Metso Corporation Financial Statements 2008

Business ID	1538032-5
Domicile	Helsinki

TABLE OF CONTENTS

Board of Directors' Report

Operating environment and demand for products in 2008

During the year major changes took place in the market situation of Metso's products and services. The demand was good in the early year and weakened considerably from the end of September onwards.

Demand for Mining and Construction Technology products was excellent until September, when customers in both mining and construction industries began scaling back their investments. The drop in base metal prices that started in the summer led to cuts in mine production and even to shutdowns of mines. In the construction industry the slowdown of global economic growth and poor availability of financing reduced new investments. As a result, demand for mining and construction products and services deteriorated quickly and some customers cancelled orders or postponed project delivery schedules. On the annual level, demand grew in the services business, particularly in the Mining business line. Geographically, the demand for Metso's Mining and Construction Technology's products increased substantially in Asia-Pacific but decreased in the United States and in Northern Europe.

The demand for Energy and Environmental Technology's products and services in 2008 was satisfactory. In particular, the demand for services increased substantially during the year. Demand for power plants utilizing renewable energy sources was satisfactory. The demand for metals recycling equipment decreased, as the prices and demand for scrap metal declined. In geographical terms, the demand for Energy and Environmental Technology's products remained satisfactory, apart from Western Europe where the demand declined notably.

The demand for Paper and Fiber Technology products and services was satisfactory from the beginning of the year until September, when demand started to decline and the downward trend intensified towards the year's end. The demand for paper, board and fiber diminished globally, and there was overcapacity on the markets. Decision-making schedules for new investments were extended and several projects having reached execution phase were cancelled or postponed. The demand for tissue lines remained fairly even throughout the year. The demand for services slowed down towards the end of the year as a result of shutdowns of a number of customer mills and the cost savings programs carried out by customers.

Orders received and order backlog

Orders received by Metso in 2008 totaled EUR 6,384 million, down 8 percent on the comparison period. Calculated at comparable exchange rates, the value of orders received decreased by 5 percent. Orders received were close to the previous year's level in Mining and Construction Technology, and at a lower level in Energy and Environmental Technology and Paper and Fiber Technology due to the weak fourth quarter.

The three countries generating the largest total value of orders received were the United States, Brazil and China. When combined, these countries accounted for 33 percent of all orders received. Order intake increased in South America and was on a par with the comparison period in North America and Eastern Europe. The Western European market experienced the most abrupt slowdown during the year. Emerging markets made up 48 percent (2007: 43%) of the orders received. At the end of December, Metso's order backlog was EUR 4,088 million, 6 percent lower than at the end of 2007. Some customers have initiated discussions with Metso about either extending delivery times or putting projects on hold. Timing of slightly over 20 percent of the order backlog can be considered uncertain. These uncertain orders include the large pulp mill projects for Zhanjiang Chenming in China and Aracruz in Brazil.

Orders received by reporting segment:

	2006		2007		**2008**	
	EUR million	%	EUR million	%	**EUR million**	**%**
Mining and Construction Technology	2,399	42	2,776	39	**2,709**	**42**
Energy and Environmental Technology	980	17	1,884	27	**1,658**	**26**
Paper and Fiber Technology	2,276	39	2,293	33	**2,021**	**31**
Valmet Automotive	109	2	85	1	**65**	**1**
Intra-Metso and other orders received	-59		-73		**-69**	
Total	5,705	100	6,965	100	**6,384**	**100**

Orders received by market area:

	2006		2007		**2008**	
	EUR million	%	EUR million	%	**EUR million**	**%**
Europe	1,993	35	3,135	44	**2,375**	**38**
North America	1,099	19	1,033	15	**1,070**	**17**
South and Central America	757	13	818	12	**1,056**	**16**
Asia-Pacific	1,503	27	1,514	22	**1,476**	**23**
Rest of the world	353	6	465	7	**407**	**6**
Total	5,705	100	6,965	100	**6,384**	**100**

Net sales

Metso's net sales in 2008 were at the previous year's level, totaling EUR 6,400 million. At comparable exchange rates, net sales growth would have been approximately 6 percent. At comparable exchange rates, the net sales of Mining and Construction Technology and Energy and Environmental Technology grew by 16 and 18 percent respectively, while Paper and Fiber Technology's net sales decreased by 12 percent. The net sales of the services business grew by 9 percent (about 13 percent at comparable exchange rates), accounting for 35 percent of Metso's net sales (33% in 2007). The growth of the services business was strongest in Energy and Environmental Technology, where the growth was 20 percent at comparable exchange rates.

Measured by net sales, the three largest countries in 2008 were the United States, China and Finland, which together accounted for about 29 percent of total net sales.

Net sales by reporting segment:

	2006		2007		**2008**	
	EUR million	%	EUR million	%	**EUR million**	**%**
Mining and Construction Technology	1,945	39	2,330	37	**2,586**	**40**
Energy and Environmental Technology	881	17	1,543	25	**1,775**	**27**
Paper and Fiber Technology	2,092	42	2,364	37	**2,044**	**32**
Valmet Automotive	109	2	85	1	**65**	**1**
Intra Metso and other net sales	-72		-72		**-70**	
Total	4,955	100	6,250	100	**6,400**	**100**

Net sales by market area:

	2006		2005		**2008**	
	EUR million	%	EUR million	%	**EUR million**	**%**
Europe	2,002	41	2,551	40	**2,680**	**41**
North America	1,012	20	1,049	17	**1,015**	**16**
South and Central America	685	14	859	14	**770**	**12**
Asia-Pacific	991	20	1,488	24	**1,516**	**24**
Rest of the world	265	5	303	5	**419**	**7**
Total	4,955	100	6,250	100	**6,400**	**100**

Financial result

Metso's earnings before interest, tax and amortization (EBITA) for 2008 improved by 7 percent and were EUR 680.9 million, or 10.6 percent of net sales (EUR 635.4 million and 10.2% in 2007). The increase of EBITA measured in euros was mainly attributable to Mining and Construction Technology. Improvement in the EBITA margin was primarily due to Paper and Fiber Technology.

Metso's operating profit for 2008 was EUR 637.2 million, or 10.0 percent of net sales (EUR 579.8 million and 9.3% in 2007).

Metso's net financial expenses for 2008 were EUR 89 million (EUR 33 million in 2007). Interest-bearing liabilities have increased substantially through the significant growth in net working capital over the year, the high level of investments and the pay-out of an extra dividend. The increased debt level, the relatively large share of floating interest rate debt and the general rise in interest rates have resulted in an increase in interest expenses of almost EUR 25 million from the comparison period. Another reason for the increase in net financial expenses was foreign exchange losses of EUR 24 million (in 2007, EUR 7 million gains). These gains and losses derive mainly from USD-denominated export credit financing of a Brazilian subsidiary. On the other hand, related gains and losses arising from customer deliveries are, once recognized, reported in operating profit.

Metso's profit before taxes was EUR 548 million (EUR 547 million in 2007). Metso's tax rate for 2008 was 29 percent, and it is estimated to be approximately 30 percent in 2009. The profit attributable to shareholders was EUR 389 million (EUR 381 million) in 2008, corresponding to earnings per share (EPS) of EUR 2.75 (EUR 2.69 per share).

Metso's return on capital employed (ROCE) before taxes was 23.2 percent (26.1%) and return on equity (ROE) was 26.0 percent (25.4%). Financial indicators for the years 2004–2008 are presented on pages 101– 102.

Cash flow and financing

Metso's net cash generated by operating activities was EUR 137 million in 2008 (EUR 294 million in 2007). Net cash generated by operating activities was burdened by the net working capital being tied up in all segments. Strong organic growth during the past years has made supply chain management more challenging, resulting in working capital being tied up in inventories. Net working capital increased by EUR 437 million during the year. The increase was highest in Mining and Construction Technology but also other segments reported clear increases. Over half of the increase came from the inventories but also receivables increased by almost EUR 100 million as a result of high level of net sales in December, and payables decreased by almost EUR 100 million due to decrease in procurement towards the end of the year. During the last quarter, net working capital increased by EUR 140 million, the main reasons being increase in receivables and decrease in payables. Inventories decreased clearly during the last quarter in spite of negative impact of order cancellations and delivery schedule extensions. Also advances received decreased towards the end of the year as a result of low level of new orders.

Metso's free cash flow in 2008 was EUR 29 million (EUR 198 million). Net interest-bearing liabilities totaled EUR 1,099 million at the end of the year (EUR 540 million on December 31, 2007).

The total amount of short-term debt maturing within the next 12 months decreased by EUR 79 million during the final quarter and was EUR 346 million at the end of the year. EUR 141 million of short-term debt consists of commercial papers issued in the Finnish markets. EUR 101 million are current portions of long-term debt and the remainder is local working capital financing of certain subsidiaries, primarily in Brazil. About EUR 160 million of existing long-term debt will mature in 2010.

The total amount of net funding acquired in 2008 was EUR 621 million, of which almost EUR 500 million was new long-term debt. Metso's liquidity position is satisfactory. The syndicated EUR 500 million revolving loan facility is available until late 2011, and it is currently undrawn.

Gearing was 75.7 percent (33.4%) and the equity-to-assets ratio was 30.9 percent (37.7%). In April, following the Annual General Meeting, Metso paid EUR 425 million in dividends for 2007, which together with the growth in net working capital and high level of investments increased gearing.

Capital expenditure

Metso's gross capital expenditure for 2008 grew by 60 percent on the previous year and was EUR 255 million (EUR 159 million in 2007). Capital expenditure on fixed assets includes technology and capacity acquisitions, the total value of which was approximately EUR 64 million. These were: the acquisition of Lachine's heavy fabrication plant in Canada, the purchase of a Swedish research and development company specializing in biofuels, LignoBoost AB and the acquisition of the paper machinery technology of Mitsubishi Heavy Industries in Japan. Other acquisitions of businesses are not included in the gross capital expenditure mentioned above.

In May, Metso acquired from the Swedish STFI-Packforsk AB the shares of LignoBoost AB, a research company. The transaction included all the intellectual property rights as well as the LignoBoost brand and the related know-how. The acquired company became part of Metso's Power business line. The acquisition opens an interesting biofuel business opportunity within pulping processes.

In May, Metso closed the deal with Mitsubishi Heavy Industries (MHI) over the purchase of MHI's paper machinery technology, making Metso globally the sole owner of Beloit's paper machinery intellectual property. The effect of MHI on annual services sales is estimated to be about EUR 10 million.

In August, Metso completed the acquisition of GE Energy's Lachine main plant, a heavy fabrication and machining facility in Canada. The plant was integrated into Metso's Mining business line and approximately 170 employees were transferred to Metso. The acquisition added significantly to Metso's mining equipment supply capacity.

Major capital expenditure on fixed assets in 2008 was targeted to strengthen Metso's presence in emerging markets, to improve the efficiency of the production chain and to expand the service network. In China, a new pulp and paper industry service center in Guangzhou started its operations, and Metso decided to establish a third service center in Zibo, located in the province of Shandong. In Tianjin, a crushing unit production capacity was expanded and new premises for Automation business line in Shanghai are under construction. In India, an assembly line for crushers and vibrating equipment in Bawal and a steel casting expansion in Ahmedabad were finalized, and construction of Metso Industrial Park in Rajasthan is underway. In the United States, a boiler service center was opened in Lancaster, South Carolina, and the extension of another boiler service center was completed in Fairmont, West Virginia. In Finland, Metso is rebuilding a pilot machine at the Paper Technology Center in Jyväskylä. Investment projects in enterprise resource planning systems were underway in Mining and Construction Technology and in Automation business line.

Metso's capital expenditure in 2009, excluding corporate acquisitions, is estimated at about EUR 150 million. New investment commitments will be cut considerably due to the changes in the global economy.

Acquisitions and divestments

In May, Metso acquired Kemotron A/S, a Danish manufacturer of measurement systems. The company had a workforce of 13. The acquired company was integrated into Metso's Automation business line.

In June, Metso completed the acquisition of MAPAG Valves GmbH, a company manufacturing primarily butterfly valves, from the Linde Group, a German company. With the acquisition, Metso complements the product offering for the energy and hydrocarbon industries. The debt-free acquisition price was EUR 36 million, and the acquired company was integrated into Metso's Automation business line. The company employs about 100 people. The company's annual net sales amount to approximately EUR 36 million.

In September, Metso increased its ownership in the associated company Valmet-Xi'an Paper Machinery Co. Ltd in China from 48.3 percent to 75 percent. The value of the share transaction was approximately EUR 5 million. The company has been consolidated into Metso's balance sheet as of September, and its annual net sales are approximately EUR 30 million, of which sales to Metso have accounted for more than half. At the end of the year, Valmet-Xi'an had about 1,100 employees.

In September, Metso announced the acquisition of a paper quality control business from Finnish Fastpap Oy Ab. The business operations based in Ylöjärvi, Finland, including a staff of 11 were integrated into Metso's Automation business line as of October 1, 2008.

In September, Metso acquired PSP Slévárna a.s., a producer of finished machined manganese wear parts located in Prerov, the Czech Republic. The acquisition price was approximately EUR 6 million. The company was integrated into Metso's Construction business line on October 1, 2008. The acquired company has a personnel of 385 and annual net sales of about EUR 20 million.

In October, Metso acquired the Australian company G & F Belt-line Services Pty Ltd, a provider of conveyor belt installations and maintenance services to the mining industry. The value of the deal was approximately EUR 6 million. The company was integrated into Metso's Mining business line on October 15, 2008. Approximately 90 employees were transferred to Metso. Beltline's annual net sales are approximately EUR 11 million.

In January, Metso concluded the divestment of its Panelboard business. The panelboard press operations in Germany were divested to G. Siempelkamp GmbH & Co. KG in September 2007, and an agreement was concluded on the divestment of the panelboard operations in Nastola, Finland and Sundsvall, Sweden to the German company Dieffenbacher GmbH + Co. KG in January 2008.

In May, Metso sold its spreader roll manufacturing business (Finbow) and the related assets to a group of Finnish investors. The business is based in Finland and employs 20 people. The divested business was part of Metso's Paper business line.

In September, 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 Metso's Tissue business line.

Research and development

The focus areas of Metso's research and development are environmental technology, technology related to the services business and the development of smart applications. Metso's research and development expenses in 2008 totaled EUR 134 million, representing 2.1 percent of net sales (EUR 117 million and 1.9% in 2007). In addition to this, expenses for intellectual property rights amounted to EUR 14 million in 2008. R&D employed 905 people (923) in 2008. Metso's personnel made about 900 invention disclosures (850), which led to over 230 priority patent applications (220). At the end of 2008, approximately 3,000 Metso inventions were protected by patents (2,800).

Metso launched about 120 new products in 2008. New products introduced to the markets included for example a new flotation cell for a de-inking process, a rebuild concept for gap formers, wheel-mounted crushing plant and the paper quality control system PaperIQ Select.

In December, Metso and the European Investment Bank (EIB) signed a EUR 160 million research and development loan agreement. This funding will be used to finance part of Metso's development and innovation activities relating to environmental products and services as well as other strategic R&D programs over the years 2008–2012. The overall loan period is seven years with semiannual installments starting in 2011.

Environment and environmental technology

The environmental impact of Metso's own production is minor and relates mainly to the consumption of raw materials and energy, emissions to air, water consumption and waste. Metso seeks to reduce environmental hazards through continuous development and by decreasing the use of energy, materials and hazardous substances.

Metso supplies its customers with complete product and service concepts, and environmental efficiency is integral to the company's offering. Many of Metso's technology solutions have been developed in close cooperation with customers. Metso's environmental solutions are related especially to renewable energy sources, 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 optimization. Metso also provides training, maintenance and service relating to the products. Metso takes care of the entire life cycles of production processes and promotes the right and environmentally sustainable way to use the solutions it provides.

Over one half of Metso's net sales can be classified as environmental business, using the OECD definition.

Risks and business uncertainties

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

Metso's risk assessments take into consideration the probability and effects of the risks on 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 Metso's operations and the practical measures available to manage these risks.

Owing to the uncertainty of the financial markets and the slowdown of global economic growth, Metso's business environment is expected to be demanding in 2009. In an operating environment that is subject to rapid changes, the importance of efficient risk management increases, and the management of strategic and financial risks will receive emphasis in particular. Even though the geographical diversity of Metso's operations and the broad range of the company's customer industries serve to even out the effects of cyclical changes over the long term, the rapid slowdown of global economic growth and prolongation of the financial crisis and downturn in the economy may deteriorate the demand for Metso's products and services further.

Global economic uncertainty and the financial crisis may have adverse effects on projects in Metso's order backlog. Some projects may be postponed or they may be suspended or discontinued. Metso's management estimates that slightly over 20 percent of projects in the order backlog are subject to uncertainties relating to delivery schedules. Metso applies the percentage of completion method to long-term delivery agreements. The customer advance payment is typically 10–30 percent, in addition to which the customer makes payments based on the milestones during the project execution. Metso continually evaluates its customers' creditworthiness and ability to fulfill their obligations. If a customer faces liquidity problems, Metso discusses with the customer the possibility of changing project delivery schedules and the resulting cost escalation effects or any other measures needed. As a rule, Metso does not finance customer projects.

Metso has launched many measures to adapt to the rapidly-changing operating environment. Capacity and cost structure is adjusted to correspond with the demand to maintain the company's competitiveness. The global economic crisis may shrink the markets for Metso's products, which may lead to intensified price competition.

Securing the continuity of Metso's operations requires that sufficient funding is ensured under all circumstances. The financial crisis may have adverse effects on the availability of Metso's debt financing or increase the costs related to it. Metso's management estimates that the company's financial assets and available credit facilities are sufficient to secure short-term liquidity. At the end of December, cash and cash equivalents totaled EUR 314 million and credit facilities available for withdrawal totaled EUR 500 million. Metso's long-term loans mature relatively evenly during 2009–2012, the average repayment period of loan capital is four years, and they do not have covenants initiating premature repayment on the basis of credit ratings. Currently Metso fully meets the covenants and other terms related to its financing agreements.

The capital tied up in net working capital and the level of capital expenditure have a fundamental effect on the adequacy of financing. A prolonged economic downturn could slow Metso's attempts to release some of its net working capital. Metso has no particularly large-scale investment schemes underway, and Metso's management estimates that it is well positioned to manage the capital expenditure levels in the coming years.

Changes in the prices of raw materials and components could also affect Metso's profitability. On one hand, the risk of increases in direct costs typically diminishes during economic downturn. On the other hand, some of Metso's customers are raw material producers, whose ability to operate and invest may be hampered by declining raw material prices.

Of the financial risks that affect Metso's profit, currency exchange rate risks are among the most substantial ones. Exchange rate changes can affect the business, although the geographical diversity of operations decreases the significance of any individual currency. The prevailing uncertainty in the markets is likely to increase exchange rate fluctuations. Exchange rate variations can have a direct impact in situations where the invoicing currency is different from the currency of the manufacturing costs. Exchange rate fluctuations may also weaken the cost competitiveness of Metso's products against the products of competitors manufactured in another currency area. Alongside the euro, the most important currencies used in invoicing are the U.S. dollar, the Swedish krona, the Canadian dollar and the Brazilian real. Exchange rate changes affect Metso's business indirectly, as Metso translates the net sales and financial results of its subsidiaries based outside the Eurozone into euros. Metso hedges in full those currency exposures that arise from firm delivery and purchase agreements. In addition, Metso's 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., 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 cooperating fully with the Department of Justice.

Adjusting to changes in demand

Metso has begun to adjust its operations for an extended period of weak demand. The focus is on adjusting the capacity to correspond with the demand, ensuring profitability and strengthening the cash flow. The measures which were commenced in early October, will continue in 2009. The first measures were to cut down the use of temporary work force and subcontracting. In a rapidly deteriorating market situation these measures have turned out to be insufficient, and Metso has had to start temporary lay-offs and personnel reductions in many units. In most cases, the temporary lay-offs concern all employee groups, and their duration varies, depending on the work load, from few weeks to longer periods. The measures are intended to secure the competitiveness of Metso's businesses by adjusting the operations and cost structures to correspond with the demand situation.

Personnel

At the end of 2008, Metso had 29,322 employees, which was 2,485 more than at the end of 2007 (26,837 employees at December 31, 2007). In terms of regions, the growth in personnel numbers was most substantial in Asia-Pacific, where 15 percent of the Group's personnel are based. In 2008, Metso had an average of 28,010 employees.

The main drivers behind personnel increases were the investments in delivery and service capability and strengthening of Metso's global presence. Personnel in Mining and Construction Technology increased due to growth investments in Canada, Brazil and India. Personnel in Energy and Environmental Technology increased mainly through the increase in the production capacity of the Power and Automation business lines in India and China and the MAPAG acquisition in Germany. Personnel in Paper and Fiber Technology increased during the year by about 1,100 people in China due to the acquisition of Valmet-Xi'an Paper Machinery Co. Ltd, but decreased in Europe and particularly in the Nordic countries as a result of efficiency improvement measures.

Metso's personnel is divided as follows by reporting segment: Mining and Construction Technology 38 percent, Energy and Environmental Technology 22 percent, Paper and Fiber Technology 36 percent, and Valmet Automotive, shared service centers and Group Head Office 4 percent. The countries with the largest numbers of Metso's personnel were Finland, the United States, Sweden, China and Brazil. These countries accounted for 70 percent of the entire Metso's personnel.

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 2008, the total amount of salaries and wages paid was EUR 1,066 million (EUR 1,036 million in 2007).

Personnel by area:

	Dec 31, 2006	Dec 31, 2007	**Dec 31, 2008**	**Change %**
Finland	9,281	9,386	**9,252**	**-1**
Other Nordic countries	3,580	3,602	**3,332**	**-7**
Other European countries	3,067	3,183	**3,842**	**21**
North America	3,715	3,865	**3,964**	**3**
South and Central America	2,439	2,675	**2,991**	**12**
Asia-Pacific	2,262	2,705	**4,469**	**65**
Other countries	1,334	1,421	**1,472**	**4**
Total	25,678	26,837	**29,322**	**9**

Strategic study

In August, Metso initiated a study to assess value-enhancing opportunities, including structural options. In December, Metso’s Board of Directors decided to discontinue the study as a result of the significant change in global economy. Metso’s Board and management continue to look for value enhancing opportunities in the normal course of business.

Reorganization of Metso’s business

Metso’s businesses were reorganized into three reporting segments as of December 1, 2008; Mining and Construction Technology, which is headed by Matti Kähkönen, Energy and Environmental Technology, headed by Pasi Laine, and Paper and Fiber Technology, headed by Bertel Langenskiöld.

Changes in top management

Metso appointed two new members to its Executive Team as of December 1, 2008. The new members are Kalle Reponen, Senior Vice President, Strategy and M&A, and Perttu Louhiluoto, who started at Metso on October 1, 2008 as Senior Vice President, Operational Excellence.

Metso also established Metso Executive Forum to enforce strategy execution globally as of December 1, 2008. In addition to the Metso Executive Team members, the members of the Metso Executive Forum are from Metso’s main business lines and geographical regions: Andrew Benko (Mining business line), João Ney Colagrossi (Construction business line), Per-Åke Färnstrand (Fiber business line), Heinz Gerdes (Recycling business line), Ari Harmaala (China), Hannu Mälkiä (Paper business line), Lennart Ohlsson (Power business line) and Sudhir Srivastava (India).

Financial targets and dividend policy

In connection with the annual strategy rounds Metso updated its long-term financial targets for the period 2009–2012. The following targets were set in August 2008 to replace the previous financial targets set in October 2006:

- Net sales growth more than 10 percent
- EBITA to improve annually and EBITA margin to exceed 12 percent
- ROCE-% before taxes to exceed 25 percent
- Cash conversion (free cash flow / net income) to exceed 100 percent
- Solid investment grade credit ratings to be maintained
- To distribute at least 50 percent of annual earnings per share as a dividend or in the other forms of repatriation of capital (share buybacks, redemptions etc.)

Even though the net sales growth, EBITA and ROCE targets continue to be valid for longer term, Metso does not consider these targets to be achievable for 2009 after major changes in Metso’s operating environment. The cash conversion, and solid investment grade status as well as dividend policy, are valid targets also for 2009. As usual, Metso will assess its financial targets and dividend policy after the annual strategy round during the second half of 2009.

Decisions of the Annual General Meeting

The Annual General Meeting of Metso Corporation on April 2, 2008 approved the accounts for 2007 as presented by the Board of Directors and decided to discharge the members of the Board of Directors and the President and CEO of Metso Corporation from liability for the financial year 2007. In addition, the Annual General Meeting approved the proposals of the Board of Directors to authorize the Board to decide upon repurchasing the Corporation's own shares, arranging a share issue, granting special rights and decreasing the share premium reserve and the legal reserve. The Annual General Meeting decided to establish a Nomination Committee of the Annual General Meeting to prepare proposals for the next Annual General Meeting in respect of the composition of the Board of Directors and director remuneration. The Nomination Committee consists of the representatives appointed by the four biggest shareholders and the Chairman of Metso's Board as an expert member.

Matti Kavetvuo was re-elected as the Chairman of the Board and Jaakko Rauramo was re-elected as the Vice Chairman. Jukka Viinanen and Arto Honkaniemi were elected as new members of the Board. Board members re-elected were Maija-Liisa Friman, Christer Gardell and Yrjö Neuvo. 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 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 per meeting. The auditing company PricewaterhouseCoopers Oy, Authorized Public Accountants, was re-elected as the Corporation's Auditor until the end of the next Annual General Meeting.

The Annual General Meeting decided that a dividend of EUR 3.00 per share be paid for the financial year which ended on December 31, 2007. The dividend comprised an ordinary dividend of EUR 1.65 per share and an extra dividend of EUR 1.35 per share. The dividend was paid on April 15, 2008.

Members of Metso's Board Committees

Metso Corporation's Board of Directors elected from its midst the members of the Audit Committee and Compensation Committee at its assembly meeting. The Board's Audit Committee consists of Maija-Liisa Friman (Chairman), Arto Honkaniemi and Jukka Viinanen. The Board's Compensation Committee consists of Matti Kavetvuo (Chairman), Christer Gardell, Yrjö Neuvo and Jaakko Rauramo.

The Nomination Committee consists of Metso's four biggest registered shareholders on November 3, 2008 and they have named the following persons as their representatives for Metso's Nomination Committee i.e. State of Finland: Pekka Timonen, Cevian Capital II Master Fund L.P.: Lars Förberg, Varma Mutual Pension Insurance Company: Mikko Koivusalo and Ilmarinen Mutual Pension Insurance Company: Harri Sailas. The Chairman of Metso's Board of Directors serves as the Committee's expert member. The Nomination Committee prepares proposals on the composition of the Board of Directors along with the director remuneration for the next Annual General Meeting and presents its proposal to the company's Board of Directors.

Shares, options and share capital

At the end of December, Metso's share capital was EUR 240,982,843.80 and the number of shares was 141,754,614. The number of shares includes 60,841 Metso shares held by the Parent Company and 70,131 Metso shares held by a limited partnership consolidated in Metso's consolidated financial statements. Together these represent 0.09 percent of all the shares and votes. The average number of shares outstanding in 2008, excluding Metso shares held by the company, was 141,595,026.

Metso's Annual General Meeting on April 2, 2008 decided to decrease the share premium reserve and the legal reserve. The decreased amounts were transferred to the reserve of invested non-restricted equity as of August 7, 2008.

In August, Metso's Board of Directors decided to cancel the remaining 100,000 year 2003A stock options. Following this and earlier cancellations and share subscriptions there are no options outstanding or available from any of Metso's option programs for subscription of shares in Metso Corporation.

Metso's market capitalization, excluding Metso shares held by the company, was EUR 1,207 million on December 31, 2008.

Share ownership plans

Metso has a share ownership plan for years 2006–2008. The maximum number of shares to be allocated in the incentive plan is 360,000 Metso Corporation shares. The 2007 share ownership plan comprised 86 Metso executives, including the entire Executive Team. At the end of March 2008, 67,657 shares were distributed as rewards, corresponding to approximately 0.05 percent of all Metso shares. Members of the Executive Team received 15,763 shares.

Metso's Board of Directors decided in February on the number of shares to be allocated for 2008 plan and the criteria for earning them. The potential reward from the plan will be based on the operating profit of Metso and its business areas in 2008. In 2008, the share ownership plan will cover a maximum of 130,000 Metso shares, corresponding to 0.09 percent of all Metso shares. Metso's Executive Team is covered by the 2008 plan, and a maximum of 27,500 shares has been allocated to the Executive Team members. The maximum reward from the plan is limited to each person's annual salary. The payment of rewards will be decided during the first quarter of 2009.

In October, Metso's Board approved a new, share-based incentive plan for the Metso Group management, Metso Share Ownership Plan 2009–2011 (SOP 2009–2011). The plan includes one three-year earnings period, which will begin on January 1, 2009 and will end on December 31, 2011. The plan was initially targeted to about 100 key managers, out of which 89 decided to participate. The plan requires participants' personal investment in Metso shares and the participants have committed to invest in about 55,000 shares. The rewards to be paid on the basis of the plan will correspond to a maximum total of approximately 380,000 Metso shares. The shares to be transferred in possible rewards are Metso shares obtained in public trading, and therefore, the SOP 2009–2011, will have no diluting effect on the share value.

Reporting segments

As of December 1, 2008, Metso's businesses were reorganized into three reporting segments: Mining and Construction Technology, consisting of Mining and Construction business lines, Energy and Environmental Technology, consisting of Power, Automation and Recycling business lines and Paper and Fiber Technology, consisting of Paper, Fiber and Tissue business lines. These financial statements are prepared based on the new operating structure.

Mining and Construction Technology

EUR million	2006	2007	**2008**
Net sales	1,945	2,330	**2,586**
Net sales of services business	856	960	**1,078**
% of net sales	44	41	**42**
Earnings before interest, tax and amortization (EBITA)	262.0	323.0	**361.2**
% of net sales	13.5	13.9	**14.0**
Operating profit	259.8	319.8	**358.4**
% of net sales	13.4	13.7	**13.9**
Orders received	2,399	2,776	**2,709**
Order backlog, Dec 31	1,099	1,496	**1,492**
Personnel, Dec 31	8,800	9,754	**11,259**

Net sales of Mining and Construction Technology grew by 11 percent on the comparison period and were EUR 2,586 million (the growth was 16% at comparable exchange rates). Both of the segment's business lines increased net sales over the previous year. Net sales of the services business were at a good level and grew by 12 percent (19% at comparable exchange rates). The services business accounted for 42 percent of the net sales (41% in 2007).

The operating profit in 2008 increased by 12 percent and was EUR 358.4 million, or 13.9 percent of net sales (EUR 319.8 million and 13.7%). Strong volume growth and the favorable development of the services business improved profitability. However, in the fourth quarter profitability weakened because of a slowdown in net sales growth while fixed costs continued to increase.

The value of orders received in 2008 was EUR 2,709 million (EUR 2,776 million in 2007). The decrease was due to the impact of exchange rates. The value of new orders was on par with the previous year in the Mining business line and slightly down in the Construction business line. The last quarter of 2008 was clearly the weakest in terms of orders received. The volume of orders received from emerging markets was at the previous year's level, and they accounted for 50 percent of the new orders (49%). Orders received increased in Asia-Pacific by close to 30 percent. Among the largest orders received during the year were those received for grinding equipment to Minera Petaquilla S.A.'s copper mine in Panama, minerals processing equipment to China Metallurgical Group in Australia, and grinding equipment to Metallurgical Company Norilsk Nickel in Russia. The order backlog remained at the previous year's level and totaled EUR 1,492 million at the end of December (EUR 1,496 million on Dec 31, 2007). Slightly over 10 percent of orders in the order backlog are subject to uncertainties, related to delivery schedules.

Energy and Environmental Technology

EUR million	2006	2007	2008
Net sales	881	1,543	**1,775**
Net sales of services business	213	347	**404**
% of net sales	26	23	**23**
Earnings before interest, tax and amortization (EBITA)	128.4	182.4	**198.3**
% of net sales	14.6	11.8	**11.2**
Operating profit	124.6	150.3	**176.0**
% of net sales	14.1	9.7	**9.9**
Orders received	980	1,884	**1,658**
Order backlog, Dec 31	1,079	1,337	**1,204**
Personnel, Dec 31	5,591	5,857	**6,357**

Net sales of Energy and Environmental Technology increased by 15 percent on the comparison period (18% at comparable exchange rates) and were EUR 1,775 million. The growth originated from all business lines, and the strongest growth was experienced in the Power business line. The services business grew by 16 percent (20 percent at comparable exchange rates). The services business accounted for 23 percent of the net sales, as was the case a year before (23% in 2007).

The operating profit increased by 17 percent on the previous year and was EUR 176.0 million, or 9.9 percent of net sales (EUR 150.3 million and 9.7% in 2007). Operating profit is burdened by the EUR 15 million of amortization of intangible assets related to the acquisition of the Power business (EUR 28 million in 2007). Operating profit in 2008 increased in the Automation business line owing to strong volume growth and decreased slightly in the Recycling business line. Also the operating profit of Power business line improved, but the improvement was mainly due to the decrease in the amortization of intangible assets.

The value of orders received fell by 12 percent from the comparison period and totaled EUR 1,658 million. The decrease was due to the Power and Recycling business lines. Orders received by the Automation business line remained on the previous year's level. Major orders for valves during the year included valve deliveries for the oil and gas industry in Asia and the Middle East, of which the most significant was the delivery for the Qatar Petroleum and Shell GTL (gas-to-liquids) project in Qatar. Major system deliveries included the large automation package for the Propapier paper plant in Germany. The Power business line's major orders were the evaporation plant to SCA Packaging's pulp and paper mill in Sweden, the biomass-fired power boiler to Dalkia France SCA's combined heat-and-power plant in France, and a multifuel-fired boiler to Stora Enso Poland S.A.'s power plant in Poland. The order backlog amounted to EUR 1,204 million at the end of the year, 10 percent below the level at the end of 2007. Projects accounting for close to 20 percent of the order backlog's total value are subject to uncertainties relating to delivery schedules. These uncertain orders include pulp mill orders for Zhanjiang Chenming in China and Aracruz in Brazil.

Paper and Fiber Technology

EUR million	2006	2007	**2008**
Net sales	2,092	2,364	**2,044**
Net sales of services business	636	718	**716**
% of net sales	30	30	**35**
Earnings before interest, tax and amortization (EBITA)	105.6	146.6	**146.1**
% of net sales	5.0	6.2	**7.1**
Operating profit	89.8	128.2	**130.1**
% of net sales	4.3	5.4	**6.4**
Orders received	2,276	2,293	**2,021**
Order backlog, Dec 31	1,600	1,553	**1,434**
Personnel, Dec 31	9,952	10,093	**10,544**

Net sales of Paper and Fiber Technology decreased by 14 percent in 2008 and were EUR 2,044 million. Net sales decreased considerably in the Paper and Fiber business lines. The net sales of the services business were on a par with the comparison period (at comparable exchange rates, the growth would have been about 3 percent), accounting for 35 percent of net sales (30% in 2007).

Paper and Fiber Technology's EBITA for January–December was EUR 146.1 million, i.e. 7.1 percent of net sales (EUR 146.6 million and 6.2%). The profitability improvement in the final quarter compared to the same period last year was due to the successful deliveries of major projects and the nonrecurring costs that were lower than the year before.

The operating profit was EUR 130.1 million, i.e. 6.4 percent of net sales (EUR 128.2 million and 5.4%), and it includes EUR 4 million in amortization of intangible assets relating to the acquisition of the Pulping business (EUR 8 million in 2007). The Paper and Tissue business lines improved their operating profit slightly, while the Fiber business line's operating profit decreased considerably compared with the previous year.

The pulp and paper industry's demand for equipment and services weakened considerably during the year. Orders received by the Tissue business line were on a par with the comparison year, while those of the Paper business line decreased. Orders received by the Fiber business line increased in 2008, but include two pulp technology projects with uncertain delivery schedules. The value of orders received decreased 12 percent from the comparison period and was EUR 2,021 million. The largest orders received during the year were a papermaking line for Propapier in Germany, pulp mill equipment for Zhanjiang Chenming in China, a pulp technology delivery to Aracruz in Brazil, board making lines for Shandong Bohui in China and Amcor in Australia, and a fine paper production line to Fujian Nanping Paper Co. in China.

The final scope of the Zhanjiang Chenming pulp mill project is currently being finalized. The customer of the Aracruz pulp mill project has announced that it plans to resume the expansion project in Brazil, as from the first half of 2011. Metso has done some work relating to the project on the basis of the prepayment made by the customer. Metso is negotiating with both Zhanjiang Chenming and Aracruz regarding project implementation schedules and the effects of scheduling changes.

The order backlog at the end of December, EUR 1,434 million, was 8 percent lower than the order backlog at the end of 2007. About one-third of the projects in the order backlog are subject to uncertainties relating to delivery schedules, such as the pulp mill orders mentioned above.

In the fourth quarter, the segment commenced measures to adjust capacity to the decreased machine and equipment demand in the pulp and paper industry. The change in the market situation has escalated further as a result of the global financial crisis. The planned measures are intended to secure the competitiveness of the business by streamlining the operational and cost structure of operations.

Valmet Automotive

Valmet Automotive's net sales in 2008 totaled EUR 65 million. The operating loss was EUR 3.5 million, or 5.4 percent of net sales. During the year, Valmet Automotive produced an average of 87 vehicles (in 2007, 110 vehicles) per day. At the end of December, Valmet Automotive employed 783 people (789 employees at December 31, 2007).

In November, Valmet Automotive and the U.S. company Fisker Automotive signed a cooperation agreement on the manufacture of Fisker Karma cars in Finland. Production is planned to start in the final quarter of 2009, and the first cars will be delivered to North America. The annual production is projected to be 15,000 cars. Valmet Automotive's current assembly contract with Porsche will continue until 2012.

Short-term outlook

As a result of the uncertainty in the financial markets and the slowdown of global economic growth, Metso's operating environment is expected to be demanding in 2009. Metso's customers are cautious in their decisions to invest, which will especially affect the demand for Metso's new equipment and project business.

Mining companies are expected to make substantial cuts in their investment plans compared with the peak investment levels of recent years and further limit their production during the year. Based on the strong product and services offering, the demand for Metso's mining equipment is expected to be satisfactory in 2009. In the construction industry, the demand for equipment relating to aggregates production is estimated to be weak at least during the first half of the year. Many countries have introduced stimulus measures relating to infrastructure development, which, at some point, are expected to have a positive effect on the demand for construction industry products. The demand for Mining and Construction Technology's services business is expected to be satisfactory.

The demand for power plants utilizing renewable energy sources is expected to be satisfactory in Europe and North America in 2009. The goals set for the use of renewable energy sources and the efforts to secure and increase energy self-sufficiency are expected to boost the demand for these power plants. The demand for Metso's automation products is expected to be satisfactory in 2009. The demand for metals recycling equipment is expected to be weak, owing to the low demand of scrap metal and reduction in steel production. Demand for services business in Energy and Environmental Technology is expected to be satisfactory.

The demand for paper, pulp and fiber lines is expected to be weak in 2009. The delivery schedules of some large paper and board machine and fiber line projects in the order backlog have been prolonged. In the pulp and paper industry, low capacity utilization rates are expected to weaken the demand for Metso's services business, particularly in North America and Europe.

Metso's total net sales in 2009 are estimated to exceed EUR 5 billion. Metso's order backlog is over EUR 4 billion, out of which about EUR 3 billion is scheduled for 2009. Metso's services business volumes are expected to remain satisfactory in 2009.

The focus of Metso's management has shifted from growth to profitability and cash flow. The aim is to quickly adjust the capacity and the cost structure to correspond with the demand. Metso's profitability is expected to be satisfactory in 2009. Free cash flow is expected to improve considerably on 2008 owing to the measures aimed at releasing working capital.

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

Board of Directors' proposal for the distribution of profit

The Parent Company's distributable funds totaled EUR 1,017,111,051.25 on December 31, 2008, of which the net profit for the year was EUR 361,829,353.31.

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, 2008, 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 3, 2009 and that the dividend will be paid on April 15, 2009.

In addition the Board of Directors proposes that the Board of Directors be authorized to decide within its discretion, and when the economic situation of the Company favours it, on the payment of dividend addition to the dividend decided in the Annual General Meeting, however no more than EUR 0.68 per share. The Board of Directors shall make its decision no later than December 31, 2009. The dividend paid on the basis of the decision of the Board of Directors will be paid to the shareholders registered in the Company's shareholders' register maintained by the Finnish Central Securities Depository (Euroclear Finland Ltd) on the record date decided by the Board of Directors. The Board of Directors shall decide the record date for dividend and the date of payment of the dividend, which can at the earliest be the fifth banking day from the record date.

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

Annual General Meeting 2009

The Annual General Meeting of Metso Corporation will be held at 3 p.m. on Tuesday, March 31, 2009 at Helsinki Fair Centre (Messuaukio 1, 00520 Helsinki, Finland).

Helsinki, February 4, 2009

Metso Corporation's Board of Directors

Shares and Shareholders

Shares and share capital

On December 31, 2008, Metso Corporation's fully paid share capital entered in the trade register was EUR 240,982,843.80 and it was divided into 141,754,614 shares. Metso has one class of shares and each share entitles its holder to one vote at the Annual General Meeting and to an equal amount of dividend. Metso's shares are registered in the Finnish book-entry system.

Changes in number of shares and share capital, January 1, 2001 – December 31, 2008:

		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	-

Share ownership plan

On December 31, 2008, MEO1V Incentive Ky, a limited partnership company that administers Metso's share ownership plan and is included in Metso's consolidated financial statements, held 70,131 Metso shares to implement the share ownership plan. The acquisition price of the shares is EUR 2,585,818 and they were acquired in 2006. On December 31, 2008, the Parent Company held 60,841 treasury shares, which were repurchased in 1999 at a total price of EUR 654,813. The aggregate of the above-mentioned shares is 130,972 shares, or 0.09 percent of the Corporation's share capital.

Board authorizations

On April 2, 2008, the Annual General Meeting authorized Metso's Board of Directors to resolve of a repurchase of the Corporation's own shares, of a share issue and to grant of special rights, and approved the decrease of the share premium reserve and legal reserve.

Decided decrease of the share premium reserve and the legal reserve was implemented in August 7, 2008 and the decreased amounts were transferred to the reserve of invested non-restricted equity.

Authorization to repurchase and convey the Corporation's own shares

The Annual General Meeting authorized the Board of Directors to decide on the repurchase of a maximum of 5,000,000 of the Corporation's own shares. The Corporation's own shares may be acquired using non-restricted equity through public trading on the NASDAQ OMX Helsinki Ltd, at the market price of the share prevailing at the time of acquisition.

The Corporation's own shares so acquired may be held, cancelled or conveyed by the Corporation. The shares so acquired may be used as consideration in acquisitions or other arrangements concerning the Corporation's business, in financing investments or as part of the Corporation's share ownership plan. The Board had not exercised the authorization by December 31, 2008.

SHARES AND SHAREHOLDERS

Authorization to decide on a share issue

The Board of Directors has been authorized to decide on issuing up to a maximum of 15,000,000 new shares and on conveying up to a maximum of 5,000,000 of the Corporation's own shares. The new shares may be issued and own shares held by the Corporation may be conveyed either against payment or for no consideration.

The Board may also decide on a share issue for no consideration to the Corporation itself. The number of shares issued to the Corporation shall not exceed 5,000,000, including the number of own shares acquired by the Corporation by virtue of the authorization to repurchase the Corporation's own shares.

The new shares can be issued and the own shares held by the Corporation can be conveyed to the Corporation's shareholders in proportion to their present holding or by means of a share offering, waiving the preemptive subscription rights of the shareholders, if there is a weighty financial reason for the Corporation to do so. Such reasons may include using the shares as consideration in acquisitions or other arrangements concerning the Corporation's business, to finance investments or as part of the Corporation's share ownership plan. A share offering may take place without consideration only if there are particularly weighty reasons to do so from the Corporation's point of view and considering the benefit of all of the Corporation's shareholders. The Board has not exercised the authorization.

Market capitalization and trading

Metso Corporation's shares have been listed on the NASDAQ OMX Helsinki (OMXH: MEO1V) since July 1, 1999. The listing of Metso's American Depository Shares (ADS) on the New York Stock Exchange began on July 1, 1999 and ended on September 14, 2007. Trading with the Corporation's American Depository Receipts continues in the United States OTC markets under the code MXCYY.

Metso's share price on the NASDAQ OMX Helsinki decreased by 77 percent during 2008 from EUR 37.33 to EUR 8.52. At the same time, the portfolio index of Helsinki stock exchange, OMX Helsinki CAP (OMXHCAP), decreased by 50 percent. The highest quotation of Metso's share on the NASDAQ OMX Helsinki was EUR 38.56, and the lowest EUR 7.74. The share price on December 31, 2008 was EUR 8.52, and the average trading price for the year was EUR 23.66. The Corporation's end-of-year market capitalization was EUR 1,207 million, excluding own shares held by the Group.

In 2008, 359,378,566 Metso shares were traded on the NASDAQ OMX Helsinki. The total turnover was EUR 8,503 million. The average daily trading volume was 1.4 million shares, or 2.6 percent higher than in 2007. 254 percent of shares were traded during the year (relative turnover in 2007: 248 percent).

In 2008, the highest price of Metso's American depository share (ADS) in the United States was USD 56.40, and the lowest USD 10.15. The ADS price in the OTC trade on December 31, 2008 was USD 12.19. Each ADS represents one share.

Incentive systems

Options programs

In August, Metso's Board of Directors decided to cancel the remaining 100,000 year 2003A stock options. Following this and earlier cancellations and share subscriptions there are no options outstanding or available from any of Metso's option programs for subscription of shares in Metso.

Further information on the 2003A options program is presented in the Notes to the Financial Statements (Note 22 on page 76).

Share ownership plans

Metso has a share ownership plan for the strategy period 2006–2008, and it is part of the remuneration and commitment program for the management of Metso and its business areas. The plan covers three earnings periods, each of which lasts one calendar year, i.e. 2006, 2007 and 2008. The incentive will consist of both shares and cash. In 2008, the share ownership plan covers a maximum total of 130,000 Metso shares, corresponding to 0.09 percent of all Metso shares. The payment of rewards will be decided during the first quarter of 2009.

Metso's Board has approved a new, share-based incentive plan for the Metso Group management, Metso Share Ownership Plan 2009–2011 (SOP 2009–2011). The plan includes one three-year earnings period, which will begin on January 1, 2009 and will end on December 31, 2011. The rewards to be paid on the basis of the plan will correspond to a maximum total of approximately 380,000 Metso shares. The shares to be transferred in possible rewards are Metso shares obtainned in public trading, and therefore, the SOP 2009–2011, will have no diluting effect on the share value.

Further information on the share ownership plan for the 2007, 2008 and 2009 earnings periods is presented in the Board of Directors' report and for the 2006, 2007 and 2008 earnings periods on Notes to the Financial Statements (Note 22 on page 76).

Holdings of Metso's Board of Directors and executive management on December 31, 2008

At the end of 2008, the members of Metso's Board of Directors, Jorma Eloranta, President and CEO, and Olli Vaartimo, Executive Vice President and CFO and people in their immediate circle held a total of 54,840 Metso shares. These shares represent 0.04 percent of the Corporation's share capital and voting rights.

Up-to-date information on Metso's statutory insiders with their holdings are presented on Metso's web site.

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 proposes to the Annual General Meeting that the dividend of EUR 0.70 per share be distributed for the year ended on December 31, 2008. The Board is further proposing to the Annual General Meeting to authorize the Board to pay at its discretion an additional dividend later in the year 2009 in the amount not exceeding EUR 0.68 per share should Metso's financial position support the distribution of such additional dividend.

The proposed dividend of EUR 0.70 corresponds to 25 percent of the profit attributable to the equity shareholders for the year. The effective dividend yield is 8.2 percent.

Shareholders

At the end of 2008, Metso had 41,840 shareholders in the book-entry register, and the biggest of these was the Solidium Oy (wholly-owned by the Finnish state) with an 11.1 percent (2007: 11.1%) holding.

Nominee registered shares and shares in direct foreign ownership accounted for 55.4 percent (66.8%) of the total stock. 20.7 percent (16.4%) of the total stock was held by Finnish institutions, companies and foundations and 12.8 percent (5.7%) was held by Finnish private individuals.

SHARES AND SHAREHOLDERS

Metso's biggest shareholders on December 31, 2008:

		Number of shares and votes	% of share capital and voting rights
1	**Solidium Oy** [1]	**15,695,287**	**11.1**
2	**Ilmarinen Mutual Pension Insurance Company**	**4,027,621**	**2.8**
3	**Varma Mutual Pension insurance company**	**3,520,204**	**2.5**
4	**The State Pension Fund**	**1,800,000**	**1.3**
5	**Odin Funds**	**1,590,207**	**1.1**
	Odin Norden	977,678	0.7
	Odin Forvaltnings AS	430,637	0.3
	Odin Forvaltnings AS / Odin Europa	152,694	0.1
	Odin Norden II	29,198	0.0
6	**Sampo-rahastot**	**1,051,298**	**0.7**
	Danske Fund Finnish Equity	605,757	0.4
	Danske Fund Finnish Institutional Equity	322,901	0.2
	Sampo European Balanced Fund	80,640	0.1
	Sampo Pohjoisen parhaat Fund	42,000	0.0
7	**OP Funds**	**1,015,653**	**0.7**
	OP-Delta Fund	591,482	0.4
	OP-Finland Value Fund	300,000	0.2
	OP-Focus Non-UCITS Fund	101,151	0.1
	OP-ryhmän Tutkimussäätiö	23,020	0.0
8	**Etera Mutual Pension Insurance Company**	**948,000**	**0.7**
9	**Svenska litteratursällskapet i Finland r.f.**	**922,495**	**0.7**
10	**Nordea Funds**	**738,483**	**0.5**
	Nordea Life Assurance Finland Ltd.	232,170	0.2
	Nordea Fennia Fund	212,000	0.2
	Nordea Pro Finland Fund	195,000	0.1
	Nordea Avanti Fund	57,771	0.0
	Nordea Fennia Plus Fund	41,542	0.0
	10 largest owner groups in total	**31,309,248**	**22.1**
	Nominee-registered shares [2]	76,198,568	53.8
	Other shareholders	34,105,686	24.1
	Treasury shares held by the Parent Company	60,841	0.0
	Shares administered by a partnership (MEO1V Incentive Ky)	70,131	0.0
	On shared account	10,140	0.0
	Total	**141,754,614**	**100.0**

[1] The Finnish State has on December 11, 2008 transferred all its Metso Corporation shares to the entirely state-owned Solidium Oy as a capital contribution. The shares transferred to Solidium Oy include 15,695,287 Metso Corporation shares, which corresponds to 11.1 percent of the paid up share capital and votes in Metso. After the transfer, there are no Metso Corporation shares owned by the state.

[2] During 2008, only one flagging notification was received from Metso's shareholders, whose holdings reached or exceeded 5 percent of Metso's share capital or voting rights. An up-to-date list of all flagging notifications made can be found at www.metso.com/investors.
Marathon Asset Management LLP announced that on November 11, 2008 the funds they managed held 7,258,794 shares, which corresponds to 5.12 percent of the paid up share capital of Metso Corporation. Out of this holding, Marathon Asset Management LLP was in possession of 5,545,225 shares to which they had voting rights. This voting authority represents 3.91percent of the total voting rights in Metso.

SHARES AND SHAREHOLDERS

Breakdown of share ownership on December 31, 2008:

Number of shares	Share-holders	% of share-holders	Total number of shares and votes	% of share capital and voting rights
1-100	16,416	39.2	893,674	0.6
101-1,000	21,027	50.3	7,829,975	5.5
1,001-10,000	4,045	9.7	10,487,094	7.4
10,001-100,000	290	0.7	7,819,415	5.5
over 100,001	42	0.1	38,384,776	27.2
Total	41,820	100.0	65,414,934	46.2
Nominee-registered shares	18		76,198,568	53.8
Treasury shares held by the Parent Company	1		60,841	0.0
Shares administered by a partnership (MEO1V Incentive Ky)	1		70,131	0.0
On shared account			10,140	0.0
Number of shares issued			**141,754,614**	**100.0**

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

CONSOLIDATED STATEMENTS OF INCOME

EUR million	Note	Year ended December 31, 2006	2007	**2008**
Net sales	32	4,955	6,250	**6,400**
Cost of goods sold	6, 7	-3,659	-4,702	**-4,733**
Gross profit		1,296	1,548	**1,667**
Selling, general and administrative expenses	4, 6, 7	-846	-972	**-1,043**
Other operating income and expenses, net	5, 32	6	1	**11**
Share in profits and losses of associated companies	14, 32	1	3	**2**
Operating profit	32	457	580	**637**
% of net sales		9.2%	9.3%	**10.0%**
Financial income and expenses, net	8	-36	-33	**-89**
Profit before tax		421	547	**548**
Income taxes	9	-11	-163	**-158**
Profit		410	384	**390**
Attributable to:				
Shareholders of the company		409	381	**389**
Minority interests		1	3	**1**
		410	384	**390**
Earnings per share				
Basic, EUR	12	2.89	2.69	**2.75**
Diluted, EUR	12	2.89	2.69	**2.75**

CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE

EUR million	Note	Year ended December 31, 2006	2007	**2008**
Cash flow hedges, net of tax	21, 30	16	-2	**-33**
Available-for-sale equity investments, net of tax	15, 21	1	22	**-19**
Currency translation on subsidiary net investments	21	-59	-29	**-49**
Net investment hedge gains (+) / losses (-), net of tax	21	22	-2	**-11**
Defined benefit plan actuarial gains (+) / losses (-), net of tax	27	2	-1	**-22**
Other		2	2	**0**
Net income and expense recognized directly in equity		-16	-10	**-134**
Profit		410	384	**390**
Total recognized income and expense for the year		394	374	**256**
Attributable to:				
Shareholders of the company		393	371	**255**
Minority interests		1	3	**1**
		394	374	**256**

CONSOLIDATED BALANCE SHEETS

Assets

EUR million	Note	As at December 31, 2007	**2008**
Non-current assets			
Intangible assets	13		
Goodwill		772	**778**
Other intangible assets		251	**254**
		1,023	**1,032**
Property, plant and equipment	13		
Land and water areas		54	**58**
Buildings and structures		216	**239**
Machinery and equipment		315	**366**
Assets under construction		49	**63**
		634	**726**
Financial and other assets			
Investments in associated companies	14	19	**14**
Available-for-sale equity investments	15, 19	45	**18**
Loan and other interest bearing receivables	18, 19	5	**8**
Available-for-sale financial investments	18, 19	5	**5**
Derivative financial instruments	19, 30	3	**-**
Deferred tax asset	9	144	**174**
Other non-current assets	18, 19	19	**26**
		240	**245**
Total non-current assets		1,897	**2,003**
Current assets			
Inventories	17	1,410	**1,606**
Receivables			
Trade and other receivables	18, 19	1,256	**1,146**
Cost and earnings of projects under construction in excess of advance billings	16	374	**362**
Loan and other interest bearing receivables	18, 19	2	**9**
Available-for-sale financial investments	18, 19	0	**-**
Derivative financial instruments	19, 30	18	**48**
Income tax receivables		30	**23**
		1,680	**1,588**
Cash and cash equivalents	20	267	**314**
Total current assets		3,357	**3,508**
Total assets		5,254	**5,511**

CONSOLIDATED BALANCE SHEETS

Shareholders' equity and liabilities

EUR million	Note	As at December 31, 2007	**2008**
Equity	21		
Share capital		241	**241**
Share premium reserve		77	**-**
Cumulative translation adjustments		-76	**-136**
Fair value and other reserves		456	**490**
Retained earnings		910	**849**
Equity attributable to shareholders		1,608	**1,444**
Minority interests		7	**9**
Total equity		1,615	**1,453**
Liabilities			
Non-current liabilities			
Long-term debt	19, 23	700	**1,089**
Post-employment benefit obligations	27	177	**191**
Provisions	24	37	**36**
Derivative financial instruments	19, 30	1	**8**
Deferred tax liability	9	41	**45**
Other long-term liabilities	19	1	**4**
Total non-current liabilities		957	**1,373**
Current liabilities			
Current portion of long-term debt	19, 23	22	**101**
Short-term debt	19, 25	97	**245**
Trade and other payables	19, 26	1,291	**1,189**
Provisions	24	222	**218**
Advances received		637	**479**
Billings in excess of cost and earnings of projects under construction	16	331	**323**
Derivative financial instruments	19, 30	16	**82**
Income tax liabilities		66	**48**
Total current liabilities		2,682	**2,685**
Total liabilities		3,639	**4,058**
Total shareholders' equity and liabilities		5,254	**5,511**

CONSOLIDATED STATEMENTS OF CASH FLOWS

EUR million	Note	Year ended December 31, 2006	2007	**2008**
Cash flows from operating activities:				
Profit		410	384	**390**
Adjustments to reconcile profit to net cash provided by operating activities				
Depreciation and amortization	7	105	148	**138**
Gain (-) / loss (+) on sale of fixed assets	5	-6	-2	**-2**
Gain (-) / loss (+) on sale of subsidiaries and associated companies	11	-10	-4	**-4**
Gain on sale of available-for-sale equity investments	5	-1	-7	**-2**
Share of profits and losses of associated companies	14	-1	-3	**-3**
Dividend income and interests, net	8	26	32	**57**
Income taxes	9	11	163	**158**
Other non-cash items		18	12	**45**
Change in net working capital, net of effect from business acquisitions and disposals		-18	-286	**-437**
Interest paid		-45	-45	**-64**
Interest received		19	14	**13**
Dividends received		2	2	**2**
Income taxes paid		-68	-114	**-154**
Net cash provided by operating activities		442	294	**137**
Cash flows from investing activities:				
Capital expenditures on fixed assets	13	-129	-159	**-255**
Proceeds from sale of fixed assets		14	16	**10**
Business acquisitions, net of cash acquired	10	-277	-55	**-44**
Proceeds from sale of businesses, net of cash sold	11	13	9	**12**
Investments in available-for-sale equity investments		-2	0	**0**
Proceeds from sale of available-for-sale equity investments		2	3	**7**
Investments in available-for-sale financial investments		-23	0	**-**
Proceeds from sale of available-for-sale financial investments		177	10	**-**
Increase in loan receivables		-4	-2	**-8**
Decrease in loan receivables		2	2	**1**
Net cash used in investing activities		-227	-176	**-277**
Cash flows from financing activities:				
Share options exercised	21	1	0	**-**
Redemption of own shares	21	-11	-	**-**
Dividends paid		-198	-212	**-425**
Hedging of net investment in foreign subsidiaries		-6	15	**13**
Net borrowings (+) / payments (-) on short-term debt		90	-37	**163**
Proceeds from issuance of long-term debt		113	122	**486**
Principal payments of long-term debt		-165	-87	**-25**
Principal payments of finance leases		-3	-3	**-3**
Other items		-	-	**2**
Net cash provided by (+) / used in (-) financing activities		-179	-202	**211**
Net increase (+) / decrease (-) in cash and cash equivalents		36	-84	**71**
Effect of changes in exchange rates on cash and cash equivalents		-6	-2	**-24**
Cash and cash equivalents at beginning of year	20	323	353	**267**
Cash and cash equivalents at end of year		353	267	**314**

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended December 31,		
EUR million	2006	2007	**2008**
Increase (-) / decrease (+) in assets and increase (+) / decrease (-) in liabilities:			
Inventory	-215	-335	**-230**
Trade and other receivables	-194	-64	**58**
Percentage of completion: recognized assets and liabilities, net	1	31	**-7**
Trade and other payables	390	82	**-258**
Total	-18	-286	**-437**

Breakdown of business combinations is presented in note 10.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

EUR million	Share capital	Share premium reserve	Cumulative trans-lation adjustments	Fair value and other reserves	Retained earnings	Equity attributable to shareholders	Minority interests	Total equity
Balance at December 31, 2005	**241**	**76**	**-9**	**424**	**526**	**1,258**	**7**	**1,265**
Net income and expense recognized directly in equity	-	-	-36	17	3	-16	-	-16
Profit	-	-	-	-	409	409	1	410
Total recognized income and expense for the year	-	-	-36	17	412	393	1	394
Dividends	-	-	-	-	-198	-198	0	-198
Share options exercised	-	1	-	-	-	1	-	1
Redemption of own shares	-	-	-	-11	-	-11	-	-11
Share-based payments	-	-	-	1	-	1	-	1
Other	-	-	-	1	-1	0	-2	-2
Balance at December 31, 2006	**241**	**77**	**-45**	**432**	**739**	**1,444**	**6**	**1,450**
Net income and expense recognized directly in equity	-	-	-31	20	1	-10	-	-10
Profit	-	-	-	-	381	381	3	384
Total recognized income and expense for the year	-	-	-31	20	382	371	3	374
Dividends	-	-	-	-	-212	-212	0	-212
Share options exercised	0	0	-	-	-	0	-	0
Redemption of own shares	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	5	-	5	-	5
Other	-	-	-	-1	1	0	-2	-2
Balance at December 31, 2007	**241**	**77**	**-76**	**456**	**910**	**1,608**	**7**	**1,615**
Net income and expense recognized directly in equity	-	-	-60	-52	-22	-134	-	-134
Profit	-	-	-	-	389	389	1	390
Total recognized income and expense for the year	-	-	-60	-52	367	255	1	256
Dividends	-	-	-	-	-425	-425	-2	-427
Share options exercised	-	-	-	-	-	-	-	-
Redemption of own shares	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	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**

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

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, 00100 Helsinki.

These consolidated financial statements were authorized for issue by the Board of Directors on February 4, 2009.

Basis of preparation

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 as adopted by the EU, as applied in Metso, and IFRS as written by the IASB.

As of January 1, 2008 Metso adopted IFRIC 14, ‘IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction’, which is applied to post-employment defined benefit plans and other long-term defined benefit plans under IAS 19, if the plan inclu-des minimum funding requirements. The interpretation also clarifies the criteria for recognition of an asset on future refunds or reductions in future contributions. The adoption did not have any impact on the 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 dis-closure 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 and available-for-sale investments, 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 opera-ting 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-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 Mining and Construction 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.

Foreign currency translation

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

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

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 are recognized through the Consolidated Statement of Recognized Income and Expense (SORIE) 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 SORIE in equity, net of taxes. When a foreign entity is disposed of the accumulated translation difference is reversed through SORIE 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.

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 uses cash flow hedge accounting for 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 SORIE in the hedge reserve of equity and reversed through SORIE 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 SORIE 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 SORIE 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, include for example foreign currency forward contracts, 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

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 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 operates various share-based compensation schemes, including share ownership plan, 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.

The fair value of options is either based on quoted market price, if available, or a value obtained using valuation models. When the options are exercised, the proceeds received, net of transaction costs, are recognized in the fund for invested non-restricted equity.

Non-market vesting conditions (such as operating profit 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.

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

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 arising 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 SORIE 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 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.

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 recognized in profit and loss as a reduction of the depreciation charge of the related asset. Other government grants are deferred and recognized in profit and loss concurrently with the costs they compensate.

Emission Rights and Trading

Metso has received emission rights under the European Emission Trading Scheme. These rights, for the recognition of which there are no authoritative rules, are recognized as government grants at acquisition price and as they have been granted free of charge their acquisition value is nil. They are being consumed concurrently with CO_2 emissions over the compliance period. Any excess of rights is disposed of and the gain is recognized under other operating income. Should the emissions made exceed the initially allocated rights, additional rights are acquired at prevailing market price and recognized as cost in the costs of goods sold.

Other operating income and expenses, net

Other operating income and expenses, net, comprise income and expenses, which do not directly relate to the operating activity of businesses within Metso or which arise from unrealized and realized changes in fair value of foreign currency denominated financial instruments associated with the operating activity, including forward exchange contracts. Such items include costs related to significant restructuring programs, gains and losses on disposal of assets, except for those qualifying as discontinued operations, and foreign exchange gains and losses, excluding those qualifying for hedge accounting and those, which are reported under financial income and expenses, net.

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.

The diluted earnings per share are calculated by applying the “treasury stock” method, under which earnings per share data is computed as if the warrants and options were exercised at the beginning of the period, or on the issuance of warrants and options, if that occurs later during the period, and as if the funds obtained thereby were used to purchase ordinary shares at the average market price during the period. In addition to the weighted average number of ordinary shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the warrants and options. The warrants and options have a dilutive effect only when the average market price of the ordinary shares during the period exceeds the exercise price of the warrants and options.

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.

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 another intangible assets 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

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 risk 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 solely derivatives.

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 (derivatives), 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 at fair value including transaction costs on the settlement date.

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.

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 SORIE 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 SORIE. 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 SORIE 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 SORIE.

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 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 SORIE.

Loans and receivables

Loan and other interest bearing receivables comprise interest bearing trade and loan receivables. Other non-interest bearing receivables comprise non-interest bearing loan receivables.

Loans and receivables are initially recognized at fair value including transaction costs. Subsequently they are recognized 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 impairments loss is recognized for the shortfall between the carrying value and the present value of the expected cash flows. Interest income on loan and other interest bearing receivables is included in financial income and expenses, net.

Inventories

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

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

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

Trade receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

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.

Share capital 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.

Own shares comprise both shares held by the Parent Company i.e. treasury shares and shares held by a partnership (MEO1V Incentive Ky), which is consolidated in Metso's financial statements.

Dividends

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

Long-term debt

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

Capitalization of transaction costs related to issuance of debt instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

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.

At the end of 2008 (end of 2007 respectively) cash and cash equivalents amounted to EUR 314 million (EUR 267 million), available-for-sale financial investments to EUR 5 million (EUR 5 million) and committed undrawn credit facilities to EUR 500 million (EUR 500 million).

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

Metso's refinancing risk is managed by balancing the proportion of short-term and long-term debt as well as the average remaining maturity of long-term debt. The tables below analyze the repayments and interests on Metso’s liabilities and cash flows from derivative contracts by relevant maturity groupings based on remaining period at the balance sheet date to the contractual maturity date.

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	-	-
Forward exchange contracts / outflow	1,359	102	-
Forward exchange contracts / inflow	-1,388	-103	-
Net settled interest rate and commodity derivatives (outflow positive, inflow negative)	5	2	-2
Total	**1,581**	**915**	**356**

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

December 31, 2007

EUR million	**<1 year**	**1-5 years**	**>5 years**
Long-term debt			
Repayments	22	616	84
Interests	39	110	7
Short-term debt			
Repayments	97	-	-
Interests	2	-	-
Trade payables	856	-	-
Other liabilities	435	-	-
Forward exchange contracts / outflow	1,244	146	-
Forward exchange contracts / inflow	-1,246	-145	-
Net settled interest rate and commodity derivatives (outflow positive, inflow negative)	-2	0	-
Total	1,447	727	91

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, 2008 the equity attributable to shareholders was EUR 1,444 million (EUR 1,608 million) and the amount of interest bearing debt was EUR 1,435 million (EUR 819 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-3

There are no prepayment covenants in Metso's financial contracts that 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 2004-2008 on pages 101–102 in these financial statements. The formulas for calculating the financial indicators are presented on page 104.

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, 2008 (2.1 years).

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

At the end of 2008 the balance sheet items exposed to interest rate risk were interest bearing assets of EUR 336 million (EUR 279 million) and interest bearing debt of EUR 1,435 million (EUR 819 million). Of interest bearing debt 74 percent (75%) was denominated in EUR.

In the interest rate risk, the basis for the 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 increase or decrease Metso's net interest expenses, net of taxes, in next 12 months by EUR 2.1 million (EUR 0.5 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	2007	**2008**
Effects in		
• income statement	-/+ 0.2	**+/- 1.2**
• equity	+/- 2.3	**+/- 1.6**

The effect in the income statement is comprised of the change in the fair value of derivatives which are directly recognized through profit and loss. The effect in the equity is comprised of the change in the fair value of available-for-sale financial assets and derivatives qualifying as effecttive 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 USD, EUR, SEK, BRL, AUD and CAD.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

Total foreign exchange transaction exposure at the end of the year was as follows:

EUR million	2007	**2008**
Operational items	676	**508**
Financial items	-273	**-178**
Hedges	-370	**-359**
Total exposure	33	**-28**

The 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. This analysis excludes net foreign currency investments in subsidiaries together with instruments hedging these investments. Assuming the 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, however excluding EUR as foreign currency, would be a corresponding decrease or increase of less than EUR 1 million (EUR 2.5 million).

Transaction exposure is spread in 30 currencies and there are no major open exposures in any single currency. As of December 31, 2008 the biggest open exposures were in SEK (13%), USD (10%) and GBP (8%). A 10 percent appreciation of any of the currencies would have an effect, net of taxes, of 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	2007 total	**2008 USD**	**SEK**	**others**	**total**
Effects in					
• income statement	+/- 31.0	**+/- 10.0**	**+/- 14.6**	**+/- 2.5**	**+/- 27.1**
• equity	+/- 6.5	**+/- 5.8**	**-/+ 2.6**	**+/- 1.4**	**+/- 4.7**

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 its respective parent company. The major translation exposures are in USD, BRL, CNY and SEK. As of December 31, 2008 Metso had hedged 74 percent (32%) of USD, 81 percent (92%) of SEK and 0 percent (67%) of CAD denominated net investments to reduce the effect of exchange rate fluctuations. The hedging instruments are foreign currency loans and forward exchange contracts.

A sensitivity analysis of financial instruments includes forward exchange contracts and foreign currency loans qualified as net investment hedges. A 10 percent change in EUR foreign exchange rates would have an effect of EUR 14.8 million (EUR 29.2 million), net of taxes, in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

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 has been outsourced to an external broker. As of December 31, 2008 Metso had outstanding electricity forwards amounting to 635 GWh (356 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, 2008 Metso had outstanding nickel swaps amounting to 258 tons (396 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	2007	**2008**
Electricity – effect in equity	+/- 1.3	**+/- 1.5**
Electricity – effect in income statement	+/- 0.0	**+/- 0.3**
Nickel – effect in income statement	+/- 1.4	**+/- 0.1**

As hedge accounting is applied, the effective portion of electricity forwards is recognized in shareholders' 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, 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 to the carrying value of trade and loan receivables. The credit quality is evaluated both on the basis of ageing of the trade receivables and also on the basis of customer specific analysis. The aging structure of trade receivables is shown in note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

Counterparty risk arises also from financial transactions agreed upon with banks and financial institutions. 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 assets, derivatives and cash and cash equivalents on the balance sheet date.

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 2008, approximately 36 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.

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 129 million as of December 31, 2008, adjusted by EUR 9 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 has been allocated to acquired assets and assumed liabilities, and the excess 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 and 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 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 reporting 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 one 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 14 percent and would not have indicated any impairment needs.

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 the statement of recognized income and expenses. 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, 2008.

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 THE CONSOLIDATED FINANCIAL STAEMENTS

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.

4 Selling, general and administrative expenses

	Year ended December 31,		
EUR million	2006	2007	**2008**
Marketing and selling expenses	-468	-521	**-543**
Research and development expenses, net	-94	-112	**-127**
Administrative expenses	-284	-339	**-373**
Total	-846	-972	**-1,043**

Research and development expenses, net, consist of following:

	Year ended December 31,		
EUR million	2006	2007	**2008**
Research and development expenses, total	-109	-117	**-134**
Capitalized development costs	-1	0	**0**
Capital expenditure	14	5	**7**
Grants received	8	6	**5**
Depreciation and amortization	-6	-6	**-5**
Research and development expenses, net	-94	-112	**-127**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 Other operating income and expenses, net

EUR million	Year ended December 31, 2006	2007	**2008**
Gain on sale of subsidiaries and businesses [1)]	10	4	**4**
Gain on sale of fixed assets	6	3	**2**
Gain on sale of available-for-sale equity investments	1	7	**2**
Rental income	3	3	**3**
Foreign exchange gains [2)]	7	19	**28**
Change in fair value of derivatives [3)]	5	2	**15**
Other income	10	11	**9**
Other operating income, total	42	49	**63**
Impairment of goodwill [4)]	-7	-	**-**
Loss on sale of fixed assets	0	-1	**0**
Write-downs on fixed assets	-6	-5	**-4**
Foreign exchange losses [2)]	-14	-19	**-22**
Change in fair value of derivatives [3)]	-4	-6	**-19**
Other expenses	-5	-17	**-7**
Other operating expenses, total	-36	-48	**-52**
Other operating income and expenses, net	6	1	**11**

[1)] Gain on disposal of Metso Powdermet AB in the year ended December 31, 2006, 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.

[4)] Goodwill impairment charge related to Metso's Panelboard business.

6 Personnel expenses and the number of personnel

Personnel expenses:

	Year ended December 31,		
EUR million	2006	2007	**2008**
Salaries and wages	-909	-1,033	**-1,064**
Pension costs, defined contribution plans	-79	-89	**-86**
Pension costs, defined benefit plans [1)]	-9	-8	**-10**
Other post-employment benefits [1)]	-4	-3	**-3**
Share-based payments	-5	-3	**-2**
Other indirect employee costs	-162	-203	**-208**
Total	-1,168	-1,339	**-1,373**

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

Board remuneration:

	Year ended December 31,		
EUR thousand	2006	2007	**2008**
Serving Board members December 31, 2008:			
Matti Kavetvuo	-87	-89	**-105**
Jaakko Rauramo	-57	-56	**-67**
Maija-Liisa Friman	-58	-59	**-58**
Christer Gardell	-38	-48	**-56**
Arto Honkaniemi	-	-	**-46**
Yrjö Neuvo	-38	-48	**-56**
Jukka Viinanen	-	-	**-44**
Jukka Leppänen[1)]	-6	-7	**-7**
Former Board members:			
Svante Adde	-49	-50	**-12**
Eva Liljeblom	-	-38	**-12**
Satu Huber	-49	-12	**-**
Juhani Kuusi	-9	-	**-**
Pentti Mäkinen[1)]	-2	-	**-**
Total	-393	-407	**-463**

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

According to the resolution of the Annual General Meeting held on April 2, 2008, 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 the Executive Team:

	Year ended December 31,		
EUR thousand	2006	2007	**2008**
Salaries and other short-term employee benefits	-3,195	-2,682	**-3,021**
Share-based payments	-	-2,147	**-1,079**
Total	-3,195	-4,829	**-4,100**

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 and certain senior executives. For the years ended December 31, 2006, 2007 and 2008, the pension insurance premium payments totaled approximately EUR 1.4 million, EUR 1.8 million and EUR 2.3 million, respectively.

Remuneration paid to Chief Executive Officer and Chief Financial Officer:

EUR	Annual fixed salary	Bonus from previous year	Share-based payment	Number of shares granted
2006				
President and CEO	486,580	236,291	-	-
Executive Vice President and CFO	336,631	157,577	-	-
2007				
President and CEO	512,096	249,530	415,848	5,000
Executive Vice President and CFO	361,185	175,173	401,709	4,830
2008				
President and CEO	546,034	232,283	254,453	3,717
Executive Vice President and CFO	382,999	159,448	181,752	2,655

Remuneration paid to President and CEO Jorma Eloranta is presented in the table above. In addition, he benefited from a company car and a telephone. Mr. Eloranta is part of 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.

In 2004, Mr. Eloranta was granted a total of 100,000 Metso 2003A option rights. In 2006 he sold 50,000 options and in the beginning of 2007 further 33,000 options. Eloranta subscribed Metso shares with 15,000 options in 2006 and with 2,000 in the beginning of 2007. At the end of 2007, he did not have Metso options.

According to his employment contract, Jorma Eloranta's age of retirement is 60 years with a pension benefit amounting to 60 percent of the higher of his average monthly salary for four or ten service years prior to retirement. 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. In addition, he benefited from a company car, an apartment and a telephone. Mr. Vaartimo is part of 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 employment contract, Olli Vaartimo's age of retirement is 60 years with a pension benefit amounting to 60 percent of the higher of his average monthly salary for four or ten service years prior to retirement. In case of termination of contract, he is entitled to compensation equal to 24 months' salary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Board share ownership in Metso:

	Year ended December 31, **2008**
Serving Board members December 31, 2008:	
Matti Kavetvuo	**1,000**
Jaakko Rauramo	**6,000**
Maija-Liisa Friman	**1,500**
Christer Gardell	**-**
Arto Honkaniemi	**-**
Yrjö Neuvo	**7,100**
Jukka Viinanen	**-**
Jukka Leppänen[1)]	**520**
Total	**16,120**

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

Number of personnel at end of year:

	2006	2007	**2008**
Mining and Construction Technology	8,800	9,754	**11,259**
Energy and Environmental Technology	5,591	5,857	**6,357**
Paper and Fiber Technology	9,952	10,093	**10,544**
Valmet Automotive	1,013	789	**783**
Group Head Office and other	322	344	**379**
Group Head Office and others total	1,335	1,133	**1,162**
Metso total	25,678	26,837	**29,322**

Average number of personnel during the period:

	2006	2007	**2008**
Mining and Construction Technology	8,460	9,259	**10,481**
Energy and Environmental Technology	4,213	5,716	**6,160**
Paper and Fiber Technology	9,296	10,109	**10,256**
Valmet Automotive	1,066	852	**744**
Group Head Office and other	329	333	**369**
Group Head Office and others total	1,395	1,185	**1,113**
Metso total	23,364	26,269	**28,010**

7 Depreciation and amortization

Depreciation and amortization expenses consist of the following:

	Year ended December 31,		
EUR million	2006	2007	**2008**
Intangible assets	-17	-56	**-44**
Property, plant and equipment			
Buildings and structures	-21	-19	**-20**
Machinery and equipment	-67	-73	**-74**
Total	-105	-148	**-138**

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

	Year ended December 31,		
EUR million	2006	2007	**2008**
Cost of goods sold	-65	-91	**-80**
Selling, general and administrative expenses			
Marketing and selling	-6	-14	**-14**
Research and development	-6	-6	**-5**
Administrative	-28	-37	**-39**
Total	-105	-148	**-138**

8 Financial income and expenses, net

	Year ended December 31,		
EUR million	2006	2007	**2008**
Financial income			
Dividends received	1	1	**0**
Interest income on cash and cash equivalents	18	14	**14**
Other financial income	1	3	**2**
Financial income total	20	18	**16**
Financial expenses			
Interest expenses from financial liabilities at amortized cost	-44	-46	**-70**
Interest expenses on financial leases	-1	-1	**-1**
Other financial expenses	-10	-11	**-10**
Net gain (+) / loss (-) from foreign exchange	-1	7	**-24**
Financial expenses total	-56	-51	**-105**
Financial income and expenses, net	-36	-33	**-89**

9 Income taxes

The components of income taxes are as follows:

EUR million	Year ended December 31, 2006	2007	**2008**
Current tax expense	-85	-109	**-145**
Deferred taxes	74	-54	**-13**
Income taxes, total	-11	-163	**-158**

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, 2006	2007	**2008**
Income before taxes	421	547	**548**
Income tax expense at Finnish statutory rate	-109	-142	**-142**
Income tax for prior years	-4	4	**11**
Difference between Finnish and foreign tax rates	-12	-31	**-25**
Benefit of operating loss carryforward	33	5	**0**
Operating losses with no current tax benefit	-4	-1	**-2**
Non-deductible expenses	-2	-2	**-2**
Deferred tax asset attributable to the U.S. subsidiaries [1)]	87	-	**-**
Other	0	4	**2**
Income tax expense	-11	-163	**-158**

[1)] In the year ended December 31, 2006 Metso recorded a deferred tax asset of EUR 87 million for operating loss carryforwards, net deductible temporary differences and unused tax credits attributable to the U.S. subsidiaries in full.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation of deferred tax balances:

EUR million	Balance at beginning of year	Charged to income statement	Charged to equity	Translation differences	Acquisitions and disposals	Balance at end of year
2007						
Deferred tax assets						
Tax losses carried forward	111	-63	-4	-3	-	41
Fixed assets	10	4	-	-	-	14
Inventory	26	4	-	-1	-	29
Provisions	20	3	-	-1	-	22
Accruals	33	-2	-	-2	-	29
Pension related items	28	-3	-1	-1	-	23
Other	41	-3	7	-5	-	40
Total deferred tax assets	269	-60	2	-13	-	198
Offset against deferred tax liabilities [1)]	-31	-23	-	-	-	-54
Net deferred tax assets	238	-83	2	-13	-	144
Deferred tax liabilities						
Purchase price allocations	56	-7	-	-	5	54
Fixed assets	11	-	-	-	-	11
Other	21	1	8	-	-	30
Total deferred tax liabilities	88	-6	8	-	5	95
Offset against deferred tax assets [1)]	-31	-23	-	-	-	-54
Net deferred tax liabilities	57	-29	8	-	5	41
Deferred tax assets, net	181	-54	-6	-13	-5	103
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**

[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, 2007 and 2008, respectively, earnings of EUR 119 million and EUR 137 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

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**
Cash outflow on acquisitions			**-44**

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**
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	10 months to 6 years	**2**
Brands	not amortized	**1**
Other intangible assets	2 to 3 years	**1**
Total		**16**

Acquisition of Pulping and Power businesses in 2006

Metso acquired the Pulping and Power businesses from Aker Kvaerner on December 29, 2006 from which date on the businesses were consolidated into Metso's Fiber and Power business lines. The final asset values of the businesses were agreed upon in July 2007 and the final purchase price amounted to EUR 336 million including EUR 6 million in expenses related to the acquisition and EUR 53 million of net cash. The resulting purchase price adjustment of EUR 23 million was settled in July.

The total purchase price decreased by EUR 6 million from the initial assessment and EUR 154 million thereof was allocated to intangible assets, representing the fair values of acquired customer base, technology and order backlog. The related deferred tax liability was EUR 41 million. The remaining excess purchase price of EUR 266 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, 2006, Metso's net sales for 2006 would have increased by EUR 600 million.

Details of the acquired net assets and goodwill are as follows:

EUR million	Carrying value	Fair value allocations	**Fair value**
Intangible assets	5	154	**159**
Property, plant and equipment	25	-	**25**
Inventories	52	-	**52**
Trade and other receivables	186	-	**186**
Other assets	29	-	**29**
Minority interests	-	-	**-**
Advances received	-214	-	**-214**
Deferred tax liabilities	-4	-41	**-45**
Other liabilities assumed	-175	-	**-175**
Non-interest bearing net assets	-96	113	**17**
Cash and cash equivalents acquired			**248**
Debt assumed			**-195**
Purchase price			**-330**
Costs related to acquisition			**-6**
Goodwill			**266**
Purchase price settled in cash			**-307**
Settlement of acquired debt			**-195**
Costs related to acquisition			**-6**
Cash and cash equivalents acquired			**248**
Cash outflow on acquisition for 2006			**-260**
Purchase price adjustment paid in July 2007			**-23**
Total cash outflow on acquisition			**-283**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

EUR million	Amortization periods	**Fair value**
Technology	5 to 15 years	**55**
Customer relationships	11 to 12 years	**69**
Order backlog	6 months to 2 years	**30**
Other intangible assets	5 years	**5**
Total		**159**

Other acquisitions in 2006

In August 2006, Metso acquired a Chinese paper machine manufacturer Shanghai-Chenming Paper Machinery Co. Ltd. at a cash consideration of EUR 12 million and debt assumed of EUR 19 million. The company was consolidated into the Paper and Fiber Technology from September 2006 onwards.

Additionally, Metso acquired minor service related businesses in Sweden for a purchase consideration of EUR 4 million and the remaining minority interest of 35% in Metso-SHI Co. Ltd. in Japan at a price of EUR 2 million.

The carrying values of the assets and liabilities of these acquisitions represented their fair values and hence, no purchase price was allocated to intangible assets from the other acquisitions made in 2006.

Summary information on other acquisitions made in 2006:

EUR million	**Carrying value**
Intangible assets	**4**
Property, plant and equipment	**24**
Inventories	**5**
Trade and other receivables	**0**
Other assets	**1**
Minority interests	**2**
Advances received	**-6**
Deferred tax liabilities	**0**
Other liabilities assumed	**-8**
Non-interest bearing net assets	**22**
Cash and cash equivalents acquired	**2**
Debt assumed	**-19**
Purchase price	**-18**
Goodwill	**13**
Purchase price settled in cash	**-18**
Cash and cash equivalents acquired	**2**
Cash outflow on acquisitions	**-16**

11 Disposals of businesses

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.

Metso finalized in December 2006 the divestment of Metso Powdermet AB in Sweden to Sandvik AB for EUR 13 million. Metso recorded a tax-free gain of EUR 10 million on the divestment.

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:

	Year ended December 31,		
EUR million	2006	2007	**2008**
Cash and cash equivalents	0	1	**0**
Intangible assets	-	0	**1**
Property, plant and equipment	0	0	**5**
Goodwill	-	-	**1**
Other assets	7	8	**5**
Liabilities sold	-4	-3	**-4**
Net assets of disposed businesses	3	6	**8**
Gain on disposal	10	4	**4**
Total consideration	13	10	**12**
Consideration received in cash	13	10	**12**
Cash and cash equivalents disposed of	0	-1	**0**
Cash inflow on disposals	13	9	**12**

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,		
	2006	2007	**2008**
Profit attributable to equity shareholders, EUR million	409	381	**389**
Weighted average number of shares issued and outstanding (in thousands)	141,581	141,460	**141,595**
Basic earnings per share, EUR	2.89	2.69	**2.75**

Diluted

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

	Year ended December 31,		
	2006	2007	**2008**
Profit attributable to equity shareholders, EUR million	409	381	**389**
Weighted average number of shares issued and outstanding (in thousands)	141,581	141,460	**141,595**
Adjustment for share options (in thousands)	19	-	**-**
Weighted average number of diluted shares issued and outstanding (in thousands)	141,600	141,460	**141,595**
Diluted earnings per share, EUR	2.89	2.69	**2.75**

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
2007					
Acquisition cost at beginning of year	768	69	48	251	1,136
Translation differences	-9	-1	0	-1	-11
Business acquisitions	13	0	-	16	29
Disposals of businesses	-	-1	-	-1	-2
Capital expenditure	-	3	2	18	23
Reclassifications	-	4	3	-7	0
Decreases	-	-3	-1	-7	-11
Acquisition cost at end of year	772	71	52	269	1,164
Accumulated depreciation and amortization at beginning of year	-	-34	-22	-38	-94
Translation differences	-	0	0	1	1
Business acquisitions	-	0	0	0	0
Disposals of businesses	-	1	-	1	2
Reclassifications	-	0	0	0	0
Decreases	-	2	0	4	6
Amortization charges for the year	-	-7	-6	-43	-56
Accumulated depreciation at end of year	-	-38	-28	-75	-141
Net book value at end of year	772	33	24	194	1,023
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 depreciation and 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 depreciation at end of year	-	-40	-44	-98	-182
Net book value at end of year	**778**	**30**	**41**	**183**	**1,032**

Metso participates in the European Emissions Tradings Scheme (EU ETS) and has been granted CO_2 emission rights of 93,839 units for the current compliance period of 2008-2012 against greenhouse gases emitted by its production units. 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 2008, Metso sold 3,000 units in excess.

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
2007					
Acquisition cost at beginning of year	57	482	1,161	19	1,719
Translation differences	-1	-9	-15	0	-25
Business acquisitions	0	1	7	-	8
Disposals of businesses	-	-	-2	0	-2
Capital expenditure	1	16	57	62	136
Reclassifications	0	8	23	-31	0
Decreases	-3	-9	-61	-1	-74
Acquisition cost at end of year	54	489	1,170	49	1,762
Accumulated depreciation and amortization at beginning of year	-	-261	-843	-	-1,104
Translation differences	-	4	11	-	15
Business acquisitions	-	-1	-5	-	-6
Disposals of businesses	-	-	2	-	2
Reclassifications	-	0	0	-	0
Decreases	-	4	53	-	57
Depreciation charges for the year	-	-19	-73	-	-92
Accumulated depreciation at end of year	-	-273	-855	-	-1,128
Net book value at end of year	54	216	315	49	634
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 and amortization 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**

For information on pledged assets, see note 28.

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 below.

EUR million	Order backlog	Tech-nology	Patents	Customer relation-ships	Brands	Other intan-gibles	Acquired intangible assets total
2007							
Acquisition cost at beginning of year	30	55	6	70	15	-	176
Translation differences	0	0	0	-1	0	-	-1
Business acquisitions	2	4	-	8	1	1	16
Decreases	-24	-	-	-	-	-	-24
Acquisition cost at end of year	8	59	6	77	16	1	167
Accumulated depreciation and amortization at beginning of year	0	0	-3	0	-	-	-3
Translation differences	0	-	-	0	-	-	0
Decreases	24	-	-	-	-	-	24
Depreciation and amortization charges for the year	-24	-7	-1	-6	-	-	-38
Accumulated depreciation at end of year	0	-7	-4	-6	-	-	-17
Net book value at end of year	8	52	2	71	16	1	150
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**

Other intangible assets with indefinite useful life, i.e. brands, amounted to EUR 16 million for the years ended December 31, 2007 and 2008. They relate to Mining and Construction Technology as well as Energy and Environmental Technology segments, and have been recognized in connection with business acquisitions. Economic useful life could not to be determined at the time of the acquisition, and 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, 2008 the amortization expense related to the intangible assets recognized through business acquisitions was EUR 24 million. The future amortization expense is expected to amount to EUR 18, EUR 17, EUR 16, EUR 13 and EUR 12 million for the years 2009, 2010, 2011, 2012 and 2013, 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
2007			
Acquisition cost at end of year	27	8	35
Accumulated depreciation at end of year	-13	-5	-18
Net book value at end of year	14	3	17
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**

Capitalization of interest expenses

EUR million	2007	**2008**
Net capitalized interest at beginning of year	1	**1**
Capitalization of interest expenses	-	**0**
Amortization of capitalized interest expense	0	**0**
Net capitalized interest at end of year	1	**1**

Goodwill impairment

Metso assesses the value of the goodwill for impairment annually or more frequently, if facts and circumstances indicate the need, using fair value measurement techniques, such as the discounted cash flow methodology. The testing is performed on the cash generating unit level. 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 average performance of the projection period adjusted for cyclicality of each cash generating unit. The growth rate reflecting the long-term average growth rate of businesses subject to testing, was determined to be 1.7% in 2006, 2007 and 2008. The forecasted sales and production volumes are based on current structure and existing property, plant and equipment of Metso. The most significant assumptions 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 sensitivity to impairment of each cash generating unit is tested by applying a change both in the discount and terminal growth rate. The latter is assumed to drop from 1.7% to 1.2% and the former to increase by roughly 25%.

As a result of the annual impairment tests, no impairment losses were recognized in 2007 and 2008. Due to the unexpected weakening of the market prospects in the last quarter of 2008, Metso performed additional tests in December to ensure the carrying values of certain cash generating units. These tests were based on new projections with reduced future demand and weakened forecasted performance including analysis of break even levels in future performance, and did not indicate a need for recognizing impairment losses.

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

EUR million	Derived weighted average cost of capital applied	Balance at beginning of year	Translation differences and other changes	Impairment loss	Balance at end of year
2007					
Mining and Construction Technology	10.6%	392	-36	-	356
Energy and Environmental Technology	10.5 - 11.4%	226	41	-	267
Paper and Fiber Technology	10.4 - 10.6%	150	-1	-	149
Total	10.4 - 11.4%	768	4	-	772
2008					
Mining and Construction Technology	11.2 - 11.3%	356	1	-	357
Energy and Environmental Technology	10.9 - 11.3%	267	13	-	280
Paper and Fiber Technology	11.2 - 11.4%	149	-8	-	141
Total	**10.9 - 11.4%**	**772**	**6**	**-**	**778**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 Investments in associated companies

EUR million	2007	**2008**
Investments in associated companies and joint ventures		
Acquisition cost at beginning of year	6	**6**
Translation differences	0	**0**
Increases	0	**-**
Disposals and other decreases	0	**-3**
Acquisition cost at end of year	6	**3**
Equity adjustments in investments in associated companies and joint ventures		
Equity adjustments at beginning of year	13	**13**
Share of results	3	**3**
Translation differences	-1	**0**
Dividend income	-1	**-2**
Disposals and other changes	-1	**-3**
Equity adjustments at end of year	13	**11**
Carrying value of investments in associated companies and joint ventures at end of year	19	**14**

	As at December 31,			
	2007		**2008**	
EUR million	Owner-ship	Carrying value	**Owner-ship**	**Carrying value**
Allimand S.A.	35.8%	5	**35.8%**	**5**
Valmet-Xi'an Paper Machinery Co. Ltd.	48.3%	6	**75.0%**	**-**
Shanghai Neles-Jamesbury Valve Co. Ltd	50.0%	5	**50.0%**	**6**
Others		3		**3**
Total investments in associated companies and joint ventures		19		**14**

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.

In September 2008, Metso increased its ownership in Valmet-Xi'an Paper Machinery Co. Ltd to 75 percent and the company was consolidated into Metso's balance sheet as a subsidiary.

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:

	Year ended December 31,		
EUR million	2006	2007	**2008**
Assets	50	52	**37**
Liabilities	31	33	**22**
Net sales	40	55	**51**
Profit	1	3	**3**

Related party transactions

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

	Year ended December 31,		
EUR million	2006	2007	**2008**
Net sales	1	4	**2**
Purchases	19	13	**7**
Receivables	1	2	**3**
Payables	1	1	**0**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 Available-for-sale equity investments

	As at December 31,					
	2007			**2008**		
EUR million (except for number of shares)	Number of shares	Owner-ship	Carrying value	**Number of shares**	**Owner-ship**	**Carrying value**
Tamfelt Corporation	726,300	2.6%	8	**726,300**	**2.6%**	**5**
Talvivaara Mining Company Ltd.	7,616,535	3.4%	31	**7,116,535**	**3.2%**	**9**
Other shares and securities			6			**4**
Total available-for-sale equity investments			45			**18**

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

EUR million	2007	**2008**
Carrying value at beginning of year	15	**45**
Additions	0	**1**
Changes in fair values	38	**-24**
Disposals	-8	**-4**
Carrying value at end of year	45	**18**

16 Percentage of completion

Net sales recognized under the percentage of completion method amounted to EUR 2,362 million, or 38 percent of net sales, in 2007 and EUR 2,280 million, or 36 percent of net sales, in 2008. The percentage was highest in the Paper and Fiber Technology segment, where it accounted for 55 percent in 2007 and 51 percent in 2008.

Information on balance sheet items of uncompleted projects at December 31, 2007 and 2008 is as follows:

EUR million	Cost and earnings of uncompleted projects	Billings of projects	Net
2007			
Projects where cost and earnings exceed billings	1,514	1,140	374
Projects where billings exceed cost and earnings	1,125	1,456	331
2008			
Projects where cost and earnings exceed billings	**1,754**	**1,392**	**362**
Projects where billings exceed cost and earnings	**968**	**1,291**	**323**

17 Inventory

EUR million	As at December 31, 2007	**2008**
Materials and supplies	294	**361**
Work in process	680	**706**
Finished products	436	**539**
Total inventory	1,410	**1,606**

The cost of inventories recognized as expense was EUR 4,611 million and EUR 4,652 million for the years ended December 31, 2007 and 2008, respectively.

Provision for inventory obsolescence has changed as follows:

EUR million	As at December 31, 2007	**2008**
Balance at beginning of year	54	**57**
Impact of exchange rates	-2	**-3**
Additions charged to expense	12	**14**
Increase from business acquisitions	0	**3**
Realized reserve	-4	**-3**
Deductions / other additions	-3	**-1**
Balance at end of year	57	**67**

For additional information on provisions, see also note 3.

18 Interest bearing and non-interest bearing receivables

	As at December 31,					
		2007			**2008**	
EUR million	Non-current	Current	Total	**Non-current**	**Current**	**Total**
Interest bearing receivables						
Loan receivables	4	2	6	**7**	**2**	**9**
Available-for-sale financial investments	5	0	5	**5**	**-**	**5**
Trade receivables	1	-	1	**1**	**7**	**8**
Total	10	2	12	**13**	**9**	**22**
Non-interest bearing receivables						
Loan receivables	0	1	1	**0**	**3**	**3**
Trade receivables	1	998	999	**1**	**930**	**931**
Prepaid expenses and accrued income	-	109	109	**-**	**71**	**71**
Other receivables	18	148	166	**25**	**142**	**167**
Total	19	1,256	1,275	**26**	**1,146**	**1,172**

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

As of December 31, 2008, other non-interest bearing receivables comprised EUR 58 million of various federal and state tax receivables of Brazilian subsidiaries of which EUR 16 million of state tax receivables were classified as long-term. As of December 31, 2007, the Brazilian tax receivables amounted to EUR 58 million all of which were classified as short-term non-interest bearing.

Provision for doubtful notes and receivables has changed as follows:

	As at December 31,	
EUR million	2007	**2008**
Balance at beginning of year	35	**36**
Impact of exchange rates	-1	**-2**
Additions charged to expense	13	**16**
Increase from business acquisitions	0	**0**
Realized reserve	-5	**-6**
Deductions / other additions	-6	**-4**
Balance at end of year	36	**40**

For additional information on provisions, see also note 3.

Analysis of non-interest bearing trade receivables by age:

	As at December 31,	
EUR million	2007	**2008**
Trade receivables, not due at reporting date	705	**632**
Trade receivables 1-30 days overdue	152	**136**
Trade receivables 31-60 days overdue	60	**66**
Trade receivables 61-90 days overdue	30	**37**
Trade receivables 91-180 days overdue	23	**35**
Trade receivables more than 180 days overdue	29	**25**
Total	999	**931**

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 recei-vables	Available-for-sale financial assets	Financial liabilities measured at amor-tized cost	Carrying value	Fair value
2007						
Non-current assets						
Available-for-sale equity investments	-	-	45	-	45	45
Loan receivables	-	5	-	-	5	5
Available-for-sale financial investments	-	-	5	-	5	5
Trade receivables	-	2	-	-	2	2
Derivative financial instruments	3	-	-	-	3	3
Other receivables	-	17	-	-	17	17
Carrying value by category	3	24	50	-	77	77
Current assets						
Loan receivables	-	2	-	-	2	2
Available-for-sale financial investments	-	-	0	-	0	0
Trade receivables	-	998	-	-	998	998
Derivative financial instruments	18	-	-	-	18	18
Other receivables	-	258	-	-	258	258
Carrying value by category	18	1,258	0	-	1,276	1,276
Non-current liabilities						
Bonds	-	-	-	509	509	529
Loans from financial institutions	-	-	-	176	176	176
Finance lease obligations	-	-	-	12	12	12
Other long-term debt	-	-	-	3	3	3
Derivative financial instruments	1	-	-	-	1	1
Other liabilities	-	-	-	1	1	1
Carrying value by category	1	-	-	701	702	722
Current liabilities						
Current portion of long-term debt	-	-	-	22	22	22
Loans from financial institutions	-	-	-	82	82	82
Other short-term debt	-	-	-	15	15	15
Trade payables	-	-	-	856	856	856
Derivative financial instruments	16	-	-	-	16	16
Other liabilities	-	-	-	435	435	435
Carrying value by category	16	-	-	1,410	1,426	1,426

EUR million	Financial assets/ liabilities at fair value through profit and loss and derivatives	Loans and recei- vables	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
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
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**

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

20 Cash and cash equivalents

EUR million	As at December 31, 2007	**2008**
Bank and cash	199	**146**
Commercial papers and other investments	68	**168**
Total cash and cash equivalents	267	**314**

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, 2007 and 2008, respectively.

	2007	**2008**
Number of outstanding shares, January 1	141,358,773	**141,487,234**
Share options exercised [1)]	35,000	**-**
Own shares sold by partnership (MEO1V Incentive Ky)	-	**70,949**
Shares granted from share ownership plans	93,461	**65,459**
Number of outstanding shares, December 31	141,487,234	**141,623,642**
Treasury shares held by the Parent Company	60,841	**60,841**
Shares administered by partnership (MEO1V Incentive Ky)	206,539	**70,131**
Total number of shares, December 31	141,754,614	**141,754,614**

[1)] Shares subscribed with Metso's 2003A stock options, the subscription price was EUR 8.70 per share and as a result of these share subscriptions, Metso's share capital increased by EUR 59,500.

Metso has outsourced the administration of the share ownership plan 2006-2008 to a partnership (MEO1V Incentive Ky) consolidated in Metso's financial statements. As of December 31, 2008, the acquisition price of 60,841 treasury shares acquired in 1999 and currently held by the Parent Company amounted to EUR 654,813. The acquisition price of 70,131 own shares acquired in 2006 and held by the partnership was EUR 2,585,818. The acquisition price of own shares is recognized in the treasury stock.

Dividends

Metso Corporation's Board of Directors proposes to the Annual General Meeting to be held on March 31, 2009 that a dividend of EUR 0.70 per share be distributed for the year ended December 31, 2008. These financial statements do not reflect this dividend payable of EUR 99 million. The Board is further proposing the Annual General Meeting to authorize the Board to pay at its discretion an additional dividend later in the year 2009 in the amount not exceeding EUR 0.68 per share, should Metso's financial position support the distribution of such additional dividend. The 70,131 shares held by MEO1V Incentive Ky are also entitled to dividend.

Fair value and other reserves

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

Fair value reserve includes the change in fair values of assets classified as available-for-sale. Share options and 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.

Metso's Annual General Meeting on April 2, 2008 decided to decrease the share premium reserve and the legal reserve. The decreased amounts were transferred to the invested non-restricted equity fund as of August 7, 2008.

Other reserves consist of a distributable 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, 2005	**-1**	**-7**	**2**	**228**	**202**	**424**
Cash flow hedges						
Fair value gains (+) / losses (-), net of taxes	-	24	-	-	-	24
Transferred to profit and loss, net of taxes						
Net sales	-	-8	-	-	-	-8
Available-for-sale equity investments						
Fair value gains (+) / losses (-), net of taxes	-	-	2	-	-	2
Transferred to profit and loss, net of taxes	-	-	-1	-	-	-1
Redemption of own shares	-11	-	-	-	-	-11
Share-based payments, net of taxes	-	-	1	-	-	1
Other	-	-	-	1	-	1
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**

Foreign currency translation included in the shareholders' equity:

EUR million	2006	2007	**2008**
Cumulative translation adjustment as of January 1	-9	-45	**-76**
Currency translation on subsidiary net investments	-59	-29	**-49**
Hedging of net investment denominated in foreign currency	28	-5	**-15**
Tax effect	-6	3	**4**
Transfer of translation differences	1	-	**-**
Cumulative translation adjustment as of December 31	-45	-76	**-136**

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 is part of the remuneration and commitment program of the management and covers a maximum of 360,000 own shares. The share ownership plan covers three earnings periods i.e. calendar years 2006, 2007 and 2008. The incentives consist of both shares and cash. The cash-settled portion is dedicated to cover taxes and tax-related payments of the beneficiaries. The main earnings triggers are the operating profit targets and four years of service subsequent to grant date. The operating profit targets and potential personal earnings triggers are set separately for each year.

A maximum share price is 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 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 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 maximum reward under the plan is 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 are received.

Beneficiaries and granted shares of the share ownership plan as at December 31, 2008:

	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
Returning during 2009			-	-2,004	-	-2,004
At end of year	7	25,815	45	61,142	52	86,957
Plan 2007						
Granted	7	15,763	83	55,186	90	70,949
Returned during 2008			-4	-990	-4	-990
Returning during 2009			-	-2,302	-	-2,302
At end of year	7	15,763	79	51,894	86	67,657
Plan 2008						
Maximum to be granted	7	27,500	91	102,500	98	130,000
Total at the end of year		**69,078**		**215,536**		**284,614**

Costs recognized for the share ownership plan:

EUR thousand	Plan 2006	Plan 2007	Plan 2008	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
Total	**-5,767**	**-3,577**	**-428**	**-9,772**

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 Metso's share on the grant date. The compensation expense resulting from the cash-settled transaction 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.

President and CEO Jorma Eloranta was granted 100,000 year 2003A options in 2004. He sold 50,000 options in 2006 and further 33,000 options in the beginning of following year. Eloranta subscribed Metso shares with 15,000 options in 2006 and with 2,000 options in the beginning of 2007.

Changes and average exercise prices related to the year 2003 options program are as follows:

	As at December 31,			
	2006		2007	
	Average exercise price EUR/share	Amount of options	Average exercise price EUR/share	Amount of options
Beginning of period	10.10	100,000	8.70	35,000
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	8.70	-65,000	8.70	-35,000
Expired	-	-	-	-
End of period	8.70	35,000	-	-

The fair value of 2003A options granted in 2004 was EUR 4.47 each determined using the Black-Scholes valuation model. The variables applied in the Black-Scholes model were as follows:

	2004
Share price, EUR	10.85
Exercise price, EUR	10.65
Volatility, %	39.93
Risk-free interest rate, %	3.29
Expected annual dividends, EUR	-
Expected life in years	5.17

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily historical share prices over last five years.

23 Long-term debt

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

	Carrying values		Fair values	
EUR million	2007	**2008**	2007	**2008**
Bonds	509	**793**	529	**830**
Loans from financial institutions	195	**383**	195	**391**
Finance lease obligations	15	**12**	15	**12**
Other long-term debt	3	**2**	3	**2**
	722	**1,190**	742	**1,235**
Less current maturities	22	**101**	22	**101**
Total	700	**1,089**	720	**1,134**

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, 2008	Effective interest rate Dec. 31, 2008	Original loan amount	Outstanding carrying value at December 31, 2007	**2008**
Public bond 2004-2011	5.125%	6.46%	274	262	**265**
Private placements maturing 2009-2018		4.67 - 7.38%	529	247	**528**
Bonds total				509	**793**
Less current maturities				-	**83**
Bonds, long-term portion				509	**710**

Metso has a Euro Medium Term Note Program (EMTN) of EUR 1 billion, under which EUR 509 million and EUR 793 million expressed in carrying value were outstanding at the end of 2007 and 2008, respectively. EUR 265 million of the outstanding amount were public bonds and EUR 528 million private placements. USD denominated bond registered with the U.S. Securities and Exchange Commission which had an outstanding notional amount of USD 109 million matured according to its terms in 2007.

Loans from financial institutions consist of bank borrowings with either fixed or variable interest rates. A major share of loans is either EUR, USD or SEK denominated. The interest rates vary from 1.0% to 5.9%. The loans are payable from year 2009 to 2018.

Interest rates of the finance lease obligations vary from 4.0% to 5.0%.

Since 2006 Metso has had a revolving five-year loan facility of EUR 500 million with a syndicate of 14 banks. The facility was undrawn at the end of 2007 and 2008.

Contractual maturities of interest bearing debt as at December 31, 2008 are as follows:

EUR million	Bonds	Loans from financial institutions	Finance lease obligations	Other long-term debt	**Total**
Repayments	83	15	3	0	**101**
Interests	44	16	0	0	**60**
Total 2009	**127**	**31**	**3**	**0**	**161**
Repayments	124	34	2	0	**160**
Interests	39	15	0	0	**54**
Total 2010	**163**	**49**	**2**	**0**	**214**
Repayments	332	51	1	2	**386**
Interests	33	14	0	0	**47**
Total 2011	**365**	**65**	**1**	**2**	**433**
Repayments	92	67	1	-	**160**
Interests	13	11	0	-	**24**
Total 2012	**105**	**78**	**1**	**-**	**184**
Repayments	-	66	2	-	**68**
Interests	8	8	0	-	**16**
Total 2013	**8**	**74**	**2**	**-**	**84**
Repayments	162	150	3	-	**315**
Interests	35	10	0	-	**45**
Later	**197**	**160**	**3**	**-**	**360**

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

24 Provisions

	As at December 31,					
		2007			**2008**	
EUR million	Non-current	Current	Total	**Non-current**	**Current**	**Total**
Warranty and guarantee liabilities	15	178	193	**16**	**162**	**178**
Accrued restructuring expenses	6	17	23	**3**	**13**	**16**
Environmental and product liabilities	1	5	6	**1**	**7**	**8**
Other provisions	15	22	37	**16**	**36**	**52**
Total	37	222	259	**36**	**218**	**254**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The provisions, both non-current and current, have changed as follows during the financial year 2008:

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	23	-1	9	-10	-5	16
Environmental and product liabilities	6	0	4	-1	-1	8
Total	**29**	**-1**	**13**	**-11**	**-6**	**24**

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

Accrued restructuring expenses
The costs included in a provision for restructuring are those costs that are either incremental and incurred as a direct result of the formal plan approved and committed by management, or are the result of a continuing contractual obligation with no 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, 2008, environmental liabilities amounted to EUR 3 million. It included clean-up costs for soil and water contamination at various sites in the Unites States previously operated by Mining and Construction Technology and clean-up costs for groundwater contamination at a site in Belgium previously owned by Metso Panelboard.

Metso is occasionally involved in product liability claims. As at December 31, 2008, provisions for product liabilities amounted to EUR 5 million.

Warranty and guarantee provisions

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

	As at December 31,	
EUR million	2007	**2008**
Balance at beginning of year	194	**193**
Impact of exchange rates	-3	**-8**
Increase for current year's deliveries	76	**98**
Increase for previous years deliveries	28	**23**
Increase from business acquisitions	0	**2**
Realized reserve	-69	**-82**
Reversal of reserve / other changes	-33	**-48**
Balance at end of year	193	**178**

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	2007	**2008**
Loans from financial institutions	82	**104**
Finnish commercial paper financing	15	**141**
Total	97	**245**

The weighted average interest rate applicable to short-term borrowing at December 31, 2007 and 2008 was 3.3% and 5.3%, respectively. In 2009, interest amounting to EUR 10 million is expected to be paid concurrently with respective principals on the short-term debt presented above.

In 2008, Metso terminated the short-term Euro Commercial Paper program of EUR 150 million and increased the Finnish commercial paper program from EUR 300 million to EUR 500 million. Finnish commercial papers worth EUR 15 million and EUR 141 million were outstanding as of December 31, 2007 and 2008, respectively.

26 Trade and other payables

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

EUR million	2007	**2008**
Trade payables	856	**733**
Accrued interests	8	**16**
Accrued personnel costs	191	**173**
Accrued project costs	106	**106**
Other	130	**161**
Total	1,291	**1,189**

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.

On January 1, 2007 Metso adopted the Amendment to IAS 19 'Actuarial Gains and Losses, Group Plans and Disclosures' permitting the recognition of all actuarial gains and losses in the period in which they occur outside the income statement directly in the shareholders' equity. The pension benefit cost for the year ended December 31, 2006 is presented in accordance.

On January 1, 2008 Metso adopted IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' providing guidance on recognition of minimum funding requirements and clarification on the criteria for recognition of an asset on future refunds or reductions in future contributions. The adoption did not have any impact on the financial statements.

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

EUR million	Pension benefits, Finnish 2007	**2008**	Pension benefits, foreign 2007	**2008**	Other post-employment benefits 2007	**2008**	Total 2007	Total **2008**
Present value of funded obligations	9	**11**	272	**245**	-	**0**	281	**256**
Fair value of plan assets	-7	**-8**	-243	**-202**	-	**0**	-250	**-210**
	2	**3**	29	**43**	-	**-**	31	**46**
Present value of unfunded obligations	-	**-**	107	**103**	36	**36**	143	**139**
Unrecognized asset	-	**-**	2	**4**	-	**-**	2	**4**
Unrecognized past service cost	1	**1**	-	**-**	-	**-**	1	**1**
Net liability recognized	3	**4**	138	**150**	36	**36**	177	**190**
Amounts in the balance sheet:								
Liabilities	3	**4**	138	**151**	36	**36**	177	**191**
Assets	-	**-**	-	**-1**	-	**-**	-	**-1**
Net liability recognized	3	**4**	138	**150**	36	**36**	177	**190**

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

EUR million	Pension benefits, Finnish 2007	**2008**	Foreign pension and other post-employment benefits 2007	**2008**
Net liability at beginning of year	4	**3**	185	**174**
Liability for new plans covered	-	-	9	**-**
Acquisitions (+) and disposals (-)	-	-	-1	**4**
Net expense recognized in the income statement	0	**2**	11	**11**
Employer contributions	-1	**-2**	-22	**-23**
Gain (+) / loss (-) recognized through Statement of Recognized Income and Expense	0	**1**	0	**30**
Translation differences	-	**-**	-8	**-10**
Net liability at end of year	3	**4**	174	**186**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amounts recognized in the income statement were as follows:

	Year ended December 31, Pension benefits, Finnish		
EUR million	2006	2007	**2008**
Service cost	1	1	**1**
Interest cost	0	0	**0**
Expected return on plan assets	0	0	**0**
Amortization - Past service cost	0	0	**2**
Gains (-) / losses (+) on immediate settlements	0	-1	**-1**
Expense (+) / income (-) recognized in income statement	1	0	**2**
Actual return (+) / loss (-) on plan assets	0	0	**1**

	Year ended December 31, Pension benefits, foreign		
EUR million	2006	2007	**2008**
Service cost	5	6	**5**
Interest cost	18	20	**19**
Expected return on plan assets	-15	-18	**-16**
Amortization - Past service cost	0	0	**-**
Gains (-) / losses (+) on immediate settlements	0	0	**0**
Expense (+) / income (-) recognized in income statement	8	8	**8**
Actual return (+) / loss (-) on plan assets	23	17	**-26**

	Year ended December 31, Other post-employment benefits		
EUR million	2006	2007	**2008**
Service cost	1	1	**1**
Interest cost	3	2	**2**
Expected return on plan assets	-	-	**-**
Amortization - Past service cost	-	0	**-**
Gains (-) / losses (+) on immediate settlements	-	-	**-**
Expense (+) / income (-) recognized in income statement	4	3	**3**
Actual return (+) / loss (-) on plan assets	-	-	**-**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amounts recognized in the Statement of Recognized Income and Expense (SORIE) were following:

	Year ended December 31,							
	Pension benefits, Finnish		Pension benefits, foreign		Other post-employment benefits		Total	Total
EUR million	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**
Experience gain (-) / loss (+) on assets	0	**0**	0	**42**	-	**-**	0	**42**
Actuarial gain (-) / loss (+) on liabilities due to change in assumptions	0	**-1**	-1	**-9**	0	**-2**	-1	**-12**
Actuarial gain (-) / loss (+) on liabilities due to experience	0	**2**	2	**-1**	-1	**-2**	1	**-1**
Loss as result of asset ceiling	-	**-**	0	**2**	-	**-**	0	**2**
Total gain (-) / loss (+) recognized in the SORIE	0	**1**	1	**34**	-1	**-4**	0	**31**

The cumulative amount of actuarial gains and losses recognized in the SORIE amounted to net loss of EUR 35 million, EUR 35 million and EUR 66 million for the years ended December 31, 2006, 2007 and 2008, respectively.

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 Recognized Income and Expense. For the years ended December 31, 2007 and 2008 the amount of payroll tax recognized through SORIE was a loss of EUR 1 million and of EUR 4 million, respectively.

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

	Pension benefits, Finnish		Pension benefits, foreign		Other post-employment benefits		Total	Total
EUR million	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**
Defined benefit obligation at beginning of year	9	**9**	381	**379**	41	**36**	431	**424**
Service cost	1	**1**	6	**5**	1	**1**	8	**7**
Interest cost	0	**0**	20	**19**	2	**2**	22	**21**
Plan participant contributions	-	**-**	1	**1**	0	**0**	1	**1**
Past service cost	-	**2**	0	**-**	0	**-**	0	**2**
Acquisitions (+) and disposals (-)	-	**-**	-1	**1**	-	**3**	-1	**4**
Adjustment to coverage [1)]	-	**-**	11	**-**	-	**-**	11	**-**
Actuarial gain (-) / loss (+) due to change in assumptions	0	**-1**	-1	**-9**	0	**-2**	-1	**-12**
Actuarial gain (-) / loss (+) due to experience	0	**2**	2	**-1**	-1	**-2**	1	**-1**
Settlements	-1	**-2**	-1	**-2**	-	**-**	-2	**-4**
Translation differences	-	**-**	-20	**-26**	-4	**0**	-24	**-26**
Benefits paid	-	**-**	-19	**-19**	-3	**-2**	-22	**-21**
Defined benefit obligation at end of year	9	**11**	379	**348**	36	**36**	424	**395**

[1)] In the year ended December 31, 2007, includes EUR 4 million early retirement plans subsequent to the acquisition of Pulping business in Sweden and EUR 7 million of reclassification of existing plans in North America.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Pension benefits, Finnish		Foreign pension and other post-employment benefits	
EUR million	2007	**2008**	2007	**2008**
Fair value of assets at beginning of year	7	**7**	239	**243**
Adjustments for new plans covered	-	**-**	2	**-**
Settlements	-1	**-2**	0	**-2**
Acquisitions	-	**-**	-	**0**
Actual return on plan assets	0	**1**	17	**-26**
Plan participant contributions	-	**-**	1	**1**
Employer contributions	1	**2**	22	**23**
Benefits paid	-	**-**	-22	**-21**
Translation differences	-	**-**	-16	**-16**
Fair value of assets at end of year	7	**8**	243	**202**

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

	2007	**2008**
Equity securities	42%	**32%**
Bonds	53%	**60%**
Other	5%	**8%**

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	2004	2005	2006	2007	**2008**
Present value of defined benefit obligations at December 31	354	428	431	424	**395**
Fair value of plan assets at December 31	181	234	246	250	**210**
Deficit	173	194	185	174	**185**
Unrecognized asset	2	1	2	2	**4**
Unrecognized past service cost	-	2	2	1	**1**

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

	Finnish		Foreign	
	2007	**2008**	2007	**2008**
Benefit obligation: discount rate	5.00%	**5.50%**	5.58%	**5.98%**
Benefit obligation: rate of compensation increase	4.81%	**4.75%**	3.79%	**3.66%**
Benefit obligation: rate of pension increase	2.10%	**2.10%**	1.50%	**1.54%**
Expense in income statement: discount rate	4.50%	**5.00%**	5.32%	**5.58%**
Expense in income statement: rate of compensation increase	3.70%	**4.81%**	3.68%	**3.79%**
Expense in income statement: expected return on plan assets	6.14%	**5.82%**	7.55%	**7.43%**
Expense in income statement: rate of pension increase	2.10%	**2.10%**	1.30%	**1.50%**

The expected contributions in 2009 shall amount to EUR 2 million to Finnish plans and EUR 15 million to foreign plans.

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, 2008. It would increase the sum of the service and interest cost by EUR 0.2 million for 2008. 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, 2008. It would decrease the sum of the service and interest cost by EUR 0.2 million for 2008. The health care cost trend is expected to fall to 5% over the next four years by 0.75 percentage point per annum.

28 Mortgages and contingent liabilities

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

EUR million	2007	**2008**
On own behalf		
Mortgages	11	**5**
Pledged assets	0	**0**
On behalf of associated companies		
Guarantees	-	**-**
On behalf of others		
Guarantees	11	**9**
Other commitments		
Repurchase commitments	4	**3**
Other contingencies	4	**3**
Total	30	**20**

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, 2008 was EUR 11 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 1,301 million and EUR 1,271 million as of December 31, 2007 and 2008, respectively.

29 Lease contracts

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

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

	Operating leases		Finance leases	
EUR million	2007	**2008**	2007	**2008**
Not later than 1 year	45	**46**	4	**4**
Later than 1 year and not later than 2 years	35	**38**	4	**2**
Later than 2 years and not later than 3 years	24	**21**	2	**2**
Later than 3 years and not later than 4 years	13	**14**	2	**2**
Later than 4 year and not later than 5 years	8	**10**	2	**2**
Later than 5 years	17	**23**	5	**3**
Total minimum lease payments	142	**152**	19	**15**
Future financial expenses			-4	**-3**
Total net present value of finance leases			15	**12**

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

EUR million	2007	**2008**
Not later than 1 year	3	**3**
Later than 1 year and not later than 2 years	3	**2**
Later than 2 years and not later than 3 years	2	**1**
Later than 3 years and not later than 4 years	2	**1**
Later than 4 year and not later than 5 years	1	**2**
Later than 5 years	4	**3**
Total net present value of finance leases	15	**12**

Total rental expenses amounted to EUR 34 million, EUR 31 million and EUR 29 million in the years ended December 31, 2006, 2007 and 2008, respectively. Annual repayments of principal are presented in the maturities of long-term debt, see note 23.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

30 Derivative financial instruments

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

EUR million	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
	2007			
Forward exchange contracts [1]	1,384	18	16	2
Cross-currency swaps	0	0	-	0
Interest rate swaps	143	1	1	0
Option agreements				
Bought	-	-	-	-
Sold	-	-	-	-
Electricity forward contracts [2]	356	2	-3	5
Nickel swap contracts [3]	396	0	3	-3
Total		21	17	4

EUR million	**Notional amount**	**Fair value, assets**	**Fair value, liabilities**	**Fair value, net**
	2008			
Forward exchange contracts [1]	**1,460**	**47**	**76**	**-29**
Cross-currency swaps	**-**	**-**	**-**	**-**
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**

[1] Some 43 percent and 34 percent of the notional amount at the end of 2007 and 2008, 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:

	2007		**2008**	
EUR million	Assets	Liabilities	**Assets**	**Liabilities**
Interest rate swaps - cash flow hedges	1	1	**0**	**3**
Interest rate swaps - fair value hedges	-	-	**-**	**-**
Interest rate swaps - non-qualifying hedges	0	0	**1**	**1**
	1	1	**1**	**4**
Forward exchange contracts - cash flow hedges	7	7	**11**	**38**
Forward exchange contracts - net investment hedges	6	3	**0**	**4**
Forward exchange contracts - non-qualifying hedges	5	6	**36**	**34**
	18	16	**47**	**76**
Electricity forward contracts - cash flow hedges	2	-3	**0**	**7**
Nickel swaps - non-qualifying hedges	-	3	**0**	**2**
Cross-currency swaps - non-qualifying hedges	0	0	**-**	**-**
Options - non-qualifying hedges	-	-	**0**	**1**
Total derivatives	21	17	**48**	**90**

In the years ended December 31, 2007 and 2008, respectively, there was no 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, 2008, 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, 2008, the maturities of financial derivatives are the following (expressed as notional amounts):

EUR million	2009	2010	2011	2012	2013 and after
Forward exchange contracts	1,359	79	22	-	-
Interest rate swaps	45	15	63	20	25
Option agreements	0	-	-	-	-
Electricity forward contracts [1)]	258	228	114	26	9
Nickel swap contracts [2)]	258	-	-	-	-

[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 92 percent of total net sales for the years ended December 31, 2007 and 2008, respectively.

		% of net sales
Metso Paper Oy	Finland	10.9
Metso Minerals Industries Inc.	USA	9.3
Metso Minerals Oy	Finland	5.9
Metso Automation Oy	Finland	4.6
Metso Power Oy	Finland	4.5
Metso Minerals (France) SA	France	4.3
Metso Brazil Indústria e Comércio Ltda	Brazil	3.9
Metso Paper USA Inc.	USA	3.3
Metso Paper Valkeakoski Oy	Finland	2.9
Metso Minerals (Australia) Ltd	Australia	2.9
Metso Paper Sundsvall AB	Sweden	2.8
Metso Lindemann GmbH	Germany	2.5
Metso Automation USA Inc.	USA	1.9
Metso Power AB	Sweden	1.9
Metso Minerals Canada Inc.	Canada	1.9
Metso Minerals (South Africa) Pty. Ltd.	South Africa	1.7
Metso Paper Karlstad AB	Sweden	1.6
Metso Paper Japan Co. Ltd	Japan	1.5
Metso Paper Sulamericana Ltda	Brazil	1.2
Metso Minerals (Wear Protection) AB	Sweden	1.2
Metso Minerals (Sala) AB	Sweden	1.1
Metso Minerals (Sweden) AB	Sweden	0.9
Metso Minerals (Mexico) SA de CV	Mexico	0.9
Metso Fiber Karlstad AB	Sweden	0.8
Metso Paper Ltd.	Canada	0.8
Metso Automation S.A.S.	France	0.8
Valmet Automotive Oy	Finland	0.8
Metso Minerals (Norway) A/S	Norway	0.8
Metso Minerals (Tianjin) International Trade Co. Ltd.	China	0.7
Metso Automation Pte Ltd	Singapore	0.7
Metso Minerals (Austria) GmbH	Germany	0.7
Metso Minerals (Chile) SA	Chile	0.7
Metso Minerals (India) Private Ltd	India	0.7
Noviter Oy	Finland	0.6
Metso Minerals Espana SA	Spain	0.6
Metso Minerals (Hong Kong) Ltd	Hong Kong	0.6
Metso Automation (Shanghai) Co. Ltd	China	0.6
Metso Paper (China) Co. Ltd	China	0.6
Metso Minerals (UK) Ltd.	United Kingdom	0.5
Metso Panelboard AB	Sweden	0.5
Metso Endress+Hauser Oy	Finland	0.5
Metso Foundries Jyväskylä Oy	Finland	0.5
Metso Minerals (Peru) SA	Peru	0.5
Metso Minerals (Singapore) Pte Ltd	Singapore	0.5
Metso Minerals (Tianjin) Co. Ltd	China	0.4
Metso Minerals (Germany) GmbH	Germany	0.4
Metso Minerals Systems AB	Sweden	0.4
Metso Automation GmbH	Germany	0.4
Metso Automation KK	Japan	0.4
Metso Minerals (Belux) SA	Netherlands	0.4
Metso Paper France SAS	France	0.3
Metso Automation do Brasil Ltda	Brazil	0.3
Metso Minerals (Portugal) Lda	Portugal	0.3
Metso Panelboard Oy	Finland	0.3
Metso Minerals (Finland) Oy	Finland	0.3
Metso Minerals (Cappagh) Ltd.	United Kingdom	0.3
Metso Automation Mapag GmbH	Germany	0.3
Metso Paper (Thailand) Co. Ltd.	Thailand	0.3
Metso Minerals Japan Co. Ltd	Japan	0.3
Metso Paper Limited	United Kingdom	0.3

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

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. Metso Group comprises three reporting segments: Mining and Construction Technology, Energy and Environmental Technology and Paper and Fiber Technology.

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.

As of December 1, 2008 the operations were organized into the following three reporting 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. The operations are organized in two business lines: Mining and Construction.

Energy and Environmental Technology is one of the leading global suppliers in power generation, automation as well as metals recycling solutions and lifecycle services. Our customers work in the power generation, oil and gas, metals 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.

Metso acquired Aker Kvaerner's Pulping and Power businesses as of December 29, 2006. Aker Kvaerner's Pulping businesses were consolidated into Paper and Fiber Technology segment's and Power businesses into Energy and Environmental Technology segment's balance sheet. The acquisition had no effect on the 2006 income statement.

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.

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 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,

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

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, 2006, 2007 and 2008 is presented in the following tables.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EUR million	Mining and Construction Technology	Energy and Environmental Technology	Paper and Fiber Technology	Valmet Automotive	Group Head Office and other	Eliminations	**Metso total**
2006							
External net sales	1,936	811	2,089	109	10	-	**4,955**
Intra-Metso net sales	9	70	3	-	-	-82	**-**
Net sales	1,945	881	2,092	109	10	-82	**4,955**
Other operating income and expenses, net	16.3	0.1	-11.0	0.0	0.4	-	**5.8**
Share in profits and losses of associated companies	0.2	0.8	1.7	-	-1.8	-	**0.9**
Operating profit (loss)	259.8	124.6	89.8	11.7	-28.7	-	**457.2**
% of net sales	13.4	14.1	4.3	10.7	n/a	-	**9.2**
EBITA	262.0	128.4	105.6	11.7	-26.6	-	**481.1**
% of net sales	13.5	14.6	5.0	10.7	n/a	-	**9.7**
Amortization	2	5	9	0	2	-	**18**
Depreciation	25	10	40	10	2	-	**87**
Gross capital expenditure (including business acquisitions)	69	211	125	2	1	-	**408**
Non-cash write-downs	13	0	15	0	1	-	**29**
Intangible assets and property, plant and equipment	562	451	551	55	38	-	**1,657**
Investments in associated companies	1	6	12	-	0	-	**19**
Available-for-sale equity investments	2	1	1	0	11	-	**15**
Inventories and other non-interest bearing assets	1,082	530	1,050	9	-8	-	**2,663**
Interest bearing assets	-	-	-	-	376	-	**376**
Deferred tax assets	-	-	-	-	238	-	**238**
Total assets	1,647	988	1,614	64	655	-	**4,968**
Non-interest bearing liabilities	758	580	1,197	41	55	-	**2,631**
Interest bearing debt	-	-	-	-	830	-	**830**
Deferred tax liability	-	-	-	-	57	-	**57**
Total liabilities	758	580	1,197	41	942	-	**3,518**
Capital employed	889	408	417	23	543	-	**2,280**
Orders received	2,399	980	2,276	109	15	-74	**5,705**
Order backlog	1,099	1,079	1,600	-	-	-41	**3,737**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EUR million	Mining and Con-struction Technology	Energy and Environ-mental 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**

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	Elimi-nations	Metso total
2006	341	283	1,378	1,012	685	991	265	-	4,955
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**

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
2006	148	738	144	123	470	51	1,674
2007	209	775	144	97	792	40	2,057
2008	**172**	**931**	**107**	**121**	**745**	**85**	**2,161**

Intangible assets and property, plant and equipment by location:

EUR million	Finland	Other Nordic countries	Other European countries	North America	South and Central America	Asia-Pacific	Rest of the World	Elimi-nations	Metso total
2006	704	615	43	148	67	73	7	-	1,657
2007	664	618	58	157	72	80	8	-	1,657
2008	**675**	**609**	**65**	**201**	**68**	**132**	**8**	-	**1,758**

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	Elimi-nations	Metso total
2006	65	9	15	15	17	8	2	-	131
2007	82	14	14	16	14	17	2	-	159
2008	**91**	**23**	**19**	**56**	**16**	**47**	**3**	-	**255**

Audit fees

	Year ended December 31,		
EUR million	2006	2007	**2008**
Audit	-5.2	-2.8	**-2.7**
Tax consulting	-1.7	-1.3	**-1.8**
Other services	-1.7	-1.3	**-1.1**
Total	-8.6	-5.4	**-5.6**

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

34 Lawsuits and claims

Several lawsuits and claims based on various grounds, including product liability lawsuits and claims in the United States as well as normal risks of legal disputes concerning deliveries, are pending against Metso in various countries. However, management does not believe that the outcome of these actions, claims and disputes will have a material adverse effect on Metso in view of the grounds presented for the claims, 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 Australia.

Pending asbestos litigation

As of December 31, 2008, there had been a total of 795 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, 261 are still pending and 534 cases have been closed. Of the closed cases, 55 were by summary judgment, 369 were dismissed, and 110 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 million in costs from the investigation for the year ended December 31, 2008 and has not made any provision related to this investigation as at December 31, 2008.

35 New accounting standards

IFRS 8

In November 2006, IASB issued 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.

Metso will apply the standard for the financial year beginning on January 1, 2009. The new standard does not affect the reporting segment structure.

IAS 1 (Revised)

In September 2007, IASB published 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.

IAS 1 (revised) was endorsed by the European Union in December 2008. Metso adopted the statement of comprehensive income or statement of recognized income and expenses in 2007 when it began recognizing the actuarial gains and losses. The standard will be fully applied for the financial year beginning on January 1, 2009.

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 may be calculated based on the parent’s share of net assets or it may include goodwill related to the minority interest. Metso is currently evaluating the effects on its financial statements but expects it to affect only future business combinations.

IFRS 3 (Revised), still subject to endorsement by the European Union, becomes effective for annual financial statements for periods beginning on or after July 1, 2009.

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

IAS 23 (Amended)

IASB has published 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 its own use (self-constructed asset) or for sale. The option of immediately expensing these borrowing costs will be removed.

IAS 23 (revised) was endorsed by the European Union in December 2008. Metso will apply the standard for the financial year beginning on January 1, 2009. As Metso capitalizes interest costs on self-constructed long-lived assets, the amendment does not impact Metso’s 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 its financial statements.

IAS 27 (Revised) is effective for annual financial statements for periods beginning on or after July 1, 2009. The standard is still subject to endorsement by the European Union.

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

NOTES TO THE CONSOLIDATED FINANCIAL STAEMENTS

IFRS 2 (Amended)

IASB published in January 2008 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 the Company or by other parties are accounted for in similar way. Metso does not expect the amendment to affect its financial statements.

IFRS 2 (revised) was endorsed by the European Union in December 2008. Metso will apply the standard for the financial year beginning on January 1, 2009.

IAS 39 (Amended)

In May 2008, as part of the annual Improvements to IFRSs project, IASB published 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. Metso does not expect the amendment to affect its financial statements.

IAS 39 (amended) was endorsed by the European Union in January 2009. Metso will apply the standard for the financial year beginning on January 1, 2009.

36 Events after balance sheet date

New corporate governance

The new corporate governance policy of Metso became effective on January 1, 2009. The updated policy takes into considerations the changes in Metso’s organizational structure and operating model as well as the recommendations outlined in the Finnish Corporate Governance Code issued by the Finnish Securities Market Association.

Metso and Wärtsilä completed the joint venture transaction

In September 2008, Metso and Wärtsilä signed an agreement to combine Metso’s Heat & Power business and Wärtsilä’s Biopower business into a joint venture named MW Power Oy. In accordance with the agreement, the joint venture started operations in January 2009.

Metso owns 60 percent and Wärtsilä 40 percent of MW Power Oy. An order backlog of approximately EUR 116 million was transferred with Wärtsilä Biopower Oy to the joint venture. The consolidated annual pro forma net sales of the company were approximately EUR 130 million for the year ended December 31, 2008, and the number of employees was about 200.

Disposal of composites manufacturing business

Metso sold its composites manufacturing business and related assets in Oulu, Finland to xperion Oy as of January 1, 2009. The divestment was not material to Metso and a small profit from the sale was recognized.

The composites manufacturing business was part of Metso's Paper and Fiber Technology segment. Its annual net sales have been less than EUR 5 million. The whole personnel, 21 people, was transferred to xperion Oy.

Metso adjusts its Finnish units serving the paper industry

In January 2009, Metso started personnel negotiations regarding employee reductions in its Finnish units serving the paper industry. The employee reduction is estimated to affect a total of 900-1,200 employees. Approximately 4,700 employees work in the units subject to the personnel negotiations. The possible reduction in the number of units and the consolidation of operations into bigger units will be examined as part of the negotiations.

The aim is to conclude the personnel negotiations involving the Paper business line and the Process Automation Systems business unit of Automation business line by mid-March. The employee reductions are expected to take place during April-September of this year.

As a result of the arrangements, the annual expenses of the businesses in question are estimated to decrease by EUR 40-50 million. The cost reductions are estimated to be realized in full starting in 2010. The nonrecurring expenses caused by the arrangements and recognized in 2009 are estimated to be EUR 10-20 million.

Moody’s revised Metso’s rating outlook to negative

In January, Moody’s Investor Service confirmed Metso’s Baa2 long-term credit rating and changed the outlook from stable to negative.

Smurfit-Stone Container Corporation files for Chapter 11 bankruptcy

Smurfit-Stone Container Corporation, one of Metso’s Paper and Fiber Technology’s customers in North America, announced on January 26, 2009 that it has filed voluntary petition for reorganization under Chapter 11. Metso estimates that maximum credit risk related to receivables from Smurfit-Stone is about EUR 3 million.

Standard & Poor’s revised Metso’s rating outlook to negative

In February, Standard & Poor’s affirmed Metso’s BBB long-term credit rating and changed the outlook from stable to negative. At the same time the short-term corporate credit rating was lowered from A-2 to A-3.

FINANCIAL INDICATORS 2004-2008

EUR million	2004	2005	2006	2007	**2008**
Net sales	3,602	4,221	4,955	6,250	**6,400**
Net sales change, %	n/a	17.2	17.4	26.1	**2.4**
Operating profit	199	335	457	580	**637**
% of net sales	5.5	7.9	9.2	9.3	**10.0**
Profit on continuing operations before tax	140	292	421	547	**548**
% of net sales	3.9	6.9	8.5	8.8	**8.6**
Profit on continuing operations	158	220	410	384	**390**
% of net sales	4.4	5.2	8.3	6.1	**6.1**
Profit	144	237	410	384	**390**
Profit attributable to equity shareholders	143	236	409	381	**389**
Exports and international operations	3,302	3,879	4,652	5,795	**5,957**
% of net sales	91.7	91.9	93.9	92.7	**93.1**
Amortization	15	16	17	56	**44**
Depreciation	100	86	88	92	**94**
Depreciation and amortization	115	102	105	148	**138**
% of net sales	3.2	2.4	2.1	2.4	**2.2**
Goodwill impairment	-	-	7	-	**-**
EBITA	214	351	481	636	**681**
% of net sales	5.9	8.3	9.7	10.2	**10.6**
EBITDA	314	437	569	728	**775**
% of net sales	8.7	10.4	11.5	11.6	**12.1**
Financial income and expenses, net	59	43	36	33	**89**
% of net sales	1.6	1.0	0.7	0.5	**1.4**
Interest expenses, net	53	39	27	33	**71**
% of net sales	1.5	0.9	0.5	0.5	**1.1**
Interest cover (EBITDA)	5.3x	10.2x	15.8x	22.1x	**8.7x**
Gross capital expenditure (excl. business acquisitions)	97	107	131	159	**255**
% of net sales	2.7	2.5	2.6	2.5	**4.0**
Business acquisitions, net of cash acquired	2	14	277	55	**44**
Net capital expenditure (excl. business acquisitions and disposals)	30	58	115	140	**238**
% of net sales	0.8	1.4	2.3	2.2	**3.7**
Cash flow from operations	261	164	442	294	**137**
Free cash flow [1)]	211	138	364	198	**29**
Cash conversion, %	147	58	89	52	**7**
Research and development	96	96	109	117	**134**
% of net sales	2.7	2.3	2.2	1.9	**2.1**

FINANCIAL INDICATORS 2004-2008

EUR million	2004	2005	2006	2007	**2008**
Balance sheet total	3,572	3,917	4,968	5,254	**5,511**
Equity attributable to shareholders	984	1,258	1,444	1,608	**1,444**
Total equity	989	1,265	1,450	1,615	**1,453**
Interest bearing liabilities	935	788	830	819	**1,435**
Net interest bearing liabilities	495	289	454	540	**1,099**
Capital employed	1,925	2,053	2,280	2,434	**2,888**
Return on equity (ROE), %	16.0	21.1	30.9	25.4	**26.0**
Return on capital employed (ROCE) before tax, %	10.7	18.9	22.5	26.1	**23.2**
Return on capital employed (ROCE) after tax, %	10.8	15.3	21.9	19.0	**17.3**
Equity to assets ratio, %	30.7	36.6	35.4	37.7	**30.9**
Gearing, %	50.1	22.8	31.3	33.4	**75.7**
Debt to capital, %	48.6	38.4	36.4	33.7	**49.7**
Orders received	3,989	4,745	5,705	6,965	**6,384**
Order backlog, December 31	1,705	2,350	3,737	4,341	**4,088**
Average number of personnel	24,363	22,405	23,364	26,269	**28,010**
Personnel, December 31	22,802	22,178	25,678	26,837	**29,322**

[1] The calculation of free cash flow has been revised: Only capital expenditure related to maintenance, and not the capital expenditure related to growth investments increasing capacity, is deducted from net cash provided by operating activities. FCF for the years ended December 31, 2006, 2007 and 2008 is presented in accordance with the revised concept, prior comparison periods have not been restated.

Formulas for calculation of financial indicators are presented on page 104.

SHARE CAPITAL AND SHARE DATA 2004-2008

EUR million (except for number of shares, per share data and share prices)	2004	2005	2006	2007	2008
Share capital, December 31	232	241	241	241	**241**
Number of shares, December 31:					
Number of outstanding shares	136,189,704	141,593,773	141,358,773	141,487,234	**141,623,642**
Treasury shares held by the Parent Company	60,841	60,841	60,841	60,841	**60,841**
Shares administered by a partnership (MEO1V Incentive Ky)	-	-	300,000	206,539	**70,131**
Total number of shares	136,250,545	141,654,614	141,719,614	141,754,614	**141,754,614**
Average number of outstanding shares	136,189,704	139,639,425	141,580,759	141,460,012	**141,595,026**
Average number of diluted shares	136,192,037	139,665,197	141,600,424	141,460,012	**141,595,026**
Trading volume, NASDAQ OMX Helsinki Ltd	108,469,701	239,282,695	266,774,359	350,168,659	**359,378,566**
Trading volume, NYSE [1]	6,057,500	7,931,000	4,682,700	6,020,320	**-**
% of shares [2]	84.1	174.6	192.0	251.8	**253.8**
Earnings/share from continuing operations, basic	1.16	1.57	2.89	2.69	**2.75**
Earnings/share from discontinued operations, basic	-0.11	0.12	-	-	**-**
Earnings/share from continuing and discontinued operations, basic	1.05	1.69	2.89	2.69	**2.75**
Free cash flow/share [3]	1.55	0.76	2.57	1.40	**0.20**
Dividend/share [4]	0.35	1.40	1.50	3.00	**0.70**
Dividend [4]	48	198	212	425	**99**
Dividend/earnings, % [4]	33	83	52	112	**25**
Effective dividend yield, % [4]	3.0	6.0	3.9	8.0	**8.2**
P/E ratio	11.13	13.81	13.23	13.88	**3.10**
Equity/share	7.22	8.89	10.21	11.36	**10.19**
Highest share price	12.89	24.46	38.65	49.95	**38.56**
Lowest share price	9.12	11.31	23.21	34.06	**7.74**
Average share price	10.85	16.85	30.45	41.43	**23.66**
Share price, December 31	11.66	23.12	38.24	37.33	**8.52**
Market capitalization, December 31 [5]	1,588	3,274	5,406	5,282	**1,207**

[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 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 years ended December 31, 2006, 2007 and 2008 is presented in accordance with the revised concept, prior comparison periods have not been restated.

[4] Proposal by the Board of Directors

[5] Excluding treasury shares held by the Parent Company and shares administered by a partnership

Formulas for calculation of share-related indicators are on page 104.

FORMULAS FOR CALCULATION OF FINANCIAL INDICATORS

Formulas for calculation of financial indicators

EBITA:

Operating profit + amorization
+ goodwill impairment

EBITDA:

Operating profit + depreciation and
amortization + goodwill impairment

Return on equity (ROE), %:

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

Return on capital employed (ROCE) before tax, %:

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

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

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

Gearing, %:

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

Equity to assets ratio, %:

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

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, %:

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

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, %:

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

Effective dividend yield, %:

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

P/E ratio:

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

Market capitalization:

Total number of shares x share price at end of period

Average share price:

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

EXCHANGE RATES USED

		Average rates			Year-end rates		
		2006	2007	**2008**	2006	2007	**2008**
USD	(US dollar)	1.2630	1.3797	**1.4726**	1.3170	1.4721	**1.3917**
SEK	(Swedish krona)	9.2533	9.2647	**9.6833**	9.0404	9.4415	**10.8700**
GBP	(Pound sterling)	0.6819	0.6873	**0.8026**	0.6715	0.7334	**0.9525**
CAD	(Canadian dollar)	1.4267	1.4663	**1.5656**	1.5281	1.4449	**1.6998**
BRL	(Brazilian real)	2.7375	2.6623	**2.6711**	2.8105	2.5949	**3.2441**

PARENT COMPANY STATEMENT OF INCOME

EUR	Note	Year ended December 31, 2007	2008
Other operating income	2	3,035,074.64	**645,861.16**
Personnel expenses	3	-12,381,686.40	**-12,615,609.79**
Depreciation and amortization	4	-552,485.37	**-683,121.32**
Other operating expenses		-17,079,238.81	**-18,466,887.60**
Operating profit (loss)		-26,978,335.94	**-31,119,757.55**
Financial income and expenses, net	6	393,300,419.16	**266,976,313.46**
Profit before extraordinary items		366,322,083.22	**235,856,555.91**
Extraordinary items	7	180,667,000.00	**136,934,000.00**
Profit before appropriations and taxes		546,989,083.22	**372,790,555.91**
Income taxes	8		
Current tax expense		-740,813.13	**-186,306.58**
Change in deferred taxes		-27,452,688.60	**-10,774,896.02**
Profit		518,795,581.49	**361,829,353.31**

PARENT COMPANY BALANCE SHEET

Assets

EUR	Note	2007	As at December 31, **2008**
Non-current assets			
Intangible assets	9	1,306,716.99	**1,714,218.19**
Tangible assets	9	1,013,849.65	**1,240,118.79**
Investments			
Shares in Group companies	10	2,100,617,939.80	**2,229,933,689.80**
Other investments	10	338,534,212.02	**350,007,501.78**
Total non-current assets		2,441,472,718.46	**2,582,895,528.56**
Current assets			
Long-term receivables	12	25,263,328.79	**14,264,522.49**
Short-term receivables	12	775,197,259.28	**746,210,361.00**
Securities		8,000,000.00	**121,174,653.90**
Bank and cash		20,185,280.12	**16,216,891.37**
Total current assets		828,645,868.19	**897,866,428.76**
Total assets		3,270,118,586.65	**3,480,761,957.32**

Shareholders' equity and liabilities

EUR	Note	2007	As at December 31, **2008**
Shareholders' equity	13		
Share capital		240,982,843.80	**240,982,843.80**
Share premium reserve		151,671,470.23	**-**
Legal reserve		215,489,536.19	**-**
Other reserves		194,210,758.91	**561,371,765.33**
Retained earnings		234,630.12	**93,909,932.61**
Profit		518,795,581.49	**361,829,353.31**
Total shareholders' equity		1,321,384,820.74	**1,258,093,895.05**
Liabilities			
Long-term liabilities	14	675,599,278.67	**1,075,835,842.59**
Current liabilities	15	1,273,134,487.24	**1,146,832,219.68**
Total liabilities		1,948,733,765.91	**2,222,668,062.27**
Total shareholders' equity and liabilities		3,270,118,586.65	**3,480,761,957.32**

PARENT COMPANY STATEMENT OF CASH FLOWS

EUR thousand	Year ended December 31, 2007	**2008**
Cash flows from operating activities:		
Profit	518,796	**361,829**
Adjustments to operating profit (loss)		
Depreciation and amortization	552	**683**
Unrealized foreign exchange gains (+) / losses (-)	22,082	**25,732**
Financial income and expenses, net	-424,030	**-289,659**
Gains (+) / losses (-) on sale, net	-2,438	**-274**
Group contributions	-180,667	**-136,934**
Write-downs	-	**538**
Taxes	-28,194	**-10,961**
Total adjustments to operating profit (loss)	-612,695	**-410,875**
Increase (-) / decrease (+) in short-term non-interest bearing trade receivables	75,745	**-38,677**
Increase (+) / decrease (-) in short-term non-interest bearing debt	2,033	**58,649**
Change in working capital	77,778	**19,972**
Interest and other financial expenses paid	-71,447	**-79,587**
Dividends received	104,349	**670,780**
Interest received	3,572	**3,705**
Income taxes paid	-741	**-186**
Net cash provided by operating activities	19,612	**565,638**
Cash flows from investing activities:		
Investments in tangible and intangible assets	-720	**-1,290**
Proceeds from sale of tangible and intangible assets	-280	**-1**
Long-term loans granted	-265,802	**-131,923**
Repayments of long-term loans	92,283	**27,503**
Short-term loans granted	-46,336	**-48,785**
Repayments of short-term loans	75,851	**56,966**
Purchase of other investments	-20,150	**-129,586**
Proceeds from other investments	28,803	**284**
Interest received from investments	10,237	**22,357**
Dividends received from investments	528	**388**
Net cash used in investing activities	-125,586	**-204,087**
Cash flows from financing activities:		
Share options exercised	304	**-**
Withdrawals (+) and instalments (-) of short-term loans, net	-181,588	**291,800**
Withdrawal of long-term loans	121,612	**485,252**
Repayments of long-term loans	-78,341	**-15,702**
Dividends paid	-212,541	**-425,081**
Change in Group pool accounts	413,762	**-769,280**
Group contributions	13,908	**180,667**
Net cash provided by (+) / used in (-) financing activities	77,116	**-252,344**
Net increase (+) / decrease (-) in bank and cash	-28,858	**109,207**
Bank and cash at beginning of year	57,043	**28,185**
Bank and cash at end of year	28,185	**137,392**

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, 2007	**2008**
Gain on sale of fixed assets	2,743	**278**
Rental income	88	**91**
Other	204	**277**
Total	3,035	**646**

3 Personnel expenses

EUR thousand	Year ended December 31, 2007	**2008**
Salaries and wages	-7,129	**-8,224**
Share-based payments	-1,707	**-796**
Pension costs	-3,108	**-3,219**
Other indirect employee costs	-438	**-377**
Total	-12,382	**-12,616**

EUR thousand	Year ended December 31, 2007	**2008**
Fringe benefits	246	**638**

Remuneration paid to Executive Team:

EUR thousand	Year ended December 31, 2007	**2008**
Chief Executive Officer and his deputy	-1,298	**-1,321**
Share-based payments	-818	**-436**
Board members [1)]	-407	**-463**
Total	-2,523	**-2,220**

[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:

	2007	**2008**
Personnel at end of year	88	**103**
Average number of personnel during the year	81	**98**

4 Depreciation and amortization

Depreciation and amortization expenses consist of the following:

EUR thousand	Year ended December 31, 2007	**2008**
Buildings and structures	-16	**-16**
Machinery and equipment	-73	**-72**
Other tangible assets	-3	**-3**
Intangible assets	-460	**-592**
Total	-552	**-683**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

5 Audit fees

EUR thousand	Year ended December 31, 2007	**2008**
Authorised Public Accountant PricewaterhouseCoopers Oy		
Audit	606	**577**
Tax consulting	240	**374**
Other services	140	**64**
Total	986	**1,015**

6 Financial income and expenses

EUR thousand	Year ended December 31, 2007	**2008**
Dividends received from		
Group companies	444,349	**330,780**
Others	528	**388**
	444,877	**331,168**
Interest income from investments from		
Group companies	10,376	**25,939**
Others	93	**247**
	10,469	**26,186**
Other interest and financial income from		
Others	14,953	**3,788**
Interest and financial income, total	470,299	**361,142**
Interest and other financial expenses to		
Group companies	-33,775	**-25,821**
Others	-43,224	**-68,345**
Interest and other financial expenses, total	-76,999	**-94,166**
Financial income and expenses, net	393,300	**266,976**
Other interest and financial income includes net gain from foreign exchange	11,524	**-**
Interest and other financial expenses to others include net loss from foreign exchange	-	**-1,901**

7 Extraordinary items

EUR thousand	Year ended December 31, 2007	**2008**
Group contributions received	180,667	**136,934**

8 Income taxes

EUR thousand	Year ended December 31, 2007	**2008**
Withheld taxes recorded for the financial year	-741	**-186**
Change in deferred taxes	-27,453	**-10,775**
Total	-28,194	**-10,961**

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
Acquisition cost at Jan 1, 2007	3,321	295	476	2,564	372	3,707	7,028
Additions	677	-	-	72	-	72	749
Decreases	-43	-	-	-65	0	-65	-108
Acquisition cost at Dec 31, 2007	3,955	295	476	2,571	372	3,714	7,669
Accumulated depreciation at Jan 1, 2007	-2,218	-	-196	-2,467	-8	-2,671	-4,889
Accumulated depreciation of decreases	30	-	-	63	0	63	93
Depreciation charges for the year	-460	-	-17	-72	-3	-92	-552
Accumulated depreciation at Dec 31, 2007	-2,648	-	-213	-2,476	-11	-2,700	-5,348
Net carrying value at Dec 31, 2007	**1,307**	295	263	95	361	**1,014**	**2,321**

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
Acquisition cost at Jan 1, 2008	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, 2008	4,954	295	476	2,855	395	4,021	8,975
Accumulated depreciation at Jan 1, 2008	-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, 2008	-3,240	-	-229	-2,538	-14	-2,781	-6,021
Net carrying value at Dec 31, 2008	**1,714**	295	247	317	381	**1,240**	**2,954**

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 investments total
Acquisition cost at Jan 1, 2007	2,106,474	3,474	6,623	161,416	5,115	176,628
Additions	20,000	-	150	265,802	-	265,952
Decreases	-25,856	-3,474	-242	-100,241	-89	-104,046
Acquisition cost at Dec 31, 2007	2,100,618	0	6,531	326,977	5,026	338,534
Accumulated impairment at Jan 1, 2007	-	-3,474	-	-	-	-3,474
Other change	-	3,474	-	-	-	3,474
Accumulated impairment at Dec 31, 2007	-	0	-	-	-	0
Net carrying value at Dec 31, 2007	2,100,618	0	6,531	326,977	5,026	338,534

EUR thousand	Shares Group companies	Shares Participating interests	Shares Others	Receivables Group companies	Receivables Other companies	Other investments total
Acquisition cost at Jan 1, 2008	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, 2008	2,229,934	-	6,765	338,242	5,000	350,007
Accumulated impairment at Jan 1, 2008	-	-	-	-	-	-
Other change	-	-	-	-	-	-
Accumulated impairment at Dec 31, 2008	-	-	-	-	-	-
Net carrying value at Dec 31, 2008	**2,229,934**	**-**	**6,765**	**338,242**	**5,000**	**350,007**

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
MEO1V Incentive Ky	Finland, Helsinki	98.9
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 Minerals Oy	Finland, Helsinki	100.0
Metso Minerals Canada Inc.	Canada, Belleville	100.0
Metso Paper Oy	Finland, Helsinki	100.0
Metso Powdermet Oy	Finland, Tampere	100.0
Metso SAS	France, Neuilly sur Seine	62.3
Metso Svenska AB	Sweden, Karlstad	100.0
Metso USA Inc.	USA, Norcross	100.0
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

EUR thousand	As at December 31, 2007	**2008**
Deferred tax asset	24,825	**14,050**
Long-term receivables from others	438	**215**
Long-term receivables total	25,263	**14,265**

Short-term receivables

EUR thousand	As at December 31, 2007	**2008**
Trade receivables from		
Group companies	2,112	**3,291**
Others	92	**122**
	2,204	**3,413**
Loan receivables from		
Group companies	230,815	**514,575**
Others	0	**690**
	230,815	**515,265**
Prepaid expenses and accrued income from		
Group companies	182,371	**142,487**
Others	19,302	**84,449**
	201,673	**226,936**
Other receivables		
From Group companies	340,000	**-**
VAT receivable	499	**636**
Other receivables	6	**-40**
	340,505	**596**
Short-term receivables total	775,197	**746,210**

Specification of prepaid expenses and accrued income

EUR thousand	As at December 31, 2007	**2008**
Prepaid expenses and accrued income from Group companies		
Group contribution receivables	180,667	**136,934**
Accrued interest income	1,681	**5,495**
Other accrued items	23	**58**
Total	182,371	**142,487**
Prepaid expenses and accrued income from others		
Accrued interest income	116	**214**
Accrued derivatives	17,848	**83,246**
Other accrued items	1,338	**989**
Total	19,302	**84,449**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

13 Statement of changes in shareholders' equity

EUR thousand	2007	**2008**
Share capital at Jan 1	240,923	**240,982**
Increase in share capital	59	**-**
Share capital at Dec 31	240,982	**240,982**
Share premium reserve at Jan 1	151,426	**151,671**
Change in financial year	245	**-**
Decrease and transfer	-	**-151,671**
Share premium reserve at Dec 31	151,671	**-**
Legal reserve at Jan 1	215,490	**215,490**
Decrease and transfer	-	**-215,490**
Legal reserve at Dec 31	215,490	**-**
Other reserves at Jan 1	201,826	**194,211**
Transfer	-7,615	**367,161**
Other reserves at Dec 31	194,211	**561,372**
Retained earnings at Jan 1	204,926	**519,031**
Dividend distribution	-212,541	**-425,081**
Transfer	7,615	**-**
Other change	235	**-39**
Retained earnings at Dec 31	235	**93,911**
Profit	518,796	**361,829**
Total shareholders' equity at Dec 31	1,321,385	**1,258,094**

Statement of distributable funds at December 31

EUR	2007	**2008**
Other reserves	194,210,758.91	**561,371,765.33**
Retained earnings	234,630.12	**93,909,932.61**
Profit	518,795,581.49	**361,829,353.31**
Total distributable funds	713,240,970.52	**1,017,111,051.25**

At the end of the year, Metso Oyj held 60,841 treasury shares, the acquisition price of which, EUR 655 thousand, has been deducted from retained earnings.

14 Long-term liabilities

EUR thousand	2007	As at December 31, **2008**
Bonds [1)]	508,644	**710,201**
Loans from financial institutions	166,955	**365,635**
Total	675,599	**1,075,836**

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

Debt maturing later than in five years time

EUR thousand	2007	As at December 31, **2008**
Bonds	-	**161,673**
Loans from financial institutions	78,139	**149,849**
Total	78,139	**311,522**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

15 Short-term liabilities

EUR thousand	As at December 31, 2007	**2008**
Current portion of long-term liabilities		
Bonds	-	**83,000**
Loans from financial institutions	15,978	**13,220**
Other short-term debt to Group companies	835	**-**
	16,813	**96,220**
Trade payables to		
Group companies	1,158	**517**
Others	1,610	**1,402**
	2,768	**1,919**
Accrued expenses and deferred income to		
Group companies	3,152	**3,842**
Others	28,074	**93,886**
	31,226	**97,728**
Other short-term interest bearing debt to		
Group companies	264,516	**419,199**
Group pool accounts	942,748	**389,947**
Others	14,756	**141,329**
	1,222,020	**950,475**
Other short-term non-interest bearing debt to		
Others	307	**490**
	307	**490**
Short-term liabilities total	1,273,134	**1,146,832**
Short-term liabilities to Group companies total	1,212,409	**813,505**

Specification of accrued expenses and deferred income

EUR thousand	As at December 31, 2007	**2008**
Accrued expenses and deferred income to Group companies		
Accrued interest expenses	2,840	**3,753**
Other accrued items	312	**89**
	3,152	**3,842**
Accrued expenses and deferred income to others		
Accrued interest expenses	6,048	**12,100**
Accrued derivatives	18,658	**78,579**
Accrued salaries, wages and social costs	2,368	**2,034**
Other accrued items	1,000	**1,173**
	28,074	**93,886**

16 Other contingencies

Guarantees

EUR thousand	As at December 31, 2007	**2008**
Guarantees on behalf of subsidiaries	1,300,799	**1,270,859**
Guarantees on behalf of others	5,422	**8,052**
Total	1,306,221	**1,278,911**

Lease commitments

EUR thousand	As at December 31, 2007	**2008**
Payments in the following year	440	**498**
Payments later	297	**212**
Total	737	**710**

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