Metso Corporation
Financial Statements
2007

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Domicile Helsinki, Finland

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Board of Directors' Report

Operating environment and demand for products

The market situation for Metso's products and services was favorable throughout the year. The uncertainty that characterized the financial markets from the summer onwards had no material effect on the investment decisions of Metso's customers. The weakening of the United States economic outlook did not have material impact on Metso's orders received as the share of the United States in Metso's total order intake has decreased in recent years to just over 10 percent.

Order intake grew most substantially in Europe, where the rapid increase in the importance of Eastern Europe and Russia was notable. Growth was strong also in Asia, South Africa and the Middle East. In the United States, Metso's volume of new orders received remained at the level of the previous year.

The demand for paper and board machines was satisfactory during the year, and is expected to continue along the same lines due to strong economic growth in Asia. The steady growth in the consumption of tissue, especially in emerging economies, kept the demand for tissue machines at a satisfactory level. The demand for fiber lines remained satisfactory, but no final decisions on complete pulp production lines were made after the first half-year. Power boilers utilizing renewable energy sources continued to be in high demand, but related decision-making was limited by high capacity utilization among suppliers. The demand for Metso Paper's services continued to be satisfactory in both paper and board machines and in power plants. Paper and board machines accounted for almost one half of orders received, and power boilers for about one quarter.

The demand for Metso Minerals' construction equipment and solutions was good. Demand was supported by ongoing development projects concerning road networks and other transportation infrastructure around the world and especially in emerging economies. The sales growth of construction equipment and solutions were particularly substantial in Eastern Europe and solid also in the United States, where new orders remained at almost the previous year's level. The construction equipment market is expected to continue to be good. The demand for mining equipment and services was excellent in all market areas. The investment plans of mining companies indicate that demand will also remain strong in the future. The demand in the metals recycling industry was excellent, thanks to increased recycling and the high prices of metals, and this trend is expected to continue. The mining industry accounted for over 50 percent of orders received, construction for about one third and metals recycling for about 10 percent.

At Metso Automation, the market for process automation systems for the pulp and paper industry was satisfactory all year, and growth is expected to take place in the Eastern European, Chinese and South American markets. Demand was satisfactory for pulp and paper industry flow control solutions, and excellent in the power, oil and gas industries. The markets for process automation systems in power production were good and are expected to grow. The power, oil and gas industries increased their share of orders received to over 50 percent.

Orders received and order backlog

In 2007, Metso's orders received grew by 22 percent on the previous year, and totaled EUR 6,965 million. The Pulping and Power businesses acquired at the end of 2006 contributed about one half to the increase. Orders received grew in all business areas. Excluding the effect of exchange rate translation, the increase in orders received would have been about 3 percentage points higher. Metso's order backlog increased by 16 percent on the end of 2006 and was EUR 4,341 million at the end of 2007.

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Orders received by business area:

	2005 EUR million	%	2006 EUR million	%	**2007 EUR million**	**%**
Metso Paper	2,164	45	2,276	40	**3,109**	**44**
Metso Minerals	1,963	41	2,655	46	**3,075**	**44**
Metso Automation	580	12	717	12	**763**	**11**
Valmet Automotive	78	2	109	2	**85**	**1**
Intra-Metso and other orders received	(40)		(52)		**(67)**	
Total	4,745	100	5,705	100	**6,965**	**100**

Orders received by market area:

	2005 EUR million	%	2006 EUR million	%	**2007 EUR million**	**%**
Europe	2,110	44	1,993	35	**3,135**	**44**
North America	960	20	1,099	19	**1,033**	**15**
South and Central America	562	12	757	13	**818**	**12**
Asia-Pacific	896	19	1,503	27	**1,514**	**22**
Rest of the world	217	5	353	6	**465**	**7**
Total	4,745	100	5,705	100	**6,965**	**100**

Net sales

Metso's net sales in 2007 grew by 26 percent on the comparison period and totaled EUR 6,250 million. Excluding the effect of exchange rate translation, the increase in net sales would have been about 3 percentage points higher. About half of the growth was organic and the rest resulted from acquisitions. The net sales of the services business (previously the aftermarket business) increased by 19 percent, and accounted for 33 percent of the Corporation's net sales (35 percent in 2006). The decrease in the relative share of the services was due to the acquired Pulping and Power businesses, in which the share of the services is below Metso's average. The countries in which Metso had the highest net sales in 2007 were the United States, Brazil, China, Finland and Sweden.

Net sales by business area:

	2005 EUR million	%	2006 EUR million	%	**2007 EUR million**	**%**
Metso Paper	1,842	43	2,092	42	**2,925**	**46**
Metso Minerals	1,756	41	2,199	44	**2,607**	**41**
Metso Automation	584	14	613	12	**698**	**11**
Valmet Automotive	77	2	109	2	**85**	**2**
Intra Metso and other net sales	(38)		(58)		**(65)**	
Total	4,221	100	4,955	100	**6,250**	**100**

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Net sales by market area:

	2005 EUR million	%	2006 EUR million	%	**2007 EUR million**	**%**
Europe	1,900	45	2,002	41	**2,551**	**40**
North America	889	21	1,012	20	**1,049**	**17**
South and Central America	485	12	685	14	**859**	**14**
Asia-Pacific	735	17	991	20	**1,488**	**24**
Rest of the world	212	5	265	5	**303**	**5**
Total	4,221	100	4,955	100	**6,250**	**100**

Financial result

Metso's 2007 earnings before interest, tax and amortization (EBITA) improved clearly and were EUR 635.4 million, or 10.2 percent of net sales (EUR 481.1 million and 9.7% in 2006). EBITA improved in all business areas, both in terms of euros and in relation to net sales. This improvement was mainly due to increased delivery volumes, but also to the profitability improvement measures taken at Metso Paper.

Metso's operating profit for 2007 was EUR 579.8 million, or 9.3 percent of net sales (EUR 457.2 million and 9.2% in 2006). Operating profit includes a EUR 36 million amortization of intangible assets related to the acquisition of the Pulping and Power businesses.

Metso's net financial expenses for 2007 were EUR 33 million (EUR 36 million). Net financial expenses include EUR 7 million in foreign exchange gains.

Metso's profit before taxes was EUR 547 million (EUR 421 million). The profit attributable to shareholders in 2007 was EUR 381 million (EUR 409 million), corresponding to earnings per share (EPS) of EUR 2.69 (EUR 2.89 per share). In 2006, Metso recognized in the income statement a nonrecurring deferred tax asset of EUR 87 million related to its operations in the United States, which lowered the tax rate for 2006 and improved EPS by EUR 0.61. Metso's tax rate for 2007 was 29.8 percent, and it is estimated to be at approximately 30 percent in 2008.

Metso's return on capital employed (ROCE) was 26.1 percent (22.5%) and return on equity (ROE) was 25.4 percent (30.9%).

Financial indicators for the years 2003–2007 are presented on pages 96-97.

Cash flow and financing

Metso's net cash generated by operating activities in 2007 was EUR 294 million (EUR 442 million). As a result of the strong growth of the order backlog and net sales, inventories increased in all business areas. Growth in inventories was partly offset by growth in advances received and accounts payable. Net working capital increase for the full year was EUR 286 million. Metso's free cash flow for 2007 was EUR 198 million (EUR 364 million).

Net interest-bearing liabilities totaled EUR 540 million at the end of December (EUR 454 million). Metso's gearing was 33.4 percent and the equity to assets ratio was 37.7 percent. In April, Metso paid out dividends of EUR 212 million for 2006.

In October, Moody's Investor Service upgraded Metso's long-term rating from Baa3 to Baa2 and estimated the rating outlook as stable. In May, Standard & Poor's Rating Services upgraded the corporate credit rating of Metso from BBB– to BBB and the short-term rating from A–3 to A–2. Standard & Poor's also upgraded the rating of Metso's senior unsecured debt from BB+ to BBB–. Standard & Poor's estimated the rating outlook as stable.

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Capital expenditure

In 2007 Metso's gross capital expenditure grew by 21 percent from 2006 and was EUR 159 million excluding acquisitions (EUR 131 million). The most significant investments were for extensions or establishments of production plants and service centers, and for new enterprise resource planning (ERP) systems. About one third of the capital expenditure was related to investments increasing capacity necessitated by strong volume growth.

Metso is investing in the expansion of its paper industry service units in Guangzhou and Wuxi, China, and the boiler service units in Lancaster, South Carolina, and in Fairmont, West Virginia, the United States. During the year, Metso invested in the expansion of crusher manufacturing in Tampere, Finland and in Tianjin, China. In India, investments were made to increase assembly capacity in Bawal and to expand foundry capacity in Ahmedabad. The units in Shanghai, China, and Helsinki, Finland expanded their production capacity for flow control equipment. In Finland, the roll delivery capacity in Jyväskylä and the boiler rebuild and maintenance capacity in Lapua were expanded. Additionally, extension of office facilities in New Delhi, India is underway to cater for the needs of all Metso units operating in India. In Brazil, Metso opened a new process technology center to offer R&D and testing services relating to mineral processing. A research center including a pilot plant and rock laboratory for construction business was completed in Tampere late last year.

An investment project for an ERP system covering the entire supply chain was started at Metso Automation. The system will be introduced in stages, starting in 2009. An ERP system is also being developed at Metso Minerals.

It is estimated that, excluding acquisitions, Metso's gross capital expenditure for 2008 will exceed EUR 200 million. The increase will be due to the capacity-increasing investments necessitated by volume growth and development of Metso's global presence.

Holding in Talvivaara Mining Company Ltd

Metso's 3.4 percent holding in Talvivaara Mining Company Ltd is classified in the balance sheet as an available-for-sale investment. In December 2007, Metso sold 1.2 million of the company's shares and recognized a capital gain of almost EUR 5 million. At the end of December, Metso's holding was valued at approximately EUR 31 million. Metso's holding relates to a joint R&D project with Talvivaara Mining Company to develop rock processing and bulk materials handling processes.

Acquisitions and divestments

In March 2007, Metso acquired the North American metals recycling technology provider, Bulk Equipment Systems and Technologies Inc., located in Cleveland, Ohio. The acquisition price was approximately EUR 9 million. The company's net sales in 2006 were EUR 8 million and it employs approximately 40 people.

In June 2007, Metso strengthened its services to the paper industry by acquiring Mecanique et Dépannage Industries s.a.r.l. (MDI) in France. MDI employs 30 people. The transaction price was less than EUR 1 million.

In July 2007, Metso acquired Bender Holdings Limited and its subsidiaries in the United Kingdom. As a result of the acquisition, Metso became the global market leader in Yankee cylinder grinding and coating services for tissue machines. The transaction price was EUR 16 million, excluding the acquired cash assets. The company employs 97 people and its net sales in 2006 amounted to approximately EUR 24 million.

In October 2007, Metso acquired Mueller Engineering Inc (MEI), the leading provider of equipment and services for high voltage drive systems to the North American metal recycling industry. The acquisition price was approximately EUR 6 million. In 2006, MEI's net sales were EUR 10 million, and it employed some 20 people.

In March 2007, Metso sold the majority of Metso Paper AG in Delémont, Switzerland. Metso remained as a minority shareholder. The company has about 70 employees and annual net sales of approximately EUR 10 million.

In September 2007, Metso sold the assets of its German panelboard press business to G. Siempelkamp GmbH & Co. KG. The 65 employees of Metso Panelboard GmbH were transferred to Siempelkamp. The transaction price was EUR 7 million. Metso booked a small gain on the sale in the third quarter.

Changes in the corporate structure

Since the beginning of 2007, Metso has had three business areas. Metso Paper's business was reorganized as of June 1, 2007 into the following business lines: Paper and Board, Tissue, Fiber, Power and Panelboard. The Panelboard business line was discontinued as a separate business line in January 2008. The operations of Metso Minerals were reorganized as of January 1, 2007 in accordance with the three main customer segments into the Construction, Mining and Recycling business lines. Metso Automation's business lines are Flow Control and Process Automation Systems.

Acquisition and integration of the Pulping and Power businesses

Metso closed the acquisition of Aker Kvaerner's Pulping and Power businesses on December 29, 2006. The acquisition price was EUR 336 million, including EUR 6 million in expenses related to the acquisition and EUR 53 million in net cash.

Integration of the acquired businesses into Metso Paper has proceeded according to plan. Metso estimates that the annual cost savings achievable through synergies will amount to EUR 20-25 million from 2008 onwards. The cost savings for the first year were realized sooner than expected, and approximately EUR 14 million of the annual savings materialized already in 2007. The non-recurring expenses resulting from integration of the acquired businesses are estimated to be approximately EUR 10 million, of which EUR 9 million was recognized in 2007.

As a result of integration, the number of employees was reduced by about 160 by the end of December. The total number of redundancies are estimated to be about 220 people.

The amortization of intangible assets resulting from the transaction amounted to EUR 36 million in 2007. It is estimated that intangible assets will be amortized by EUR 20 million in 2008, and by EUR 13 million annually thereafter until they are fully amortized.

Research and development

Metso's research and development focuses on environmental technology, technology related to the services business and the development of smart applications. In 2007, Metso's R&D expenses totaled EUR 117 million, i.e. 1.9 percent of net sales (EUR 109 million and 2.2%). R&D employed 923 people (839) in 2007. Metso's personnel made almost 850 invention disclosures (710), which led to over 220 patent applications (220). At the end of the year approximately 2,800 Metso inventions were protected by patents (2,500).

The objectives of Metso Paper's product development are to lower customers' production costs, decrease the environment impact of their processes and improve energy efficiency. During the year, Metso Paper introduced a renewed, more energy-efficient recovery boiler, and developed a standardized, more cost-effective machine concept for liner and fluting board production, especially for the Chinese market. The Val product family developed for machine rebuilds was expanded with

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forming solutions suitable for paper and board grades and with the launch of a new calender that saves raw material. The maintenance business was supported by the development of new roll surfaces and service and analysis packages. New press technology, which enhances press efficiency and reduces the energy used in paper drying, was introduced for tissue machines.

The central themes of Metso Minerals' R&D operations are the development of new business concepts and products related to lifecycle services, and environmental technology. In addition, there is a focus on enhancing equipment performance and combining process technology and automation in current products. Materials technology also plays a significant role in the development of lifecycle services. Metso Minerals' product innovations included a Lokotrack mobile crusher designed for use in construction projects, in which the mobility and utilization rate of the crusher was improved. In the recycling business, a Lindemann baling press was launched. The new solution increases the capacity of recycling processes and makes cutting more efficient.

Metso Automation seeks, through its product development projects, to strengthen its position as a significant automation supplier for the pulp and paper industry and to expand the product range for energy and power generation customers. The product innovations included an analyzer for the Kajaani product family that enhances the productivity and quality of fiber processes and a new version of the metsoDNA automation network that includes reporting and analysis tools that improve the performance tracking of process controls and field equipment. These properties will improve Metso Automation's competitiveness also as an energy industry automation supplier. The product innovations also include a valve for the Neles product family that combines the best technological properties of linear seated valves and rotary valves. The new paper grade measurement solutions of the IQ product family complement earlier measurement systems.

Environment and environmental technology

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

Metso's R&D develops products and solutions that reduce the environmental impact of Metso's customer industries. Many of Metso's environmental technology solutions have been developed in close cooperation with customers. Metso offers environmental solutions related to energy efficiency, air quality, waste management, recycling and recovery of raw materials, water efficiency, water treatment and process optimization.

Environmental technology is a strategic growth area for Metso, and an increasing proportion of net sales stems from environmental solutions delivered to the customers. Over one half of Metso's net sales are classified as environmental business, using the OECD definition. Metso's strategy highlights the importance of environmental solutions.

Risks and business uncertainties

Metso's operations are affected by various strategic, operational, hazard and financial risks. Metso takes measures to manage and limit the potential adverse effects of these risks. However, if such risks materialized, they could have material adverse impact 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 risk level is estimated to be currently acceptable in proportion to the type and scope of Metso's operations. This section features a brief description of Metso's most significant strategic and operational risks.

Business cycles in the global economy and customer industries affect the demand for Metso's products and the company's financial situation. In particular, development of economies in the

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BRIC countries (Brazil, Russia, India and China) has a significant influence on Metso's growth potential. For example, as China is the primary market for new paper and board machines, any major variations in demand in China affect Metso Paper's profitability. Metso's wide geographical scope of operations and several different customer industries even out business cycle changes in the long run. In general, orders of new equipment are more susceptible to cyclical changes than the services business. Consequently, Metso is actively growing its services business. In recent years, Metso has increased the flexibility of its cost structure by subcontracting more and focusing in its own operations on producing and assembling key components.

Metso has its own manufacturing and subcontracting networks in many emerging economies. Sudden political, economic and/or legislative changes, especially in the BRIC countries, can interrupt business. Metso's operations are also affected by the environmental legislation of various countries, which may complicate the sale of Metso's products and increase costs. On the other hand, the tighter environmental standards introduced by new legislation open up possibilities to offer customers new solutions that improve energy-efficiency, reduce emissions and promote recycling.

Metso's technology risks are related to technological competence, research and product development. The use of new technology may temporarily increase quality-related costs. Metso protects its products and business-related intellectual property rights through patents and trademarks.

By continuously assessing human resources and organizational structures, Metso aims to ensure organizational efficiency and competence and to avoid and manage risks such as unsuitable recruiting, imbalance in the age structure and excessive personnel turnover.

The supply problems of raw material suppliers may increase the costs and availability of the raw materials used in Metso's products. For example, steel and iron scrap are among the most important raw materials, and their prices and availability vary depending on the market demand. Substantial fluctuations in the prices of steel and iron scrap may have an adverse effect on Metso's operations. Increases in the prices of electricity, oil and metals mainly serve to boost the demand for Metso's products, but such price fluctuations may indirectly have an adverse effect, if they decrease the investment willingness of customers. The direct risks associated with raw materials procurement have decreased in recent years, because Metso has increasingly focused on manufacturing and assembling core components. On the other hand, outsourcing has increased the importance of and risks related to suppliers and subcontractors. The delivery times for Metso's products have lengthened due to the strong growth in orders received. Because of this, the risk exists that material and other costs may increase substantially during the delivery period and affect Metso's profitability to a larger extent than what is estimated today. In the current situation of strong demand, the short supply of certain components and the scarcity of subcontractor resources, particularly at Metso Minerals and Metso Automation, may also result in extended delivery times.

Metso's operations partly consist of large-scale project deliveries. These may involve project-specific risks concerning delivery schedules, equipment start-up, production capacity and end-product quality. In some projects, risks may also arise from new technology included in the deliveries. However, the risks related to any single project are not generally substantial, considering the scope of the company's business. General uncertainty on the financial markets is not estimated to have a material effect on the demand for Metso's products and services. This uncertainty may, however, affect the timing of certain customer projects or the demand in certain geographical areas.

Securing the continuity of Metso's operation requires that sufficient financing be ensured under all circumstances. Of the financial risks that affect Metso's profit, currency exchange rate risks are the most substantial. Exchange rate changes affect the business, although the geographical diversity of operations decreases the significance of any single currency. Exchange rate changes can have a direct impact in situations in which the invoicing currency is different from the currency of the costs.

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

In November 2006, Metso Minerals Industries, Inc., which is Metso Minerals' 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. During 2007 Metso recognized about EUR 4 million in costs from the investigation.

Personnel

At the end of the year, Metso employed 26,837 people. This was 1,159 more than at the end of 2006 (25,678 people). The number of personnel grew most in emerging markets where Metso is actively increasing its presence. In 2007, Metso employed an average of 26,269 people.

Personnel by area:

	Dec 31, 2005	Dec 31, 2006	**Dec 31, 2007**	**Change %**
Finland	8,340	9,281	**9,386**	**1**
Other Nordic countries	2,491	3,580	**3,602**	**1**
Other European countries	2,959	3,067	**3,183**	**4**
North America	3,526	3,715	**3,865**	**4**
South and Central America	2,070	2,439	**2,675**	**10**
Asia-Pacific	1,498	2,262	**2,705**	**20**
Other countries	1,294	1,334	**1,421**	**7**
Total	22,178	25,678	**26,837**	**5**

The main drivers behind personnel increases have been the investments in delivery and service capability required by strong growth. Metso Paper's personnel increased in Asia-Pacific due to production capacity expansions, but this was offset by personnel decreases in Europe and North America due to efficiency improvement measures. Metso Minerals' number of personnel grew strongly in Finland, France, Chile, the United States, India and Russia as a result of growth investments. Metso Automation's personnel increased mainly through the rises in the production capacity of the Flow Control business line in Finland and China.

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 2007, the total amount of salaries and wages paid was EUR 1,036 million (EUR 914 million in 2006). The increase was primarily due to the acquisition of Pulping and Power businesses.

Financial targets and dividend policy

Metso's financial targets remained unchanged in 2007. The average annual net sales growth target is more than 10 percent. Growth will be attained both organically and through value-enhancing complementary acquisitions. Major acquisitions with a significant impact on Metso will come on top of this 10 percent growth target. The operating profit margin target (EBIT-%) is more than 10 percent. Furthermore, Metso's target is that its key financial indicators, capital structure and cash flow metrics will support solid investment grade credit ratings. Metso's dividend policy is to distribute at least 50 percent of annual earnings per share as dividends or in other forms of repatriation of capital.

BOARD OF DIRECTORS' REPORT

Decisions of the Annual General Meeting

On April 3, 2007 the Annual General Meeting of Metso Corporation approved the accounts for 2006 as presented by the Board of Directors and discharged the members of the Board of Directors and the President and CEO from liability for the 2006 financial year. In addition, the Annual General Meeting approved the proposals of the Board of Directors to amend the Articles of Association and to authorize the Board of Directors to resolve on a repurchase of the Corporation’s own shares and on a share issue. More information on the authorizations of the Board of Directors is presented in Shares and Shareholders section on pages 16–20.

The Annual General Meeting decided to establish a Nomination Committee of the Annual General Meeting to prepare proposals for the following Annual General Meeting in respect of the composition of the Board of Directors and the remuneration of directors. The Nomination Committee consists of representatives appointed by the four biggest shareholders along with the Chairman of the Board of Directors 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 of the Board. Eva Liljeblom, Professor at the Swedish School of Economics and Business Administration, Helsinki, Finland, was elected as a new member of the Board. The Board members re-elected were Svante Adde, Maija-Liisa Friman, Christer Gardell and Yrjö Neuvo. The term of office of Board members lasts until the end of the following Annual General Meeting.

The Annual General Meeting decided that the annual remuneration of Board members would be EUR 80,000 for the Chairman, EUR 50,000 for the Vice Chairman and the Chairman of the Audit Committee and EUR 40,000 for the members. It was also decided that the meeting fee, including committee meetings, would be EUR 500 per meeting.

PricewaterhouseCoopers Oy, Authorized Public Accountants, was re-elected to act as the Auditor of Metso until the end of the next Annual General Meeting.

The Annual General Meeting decided to pay a dividend of EUR 1.50 per share for the financial year, which ended on December 31, 2006. The dividend was paid to shareholders who were entered in Metso’s shareholder register maintained by the Finnish Central Securities Depository on the record date for dividend payment, April 10, 2007. The dividend was paid on April 17, 2007.

Board committees

At its assembly meeting the Board of Directors elected from its midst the members of the Audit Committee and Compensation Committee. The Board’s Audit Committee consists of Maija-Liisa Friman (Chairman), Svante Adde and Eva Liljeblom. The Board of Directors assigned Svante Adde as the financial expert of the Audit Committee. The Board’s Compensation Committee consists of Matti Kavetvuo (Chairman), Jaakko Rauramo, Christer Gardell and Yrjö Neuvo.

Shares, options and share capital

A total of 35,000 shares were subscribed with Metso Corporation’s 2003A stock options during the period February 8 – March 21, 2007. The resulting increase in share capital of EUR 59,500 was entered in the Finnish Trade Register on March 29, 2007. The shares became subject to trading on the OMX Nordic Exchange Helsinki together with the existing shares on March 30, 2007. The right to receive dividends and other shareholder rights of the new shares commenced on the registration date.

At the end of 2007, 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 206,539 Metso shares held by a limited partnership consolidated in Metso’s consolidated financial statements. Together these represent 0.19 percent of all the shares and votes. The average number of shares outstanding in 2007, excluding Metso shares held by the company, was 141,460,012.

After cancellations and exercised options there remains a total of 100,000 year 2003A options in Metso's stock options program, all of them held by Metso's subsidiary, Metso Capital Ltd.

Metso's market capitalization, excluding Metso shares held by the company, was EUR 5,282 million on December 31, 2007.

Share ownership plan

Metso has a share ownership plan for 2006–2008. The maximum number of shares to be allocated to the 2006–2008 incentive plan is 360,000 Metso shares.

The share ownership plan for the year 2006 was allocated to 60 Metso managers. Based on the 2006 earnings period, 99,961 shares corresponding to 0.07 percent of Metso shares were distributed at the end of March 2007. Members of Metso's Executive Team received 25,815 shares.

Metso's Board of Directors decided in February 2007 to allocate the 2007 share ownership plan to a total of 81 Metso managers. The potential reward from the plan was to be based on the operating profit for 2007 of Metso and its business areas. The share ownership plan was to cover a maximum of 125,500 Metso shares in 2007. Members of the Metso Executive Team were to be allocated a maximum of 26,500 shares of this total. If the average trade-weighted price of the Metso share during the first two full weeks of March 2008 exceeded EUR 48, the number of shares to be granted under the 2007 plan would be decreased by a corresponding ratio. Payment of the potential rewards will be decided during the first quarter of 2008.

Metso's Board of Directors decided in February 2008 on the number of shares to be allocated for 2008 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 for 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 entire Executive Team is covered by the 2008 share ownership plan, and a maximum of 26,000 shares has been allocated to Executive Team members. The maximum reward from the plan is limited to each person's annual salary, which is calculated for the plan's purposes by multiplying the person's monthly base salary for the share distribution month by a factor of 12.5. The payment of rewards, if any, will be decided during the first quarter of 2009.

Metso's listing on the NYSE, SEC registration and related reporting obligations have been terminated

In July, 2007 Metso decided to apply for the delisting of its share and deregistration in the United States. The final day for trading in Metso's American Depositary Shares (ADS) on the New York Stock Exchange was September 14, 2007.

Metso filed a Form 15F with the U.S. Securities and Exchange Commission (SEC) on September 17, 2007 to terminate its reporting obligations under the U.S. Securities Exchange Act. Termination became effective on December 17, 2007.

Metso maintains its American Depositary Receipt (ADR) facility with the Bank of New York, and Metso's ADSs are traded over-the-counter (OTC) under the symbol “MXCYY” in the United States. Metso's ordinary shares will continue to trade on the OMX Nordic Exchange Helsinki.

Metso publishes in English on its website (www.metso. com) materials that are required to be made public pursuant to Finnish law, or required to be publicly filed with its primary trading market or required to be distributed to securities holders.

BOARD OF DIRECTORS' REPORT

BUSINESSES

Metso Paper

EUR million	2005	2006	**2007**
Net sales	1,842	2,092	**2,925**
Earnings before interest, tax and amortization (EBITA)	100.3	105.6	**184.5**
% of net sales	5.4	5.0	**6.3**
Operating profit	91.5	89.8	**136.9**
% of net sales	5.0	4.3	**4.7**
Orders received	2,164	2,276	**3,109**
Order backlog, Dec. 31	1,335	2,225	**2,363**
Personnel, Dec. 31	8,852	11,558	**11,694**

Aker Kvaerner's Pulping and Power businesses were acquired on December 29, 2006, and the acquired balance sheet was consolidated to Metso on December 31, 2006. The acquired businesses had no effect on Metso's income statement for 2006 and are therefore not included in the comparative segment information except for order backlog and personnel as at December 31, 2006.

Metso Paper's net sales grew by 40 percent on the comparison year and totaled EUR 2,925 million. About one-third of the growth was organic, and two-thirds were related to the acquisition of the Pulping and Power businesses. Organic growth was strongest at the Paper and Board and the Power business lines.

Metso Paper's services business grew by 31 percent. Excluding the acquired Pulping and Power business and the effect of exchange rate translation, the growth of the services business was about 8 percent. The services business accounted for 29 percent of net sales (30% in 2006). During 2007, Metso Paper carried out acquisitions supporting the services business, invested in service centers in China, and signed a large-scale service agreement with a Plattling Papier paper mill it had delivered in Germany.

The favorable development of Metso Paper's profitability continued, and EBITA for the entire year was EUR 184.5 million, or 6.3 percent of net sales (EUR 105.6 million and 5.0% in 2006). The improvement was mainly due to strong volume growth and effective control of fixed costs.

Metso Paper's operating profit was EUR 136.9 million, or 4.7 percent of net sales (EUR 89.8 million and 4.3% in 2006). The operating profit in 2007 was weakened by the EUR 36 million amortization of intangible assets related to the acquisition of the Pulping and Power businesses.

The value of orders received by Metso Paper increased by 37 percent on the comparison period and totaled EUR 3,109 million. The order intake growth was very strong in the Power business line, in which the value of orders received exceeded EUR 800 million in 2007. Orders received by the Paper and Board business line also increased notably, while the orders received by the Fiber and Tissue business lines decreased from the comparison year. The most significant orders for the year included pulp mill equipment for Votorantim Celulose e Paper in Brazil and Celbi in Portugal, a printing paper line for Henan Puyang Longfeng Paper in China, and an uncoated fine paper production line for the Portucel Group in Portugal. At the end of the year, the order backlog was EUR 2,363 million, which was 6 percent more than at the end of 2006.

In 2007, Metso Paper carried out a number of measures to improve cost competitiveness and increase the efficiency of the production structure. This resulted in decisions to reduce the company's personnel by almost 700 persons, mainly in Europe and North America. Of the reductions, some 250 affect the Finnish operations, about 350 the Swedish operations, 50 the rest of Europe and a further 40 North America. At the same time, the number of personnel increased in Asia by 240 people, strengthening Metso Paper's presence in emerging markets, close to its customers. About 220 of the personnel reductions are related to the integration of the Pulping business. The personnel negotiations related to the reductions have mainly been completed and the related decisions have been made. The nonrecurring costs resulting from these measures recorded in 2007 were approximately EUR 27 million, of which about EUR 9 million were related to the integration of the acquired Pulping business and the remaining EUR 18 million to other efficiency improvement measures. About EUR 17 million of these nonrecurring costs were realized in the fourth quarter, and slightly less than EUR 5 million of this was related to the integration of the acquired Pulping business.

Metso Minerals

EUR million	2005	2006	**2007**
Net sales	1,756	2,199	**2,607**
Earnings before interest, tax and amortization (EBITA)	183.2	302.1	**367.1**
% of net sales	10.4	13.7	**14.1**
Operating profit	179.4	297.7	**362.6**
% of net sales	10.2	13.5	**13.9**
Orders received	1,963	2,655	**3,075**
Order backlog, Dec. 31	874	1,277	**1,690**
Personnel, Dec. 31	8,785	9,433	**10,446**

Metso Minerals' net sales rose by 19 percent on the comparison year and totaled EUR 2,607 million. The growth was strongest in the Mining business line. Net sales of the Construction business line also increased clearly, by over 10 percent on the previous year. The Recycling business line's growth was slightly below 10 percent. Metso Minerals' services business grew by 12 percent, and accounted for 40 percent of the net sales (43% in 2006).

The operating profit of Metso Minerals increased to EUR 362.6 million and was 13.9 percent of net sales (EUR 297.7 million and 13.5%). This improvement was mainly due to the strong growth in net sales, offsetting the negative impact of cost increases and the growth in the relative share of project deliveries. All business lines improved their operating profit on the preceding year. It is estimated that the continued strengthening of the euro decreased Metso Minerals' operating margin for 2007 by almost one percentage point.

The value of orders received by Metso Minerals increased by 16 percent and totaled EUR 3,075 million. The growth in order intake was strong across all business lines. From the beginning of 2007, Metso Minerals applied a new customer-oriented operating model, which had a favorable impact especially on the order intake of the Construction business line. Geographically, the growth was strongest in Eastern Europe, South Africa and China. The largest orders in 2007 included bulk materials handling equipment for Alcoa in Brazil, a grinding system for Boliden in Sweden, grinding equipment for Osisko Exploration in Canada, minerals processing equipment for Gold Reserve in Venezuela, and minerals processing equipment for Arcelor Mittal Steel in the Ukraine. The order backlog increased by 32 percent on the end of 2006 and was EUR 1,690 million at the end of 2007.

BOARD OF DIRECTORS' REPORT

Metso Automation

EUR million	2005	2006	**2007**
Net sales	584	613	**698**
Earnings before interest, tax and amortization (EBITA)	82.3	88.3	**100.4**
% of net sales	14.1	14.4	**14.4**
Operating profit	80.7	86.7	**98.8**
% of net sales	13.8	14.1	**14.2**
Orders received	580	717	**763**
Order backlog, Dec. 31	179	276	**332**
Personnel, Dec. 31	3,169	3,352	**3,564**

Metso Automation's net sales increased by 14 percent on the comparison year and totaled EUR 698 million. The growth mainly originated from deliveries of flow control systems for the energy industry. Deliveries of automation systems were at the previous year's level. The services business grew by 8 percent and accounted for 22 percent of net sales (23% in 2006).

Metso Automation's operating profit improved notably to EUR 98.8 million and was 14.2 percent of net sales. This improvement was mainly due to the strong growth in net sales, offsetting the negative impact of increases in raw material prices and the growth in the relative share of project deliveries.

The value of new orders received by Metso Automation increased by 6 percent on the comparison period and totaled EUR 763 million. The growth mainly originated from orders with the power, oil and gas industry. In the second half of the year, order intake in the Flow Control business was limited by the strong order backlog and the high capacity utilization. The largest orders in 2007 included valves for the Chiyoda-Technip Joint Venture in Qatar, automation modernization for the REVAP refinery of Petrobras in Brazil, and an automation solution for Shouguang Chenming's mill in China. Metso Automation's order backlog was 20 percent stronger than at the end of 2006 and totaled EUR 332 million.

Valmet Automotive

Valmet Automotive's net sales were EUR 85 million in 2007. The operating profit was EUR 8 million, or 9.4 percent of net sales. About half of the operating profit is attributable to non-recurring income. During the year, Valmet Automotive manufactured an average of 110 vehicles per day and a total number of cars manufactured during 2007 is 24,006 (32,393 cars in 2006). At the end of 2007, the number of Valmet Automotive's personnel was 789, which was 224 less than one year before, when the number of personnel was adjusted to meet the needs of production.

Short-term outlook

The favorable market situation for Metso's products and services is expected to continue. However, general uncertainty about the growth of the global economy may have an impact on the realization of certain customer projects and the demand in certain geographical areas.

No significant changes are expected in Metso Paper's market situation in 2008. The demand for new paper, board and tissue machines and fiber lines is expected to remain at the current level, although issues related to our customers' financing and required permits may in some cases have an impact on timing of projects. In China, the main factor affecting customer investments in new equipment is the growth of paper and board consumption, which is estimated to continue at a rapid rate. In Europe and North America, demand is expected to focus mainly on machine rebuilds and services. The demand for power plants utilizing renewable energy sources is estimated to continue at an excellent level in Metso's main market areas; Europe and North America. Metso Paper aims to substantially grow its services business, and the demand for services is expected to remain satisfactory.

Metso Minerals' favorable market situation is expected to continue in 2008. The demand for mining products, metal recycling equipment and services business is expected to continue at an excellent level. Investments in industrials and commercial facilities, infrastructure, services and housing are forecast to remain buoyant, particularly in emerging economies. As a result, it is expected that the demand for metals will remain strong and that the investment activity of Metso's customers will remain excellent. In the construction sector, demand for Metso Minerals' equipment relating to aggregates production is estimated to remain good. Construction demand will be bolstered by on-going development projects concerning road networks and other transportation infrastructure around the world.

The demand for Metso Automation's products in the pulp and paper industry is expected to be good in 2008. In the power, oil and gas industries, the demand for process automation systems is expected to be good and the demand for flow control systems excellent. Energy industry investments are driven by the increased consumption of energy and high oil prices due to global economic growth.

In 2008, Metso targets to achieve, at comparable exchange rates, net sales growth of about 10 percent compared to 2007, and to reach an operating profit margin level of about 10 percent.

The profit performance estimates are based on Metso's current market outlook, order backlog and business scope.

Board of Directors' proposal for the distribution of profit

The Parent Company's distributable funds totaled EUR 713,240,970.52 on December 31, 2007, of which the net profit for the year was EUR 518,795,581.49.

The Board proposes to the Annual General Meeting that a dividend of EUR 3.00 per share be distributed for the year ended on December 31, 2007, and that the rest be retained and carried further. The proposed EUR 3.00 dividend consists of an ordinary dividend of EUR 1.65 and an extra dividend of EUR 1.35.

It is proposed that the record date for the payment of dividends will be April 7, 2008 and that the dividend will be paid on April 15, 2008. 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 2008

The Annual General Meeting of Metso Corporation will be held at 3 p.m. on Wednesday, April 2, 2008 at the Marina Congress Center in Helsinki.

Helsinki, February 6, 2008

Metso Corporation's Board of Directors

SHARES AND SHAREHOLDERS

Shares and Shareholders

Shares and share capital

On December 31, 2007, 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.

The share capital increase resulting from share subscriptions with Metso's year 2003 options, totaling EUR 59,500, was entered in the trade register on March 29, 2007. If all remaining 100,000 year 2003A options are used to subscribe for shares, Metso's share capital will increase to EUR 241,152,843.80 and the number of shares to 141,854,614. Shares that can be subscribed for with options correspond to 0.07 percent of the Corporation's shares and of the voting rights produced by these shares.

Changes in number of shares and share capital, January 1, 2000 – December 31, 2007:

		Number of shares	Change in number of shares	Share capital, EUR	Change in share capital, EUR
2000	April 25, 2000 Conversion of share capital into euros. In addition to a transfer from the share premium reserve, treasury shares were declared void.	135,317,275	(500,000)	230,039,367.50	1,611,108.90
	New shares subscribed with the Metso 1994 options, which were transferred from Valmet Corporation.	135,457,275	140,000	230,277,367.50	238,000.00
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

Share ownership plan

On December 31, 2007, MEO1V Incentive Ky, a limited partnership company that administers Metso's share ownership plan and is included in Metso's consolidated financial statements, held 206,539 Metso shares, which is enough to implement the share ownership plan. The Parent Company holds 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 267,380 shares, or 0.19 percent of the Corporation's share capital.

Board authorizations

On April 3, 2007, the Annual General Meeting authorized Metso's Board of Directors to make decisions on the repurchase and conveyance of the Corporation's own shares, on the issuance of new shares and on the conveyance of the Corporation's own shares held by the Corporation.

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 nonrestricted equity through public trading on the OMX Nordic Exchange Helsinki,

SHARES AND SHAREHOLDERS

at the market price of the share prevailing at the time of acquisition. The Board has not exercised the authorization.

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.

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 pre-emptive 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 OMX Nordic Exchange 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. The listing of year 2003A options began on the OMX Nordic Exchange Helsinki on May 2, 2006 (MEO1VEW103).

Metso Corporation's share price on the OMX Nordic Exchange Helsinki decreased by 2 percent in 2007 from EUR 38.24 to EUR 37.33. At the same time, the OMX Nordic Exchange Helsinki portfolio index rose by 8 percent.

The highest quotation of Metso's share on the OMX Nordic Exchange Helsinki was EUR 49.95, and the lowest EUR 34.06. The share price on December 31, 2007 was EUR 37.33, and the average trading price for the year was EUR 41.43. The Corporation's end-of-year market capitalization was EUR 5,282 million, excluding treasury shares held by the Corporation.

In 2007, 350,168,659 Metso shares were traded on the OMX Nordic Exchange Helsinki. The total turnover was EUR 14,508 million. The average daily trading volume was 1.4 million shares, or 32 percent higher than in 2006. 248 percent of shares were traded during the year (relative turnover in 2006: 188 percent).

In 2007, the highest price of Metso's American depository share (ADS) in the United States was USD 70.62, and the lowest USD 46.18. The ADS price in the OTC trade on December 31, 2007 was USD 53.70.

SHARES AND SHAREHOLDERS

By the end of the listing of Metso's share in the New York Stock Exchange on September 14, 2007, a total of 6,020,320 Metso American depository shares had been traded on the NYSE. The value of the trades was USD 344,470,524. Each ADS represents one share.

The highest quotation for Metso's year 2003A options on the OMX Nordic Exchange Helsinki was EUR 31.25 and the lowest EUR 30.42. In 2007, a total of 33,000 of Metso's year 2003A options was traded on the OMX Nordic Exchange Helsinki. The value of the year 2003A options traded was EUR 1,019,850. By December 31, 2007, a total of 2,000 shares were subscribed with year 2003A options. The subscription price per share was EUR 8.70.

Incentive systems

Options programs
Metso Corporation currently has one options program: the 2003 options program. In 2004, 100,000 year 2003A options were granted to Jorma Eloranta, President and CEO. In 2006 he sold 50,000 options and at the beginning of 2007 he sold a further 33,000 options. In 2006 Eloranta subscribed for Metso shares with 15,000 options and at the beginning of 2007 with 2,000 options. At the end of 2007, Jorma Eloranta held no Metso options. Metso's Board of Directors has reserved for potential further use 100,000 year 2003A options that are held by Metso Capital Ltd, a subsidiary of Metso.

The share subscription price for a year 2003A option is EUR 8.70 and the subscription period is April 1, 2006 – April 30, 2009.

Share ownership plan
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 earning periods, each of which lasts one calendar year, i.e. 2006, 2007 and 2008. The incentive will consist of both shares and cash. The share ownership plan covers a maximum total of 360,000 shares from Metso's treasury shares.

Further information on the share ownership plan for the 2006 and 2007 earnings periods is presented in the Notes to the Financial Statements (Note 22 on page 72).

Holdings of Metso's Board of Directors and executive management on December 31, 2007

At the end of 2007, 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 41,399 Metso Corporation shares. These shares represent 0.03 percent of the Corporation's share capital and voting rights.

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 of Directors will propose to the Annual General Meeting to be held on April 2, 2008 that a dividend of EUR 3.00 per share be paid for 2007, consisting of an ordinary dividend of EUR 1.65 and an extra dividend of EUR 1.35. The proposed dividend corresponds to 112 percent of the profit attributable to the equity shareholders for the year. Therefore, the effective dividend yield is 8.0 percent.

SHARES AND SHAREHOLDERS

Shareholders

At the end of 2007, Metso had 24,948 shareholders in the book-entry register, and the biggest of these was the State of Finland with an 11.1 percent holding. Nominee-registered shares and shares in direct foreign ownership accounted for 66.8 percent (2006: 69.4%) of the total stock. 16.4 percent (14.4%) of the total stock was held by Finnish institutions, companies and foundations and 5.7 percent (5.1%) was held by Finnish private individuals.

Metso's biggest shareholders on December 31, 2007:

		Number of shares and votes	% of share capital and voting rights
1	**State of Finland**	**15,695,287**	**11.1**
2	**Varma Mutual Pension Insurance Company**	**4,520,737**	**3.2**
3	**Ilmarinen Mutual Pension Insurance Company**	**3,120,303**	**2.2**
4	**Odin funds**	**1,631,413**	**1.2**
	Odin Norden	1,106,778	0.8
	Odin Forvaltnings AS	454,537	0.3
	Odin Norden II	70,098	0.0
5	**The State Pension Fund**	**1,300,000**	**0.9**
6	**OP funds**	**1,019,595**	**0.7**
	OP-Delta Fund	798,258	0.6
	OP-Focus Non-UCITS Fund	150,000	0.1
	OP-Finland Index Fund	48,317	0.0
	OP-ryhmän Tutkimussäätiö	23,020	0.0
7	**Svenska litteratursällskapet i Finland r.f.**	**922,023**	**0.7**
8	**Etera Mutual Pension Insurance Company**	**705,000**	**0.5**
9	**Eläke-Fennia Mutual Insurance Company**	**650,000**	**0.5**
10	**Sampo funds**	**588,411**	**0.4**
	Sampo Finnish Equity Fund	345,126	0.2
	Sampo Finnish Institutional Equity Fund	133,545	0.1
	Sampo European Balanced Fund	63,740	0.0
	Sampo Pohjoisen Parhaat Fund	46,000	0.0
	10 largest owner groups in total	30,152,769	21.4
	Nominee-registered shares	92,837,623	65.5
	Other shareholders	18,486,322	13.0
	Treasury shares held by the Parent Company	60,841	0.0
	Shares administered by a partnership (MEO1V Incentive Ky)	206,539	0.1
	On shared account	10,520	0.0
	Total	**141,754,614**	**100.0**

During 2007 there were no notifications from Metso's shareholders, whose holdings' reached or exceeded 5 percent of Metso's share capital or voting rights. The only notification was from J.P. Morgan Chase & Co. which announced that the funds they managed held 6,996,732 Metso shares on February 13, 2007 corresponding to 4.94 percent of the paid up share capital of Metso Corporation. An up-to-date list of all flagging notifications made can be found at www.metso.com/investors.

SHARES AND SHAREHOLDERS

Breakdown of share ownership on December 31, 2007:

Number of shares	Share-holders	% of share-holders	Total number of shares and votes	% of share capital and voting rights
1-100	11,158	44.8	536,425	0.4
101-1,000	11,589	46.5	3,960,926	2.8
1,001-10,000	1,964	7.9	4,933,656	3.5
10,001-100,000	185	0.7	5,890,801	4.2
over 100,001	31	0.1	33,317,283	23.5
Total	24,927	100.0	48,639,091	34.4
Nominee-registered shares	19		92,837,623	65.5
Treasury shares held by the Parent Company	1		60,841	0.0
Shares administered by a partnership (MEO1V Incentive Ky)	1		206,539	0.1
On shared account			10,520	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 can be found at www.metso.com/investors.

CONSOLIDATED STATEMENTS OF INCOME

EUR million	Note	Year ended December 31, 2005	2006	2007
Net sales	32	4,221	4,955	**6,250**
Cost of goods sold	6, 7	(3,110)	(3,659)	**(4,702)**
Gross profit		1,111	1,296	**1,548**
Selling, general and administrative expenses	4, 6, 7	(794)	(846)	**(972)**
Other operating income and expenses, net	5, 32	17	6	**1**
Share in profits and losses of associated companies	14, 32	1	1	**3**
Operating profit	32	335	457	**580**
% of net sales		7.9%	9.2%	**9.3%**
Financial income and expenses, net	8	(43)	(36)	**(33)**
Profit on continuing operations before tax		292	421	**547**
Income taxes on continuing operations	9	(72)	(11)	**(163)**
Profit on continuing operations		220	410	**384**
Profit on discontinued operations, net of taxes	11	17	-	**-**
Profit		237	410	**384**
Profit attributable to minority interests		1	1	**3**
Profit attributable to equity shareholders		236	409	**381**
Profit		237	410	**384**
Earnings per share from continuing operations				
Basic, EUR	12	1.57	2.89	**2.69**
Diluted, EUR	12	1.57	2.89	**2.69**
Earnings per share from discontinued operations				
Basic, EUR	12	0.12	-	**-**
Diluted, EUR	12	0.12	-	**-**
Earnings per share from continuing and discontinued operations				
Basic, EUR	12	1.69	2.89	**2.69**
Diluted, EUR	12	1.69	2.89	**2.69**

Consolidated statement of recognized income and expense

EUR million	Note	Year ended December 31, 2005	2006	2007
Cash flow hedges, net of tax	21, 30	(11)	16	**(2)**
Available-for-sale equity investments, net of tax	15, 21	0	1	**22**
Currency translation on subsidiary net investments	21	60	(59)	**(29)**
Net investment hedge gains (losses), net of tax	21	(21)	22	**(2)**
Defined benefit plan actuarial gains (losses), net of tax	27	(21)	2	**(1)**
Other	21	1	2	**2**
Net income (expense) recognized directly in equity		8	(16)	**(10)**
Profit		237	410	**384**
Total recognized income (expense) for the year		245	394	**374**
Total recognized income (expense) attributable to minority interests		1	1	**3**
Total recognized income (expense) attributable to equity shareholders		244	393	**371**
Total recognized income (expense) for the year		245	394	**374**

CONSOLIDATED BALANCE SHEETS

Assets

EUR million	Note	As at December 31, 2006	**2007**
Non-current assets			
Intangible assets	13		
Goodwill		768	**772**
Other intangible assets		274	**251**
		1,042	**1,023**
Property, plant and equipment	13		
Land and water areas		57	**54**
Buildings and structures		221	**216**
Machinery and equipment		318	**315**
Assets under construction		19	**49**
		615	**634**
Financial and other assets			
Investments in associated companies	14	19	**19**
Available-for-sale equity investments	15, 19	15	**45**
Loan and other interest bearing receivables	18, 19	6	**5**
Available-for-sale financial investments	18, 19	5	**5**
Deferred tax asset	9	238	**144**
Other non-current assets	18, 19	33	**22**
		316	**240**
Total non-current assets		1,973	**1,897**
Current assets			
Inventories	17	1,112	**1,410**
Receivables			
Trade and other receivables	18, 19	1,218	**1,274**
Cost and earnings of projects under construction in excess of advance billings	16	284	**374**
Loan and other interest bearing receivables	18, 19	2	**2**
Available-for-sale financial investments	18, 19	10	**0**
Tax receivables		16	**30**
		1,530	**1,680**
Cash and cash equivalents	20	353	**267**
Total current assets		2,995	**3,357**
Assets held for sale		-	**-**
Total assets		4,968	**5,254**

CONSOLIDATED BALANCE SHEETS

Shareholders' equity and liabilities

EUR million	Note	As at December 31, 2006	**2007**
Equity	21		
Share capital		241	**241**
Share premium reserve		77	**77**
Cumulative translation adjustments		(45)	**(76)**
Fair value and other reserves		432	**456**
Retained earnings		739	**910**
Equity attributable to shareholders		1,444	**1,608**
Minority interests		6	**7**
Total equity		1,450	**1,615**
Liabilities			
Non-current liabilities			
Long-term debt	19, 23	605	**700**
Post-employment benefit obligations	27	191	**177**
Deferred tax liability	9	57	**41**
Provisions	24	53	**37**
Other long-term liabilities	19	2	**2**
Total non-current liabilities		908	**957**
Current liabilities			
Current portion of long-term debt	19, 23	93	**22**
Short-term debt	19, 25	132	**97**
Trade and other payables	19, 26	1,238	**1,307**
Provisions	24	213	**222**
Advances received		655	**637**
Billings in excess of cost and earnings of projects under construction	16	222	**331**
Tax liabilities		57	**66**
Total current liabilities		2,610	**2,682**
Liabilities held for sale		-	**-**
Total liabilities		3,518	**3,639**
Total shareholders' equity and liabilities		4,968	**5,254**

CONSOLIDATED STATEMENTS OF CASH FLOWS

EUR million	Note	Year ended December 31, 2005	2006	**2007**
Cash flows from operating activities:				
Profit		237	410	**384**
Adjustments to reconcile profit to net cash provided by operating activities				
Depreciation and amortization	7	102	105	**148**
(Gain) loss on sale of fixed assets	5	(18)	(6)	**(2)**
(Gain) loss on sale of subsidiaries and associated companies	11	(17)	(10)	**(4)**
Gain on sale of available-for-sale equity investments	5	(2)	(1)	**(7)**
Share of profits and losses of associated companies	14	(1)	(1)	**(3)**
Interests and dividend income	8	39	26	**32**
Income taxes	9	72	11	**163**
Other non-cash items		12	18	**12**
Change in net working capital, net of effect from business acquisitions and disposals		(170)	(18)	**(286)**
Interest paid		(55)	(45)	**(45)**
Interest received		13	19	**14**
Dividends received		2	2	**2**
Income taxes paid		(50)	(68)	**(114)**
Net cash provided by (used in) operating activities		164	442	**294**
Cash flows from investing activities:				
Capital expenditures on fixed assets	13	(104)	(129)	**(159)**
Proceeds from sale of fixed assets		46	14	**16**
Business acquisitions, net of cash acquired	10	(14)	(277)	**(55)**
Proceeds from sale of businesses, net of cash sold	11	95	13	**9**
Investments in associated companies	14	(2)	-	**0**
Proceeds from sale of associated companies	14	-	0	**0**
Investments in available-for-sale equity investments		(1)	(2)	**0**
Proceeds from sale of available-for-sale equity investments		3	2	**3**
Investments in available-for-sale financial investments		(166)	(23)	**0**
Proceeds from sale of available-for-sale financial investments		52	177	**10**
Increase in loan receivables		(2)	(4)	**(2)**
Decrease in loan receivables		3	2	**2**
Net cash provided by (used in) investing activities		(90)	(227)	**(176)**
Cash flows from financing activities:				
Share options exercised	21	72	1	**0**
Redemption of own shares	21	-	(11)	**-**
Dividends paid		(48)	(198)	**(212)**
Hedging of net investment in foreign subsidiaries		(2)	(6)	**15**
Net borrowings (payments) on short-term debt		(2)	90	**(37)**
Proceeds from issuance of long-term debt		6	113	**122**
Principal payments of long-term debt		(156)	(165)	**(87)**
Principal payments of finance leases		(6)	(3)	**(3)**
Net cash provided by (used in) financing activities		(136)	(179)	**(202)**
Net increase (decrease) in cash and cash equivalents		(62)	36	**(84)**
Effect of changes in exchange rates on cash and cash equivalents		13	(6)	**(2)**
Cash and cash equivalents at beginning of year		372	323	**353**
Cash and cash equivalents at end of year		323	353	**267**

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended December 31,		
EUR million	2005	2006	**2007**
(Increase) decrease in assets and increase (decrease) in liabilities:			
Inventory	(178)	(215)	**(335)**
Trade and other receivables	(139)	(194)	**(64)**
Percentage of completion: recognized assets and liabilities, net	42	1	**31**
Trade and other payables	105	390	**82**
Total	(170)	(18)	**(286)**

Breakdown of business combinations is presented in note 10.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' 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, 2004	**232**	**14**	**(48)**	**435**	**364**	**997**	**5**	**1,002**
Effect of adopting amendment to IAS 19	-	-	-	-	(6)	(6)	-	(6)
Balance at January 1, 2005	**232**	**14**	**(48)**	**435**	**358**	**991**	**5**	**996**
Cash flow hedges, net of tax	-	-	-	(11)	-	(11)	-	(11)
Available-for-sale equity investments, net of tax	-	-	-	0	-	0	-	0
Currency translation on subsidiary net investments	-	-	60	-	-	60	-	60
Net investment hedge gains (losses), net of tax	-	-	(21)	-	-	(21)	-	(21)
Defined benefit plan actuarial gains (losses), net of tax	-	-	-	-	(21)	(21)	-	(21)
Other	-	-	-	0	1	1	-	1
Net income (expense) recognized directly in equity	-	-	39	(11)	(20)	8	-	8
Profit	-	-	-	-	236	236	1	237
Total recognized income (expense) for 2005	-	-	39	(11)	216	244	1	245
Dividends	-	-	-	-	(48)	(48)	-	(48)
Share options exercised	9	62	-	-	-	71	-	71
Share-based payments	-	-	-	0	-	0	-	0
Other	-	-	-	-	-	-	1	1
Balance at December 31, 2005	**241**	**76**	**(9)**	**424**	**526**	**1,258**	**7**	**1,265**
Cash flow hedges, net of tax	-	-	-	16	-	16	-	16
Available-for-sale equity investments, net of tax	-	-	-	1	-	1	-	1
Currency translation on subsidiary net investments	-	-	(59)	-	-	(59)	-	(59)
Net investment hedge gains (losses), net of tax	-	-	22	-	-	22	-	22
Defined benefit plan actuarial gains (losses), net of tax	-	-	-	-	2	2	-	2
Other	-	-	1	-	1	2	-	2
Net income (expense) recognized directly in equity	-	-	(36)	17	3	(16)	-	(16)
Profit	-	-	-	-	409	409	1	410
Total recognized income (expense) for 2006	-	-	(36)	17	412	393	1	394
Dividends	-	-	-	-	(198)	(198)	-	(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**
Cash flow hedges, net of tax	-	-	-	(2)	-	(2)	-	(2)
Available-for-sale equity investments, net of tax	-	-	-	22	-	22	-	22
Currency translation on subsidiary net investments	-	-	(29)	-	-	(29)	-	(29)
Net investment hedge gains (losses), net of tax	-	-	(2)	-	-	(2)	-	(2)
Defined benefit plan actuarial gains (losses), net of tax	-	-	-	-	(1)	(1)	-	(1)
Other	-	-	-	-	2	2	-	2
Net income (expense) recognized directly in equity	-	-	(31)	20	1	(10)	-	(10)
Profit	-	-	-	-	381	381	3	384
Total recognized income (expense) for 2007	-	-	(31)	20	382	371	3	374
Dividends	-	-	-	-	(212)	(212)	-	(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**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting principles

Description of businesses

Metso is a global technology corporation, which designs, develops and produces systems, automation solutions, machinery and equipment for process industries. The main customer industries are the pulp and paper industries, power producers, mining, construction and energy industries. Metso's operations are divided into three business areas: Metso Paper, Metso Minerals and Metso Automation.

In April 2005, Metso Drives, a manufacturer of paper machinery drives and industrial gears as well as wind turbine gears, was sold to CapMan, a Finnish private equity investor, and the business is presented as Discontinued operation separate from Continuing operations.

In December 2006, Metso acquired the Pulping and Power businesses of Aker Kvaerner, a Norwegian group. The businesses were transferred to Metso on December 29, 2006 and are reported under Metso Paper business area.

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 (the "Parent Company") and its subsidiaries (together with the Parent Company, "Metso" or the "Company"). There are no differences between IFRS as adopted by the EU, as applied in Metso, and IFRS as written by the IASB. 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.

From January 1, 2007 onwards Metso has applied IFRS 7, which supersedes the disclosure requirements of IAS 32, while the presentation requirements remain unchanged and related amendment to IAS 1 'Capital disclosures'. The previous years' data has been disclosed accordingly.

In 2007, Metso changed the accounting of actuarial gains and losses to apply the amendment of IAS 19 allowing for immediate recognition of actuarial gains and losses in the shareholders' equity. The previous years' data has been restated accordingly.

Until December 31, 2004, the consolidated financial statements were prepared in accordance with the Finnish Generally Accepted Accounting Principles ("FAS" or "Finnish GAAP").

Use of estimates

The preparation of financial statements, in conformity with IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting convention

The financial statements are prepared under the historical cost convention, except for assets and liabilities classified as fair valued through profit and loss and available-for-sale investments, which are recognized at fair value. Loan and other receivables are recorded at cost and discounted to the present value.

Principles of consolidation

Subsidiaries

The consolidated financial statements include the financial statements of the Parent Company and each of those companies in which it owns, directly or indirectly through subsidiaries, over 50 percent of the voting rights or in which it is in a position to govern the financial and operating policies of the entity. The companies acquired during the financial period have been consolidated from the date Metso acquired control. Subsidiaries sold have been included up to their date of disposal.

All intercompany transactions 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.

Foreign currency translation

The financial statements are presented in euros, which is the functional currency of the Parent Company.

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 and option programs 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.

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, an allowance 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.

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 gains and losses on disposal of assets, other than those, which qualify as discontinued operations, costs related to significant restructuring programs, and foreign exchange gains and losses, excluding those, which qualify 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 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 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 common stock 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 common stock during the period exceeds the exercise price of the warrants and options.

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. Intangible assets with indefinite useful lives, such as goodwill and 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	< 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 business area 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 an intangible asset 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 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 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 an 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. A previously recognized impairment on property, plant and equipment is reversed only if there has been a significant change in the estimates used to determine the recoverable amount, however not to exceed the carrying value, which would have been recorded had there been no impairment in prior years.

Capitalization of interest expenses

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

Leases

Leases for property, plant and equipment, where Metso has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in long-term debt, and the interest element is charged to profit and loss over the lease period. Property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset or over the lease period.

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 (derivatives), loans and receivables and available-for-sale financial assets. The classification is determined at the time of the acquisition depending on the intended purpose.

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 available-for-sale financial assets are recognized at fair value including transaction costs on the settlement date.

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 potential impairment 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 the company 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 potential impairment 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 potential impairment 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 are not material and comprise non-interest bearing loan receivables. Loans and receivables are presented as non-current when their maturity, at the time of their inception, exceeds one year.

Loans and receivables are recorded at cost and discounted to the present value. They are subject to regular and systematic review as to collectability. If a loan receivable is estimated to be partly or totally unrecoverable, a provision is made 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 an “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 allowance for doubtful receivables. The allowance, which is expensed under selling, general and administrative expenses, is recorded on the basis of periodic reviews of potential non-recovery of receivables by taking into consideration individual customer credit risk, economic trends in customer industries and changes in payment terms. Bad debts are written off when official announcement of receivership, liquidation or bankruptcy is received confirming that the receivable will not be honored.

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

Cash and cash equivalents

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

Assets classified as held-for-sale

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

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

Own shares

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

Dividends

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

Long-term debt

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

Capitalization of transaction costs related to issuance of debt instruments

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

Capitalization of transaction costs related to 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 business area wide restructuring program, the related costs are recognized in other operating income and expenses, net. Restructuring costs can also include other costs incurred as a result of the plan, which are recorded under other operating income and expenses, net, such as asset write-downs.

Environmental remediation costs

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

Warranty costs

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

2 Financial risk management

As a global company Metso is exposed to a variety of business and financial risks. Financial risks are managed centrally by the Corporate Treasury under annually reviewed written policies approved by the Board of Directors. Treasury operations are monitored by the Treasury Management Team chaired by CFO. Corporate 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. Corporate 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 when needed. Sufficient cash, short-term investments and committed and uncommitted credit facilities are maintained to protect short-term liquidity. Diversification of funding among adequate number of financial institutions is used to safeguard the availability of liquidity at all times.

At the end of 2007 (end of 2006 respectively) cash and cash equivalents amounted to EUR 267 million (EUR 353 million), available-for-sale investments to EUR 5 million (EUR 15 million) and committed undrawn credit facilities to EUR 500 million (EUR 500 million).

Liquidity risk management excludes interest bearing trade receivables and similar financial instruments, as they are not considered active risk management tools within the responsibility of Corporate 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. As at December 31, 2007, the repayments and interests on Metso's liabilities and cash flows from derivative contracts were as follows:

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	(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. The objectives are to safeguard the ongoing business operations and optimize the cost of capital. Metso has a target to maintain a solid investment grade credit rating.

The ratings are currently:

Moody's	Baa2
Standard & Poor's	BBB / A-2 (Outstanding bonds and EMTN program BBB-)

There are no prepayment covenants in Metso's financial contracts that would be triggered by changes in credit rating. 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 Corporate Treasury.

Capital structure ratios are included in financial indicators for years 2003–2007 on page 97 in these financial statements. The formulas for calculating the financial indicators are presented on page 99.

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 controlled by the Corporate Treasury and measured using sensitivity analysis and duration of long term debt. The Macaulay Duration of long term debt was 2.1 years on December 31, 2007 (2.7 years).

At the end of 2007 the balance sheet items exposed to interest rate risk were interest bearing assets of EUR 279 million (EUR 376 million) and interest bearing debt of EUR 819 million (EUR 830 million). 75% (80%) of interest bearing debt was denominated in EUR.

In the interest rate risk, the basis for the sensitivity analysis is an aggregate corporate 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 0.5 million (decrease or increase EUR 0.1 million).

A one percentage point (100 basis points) move upwards or downwards in all interest rates with all other variables held constant would have following effects, net of taxes, in income statement and equity:

EUR million	2006	2007
Effects in		
• income statement	- / + 0.3	- / + 0.2
• equity	+ / - 3.1	+ / - 2.3

Change in the fair value in income statement comprises derivatives, the fair value of which is directly recognized through profit and loss. The interest rate sensitivity for fixed rate debt does not affect the income statement as such debt is carried at amortized cost. Change in the fair value in equity includes derivatives qualifying as effective cash flow hedge instruments for long-term floating rate debt.

Foreign exchange risk

Metso operates globally and is exposed to foreign exchange risk in several currencies, although the geographical diversity of operations decreases the significance of any individual currency.

Over 60% 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 a business 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 that arise 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 Corporate 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.

Corporate Treasury monitors the net position of each currency and decides to what extent a currency position is to be closed. Corporate 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 Corporate Treasury; limits have been calculated on the basis of their potential profit impact. To manage the foreign currency exposure Corporate Treasury may use forward exchange contracts, foreign exchange swaps and options.

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

EUR million	**2006**	**2007**
Operational items	555	676
Financial items	(182)	(273)
Hedges	(265)	(370)
Total exposure	**108**	**33**

The aggregate corporate-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 would be a corresponding decrease or increase of EUR 2.5 million (EUR 8.0 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. Because of the large diversity of currencies, the table below presents the aggregate effects, net of taxes, of a +/- 10% change in EUR foreign exchange rate against all other currencies:

EUR million	**2006**	**2007**
Effects in		
• income statement	+ / - 25.4	+ / - 31.0
• equity	+ / - 0.5	+ / - 6.5

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 SEK, USD, BRL and CAD. As of December 31, 2007 (December 31, 2006 respectively) Metso had hedged 32% (66%) of USD, 92% (87%) of SEK and 67% (76%) 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% change in EUR foreign exchange rate against all other currencies would have an effect of EUR 29.2 million, net of taxes (EUR 26.3 million) in equity.

Commodity risk

Metso is exposed to variations in prices of raw materials and of supplies including energy. Metso units identify their commodity price hedging needs and hedges are executed through the Corporate Treasury using approved counterparties and instruments. For commodity risks separate 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 12-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, 2007 Metso had outstanding electricity forwards amounting to 356 GWh (475 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. Metso traded its first nickel swaps in March 2007 and as of December 31, 2007 Metso had outstanding nickel swaps amounting to 396 tons.

The following table on the sensitivity analysis of the commodity price 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% parallel change upwards or downwards in commodity price curves would have following effects, net of taxes:

EUR million	2006	2007
Electricity – effect in equity	+ / - 1.0	+ / - 1.3
Electricity – effect in income statement	+ / - 0.3	+ / - 0.0
Nickel – effect in income statement	-	+ / - 1.4

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

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 activities. The units assess the credit quality of their customers, taking into account their financial position, past experience and other relevant factors. Metso's Corporate 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 aging structure of trade receivables is shown in note 18.

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.

3 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and judgements affecting the amounts reported in the consolidated financial statements and accompanying notes. These estimates and judgements, 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 within the next financial year.

Trade receivables

Metso's policy is to maintain an allowance 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 an allowance 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 2007, approximately 38 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 in income, 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 to income 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 costs 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 judgement is required in determining the provision for income taxes and the deferred tax assets. Metso has recorded net deferred tax assets of EUR 103 million as of December 31, 2007, 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 may need to be adjusted in coming financial years.

Allocation of excess purchase price to acquired assets

In accordance with the accounting principles, excess purchase price has been allocated to acquired assets and assumed liabilities. Whenever feasible, Metso has used as a basis for such allocations readily available market values to determine the fair value basis. 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 expected historical or projected future performance; and
- 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. A one percent 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 13 percent and would not have indicated any impairment needs.

Reserve for warranty costs

The warranty reserve is based on the history of past warranty costs and claims for 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 on plan assets. Actual return on plan assets may differ significantly based on market activity.
- an assumed discount rate 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 actual future increases. Based on the significant change in the Company'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 can result in gains and losses, which are directly recognized in shareholders' equity. A one percent increase in the expected return on plan assets would have reduced pension benefit expense by approximately EUR 2 million, and a one percent decrease in the expected return on plan assets would have increased pension benefit expense by approximately EUR 3 million for the year ended December 31, 2007.

Share-based payments

Share-based payment plans and related incentive programs include vesting conditions such as operating profit targets and service year requirements subsequent to the grant date. Such non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. 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 company and its business areas, the expected turnover of the personnel benefiting from the incentive plan and other pertinent information impacting the number of shares to be vested.

Financial instruments

In accordance with IFRS 7 on the disclosure requirements of financial instruments, the management is obliged to make certain assumptions of the future cash in and out flows 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 out flows 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 out flow 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 % 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	2005	2006	**2007**
Marketing and selling expenses	(435)	(468)	**(521)**
Research and development expenses, net	(89)	(94)	**(112)**
Administrative expenses	(270)	(284)	**(339)**
Total	(794)	(846)	**(972)**

Research and development expenses, net, consist of following:

	Year ended December 31,		
EUR million	2005	2006	**2007**
Research and development expenses, total	(96)	(109)	**(117)**
Capitalized development costs	0	(1)	**0**
Capital expenditure	6	14	**5**
Grants received	8	8	**6**
Depreciation and amortization	(7)	(6)	**(6)**
Research and development expenses, net	(89)	(94)	**(112)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 Other operating income and expenses, net

	Year ended December 31,		
EUR million	2005	2006	**2007**
Gain on sale of subsidiaries and businesses [1]	0	10	**4**
Gain on sale of fixed assets [2]	15	6	**3**
Gain on sale of available-for-sale equity investments	2	1	**7**
Rental income	3	3	**3**
Foreign exchange gains [3]	12	7	**19**
Change in fair value of derivatives [4]	3	5	**2**
Reversal of Finnish pension liability [5]	5	-	**-**
Other income	11	10	**11**
Other operating income, total	51	42	**49**
Nonrecurring expenses related to 2003 restructuring program [2]	3	1	**0**
Nonrecurring expenses related to 2004 restructuring program	(7)	0	**0**
Impairment of goodwill [6]	-	(7)	**-**
Loss on sale of fixed assets	-	0	**(1)**
Write-downs on fixed assets	(8)	(6)	**(5)**
Foreign exchange losses [3]	(11)	(14)	**(19)**
Change in fair value of derivatives [4]	(10)	(4)	**(6)**
Other expenses	(1)	(6)	**(17)**
Other operating expenses, total	(34)	(36)	**(48)**
Other operating income and expenses, net	17	6	**1**

[1] Gain on disposal of Metso Powdermet AB in the year ended December 31, 2006 and gain on sale of the assets of Metso Panelboard's press and energy business in Hannover, Germany, for the year ended December 31, 2007.

[2] In the year ended December 31, 2005, the gain on sale of fixed assets was EUR 18 million, and included EUR 3 million resulting from a sale of assets related to outsourcing of activities as part of the Metso 2003 restructuring program.

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

[4] For more information on derivative instruments, see note 30.

[5] Due to certain changes introduced in 2004, the Finnish TEL disability portion was classified as defined contribution plan in December 2004. Initially, the liability under IAS 19 amounted to EUR 61 million, net of taxes of EUR 24 million. The Finnish pension liability reversal of EUR 57 million, net of taxes of EUR 23 million, was recorded as income in the last quarter of 2004. The remaining liability of EUR 4 million, net of taxes of EUR 1 million was recorded as income during 2005.

[6] Goodwill impairment charge related to Metso Panelboard business, for more information on goodwill impairment see note 13.

6 Personnel expenses and the number of personnel

Personnel expenses:

	Year ended December 31,		
EUR million	2005	2006	**2007**
Salaries and wages	(854)	(909)	**(1,033)**
Pension costs, defined contribution plans	(77)	(79)	**(89)**
Pension costs, defined benefit plans [1)]	(10)	(9)	**(8)**
Reversal of Finnish pension liability (TEL) [1)]	5	-	**-**
Other post-employment benefits [1)]	(3)	(4)	**(3)**
Share-based payments	0	(5)	**(3)**
Other indirect employee costs	(143)	(162)	**(203)**
Total	(1,082)	(1,168)	**(1,339)**

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

Board remuneration:

	Year ended December 31,		
EUR thousand	2005	2006	**2007**
Serving board members December 31, 2007:			
Matti Kavetvuo	(73)	(87)	**(89)**
Jaakko Rauramo	(50)	(57)	**(56)**
Svante Adde	(31)	(49)	**(50)**
Maija-Liisa Friman	(47)	(58)	**(59)**
Christer Gardell	-	(38)	**(48)**
Eva Liljeblom	-	-	**(38)**
Yrjö Neuvo	-	(38)	**(48)**
Jukka Leppänen[1)]	-	(6)	**(7)**
Former board members:			
Satu Huber	(40)	(49)	**(12)**
Juhani Kuusi	(40)	(9)	**-**
Risto Hautamäki	(8)	-	**-**
Pentti Mäkinen[1)]	(18)	(2)	**-**
Total	(307)	(393)	**(407)**

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

According to the resolution of the Annual General Meeting held on April 3, 2007, the annual fees are as follows: Chairman of the Board EUR 80,000, Vice Chairman and Chairman of the Audit Committee EUR 50,000, and other members EUR 40,000 each. In addition, an attendance fee of EUR 500 per meeting is paid to all members for meetings of the Board and its Committees. Compensation for traveling expenses and daily allowances are paid in accordance with Metso's travel policy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Remuneration paid to Chief Executive Officer and Executive Team:

EUR thousand	Year ended December 31, 2005	2006	**2007**
Salaries and other short-term employee benefits	(2,233)	(3,195)	**(2,682)**
Share-based payments	-	-	**(2,147)**
Total	(2,233)	(3,195)	**(4,829)**

Metso has subscribed pension plans for senior management for retirement at the age of 60, the beneficiaries include some members of the corporate Executive Team and certain senior executives. For the years ended December 31, 2005, 2006 and 2007, the pension insurance premium payments totaled approximately EUR 1.4 million, EUR 1.4 million and EUR 1.8 million, respectively.

In 2007, President and CEO Jorma Eloranta's annual fixed salary was EUR 512,096. In addition, a bonus of EUR 249,530 based on year's 2006 result was paid. In 2006 his annual fixed salary was EUR 486,580 and bonus based on previous year's result EUR 236,291. 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. During 2007, the remuneration paid to him was EUR 415,848, consisting of 5,000 Metso shares and a cash-settled portion.

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.

Board share ownership in Metso:

	Year ended December 31, **2007**
Serving board members December 31, 2007:	
Matti Kavetvuo	**-**
Jaakko Rauramo	**4,205**
Svante Adde	**-**
Maija-Liisa Friman	**1,500**
Christer Gardell	**-**
Eva Liljeblom	**800**
Yrjö Neuvo	**3,400**
Jukka Leppänen[1)]	**520**
Total	**10,425**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Number of personnel at end of year:

	2005	2006	**2007**
Metso Paper	8,852	11,558	**11,694**
Metso Minerals	8,785	9,433	**10,446**
Metso Automation	3,169	3,352	**3,564**
Valmet Automotive	1,068	1,013	**789**
Corporate Office and other	304	322	**344**
Corporate Office and others total	1,372	1,335	**1,133**
Continuing operations	22,178	25,678	**26,837**
Discontinued operations	-	-	**-**
Metso total	22,178	25,678	**26,837**

Average number of personnel during the period:

	2005	2006	**2007**
Metso Paper	9,078	9,617	**11,690**
Metso Minerals	8,549	9,083	**9,917**
Metso Automation	3,247	3,269	**3,477**
Valmet Automotive	865	1,066	**852**
Corporate Office and other	307	329	**333**
Corporate Office and others total	1,172	1,395	**1,185**
Continuing operations	22,046	23,364	**26,269**
Discontinued operations	359	-	**-**
Metso total	22,405	23,364	**26,269**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 Depreciation and amortization

Depreciation and amortization expenses consist of the following:

EUR million	2005	Year ended December 31, 2006	**2007**
Intangible assets	(16)	(17)	**(56)**
Property, plant and equipment			
Buildings and structures	(22)	(21)	**(19)**
Machinery and equipment	(64)	(67)	**(73)**
Total	(102)	(105)	**(148)**

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

EUR million	2005	Year ended December 31, 2006	**2007**
Cost of goods sold	(60)	(65)	**(91)**
Selling, general and administrative expenses			
Marketing and selling	(9)	(6)	**(14)**
Research and development	(7)	(6)	**(6)**
Administrative	(26)	(28)	**(37)**
Total	(102)	(105)	**(148)**

8 Financial income and expenses, net

EUR million	2005	Year ended December 31, 2006	**2007**
Financial income			
Dividends received [1)]	1	1	**1**
Interest income	14	18	**14**
Other financial income	1	1	**3**
Net gain (loss) from foreign exchange	4	(1)	**7**
Financial income total	20	19	**25**
Financial expenses			
Interest expenses	(52)	(44)	**(46)**
Interest expenses on financial leases	(1)	(1)	**(1)**
Other financial expenses	(10)	(10)	**(11)**
Financial expenses total	(63)	(55)	**(58)**
Financial income and expenses, net	(43)	(36)	**(33)**

[1)] Includes dividends from associated companies and from available-for-sale equity investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 Income taxes

The components of income taxes are as follows:

EUR million	Year ended December 31, 2005	2006	**2007**
Current tax (expense) benefit	(61)	(85)	**(109)**
Deferred tax (expense) benefit	(11)	74	**(54)**
Income taxes, total	(72)	(11)	**(163)**

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

EUR million	Year ended December 31, 2005	2006	**2007**
Income before taxes from continuing operations	292	421	**547**
Income tax (expense) benefit at Finnish statutory rate	(76)	(109)	**(142)**
Income tax for prior years	(1)	(4)	**4**
Difference between Finnish and foreign tax rates	(11)	(12)	**(31)**
Benefit of operating loss carryforward	22	33	**5**
Operating losses with no current tax benefit	(1)	(4)	**(1)**
Non-deductible expenses and tax exempt income	(2)	(2)	**(2)**
Deferred tax asset attributable to the U.S. subsidiaries [1)]	-	87	**-**
Other	(3)	0	**4**
Income tax (expense) benefit	(72)	(11)	**(163)**

[1)] In the year ended December 31, 2006 Metso recorded a deferred tax asset of EUR 87 million for operating loss carry-forwards, net deductible temporary differences and unused tax credits attributable to the U.S. subsidiaries in full. At December 31, 2005 no deferred tax asset was recorded for these items due to the uncertainty of their utilization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation of deferred tax balances:

EUR million	Balance at beginning of year	Charged to income statement	Charged to shareholders' equity	Translation differences	Acqui-sitions and disposals	Balance at end of year
2006						
Deferred tax assets						
Tax losses carried forward	95	15	(6)	-	7	111
Fixed assets	13	(3)	-	-	-	10
Inventory	13	13	-	-	-	26
Provisions	16	4	-	-	-	20
Accruals	18	15	-	-	-	33
Pension provisions [1]	19	12	(1)	(2)	-	28
Other	32	9	-	-	-	41
Total deferred tax assets	206	65	(7)	(2)	7	269
Offset against deferred tax liabilities [2]	(30)	(1)	-	-	-	(31)
Net deferred tax assets	176	64	(7)	(2)	7	238
Deferred tax liabilities						
Purchase price adjustments	26	(6)	-	-	36	56
Fixed assets	13	(2)	-	-	-	11
Other	11	(1)	4	1	6	21
Total deferred tax liabilities	50	(9)	4	1	42	88
Offset against deferred tax assets [2]	(30)	(1)	-	-	-	(31)
Net deferred tax liabilities	20	(10)	4	1	42	57
Deferred tax assets, net	156	74	(11)	(3)	(35)	181
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 provisions [1]	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 [2]	(31)	(23)	-	-	-	(54)
Net deferred tax assets	238	(83)	2	(13)	-	144
Deferred tax liabilities						
Purchase price adjustments	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 [2]	(31)	(23)	-	-	-	(54)
Net deferred tax liabilities	57	(29)	8	-	5	41
Deferred tax assets, net	**181**	**(54)**	**(6)**	**(13)**	**(5)**	**103**

[1] Deferred tax assets on pension provisions for the years ended December 31, 2005 and 2006 have been amended to correspond the change in accounting policy.

[2] 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, 2006 and 2007, respectively, earnings of EUR 136 million and EUR 119 million would have been subject to recognition of a deferred tax liability, had Metso regarded a distribution in the near future as likely.

Tax losses carried forward

At December 31, 2007, Metso recorded a deferred tax asset of EUR 41 million on the net operating loss carry-forwards amounting to EUR 201 million (of which EUR 64 million is attributable to Finnish, EUR 43 million to U.S. and EUR 33 million to German subsidiaries). At December 31, 2006 the amount of losses was EUR 384 million (of which EUR 164 million were attributable to Finnish, EUR 77 million to U.S. and EUR 51 million to German subsidiaries). Approximately one third of losses has no expiration date and the remaining part expires mainly between years 2015 and 2024.

The operating loss carry-forwards for which no deferred tax assets are recognized due to uncertainty of the utilization of these carry-forwards amounted to EUR 30 million and EUR 21 million for the years ended December 31, 2006 and 2007, respectively. These losses expire mainly in the years 2008-2013.

Tax losses carried forward and related deferred tax assets as at December 31 stated by the most significant countries are as follows:

EUR million	Tax losses carried forward	Potential deferred tax asset	Not recorded	Deferred tax asset
2006				
Finland	164	43	0	43
USA	77	32	0	32
Germany	51	19	0	19
Other	92	27	10	17
Total	384	121	10	111
2007				
Finland	64	17	0	17
USA [1)]	43	4	0	4
Germany	33	9	0	9
Other	61	16	5	11
Total	**201**	**46**	**5**	**41**

[1)] Main part of the remaining losses concern state taxes.

10 Acquisitions

Acquisitions in 2007

Metso Minerals acquired North American metal recycling provider, Bulk Equipment Systems and Technologies Inc (B.E.S.T. Inc), on March 30, 2007. The acquisition price was approximately EUR 9 million. Excess purchase price of EUR 3 million was allocated to intangible assets, representing the fair values of the acquired customer base, brands, technology and order backlog. The remaining 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 Paper 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.

Metso Paper 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. Excess purchase price of EUR 10 million was allocated to intangible assets, representing the fair values of acquired technology, customer base and existing long-term contracts. The remaining 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 Minerals strengthened its metal recycling business by acquiring Mueller Engineering Inc. in the USA on October 31, 2007. 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. Excess purchase price of 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.

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	-	**4**
Debt assumed	(1)	-	**(1)**
Purchase price	(36)	-	**(36)**
Goodwill	29	(11)	**18**
Purchase price settled in cash			**(36)**
Cash and cash equivalents acquired			**4**
Cash outflow on acquisitions			**(32)**

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**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisition of Pulping and Power businesses in 2006

Metso acquired the Pulping and Power businesses from Aker Kvaerner on December 29, 2006. The final asset values of the businesses were agreed upon in July 2007 and the revised 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 excess purchase price decreased by EUR 6 million from the initial assessment and amounted to EUR 379 million, whereof EUR 154 million 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	-	**248**
Debt assumed	(195)	-	**(195)**
Purchase price	(330)	-	**(330)**
Costs related to acquisition	(6)	-	**(6)**
Goodwill	379	(113)	**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)**

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 Metso Paper 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.

No excess 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 and discontinued operations

Disposals of businesses

Metso sold the assets of its press and energy business in Hannover, Germany, to Siempelkamp Energy Systems GmbH in September 2007. The business was part of Metso Paper’s Panelboard business line. The transaction price was EUR 7 million.

Metso sold the majority of Metso Paper AG in Delémont, Switzerland, in March 2007. Metso Paper 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Discontinued operations

Metso Drives, a manufacturer of paper machine drives and other industrial gears as well as wind turbine gears, was sold to the funds managed by Finnish private equity investor CapMan as of April 8, 2005. The transaction price was EUR 98 million resulting in a gain on sale of EUR 17 million.

The business disposals were as follows:

	Year ended December 31,		
EUR million	2005	2006	**2007**
Cash and cash equivalents	3	0	**1**
Intangible assets	1	-	**0**
Property, plant and equipment	53	0	**0**
Goodwill	7	-	**-**
Other assets	50	7	**8**
Minority interests	-	-	**-**
Liabilities sold	(33)	(4)	**(3)**
Net assets of disposed businesses	81	3	**6**
Gain on disposal	17	10	**4**
Total consideration	98	13	**10**
Consideration received in cash	98	13	**10**
Cash and cash equivalents disposed of	(3)	0	**(1)**
Cash inflow on disposals	95	13	**9**

Income statement for discontinued operations (no operations were classified as discontinued in 2006 and 2007):

	Year ended December 31,		
EUR million	2005	2006	**2007**
Net sales	26	-	**-**
Expenses	(26)	-	**-**
Profit before tax	0	-	**-**
Income taxes	0	-	**-**
Profit after tax	0	-	**-**
Gain on the disposal of the disposal group before tax	17	-	**-**
Taxes	0	-	**-**
Gain on the disposal of the disposal group after tax	17	-	**-**
Profit on discontinued operations, net of taxes	17	-	**-**

Cash flows provided by (used in) discontinued operations (no operations were classified as discontinued in 2006 and 2007):

	Year ended December 31,		
EUR million	2005	2006	**2007**
Cash flows provided by (used in) operating activities	2	-	**-**
Cash flows provided by (used in) investing activities	0	-	**-**
Cash flows provided by (used in) financing activities	(2)	-	**-**
Cash flows provided by (used in) discontinued operations	0	-	**-**

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 Company by the weighted average number of ordinary shares in issue during the year, excluding own shares.

	Year ended December 31,		
EUR million (except for number of shares and per share amounts)	2005	2006	**2007**
Profit attributable to equity shareholders, continuing operations	219	409	**381**
Profit attributable to equity shareholders, discontinued operations	17	-	**-**
Profit attributable to equity shareholders, continuing and discontinued operations	236	409	**381**
Weighted average number of shares issued and outstanding (in thousands)	139,639	141,581	**141,460**
Basic earnings per share, continuing operations, EUR	1.57	2.89	**2.69**
Basic earnings per share, discontinued operations, EUR	0.12	-	**-**
Basic earnings per share, continuing and discontinued operations, EUR	1.69	2.89	**2.69**

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 common stock at the average market price during the period. In addition to the weighted average number of shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the warrants and options. The warrants and options have a dilutive effect only when the average market price of the common stock during the period exceeds the exercise price of the warrants and options.

	Year ended December 31,		
EUR million (except for number of shares and per share amounts)	2005	2006	**2007**
Profit attributable to equity shareholders, continuing operations	219	409	**381**
Profit attributable to equity shareholders, discontinued operations	17	-	**-**
Profit attributable to equity shareholders, continuing and discontinued operations	236	409	**381**
Weighted average number of shares issued and outstanding (in thousands)	139,639	141,581	**141,460**
Adjustment for share options (in thousands)	26	19	**-**
Weighted average number of diluted shares issued and outstanding (in thousands)	139,665	141,600	**141,460**
Diluted earnings per share, continuing operations, EUR	1.57	2.89	**2.69**
Diluted earnings per share, discontinued operations, EUR	0.12	-	**-**
Diluted earnings per share, continuing and discontinued operations, EUR	1.69	2.89	**2.69**

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
2006					
Acquisition cost at beginning of year	498	80	37	72	687
Translation differences	(7)	0	(1)	(1)	(9)
Business acquisitions	284	4	3	163	454
Disposals of businesses	-	-	-	0	0
Capital expenditure	-	1	2	25	28
Reclassifications [1)]	-	5	7	(7)	5
Decreases	(7)	(21)	0	(1)	(29)
Acquisition cost at end of year	768	69	48	251	1,136
Accumulated depreciation and amortization at beginning of year	-	(40)	(15)	(35)	(90)
Translation differences	-	0	0	1	1
Business acquisitions	-	(3)	(2)	(1)	(6)
Disposals of businesses	-	-	-	0	0
Reclassifications	-	0	0	0	0
Decreases	-	16	0	2	18
Depreciation and amortization charges for the year	-	(7)	(5)	(5)	(17)
Accumulated depreciation at end of year	-	(34)	(22)	(38)	(94)
Net book value at end of year	768	35	26	213	1,042
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
Depreciation and 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**

[1)] Includes reclassifications between intangible assets and assets under construction of EUR 5 million for the year ended December 31, 2006.

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
2006					
Acquisition cost at beginning of year	58	480	1,186	17	1,741
Translation differences	(1)	(7)	(18)	(1)	(27)
Business acquisitions	1	22	73	1	97
Disposals of businesses	-	-	0	-	0
Capital expenditure	0	6	52	43	101
Reclassifications [1)]	0	6	30	(41)	(5)
Decreases	(1)	(25)	(162)	0	(188)
Acquisition cost at end of year	57	482	1,161	19	1,719
Accumulated depreciation and amortization at beginning of year	-	(260)	(900)	-	(1,160)
Translation differences	-	3	13	-	16
Business acquisitions	-	(4)	(44)	-	(48)
Disposals of businesses	-	-	0	-	0
Reclassifications	-	2	(2)	-	0
Decreases	-	19	157	-	176
Depreciation and amortization charges for the year	-	(21)	(67)	-	(88)
Accumulated depreciation at end of year	-	(261)	(843)	-	(1,104)
Net book value at end of year	57	221	318	19	615
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 and amortization 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**

[1)] Includes reclassifications between intangible assets and assets under construction of EUR 5 million for the year ended December 31, 2006.

For information on pledged assets, see note 28.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Intangible assets arising from fair value allocations relating to acquired businesses:

EUR million	Order backlog	Tech-nology	Patents	Customer relation-ships	Brands	Other intan-gibles	Acquired intangible assets total
2006							
Acquisition cost at beginning of year	2	-	6	1	15	-	24
Translation differences	0	-	-	0	0	-	0
Business acquisitions	30	55	-	69	-	-	154
Decreases	(2)	-	-	-	-	-	(2)
Acquisition cost at end of year	30	55	6	70	15	-	176
Accumulated depreciation and amortization at beginning of year	(1)	-	(2)	0	-	-	(3)
Translation differences	0	-	-	0	-	-	0
Decreases	2	-	-	0	-	-	2
Depreciation and amortization charges for the year	(1)	-	(1)	0	-	-	(2)
Accumulated depreciation at end of year	0	-	(3)	0	-	-	(3)
Net book value at end of year	30	55	3	70	15	-	173
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**

Other intangible assets with indefinite useful life, i.e. brands, amounted to EUR 15 million and EUR 16 million for the years ended December 31, 2006 and 2007, respectively. They relate to Metso Minerals business area 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, 2007 the amortization expense related to the intangible assets recognized through business acquisitions was EUR 38 million. The future amortization expense is expected to amount to EUR 23, EUR 16, EUR 16, EUR 15 and EUR 12 million for the years 2008, 2009, 2010, 2011 and 2012, respectively.

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

EUR million	Buildings and Stuctures	Machinery and equipment	Property, land and equipment total
2006			
Acquisition cost at end of year	27	8	35
Accumulated depreciation at end of year	(11)	(4)	(15)
Net book value at end of year	16	4	20
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**

Capitalization of interest expenses

EUR million	2006	**2007**
Net capitalized interest at beginning of year	1	**1**
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 forecast 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 2005, 2006 and 2007. The forecast 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 discount rate is the derived weighted average cost of capital for the cash generating unit, calculated as the opportunity cost to all capital providers weighted by their relative contribution to the cash generating unit's total capital and the risk associated with the cash flow and the timing of the cash flow. The discount rates vary between the cash generating units. The comparison methods and other estimation techniques are utilized to verify the reasonableness of the value derived from the discounted cash flow.

As a result of the performed annual impairment tests, no impairment losses were recognized in 2007. In the last quarter of 2006, subsequent to past under-performance, the management reviewed the outlook and strategy of Metso Panelboard, reported under Metso Paper. The present value of the cash flows based on the reviewed performance plans indicated an impairment risk in the carrying value of the goodwill and an impairment loss of EUR 7 million was recognized.

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

EUR million	Derived weighted average cost of capital applied	Balance at beginning of year	Translation difference and other changes	Impairment loss	Balance at end of year
2006					
Metso Paper	12.2% - 12.5%	89	274	(7)	356
Metso Minerals	12.1% - 12.3%	389	3	-	392
Metso Automation	14.9% - 15.0%	20	0	-	20
Total	12.1% - 15.0%	498	277	(7)	768
2007					
Metso Paper	10.4% - 10.6%	356	(4)	-	352
Metso Minerals	10.6%	392	9	-	401
Metso Automation	11.4%	20	(1)	-	19
Total	**10.4% - 11.4%**	**768**	**4**	**-**	**772**

The acquisition of Aker Kvaerner's Pulping and Power businesses as of December 31, 2006 increased goodwill by EUR 266 million in Metso Paper. For more information on acquisitions, see note 10.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14 Investments in associated companies

EUR million	2006	**2007**
Investments in associated companies and joint ventures		
Acquisition cost at beginning of year	9	**6**
Translation differences	0	**0**
Increases	0	**0**
Disposals and other decreases	(3)	**0**
Acquisition cost at end of year	6	**6**
Equity adjustments in investments in associated companies and joint ventures		
Equity adjustments at beginning of year	11	**13**
Share of results	1	**3**
Translation differences	(2)	**(1)**
Dividend income	(2)	**(1)**
Disposals and other changes	5	**(1)**
Equity adjustments at end of year	13	**13**
Carrying value of investments in associated companies and joint ventures at end of year	19	**19**

	As at December 31,			
	2006		**2007**	
EUR million	Ownership	Carrying value	**Ownership**	**Carrying value**
Allimand S.A.	35.8%	5	**35.8%**	**5**
Valmet-Xian Paper Machinery Co. Ltd.	48.3%	7	**48.3%**	**6**
Shanghai Neles-Jamesbury Valve Co. Ltd	50.0%	4	**50.0%**	**5**
Avantone Oy	48.2%	0	**-**	**-**
Others		3		**3**
Total investments in associated companies and joint ventures		19		**19**

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

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

	Year ended December 31,		
EUR million	2005	2006	**2007**
Assets	48	50	**52**
Liabilities	28	31	**33**
Net sales	42	40	**55**
Profit (loss)	1	1	**2**

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	2005	2006	**2007**
Net sales	1	1	**4**
Purchases	16	19	**13**
Receivables	1	1	**2**
Payables	2	1	**1**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 Available-for-sale equity investments

	As at December 31,					
		2006			**2007**	
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 %**	**8**
Talvivaara Mining Company Ltd.	10,000	0.8 %	2	**7,616,535**	**3.4 %**	**31**
Other shares and securities			5			**6**
Total available-for-sale equity investments			15			**45**

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

EUR million	2006	**2007**
Carrying value as at January 1	12	**15**
Additions	2	**0**
Changes in fair values	2	**38**
Disposals	(1)	**(8)**
Carrying value as at December 31	15	**45**

Talvivaara Mining Company Ltd was listed in London Stock Exchange during 2007, following a public share offering. In connection with the offering, Metso Minerals Oy increased its holding as a result of converting its holding of convertible loans to shares.

16 Percentage of completion

Net sales recognized under the percentage of completion method amounted to EUR 1,450 million, or 29 percent of net sales, in 2006 and EUR 2,362 million, or 38 percent of net sales, in 2007. The percentage was highest in the Metso Paper business area, where it accounted for 50 percent in 2006 and 60 percent in 2007.

Information on balance sheet items of uncompleted projects at December 31, 2006 and 2007 is as follows:

EUR million	Cost and earnings of uncompleted projects	Billings of projects	Net
2006			
Projects where cost and earnings exceed billings	1,296	1,012	284
Projects where billings exceed cost and earnings	697	919	222
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**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 Inventory

EUR million	As at December 31, 2006	**2007**
Materials and supplies	254	**294**
Work in process	518	**680**
Finished products	340	**436**
Total inventory	1,112	**1,410**

The cost of inventories recognized as expense was EUR 3,598 million and EUR 4,611 million for the years ended December 31, 2006 and 2007, respectively.

Allowance for inventory obsolescence has changed as follows:

EUR million	As at December 31, 2006	**2007**
Balance at beginning of year	53	**54**
Impact of exchange rates	(3)	**(2)**
Additions charged to expense	15	**12**
Increase from business acquisitions	0	**0**
Realized reserve	(9)	**(4)**
Deductions / other additions	(2)	**(3)**
Balance at end of year	54	**57**

For additional information on allowances, see also note 3.

18 Interest bearing and non-interest bearing receivables

	As at December 31,					
	2006			**2007**		
EUR million	Non-current	Current	Total	**Non-current**	**Current**	**Total**
Interest bearing receivables						
Loan receivables	5	2	7	**4**	**2**	**6**
Available-for-sale financial investments	5	10	15	**5**	**0**	**5**
Trade receivables	1	-	1	**1**	**-**	**1**
Total	11	12	23	**10**	**2**	**12**
Non-interest bearing receivables						
Loan receivables	1	1	2	**0**	**1**	**1**
Trade receivables	12	967	979	**1**	**998**	**999**
Prepaid expenses and accrued income	-	93	93	**-**	**109**	**109**
Derivative financial instruments	1	17	18	**3**	**18**	**21**
Other receivables	19	140	159	**18**	**148**	**166**
Total	33	1,218	1,251	**22**	**1,274**	**1,296**

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.

Allowance for doubtful notes and receivables has changed as follows:

	As at December 31,	
EUR million	2006	**2007**
Balance at beginning of year	35	**35**
Impact of exchange rates	(2)	**(1)**
Additions charged to expense	10	**13**
Increase from business acquisitions	1	**0**
Realized reserve	(6)	**(5)**
Deductions / other additions	(3)	**(6)**
Balance at end of year	35	**36**

For additional information on allowances, see also note 3.

Analysis of trade receivables by age:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19 Financial assets and liabilities

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

EUR million	Financial assets/liabilities at fair value through profit and loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Carrying value	Fair value
2006						
Non-current assets						
Available-for-sale equity investments	-	-	15	-	15	15
Loan receivables	-	6	-	-	6	6
Available-for-sale financial investments	-	-	5	-	5	5
Trade receivables	-	13	-	-	13	13
Derivative financial instruments	1	-	-	-	1	1
Other receivables	-	19	-	-	19	19
Carrying value by category	1	38	20	-	59	59
Current assets						
Loan receivables	-	3	-	-	3	3
Available-for-sale financial investments	-	-	10	-	10	10
Trade receivables	-	967	-	-	967	967
Derivative financial instruments	17	-	-	-	17	17
Other receivables	-	233	-	-	233	233
Carrying value by category	17	1,203	10	-	1,230	1,230
Non-current liabilities						
Bonds	-	-	-	443	443	460
Loans from financial institutions	-	-	-	144	144	144
Finance lease obligations	-	-	-	15	15	15
Other long-term debt	-	-	-	3	3	3
Derivative financial instruments	1	-	-	-	1	1
Other liabilities	-	1	-	-	1	1
Carrying value by category	1	1	-	605	607	624
Current liabilities						
Current portion of long-term debt	-	-	-	93	93	83
Loans from financial institutions	-	-	-	43	43	43
Other short-term debt	-	-	-	89	89	89
Trade payables	-	-	-	802	802	802
Derivative financial instruments	1	-	-	-	1	1
Other liabilities	-	-	-	435	435	435
Carrying value by category	1	-	-	1,462	1,463	1,453

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EUR million	Financial assets/liabilities at fair value through profit and loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized 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**	**1**	**-**	**700**	**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**

20 Cash and cash equivalents

EUR million	As at December 31, 2006	**2007**
Bank and cash	222	**199**
Commercial papers and other investments	131	**68**
Total cash and cash equivalents	353	**267**

21 Equity

Metso Corporation's fully paid share capital entered in the trade register was EUR 240,923,343.80 and EUR 240,982,843.80 as at December 31, 2006 and 2007, respectively.

Share amounts

	2006	**2007**
Number of outstanding shares, January 1	141,593,773	**141,358,773**
Share options exercised	65,000	**35,000**
Redemption of own shares by a partnership (MEO1V Incentive Ky)	(300,000)	**-**
Shares granted from share ownership plan	-	**93,461**
Number of outstanding shares, December 31	141,358,773	**141,487,234**
Treasury shares held by the Parent Company	60,841	**60,841**
Shares administered by a partnership (MEO1V Incentive Ky)	300,000	**206,539**
Total number of shares, December 31	141,719,614	**141,754,614**

The number of shares subscribed with Metso's 2003A stock options in 2006 and 2007 was 65,000 and 35,000, respectively. The subscription price was EUR 8.70 per share and as a result of these share subscriptions, Metso's share capital increased in 2006 and 2007 by EUR 110,500 and 59,500, respectively.

Metso has outsourced the administration of the share ownership plan to a partnership (MEO1V Incentive Ky) included in Metso's consolidated financial statements. In 2007, 93,461 shares, which have been transferred from the partnership to beneficiaries, were granted within the share ownership plan. The acquisition price of the treasury shares acquired in 1999 was EUR 654,813 and the acquisition price of 206,539 own shares, acquired in 2007 and held by the partnership, was EUR 7,599,334. The acquisition price of own shares is recognized in the treasury stock.

Metso Corporation's Board of Directors proposes to the Annual General Meeting to be held on April 2, 2008 that a dividend of EUR 3.00 per share be distributed for the year ended December 31, 2007. The dividend consist of an ordinary dividend of EUR 1.65 and an extra dividend of EUR 1.35. These financial statements do not reflect this dividend payable of EUR 425 million. The 206,539 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.

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 January 1, 2005	**(1)**	**4**	**2**	**228**	**202**	**435**
Cash flow hedges						
Fair value gains, net of taxes	-	(4)	-	-	-	(4)
Transferred to profit and loss, net of taxes						
Net sales	-	(7)	-	-	-	(7)
Available-for-sale equity investments						
Fair value gains, net of taxes	-	-	2	-	-	2
Transferred to profit and loss, net of taxes	-	-	(2)	-	-	(2)
Share-based payments	-	-	0	-	-	0
Balance as of December 31, 2005	**(1)**	**(7)**	**2**	**228**	**202**	**424**
Cash flow hedges						
Fair value gains, 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, net of taxes	-	-	2	-	-	2
Transferred to profit and loss, net of taxes	-	-	(1)	-	-	(1)
Redemption of own shares	(11)	-	-	-	-	(11)
Share-based payments	-	-	1	-	-	1
Other	-	-	-	1	-	1
Balance as of December 31, 2006	**(12)**	**9**	**4**	**229**	**202**	**432**
Cash flow hedges						
Fair value gains, 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, net of taxes	-	-	28	-	-	28
Transferred to profit and loss, net of taxes	-	-	(6)	-	-	(6)
Share-based payments	4	-	1	-	-	5
Other	-	-	-	7	(8)	(1)
Balance as of December 31, 2007	**(8)**	**7**	**27**	**236**	**194**	**456**

Foreign currency translation included in the shareholders' equity:

EUR million	2006	**2007**
Cumulative translation adjustment as of January 1	(9)	**(45)**
Change in foreign currency translation	(59)	**(29)**
Hedging of net investment denominated in foreign currency	28	**(5)**
Tax effect	(6)	**3**
Transfer of translation differences	1	**0**
Cumulative translation adjustment as of December 31	(45)	**(76)**

22 Share-based payments

In 2007 Metso had one share ownership plan and one options program.

Share ownership plan

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 earning 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. The final amount of the granted shares is based on the average share price during the first two full weeks of March. If the share price exceeds the maximum, the number of shares awarded shall be reduced by a corresponding ratio.

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 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 maximum share price for earnings period 2007 is EUR 48. On the grant dates, the average price for the Metso share was EUR 39.94.

Beneficiaries and granted shares of the share ownership plan as at December 31, 2007:

	Metso Executive Team	Shares	Other beneficiaries	Shares	Beneficiaries total	Shares total
Plan 2006						
Granted	7	25,815	53	74,146	60	99,961
Returned			(4)	(6,500)	(4)	(6,500)
At end of year	7	25,815	49	67,646	56	93,461
Plan 2007						
Maximum granted	6	26,460	75	88,650	81	115,110
Total at the end of year		**52,275**		**156,296**		**208,571**

Costs recognized for the share ownership plan:

EUR thousand	Plan 2006	Plan 2007	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)**
Total	**(5,200)**	**(2,744)**	**(7,944)**

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

As at December 31, 2007, Metso had one options program: the 2003 options program. The Board of Directors have reserved the remaining 100,000 of 2003A options for future needs, and they are held by Metso's subsidiary Metso Capital Ltd.

President and CEO Jorma Eloranta was granted 100,000 year 2003A options in 2004. In 2006 he sold 50,000 and in the beginning of 2007 further 33,000 options. Eloranta subscribed Metso shares with 15,000 options in 2006 and with 2,000 options in the beginning of 2007. 2003A options have been listed on the main list of the Helsinki Stock Exchange since May 2, 2006.

The share subscription price for the 2003A options is EUR 8.70 and the share subscription period is April 1, 2006 - April 30, 2009.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23 Long-term debt

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

	Carrying values		Fair values	
EUR million	2006	**2007**	2006	**2007**
Bonds	526	**509**	543	**529**
Loans from financial institutions	151	**195**	151	**195**
Finance lease obligations	18	**15**	18	**15**
Other long-term debt	3	**3**	3	**3**
	698	**722**	715	**742**
Less current maturities	93	**22**	83	**22**
Total	605	**700**	632	**720**

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, 2007	Effective interest rate Dec. 31, 2007	Original loan amount in currency	Outstanding carrying value at December 31, 2006	**2007**
1997-2007	-	-	USD 200	83	**-**
2004-2011	5.13%	6.46%	EUR 274	259	**262**
				342	**262**
Private placements issued under EMTN program, maturing 2009-2012		4.82 - 6.83%	EUR 248	184	**247**
Bonds total				526	**509**
Less current maturities				83	**-**
Bonds, long-term portion				443	**509**

Metso has a Euro Medium Term Note Program (EMTN) of EUR 1 billion, under which EUR 443 million and EUR 509 million expressed in carrying value were outstanding at the end of 2006 and 2007, respectively. EUR 262 million of the outstanding amount were public bonds and EUR 247 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 of SEK denominated. The interest rates vary from 1.0% (EUR) to 6.3% (CNY). The loans are payable from year 2008 to 2016.

Interest rates of the finance lease obligations vary from 4.0% (EUR) to 12.5% (ZAR).

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 2006 and 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contractual maturities of interest bearing debt as at December 31, 2007 are as follows:

EUR million	Bonds	Loans from financial institutions	Finance lease obligations	Other long-term debt	**Total**
Repayments	-	19	3	0	**22**
Interests	30	9	0	0	**39**
2008	**30**	**28**	**3**	**0**	**61**
Repayments	83	16	3	1	**103**
Interests	28	8	1	0	**37**
2009	**111**	**24**	**4**	**1**	**140**
Repayments	25	28	2	0	**55**
Interests	26	7	0	0	**33**
2010	**51**	**35**	**2**	0	**88**
Repayments	329	28	1	2	**360**
Interests	24	6	0	1	**31**
2011	**353**	**34**	**1**	**3**	**391**
Repayments	72	25	1	-	**98**
Interests	5	4	0	-	**9**
2012	**77**	**29**	**1**	**-**	**107**
Repayments	-	79	5	-	**84**
Interests	-	7	0	-	**7**
Later	**-**	**86**	**5**	**-**	**91**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24 Provisions

	As at December 31,					
		2006			**2007**	
EUR million	Non-current	Current	Total	**Non-current**	**Current**	**Total**
Warranty and guarantee liabilities	25	169	194	**15**	**178**	**193**
Accrued restructuring expenses	9	23	32	**6**	**17**	**23**
Environmental and product liabilities	-	6	6	**1**	**5**	**6**
Other provisions	19	15	34	**15**	**22**	**37**
Total	53	213	266	**37**	**222**	**259**

The provisions, including both non-current and current ones, have changed as follows during the financial year 2007:

EUR million	Accrued restructuring expenses	Environmental and product liabilities	Total
Balance at beginning of year	32	6	38
Impact of exchange rates	(1)	0	(1)
Additions charged to expense	10	3	13
Increase from business acquisitions	-	-	-
Realized reserve	(10)	(2)	(12)
Reversal of reserve / other changes [1)]	(8)	(1)	(9)
Balance at end of year	**23**	**6**	**29**

[1)] Other changes in restructuring expenses include EUR 4 million of early retirement plans resulting from the acquisition of Pulping business in Sweden, which have been reclassified to pension liabilities.

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, 2007, 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 Metso Minerals and clean-up costs for groundwater contamination at a site in Belgium previously owned by Metso Panelboard.

Metso is occasionally involved in product liablity claims. As at December 31, 2007, provisions for product liabilities amounted to EUR 3 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Warranty and guarantee provisions

The provisions for warranty and guarantee liabilities have changed as follows during the financial year:

EUR million	**2007**
Balance at beginning of year	194
Impact of exchange rates	(3)
Increase for current year's deliveries	76
Increase for previous years' deliveries	28
Increase from business acquisitions	0
Deductions	(102)
Balance at end of year	**193**

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 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 sold by Metso Paper and Metso Minerals, 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	2006	**2007**
Loans from financial institutions	43	**82**
Domestic commercial paper financing	89	**15**
Total	132	**97**

The weighted average interest rate applicable to short-term borrowing at December 31, 2006 and 2007 was 4.0% and 3.3%, respectively. In 2008, interest amounting to EUR 2 million is expected to be paid concurrently with respective principals on the short-term debt presented above.

Metso has established a short-term Euro Commercial Paper program of EUR 150 million and a domestic commercial paper program amounting to EUR 300 million. Domestic commercial papers worth EUR 89 million and EUR 15 million were outstanding as of December 31, 2006 and 2007, respectively.

26 Trade and other payables

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

EUR million	2006	**2007**
Trade payables	802	**856**
Accrued interests	6	**8**
Accrued personnel costs	189	**191**
Accrued project costs	73	**106**
Short-term derivatives	1	**16**
Other	167	**130**
Total	1,238	**1,307**

The maturities of payables rarely exceed six months, except for short-term derivatives, which mature within 12 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Change in accounting policy

Prior to January 1, 2007 Metso had applied the corridor method in recognizing the actuarial gains and losses related to its defined post-employment schemes. Under the corridor method, the accumulated actuarial gains and losses are expensed over the expected average remaining working lives of employees in the plan. 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. This policy was adopted to improve the transparency of Metso's financial statements. After the change pension liabilities are recognized in the balance sheet in full.

The change in accounting policy was recognized retrospectively in accordance with the transitional provisions of the amendment. The comparatives have been restated. The change decreased the shareholders' equity by EUR 27 million, net of tax of EUR 13 million and EUR 24 million, net of tax of EUR 10 million, and increased the pension liability by EUR 40 million and EUR 34 million for the years ended December 31, 2005 and 2006, respectively.

The main changes were following:

	Under corridor method		Under new accounting policy	
EUR million	2005	2006	2005	2006
Defined benefit obligation	428	431	428	431
Fair value of plan assets	(234)	(246)	(234)	(246)
Net benefit obligation	194	185	194	185
Unrecognized actuarial gains and losses	(42)	(36)	-	-
Unrecognized asset	3	3	1	2
Unrecognized past service cost	2	2	2	2
Net amount recognized	**157**	**154**	**197**	**189**
Expense (income) recognized in income statement	**8**	**13**	**8**	**13**

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

	Pension benefits, domestic		Pension benefits, foreign		Other post-employment benefits	
EUR million	2006	**2007**	2006	**2007**	2006	**2007**
Present value of funded obligations	9	**9**	285	**272**	-	**-**
Fair value of plan assets	(7)	**(7)**	(239)	**(243)**	-	**-**
	2	**2**	46	**29**	-	**-**
Present value of unfunded obligations	-	**-**	96	**107**	41	**36**
Unrecognized asset	-	**-**	2	**2**	-	**-**
Unrecognized past service cost	2	**1**	-	**-**	-	**-**
Net liability recognized	4	**3**	144	**138**	41	**36**
Amounts in the balance sheet:						
Liabilities	4	**3**	146	**138**	41	**36**
Assets	-	**-**	(2)	**-**	-	**-**
Net liability recognized	4	**3**	144	**138**	41	**36**

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

	Pension benefits, domestic		Foreign pension and other post-employment benefits	
EUR million	2006	**2007**	2006	**2007**
Net liability at beginning of year	4	**4**	193	**185**
Liability for new plans covered	-	-	1	**9**
Acquisitions (disposals)	-	-	14	**(1)**
Net expense recognised in the income statement	1	**0**	12	**11**
Employer contributions	(1)	**(1)**	(23)	**(22)**
Gain (loss) recognized through Statement of Recognized Income and Expense	0	**0**	(3)	**0**
Translation differences	-	**-**	(9)	**(8)**
Net liability at end of year	4	**3**	185	**174**

The amounts recognized in the income statement were as follows:

	Pension benefits, domestic		
EUR million	2005	2006	**2007**
Service cost	2	1	**1**
Interest cost	1	0	**0**
Expected return on plan assets	(1)	0	**0**
Amortization - Past service cost	(1)	0	**0**
Immediate recognition due to asset ceiling	-	-	**-**
(Gains) losses on immediate settlements	(3)	0	**(1)**
Expense (income) recognized in income statement	(2)	1	**0**
Actual return (loss) on plan assets	(2)	0	**0**

	Pension benefits, foreign		
EUR million	2005	2006	**2007**
Service cost	5	5	**6**
Interest cost	18	18	**20**
Expected return on plan assets	(15)	(15)	**(18)**
Amortization - Past service cost	0	0	**0**
Immediate recognition due to asset ceiling	1	0	**-**
(Gains) losses on immediate settlements	(2)	0	**0**
Expense (income) recognized in income statement	7	8	**8**
Actual return (loss) on plan assets	20	23	**17**

	Other post-employment benefits		
EUR million	2005	2006	**2007**
Service cost	1	1	**1**
Interest cost	2	3	**2**
Expected return on plan assets	-	-	**-**
Amortization - Past service cost	-	-	**0**
Immediate recognition due to asset ceiling	-	-	**-**
(Gains) losses on immediate settlements	-	-	**-**
Expense (income) recognized in income statement	3	4	**3**
Actual return (loss) on plan assets	-	-	**-**

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

	Year ended December 31,					
	Pension benefits, domestic		Pension benefits, foreign		Other post-employment benefits	
EUR million	2006	**2007**	2006	**2007**	2006	**2007**
Experience (gain) loss on assets	0	**0**	(8)	**0**	-	**-**
Actuarial (gain) loss on liabilities due to change in assumptions	0	**0**	4	**(1)**	0	**0**
Actuarial (gain) loss on liabilities due to experience	-	**0**	-	**2**	-	**(1)**
Loss as result of asset ceiling	-	**-**	1	**0**	-	**-**
Total (gain) loss recognized in the SORIE	0	**0**	(3)	**1**	0	**(1)**

The cumulative amount of actuarial gains and losses recognized in the SORIE amounted to net loss of EUR 38 million, EUR 35 million and EUR 35 million for the years ended December 31, 2005, 2006 and 2007, respectively.

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

	Pension benefits, domestic		Pension benefits, foreign		Other post-employment benefits	
EUR million	2006	**2007**	2006	**2007**	2006	**2007**
Defined benefit obligation at beginning of year	11	**9**	372	**381**	45	**41**
Service cost	1	**1**	5	**6**	1	**1**
Interest cost	0	**0**	18	**20**	3	**2**
Losses (gains) on curtailment	0	**-**	0	**-**	-	**-**
Plan participant contributions	-	**-**	1	**1**	0	**0**
Past service cost	0	**-**	0	**0**	-	**0**
Acquisitions (disposals)	-	**-**	15	**(1)**	-	**-**
Adjustment to coverage [1)]	-	**-**	2	**11**	0	**-**
Actuarial (gain) loss due to change in assumptions	0	**0**	4	**(1)**	0	**0**
Actuarial (gain) loss due to experience	-	**0**	-	**2**	-	**(1)**
Settlements	(3)	**(1)**	-	**(1)**	-	**-**
Translation differences	-	**-**	(19)	**(20)**	(5)	**(4)**
Benefits paid	-	**-**	(17)	**(19)**	(3)	**(3)**
Defined benefit obligation at end of year	9	**9**	381	**379**	41	**36**

[1)] In the year ended December 31, 2007, includes EUR 4 million early retirement plans subseqent 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 are as follows:

EUR million	Pension benefits, domestic 2006	Pension benefits, domestic **2007**	Foreign pension and other post-employment benefits 2006	Foreign pension and other post-employment benefits **2007**
Fair value of assets at beginning of year	8	**7**	226	**239**
Adjustments for new plans covered	-	-	2	**2**
Settlements	(2)	**(1)**	-	**0**
Acquisitions	-	-	1	**-**
Actual return on plan assets	0	**0**	23	**17**
Plan participant contributions	-	-	1	**1**
Employer contributions	1	**1**	23	**22**
Benefits paid	-	-	(20)	**(22)**
Translation differences	-	-	(17)	**(16)**
Fair value of assets at end of year	7	**7**	239	**243**

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

	2006	**2007**
Equity securities	50%	**42%**
Bonds	43%	**53%**
Other	7%	**5%**

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, plan assets for the four periods is as follows:

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

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

	Domestic 2006	Domestic **2007**	Foreign 2006	Foreign **2007**
Benefit obligation: discount rate	4.50%	**5.00%**	5.28%	**5.58%**
Benefit obligation: rate of compensation increase	3.70%	**4.81%**	3.65%	**3.79%**
Benefit obligation: rate of pension increase	2.10%	**2.10%**	1.08%	**1.50%**
Expense in income statement: discount rate	4.50%	**4.50%**	5.34%	**5.32%**
Expense in income statement: rate of compensation increase	3.77%	**3.70%**	3.66%	**3.68%**
Expense in income statement: expected return on plan assets	5.40%	**6.14%**	7.81%	**7.55%**
Expense in income statement: rate of pension increase	2.10%	**2.10%**	0.89%	**1.30%**

The expected contributions in 2008 shall amount to EUR 2 million to domestic plans and EUR 19 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, 2007. It would increase the sum of the service and interest cost by EUR 0.3 million for 2007. 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, 2007. It would decrease the sum of the service and interest cost by EUR 0.2 million for 2007. The health care cost trend is expected to fall to 5% over the next four years by one percentage point per annum.

28 Mortgages and contingent liabilities

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

EUR million	2006	**2007**
On own behalf		
Mortgages	16	**11**
Pledged assets	0	**0**
On behalf of associated companies		
Guarantees	-	**-**
On behalf of others		
Guarantees	6	**11**
Other commitments		
Repurchase commitments	5	**4**
Other contingencies	5	**4**
Total	32	**30**

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, 2007 was EUR 4 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 schedule 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 1,100 million and EUR 1,301 million as of December 31, 2006 and 2007, 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	2006	**2007**	2006	**2007**
Less than 1 year	46	**45**	4	**4**
1-2 years	35	**35**	4	**4**
2-3 years	27	**24**	3	**2**
3-4 years	21	**13**	2	**2**
4-5 years	13	**8**	2	**2**
Over 5 years	24	**17**	7	**5**
Total minimum lease payments	166	**142**	22	**19**
Future financial expenses			(4)	**(4)**
Total net present value of finance leases			18	**15**

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

EUR million	2006	**2007**
Less than 1 year	3	**3**
1-2 years	3	**3**
2-3 years	3	**2**
3-4 years	2	**2**
4-5 years	1	**1**
Over 5 years	6	**4**
Total net present value of finance leases	18	**15**

Total rental expenses amounted to EUR 30 million, EUR 34 million and EUR 31 million in the years ended December 31, 2005, 2006 and 2007, 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:

	2006			
EUR million	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
Forward exchange contracts [1]	1,357	16	1	15
Cross-currency swaps	1	0	-	0
Currency swaps	1	-	0	0
Interest rate swaps	143	1	1	0
Option agreements				
Bought	7	0	0	0
Sold	6	0	0	0
Electricity forward contracts [2]	475	1	0	1
Nickel swap contracts [3]	-	-	-	-
Total		18	2	16

	2007			
EUR million	**Notional amount**	**Fair value, assets**	**Fair value, liabilities**	**Fair value, net**
Forward exchange contracts [1]	**1,384**	**18**	**16**	**2**
Cross-currency swaps	**0**	**0**	**-**	**0**
Currency swaps	**-**	**-**	**-**	**-**
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**

[1] Some 43% of notional amount (50% at the end of 2006) 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:

	2006		**2007**	
EUR million	Assets	Liabilities	**Assets**	**Liabilities**
Interest rate swaps - cash flow hedges	1	0	**1**	**1**
Interest rate swaps - fair value hedges	-	-	**-**	**-**
Interest rate swaps - non-qualifying hedges	-	1	**0**	**0**
	1	1	**1**	**1**
Forward exchange contracts - cash flow hedges	9	-	**7**	**7**
Forward exchange contracts - net investment hedges	9	-	**6**	**3**
Forward exchange contracts - non-qualifying hedges	(2)	1	**5**	**6**
	16	1	**18**	**16**
Electricity forward contracts - cash flow hedges	1	0	**2**	**(3)**
Nickel swaps - non-qualifying hedges	-	-	**-**	**3**
Cross-currency swaps - non-qualifying hedges	0	0	**0**	**0**
Options - non-qualifying hedges	0	0	**-**	**-**
Total derivatives	18	2	**21**	**17**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In the years ended December 31, 2006 and 2007, 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, 2007, the fixed interest rates of swaps varied from 4.9% to 6.1%. The main floating rates were Euribor and Libor.

As at December 31, 2007, the maturities of financial derivatives are the following (expressed as notional amounts):

EUR million	2008	2009	2010	2011	2012 and after
Forward exchange contracts	1,239	120	25	-	-
Cross-currency swaps	0	-	-	-	-
Interest rate swaps	-	45	15	63	20
Interest rate futures contracts	-	-	-	-	-
Option agreements	-	-	-	-	-
Electricity forward contracts [1)]	155	140	52	9	-
Nickel swap contracts [2)]	372	24	-	-	-

[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 the number of employees. These companies accounted for 88 percent and 82 percent of total net sales for the years ended December 31, 2006 and 2007, respectively.

		% of net sales	Total personnel
Metso Paper Oy	Finland	13.4	3,416
Metso Automation Oy	Finland	4.5	1,563
Metso Brazil Indústria e Comércio Ltda	Brazil	4.5	1,538
Metso Minerals Industries Inc.	USA	7.5	1,318
Metso Minerals (South Africa) Pty. Ltd.	South Africa	1.5	1,087
Metso Minerals Oy	Finland	5.1	1,051
Metso Paper USA Inc.	USA	3.7	1,031
Metso Power Oy	Finland	2.9	804
Metso Paper Sundsvall AB	Sweden	3.1	799
Valmet Automotive Oy	Finland	1.0	789
Metso Paper Technology (Shanghai) Co Ltd	China	0.2	656
Metso Automation USA Inc.	USA	2.0	612
Metso Lindemann GmbH	Germany	2.3	533
Metso Minerals (Chile) SA	Chile	0.6	506
Metso Paper Karlstad AB	Sweden	1.8	469
Metso Minerals (France) SA	France	3.3	468
Metso Power AB	Sweden	1.7	421
Metso Minerals (Wear Protection) AB	Sweden	1.1	417
Metso Paper Valkeakoski Oy	Finland	1.2	402
Metso Minerals (India) Private Ltd	India	0.6	402
Metso Foundries Jyväskylä Oy	Finland	0.5	319
Metso Minerals (Australia) Ltd	Australia	2.7	318
Metso Minerals Canada Inc.	Canada	1.5	284
Metso Paper Pori Oy	Finland	1.8	249
Metso Minerals (Sala) AB	Sweden	1.0	232
Metso ND Engineering (Pty) Ltd	South Africa	0.4	221
Metso Automation (Shanghai) Co. Ltd	China	0.3	220
Metso Paper Ltd.	Canada	1.0	213
Metso Fiber Karlstad AB	Sweden	1.0	198
Metso Minerals (Kiruna) AB	Sweden	0.7	196
Scandinavian Mill Service S.L.	Spain	0.1	191
Metso Paper Sulamericana Ltda	Brazil	1.9	186
Metso Paper (China) Co. Ltd	China	0.6	184
Metso Minerals (Mexico) SA de CV	Mexico	0.7	171
Metso Shared Services Oy	Finland	0.0	170
Metso Minerals (UK) Ltd.	Great Britain	0.9	163
Metso Paper Service SA	France	0.2	162
Metso Kamfab AB	Sweden	0.3	160
Metso Minerals (Tianjin) Co. Ltd.	China	0.4	145
Metso Minerals (Finland) Oy	Finland	0.3	135
Metso Minerals (Norway) A/S	Norway	0.8	132
Metso Minerals (Peru) SA	Peru	0.4	130
Metso Mill Service AB	Sweden	0.2	127
Metso Automation S.A.S.	France	0.6	120
Metso Paper (Thailand) Co. Ltd.	Thailand	0.3	117
Metso Minerals (Germany) GmbH	Germany	0.5	113
Metso Minerals (Matamata) Ltd	New Zealand	0.3	112
Metso Foundries Karlstad AB	Sweden	0.3	106
Metso Automation do Brasil Ltda	Brazil	0.3	104
ZAO Metso Minerals (CIS)	Russia	0.3	100

32 Business area and geographic information

Corporate structure

Metso Corporation is a supplier of process industry machinery and systems, as well as know-how and aftermarket services. Metso's business areas are global in scope with operations in over 50 countries. The principal production plants are located in Finland, Sweden, France, Germany, the United Kingdom, Canada, the United States, China, India, South Africa and Brazil.

In 2007 the operations were organized into the following three business areas:

Metso Paper a global supplier for pulp and paper industry and power generation processes, machinery, equipment and related know-how and services. This involves not only new production lines and rebuilds, but also process improvements, optimizations and various other services. Metso Paper operated under five business lines in 2007: Paper and Board, Tissue, Fiber, Power and Panelboard.

Metso acquired Aker Kvaerner's Pulping and Power businesses as of December 29, 2006 and they were consolidated into Metso Paper business area. The balance sheet of Pulping and Power operations is included in Metso Paper as of December 31, 2006. The acquisition had no effect on the 2006 income statement.

Metso Minerals designs, develops and manufactures equipment and total solutions, as well as services solutions for rock and minerals processing industries. In 2007, its operations were managed through three business lines: Construction, Mining and Recycling.

Metso Automation designs, develops and supplies both process automation and field solutions for automation and information management in selected process industries through its two business lines: Process Automation Systems and Flow Control.

Corporate 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 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 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 Corporate Office and other. The treasury activities of Metso are coordinated and managed by the Corporate 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, including also cash and cash equivalents, income tax receivables and deferred tax assets, which are included in the assets of Corporate 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 Corporate Office and other. Interest-bearing liabilities are not allocated to segments, but included in the liabilities of Corporate 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2005, 2006 and 2007 is presented in the following tables.

EUR million	Metso Paper	Metso Minerals	Metso Automation	Valmet Automotive	Corporate Office and other	Eliminations	**Metso total**
2005							
External net sales	1,839	1,751	545	77	9	-	**4,221**
Intra-Metso net sales	3	5	39	-	-	(47)	**-**
Net sales	1,842	1,756	584	77	9	(47)	**4,221**
Other operating income and expenses, net	(1.6)	7.2	0.0	0.4	11.1	-	**17.1**
Share in profits and losses of associated companies	2.3	0.2	0.5	-	(1.7)	-	**1.3**
Operating profit (loss)	91.5	179.4	80.7	6.0	(22.6)	-	**335.0**
% of net sales	5.0	10.2	13.8	7.8	n/a	-	**7.9**
EBITA	100.3	183.2	82.3	6.0	(20.9)	-	**350.9**
% of net sales	5.4	10.4	14.1	7.8	n/a	-	**8.3**
Amortization	9	3	2	0	2	-	**16**
Depreciation	41	25	8	9	3	-	**86**
Gross capital expenditure (including business acquisitions)	38	58	11	8	6	-	**121**
Non-cash write-downs	10	5	3	0	2	-	**20**
Intangible assets and property, plant and equipment	404	603	66	63	42	-	**1,178**
Investments in associated companies	14	1	4	-	1	-	**20**
Available-for-sale equity investments	1	1	0	0	10	-	**12**
Inventories and other non-interest bearing assets	822	973	197	9	31	-	**2,032**
Interest bearing assets	-	-	-	-	499	-	**499**
Deferred tax assets	-	-	-	-	176	-	**176**
Total assets	1,241	1,578	267	72	759	-	**3,917**
Non-interest bearing liabilities	896	687	145	42	74	-	**1,844**
Interest bearing debt	-	-	-	-	788	-	**788**
Deferred tax liability	-	-	-	-	20	-	**20**
Total liabilities	896	687	145	42	882	-	**2,652**
Capital employed	345	891	122	30	665	-	**2,053**
Orders received	2,164	1,963	580	78	12	(52)	**4,745**
Order backlog	1,335	874	179	-	4	(42)	**2,350**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EUR million	Metso Paper	Metso Minerals	Metso Automation	Valmet Automotive	Corporate Office and other	Eliminations	**Metso total**
2006							
External net sales	2,088	2,192	556	109	10	-	**4,955**
Intra-Metso net sales	4	7	57	-	-	(68)	-
Net sales	2,092	2,199	613	109	10	(68)	**4,955**
Other operating income and expenses, net	(11.0)	16.1	0.3	0.0	0.4	-	**5.8**
Share in profits and losses of associated companies	1.7	0.1	0.8	-	(1.7)	-	**0.9**
Operating profit (loss)	89.8	297.7	86.7	11.7	(28.7)	-	**457.2**
% of net sales	4.3	13.5	14.1	10.7	n/a	-	**9.2**
EBITA	105.6	302.1	88.3	11.7	(26.6)	-	**481.1**
% of net sales	5.0	13.7	14.4	10.7	n/a	-	**9.7**
Amortization	9	5	2	0	2	-	**18**
Depreciation	40	27	8	10	2	-	**87**
Gross capital expenditure (including business acquisitions)	324	72	9	2	1	-	**408**
Non-cash write-downs	15	12	2	0	0	-	**29**
Intangible assets and property, plant and equipment	877	625	62	55	38	-	**1,657**
Investments in associated companies	14	1	4	-	0	-	**19**
Available-for-sale equity investments	1	2	1	0	11	-	**15**
Inventories and other non-interest bearing assets	1,214	1,180	240	9	20	-	**2,663**
Interest bearing assets	-	-	-	-	376	-	**376**
Deferred tax assets	-	-	-	-	238	-	**238**
Total assets	2,106	1,808	307	64	683	-	**4,968**
Non-interest bearing liabilities	1,490	859	158	41	83	-	**2,631**
Interest bearing debt	-	-	-	-	830	-	**830**
Deferred tax liability	-	-	-	-	57	-	**57**
Total liabilities	1,490	859	158	41	970	-	**3,518**
Capital employed	616	949	149	23	543	-	**2,280**
Orders received	2,276	2,655	717	109	15	(67)	**5,705**
Order backlog	2,225	1,277	276	-	0	(41)	**3,737**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EUR million	Metso Paper	Metso Minerals	Metso Automation	Valmet Automotive	Corporate Office and other	Eliminations	**Metso total**
2007							
External net sales	2,919	2,597	649	85	-	-	**6,250**
Intra-Metso net sales	6	10	49	-	-	(65)	**-**
Net sales	2,925	2,607	698	85	-	(65)	**6,250**
Other operating income and expenses, net	(11.5)	7.7	2.4	0.0	2.5	-	**1.1**
Share in profits and losses of associated companies	1.1	0.3	1.4	-	-	-	**2.8**
Operating profit (loss)	136.9	362.6	98.8	8.0	(26.5)	-	**579.8**
% of net sales	4.7	13.9	14.2	9.4	n/a	-	**9.3**
EBITA	184.5	367.1	100.4	8.1	(24.7)	-	**635.4**
% of net sales	6.3	14.1	14.4	9.5	n/a	-	**10.2**
Amortization	48	5	1	0	2	-	**56**
Depreciation	44	29	8	9	2	-	**92**
Gross capital expenditure (including business acquisitions)	123	67	14	4	6	-	**214**
Non-cash write-downs	14	10	0	0	0	-	**24**
Intangible assets and property, plant and equipment	857	648	64	50	38	-	**1,657**
Investments in associated companies	13	1	5	-	-	-	**19**
Available-for-sale equity investments	1	2	1	-	41	-	**45**
Inventories and other non-interest bearing assets	1,282	1,471	300	4	53	-	**3,110**
Interest bearing assets	-	-	-	-	279	-	**279**
Deferred tax assets	-	-	-	-	144	-	**144**
Total assets	2,153	2,122	370	54	555	-	**5,254**
Non-interest bearing liabilities	1,479	1,016	156	33	95	-	**2,779**
Interest bearing debt	-	-	-	-	819	-	**819**
Deferred tax liability	-	-	-	-	41	-	**41**
Total liabilities	1,479	1,016	156	33	955	-	**3,639**
Capital employed	674	1,106	214	21	419	-	**2,434**
Orders received	3,109	3,075	763	85	-	(67)	**6,965**
Order backlog	2,363	1,690	332	0	-	(44)	**4,341**

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
2005	352	484	1,064	889	485	735	212	-	4,221
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**

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
2005	353	523	158	96	331	31	1,492
2006	148	738	144	123	470	51	1,674
2007	**209**	**775**	**144**	**97**	**792**	**40**	**2,057**

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
2005	357	523	15	192	38	44	9	-	1,178
2006	704	615	43	148	67	73	7	-	1,657
2007	**664**	**618**	**58**	**157**	**72**	**80**	**8**	**-**	**1,657**

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
2005	49	9	13	15	14	5	2	-	107
2006	65	9	15	15	17	8	2	-	131
2007	**82**	**14**	**14**	**16**	**14**	**17**	**2**	**-**	**159**

33 Audit fees

	Year ended December 31,		
EUR million	2005	2006	**2007**
Audit	2.9	5.2	**2.8**
Tax consulting	2.1	1.7	**1.3**
Other services	1.3	1.7	**1.3**
Total	6.3	8.6	**5.4**

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 Corporation 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.

Pending asbestos litigation

As of December 31, 2007, there had been a total of 653 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, 199 are still pending and 454 cases have been closed. Of the closed cases, 51 were by summary judgment, 305 were dismissed, and 98 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.

Other claims

Metso Panelboard Oy is the defendant in arbitration proceedings being carried out in accordance with the ICC rules of arbitration in Singapore in which Metso's Chinese customer by the name of Sichuan Guodong Construction Co. Ltd. is claiming compensation on account of an alleged delay and alleged defects in the delivery of equipment for a chipboard line. The plaintiff's total original claim amounted to approximately EUR 54 million, of which about EUR 43 million concerned consequential damages. The delivery agreement contains a clause excluding liability for consequential damages. Subsequently, the plaintiff has revised its claim so as to include a claim in damages of approximately EUR 14.5 million and claim of recovery of purchase price of approximately EUR 12 million. Metso Panelboard has denied the claims and presented a counterclaim amounting to approximately EUR 2.8 million in order to collect the last installment according to the agreement and to pay for additional works related to the delivery. A provision of EUR 1.5 million has been established as a consequence of the claim.

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

In November 2006, Metso Minerals Industries, Inc., which is Metso Minerals' 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 4 million in costs from the investigation for the year ended December 31, 2007 and has not made any provision related to this investigation as at December 31, 2007.

35 New accounting standards

IFRS 8

In November 2006, IASB issued IFRS 8 ‘Operating Segments’, which requires the company to adopt the ‘management approach’ to reporting on the financial performance of its operating segments. Thus, the information to be reported would be what management uses internally for evaluating segment performance. Metso is currently evaluating the effects to its financial statements, however it expects the standard not to impact its current segment structure.

IFRS 8 is effective for annual financial statements for periods beginning on or after January 1, 2009. Earlier adoption is permitted. Metso will apply the standard for the financial year beginning on January 1, 2009.

IFRIC 14

IASB has published IFRIC 14, ‘IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction’. The interpretation is applied to post-employment defined benefit plans and other long-term defined benefit plans under IAS 19, if the plan includes minimum funding requirements. The interpretation also clarifies the criteria for recognition of an asset on future refunds or reductions in future contributions. Metso does not expect the new requirements to have a material impact to its financial statements.

IFRIC 14 is effective for annual financial statements for periods beginning on or after January 1, 2008. The interpretation is still subject to endorsement by the European Union. Pending on endorsement by the European Union Metso should apply the standard for the financial year beginning on January 1, 2008.

IAS 1 (Revised)

IASB has published IAS 1 (Revised) ‘Presentation of Financial Statements’. The revised standard is aimed at improving users' ability to analyze and compare the information given in financial statements by separating changes in equity of an entity arising from transactions with owners from other changes in equity.

IAS 1 (Revised) is effective for annual financial statements for periods beginning on or after January 1, 2009. The standard is still subject to endorsement by the European Union. Provided the standard is endorsed by the European Union before end of 2008, Metso will apply the standard for the financial year beginning on January 1, 2009.

IFRS 3 (Revised)

IASB has published IFRS 3 (Revised), 'Business combinations'. The revised standard continues to apply the acquisition method to business combinations, 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 at 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 to its financial statements.

IFRS 3 (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 the 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 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 those borrowing costs will be removed. The amendment does not change the accounting policy applied by the group to self-constructed assets and therefore, should not have material impact on the group's financial statements, however the implementation of the amendment to qualifying assets for sale is under review and its effects are being evaluated by Metso.

The amendment is effective for annual periods beginning on or after January 1, 2009. The standard is still subject to endorsement by the European Union. Provided the amendment receives the endorsement by the European Union, Metso will apply the standard for the financial year beginning on January 1, 2009.

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 is currently evaluating the effects to 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 amendment receives the endorsement by the European Union, Metso will apply the standard for the financial year beginning on January 1, 2010.

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, receive similar accounting treatment. Metso is currently evaluating the effects of the amendment to its financial statements.

The amendment is effective for annual financial statements for periods beginning on or after January 1, 2009. The standard is still subject to endorsement by the European Union. Pending on the endorsement by the European Union, Metso will apply the standard for the financial year beginning on January 1, 2009.

36 Events after balance sheet date

Metso divested certain panelboard operations

Metso disposed of certain parts of the panelboard business, which was part of Metso Paper business area, to Dieffenbacher GmbH + Co. KG, Germany. The transaction was finalized as of January, 31, 2008. The divestment is in line with Metso Paper's strategy to develop profitability.

The panelboard operations in Nastola, Finland, with all its 60 employees and part of the operations in Sundsvall, Sweden, with 40 employees were transferred to Dieffenbacher. The refiner-related operations in Sundsvall, Sweden, remained in Metso's ownership.

The transaction value will not be disclosed. The transaction does not have a significant impact on Metso's net income.

Metso acquires Mitsubishi Heavy Industries' paper machinery technology

On February 15, 2008, Metso announced that Metso Paper and Mitsubishi Heavy Industries (MHI) have reached an agreement under which MHI's paper machinery technology will be transferred to Metso Paper. The value of contract, which is subject to regulatory approvals, will not be disclosed. The transaction enhances Metso Paper's services business especially in Japan.

FINANCIAL INDICATORS 2003-2007

EUR million	*FAS 2003*	IFRS 2004	IFRS 2005	IFRS 2006	**IFRS 2007**
Net sales	*4,250*	3,602	4,221	4,955	**6,250**
Net sales change, %	*(9.4)*	n/a	17.2	17.4	**26.1**
Operating profit (loss)	*(229)*	199	335	457	**580**
% of net sales	*(5.4)*	5.5	7.9	9.2	**9.3**
Profit on continuing operations before tax	*n/a*	140	292	421	**547**
% of net sales	*n/a*	3.9	6.9	8.5	**8.8**
Profit on continuing operations	*n/a*	158	220	410	**384**
% of net sales	*n/a*	4.4	5.2	8.3	**6.1**
Profit (loss)	*n/a*	144	237	410	**384**
Profit (loss) attributable to equity shareholders	*(258)*	143	236	409	**381**
Exports and international operations	*3,724*	3,302	3,879	4,652	**5,795**
% of net sales	*87.6*	91.7	91.9	93.9	**92.7**
Amortization	*16*	15	16	17	**56**
Depreciation	*116*	100	86	88	**92**
Depreciation and amortization	*132*	115	102	105	**148**
% of net sales	*3.1*	3.2	2.4	2.1	**2.4**
Goodwill amortization and impairment	*256*	-	-	7	**-**
EBITA	*43*	214	351	481	**636**
% of net sales	*1.0*	5.9	8.3	9.7	**10.2**
EBITDA	*159*	314	437	569	**728**
% of net sales	*3.7*	8.7	10.4	11.5	**11.6**
Financial income and expenses, net	*74*	59	43	36	**33**
% of net sales	*1.7*	1.6	1.0	0.7	**0.5**
Interest expenses, net	*66*	53	39	27	**33**
% of net sales	*1.6*	1.5	0.9	0.5	**0.5**
Interest cover (EBITDA)	*2.1x*	5.3x	10.2x	15.8x	**22.1x**
Gross capital expenditure (excl. business acquisitions)	*128*	97	107	131	**159**
% of net sales	*3.0*	2.7	2.5	2.6	**2.5**
Business acquisitions, net of cash acquired	*2*	*2*	14	277	**55**
Net capital expenditure (excl. business acquisitions and disposals)	*80*	30	58	115	**140**
% of net sales	*1.9*	0.8	1.4	2.3	**2.2**
Cash flow from operations	*146*	261	164	442	**294**
Free cash flow [1)]	*32*	211	138	364	**198**
Research and development	*129*	96	96	109	**117**
% of net sales	*3.0*	2.7	2.3	2.2	**1.9**

FINANCIAL INDICATORS 2003-2007

EUR million	*FAS 2003*	IFRS 2004	IFRS 2005	IFRS 2006	**IFRS 2007**
Balance sheet total	*3,823*	3,572	3,917	4,968	**5,254**
Equity attributable to shareholders	*1,024*	984	1,258	1,444	**1,608**
Total equity	*1,030*	989	1,265	1,450	**1,615**
Interest bearing liabilities	*1,269*	935	788	830	**819**
Net interest bearing liabilities	*1,109*	495	289	454	**540**
Capital employed	*2,299*	1,925	2,053	2,280	**2,434**
Return on equity (ROE), %	*(21.3)*	16.0	21.1	30.9	**25.4**
Return on capital employed (ROCE), %	*(8.7)*	10.7	18.9	22.5	**26.1**
Equity to assets ratio, %	*28.3*	30.7	36.6	35.4	**37.7**
Gearing, %	*107.7*	50.1	22.8	31.3	**33.4**
Debt to capital, %	*55.2*	48.6	38.4	36.4	**33.7**
Orders received	*4,256*	3,989	4,745	5,705	**6,965**
Order backlog, December 31	*1,505*	1,705	2,350	3,737	**4,341**
Average number of personnel	*27,400*	24,363	22,405	23,364	**26,269**
Personnel, December 31	*26,240*	22,802	22,178	25,678	**26,837**

[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 and 2007 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 99.

SHARE CAPITAL AND SHARE DATA 2003-2007

EUR million (except for number of shares, per share data and share prices)	*FAS 2003*	IFRS 2004	IFRS 2005	IFRS 2006	IFRS 2007
Share capital, December 31	*232*	232	241	**241**	**241**
Number of shares, December 31:					
Number of outstanding shares	*136,189,704*	136,189,704	141,593,773	**141,358,773**	**141,487,234**
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**
Total number of shares	*136,250,545*	136,250,545	141,654,614	**141,719,614**	**141,754,614**
Average number of outstanding shares	*136,189,704*	136,189,704	139,639,425	**141,580,759**	**141,460,012**
Average number of diluted shares	*136,189,704*	136,192,037	139,665,197	**141,600,424**	**141,460,012**
Trading volume, OMX Nordic Exchange Helsinki	*97,816,594*	108,469,701	239,282,695	**266,774,359**	**350,168,659**
Trading volume, NYSE [1]	*2,042,018*	6,057,500	7,931,000	**4,682,700**	**6,020,320**
Trading volume, % of shares [2]	*73.3*	84.1	174.6	**192.0**	**251.8**
Earnings/share from continuing operations, basic	*n/a*	1.16	1.57	**2.89**	**2.69**
Earnings/share from discontinued operations, basic	*n/a*	(0.11)	0.12	**-**	**-**
Earnings/share from continuing and discontinued operations, basic	*n/a*	1.05	1.69	**2.89**	**2.69**
Free cash flow/share [3]	*0.23*	1.55	0.76	**2.57**	**1.40**
Dividend/share [4]	*0.20*	0.35	1.40	**1.50**	**3.00**
Dividend [4]	*27*	48	198	**212**	**425**
Dividend/earnings, % [4]	*neg.*	33	83	**52**	**112**
Effective dividend yield, % [4]	*2.1*	3.0	6.0	**3.9**	**8.0**
P/E ratio	*neg.*	11.13	13.81	**13.23**	**13.88**
Equity/share	*7.51*	7.22	8.89	**10.21**	**11.36**
Highest share price	*11.41*	12.89	24.46	**38.65**	**49.95**
Lowest share price	*7.52*	9.12	11.31	**23.21**	**34.06**
Average share price	*9.21*	10.85	16.85	**30.45**	**41.43**
Share price, December 31	*9.68*	11.66	23.12	**38.24**	**37.33**
Market capitalization, December 31 [5]	*1,318*	1,588	3,274	**5,406**	**5,282**

[1] Trading volume until September 14, 2007.

[2] Of the total amount of shares for public trading

[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 and 2007 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 99.

FORMULAS FOR CALCULATION OF INDICATORS

Formulas for calculation of financial indicators

EBITA:

Operating profit + amortization +
goodwill amortization and impairment

EBITDA:

Operating profit + depreciation and amortization +
goodwill amortization and impairment

Return on equity (ROE), %:

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

Return on capital employed (ROCE), %:

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

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

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:

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

Average share price:

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

Market capitalization:

Total number of shares
x share price at end of period

EXCHANGE RATES USED

		Average rates			Year-end rates		
		2005	2006	**2007**	2005	2006	**2007**
USD	(US dollar)	1.2448	1.2630	**1.3797**	1.1797	1.3170	**1.4721**
SEK	(Swedish krona)	9.2801	9.2533	**9.2647**	9.3885	9.0404	**9.4415**
GBP	(Pound sterling)	0.6839	0.6819	**0.6873**	0.6853	0.6715	**0.7334**
CAD	(Canadian dollar)	1.5097	1.4267	**1.4663**	1.3725	1.5281	**1.4449**
BRL	(Brazilian real)	3.0459	2.7375	**2.6623**	2.7446	2.8105	**2.5949**

PARENT COMPANY STATEMENT OF INCOME

EUR	Note	Year ended December 31, 2006	**2007**
Other operating income	2	1,653,196.22	**3,035,074.64**
Personnel expenses	3	(9,442,212.21)	**(12,381,686.40)**
Depreciation and amortization	4	(656,823.72)	**(552,485.37)**
Other operating expenses		(20,623,423.82)	**(17,079,238.81)**
Operating profit (loss)		(29,069,263.53)	**(26,978,335.94)**
Financial income and expenses, net	5	149,559,985.35	**393,300,419.16**
Profit before extraordinary items		120,490,721.82	**366,322,083.22**
Extraordinary items	6	13,907,950.00	**180,667,000.00**
Profit before appropriations and taxes		134,398,671.82	**546,989,083.22**
Income taxes	7		
Current tax (expense) benefit		(209,178.28)	**(740,813.13)**
Change in deferred tax (expense) benefit		6,974,630.48	**(27,452,688.60)**
Profit		141,164,124.02	**518,795,581.49**

PARENT COMPANY BALANCE SHEET

Assets

EUR	Note	As at December 31, 2006	**2007**
Non-current assets			
Intangible assets	8	1,103,017.69	**1,306,716.99**
Tangible assets	8	1,036,063.91	**1,013,849.65**
Investments			
Shares in Group companies	9	2,106,474,398.27	**2,100,617,939.80**
Other investments	9	173,153,963.48	**338,534,212.02**
Total non-current assets		2,281,767,443.35	**2,441,472,718.46**
Current assets			
Long-term receivables	11	52,925,401.42	**25,263,328.79**
Short-term receivables	11	287,369,790.39	**775,197,259.28**
Securities		55,006,037.90	**8,000,000.00**
Bank and cash		12,083,685.00	**20,185,280.12**
Total current assets		407,384,914.71	**828,645,868.19**
Total assets		2,689,152,358.06	**3,270,118,586.65**

Shareholders' equity and liabilities

EUR	Note	As at December 31, 2006	**2007**
Shareholders' equity	12		
Share capital		240,923,343.80	**240,982,843.80**
Share premium reserve		151,426,470.23	**151,671,470.23**
Legal reserve		215,489,536.19	**215,489,536.19**
Other reserves		201,825,511.75	**194,210,758.91**
Retained earnings		63,761,782.64	**234,630.12**
Profit		141,164,124.02	**518,795,581.49**
Total shareholders' equity		1,014,590,768.63	**1,321,384,820.74**
Liabilities			
Long-term liabilities	13	571,082,964.59	**675,599,278.67**
Current liabilities	14	1,103,478,624.84	**1,273,134,487.24**
Total liabilities		1,674,561,589.43	**1,948,733,765.91**
Total shareholders' equity and liabilities		2,689,152,358.06	**3,270,118,586.65**

PARENT COMPANY STATEMENT OF CASH FLOWS

EUR thousand	Year ended December 31, 2006	**2007**
Cash flows from operating activities:		
Profit	141,164	**518,796**
Adjustments to operating profit (loss)		
Depreciation and amortization	657	**552**
Unrealized foreign exchange gains (losses)	(26,843)	**22,082**
Financial income and expenses, net	(131,073)	**(424,030)**
Gains (losses) on sale, net	(771)	**(2,438)**
Group contributions	(13,908)	**(180,667)**
Write-downs	4,194	**-**
Taxes	(6,766)	**(28,194)**
Total adjustments to operating profit (loss)	(174,510)	**(612,695)**
Increase in short-term non-interest bearing trade receivables	(11,215)	**75,745**
Decrease in short-term non-interest bearing debt	346	**2,033**
Change in working capital	(10,869)	**77,778**
Interest and other financial expenses paid	(58,481)	**(71,447)**
Dividends received	161,240	**104,349**
Interest received	13,014	**3,572**
Income taxes paid	(209)	**(741)**
Net cash provided by (used in) operating activities	71,349	**19,612**
Cash flows from investing activities:		
Investments in tangible and intangible assets	(78)	**(720)**
Proceeds from sale of tangible and intangible assets	1,319	**(280)**
Long-term loans granted	(133,810)	**(265,802)**
Repayments of long-term loans	377,788	**92,283**
Short-term loans granted	(77,166)	**(46,336)**
Repayments of short-term loans	65,343	**75,851**
Purchase of other investments	(673,793)	**(20,150)**
Proceeds from other investments	124,742	**28,803**
Interest received from investments	16,450	**10,237**
Dividends received from investments	314	**528**
Net cash provided by (used in) investing activities	(298,891)	**(125,586)**
Cash flows from financing activities:		
Share options exercised	565	**304**
Withdrawals (+) and instalments (-) of short-term loans, net	323,961	**(181,588)**
Withdrawal of long-term loans	100,000	**121,612**
Repayments of long-term loans	(151,777)	**(78,341)**
Dividends paid	(198,222)	**(212,541)**
Change in Group pool accounts	15,943	**413,762**
Group contributions	6,500	**13,908**
Net cash provided by (used in) financing activities	96,970	**77,116**
Net increase (decrease) in bank and cash	(130,572)	**(28,858)**
Bank and cash at beginning of year	187,615	**57,043**
Bank and cash at end of year	57,043	**28,185**

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 (Corporate Treasury) under the policies approved by the Board of Directors. Corporate 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, 2006	2007
Gain on sale of fixed assets	970	**2,743**
Rental income	282	**88**
Other	401	**204**
Total	1,653	**3,035**

3 Personnel expenses

EUR thousand	Year ended December 31, 2006	2007
Salaries and wages	(5,974)	**(7,129)**
Share-based payments	-	**(1,707)**
Pension costs	(3,427)	**(3,108)**
Other indirect employee costs	(41)	**(438)**
Total	(9,442)	**(12,382)**

EUR thousand	Year ended December 31, 2006	2007
Fringe benefits	298	**246**

Remuneration paid to Executive Team:

EUR thousand	Year ended December 31, 2006	2007
Chief Executive Officer and his deputy	(1,217)	**(1,298)**
Share-based payments	-	**(818)**
Board members [1)]	(393)	**(407)**
Total	(1,610)	**(2,523)**

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

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

Number of personnel:

	2006	2007
Personnel at end of year	85	**88**
Average number of personnel during the year	85	**81**

4 Depreciation and amortization

Depreciation and amortization expenses consist of the following:

EUR thousand	Year ended December 31, 2006	2007
Buildings and structures	(19)	**(16)**
Machinery and equipment	(115)	**(73)**
Other tangible assets	(3)	**(3)**
Intangible assets	(520)	**(460)**
Total	(657)	**(552)**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

5 Financial income and expenses

EUR thousand	Year ended December 31, 2006	**2007**
Dividends received from		
Group companies	161,240	**444,349**
Others	314	**528**
	161,554	**444,877**
Interest income from investments from		
Group companies	16,450	**10,376**
Others	941	**93**
	17,391	**10,469**
Other interest and financial income from		
Others	34,349	**14,953**
Interest and financial income, total	213,294	**470,299**
Interest and other financial expenses to		
Group companies	(18,344)	**(33,775)**
Others	(45,390)	**(43,224)**
Interest and other financial expenses, total	(63,734)	**(76,999)**
Financial income and expenses, net	149,560	**393,300**
Other interest and financial income includes net gain (loss) from foreign exchange	23,339	**11,524**

6 Extraordinary items

EUR thousand	Year ended December 31, 2006	**2007**
Group contributions received	13,908	**180,667**

7 Income taxes

EUR thousand	Year ended December 31, 2006	**2007**
Withheld taxes recorded for the financial year	(209)	**(741)**
Change in deferred taxes	6,975	**(27,453)**
Total	6,766	**(28,194)**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

8 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, 2006	3,523	450	975	2,557	369	4,351	7,874
Additions	36	0	0	24	3	27	63
Decreases	(238)	(155)	(499)	(17)	0	(671)	(909)
Acquisition cost at Dec 31, 2006	3,321	295	476	2,564	372	3,707	7,028
Accumulated depreciation at Jan 1, 2006	(1,848)	-	(446)	(2,369)	(5)	(2,820)	(4,668)
Accumulated depreciation of decreases	150	-	269	17	0	286	436
Depreciation charges for the year	(520)	-	(19)	(115)	(3)	(137)	(657)
Accumulated depreciation at Dec 31, 2006	(2,218)	-	(196)	(2,467)	(8)	(2,671)	(4,889)
Net carrying value at Dec 31, 2006	**1,103**	**295**	**280**	**97**	**364**	**1,036**	**2,139**

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**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

9 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, 2006	1,403,587	3,474	7,023	423,869	34,526	468,892
Additions	702,890	-	5	130,116	27	130,148
Decreases	(3)	-	(405)	(392,569)	(29,438)	(422,412)
Acquisition cost at Dec 31, 2006	2,106,474	3,474	6,623	161,416	5,115	176,628
Accumulated impairment at Jan 1, 2006	-	-	-	-	-	-
Impairment	-	(3,474)	-	-	-	(3,474)
Accumulated impairment at Dec 31, 2006	-	(3,474)	-	-	-	(3,474)
Net carrying value at Dec 31, 2006	**2,106,474**	**0**	**6,623**	**161,416**	**5,115**	**173,154**

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**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

10 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

11 Specification of receivables

Long-term receivables

EUR thousand	As at December 31, 2006	**2007**
Deferred tax asset	52,277	**24,825**
Long-term receivables from others	648	**438**
Long-term receivables total	52,925	**25,263**

Short-term receivables

EUR thousand	As at December 31, 2006	**2007**
Trade receivables from		
Group companies	11,023	**2,112**
Others	109	**92**
	11,132	**2,204**
Loan receivables from		
Group companies	240,058	**230,815**
Others	381	**0**
	240,439	**230,815**
Prepaid expenses and accrued income		
From Group companies	16,686	**182,371**
Unrecognized expense from issuance of bonds	133	**-**
From others	17,900	**19,302**
	34,719	**201,673**
Other receivables		
From Group companies	-	**340,000**
VAT receivable	1,067	**499**
Other receivables	13	**6**
	1,080	**340,505**
Short-term receivables total	287,370	**775,197**

Specification of prepaid expenses and accrued income

EUR thousand	As at December 31, 2006	**2007**
Prepaid expenses and accrued income from Group companies		
Group contribution receivables	13,908	**180,667**
Accrued interest income	1,542	**1,681**
Other accrued items	1,236	**23**
Total	16,686	**182,371**
Prepaid expenses and accrued income from others		
Accrued interest income	167	**116**
Accrued derivatives	16,616	**17,848**
Other accrued items	1,250	**1,338**
Total	18,033	**19,302**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

12 Statement of Changes in Shareholders' Equity

EUR thousand	2006	**2007**
Share capital at Jan 1	240,813	**240,923**
Increase in share capital	110	**59**
Share capital at Dec 31	240,923	**240,982**
Share premium reserve at Jan 1	150,971	**151,426**
Change in financial year	455	**245**
Share premium reserve at Dec 31	151,426	**151,671**
Legal reserve at Jan 1	215,490	**215,490**
Legal reserve at Dec 31	215,490	**215,490**
Other reserves at Jan 1	201,826	**201,826**
Transfer	-	**(7,615)**
Other reserves at Dec 31	201,826	**194,211**
Retained earnings at Jan 1	261,993	**204,926**
Dividend distribution	(198,231)	**(212,541)**
Transfer	-	**7,615**
Other change	-	**235**
Retained earnings at Dec 31	63,762	**235**
Profit	141,164	**518,796**
Total shareholders' equity at Dec 31	1,014,591	**1,321,385**

Statement of distributable funds at December 31

EUR	2006	**2007**
Other reserves	201,825,511.75	**194,210,758.91**
Retained earnings	63,761,782.64	**234,630.12**
Profit	141,164,124.02	**518,795,581.49**
Total distributable funds	406,751,418.41	**713,240,970.52**

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.

13 Long-term liabilities

	As at December 31,	
EUR thousand	2006	**2007**
Bonds [1)]	442,986	**508,644**
Loans from financial institutions	127,258	**166,955**
Other long-term debt to Group companies	839	**-**
Total	571,083	**675,599**

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

Debt maturing later than in five years time

	As at December 31,	
EUR thousand	2006	**2007**
Bonds	20,000	**-**
Loans from financial institutions	74,405	**78,139**
Total	94,405	**78,139**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

14 Current liabilities

EUR thousand	As at December 31, 2006	2007
Current portion of long-term liabilities		
Bonds	82,764	**-**
Loans from financial institutions	3,471	**15,978**
Other short-term debt to Group companies	485	**835**
	86,720	**16,813**
Trade payables to		
Group companies	3,116	**1,158**
Others	3,874	**1,610**
	6,990	**2,768**
Accrued expenses and deferred income to		
Group companies	1,450	**3,152**
Others	23,248	**28,074**
	24,698	**31,226**
Other short-term interest bearing debt to		
Group companies	374,037	**264,516**
Group pool accounts	521,364	**942,748**
Others	89,341	**14,756**
	984,742	**1,222,020**
Other short-term non-interest bearing debt to		
Others	329	**307**
	329	**307**
Current liabilities total	1,103,479	**1,273,134**
Short-term debt to Group companies total	900,452	**1,212,409**

Specification of accrued expenses and deferred income

EUR thousand	As at December 31, 2006	2007
Accrued expenses and deferred income to Group companies		
Accrued interest expenses	1,190	**2,840**
Other accrued items	260	**312**
	1,450	**3,152**
Accrued expenses and deferred income to others		
Accrued interest expenses	5,322	**6,048**
Accrued derivatives	13,569	**18,658**
Accrued salaries, wages and social costs	2,484	**2,368**
Other accrued items	1,873	**1,000**
	23,248	**28,074**

15 Other contingencies

Guarantees

EUR thousand	As at December 31, 2006	2007
Guarantees on behalf of subsidiaries	1,100,051	**1,300,799**
Guarantees on behalf of others	54	**5,422**
Total	1,100,105	**1,306,221**

Lease commitments

EUR thousand	As at December 31, 2006	2007
Payments in the following year	1,578	**440**
Payments later	1,462	**297**
Total	3,040	**737**

LIST OF ACCOUNT BOOKS USED IN THE PARENT COMPANY

	Voucher class	
General journal and general ledger		on paper
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	01,31,34,35,59,79	paper vouchers