, net of cash acquired. EUR 10 million was allocated to intangible assets, representing the fair values of acquired technology, customer base and existing long-term contracts. The excess purchase price of EUR 6 million is goodwill related to Metso's improved position in the worldwide market for services to pulp and paper industry.

Metso strengthened its metal recycling business by acquiring Mueller Engineering Inc. in the USA on October 31, 2007 when the company was consolidated into the Energy and Environmental Technology. Mueller Engineering is a shredder plant service provider specializing in servicing the drive motors and related equipment critical to the functioning of the shredder. The purchase price was EUR 6 million, of which EUR 3 million was allocated to intangible assets representing the fair values of acquired customer base, technology and order backlog and the remaining EUR 4 million represents goodwill arising from the leading market position gained on metal recycling plant services in North America.

The acquired businesses contributed net sales of EUR 17 million and net profit of EUR 2 million for the period from their acquisition to December 31, 2007. Had these acquisitions taken place on January 1, 2007, Metso's net sales and net profit would have increased by EUR 26 million and EUR 3 million, respectively.

Summary information on acquisitions made in 2007:

EUR million	Carrying value	Fair value allocations	Fair value
Intangible assets	0	16	16
Property, plant and equipment	2	-	2
Inventories	2	-	2
Trade and other receivables	8	-	8
Deferred tax liabilities	-1	-5	-6
Other liabilities assumed	-7	-	-7
Non-interest bearing net assets	4	11	15
Cash and cash equivalents acquired			4
Debt assumed			-1
Purchase price			-36
Goodwill			18
Purchase price settled in cash			-36
Cash and cash equivalents acquired			4
Net cash outflow on acquisitions			-32

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Metso recognized intangible assets relating to the acquired businesses as follows:

EUR million	Amortization periods	Fair value
Technology	3 to 10 years	4
Customer relationships	3 to 8 years	8
Order backlog	months	2
Brands	not amortized	1
Other intangible assets	2 to 3 years	1
Total		16

11 Disposals of businesses

In May 2009, Metso sold Metso Paper Turku Works Oy in Finland to Stairon Oy. The company manufactures air systems for the pulp and paper industry and it was part of Metso's Paper business line. The sale had no significant impact on Metso.

In January 2009, Metso sold the composites manufacturing business and related assets in Oulu, Finland, to xperion Oy for a consideration of EUR 2 million. The unit was part of Metso's Paper business line.

In September 2008, Metso divested the shares in Sweden-based Metso Foundries Karlstad AB to a group of financial investors represented by Primaca Group Oy. Metso will continue as a minority owner with a 16.7 percent holding in Heavycast Oy, a new company to which the Primaca Group transferred the acquired shares. The value of the transaction was approximately EUR 15 million, and Metso recognized a small tax-free capital gain from the sale. The divested business was part of Paper and Fiber Technology segment.

In May 2008, Metso sold its spreader roll manufacturing business and related assets located in Nokia, Finland to a group of Finnish investors. They continued the business under the name of Finbow Oy. The divestment was not material for Metso. The divested business was part of Paper and Fiber Technology.

In January 2008, Metso concluded the divestment of its Panelboard business. The panelboard operations in Nastola, Finland and Sundsvall, Sweden were divested to the German company Dieffenbacher GmbH + Co. KG. The transaction price was EUR 2 million. The assets of the Panelboard business in Hannover, Germany, were sold to Siempelkamp Energy Systems GmbH in September 2007. The transaction price was EUR 7 million.

Metso sold the majority of Metso Paper AG in Delémont, Switzerland, in March 2007. Metso remained as a minority shareholder in the company. The transaction price net of cash sold was EUR 2 million.

None of these businesses qualified as separate business line within Metso, hence was not classified as discontinued operations. The gains on these disposals are reported under other operating income and expenses, net.

The business disposals were as follows:

EUR million	Year ended December 31,		
	2007	2008	2009
Cash and cash equivalents	1	0	2
Intangible assets	0	1	0
Property, plant and equipment	0	5	2
Goodwill	-	1	-
Other assets	8	5	4
Liabilities sold	-3	-4	-3
Net assets of disposed businesses	6	8	5
Gain (+) / loss (-) on disposal	4	4	-1
Total consideration	10	12	4
Consideration received in cash	10	12	4
Cash and cash equivalents disposed of	-1	0	-2
Net cash inflow on disposals	9	12	2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12 Earnings per share

Earnings per share are calculated as follows:

Basic

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.

	Year ended December 31,		
	2007	2008	2009
Profit attributable to equity shareholders, EUR million	381	389	150
Weighted average number of shares issued and outstanding (in thousands)	141,460	141,595	141,477
Basic earnings per share, EUR	2.69	2.75	1.06

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 earning period ended at the end of the financial period in question. As at December 31, 2009, Metso held 348,776 own shares intended for the share ownership plans.

	Year ended December 31,		
	2007	2008	2009
Profit attributable to equity shareholders, EUR million	381	389	150
Weighted average number of shares issued and outstanding (in thousands)	141,460	141,595	141,477
Adjustment for potential shares distributed (in thousands)	-	-	49
Weighted average number of diluted shares issued and outstanding (in thousands)	141,460	141,595	141,526
Diluted earnings per share, EUR	2.69	2.75	1.06

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 Intangible assets and property, plant and equipment

EUR million	Goodwill	Patents and licences	Capitalized software	Other intangible assets	Intangible assets total
2008					
Acquisition cost at beginning of year	772	71	52	269	1,164
Translation differences	-8	0	-1	-9	-18
Business acquisitions	17	-	0	12	29
Disposals of businesses	-1	-1	0	-	-2
Capital expenditure	-	1	4	41	46
Reclassifications	-2	1	31	-30	0
Decreases	-	-2	-1	-2	-5
Acquisition cost at end of year	778	70	85	281	1,214
Accumulated amortization at beginning of year	-	-38	-28	-75	-141
Translation differences	-	0	1	0	1
Business acquisitions	-	0	0	-	0
Disposals of businesses	-	0	0	-	0
Reclassifications	-	4	-9	5	0
Decreases	-	1	1	0	2
Amortization charges for the year	-	-7	-9	-28	-44
Accumulated amortization at end of year	-	-40	-44	-98	-182
Net book value at end of year	778	30	41	183	1,032
2009					
Acquisition cost at beginning of year	778	70	85	281	1,214
Translation differences	3	0	1	4	8
Business acquisitions	82	3	6	65	156
Disposals of businesses	-	-	-	0	0
Capital expenditure	-	3	8	21	32
Reclassifications	-	4	23	-26	1
Decreases	-	-6	-3	-3	-12
Acquisition cost at end of year	863	74	120	342	1,399
Accumulated amortization at beginning of year	-	-40	-44	-98	-182
Translation differences	-	0	-1	0	-1
Business acquisitions	-	-1	-4	-3	-8
Disposals of businesses	-	-	-	0	0
Reclassifications	-	0	0	0	0
Decreases	-	3	3	2	8
Amortization charges for the year	-	-7	-11	-23	-41
Accumulated amortization at end of year	-	-45	-57	-122	-224
Net book value at end of year	863	29	63	220	1,175

Metso participated in the European Emissions Trappings Scheme (EU ETS) and was granted CO₂ emission rights of 93,839 units for the current compliance period of 2008-2012 against greenhouse gases emitted by its power plant. As of December 31, 2008, the remaining emission rights amounted to 75,068 units, the market value of which was roughly EUR 1 million. No value has been recognized in the balance sheet. In 2009, Metso sold the power plant and transferred the remaining rights to the buyer.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Property, plant and equipment total
2008					
Acquisition cost at beginning of year	54	489	1,170	49	1,762
Translation differences	-1	-9	-47	0	-57
Business acquisitions	2	4	15	0	21
Disposals of businesses	0	-2	-4	-1	-7
Capital expenditure	4	24	105	76	209
Reclassifications	0	22	39	-61	0
Decreases	-1	-6	-54	0	-61
Acquisition cost at end of year	58	522	1,224	63	1,867
Accumulated depreciation at beginning of year	-	-273	-855	-	-1,128
Translation differences	-	6	34	-	40
Business acquisitions	-	0	-8	-	-8
Disposals of businesses	-	0	2	-	2
Reclassifications	-	0	0	-	0
Decreases	-	4	43	-	47
Depreciation charges for the year	-	-20	-74	-	-94
Accumulated depreciation at end of year	-	-283	-858	-	-1,141
Net book value at end of year	58	239	366	63	726
2009					
Acquisition cost at beginning of year	58	522	1,224	63	1,867
Translation differences	1	8	40	0	49
Business acquisitions	1	71	189	1	262
Disposals of businesses	-	-	-7	-	-7
Capital expenditure	2	5	37	40	84
Reclassifications	0	9	47	-57	-1
Decreases	0	-20	-28	0	-48
Acquisition cost at end of year	62	595	1,502	47	2,206
Accumulated depreciation at beginning of year	-	-283	-858	-	-1,141
Translation differences	-	-4	-25	-	-29
Business acquisitions	-	-39	-118	-	-157
Disposals of businesses	-	-	5	-	5
Reclassifications	-	0	0	-	0
Decreases	-	13	24	-	37
Depreciation charges for the year	-	-21	-81	-	-102
Accumulated depreciation at end of year	-	-334	-1,053	-	-1,387
Net book value at end of year	62	261	449	47	819

For information on pledged assets, see note 28.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Intangible assets arising from fair value allocations relating to acquired businesses

A follow-up on all business combinations that Metso has recognized in accordance with IFRS 3 is presented in the table

EUR million	Order backlog	Tech-nology	Patents	Customer relation-ships	Brands	Other intan-gibles	Acquired intangible assets total
2008							
Acquisition cost at beginning of year	8	59	6	77	16	1	167
Translation differences	-1	-4	-	-4	0	0	-9
Business acquisitions	2	3	-	7	-	-	12
Decreases	-6	-	-	-	-	-	-6
Acquisition cost at end of year	3	58	6	80	16	1	164
Accumulated depreciation and amortization at beginning of year	0	-7	-4	-6	-	-	-17
Translation differences	-	0	-	0	-	0	0
Decreases	6	-	-	-	-	-	6
Depreciation and amortization charges for the year	-8	-8	0	-8	-	0	-24
Accumulated depreciation at end of year	-2	-15	-4	-14	-	0	-35
Net book value at end of year	1	43	2	66	16	1	129
2009							
Acquisition cost at beginning of year	3	58	6	80	16	1	164
Translation differences	0	1	-	2	0	0	3
Business acquisitions	8	3	-	40	-	10	61
Decreases	-	-	-	-	-	-	-
Acquisition cost at end of year	11	62	6	122	16	11	228
Accumulated depreciation and amortization at beginning of year	-2	-15	-4	-14	-	-	-35
Translation differences	0	0	-	0	-	0	0
Decreases	-	-	-	-	-	-	-
Depreciation and amortization charges for the year	-1	-7	-1	-9	-	-1	-19
Accumulated depreciation at end of year	-3	-22	-5	-23	-	-1	-54
Net book value at end of year	8	40	1	99	16	10	174

Other intangible assets with indefinite useful life, i.e. brands, amounted to EUR 16 million for the years ended December 31, 2008 and 2009, respectively. They relate to Mining and Construction Technology as well as Energy and Environmental Technology segments, 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, 2009 the amortization expense related to the intangible assets recognized through business acquisitions was EUR 19 million. The future amortization expense is expected to amount to EUR 33, EUR 24, EUR 20, EUR 17 and EUR 13 million for the years 2010, 2011, 2012, 2013 and 2014, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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
2008			
Acquisition cost at end of year	27	6	33
Accumulated depreciation at end of year	-14	-5	-19
Net book value at end of year	13	1	14
2009			
Acquisition cost at end of year	22	6	28
Accumulated depreciation at end of year	-15	-5	-20
Net book value at end of year	7	1	8

Capitalization of interest expenses

EUR million	2008	2009
Net capitalized interest at beginning of year	1	1
Capitalization of interest expenses	0	0
Amortization of capitalized interest expense	0	-1
Net capitalized interest at end of year	1	0

Goodwill and impairment tests

In the year ended December 31, 2009, the total amount of goodwill was EUR 863 million equal to 48% of the equity. As at December 31, 2008, the goodwill amounted to EUR 778 million being equal to 54% 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 goodwill from business combinations concluded in 2009 were allocated as follows:

Acquisition	EUR million	Allocated to
Biopower in Finland	7	Power business line
M&J Industries A/S in Denmark	4	Recycling business line
Tamfelt Corporation in Finland	70	Paper and Fiber Technology
Other	1	Principally Power business line
Total	82	

When 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. Mining and Construction Technology segment was organized into two new business lines from July 1, 2009 onwards: the Services business line and the Equipment and Systems business line.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Due to the way the segment is now managed and organized it is not feasible to calculate independent cash flows for the business lines, therefore subsequent to the organizational change Mining and Construction Technology segment comprises only one cash generating unit carrying the goodwill allocated to the segment.

Except for the reorganized Mining and Construction Technology, the cash generating units of the other reporting segments are the same as their business lines, which are described in note 32.

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 approved by Metso's management and the Board of Directors. In addition to the projection period, the discounted cash flows include an additional year, which is extrapolated from the performance of the projection period adjusted for cyclicity of each cash generating unit. The growth rate reflecting the long-term average growth rate of businesses subject to testing, was estimated to be 1.7% in 2008 and 2009. 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 2009 annual test, the average EBITDAs (earnings before interest, tax, depreciation, amortization and goodwill impairment) of the tested units for the projection period 2009-2013 were following: Mining and Construction Technology 14%, Energy and Environmental Technology 10% and Paper and Fiber Technology 8% of net sales.

The sensitivity to impairment of each cash generating unit is tested by applying a change both in the discount and terminal growth rate. The discount rate is increased by 200 basis points and the terminal growth rate is dropped from 1.7% to 1.2%. The combined effect of these two assumptions decreased the fair value of the cash generating units by about 17% (19% in 2008) but did not indicate need for impairment. 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 change expected in the business, which would affect the terminal value. These projections have not led to impairment.

As a result of the annual impairment tests, no impairment losses were recognized in 2008 and 2009. Since the unexpected weakening of the market prospects in the last quarter of 2008 Metso has been performing quarterly tests with updated cash projections to ensure the carrying values of its cash generating units do not exceed the discounted present values obtained through tests. The discount rates applied have been updated quarterly when material changes in rates have been observed. The sensitivity analysis performed has been the same as in the annual impairment test, and no indication of goodwill impairment has been detected. The fourth quarter test in 2009 was performed excluding impact of the Tamfelt acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of assumptions and impacts of change in assumptions to present values:

EUR million	Derived weighted average cost of capital applied	Changes in assumptions Reduction of present values ^{*)}	
		Terminal growth rate 1.2%	Increase of discount rate by 200 bp, terminal growth rate 1.2%
2008			
Mining and Construction Technology	11.2 - 11.3%	4%	18%
Energy and Environmental Technology	10.9 - 11.3%	3%	22%
Paper and Fiber Technology	11.2 - 11.4%	3%	18%
Total	10.9 - 11.4%	4%	19%
2009			
Mining and Construction Technology	12.0%	3%	17%
Energy and Environmental Technology	11.4 - 12.6%	3%	17%
Paper and Fiber Technology	10.5 - 11.5%	4%	19%
Total	10.5 - 12.6%	3%	17%

^{*)} Sensitivity numbers represent the weighted average impact to segments and the total represents the impact to the combined carrying goodwill of all segments.

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.

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

EUR million	Balance at beginning of year	Translation differences and other changes	Acqui- sitions	Balance at end of year	As percent of total goodwill
2008					
Mining and Construction Technology	356	-2	3	357	46%
Energy and Environmental Technology	267	1	12	280	36%
Paper and Fiber Technology	149	-10	2	141	18%
Total	772	-11	17	778	100%
2009					
Mining and Construction Technology	357	1	-	358	41%
Energy and Environmental Technology	280	0	12	292	34%
Paper and Fiber Technology	141	2	70	213	25%
Total	778	3	82	863	100%

Apart from Mining and Construction Technology, 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, the Power business line, represents 24% of the total of EUR 863 million at December 31, 2009, the remainder being 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 Investments in associated companies

EUR million	As at December 31,	
	2008	2009
Investments in associated companies and joint ventures		
Acquisition cost at beginning of year	6	3
Translation differences	0	0
Increases	-	-
Disposals and other decreases	-3	-
Acquisition cost at end of year	3	3
Equity adjustments in investments in associated companies and joint ventures		
Equity adjustments at beginning of year	13	11
Share of results	3	0
Translation differences	0	-1
Dividend income	-2	0
Disposals and other changes	-3	-
Equity adjustments at end of year	11	10
Carrying value of investments in associated companies and joint ventures at end of year	14	13

EUR million	As at December 31,			
	2008	2009	2008	2009
	Owner-ship	Carrying value	Owner-ship	Carrying value
Allimand S.A.	35.8%	5	35.8%	4
Shanghai Neles-Jamesbury Valve Co. Ltd	50.0%	6	50.0%	7
Others		3		2
Total investments in associated companies and joint ventures		14		13

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,		
	2007	2008	2009
Assets	52	37	40
Liabilities	33	22	27
Net sales	55	51	34
Profit	3	3	0

Related party transactions

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

EUR million	Year ended December 31,		
	2007	2008	2009
Net sales	4	2	1
Purchases	13	7	6
Receivables	2	3	1
Payables	1	0	1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 Available-for-sale equity investments

EUR million (except for number of shares)	2008			2009		
	Number of shares	Owner- ship	Carrying value	Number of shares	Owner- ship	Carrying value
Tamfelt Corporation	726,300	2.6%	5	-	-	-
Talvivaara Mining Company Plc.	7,116,535	3.2%	9	1,392,330	0.6%	6
Other shares and securities			4			9
Total available-for-sale equity investments			18			15

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

EUR million	2008	2009
Carrying value at beginning of year	45	18
Additions	1	4
Changes in fair values	-24	22
Disposals and other changes	-4	-29
Carrying value at end of year	18	15

16 Percentage of completion

Net sales recognized under the percentage of completion method amounted to EUR 2,280 million, or 36 percent of net sales, in 2008 and EUR 1,733 million, or 35 percent of net sales, in 2009. The percentage was highest in the Paper and Fiber Technology segment, where it accounted for 51 percent in 2008 and 46 percent in 2009.

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
2008			
Projects where cost and earnings exceed billings	1,754	1,392	362
Projects where billings exceed cost and earnings	968	1,291	323
2009			
Projects where cost and earnings exceed billings	1,721	1,409	312
Projects where billings exceed cost and earnings	1,257	1,587	330

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 Inventory

EUR million	As at December 31,	
	2008	2009
Materials and supplies	361	286
Work in process	706	478
Finished products	539	408
Total inventory	1,606	1,172

The cost of inventories recognized as expense was EUR 4,652 million and EUR 3,726 million for the years ended December 31, 2008 and 2009, respectively.

Provision for inventory obsolescence has changed as follows:

EUR million	2008	2009
Balance at beginning of year	57	67
Impact of exchange rates	-3	2
Additions charged to expense	14	29
Increase from business acquisitions	3	6
Realized reserve	-3	-5
Deductions / other additions	-1	-5
Balance at end of year	67	94

For additional information on provisions, see also note 3.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 Interest bearing and non-interest bearing receivables

EUR million	As at December 31,					
	Non-current	2008 Current	Total	Non-current	2009 Current	Total
Interest bearing receivables						
Loan receivables	7	2	9	8	1	9
Available-for-sale financial investments	5	-	5	130	79	209
Financial instruments held for trading	-	-	-	40	-	40
Trade receivables	1	7	8	1	7	8
Total	13	9	22	179	87	266
Non-interest bearing receivables						
Loan receivables	0	3	3	-	0	0
Trade receivables	1	930	931	0	738	738
Prepaid expenses and accrued income	-	71	71	-	78	78
Other receivables	25	142	167	44	122	166
Total	26	1,146	1,172	44	938	982

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, 2009, other non-interest bearing receivables comprised EUR 84 million of various federal and state tax receivables of Brazilian subsidiaries of which EUR 28 million of state tax receivables were classified as long-term. As of December 31, 2008, the Brazilian tax receivables amounted to EUR 69 million of which EUR 16 million of state tax receivables were classified as long-term.

Provision for doubtful notes and receivables has changed as follows:

EUR million	2008	2009
Balance at beginning of year	36	40
Impact of exchange rates	-2	1
Additions charged to expense	16	12
Increase from business acquisitions	0	0
Realized reserve	-6	-3
Deductions / other additions	-4	-11
Balance at end of year	40	39

For additional information on provisions, see also note 3.

Analysis of non-interest bearing trade receivables by age:

EUR million	As at December 31,	
	2008	2009
Trade receivables, not due at reporting date	632	529
Trade receivables 1-30 days overdue	136	121
Trade receivables 31-60 days overdue	66	28
Trade receivables 61-90 days overdue	37	22
Trade receivables 91-180 days overdue	35	13
Trade receivables more than 180 days overdue	25	25
Total	931	738

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19 Financial assets and liabilities

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

EUR million	Financial assets/liabilities at fair value through profit and loss and derivatives	Loans and receiv- ables	Available- for-sale financial assets	Financial liabilities measured at amor- tized cost	Carrying value	Fair value
2008						
Non-current assets						
Available-for-sale equity investments	-	-	18	-	18	18
Loan receivables	-	7	-	-	7	7
Available-for-sale financial investments	-	-	5	-	5	5
Financial instruments held for trading	-	-	-	-	-	-
Trade receivables	-	2	-	-	2	2
Derivative financial instruments	-	-	-	-	-	-
Other receivables	-	25	-	-	25	25
Carrying value by category	-	34	23	-	57	57
Current assets						
Loan receivables	-	5	-	-	5	5
Available-for-sale financial investments	-	-	-	-	-	-
Trade receivables	-	937	-	-	937	937
Derivative financial instruments	48	-	-	-	48	48
Other receivables	-	213	-	-	213	213
Carrying value by category	48	1,155	-	-	1,203	1,203
Non-current liabilities						
Bonds	-	-	-	710	710	747
Loans from financial institutions	-	-	-	368	368	376
Pension loans	-	-	-	0	0	0
Finance lease obligations	-	-	-	9	9	9
Other long-term debt	-	-	-	2	2	2
Derivative financial instruments	8	-	-	-	8	8
Other liabilities	-	-	-	4	4	4
Carrying value by category	8	-	-	1,093	1,101	1,146
Current liabilities						
Current portion of long-term debt	-	-	-	101	101	101
Loans from financial institutions	-	-	-	104	104	104
Other short-term debt	-	-	-	141	141	141
Trade payables	-	-	-	733	733	733
Derivative financial instruments	82	-	-	-	82	82
Other liabilities	-	-	-	456	456	456
Carrying value by category	82	-	-	1,535	1,617	1,617

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EUR million	Financial assets/liabilities at fair value through profit and loss and derivatives	Loans and receiv- ables	Available- for-sale financial assets	Financial liabilities measured at amor- tized cost	Carrying value	Fair value
2009						
Non-current assets						
Available-for-sale equity investments	-	-	15	-	15	15
Loan receivables	-	8	-	-	8	8
Available-for-sale financial investments	-	-	130	-	130	130
Financial instruments held for trading	40	-	-	-	40	40
Trade receivables	-	1	-	-	1	1
Derivative financial instruments	-	-	-	-	-	-
Other receivables	-	44	-	-	44	44
Carrying value by category	40	53	145	-	238	238
Current assets						
Loan receivables	-	1	-	-	1	1
Available-for-sale financial investments	-	-	79	-	79	79
Trade receivables	-	745	-	-	745	745
Derivative financial instruments	21	-	-	-	21	21
Other receivables	-	200	-	-	200	200
Carrying value by category	21	946	79	-	1,046	1,046
Non-current liabilities						
Bonds	-	-	-	865	865	948
Loans from financial institutions	-	-	-	390	390	403
Pension loans	-	-	-	50	50	50
Finance lease obligations	-	-	-	5	5	5
Other long-term debt	-	-	-	24	24	24
Derivative financial instruments	5	-	-	-	5	5
Other liabilities	-	-	-	4	4	4
Carrying value by category	5	-	-	1,338	1,343	1,439
Current liabilities						
Current portion of long-term debt	-	-	-	173	173	173
Loans from financial institutions	-	-	-	52	52	52
Other short-term debt	-	-	-	17	17	17
Trade payables	-	-	-	605	605	605
Derivative financial instruments	21	-	-	-	21	21
Other liabilities	-	-	-	460	460	460
Carrying value by category	21	-	-	1,307	1,328	1,328

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,	
	2008	2009
Bank and cash	146	226
Commercial papers and other investments	168	501
Total cash and cash equivalents	314	727

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, 2008 and 2009.

	2008	2009
Number of outstanding shares, January 1	141,487,234	141,623,642
Share issue	-	8,593,642
Redemption of own shares by the Parent Company	-	-300,000
Shares granted from share ownership plans	65,459	21,355
Own shares sold by partnership (MEO1V Incentive Ky)	70,949	-
Number of outstanding shares, December 31	141,623,642	149,938,639
Own shares held by the Parent Company	60,841	409,617
Shares administered by partnership (MEO1V Incentive Ky)	70,131	-
Total number of shares, December 31	141,754,614	150,348,256

Metso completed on December 23, 2009 the share exchange offer for all issued and outstanding shares of Tamfelt Corporation and a total of 8,593,642 new shares were subscribed. The share issue of EUR 206,075,535.16 has been recognized in the invested non-restricted equity fund of the Parent Company.

During 2009, Metso Corporation repurchased 300,000 of company's own shares to be used as a payment for possible rewards related to Metso Share Ownership Plan 2009-2011. In December 2009, MEO1V Incentive Ky, a limited partnership consolidated in Metso's financial statements and established to manage Metso's Share Ownership Plan for 2006-2008, was dissolved. The 48,776 Metso shares owned by it were transferred to the ownership of the Parent Company. As of December 31, 2009, the acquisition price of 409,617 own shares held by the Parent Company was EUR 4,932,631 and was recognized in the treasury stock.

Dividends

Metso Corporation's Board of Directors proposes to the Annual General Meeting to be held on March 30, 2010 that a dividend of EUR 0.70 per share be distributed for the year ended December 31, 2009. These financial statements do not reflect this dividend payable of EUR 105 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. Shares granted 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.

The share issue related to the acquisition of Tamfelt Corporation was entered to the trade register on December 28, 2009.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2006	-12	9	4	229	202	432
Cash flow hedges						
Fair value gains (+) / losses (-), net of taxes	-	4	-	-	-	4
Transferred to profit and loss, net of taxes						
Net sales	-	-8	-	-	-	-8
Cost of goods sold / Administrative expenses	-	2	-	-	-	2
Available-for-sale equity investments						
Fair value gains (+) / losses (-), net of taxes	-	-	28	-	-	28
Transferred to profit and loss, net of taxes	-	-	-6	-	-	-6
Share-based payments, net of taxes	4	-	1	-	-	5
Other	-	-	-	7	-8	-1
Balance as of December 31, 2007	-8	7	27	236	194	456
Cash flow hedges						
Fair value gains (+) / losses (-), net of taxes	-	-42	-	-	-	-42
Transferred to profit and loss, net of taxes						
Net sales	-	10	-	-	-	10
Cost of goods sold / Administrative expenses	-	-1	-	-	-	-1
Available-for-sale equity investments						
Fair value gains (+) / losses (-), net of taxes	-	-	-17	-	-	-17
Transferred to profit and loss, net of taxes	-	-	-2	-	-	-2
Share-based payments, net of taxes	3	-	1	-	-	4
Decrease and transfer of share premium and legal reserve	-	-	-	-215	292	77
Other	2	-	-	3	-	5
Balance as of December 31, 2008	-3	-26	9	24	486	490
Cash flow hedges						
Fair value gains (+) / losses (-), net of taxes	-	-5	-	-	-	-5
Transferred to profit and loss, net of taxes						
Net sales	-	14	-	-	-	14
Cost of goods sold / Administrative expenses	-	5	-	-	-	5
Available-for-sale equity investments						
Fair value gains (+) / losses (-), net of taxes	-	-	16	-	-	16
Transferred to profit and loss, net of taxes	-	-	-17	-	-	-17
Share issue	-	-	-	-	206	206
Redemption of own shares	-2	-	-	-	-	-2
Share-based payments, net of taxes	0	-	1	-	-	1
Other	-	-	-	2	-	2
Balance as of December 31, 2009	-5	-12	9	26	692	710

Foreign currency translation included in the shareholders' equity:

EUR million	2007	2008	2009
Cumulative translation adjustment as of January 1	-45	-76	-136
Currency translation on subsidiary net investments	-29	-49	74
Hedging of net investment denominated in foreign currency	-5	-15	0
Tax effect	3	4	0
Cumulative translation adjustment as of December 31	-76	-136	-62

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22 Share-based payments

Share ownership plan 2006-2008

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

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

Share ownership plan during earnings period 2006

The equity-settled portion for the earnings period 2006 is recognized over the vesting period i.e. from 2006 until March 2010 based on the average share price on the grant dates of EUR 29.71. The final amount of the granted shares was based on the average share price during the first two full weeks of March 2007. If the share price exceeded the maximum, the number of shares awarded would have been reduced by a corresponding ratio. The maximum share price determined for the plan was EUR 38. The average price for the Metso share was EUR 37.66 during the first two full weeks of March 2007.

Share ownership plan during earnings period 2007

The equity-settled portion for the earnings period 2007 is recognized over the vesting period i.e. from 2007 until March 2011 based on the average share price on the grant dates of EUR 39.94. The final amount of the granted shares was based on the average share price during the first two full weeks of March 2008. If the share price exceeded the maximum, the number of shares awarded would have been reduced by a corresponding ratio. The maximum share price determined for the plan was EUR 48. The average price for the Metso share was EUR 31.49 during the first two full weeks of March 2008.

Share ownership plan during earnings period 2008

The equity-settled portion for the earnings period 2008 is recognized over the vesting period i.e. from 2008 until March 2012 based on the average share price on the grant dates of EUR 32.36. The final amount of the granted shares was based on the share price on the payment date of the reward. The maximum reward under the plan was limited to each participant's annual salary, calculated by multiplying 12.5 times the participant's taxable monthly base salary payable in the month when the shares were received. The price for Metso share was EUR 8.93 on the payment date of the reward.

Share ownership plan for the years 2009-2011 (SOP 2009-2011)

The Board of Directors of Metso Corporation approved in October 2008 a new, share-based incentive plan for Metso's management for the years 2009-2011. The plan includes one three-year earnings period. Participation in the plan required a personal investment in Metso shares at the beginning of the earnings period. 89 key persons are participating in the plan and their initial investment was 55,350 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 373,175 shares. Earnings criteria are based on Metso's Total Shareholder Return (TSR) during three years' time and on earnings per share in the years 2009-2011. The reward will be paid in Metso shares and in cash. The cash-settled portion is dedicated to cover taxes and tax-related payments. The maximum share reward is capped to each participant's taxable annual basic salary, excluding performance bonuses and share-based payments, multiplied by 1.5.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Share ownership plan for the years 2010-2012 (SOP 2010-2012)

In October 2009 the Board of Directors of Metso Corporation approved a similar new, share-based incentive plan for Metso's management for the years 2010-2012. The plan includes one three-year earnings period, which started on January 1, 2010. The plan was initially targeted to about 100 Metso's key persons of which 92 decided to participate. The participants committed to invest in about 51,000 Metso shares. The rewards to be paid from the plan correspond to a maximum of 343,000 shares. Earnings criteria of the plan 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 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 from the beginning of 2010.

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.

2003 options program

Subsequent to a decision by Metso's Board of Directors taken in August 2008, the remaining 100,000 year 2003A options of the program were cancelled. Consequently, there are no options outstanding or available from any of Metso's option programs for subscription of shares in Metso Corporation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Beneficiaries and granted shares of the share ownership plan as at December 31, 2009:

	Metso Executive Team	Shares	Other benefi- ciaries	Shares	Benefi- ciaries 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
Returning during 2010			-	-1,250	-	-1,250
At end of year	7	25,815	41	54,388	48	80,203
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
Returning during 2010			-	-1,800	-	-1,800
At end of year	7	15,763	75	46,994	82	62,757
Plan 2008						
Granted	6	6,996	95	27,269	101	34,265
Returned during 2009			-1	-	-1	-
Returning during 2010			-	-629	-	-629
At end of year	6	6,996	94	26,640	100	33,636
Total at the end of year		48,574		128,022		176,596

Costs recognized for the share ownership plan:

EUR thousand	Plan 2006	Plan 2007	Plan 2008	SOP 2009-2011	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
Total	-6,157	-4,032	-804	-938	-11,931

From the cash-settled portion of Metso Share Ownership Plan, SOP 2009-2011, a liability of EUR 706 thousand was recognized as an accrued expense as of the balance sheet date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23 Long-term debt

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

EUR million	Carrying values		Fair values	
	2008	2009	2008	2009
Bonds	793	984	830	1,067
Loans from financial institutions	383	425	391	438
Pension loans	0	64	0	64
Finance lease obligations	12	8	12	8
Other long-term debt	2	26	2	26
	1,190	1,507	1,235	1,603
Less current maturities	101	173	101	173
Total	1,089	1,334	1,134	1,430

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, 2009	Effective interest rate Dec. 31, 2009	Original loan amount	Outstanding carrying value at December 31,	
				2008	2009
Public bond 2004-2011	5.125%	6.46%	274	265	238
Public bond 2009-2014	7.250%	7.40%	300 ¹⁾	-	199
Private placements maturing 2010-2018		0.95 - 7.08%	558	528	547
Bonds total				793	984
Less current maturities				83	119
Bonds, long-term portion				710	865

¹⁾ Out of this EUR 300 million total Metso Capital Ltd - 100% owned subsidiary of Metso - has subscribed EUR 100 million for potential resale after an 18-month lock-up period.

Metso has a Euro Medium Term Note Program (EMTN) of EUR 1.5 billion, under which EUR 793 million and EUR 984 million expressed in carrying value were outstanding at the end of 2008 and 2009, respectively. EUR 437 million of the outstanding amount were public bonds and EUR 547 million private placements.

Loans from financial institutions consist of bank borrowings with either fixed or variable interest rates. A major share of loans is either EUR or USD denominated. The interest rates vary from 0.8% to 6.0%. The loans are payable from year 2010 to 2018.

Interest rates of pension loans vary from 2.9% to 3.0% and of finance lease obligations from 4.0% to 5.0%.

Metso's five-year revolving loan facility of EUR 500 million was arranged in 2006 and includes 14 banks. The facility was undrawn at the end of 2008 and 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contractual maturities of interest bearing debt as at December 31, 2009 are as follows:

EUR million	Bonds	Loans from financial institutions	Pension loans	Finance lease obligations	Other long-term debt	Total
Repayments	119	35	14	3	2	173
Interests	55	12	2	0	0	69
Total 2010	174	47	16	3	2	242
Repayments	311	83	14	2	3	413
Interests	51	11	1	0	0	63
Total 2011	362	94	15	2	3	476
Repayments	114	88	14	1	20	237
Interests	31	8	1	0	4	44
Total 2012	145	96	15	1	24	281
Repayments	95	68	14	0	1	178
Interests	28	6	1	0	0	35
Total 2013	123	74	15	0	1	213
Repayments	200	67	7	1	0	275
Interests	22	4	0	0	0	26
Total 2014	222	71	7	1	0	301
Repayments	145	84	1	1	0	231
Interests	26	3	0	0	0	29
Later	171	87	1	1	0	260

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

24 Provisions

EUR million	As at December 31,					
	2008			2009		
	Non-current	Current	Total	Non-current	Current	Total
Warranty and guarantee liabilities	16	162	178	19	160	179
Accrued restructuring expenses	3	13	16	11	28	39
Environmental and product liabilities	1	7	8	0	12	12
Other provisions	16	36	52	22	35	57
Total	36	218	254	52	235	287

The provisions, both non-current and current, have changed as follows during the financial year 2009:

EUR million	Balance at beginning of year	Impact of exchange rates	Additions charged to expense	Realized reserve	Reversal of reserve/ other changes	Balance at end of year
Accrued restructuring expenses	16	1	47	-23	-2	39
Environmental and product liabilities	8	0	5	-1	0	12
Total	24	1	52	-24	-2	51

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 continuing economic benefit to Metso or a penalty incurred to cancel the contractual obligation. Provision also includes other costs incurred as a result of the plan, such as environmental liabilities and costs to transfer operations to new locations.

Environmental and product liabilities

Metso accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. The amounts of accruals are adjusted later as further information develops or circumstances change. As at December 31, 2009, environmental liabilities amounted to EUR 4 million. They included clean-up costs for soil and water contamination at various sites in the United States previously operated by Mining and Construction Technology.

Metso is occasionally involved in product liability claims. As at December 31, 2009, provisions for product liabilities amounted to EUR 8 million.

Warranty and guarantee provisions

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

EUR million	2008	2009
Balance at beginning of year	193	178
Impact of exchange rates	-8	6
Increase for current year's deliveries	98	75
Increase for previous years' deliveries	23	23
Increase from business acquisitions	2	2
Realized reserve	-82	-77
Reversal of reserve / other changes	-48	-28
Balance at end of year	178	179

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 take into consideration any changes in the potential warranty liability.

25 Short-term debt

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

EUR million	2008	2009
Loans from financial institutions	104	52
Finnish commercial paper financing	141	17
Total	245	69

The weighted average interest rate applicable to short-term borrowing at December 31, 2008 and 2009 was 5.3% and 5.8%, respectively. In 2010, interest amounting to EUR 4 million is expected to be paid concurrently with respective principals on the short-term debt presented above.

Metso has established a Finnish commercial paper program amounting to EUR 500 million. Finnish commercial papers worth EUR 141 million and EUR 17 million were outstanding as of December 31, 2008 and 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26 Trade and other payables

Trade and other payables consist of the following at December 31:

EUR million	2008	2009
Trade payables	733	605
Accrued interests	16	23
Accrued personnel costs	173	172
Accrued project costs	106	89
Other	161	176
Total	1,189	1,065

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 with 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		Pension benefits, foreign		Other post- employment benefits		Total	
	2008	2009	2008	2009	2008	2009	2008	2009
Present value of funded obligations	11	16	245	292	0	-	256	308
Fair value of plan assets	-8	-12	-202	-248	0	-	-210	-260
	3	4	43	44	-	-	46	48
Present value of unfunded obligations	-	-	103	104	36	36	139	140
Unrecognized asset	-	-	4	1	-	-	4	1
Unrecognized past service cost	1	0	-	-	-	1	1	1
Net liability recognized	4	4	150	149	36	37	190	190

Amounts in the balance sheet:

Liabilities	4	4	151	149	36	37	191	190
Assets	-	-	-1	0	-	-	-1	0
Net liability recognized	4	4	150	149	36	37	190	190

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

EUR million	Pension benefits, Finnish		Foreign pension and other post-employment benefits	
	2008	2009	2008	2009
Net liability at beginning of year	3	4	174	186
Acquisitions (+) and disposals (-)	-	-	4	1
Net expense recognized in the income statement	2	1	11	15
Employer contributions	-2	-1	-23	-20
Gain (+) / loss (-) recognized through OCI	1	0	30	0
Translation differences	-	-	-10	4
Net liability at end of year	4	4	186	186

The amounts recognized in the income statement were as follows:

EUR million	Year ended December 31, Pension benefits, Finnish		
	2007	2008	2009
Service cost	1	1	1
Interest cost	0	0	1
Expected return on plan assets	0	0	-1
Amortization - Past service cost	0	2	0
Gains (-) / losses (+) on immediate settlements	-1	-1	0
Expense (+) / income (-) recognized in income statement	0	2	1
Actual return (+) / loss (-) on plan assets	0	1	3

EUR million	Year ended December 31, Pension benefits, foreign		
	2007	2008	2009
Service cost	6	5	7
Interest cost	20	19	20
Expected return on plan assets	-18	-16	-15
Amortization - Past service cost	0	-	0
Gains (-) / losses (+) on immediate settlements	0	0	0
Expense (+) / income (-) recognized in income statement	8	8	12
Actual return (+) / loss (-) on plan assets	17	-26	32

EUR million	Year ended December 31, Other post-employment benefits		
	2007	2008	2009
Service cost	1	1	1
Interest cost	2	2	2
Expected return on plan assets	-	-	-
Amortization - Past service cost	0	-	0
Gains (-) / losses (+) on immediate settlements	-	-	0
Expense (+) / income (-) recognized in income statement	3	3	3
Actual return (+) / loss (-) on plan assets	-	-	-

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The amounts recognized through OCI were following:

Year ended December 31,

EUR million	Pension benefits, Finnish		Pension benefits, foreign		Other post-employ- ment benefits		Total	
	2008	2009	2008	2009	2008	2009	2008	2009
Experience gain (-) / loss (+) on assets	0	-2	42	-17	-	-	42	-19
Actuarial gain (-) / loss (+) on liabilities due to change in assumptions	-1	0	-9	17	-2	2	-12	19
Actuarial gain (-) / loss (+) on liabilities due to experience	2	2	-1	2	-2	-2	-1	2
Gain (-) / loss (+) as result of asset ceiling	-	-	2	-2	-	-	2	-2
Total gain (-) / loss (+) recognized through OCI	1	0	34	0	-4	0	31	0

The cumulative amount of actuarial gains and losses recognized through OCI amounted to net loss of EUR 35 million, EUR 66 million and EUR 66 million for the years ended December 31, 2007, 2008 and 2009, 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 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, 2008 and 2009 the amount of payroll tax recognized through OCI was a loss of EUR 4 million and a gain of less than EUR 0.5 million, respectively.

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

EUR million	Pension benefits, Finnish		Pension benefits, foreign		Other post-employ- ment benefits		Total	
	2008	2009	2008	2009	2008	2009	2008	2009
Defined benefit obligation at beginning of year	9	11	379	348	36	36	424	395
Service cost	1	1	5	7	1	1	7	9
Interest cost	0	1	19	20	2	2	21	23
Plan participant contributions	-	-	1	1	0	0	1	1
Past service cost (+) / credit (-)	2	-	-	0	-	0	2	0
Acquisitions (+) and disposals (-)	-	-	1	0	3	-	4	0
Adjustment to coverage	-	-	-	12	-	0	-	12
Actuarial gain (-) / loss (+) due to change in assumptions	-1	0	-9	17	-2	2	-12	19
Actuarial gain (-) / loss (+) due to experience	2	2	-1	2	-2	-2	-1	2
Settlements	-2	0	-2	-2	-	-	-4	-2
Translation differences	-	-	-26	12	0	0	-26	12
Benefits paid	-	-	-19	-21	-2	-2	-21	-23
Defined benefit obligation at end of year	11	15	348	396	36	37	395	448

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

EUR million	Pension benefits, Finnish		Foreign pension and other post-employment benefits	
	2008	2009	2008	2009
Fair value of assets at beginning of year	7	8	243	202
Adjustments for new plans covered	-	-	-	11
Settlements	-2	0	-2	-2
Acquisitions	-	-	0	-
Actual return on plan assets	1	3	-26	32
Plan participant contributions	-	-	1	1
Employer contributions	2	1	23	20
Benefits paid	-	-	-21	-24
Translation differences	-	-	-16	8
Fair value of assets at end of year	8	12	202	248

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

	2008	2009
Equity securities	32%	38%
Bonds	60%	41%
Other	8%	21%

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

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

EUR million	2005	2006	2007	2008	2009
Present value of defined benefit obligations at December 31	428	431	424	395	448
Fair value of plan assets at December 31	234	246	250	210	260
Deficit	194	185	174	185	188
Unrecognized asset	1	2	2	4	1
Unrecognized past service cost	2	2	1	1	1

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

	Finnish		Foreign	
	2008	2009	2008	2009
Benefit obligation: discount rate	5.50%	5.00%	5.98%	5.67%
Benefit obligation: rate of compensation increase	4.75%	4.41%	3.66%	3.61%
Benefit obligation: rate of pension increase	2.10%	2.10%	1.54%	1.55%
discount rate	5.00%	5.50%	5.58%	5.98%
Expense in income statement: rate of compensation increase	4.81%	4.75%	3.79%	3.66%
Expense in income statement: expected return on plan assets	5.82%	5.92%	7.43%	7.70%
Expense in income statement: rate of pension increase	2.10%	2.10%	1.50%	1.54%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The expected contributions in 2010 shall amount to EUR 1 million to Finnish plans and EUR 7 million to foreign plans. The expected benefits to be paid in 2010 shall amount to EUR 21 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 TEL parameters
Germany	Heubeck RT 2005 G
United Kingdom	PXA92 year of birth
Canada	UP94 projected to 2010/2015
United States of America	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 2 million at December 31, 2009. It would increase the sum of the service and interest cost by EUR 0.2 million for 2009. A decrease of one percentage point in the assumed health care cost trend would decrease the accumulated post-employment benefit obligation by EUR 2 million at December 31, 2009. It would decrease the sum of the service and interest cost by EUR 0.2 million for 2009. The health care cost trend is assumed to fall to 5% over the next five years by 0.75 percentage points per annum for members over age 65 and to 5% over the next seven years by 0.5 percentage points per annum for members under age 65.

28 Mortgages and contingent liabilities

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

EUR million	2008	2009
On own behalf		
Mortgages	5	22
Pledged assets	0	0
On behalf of associated companies		
Guarantees	-	-
On behalf of others		
Guarantees	9	7
Other commitments		
Repurchase commitments	3	3
Other contingencies	3	3
Total	20	35

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, 2009 was EUR 27 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 1,271 million and EUR 1,211 million as of December 31, 2008 and 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29 Lease contracts

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

Minimum annual rental expenses for leases in effect at December 31 are shown in the table below:

EUR million	Operating leases		Finance leases	
	2008	2009	2008	2009
Not later than 1 year	46	46	4	3
Later than 1 year and not later than 2 years	38	37	2	2
Later than 2 years and not later than 3 years	21	25	2	1
Later than 3 years and not later than 4 years	14	22	2	1
Later than 4 year and not later than 5 years	10	17	2	1
Later than 5 years	23	79	3	2
Total minimum lease payments	152	226	15	10
Future financial expenses			-3	-2
Total net present value of finance leases			12	8

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

EUR million	2008	2009
Not later than 1 year	3	3
Later than 1 year and not later than 2 years	2	2
Later than 2 years and not later than 3 years	1	1
Later than 3 years and not later than 4 years	1	1
Later than 4 year and not later than 5 years	2	0
Later than 5 years	3	1
Total net present value of finance leases	12	8

Total rental expenses amounted to EUR 40 million, EUR 40 million and EUR 42 million in the years ended December 31, 2007, 2008 and 2009, respectively. Annual repayments of principal are presented in the maturities of long-term debt, see note 23.

30 Derivative financial instruments

Notional amounts and fair values of derivative financial instruments as at December 31 were as follows:

EUR million	Notional amount	2008		Fair value, net
		Fair value, assets	Fair value, liabilities	
Forward exchange contracts ¹⁾	1,460	47	76	-29
Interest rate swaps	168	1	4	-3
Option agreements				
Bought	12	0	-	0
Sold	12	-	1	-1
Electricity forward contracts ²⁾	635	0	7	-7
Nickel swap contracts ³⁾	258	0	2	-2
Total		48	90	-42

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EUR million	2009			
	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts ¹⁾	1,390	21	18	3
Interest rate swaps	128	0	5	-5
Option agreements				
Bought	13	0	0	0
Sold	6	-	0	0
Electricity forward contracts ²⁾	640	0	3	-3
Nickel swap contracts ³⁾	252	0	0	0
Total		21	26	-5

¹⁾ Some 34 percent and 43 percent of the notional amount at the end of 2008 and 2009, respectively, qualified for cash flow hedge accounting.

²⁾ Notional amount GWh

³⁾ Notional amount tons

The notional amounts indicate the volumes in the use of derivatives, but do not indicate the exposure to risk.

Derivative financial instruments recognized in balance sheet as at December 31 are presented below:

EUR million	2008		2009	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps - cash flow hedges	0	3	0	4
Interest rate swaps - fair value hedges	-	-	-	-
Interest rate swaps - non-qualifying hedges	1	1	0	1
	1	4	0	5
Forward exchange contracts - cash flow hedges	11	38	7	10
Forward exchange contracts - net investment hedges	0	4	-	-
Forward exchange contracts - non-qualifying hedges	36	34	14	8
	47	76	21	18
Electricity forward contracts - cash flow hedges	0	7	0	3
Nickel swaps - non-qualifying hedges	0	2	0	0
Options - non-qualifying hedges	0	1	0	0
Total derivatives	48	90	21	26

In the years ended December 31, 2008 and 2009, respectively, there was no material ineffectiveness related to the cash flow hedges, which would have resulted in an immediate recognition of an ineffective portion in the income statement.

As at December 31, 2009, the fixed interest rates of swaps varied from 3.0 percent to 6.1 percent. The main floating rates were Euribor and Libor.

As at December 31, 2009, the maturities of financial derivatives are the following (expressed as notional amounts):

EUR million	2010	2011	2012	2013	2014 and later
Forward exchange contracts	1,144	245	1	-	-
Interest rate swaps	20	63	20	-	25
Option agreements	13	-	-	-	-
Electricity forward contracts ¹⁾	250	201	127	61	-
Nickel swap contracts ²⁾	252	-	-	-	-

¹⁾ Notional amount GWh

²⁾ Notional amount tons

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 Principal subsidiaries

The following is a list of Metso's principal subsidiaries ranked by net sales. These companies accounted for 89 percent and 90 percent of total net sales for the years ended December 31, 2008 and 2009, respectively.

		% of net sales
Metso Paper Oy	Finland	11.7
Metso Minerals Industries Inc.	USA	9.3
Metso Automation Oy	Finland	5.0
Metso Power Oy	Finland	4.5
Metso Brazil Indústria e Comércio Ltda	Brazil	3.9
Metso Minerals Oy	Finland	3.9
Metso Minerals (France) SA	France	3.7
Metso Paper USA Inc.	USA	3.4
Metso Minerals (Australia) Ltd	Australia	3.4
Metso Automation USA Inc.	USA	2.5
Metso Power AB	Sweden	2.5
Metso Paper Sundsvall AB	Sweden	2.4
Metso Minerals Canada Inc.	Canada	2.4
Metso Minerals (South Africa) Pty. Ltd.	South Africa	2.4
Metso Lindemann GmbH	Germany	2.0
Metso Paper Karlstad AB	Sweden	1.6
MW Biopower Oy	Finland	1.6
Metso Minerals (Sala) AB	Sweden	1.3
Metso Paper (China) Co. Ltd.	China	1.3
Metso Minerals (Tianjin) International Trade Co. Ltd.	China	1.2
Metso Minerals (Wear Protection) AB	Sweden	1.1
Metso Minerals (Sweden) AB	Sweden	1.1
Metso Minerals (Chile) SA	Chile	0.9
Valmet Automotive Oy	Finland	0.9
MW Power Oy	Finland	0.9
Metso Paper Ltd.	Canada	0.9
Metso Minerals (India) Private Ltd.	India	0.8
Metso Paper France SAS	France	0.8
Metso Automation Pte Ltd	Singapore	0.8
Metso Minerals (Mexico) SA de CV	Mexico	0.7
Metso Automation S.A.S.	France	0.7
Metso Paper Technology (Shanghai) Co. Ltd.	China	0.7
Metso Automation (Shanghai) Co. Ltd.	China	0.7
Metso Fiber Karlstad AB	Sweden	0.6
Metso Minerals (Austria) GmbH	Austria	0.6
Metso Minerals (Germany) GmbH	Germany	0.6
Metso Minerals Espana SA	Spain	0.6
Metso Minerals (Hong Kong) Ltd	Hong Kong	0.6
Metso Paper Japan Co. Ltd	Japan	0.6
Metso Automation GmbH	Germany	0.5
Metso Minerals (Norway) A/S	Norway	0.5
Metso (Peru) SA	Peru	0.5
Metso Foundries Jyväskylä Oy	Finland	0.5
Metso Endress+Hauser Oy	Finland	0.5
Metso Paper Sulamericana Ltda	Brazil	0.4
Metso Minerals (Singapore) Pte Ltd	Singapore	0.4
Metso Minerals Systems AB	Sweden	0.4
Metso Paper Limited	United Kingdom	0.4
Metso Minerals (Portugal) Lda	Portugal	0.4
Metso Minerals (UK) Ltd.	United Kingdom	0.4
Metso Minerals (Belux) SA	Belgium	0.4
Metso Automation do Brasil Ltda	Brazil	0.3

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32 Reporting segment and geographic information

Corporate structure

Metso Group is a global supplier of sustainable technology and services for mining, construction, energy, metal recycling and the pulp and paper industries.

The Board of Directors has been identified as Metso's chief operating decision maker that decides on the strategy, the selection of key employees, major development projects, business acquisitions, investments, organization and finance. The operating segments in Metso are determined based on the reports that are delivered to the Board of Directors and that are used to make strategic decisions. The primary segment reporting format is based on the business segments, and secondary on geographical areas.

The operations are organized into the following three segments:

Mining and Construction Technology is a leading global supplier of technology and services for the mining and construction industries. Our customers work in quarrying, aggregates production, construction, civil engineering, mining and minerals processing. As of July 1, 2009 the operations are organized in two business lines: Services and Equipment and systems.

Energy and Environmental Technology is one of the leading global suppliers in power generation, automation as well as recycling solutions and life cycle services. Our customers work in the power generation, oil and gas, recycling as well as pulp and paper industries. Energy and Environmental Technology comprises three business lines: Power, Automation and Recycling.

Paper and Fiber Technology is a leading global supplier of processes, machinery, equipment and services for the pulp and paper industry. The offering extends over the entire process life-cycle, covering new lines, rebuilds and the services business. The segment is organized in three business lines: Paper, Fiber and Tissue. At the end of December 2009, Metso acquired Tamfelt, a Finnish company specialized in technical textiles. Tamfelt's balance sheet was consolidated to Metso as of December 31, 2009 and as of January 1, 2010 Tamfelt is functionally and administratively part of Paper and Fiber Technology segment.

Group Head Office and other is comprised of the Parent Company and holding companies located in the United States and in Sweden as well as financial shared service centers in Finland, Sweden and in Canada. Valmet Automotive is reported as a separate holding unit.

Metso's businesses are global in scope with operations in over 50 countries. The main market areas are Europe and North America, which account for over half of net sales. However, Asia and South America are becoming increasingly important. Metso has production on all continents. The principal production plants are located in Finland, Sweden, France, Germany, Canada, the United States, China, India, South Africa and Brazil.

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. 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 in order to utilize the cost efficiency benefits retained from pooling arrangements, financial risk management, bargaining power, cash management, and other measures. Tax planning aims at

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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, 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, 2007, 2008 and 2009 is presented in the following tables.

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EUR million	Mining and Construction Technology	Energy and Environmental Technology	Paper and Fiber Technology	Valmet Automotive	Group Head Office and other	Eliminations	Metso total
2007							
External net sales	2,317	1,490	2,358	85	-	-	6,250
Intra-Metso net sales	13	53	6	-	-	-72	-
Net sales	2,330	1,543	2,364	85	-	-72	6,250
Other operating income and expenses, net	8.1	0.9	-10.4	0.0	2.5	-	1.1
Share in profits and losses of associated companies	0.3	1.7	0.8	-	-	-	2.8
Operating profit (loss)	319.8	150.3	128.2	8.0	-26.5	-	579.8
% of net sales	13.7	9.7	5.4	9.4	n/a	-	9.3
EBITA	323.0	182.4	146.6	8.1	-24.7	-	635.4
% of net sales	13.9	11.8	6.2	9.5	n/a	-	10.2
Amortization	3	32	19	0	2	-	56
Depreciation	27	13	41	9	2	-	92
Gross capital expenditure (including business acquisitions)	50	63	91	4	6	-	214
Non-cash write-downs	8	3	13	0	0	-	24
Intangible assets and property, plant and equipment	574	440	555	50	38	-	1,657
Investments in associated companies	1	6	12	-	-	-	19
Available-for-sale equity investments	2	1	1	-	41	-	45
Inventories and other non-interest bearing assets	1,346	641	1,097	4	22	-	3,110
Interest bearing assets	-	-	-	-	279	-	279
Deferred tax assets	-	-	-	-	144	-	144
Total assets	1,923	1,088	1,665	54	524	-	5,254
Non-interest bearing liabilities	919	556	1,207	33	64	-	2,779
Interest bearing debt	-	-	-	-	819	-	819
Deferred tax liability	-	-	-	-	41	-	41
Total liabilities	919	556	1,207	33	924	-	3,639
Capital employed	1,004	532	458	21	419	-	2,434
Orders received	2,776	1,884	2,293	85	-	-73	6,965
Order backlog	1,496	1,337	1,553	-	-	-45	4,341

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EUR million	Mining and Construction Technology	Energy and Environmental Technology	Paper and Fiber Technology	Valmet Automotive	Group Head Office and other	Eliminations	Metso total
2008							
External net sales	2,565	1,731	2,039	65	-	-	6,400
Intra-Metso net sales	21	44	5	-	-	-70	-
Net sales	2,586	1,775	2,044	65	-	-70	6,400
Other operating income and expenses, net	3.9	-1.2	2.7	0.0	5.2	-	10.6
Share in profits and losses of associated companies	0.1	1.2	1.2	-	-	-	2.5
Operating profit (loss)	358.4	176.0	130.1	-3.5	-23.8	-	637.2
% of net sales	13.9	9.9	6.4	-5.4	n/a	-	10.0
EBITA	361.2	198.3	146.1	-3.5	-21.2	-	680.9
% of net sales	14.0	11.2	7.1	-5.4	n/a	-	10.6
Amortization	3	22	16	0	3	-	44
Depreciation	31	15	39	8	1	-	94
Gross capital expenditure (including business acquisitions)	121	80	90	3	5	-	299
Non-cash write-downs	17	3	10	0	1	-	31
Intangible assets and property, plant and equipment	637	494	566	45	16	-	1,758
Investments in associated companies	1	7	6	-	0	-	14
Available-for-sale equity investments	2	1	1	0	14	-	18
Inventories and other non-interest bearing assets	1,530	706	893	8	74	-	3,211
Interest bearing assets	-	-	-	-	336	-	336
Deferred tax assets	-	-	-	-	174	-	174
Total assets	2,170	1,208	1,466	53	614	-	5,511
Non-interest bearing liabilities	940	561	935	31	111	-	2,578
Interest bearing debt	-	-	-	-	1,435	-	1,435
Deferred tax liability	-	-	-	-	45	-	45
Total liabilities	940	561	935	31	1,591	-	4,058
Capital employed	1,230	647	531	22	458	-	2,888
Orders received	2,709	1,658	2,021	65	-	-69	6,384
Order backlog	1,492	1,204	1,434	-	-	-42	4,088

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EUR million	Mining and Construction Technology	Energy and Environmental Technology	Paper and Fiber Technology	Valmet Automotive	Group Head Office and other	Eliminations	Metso total
2009							
External net sales	2,061	1,495	1,404	56	-	-	5,016
Intra-Metso net sales	14	28	4	-	-	-46	-
Net sales	2,075	1,523	1,408	56	-	-46	5,016
Other operating income and expenses, net	17.8	0.5	-9.6	2.8	11.9	-	23.4
Share in profits and losses of associated companies	0.3	1.4	-1.2	-	-	-	0.5
Operating profit (loss)	198.8	118.1	0.7	-8.2	-15.8	-	293.6
% of net sales	9.6	7.8	0.0	-14.6	n/a	-	5.9
EBITA	202.8	136.3	16.5	-8.1	-13.2	-	334.3
% of net sales	9.8	8.9	1.2	-14.5	n/a	-	6.7
Amortization	4	18	16	0	3	-	41
Depreciation	36	19	39	7	1	-	102
Gross capital expenditure (including business acquisitions)	40	39	29	6	4	-	118
Non-cash write-downs	11	12	13	0	0	-	36
Intangible assets and property, plant and equipment	657	502	776	42	17	-	1,994
Investments in associated companies	1	8	4	-	0	-	13
Available-for-sale equity investments	0	1	4	2	8	-	15
Inventories and other non-interest bearing assets	1,163	571	706	16	74	-	2,530
Interest bearing assets	-	-	-	-	993	-	993
Deferred tax assets	-	-	-	-	171	-	171
Total assets	1,821	1,082	1,490	60	1,263	-	5,716
Non-interest bearing liabilities	749	558	854	32	99	-	2,292
Interest bearing debt	-	-	-	-	0	-	0
Deferred tax liability	-	-	-	-	56	-	56
Total liabilities	749	558	854	32	155	-	2,348
Capital employed	1,072	524	636	28	1,108	-	3,368
Orders received	1,660	1,297	1,384	56	-	-39	4,358
Order backlog	1,041	1,032	1,380	-	-	-38	3,415

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net sales to unaffiliated customers by destination:

EUR million	Finland	Other Nordic countries	Other European countries	North America	South and Central America	Asia-Pacific	Rest of the world	Eliminations	Metso total
2007	473	517	1,561	1,049	859	1,488	303	-	6,250
2008	461	467	1,752	1,015	770	1,516	419	-	6,400
2009	328	405	1,434	774	609	1,080	386	-	5,016

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	Rest of the world	Total
2007		209	775	144	97	792	40	2,057
2008		172	931	107	121	745	85	2,161
2009		152	800	48	63	367	80	1,510

Long-term assets by location:

EUR million	Finland	Other Nordic countries	Other European countries	North America	South and Central America	Asia-Pacific	Rest of the World	Non-allocated	Metso total
2007	424	82	65	123	61	68	8	909	1,740
2008	462	68	74	171	64	114	7	856	1,816
2009	514	68	74	165	93	144	9	999	2,066

Long-term assets comprise intangible assets, property, plant and equipment, investments in associated companies, available-for-sale equity investments and other non-current assets. Non-allocated assets include mainly goodwill and other allocated assets deriving 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	Rest of the world	Eliminations	Metso total
2007	82	14	14	16	14	17	2	-	159
2008	91	23	19	56	16	47	3	-	255
2009	55	5	9	10	10	27	1	-	117

33 Audit fees

EUR million	Year ended December 31,		
	2007	2008	2009
Audit	-2.8	-2.7	-2.5
Tax consulting	-1.3	-1.8	-1.7
Other services	-1.3	-1.1	-0.8
Total	-5.4	-5.6	-5.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. Metso's management does not, however, expect 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, e.g. in the cases purported to protect its intellectual property rights in the United States and in Australia.

Pending asbestos litigation

As of December 31, 2009, there had been a total of 882 complaints alleging asbestos injuries filed in the United States in which a Metso entity is one of the named defendants. Where a given plaintiff has named more than one viable Metso unit as a defendant, the cases are counted by the number of viable Metso defendants. Of these claims, 279 are still pending and 603 cases have been closed. Of the closed cases, 99 were by summary judgment, 393 were dismissed, and 111 were settled. The outcome of the pending cases is not expected to materially deviate from the outcome of the previous claims. Hence, management believes that the risk caused by the pending asbestos lawsuits and claims in the United States is not material in view of the extent of Metso's total business operations.

Subpoena from U.S. Department of Justice requiring Metso to produce documents

In November 2006, Metso Minerals Industries, Inc., which is Metso's U.S. subsidiary, received a subpoena from the Antitrust Division of the United States Department of Justice calling for Metso Minerals Industries, Inc. to produce certain documents. The subpoena relates to an investigation of potential antitrust violations in the rock crushing and screening equipment industry. Metso is co-operating fully with the Department of Justice. Metso recognized about EUR 1.5 million in costs from the investigation for the year ended December 31, 2009 and has not made any provision related to this investigation as at December 31, 2009.

35 New accounting standards

IFRS 3 (Revised)

IASB has published IFRS 3 (Revised), 'Business combinations', which maintains the requirement to apply the acquisition method to business combinations, but with some significant changes such as expensing of transaction costs. In addition, all payments to purchase a business are to be recorded at fair value on the acquisition date, with some contingent payments subsequently remeasured at fair value through income. Goodwill is calculated based on the parent's share of net assets but it may also include goodwill related to the minority interest. The revised standard will affect Metso's future business combinations.

IFRS 3 (Revised) was endorsed by the European Union in June 2009 and it becomes effective for annual financial statements for periods beginning on or after July 1, 2009. Metso will apply the standard for the financial year beginning on January 1, 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

IAS 27 (Revised)

IASB has published IAS 27 (Revised), 'Consolidated and separate financial statements'. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is expensed. Metso does not expect the standard to affect the financial statements.

IAS 27 (Revised) was endorsed by the European Union in June 2009 and it is effective for annual financial statements for periods beginning on or after July 1, 2009. Metso will apply the revision for the financial year beginning on January 1, 2010.

IFRS 2 (Amendment)

IASB has published an amendment to IFRS 2 'Share-based payments'. The amendment confirms that in addition to business combinations as defined by IFRS 3 (revised) 'Business combinations', contributions of a business on formation of a joint venture and common control transactions are excluded from the scope of IFRS 2, 'Share-based payments'. The revised standard may have an effect on Metso's future business combinations.

Provided that the amendment receives endorsement by the European Union, Metso will apply the standard for the financial year beginning on January 1, 2010.

IAS 38 (Amendment)

IASB has published an amendment to IAS 38 'Intangible assets'. The amendment clarifies the requirements under IFRS 3 'Business combinations' regarding the accounting for intangible assets acquired in a business combination and allows for the combination of intangible assets with equal economic useful life to one asset group. The revised standard may have an effect on Metso's future business combinations.

Provided that the amendment receives endorsement by the European Union, Metso will apply the standard for the financial year beginning on January 1, 2010.

IFRS 9

IASB has published a new standard IFRS 9 'Financial instruments: Recognition and measurement'. The standard represents the first milestone in the IASB's planned replacement of IAS 39. It addresses classification and measurement of financial assets. The next steps involve reconsideration and re-exposure of the classification and measurement requirements for financial liabilities, impairment testing methods for financial assets, and development of enhanced guidance on hedge accounting. Metso is currently evaluating the effects on the financial statements, and expects the standard to have major impacts on the accounting of financial instruments.

IFRS 9 becomes effective for the financial statements or periods beginning after January 1, 2013. It is still subject to endorsement by the European Union, and the endorsement process has been postponed.

Provided that the standard receives endorsement by the European Union, Metso will apply the standard for the financial year beginning on January 1, 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

36 Events after balance sheet date

Metso to buy back 300,000 own shares for its Share Ownership Plan

The Board of Directors of Metso Corporation has decided, in accordance with the authorization granted by the Annual General Meeting on March, 31 2009, to repurchase a maximum number of 300,000 Metso's own shares, which corresponds to about 0.2 percent of all the outstanding shares of Metso. The shares shall be repurchased as part of the Group's incentive program, Metso share ownership plan, to be used as potential reward payments in accordance with the plan criteria.

Own shares will be purchased with the Parent Company's distributable funds and thus the repurchases will reduce the Parent Company's distributable non-restricted equity. Shares will be purchased at market price in public trading on the NASDAQ OMX Helsinki Exchange.

The repurchase of own shares will start on February 16, 2010 at the earliest and it will end on March 26, 2010 at the latest.

EXCHANGE RATES USED

	Average rates			Year-end rates		
	2007	2008	2009	2007	2008	2009
USD (US dollar)	1.3797	1.4726	1.3960	1.4721	1.3917	1.4406
SEK (Swedish krona)	9.2647	9.6833	10.6092	9.4415	10.8700	10.2520
GBP (Pound sterling)	0.6873	0.8026	0.8948	0.7334	0.9525	0.8881
CAD (Canadian dollar)	1.4663	1.5656	1.5910	1.4449	1.6998	1.5128
BRL (Brazilian real)	2.6623	2.6711	2.7994	2.5949	3.2441	2.5113

FINANCIAL INDICATORS 2005-2009

EUR million	2005	2006	2007	2008	2009
Net sales	4,221	4,955	6,250	6,400	5,016
Net sales change, %	17.2	17.4	26.1	2.4	-21.6
Operating profit	335	457	580	637	294
% of net sales	7.9	9.2	9.3	10.0	5.9
Profit on continuing operations before tax	292	421	547	548	222
% of net sales	6.9	8.5	8.8	8.6	4.4
Profit on continuing operations	220	410	384	390	151
% of net sales	5.2	8.3	6.1	6.1	3.0
Profit	237	410	384	390	151
Profit attributable to equity shareholders	236	409	381	389	150
Exports and international operations	3,879	4,652	5,795	5,957	4,706
% of net sales	91.9	93.9	92.7	93.1	93.8
Amortization	16	17	56	44	41
Depreciation	86	88	92	94	102
Depreciation and amortization	102	105	148	138	143
% of net sales	2.4	2.1	2.4	2.2	2.9
Goodwill impairment	-	7	-	-	-
EBITA	351	481	636	681	334
% of net sales	8.3	9.7	10.2	10.6	6.7
EBITDA	437	569	728	775	437
% of net sales	10.4	11.5	11.6	12.1	8.7
Financial income and expenses, net	43	36	33	89	72
% of net sales	1.0	0.7	0.5	1.4	1.4
Interest expenses, net	39	27	33	71	75
% of net sales	0.9	0.5	0.5	1.1	1.5
Interest cover (EBITDA)	10.2x	15.8x	22.1x	8.7x	6.1x
Gross capital expenditure (excl. business acquisitions)	107	131	159	255	117
% of net sales	2.5	2.6	2.5	4.0	2.3
Business acquisitions, net of cash acquired	14	277	55	44	1
Net capital expenditure (excl. business acquisitions and disposals)	58	115	140	238	108
% of net sales	1.4	2.3	2.2	3.7	2.2
Cash flow from operations	164	442	294	137	770
Free cash flow ¹⁾	138	364	198	29	717
Cash conversion, %	58	89	52	7	475
Research and development	96	109	117	134	115
% of net sales	2.3	2.2	1.9	2.1	2.3

FINANCIAL INDICATORS 2005-2009

EUR million	2005	2006	2007	2008	2009
Balance sheet total	3,917	4,968	5,254	5,511	5,715
Equity attributable to shareholders	1,258	1,444	1,608	1,444	1,783
Total equity	1,265	1,450	1,615	1,453	1,792
Interest bearing liabilities	788	830	819	1,435	1,576
Net interest bearing liabilities	289	454	540	1,099	583
Capital employed	2,053	2,280	2,434	2,888	3,368
Return on equity (ROE), %	21.1	30.9	25.4	26.0	9.8
Return on capital employed (ROCE) before tax, %	18.9	22.5	26.1	23.2	10.0
Return on capital employed (ROCE) after tax, %	15.3	21.9	19.0	17.3	7.7
Equity to assets ratio, %	36.6	35.4	37.7	30.9	35.7
Gearing, %	22.8	31.3	33.4	75.7	32.5
Debt to capital, %	38.4	36.4	33.7	49.7	46.8
Orders received	4,745	5,705	6,965	6,384	4,358
Order backlog, December 31	2,350	3,737	4,341	4,088	3,415
Average number of personnel	22,405	23,364	26,269	28,010	27,813
Personnel, December 31	22,178	25,678	26,837	29,322	27,166

¹⁾ The calculation of free cash flow has been revised: Only capital expenditure related to maintenance investments is deducted from net cash provided by operating activities. FCF for the year ended December 31, 2005 has not been restated.

Formulas for calculation of financial indicators are presented on page 106.

SHARE CAPITAL AND SHARE DATA 2005 - 2009

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

	2005	2006	2007	2008	2009
Share capital, December 31	241	241	241	241	241
Number of shares, December 31:					
Number of outstanding shares	141,593,773	141,358,773	141,487,234	141,623,642	149,938,639
Own shares held by the Parent Company	60,841	60,841	60,841	60,841	409,617
Shares administered by a partnership (MEO1V Incentive Ky)	-	300,000	206,539	70,131	-
Total number of shares	141,654,614	141,719,614	141,754,614	141,754,614	150,348,256
Average number of outstanding shares	139,639,425	141,580,759	141,460,012	141,595,026	141,477,476
Average number of diluted shares	139,665,197	141,600,424	141,460,012	141,595,026	141,526,284
Trading volume, NASDAQ OMX Helsinki	239,282,695	266,774,359	350,168,659	359,378,566	321,093,368
Trading volume, NYSE ¹⁾	7,931,000	4,682,700	6,020,320	-	-
% of shares ²⁾	174.6	192.0	251.8	253.8	214.1
Earnings/share from continuing operations, basic	1.57	2.89	2.69	2.75	1.06
Earnings/share from discontinued operations, basic	0.12	-	-	-	-
Earnings/share from continuing and discontinued operations, basic	1.69	2.89	2.69	2.75	1.06
Earnings/share from continuing operations, diluted	1.57	2.89	2.69	2.75	1.06
Earnings/share from discontinued operations, diluted	0.12	-	-	-	-
Earnings/share from continuing and discontinued operations, diluted	1.69	2.89	2.69	2.75	1.06
Free cash flow/share ³⁾	0.76	2.57	1.40	0.20	5.07
Dividend/share ⁴⁾	1.40	1.50	3.00	0.70	0.70
Dividend ⁴⁾	198	212	425	99	105
Dividend/earnings, % ⁴⁾	83	52	112	25	66
Effective dividend yield, % ⁴⁾	6.0	3.9	8.0	8.2	2.8
P/E ratio	13.81	13.23	13.88	3.10	23.24
Equity/share	8.89	10.21	11.36	10.19	11.89
Highest share price	24.46	38.65	49.95	38.56	24.78
Lowest share price	11.31	23.21	34.06	7.74	7.03
Average share price	16.85	30.45	41.43	23.66	13.26
Share price, December 31	23.12	38.24	37.33	8.52	24.63
Market capitalization, December 31 ⁵⁾	3,274	5,406	5,282	1,207	3,693

¹⁾ Trading volume until December 14, 2007.²⁾ Of the total amount of shares for public trading (For the years 2004-2007 trading in both NASDAQ OMX Helsinki Ltd and NYSE, for 2008 and 2009 only in NASDAQ OMX Helsinki Ltd).³⁾ The calculation of free cash flow has been revised: Only capital expenditure related to maintenance is deducted from net cash provided by operating activities. FCF for the year ended December 31, 2005 has not been restated.⁴⁾ Proposal by the Board of Directors⁵⁾ Excluding own shares held by the Parent Company and shares administered by a partnership

Formulas for calculation of share-related indicators are on page 106.

FORMULAS FOR CALCULATION OF INDICATORS

Formulas for calculation of financial indicators

EBITA:

Operating profit + amortization
+ goodwill impairment

EBITDA:

Operating profit + depreciation and amortization
+ goodwill impairment

Return on equity (ROE), %:

$\frac{\text{Profit}}{\text{Total equity (average for period)}} \times 100$

Return on capital employed (ROCE)

before tax, %:

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

Return on capital employed (ROCE)

after tax, %:

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

Gearing, %:

$\frac{\text{Net interest bearing liabilities}}{\text{Total equity}} \times 100$

Equity to assets ratio, %:

$\frac{\text{Total equity}}{\text{Balance sheet total} - \text{advances received}} \times 100$

Capital employed:

Balance sheet total – non-interest bearing liabilities

Free cash flow:

Operating cash flow
– 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, %:

$\frac{\text{Interest bearing liabilities}}{\text{Total equity} + \text{interest bearing liabilities}} \times 100$

Interest cover (EBITDA):

$\frac{\text{EBITDA}}{\text{Financial income and expenses, net}}$

Formulas for calculation of share-related indicators

Earnings/share:

$\frac{\text{Profit}}{\text{Average number of shares during period}}$

Free cash flow / share:

$\frac{\text{Free cash flow}}{\text{Average number of shares during period}}$

Equity/share:

$\frac{\text{Equity attributable to shareholders}}{\text{Number of shares at end of period}}$

Dividend/share:

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

Dividend/earnings, %:

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

Effective dividend yield, %:

$\frac{\text{Dividend/share}}{\text{Share price on December 31}} \times 100$

P/E ratio:

$\frac{\text{Share price on December 31}}{\text{Earnings/share}}$

Average share price:

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

Market capitalization:

Total number of shares x share price at end of period

Total shareholder return (TSR), %:

$\frac{\text{Change in share price} + \text{dividend paid during period}}{\text{Share price at end of previous period}} \times 100$

PARENT COMPANY STATEMENT OF INCOME

EUR	Note	Year ended December 31,	
		2008	2009
Other operating income	2	645,861.16	322,588.99
Personnel expenses	3	-12,615,609.79	-14,120,337.57
Depreciation and amortization	4	-683,121.32	-604,401.18
Other operating expenses		-18,466,887.60	-13,496,292.93
Operating profit (loss)		-31,119,757.55	-27,898,442.69
Financial income and expenses, net	6	266,976,313.46	232,350,063.69
Profit before extraordinary items		235,856,555.91	204,451,621.00
Extraordinary items	7	136,934,000.00	43,776,000.00
Profit before appropriations and taxes		372,790,555.91	248,227,621.00
Income taxes	8		
Current tax expense		-186,306.58	-330,602.30
Change in deferred taxes		-10,774,896.02	4,817,924.54
Profit		361,829,353.31	252,714,943.24

PARENT COMPANY BALANCE SHEET

Assets

		As at December 31,	
EUR	Note	2008	2009
Non-current assets			
Intangible assets	9	1,714,218.19	1,310,812.80
Tangible assets	9	1,240,118.79	1,157,791.07
Investments			
Shares in Group companies	10	2,229,933,689.80	2,503,261,477.86
Other investments	10	350,007,501.78	406,314,044.65
Total non-current assets		2,582,895,528.56	2,912,044,126.38
Current assets			
Long-term receivables	12	14,264,522.49	18,867,866.34
Short-term receivables	12	746,210,361.00	367,452,905.74
Securities		121,174,653.90	497,302,298.72
Bank and cash		16,216,891.37	27,976,701.52
Total current assets		897,866,428.76	911,599,772.32
Total assets		3,480,761,957.32	3,823,643,898.70

Shareholders' equity and liabilities

		As at December 31,	
EUR		2008	2009
Shareholders' equity			
	13		
Share capital		240,982,843.80	240,982,843.80
Invested non-restricted equity fund		367,161,006.42	573,236,541.58
Other reserves		194,210,758.91	194,210,758.91
Retained earnings		93,909,932.61	353,093,763.04
Profit		361,829,353.31	252,714,943.24
Total shareholders' equity		1,258,093,895.05	1,614,238,850.57
Liabilities			
Long-term liabilities	14	1,075,835,842.59	1,331,318,817.40
Current liabilities	15	1,146,832,219.68	878,086,230.73
Total liabilities		2,222,668,062.27	2,209,405,048.13
Total shareholders' equity and liabilities		3,480,761,957.32	3,823,643,898.70

PARENT COMPANY STATEMENT OF CASH FLOWS

EUR thousand	Year ended December 31,	
	2008	2009
Cash flows from operating activities:		
Profit	361,829	252,715
Adjustments to operating profit (loss)		
Depreciation and amortization	683	604
Unrealized foreign exchange gains (+) / losses (-)	25,732	-14,784
Financial income and expenses, net	-289,659	-205,437
Gains (+) / losses (-) on sale, net	-274	-15
Group contributions	-136,934	-43,776
Write-downs	538	-
Other non-cash items	-	515
Taxes	-10,961	4,487
Total adjustments to operating profit (loss)	-410,875	-258,406
Increase (-) / decrease (+) in short-term non-interest bearing trade receivables	-38,677	52,596
Increase (+) / decrease (-) in short-term non-interest bearing debt	58,649	-54,280
Change in working capital	19,972	-1,684
Interest and other financial expenses paid	-79,587	-71,325
Dividends received	670,780	271,751
Interest received	3,705	3,499
Income taxes paid	-186	-331
Net cash provided by operating activities	565,638	196,219
Cash flows from investing activities:		
Investments in tangible and intangible assets	-1,290	-108
Proceeds from sale of tangible and intangible assets	-1	-1
Long-term loans granted	-131,923	-142,500
Repayments of long-term loans	27,503	357,069
Short-term loans granted	-48,785	-37,513
Repayments of short-term loans	56,966	38,898
Purchase of other investments	-129,586	-304,691
Proceeds from other investments	284	15
Interest received from investments	22,357	25,914
Dividends received from investments	388	312
Net cash used in investing activities	-204,087	-62,605
Cash flows from financing activities:		
Redemption of own shares	-	-2,486
Withdrawals (+) and instalments (-) of short-term loans, net	291,800	-462,932
Withdrawal of long-term loans	485,252	461,101
Repayments of long-term loans	-15,702	-137,644
Dividends paid	-425,081	-98,976
Change in Group pool accounts	-769,280	279,563
Group contributions	180,667	136,934
Net cash provided by (+) / used in (-) financing activities	-252,344	175,560
Net increase (+) / decrease (-) in bank and cash	109,207	309,174
Bank and cash at beginning of year	28,185	137,392
Bank and cash at end of year	137,392	446,566

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

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,	
	2008	2009
Gain on sale of fixed assets	278	15
Rental income	91	93
Other	277	215
Total	646	323

3 Personnel expenses

EUR thousand	Year ended December 31,	
	2008	2009
Salaries and wages	-8,224	-8,555
Share-based payments	-796	-92
Pension costs	-3,219	-5,115
Other indirect employee costs	-377	-358
Total	-12,616	-14,120

EUR thousand	Year ended December 31,	
	2008	2009
Fringe benefits	638	320

Remuneration paid to Executive Team:

EUR thousand	Year ended December 31,	
	2008	2009
Chief Executive Officer and his deputy	-1,321	-1,101
Share-based payments	-436	-26
Board members ¹⁾	-463	-436
Total	-2,220	-1,563

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

According to his employment contract, Chief Executive Officer's age of retirement is 60 years.

Number of personnel:

	2008	2009
Personnel at end of year	103	103
Average number of personnel during the year	98	104

4 Depreciation and amortization

Depreciation and amortization expenses consist of the following:

EUR thousand	Year ended December 31,	
	2008	2009
Buildings and structures	-16	-16
Machinery and equipment	-72	-86
Other tangible assets	-3	-3
Intangible assets	-592	-499
Total	-683	-604

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

5 Audit fees

EUR thousand	Year ended December 31,	
	2008	2009
Authorised Public Accountant PricewaterhouseCoopers Oy		
Audit	577	441
Tax consulting	374	573
Other services	64	185
	1,015	1,199

6 Financial income and expenses

EUR thousand	Year ended December 31,	
	2008	2009
Dividends received from		
Group companies	330,780	271,751
Others	388	312
	331,168	272,063
Interest income from investments from		
Group companies	25,939	19,676
Others	247	1,784
	26,186	21,460
Other interest and financial income from		
Others	3,788	20,516
Interest and financial income, total	361,142	314,039
Interest and other financial expenses to		
Group companies	-25,821	-11,599
Others	-68,345	-70,090
Interest and other financial expenses, total	-94,166	-81,689
Financial income and expenses, net	266,976	232,350

Interest and other financial expenses to others include net loss from foreign exchange	-1,901	
Other interest and financial income includes net gain from foreign exchange		15,199

7 Extraordinary items

EUR thousand	Year ended December 31,	
	2008	2009
Group contributions received	136,934	43,776

8 Income taxes

EUR thousand	Year ended December 31,	
	2008	2009
Withheld taxes recorded for the financial year	-186	-331
Change in deferred taxes	-10,775	4,818
Total	-10,961	4,487

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

9 Fixed assets

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2008							
Acquisition cost at Jan 1	3,955	295	476	2,571	372	3,714	7,669
Additions	999	-	-	294	29	323	1,322
Decreases	-	-	-	-10	-6	-16	-16
Acquisition cost at Dec 31	4,954	295	476	2,855	395	4,021	8,975
Accumulated depreciation at Jan 1	-2,648	-	-213	-2,476	-11	-2,700	-5,348
Accumulated depreciation of decreases	-	-	-	10	-	10	10
Depreciation charges for the year	-592	-	-16	-72	-3	-91	-683
Accumulated depreciation at Dec 31	-3,240	-	-229	-2,538	-14	-2,781	-6,021
Net carrying value at Dec 31	1,714	295	247	317	381	1,240	2,954
2009							
Acquisition cost at Jan 1	4,954	295	476	2,855	395	4,021	8,975
Additions	129	2	-	21	-	23	152
Decreases	-83	0	-	-14	-1	-15	-98
Acquisition cost at Dec 31	5,000	297	476	2,862	394	4,029	9,029
Accumulated depreciation at Jan 1	-3,240	-	-229	-2,538	-14	-2,781	-6,021
Accumulated depreciation of decreases	50	-	-	14	-	14	64
Depreciation charges for the year	-499	-	-16	-85	-3	-104	-603
Accumulated depreciation at Dec 31	-3,689	-	-245	-2,609	-17	-2,871	-6,560
Net carrying value at Dec 31	1,311	297	231	253	377	1,158	2,469

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

10 Investments

EUR thousand	Shares Group companies	Shares Participating interests	Shares Others	Receivables Group companies	Receivables Other companies	Other invest- ments total
2008						
Acquisition cost at Jan 1	2,100,618	-	6,531	326,977	5,026	338,534
Additions	129,316	-	270	131,923	-	132,193
Decreases	-	-	-36	-120,658	-26	-120,720
Acquisition cost at Dec 31	2,229,934	-	6,765	338,242	5,000	350,007
Accumulated impairment at Jan 1	-	-	-	-	-	-
Other change	-	-	-	-	-	-
Accumulated impairment at Dec 31	-	-	-	-	-	-
Net carrying value at Dec 31	2,229,934	-	6,765	338,242	5,000	350,007
2009						
Acquisition cost at Jan 1	2,229,934	-	6,765	338,242	5,000	350,007
Additions	274,218	-	-	142,500	165,554	308,054
Decreases	-890	-	-4,438	-247,309	-	-251,747
Acquisition cost at Dec 31	2,503,262	-	2,327	233,433	170,554	406,314
Accumulated impairment at Jan 1	-	-	-	-	-	-
Other change	-	-	-	-	-	-
Accumulated impairment at Dec 31	-	-	-	-	-	-
Net carrying value at Dec 31	2,503,262	-	2,327	233,433	170,554	406,314

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	Kiina, 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	62.3
Metso Svenska AB	Sweden, Karlstad	100.0
Metso USA Inc.	USA, Norcross	100.0
Tamfelt Oyj	Finland, Tampere	98.0
Valmet Automotive Oy	Finland, Uusikaupunki	100.0
Rauma Oy	Finland, Helsinki	100.0
Avantone Oy	Finland, Tampere	96.4

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

12 Specification of receivables

Long-term receivables

	As at December 31,	
EUR thousand	2008	2009
Deferred tax asset	14,050	18,868
Long-term receivables from others	215	-
Long-term receivables total	14,265	18,868

Short-term receivables

	As at December 31,	
EUR thousand	2008	2009
Trade receivables from		
Group companies	3,291	2,808
Others	122	99
	3,413	2,907
Loan receivables from		
Group companies	514,575	295,722
Others	690	-
	515,265	295,722
Prepaid expenses and accrued income from		
Group companies	142,487	44,365
Others	84,449	23,785
	226,936	68,150
Other receivables		
VAT receivable	636	680
Other receivables	-40	-6
	596	674
Short-term receivables total	746,210	367,453

Specification of prepaid expenses and accrued income

	As at December 31,	
EUR thousand	2008	2009
Prepaid expenses and accrued income from Group companies		
Group contribution receivables	136,934	43,776
Accrued interest income	5,495	570
Other accrued items	58	19
Total	142,487	44,365
Prepaid expenses and accrued income from others		
Accrued interest income	214	1,283
Accrued derivatives	83,246	20,901
Other accrued items	989	1,601
Total	84,449	23,785

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

13 Statement of changes in shareholders' equity

EUR thousand	2008	2009
Share capital at Jan 1	240,982	240,982
Increase in share capital	-	-
Share capital at Dec 31	240,982	240,982
Share premium reserve at Jan 1	151,671	-
Change in financial year	-	-
Decrease and transfer	-151,671	-
Share premium reserve at Dec 31	-	-
Legal reserve at Jan 1	215,490	-
Decrease and transfer	-215,490	-
Legal reserve at Dec 31	-	-
Invested non-restricted equity fund at Jan 1	-	367,161
Change in financial year	367,161	206,076
Invested non-restricted equity fund at Dec 31	367,161	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	519,031	455,740
Dividend distribution	-425,081	-98,976
Other change	-39	-3,670
Retained earnings at Dec 31	93,911	353,094
Profit	361,829	252,715
Total shareholders' equity at Dec 31	1,258,094	1,614,239

Statement of distributable funds at December 31

EUR	2008	2009
Invested non-restricted equity fund	367,161,006.42	573,236,541.58
Other reserves	194,210,758.91	194,210,758.91
Retained earnings	93,909,932.61	353,093,763.04
Profit	361,829,353.31	252,714,943.24
Total distributable funds	1,017,111,051.25	1,373,256,006.77

At the end of the year, Metso Oyj held 409,617 treasury shares, the acquisition price of which, EUR 4,325 thousand, has been deducted from retained earnings.

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

14 Long-term liabilities

EUR thousand	As at December 31,	
	2008	2009
Bonds from ¹⁾		
Group companies	-	99,560
Others	710,201	865,513
Loans from financial institutions	365,635	331,246
Pension loans	-	35,000
Total	1,075,836	1,331,319

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

Debt maturing later than in five years time

EUR thousand	As at December 31,	
	2008	2009
Bonds	161,673	144,739
Loans from financial institutions	149,849	83,919
Total	311,522	228,658

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

15 Short-term liabilities

EUR thousand	As at December 31,	
	2008	2009
Current portion of long-term liabilities		
Bonds	83,000	118,754
Loans from financial institutions	13,220	32,842
Pension loans	-	10,000
	96,220	161,596
Trade payables to		
Group companies	517	887
Others	1,402	3,403
	1,919	4,290
Accrued expenses and deferred income to		
Group companies	3,842	6,386
Others	93,886	40,832
	97,728	47,218
Other short-term interest bearing debt to		
Group companies	419,199	89,719
Group pool accounts	389,947	558,099
Others	141,329	16,831
	950,475	664,649
Other short-term non-interest bearing debt to		
Others	490	333
	490	333
Short-term liabilities total	1,146,832	878,086
Short-term liabilities to Group companies total	813,505	655,091

Specification of accrued expenses and deferred income

EUR thousand	As at December 31,	
	2008	2009
Accrued expenses and deferred income to Group companies		
Accrued interest expenses	3,753	4,236
Other accrued items	89	2,150
	3,842	6,386
Accrued expenses and deferred income to others		
Accrued interest expenses	12,100	17,758
Accrued derivatives	78,579	17,121
Accrued salaries, wages and social costs	2,034	2,127
Other accrued items	1,173	3,826
	93,886	40,832

16 Other contingencies

Guarantees

EUR thousand	As at December 31,	
	2008	2009
Guarantees on behalf of subsidiaries	1,270,859	1,210,700
Guarantees on behalf of others	8,052	3,443
Total	1,278,911	1,214,143

Lease commitments

EUR thousand	As at December 31,	
	2008	2009
Payments in the following year	498	431
Payments later	212	292
Total	710	723

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	paper vouchers
Purchase invoices	23	in electronic format
Payroll accounting with vouchers	33	in electronic format
Journal entries	01,31,34,35,46,59,79	paper vouchers