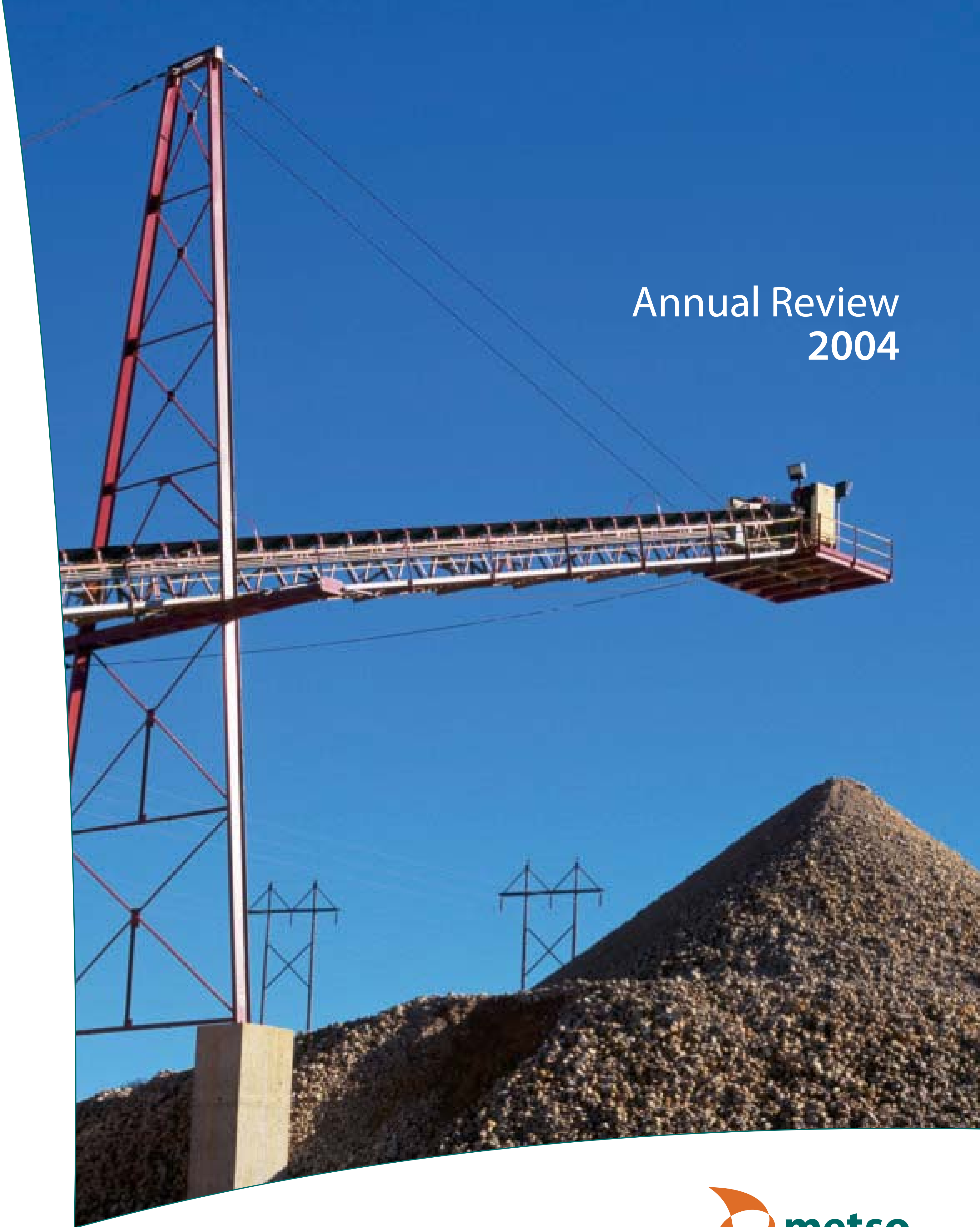


Annual Review 2004

metso

Annual Review 2004

COVER: A conveyor feeding the surge pile was delivered by Metso Minerals at Edward Kraemer & Sons' limestone quarry in the USA.

CEO's Review

To our shareholders
Metso's goal is to provide solutions and services that improve the efficiency, usability, and quality of our customers' production processes. Our customer relationships are built on extensive know-how and long-term commitment.

A life cycle partnership also requires financial stability. Our primary focus in 2004 was on improving our profitability and cash flow and on strengthening our balance sheet.

Streamlined cost structure and strengthened balance sheet
The efficiency improvement program launched in summer 2003 to streamline the cost structure was completed in 2004. About EUR 65 million of the program's annual savings of just over EUR 100 million is already visible in our 2004 result. The full cost savings benefit will materialize during this year.

The efficiency improvement program contributed to the continued favorable financial performance in Metso Automation, and its profitability is now good. Metso Minerals also improved its result significantly, thanks to the streamlined cost structure and favorable market conditions.

Measures previously taken in Metso Paper weren't sufficient to ensure profitability in the current market situation. Therefore, the business area continued to renew its business concept and to improve its operational efficiency with a new program aiming, amongst other things to reduce annual fixed costs by an additional EUR 50 million. By the turn of the year, the program had progressed according to plan, and it will be completed in 2005.

During 2004, we developed our portfolio with the divestiture of Metso Minerals' Dynapac and Reedrill operations, which were not part of Metso's core businesses. Dynapac manufactures compaction and paving equipment, and Reedrill drilling equipment. We also completed the sale of the converting equipment business.

The sale of these businesses and the improved cash flow from operations have significantly strengthened our balance sheet; our gearing at the end of 2004 was 50.0 percent, i.e. less than half of what it was at the beginning of last year.

Sustainable growth and development
In summer 2004, we published our financial targets for the current year: 6 percent operating profit and 12 percent return on capital employed (ROCE). Based on the result for 2004, we are headed in the right direction, but there is still work to be done to reach these corporate targets.

In 2005, the main focus is on improving our operations and sustainable growth. However, we will also continue to emphasize our capability for change and change management as well as improving productivity.

Continuous improvement of productivity calls for investments in the development of new products, services, and business concepts. In the rapidly growing markets of Asia, South America, and Russia, we have the opportunity to develop our local presence both in capacity expansion projects and in aftermarket business. New concepts are needed in these markets to meet the needs of our customers.

In Europe and North America, the biggest growth potential is in machine rebuilds and aftermarket operations; in these areas, we are developing new products and services to improve our customers' competitiveness. In addition our extensive installed base continues to create opportunities to develop new life cycle services.

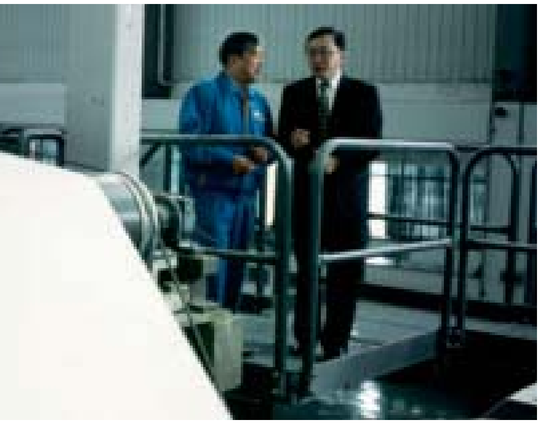
One of my first tasks upon starting in my capacity as CEO in March 2004 was to assess Metso's structure and the best way to develop shareholder value. Even though only limited synergies exist between the customer interfaces of our business operations, we gain benefits in many support processes, such as treasury and finance.

Our target is to strengthen Metso as the technology and market leader. We will continue to focus on developing Metso as the global supplier in pulp and paper industry processes, in rock and minerals processing and in the energy industry. We want to be a strong, long-term partner for our customers. We believe that this is also the best way to produce added value for our owners.

I would like to thank our customers for the great cooperation, and our subcontractors and other business partners for their willingness to be involved in developing the competitiveness and quality of Metso's operations. I would like to thank our personnel for their excellent flexibility and their courage to take on the challenges presented by change.

"Our primary focus in 2004 was on *improving* our *profitability* and cash flow and on strengthening our balance sheet."

Jorma Eloranta
PRESIDENT AND CEO



This is Metso

Metso Corporation is the global market leader in fiber and paper technology (Metso Paper) and rock and minerals processing systems (Metso Minerals). Metso is also one of the leading suppliers of process industry automation and control solutions (Metso Automation). Metso's fourth business area, Metso Ventures, comprises units that serve the Corporation's other businesses or are under strategic development.

The Corporation has business operations in over 50 countries. Metso's own production plants are located in Finland, Sweden, Norway, the UK, Germany, France, Belgium, Italy, the USA, Mexico, Canada, China, India, Australia, New Zealand, South Africa, Brazil, Chile and Peru.

Metso's shares are listed on the Helsinki and New York Stock Exchanges.

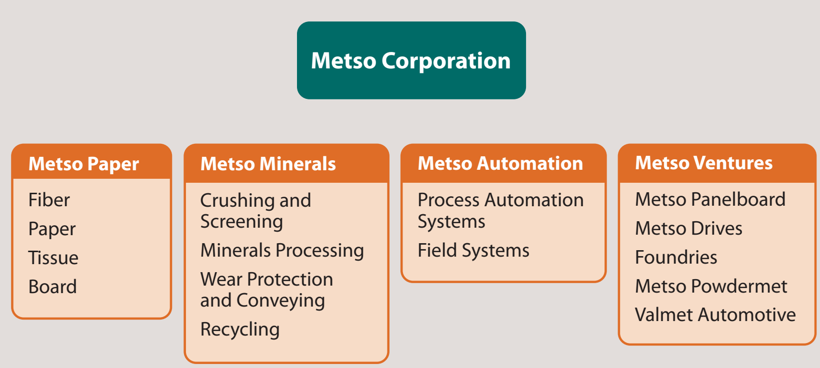
The Corporation's main markets are in Europe and North America. Asia, especially China, and South America are growing market areas for Metso's products and services.

Metso's development

Metso was founded in 1999 when Valmet and Rauma, both listed companies, merged. Valmet was a paper and board machine manufacturer and process automation supplier, while Rauma's operations focused on fiber technology, rock crushing equipment and flow control solutions. The merger resulted in the creation of a global corporation that serves process industries.

The corporation's development has continued through acquisitions and divestitures. In 2000, Metso acquired the American paper machine manufacturer Beloit's roll cover and aftermarket business to bolster Metso's market position in paper machinery maintenance and modernization. The Swedish company Svedala was acquired in 2001 to raise the rock and minerals processing business to a leading market position. In recent years, acquisitions have mainly complemented Metso Paper's aftermarket business and Metso Automation's product and service offering.

Metso's divestitures have focused on non-core businesses. The objective has been to streamline the corporate structure and strengthen the balance sheet. The most significant divestitures



"In 2004, Metso's net sales amounted to EUR *4 billion* and personnel totaled approximately *22,800* at the end of the year."

were the sale of Timberjack, the forest machinery manufacturer, in 2000, and in 2004 the sales of Dynapac, the paving and compaction machinery manufacturer, and the Converting Group.

BUSINESS AREAS

Metso Paper

CUSTOMERS Mechanical and chemical pulp makers, and paper, tissue and board producers.
PRODUCTS Equipment and machinery for mechanical and chemical pulp production, paper machines, tissue machines, board machines, paper finishing systems, air systems, know-how and aftermarket services.
MARKET POSITION Metso Paper is the global market leader in paper and tissue making lines and one of the leading suppliers of board making lines and pulping lines.

Metso Minerals

CUSTOMERS Quarries and contractors, mining, civil engineering and construction and metal recycling plants.
PRODUCTS Rock and minerals processing systems, crushers, screens and conveyors, mobile crushing and screening equipment, grinding mills, separation equipment for minerals, recycling systems for metals, wear protection products and conveyor belts, wear and spare parts and aftermarket services.
MARKET POSITION Metso Minerals is the global market leader in rock and minerals processing systems as well as in aftermarket products for mines and quarries. Metso Minerals is also the global market leader in metal recycling equipment.

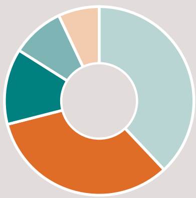
Metso Automation

CUSTOMERS Mechanical and chemical pulp makers, paper and board producers, and power, gas and oil industries.
PRODUCTS Process industry automation and information management application networks and systems, production process measurement systems and equipment, control valves, support and aftermarket services.
MARKET POSITION Metso Automation is, together with Metso Paper, the world's largest supplier of automation solutions for the pulp and paper industry. In addition, it is one of the largest European suppliers of power station automation.

Metso Ventures

CUSTOMERS Construction and furniture industries, producers of packaging material, mechanical and chemical pulp makers, paper and board producers, rock and minerals processing industries, energy and engineering industries, and car makers.
PRODUCTS Production lines, equipment and aftermarket services for the panelboard industry, mechanical power transmission systems for the process and energy industry, and for rock and minerals processing, industrial castings, material technology expert services and the contract manufacture of specialty cars.
MARKET POSITION Metso Panelboard is among the three largest panelboard industry equipment suppliers in the world. Metso Drives is a leading supplier of mechanical drives for the pulp and paper industry, and one of the four largest wind turbine gear manufacturers. Valmet Automotive is one of Europe's key contract manufacturers of convertibles. ■

▶▶▶ For further information, visit **www.metso.com**



Net sales by business area

- Metso Paper 38% (2003: 38%)
- Metso Minerals 33% (28%)
- Metso Automation 13% (12%)
- Metso Ventures 9% (9%)
- Discontinued operations 7% (13%)

Net sales by market area

- Finland 8% (2003: 9%)
- Other Nordic countries 8% (7%)
- Other European countries 26% (30%)
- North America 21% (23%)
- South America 8% (6%)
- Asia-Pacific 23% (19%)
- Rest of the world 6% (6%)

Personnel by business area

- Metso Paper 38% (2003: 35%)
- Metso Minerals 35% (31%)
- Metso Automation 15% (13%)
- Metso Ventures 11% (9%)
- Corporate Office and other 1% (1%)
- Discontinued operations 0% (11%)

Main focus on strengthening the balance sheet and improving efficiency

Orders received and order backlog increased
The year's largest order was received by Metso Paper for a SC paper making line for Stora Enso's Kvarnsveden mill in Sweden. Metso Automation will deliver control and monitoring systems for the new line. This is the largest order in Metso's history. Metso Minerals' sales grew substantially, and the largest single orders were for materials handling systems, for example from Brazil and China. Metso Automation's orders from the power, oil and gas industry increased clearly. During the year under review, Metso's continuing operations received 10 percent more orders than in the comparison year 2003, and the Corporation's order backlog grew by 25 percent.

Improving efficiency and streamlining cost structure
Metso continued with its efficiency improvement program started in June 2003. The program's measures were completed in all business areas during the year under review. The annual savings achieved on the basis of the decisions made are expected to be slightly more than EUR 100 million, of which approximately EUR 65 million were realized in 2004. In 2004, another program was commenced to renew Metso Paper's business concept and to aim for annual savings of approximately EUR 50 million.

Clear improvement in the profitability of Metso Minerals and Metso Automation
In 2004, net sales from continuing operations were at the level of the comparison year. The Corporation's operating profit before nonrecurring items and amortization of goodwill strengthened clearly, and the profitability of Metso Minerals and Metso Automation improved particularly substantially. Metso's earnings per share increased to EUR 0.51, while in the previous year earnings per share were a negative EUR 1.89.

Cash flow from divestments
In 2004, Metso sold non-core businesses and asset items, and the cash generated through these measures was used to pay back a substantial amount of debt and strengthen the Corporation's financial position. Metso divested the Converting Group to the Swiss Bobst Group and the compaction and paving equipment business line Dynapac to Altor, a Nordic private equity investor. The rock drilling equipment business, Reedrill, was divested to the U.S. Terex Corporation at the end of the year.

Credit profile improvements
In the second half of 2004, Metso made a debt exchange offer, the purpose of which was to lengthen Metso's debt maturity structure and improve the Corporation's credit profile. Holders of Metso bonds were offered the opportunity to exchange Metso bonds due in 2006 for new 7-year bonds. The debt

KEY FIGURES

(in millions, except for per share data)	2002 EUR	2003 EUR	**2004 EUR**
Net sales	4,691	4,250	**3,976**
Aftermarket operations, % of net sales	33.0	37.0	**39.0**
Exports and international operations, % of net sales	92.1	87.6	**87.6**
Operating profit before nonrecurring items and amortization of goodwill	251	133	**173**
Operating profit (loss)	167	(229)	**111**
Income (loss) before taxes	93	(303)	**49**
Net income (loss) for the year	65	(258)	**69**
Orders received	4,646	4,256	**4,374**
Order backlog, Dec. 31	1,589	1,505	**1,745**
Personnel, Dec. 31	28,489	26,240	**22,802**
Earnings/share	0.48	(1.89)	**0.51**
Dividend/share	0.60	0.20	**0.35***
Return on capital employed (ROCE), %	6.4	(8.7)	**5.7**
Return on equity (ROE), %	4.8	(21.3)	**6.9**
Research and development expenses	156	129	**106**
Balance sheet total	4,399	3,823	**3,578**
Gearing, %	80.6	107.7	**50.0**
Equity to assets ratio, %	33.3	28.3	**32.7**

*) Proposal by the Board of Directors

Floyd Gast from Metso Minerals, Mike Strom from Edward Kraemer & Sons (EKS) and Jim Squiers from RB Scott, Metso's distributor, are shown at the EKS limestone quarry in Minnesota, USA.

exchange offer was received positively by the market and resulted in the issuance of bonds due in 2011 for a total of EUR 274 million.

Corporate governance principles renewed

In April, Metso's Board of Directors renewed the Corporation's Corporate Governance principles to make management more efficient. The new principles became effective as of May 1, 2004. The Board of Directors supervises the Corporation's operations and management and decides on significant matters relating to strategy, investments, organization and finance. In addition to the Board of Directors' Audit and Compensation Committees, Metso has a Nomination Committee comprising representatives named by the four largest Metso shareholders. The Corporation's President and CEO guides the operations of Metso. Other executives assist the President and CEO.

Management agendas 2004–2005

The management agendas for each Metso business area were defined for 2004–2005. The key objective is the continuous improvement of profitability and productivity. Metso Paper will renew its business concept, strengthen its customer orientation and streamline its cost structure. Metso Minerals will complete the measures related to the development of its structure and focus on utilizing the opportunities offered by the good market situation. Metso Automation will seek growth supported by its strengthened profitability. ■

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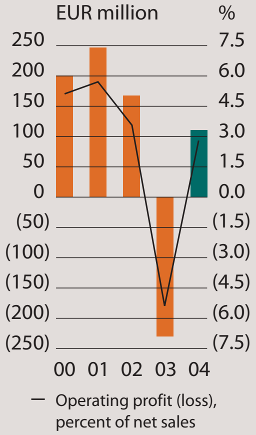
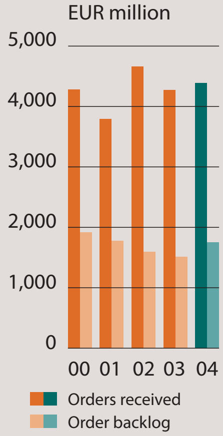
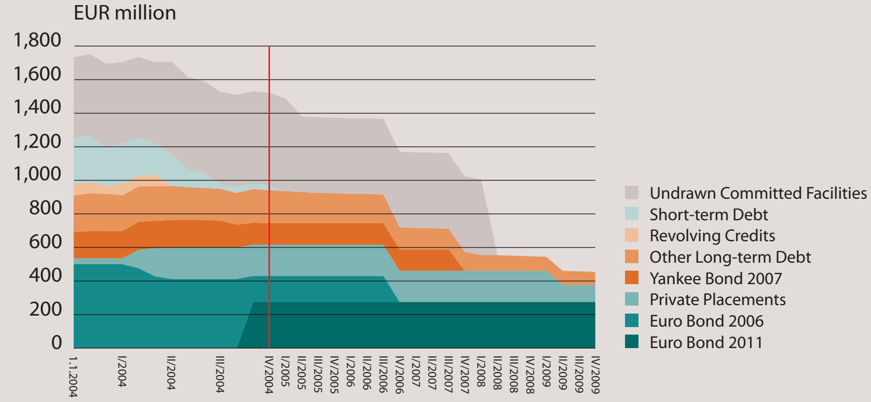
Operating profit (loss)



Orders received and order backlog



Debt and maturity structure



Vision

Metso's vision is to grow from a machine supplier into a provider of competitiveness for its customers. We aim to be a profitably growing and globally leading developer and provider of equipment, solutions and services for our customer industries. Our goal is to help our customers improve the productivity and competitiveness of their industrial processes throughout their life cycles.

Metso's operations are based on process know-how in the pulp and paper industry and rock and minerals processing, on the extensive installed base of machinery and equipment, and on automation knowledge. These cornerstones have helped us to become the world's leading supplier for the pulp and paper industry and rock and minerals processing. Metso's products and services combine control technology, process automation and advanced information and communications technology solutions with process know-how.

> "Our goal is to help our customers *improve* the *productivity* and competitiveness of their industrial processes throughout their life cycles."

Our customers are industrial companies that require their machine and equipment suppliers to show long-term commitment and assume increasing responsibility for delivered processes. Our customers' investments are typically large and have long life cycles. These investments require sufficient return, which can be enhanced by cooperation between the customer and Metso covering the entire life cycle of the process. Many of our customers operate in different parts of the world and expect their suppliers to be close to them. Metso's strong global network enables us to serve our customers in all continents.

We improve the efficiency and competitiveness of our customers' processes, while simultaneously reducing their environmental impact. Our aim is to produce increasingly competitive and efficient solutions, equipment and services founded on our strong customer cooperation and technology and process know-how. ■

Manuel Casáis, Mill Director for Pina S.A., and Bernardo Alvarez de Prado, Metso Panelboard's Sales Manager, at Pina's Cuenca mill in Spain.

Strategy

Metso's strategic focus in 2004 was on improving profitability and cash flow and strengthening the balance sheet. The balance sheet was strengthened during the year, as net debt was reduced substantially. In addition, loan maturities were extended. Profitability also developed favorably, and efforts to improve it will continue this year. Profitability targets for 2005 have been set for Metso Corporation and each business area.

Profitability is required from all Metso's business areas to enable the development of Metso and utilization of the market potential. To achieve this goal, extensive efficiency improvement measures have been implemented within the Corporation in recent years. Once basic profitability has been secured, the strategies of Metso's businesses can transfer to continuously improving their operations and to seeking growth, primarily organic growth.

Metso's business areas are in different stages of development. In determining the strategic focus for each business area for 2005, the market situation, customer needs and profitability have been taken into consideration. Additionally, cost savings and efficiency are being sought through corporate-wide cooperation in, for example, financial administration, finance, IT and purchasing.

Metso Paper is renewing its business concept to correspond with customer needs. The flexibility required by fluctuating demand is being increased by adapting the company's own production capacity and extending manufacturing cooperation with outside partners.

Metso Minerals is utilizing the growth potential of the market and further improving its organizational efficiency and product-specific profitability. Metso Automation is refocusing on achieving growth by launching new products and strengthening its market position in growing markets. All of Metso Ventures' businesses are focusing on strengthening their competitiveness. ■

Metso's financial targets for 2005

Metso Corporation	An operating profit before goodwill amortization of 6% of net sales and return on capital employed (ROCE) of 12%
Metso Paper	Operating profit 5%
Metso Minerals	Operating profit 7%
Metso Automation	Operating profit 8%
Metso Ventures	Operating profit 6%

▶▶▶ For further information, visit **www.metso.com**

Metso Paper

In 2003, Metso Paper delivered a newsprint production line to Yueyang Paper, part of the Tiger Forest & Paper Group, in Hunan, China. We photographed Yueyang's personnel at the paper mill in November 2004.

Wang Xiang, Chairman of the Board, Tiger Forest & Paper Group and Fan Ze, General Manager, Sales and CRM, Metso Paper China.

Tiger Forest & Paper Group

Yueyang Paper Mill, a member of China's top-ranking Tiger Forest & Paper Group, lies on the shore of Dongting Lake. Connected by the Yangtze River to the port of Shanghai, its high-quality paper travels not only across China, but also to Japan and beyond.

In 1998, facing rapid growth on the Chinese paper market, Tiger Forest & Paper Group made a strategic decision to invest in the Yueyang mill. A new papermaking line was required to meet demand and retain competitiveness, along with an effective solution to make use of recycled fiber.

Valuable references

Early on, Yueyang Paper decided to work with a single supplier, as this would allow better system integration and enable long-term optimization. Metso Paper was one of the suppliers considered, though at that time no relationship existed between the two companies.

It was the strength of Metso's references that proved decisive in the choice of supplier. Yueyang Paper officials visited two Metso customer sites in China, but were especially impressed by a visit to the UPM paper mill in Augsburg, Germany. After viewing UPM's Paper Machine PM 3, they ordered a similar on-line concept for Yueyang Paper's PM 8, including an OptiFeed wet-end system – the first of its kind in China.

An integrated investment

PM 8 is a swing machine, capable of handling today's newsprint needs then switching to LWC as the Chinese market develops. In addition, Yueyang Paper placed an order for a full-scope deinking line to furnish PM 8 with recycled pulp.

The need for a deinking line was tied to a number of factors. These included the scarcity of China's own forest resources, as well as demands from Japanese customers for paper produced with secondary fiber. Metso Paper was also chosen as supplier for the DIP plant, in keeping with the decision to work with a single partner.

Exceptional performance

Through intensive efforts and close cooperation, Metso and Yueyang Paper were able to bring both systems on line as planned during summer 2003. Since that time, both systems have performed well above expectations.

PM 8 is running over 200,000 tons per year, well over its original design capacity. Though only one of eight papermaking machines, it accounts for a full 50 percent of the mill's total production. Likewise, the deinking line is producing 400 t/d with results that compete with any deinking process in China. Yueyang Paper achieves bright, high-quality paper on PM 8 even using recycled pulp.

The new lines are turning a reliable profit for the mill after only one year, instead of the two or more years that mill officials had predicted. This success has affirmed the choice of Metso as cooperation partner, and reflects well on the now strong relationship between management and technicians at the two companies.

TIGER FOREST & PAPER GROUP

Yueyang Paper Mill, Yueyang, Hunan province, China

Produces various grades including LWC, newsprint and writing paper

Equipment:
Metso OptiConcept newsprint/LWC papermaking line, Metso deinking line using old/recovered newsprint and magazine paper as raw material

TOP: Zhu Hongwei from Yueyang mill, Fan Ze from Metso Paper, Zhang Dongji from Tiger Forest & Paper Group and Huang Baiwen from Yueyang.

BOTTOM: Zhang Dongji is Vice General Manager and Chief Engineer of Tiger Forest & Paper Group's Yueyang paper mill.

"Metso Paper's challenge in 2004 was to adapt its operations to the market situation and *develop* more flexible and streamlined ways of working."

BERTEL KARLSTEDT,
PRESIDENT, METSO PAPER.

Metso Paper

Metso Paper's operations are divided into four business lines, namely Fiber, Paper, Tissue and Board. The customers are globally operating pulp, paper, tissue and board makers.

Metso Paper has its own operations and production in 29 countries, and its products and services are sold by 25 sales units, more than 40 service centers and the logistics centers in Finland, the USA and China. Most of the products are sold through the company's own sales network. The company has 12 technology centers in Finland, Sweden, Italy and the USA.

The largest market areas are Europe, North America and Asia.

The most significant competitors are Voith Paper from Germany, Andritz from Austria, Kvaerner Pulping from Norway and Mitsubishi from Japan.

Key figures

	2003	**2004**
(millions)	EUR	**EUR**
Net sales	1,651	**1,559**
Operating profit before nonrecurring items and amortization of goodwill	68.3	**37.1**
Operating profit	24.6	**11.1**
Capital employed, Dec. 31	538	**356**
Gross capital expenditure	54	**33**
Research and development expenses	56	**50**
Orders received	1,710	**1,726**
Order backlog, Dec. 31	784	**946**
Personnel, Dec. 31	9,085	**8,660**

Objective to strengthen global market and technology leadership

Metso Paper provides the services, process improvements, machine rebuilds and new installations required by pulp and papermaking processes.

Metso Paper's management agenda for 2004–2005 was approved in June 2004. Metso Paper's objective is to strengthen its global market and technology leadership in pulp and paper industry processes. Thus, Metso Paper will focus not only on enhancing its competitiveness, but also particularly on strengthening its customer orientation and developing its range of tissue and board machines. The aim is to create customer relationships that last for the entire life cycle of delivered processes and ensure the most effective and productive technological solutions for customers.

Since the construction of new production capacity is still at a low level in Europe and the USA, Metso Paper has refocused its operations in these areas on customers' process improvements, machine rebuilds and the service business. As demand for new production capacity is highest in China and South America, Metso Paper is strengthening its local resources related to new installations in these areas.

More flexibility in business operations

Metso Paper's objective in its production is to focus on the manufacture and assembly of core components and to increasingly subcontract the manufacture of non-core components. In growing markets the objective is to increase local operations.

The flexibility of business operations was increased in 2004 by outsourcing production. In June, some of the engineering design work done by Metso Paper Como in Italy was transferred to Di&Esse Etteplan. In October, the Jyväskylä plate shop operations were transferred to Rautpohjan Konepaja, while in November the goods reception, packaging and internal transportation of the Järvenpää plant were handed over to CLO Pakkaukset, Finland. In December, an agreement was made to transfer the Karhula production operations to the Mesera Works, Finland, from the beginning of 2005.

At the beginning of September, in order to improve its local customer service for the paper and board industry, Metso Paper opened a new office in Jinan in Shandong province, one of China's main paper industry regions. In June, aftermarket operations were expanded in Korea by establishing a new service center in the Daejeon area. In November, a decision was made to establish a new service center in Borlänge, Sweden.

Metso Paper's position as a provider of pulp and paper industry maintenance services was strengthened in January by the acquisitions of Paper Mill Service Kauttua and Kauttuan Automaatio- ja Sähköpalvelu, Finland. These companies were integrated with Scandinavian Mill Service, a specialist maintenance company owned by Metso Paper. Although the pulp and paper industry has been cautious in outsourcing maintenance, demand for these services is expected to increase. In outsourcing contracts, customers and Metso agree upon common objectives, often related to the capacity utilization rates of production machines and cost optimization. During the year under review, a number of co-operation agreements, narrower in scope than outsourcing contracts, were made with customers.

During 2004, spare parts warehousing in Finland was relocated from Järvenpää, Valkeakoski, Pori and Raisio to Jyväskylä. A centralized logistics center serves customers in Finland and elsewhere in Europe.

Work to improve cost efficiency and customer service continued

During the year, Metso Paper continued the efficiency improvement program begun in June 2003. By the end of 2004, these measures had been completed. Additionally, in June 2004, a program was begun to renew Metso Paper's business concept and streamline its cost structure by EUR 50 million annually. This is expected to decrease the number of personnel by 1,100–1,300, half from reductions and the other half through outsourcing and other production rearrangements. The measures will continue in 2005.

During the first half of 2004, the Mechanical Pulping and Chemical Pulping Business Lines were combined into the Fiber Business Line. Customer orientation and the quality of customer service were enhanced by combining the service business with each business line.

Market leader in many products

Metso Paper's strengths are its extensive base of installed machinery and its market leader position as a pulp and paper industry supplier. The product range is the broadest in its sector, covering the entire production chain from pulping to roll wrapping. Some 1,500 paper machines delivered by Metso Paper are in operation around the globe. Metso Paper has also delivered machinery, equipment and process sections for about 800 pulping lines.

The Yueyang mill's OptiConcept papermaking line produces over 200,000 tons of newsprint annually.

LEFT: The Yueyang paper mill's automation solution was delivered by Metso Automation.

RIGHT: Zhang Dongji, Vice General Manager and Chief Engineer, Tiger Forest & Paper Group, together with Yang Zhenyu and Zhu Hongwei, Directors of PM 8.

Zhang Dongji and Fan Ze at Yueyang's PM 8 winder.

In addition, Metso Paper's strengths include its expertise in technology and process automation. Together with Metso Automation, Metso Paper can offer its customers a unique combination of process expertise.

Metso Paper is not just a producer of efficient paper, board, tissue and pulp production lines. It also tailors cost-efficient processes for the specific needs of customers and delivers solutions based on recycled fiber technology.

The paper, tissue and board industry accounts for about 75 percent of Metso Paper's net sales and the pulp industry for 25 percent.

Operating environment remained uncertain

Particularly in Europe and North America, customers increasingly emphasize return on capital employed when they make investment decisions, and are trying to reduce their operating and investment costs. Thus, their interest in partnerships that extend throughout the life cycles of their processes is increasing.

Paper machine capacity utilization rates improved in 2004, because the growth of advertising bolstered the demand for paper, amongst other things. However, the increase in product prices was still modest. Although paper prices rose slightly in North America, expectations of rises in Europe were focused on 2005. Pulp prices fluctuated, but climbed towards the end of the year.

Demand focused on machine rebuilds

The uncertain market situation of the pulp and paper industry was reflected in the investment activity of customers, and only a few new paper machines

were ordered in 2004. The government of China attempted to prevent the country's economy from overheating, and some investment projects advanced a little more slowly due to extended treatment of financing and other regulatory arrangements.

> "Customers' *interest* in partnerships that extend throughout the life cycles of their processes is *increasing.*"

The paper and board machine rebuild markets were active and the demand for aftermarket services began to increase in the second half of the year. In Europe, the paper industry focused on rebuilds, but some investments were also made in new papermaking lines. As in earlier years, investments were still at a low level in North America in 2004.

Activity in the pulping market remained good. Chemical pulping investments were focused on South America and mechanical pulping investments on China, as well as Europe. Demand for aftermarket services was also stable.

Largest paper machine order from Sweden

During 2004, Metso Paper received 6 orders for new paper, tissue and board machines and 8 orders related to pulping lines. 15 major orders related to process improvements were received.

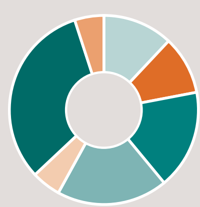
The year's most significant paper machine orders were an SC paper line for Stora Enso's Kvarnsveden mill in Sweden, a paper finishing line made together with the Valmet-Xian joint venture for Sun Paper in Yanzhou, China, and a fine paper production line for Hankuk Paper's Onsan mill in South Korea. A significant tissue machine order was received from HengAn Holding in An Hai Zhen, China.

The most important process improvement and rebuild orders were a paper machine rebuild ordered by Stora Enso for its Whiting mill in Wisconsin, USA and a paper machine finishing line rebuild ordered for its Varkaus mill in Finland. UPM-Kymmene ordered a paper machine rebuild for its Jämsänkoski mill in Finland and a specialty paper machine rebuild for its Tervasaari mill in Valkeakoski, Finland.

The most important board machine orders were gained from China in co-operation with the Valmet-Xian joint venture. The machines will be delivered to Foshan Huafeng Paper in Zhuhai and to Dongguan Jianhui Paper in Dongguan City.

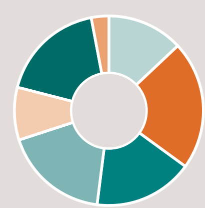
The most significant pulping line orders were BCTMP (bleached chemi-thermomechanical pulp) pulping and baling line equipment for M-real's Kaskinen mill in Finland and a BCTMP line, bale pulping line and paper roll finishing system for Shandong Huatai Paper Co., Ltd., in Dong Ying City, China. Shandong Chenming Paper Holdings ordered a woodhandling system and BCTMP line for Shouguang, China. The Brazilian company, Ripasa S.A. Celulose E Papel, ordered a pulp drying line for its Limeira mill. An order for a major wood handling system was received from CMPC Celulosa for the company's mill expansion in Santa Fé, Chile.

During 2004, 8 paper, board and tissue machines delivered by Metso Paper were started up, as well as 12 major deliveries related to pulping. 26 machines rebuilt by Metso Paper were started up.



Net sales by market area

- Finland 12% (2003: 11%)
- Other Nordic countries 10% (7%)
- Other European countries 17% (25%)
- North America 19% (28%)
- South America 5% (3%)
- Asia-Pacific 32% (24%)
- Rest of the world 5% (2%)



Orders received by market area

- Finland 13% (2003: 10%)
- Other Nordic countries 22% (7%)
- Other European countries 17% (16 %)
- North America 18% (22%)
- South America 9% (2%)
- Asia-Pacific 18% (39%)
- Rest of the world 3% (4%)

Yueyang's paper rolls are transported via the mill's own harbor down the Yangtze River to Shanghai and onwards to different parts of China.

A board machine delivered by Metso Paper and the Valmet-Xian joint venture to Dongguan Jianhui Paper in Dongguan City, China was started up in May, while a fine paper machine delivered to Shandong Sun Paper in Yanzhou was started up in August. In October Zellstoff Stendal's pulp mill was started up in Germany. In November, the world's largest board making line was started up at Ningbo Xiaogang in Ningbo, China.

Product development improves efficiency

In line with the strategy, research and development was more clearly focused in 2004 on the products and services needed in service, process improvements and machine rebuilds. Modernization and rebuild products were developed on the basis, for example, of paper machine technology and related aftermarket operations acquired from Beloit in 2000. A BelBaieV former rebuilt on the basis of this technology was successfully started up in South Korea in the beginning of the year. Additionally, the Nimax screen basket for pulp screening was launched for the aftermarket. Thanks to its strength and innovative structure it creates cost savings for the customer compared with competing products. The development of roll covers was also continued. An example of this is the CalTiger, a new soft cover for calender rolls which has excellent wear resistance properties and produces paper with high-quality printing surfaces.

In May, Metso Paper launched the new, more cost-efficient Advantage DCT100 concept for tissue making. The concept is specifically designed for emerging markets where tissue consumption is increasing. Product development resources were also targeted at supporting a number of reference deliveries of recycled fiber processes that were successfully completed during the year.

Pilot runs were made in cooperation with customers to develop new machine concepts and tailored rebuild products. The CTMP equipment introduced at the Anjalankoski pilot plant in 2003 was key to the support of sales of mechanical pulping processes to China and the development of fiber processing and bleaching methods for hardwood raw material.

> "*New* paper and board machine investments will focus on *China.*"

Markets for new machines in Asia and South America

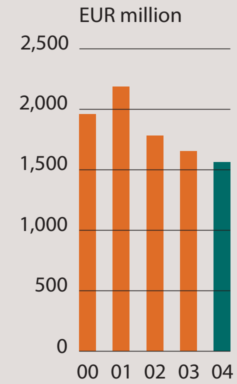
Metso Paper's customer industries' improved capacity utilization rates are expected to gradually increase their industries' willingness to invest. On the other hand, if paper price increases and economic growth are weaker than expected, or if the Chinese economy slows down, the recovery of investments may be postponed.

New production capacity for printing papers and packaging board will continue to be built mostly in Asia, and especially in China. On the other hand, new chemical pulping line investments will be focused on South America.

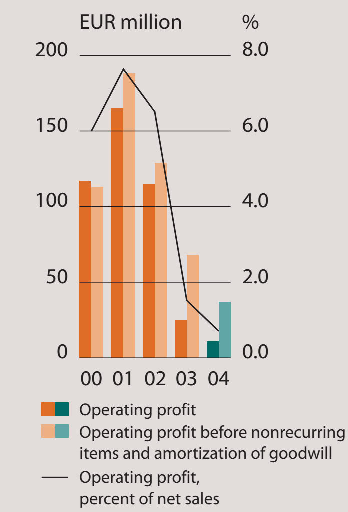
New investments in board machines are expected to increase. The European trend of making lighter corrugated boxes is expected to increase the number of machine rebuilds. In the tissue business, competition is expected to remain stiff. The chemical and mechanical pulping markets are expected to continue to be active. ■

For further information, visit **www.metsopaper.com**

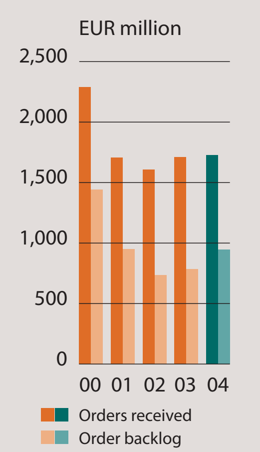
Net sales



Operating profit



Orders received and order backlog



Metso Minerals

In 2003, Metso Minerals delivered a track-mounted mobile crushing plant and conveyors to Edward Kraemer & Sons (EKS) in the USA. Our pictures are from the EKS limestone quarry in Minnesota in October 2004.

Floyd Gast, Metso Minerals' Area Sales Manager together with Doug Poush, Quarry Operations Manager of EKS and Mike Strom, Supervisor.

Edward Kraemer & Sons, Inc.

Edward Kraemer & Sons, Inc. (EKS) is a family-owned company whose roots in the aggregates business stretch back to the 1920's. Nonetheless, despite its sense of tradition, EKS was eager to find an advanced, cost-effective solution when inefficiency began hampering operations at its company quarry.

The quarry in Burnsville, Minnesota, from which limestone is mined from two levels, had been experiencing production bottlenecks for a number of years. Haul trucks were the standard mode of transportation, moving rock from the quarry face to the primary crusher, but due to quarry expansion they were having difficulty providing a steady flow of material. The secondary plant was inefficient due to major swings in feed material rates.

Tracks over trucks

After reviewing the purchase of additional haul trucks, which would have increased labor, dust emissions and the cost of maintaining haul roads, EKS decided to explore a mobile primary crushing solution. Doubts remained, however, as to whether a track-mounted crushing plant could handle the challenges of a multi-bench operation, and produce tonnages required to increase the plant's production.

Having already provided the quarry with a successful HP400 cone crusher, Metso Minerals and the local Metso distributor, RB Scott Co. Inc., set about convincing EKS that track-mounted systems were indeed up to the task. EKS visits to Metso customer sites in Finland and Germany were arranged, and based on the resulting insights a custom-built system was agreed upon for the Burnsville operation.

A tailored solution

The Metso Minerals system, a Lokotrack LT125E mobile crushing plant with Nordberg LL Series mobile conveyors, was specifically designed to meet EKS's needs. A 10,000-ton live surge pile was implemented to steady the flow into the secondary plant. Metso also worked with EKS to develop a 10-year operational mine plan to assist with adjustments to the site.

Most notably, the crusher itself was customized for the Burnsville quarry. While it provided the necessary crushing capacity, the Metso Lokotrack C125 crusher was fabricated on a larger LT140 frame to accommodate the multi-bench work.

Advantage for all

Since start-up in July 2003, the Metso Minerals system has achieved 90 percent uptime and greatly enhanced quarry production. Today the secondary plant receives a steady feed, which has increased its production rate by 11 percent. Lower fuel and labor costs combined with higher profitability will let EKS pay off its investment in only four or five years.

Yet money is not the only measure of the Metso system's success. Cutting back on truck transport has reduced both dust emissions and haul road maintenance, and the elimination of cross-quarry traffic has helped to minimize safety risks. This means that the solution is as much a benefit to those who work in the quarry as it is to the EKS management.

EDWARD KRAEMER & SONS, INC.

Materials Division, limestone quarry

Burnsville, Minnesota, the USA

Produces 1,000,000 tons of limestone aggregates yearly

Equipment:
Metso Lokotrack LT125E mobile crushing plant (C125 on LT140 chassis), Metso Nordberg LL Series mobile conveyors

Metso Minerals' distributors keep in touch with their customers on a daily basis. Pictured here is Jim Squiers, District Manager, RB Scott.

Objective is to secure leading position on global markets
Metso Minerals' strategic objective is to secure global market leadership in aggregates production and in minerals processing equipment. The leading position requires continuous development of products and services, so that customers can locally be offered solutions that are as productive and cost-effective as possible.

Metso Minerals' main objective in 2004 was to conclude the efficiency improvement program to strengthen competitiveness. The aim was to reduce both fixed costs and the costs of goods sold. As part of the efficiency improvement program, Metso Minerals closed two plants in the USA and one in Germany during the first half of the year. In August, Metso Minerals decided to shut down an iron foundry in Vereeniging, South Africa. A decision was made to shut down some of the functions of the Sala unit that makes minerals processing equipment in Sweden. In addition, some of the operations of the Trelleborg and Ersmark units in Sweden, both of which make wear protection parts, were combined. Some products have also been redesigned and subcontracting improved to boost cost competitiveness.

Metso Minerals has revised many of its ways of working, cut costs, and reduced personnel and the amount of capital employed. The streamlined cost structure brought about by the efficiency improvement program, has significantly improved profitability. The effects of the program were reflected particularly in the major profitability improvement in the Crushing and Screening business line. Performance in 2004 was also supported by a more buoyant market and an increase in volumes.

Business structure developed by divestments
Another key objective in 2004 was the strategic development of Metso Minerals' business structure. In June, the Dynapac Group that makes paving equipment was sold to Altor, a Nordic private equity investor. At the end of December, the business of Reedrill, which makes drilling equipment, was sold to Terex Corporation from the USA. By divesting these operations, Metso Minerals is focusing more clearly on strengthening its core in crushing, screening, minerals processing and wear protection parts.

Strength in comprehensive service network close to the customer
Metso Minerals is the global market leader in rock and minerals processing and in recycling systems for metals and construction materials. A global, strong production and sales network makes it possible to respond flexibly to customers' needs and the challenges of competition. Metso Minerals has the largest installed base in the industry, which, combined with a versatile product range, gives it a competitive edge in the service business, too. Customers operate 30,000 Metso Minerals crushers, 10,000 screening units, 3,000 grinding mills and 1,000 units of metal recycling equipment.

Metso Minerals' strengths include strong technology know-how, in-depth knowledge of customer processes, global aftermarket operations and a comprehensive range of products and services.

Operations divided into four business lines
The largest business line, Crushing and Screening, is responsible for equipment and solutions used in rock and minerals crushing and classifying. Metso Minerals specializes in the design of entire crushing and screening plants, supplying not only stationary plants, but also an increasing number of track and wheel-mounted mobile units. In addition, Metso Minerals supplies individual crushers, screens, feeders and conveyors, as well as wear and spare parts.

The Minerals Processing business line accounts for about a quarter of Metso Minerals' net sales. It is responsible for production processes for the mining industry and industrial minerals, as well as related products such as grinding mills, enrichment and pyro processing equipment, slurry pumps, equipment for bulk materials handling and related aftermarket services.

Products in the Wear Protection and Conveying business line include grinding mill linings, screening media and other wear, impact, dust and noise protection products, as well as conveyer belts and components.

The Recycling business line covers equipment and solutions needed for the recycling, crushing and sorting mainly of metals, but also partly of industrial and household waste, such as metal shredders, shears, scrap shears and scrap baling presses.

Growth areas in South America and Asia
Metso Minerals' customer businesses include the mining industry, mineral processing, aggregates, sand and gravel

“Our main objective in 2004 was to *streamline* Metso Minerals’ *cost structure.* We also focused on improving our sales and customer service.”

BERTEL LANGENSKIÖLD,
PRESIDENT, METSO MINERALS.

David G. Edmunds, Executive Vice President & Chief Operating Officer, Materials Division, Edward Kraemer & Sons and Floyd Gast, Metso Minerals.

Metso Minerals

Metso Minerals’ operations are divided into four business lines, namely Crushing and Screening, Minerals Processing, Wear Protection and Conveying, and Recycling. The customers include quarries, mining companies and contractors. Almost half of Metso Minerals’ net sales derive from aggregates production equipment, a little over a third from mining industry equipment and the rest from other customer industries such as metal recycling.

Metso Minerals has its own production in about 40 units around the world, with sales and service units, representatives and distributors in over 100 countries. Sales are conducted through seven regional sales organizations. Metso Minerals’ most important research and development centers are located in Europe and the USA.

The largest market areas are Europe and North America, but the share of South America and Asia is growing fast.

The main competitors in different product groups include Terex and Astec from the USA, Sandvik from Sweden, Krupp Polysius from Germany, FFE Minerals from Denmark and Outokumpu from Finland.

Key figures

(millions)	2003 EUR	**2004 EUR**
Net sales	1,253	**1,343**
Operating profit before nonrecurring items and amortization of goodwill	48.1	**100.3**
Operating profit (loss)	(189.3)	**84.3**
Capital employed, Dec. 31	741	**729**
Gross capital expenditure	27	**24**
Research and development expenses	10	**9**
Orders received	1,213	**1,566**
Order backlog, Dec. 31	347	**560**
Personnel, Dec. 31	8,284	**8,048**

Metso Minerals figures exclude the divested Dynapac and Reedrill businesses.

Aggregates travel through the 1.5-square-kilometer quarry on conveyors delivered by Metso Minerals.

production, crushing contracting and the recycling of metals and construction materials.

Rock is the most commonly used raw material in the world. For example, the construction and civil engineering industry annually uses approximately 15 billion tons of aggregates. Growth in GDP and population increases the construction of transportation connections and other infrastructure, which raises the demand for aggregates. Stricter environmental requirements are limiting the use of natural gravel and sand and are increasing the use of crushed rock and recycled material.

Correspondingly, the mining industry processes approximately 5 billion tons of hard rock and minerals a year. The demand for mining industry investments follows fluctuations in the demand for and prices of metals. The focus of operations has moved to the southern hemisphere. New mining projects are being started especially in South America, and also in southern Africa, Russia and Australia. In North America and Europe, the relative share of mining operations is currently decreasing, with the main emphasis of mining industry demand now being on aftermarket and service operations.

The growing consumption of steel in Asian countries has raised demand for scrap iron and increased investments in metal recycling solutions in Western Europe and North America.

Market pick up in the USA and mining industry countries

The economic recovery increased construction industry investments in the United States. The country produced over seven percent more aggregates

in 2004 than in the year before. Customers' trust in the outlook for aggregates demand was reflected as investments in crushing and screening plants and equipment, and in aftermarket services. Construction and demand for aggregates continued at a good level also in Asia, especially in China and India. European aggregates demand rose moderately, while demand for civil engineering equipment remained approximately the same as the year before.

In the mining industry, demand for metals and metal prices continued to rise. For example, the price of copper doubled and the price of iron in 2004 was about 25 percent, and that of gold almost 10 percent, higher than the year before. The most significant single factor affecting demand for raw material has been the rapid growth of the Chinese economy, making the country the world's leading consumer of metals. The high capacity utilization of the mining industry has increased demand for Metso Minerals' products, as mining companies try to respond to higher demand especially by increasing their materials processing capacity. The pick-up in business was also reflected in aftermarket sales, with mining companies re-opening closed mines or stepping up operations in mines operating at low capacity. The demand for wear and spare parts was up. The demand for equipment used in the metal recycling industry improved particularly in Europe, due to the long period of high metal prices.

Volume of new orders rose significantly

The value of Metso Minerals' orders received in 2004 rose by 29 percent compared with the previous year. Orders of mining industry and metal recycling equipment increased the most. Civil engineering industry orders also increased from the year before. Likewise, aftermarket orders were up, because the capacity utilization ratios of customer industries improved.

The most significant mining and civil engineering industry orders of 2004 included grinding mills, crushers and screens for the Ahafo mining project in Ghana, grinding mills and bridge reclaimers for Brazil, a crushing and screening system for Iraq, and equipment for bulk materials handling for the Companhia Siderúrgica de Tubarão steel mill in Brazil.

Other important orders included a grate-kiln iron ore pelletizing system for Wuhan Iron and Steel Corporation near the city of Wuhan, a waste incineration plant for SCIP Swire SITA Waste Services Company in Shanghai and rotary railcar unloaders for Rizhao Port in China, as well as equipment for bulk materials handling for the Companhia Siderúrgica Nacional coal unloading harbor in Brazil.

During the year under review, the Sossego copper mine of Companhia Vale do Rio Doce (CVRD) was started up. Metso Minerals is one of the most important equipment suppliers for the mine, providing crushing equipment and ore concentrate handling systems, among others. Metso Minerals made a comprehensive service agreement with

> "Customers' *trust* in the outlook for aggregates demand was reflected as *investments* in crushing and screening plants and equipment, and in aftermarket services."

Net sales by market area

- Finland 3% (2003: 3%)
- Other Nordic countries 7% (7%)
- Other European countries 29% (31%)
- North America 23% (21%)
- South America 13% (13%)
- Asia-Pacific 15% (15%)
- Rest of the world 10% (10%)

Orders received by market area

- Finland 2% (2003: 3%)
- Other Nordic countries 6% (7%)
- Other European countries 28% (32%)
- North America 23% (22%)
- South America 16% (14%)
- Asia-Pacific 17% (14%)
- Rest of the world 8% (8%)

Metso Minerals tailored the C125 crusher
to meet the production demands
of the EKS multibench quarry.

CVRD for several years, covering the maintenance of the mining process and the training of operating personnel. In 2004, Tarmac Middle East's large Al Dhahira quarry in Oman was also opened. Metso Minerals delivered the entire crushing plant and conveyor systems for the quarry.

Market situation expected to remain good

Metso Minerals' objective is to continue to improve profitability and productivity. The strengthening of cost-effectiveness must be continued in order to also be able to ensure competitiveness in the long term.

> "During the year under review, the Sossego copper mine was *started up*. Metso Minerals is one of the most *important* equipment suppliers for the mine."

Product development focus on crushers and shears

During the year under review, product development at Metso Minerals focused on the development of a new generation of stationary and track-mounted crushers and the shear product family used in metals recycling.

In 2004, pilot use of a hybrid wear protection part developed at Metso's foundries began at a customer plant. The part is much more durable than before and suitable for demanding applications. Metso Minerals also introduced a Chamber Optimi service for the tailoring of crusher wear parts, enabling Metso Minerals experts to analyze their customers' crushing processes and develop optimally cost-effective wear parts for each application.

The market situation is expected to remain good. The high order backlog will support net sales growth expectations.

Demand for Metso Minerals' products related to aggregates production is expected to continue favorably in North America and Asia. European civil engineering industry demand is expected to recover gradually and to strengthen demand for crushing and screening equipment.

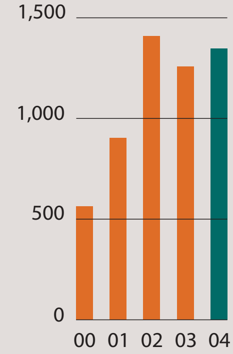
Due to the good mining industry investment outlook, the demand for products used in mining processes and minerals processing is expected to remain good.

The demand for metal recycling equipment is also expected to continue at a good level. ■

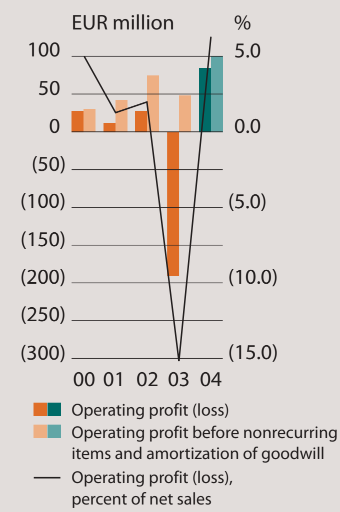
For further information, visit **www.metsominerals.com**

Net sales

EUR million

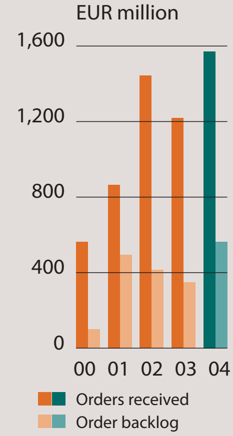


Operating profit (loss)



Orders received and order backlog

EUR million



Metso Automation

In 2004, Metso Automation delivered process automation and field equipment for a new recovery plant at UPM Wisaforest's pulp mill. We took photos at Wisaforest's plant in Pietarsaari, Finland, in October 2004.

Olli Ahava, who was responsible for UPM Wisaforest's automation project, and Markku Ristikaarto, Metso Automation's Project Manager.

UPM Wisaforest

TOP: Raimo Lahtinen, Automation Engineer, UPM Wisaforest and Markku Ristikaarto, Project Manager, Metso Automation.

Located 470 km northwest of Helsinki in Pietarsaari, Finland, the UPM Wisaforest pulp mill produces pulp for bags, sacks and various industrial operations. Slightly over 20 percent of the mill's pulp goes to its integrated partner, the UPM Wisapaper paper mill, while the majority goes to other UPM mills and the open market.

When a decision was made to raise pulping capacity by one-third as a means of increasing competitiveness, Wisaforest quickly realized that its pulping line was a lesser concern. Instead, it was the outdated recovery line that had to be renewed, as this was creating a bottleneck in the form of regular maintenance shutdowns.

A partner with added value

Besides replacing the evaporation plant, recovery boiler, causticizing line and lime kiln, Wisaforest decided to incorporate the latest automation into the recovery process. Optimization and reporting systems would be crucial, as the automation was to be an important tool in ensuring process reliability and availability.

The choice of supplier, however, came down to more than technology. Since Wisaforest's own engineers were well versed in technical administration, it was important to find a qualified supplier who could provide added value in the form of interaction.

Metso Automation, with its extensive expertise, nearby development facilities and a local service unit in Pietarsaari, seemed an ideal match. Moreover, since Metso solutions are built on industrial standards, the choice of Metso Automation as a partner would allow easy updates and renewal down the road.

Solutions built on trust

Wisaforest had already worked with Metso Automation on a number of previous projects, and was therefore familiar with its organization and staff. The existing trust and understanding between the joint team's members made it easy to cooperate in setting the system and process definitions.

The new recovery line was completely automated with Metso Automation's metsoDNA solution, including an extensive Information Management Activity application for managing the process automation. Also included were optimization controls for the evaporation plant, recovery boiler and lime kiln, as well as for the soot blowing, causticizing and steam load levelling processes. Metso also supplied the control system for the entire recovery line, the process-related alkali and kappa analyzers, and a substantial share of the recovery plant's instrumentation field equipment and control valves.

Looking to the long term

When it came on-stream as planned in 2004, the new recovery line hinted at its potential by reaching 85 percent of its capacity on the very first day. Since then it has demonstrated consistent production, without a single ton being lost due to automation problems.

Moreover, while pulp production has grown to 800,000 tons annually, the new recovery line has reduced Wisaforest emissions and increased energy generation. In fact, the line produces enough energy that the Pietarsaari mills are now self-sufficient in their energy needs.

As a result, Wisaforest's focus will now shift to the long-term challenges: maintaining full capacity at all times and optimizing the plant's production. Metso will continue to play a key role in this process, supplying guidance, service and automation expertise.

UPM WISAFOREST

Pulp mill, Pietarsaari, Finland

Produces 800,000 tons of pulp annually

Equipment:
Process automation and optimization controls for new recovery line, metsoDNA, process analyzers, control and on/off valves, flow meters

> “In Metso Automation, we focused particularly on developing our *customer service* and offering in 2004.”

MATTI KÄHKÖNEN,
PRESIDENT, METSO AUTOMATION.

Objective is growth

Metso Automation's objective is to grow as a global supplier of automation and field systems applications for the pulp and paper industry, as well as for the power, oil and gas industries. Growth is sought by new products and strengthening the market position in growing markets, and by improving the coverage and productivity of the market network.

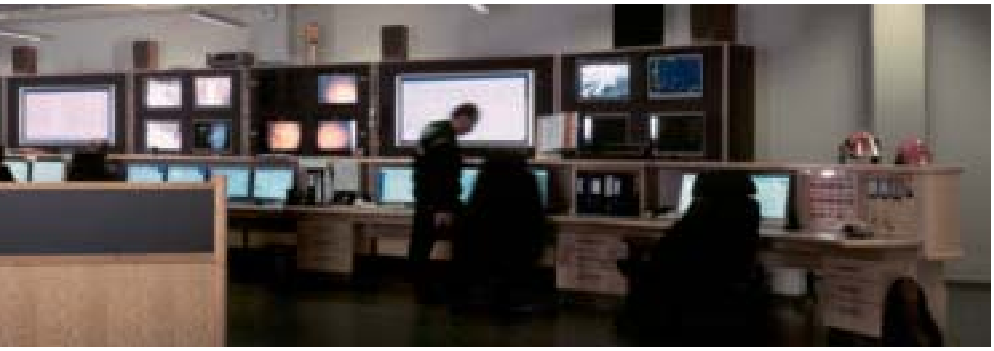
In June 2004, Metso Automation's management agenda for 2004–2005 was approved. Metso Automation has shifted from efficiency improvement to a phase of continuous improvement. The business area will focus on strengthening the positive development of its operations and growth opportunities.

Significant improvement in profitability

Metso Automation began measures to improve its efficiency at the beginning of 2002. Since then, costs have been cut, the personnel has been downsized and the capital employed has been significantly reduced. An essential target has been to improve the profitability of products, projects and services.

The Corporation-wide efficiency improvement program launched in June 2003 was completed in Metso Automation in June 2004. The efficiency measures enabled a very positive improvement in profitability for 2004.

In March, Metso Automation strengthened its process optimization services by acquiring the Pacific Simulation business from Invensys Systems in the USA. Pacific Simulation specializes in quality control systems and process optimization solutions for the pulp and paper industry.



Metso Automation

Metso Automation is organized into two business lines. Process Automation Systems provides automation and information management application networks and systems and extensive, supporting life cycle services. Field Systems provides various industries with flow control solutions, automated and manual control valves and positioners, analyzers and specialty sensors.

Metso Automation has production facilities in Finland, France, the USA, Mexico and China, and sales and customer service units in 36 countries. The business area has R&D units in Finland, the USA and Canada.

Metso Automation's largest market areas are Europe, North America and Asia.

Its competitors include ABB from Switzerland, Emerson, Honeywell and Flowserve from the USA, Invensys from the UK and Siemens from Germany.

Strength in the combination of automation and process expertise

Metso Automation's strength lies in the ability to combine its automation know-how with its process knowledge. Together with Metso Paper, Metso Automation is the world's largest supplier of automation solutions for the pulp and paper industry.

Business development is based on long-term customer relationships, a global service network, leading technological expertise, a highly-trained personnel, strong brands, and a large base of installed equipment worldwide.

Demand improved due to increases in oil and gas prices

Metso Automation's deliveries to the power, oil and gas industry increased significantly in 2004, and the sector rose to account for almost half of the business area's net sales, with the pulp and paper industry constituting the other half.

In 2004, the considerable increase in demand for power, oil and gas industry systems and equipment was boosted by increases in crude oil and gas prices. New investments in the pulp and paper industry remained at a low level and demand was focused on solutions increasing the production capacity of existing machinery. The demand for control and automated valves increased due to the good market situation in the power, oil and gas sector. The demand for Metso Automation's automation systems was satisfactory.

Power, oil and gas industry orders increased

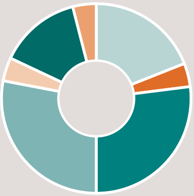
Many significant orders were received from the power, oil and gas industry in 2004. One of the largest orders came from AES Corporation in the USA for a maxDNA Distributed Control System for the company's power plant in New York state. In Finland, PVO-Lämpövoima requested comprehensive automation systems, including planning, installation, start-up and documentation, for its Tahkoluoto power plant. Fortum Oil ordered extensive automation solutions for a new production line at its Porvoo refinery.

In the pulp and paper sector, some of the biggest orders came from Stora Enso, including extensive control and monitoring systems for the company's new SC paper line at the Kvarnsveden mill in Sweden, as well as a PaperIQ Plus quality control system for a board machine in Kaukopää, Finland. UPM (Changshu) Paper Industry ordered a wide range of automation and field solutions for its new fine paper machine in Changshu, China.

Metso Automation's first integrated Manufacturing Execution System (MES) was introduced at Stromsdal's board mill in Juankoski, Finland.

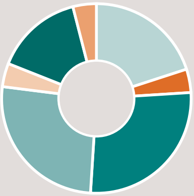
Key figures

(millions)	2003 EUR	**2004 EUR**
Net sales	531	**535**
Operating profit before nonrecurring items and amortization of goodwill	31.4	**57.9**
Operating profit	28.4	**52.9**
Capital employed, Dec. 31	150	**136**
Gross capital expenditure	8	**6**
Research and development expenses	33	**31**
Orders received	531	**570**
Order backlog, Dec. 31	145	**176**
Personnel, Dec. 31	3,314	**3,267**



Net sales by market area

- Finland 19% (2003: 23%)
- Other Nordic countries 4% (4%)
- Other European countries 27% (26%)
- North America 28% (29%)
- South America 4% (4%)
- Asia-Pacific 14% (11%)
- Rest of the world 4% (3%)

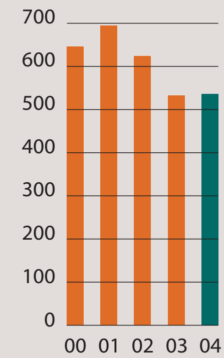


Orders received by market area

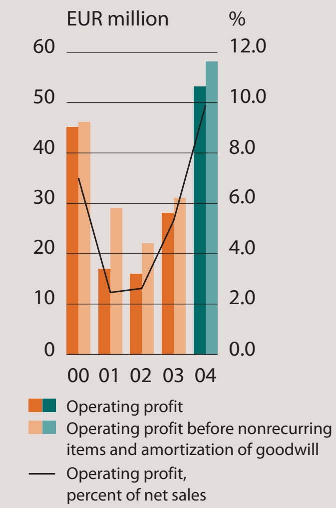
- Finland 20% (2003: 22%)
- Other Nordic countries 4% (4%)
- Other European countries 27% (26%)
- North America 26% (28%)
- South America 4% (4%)
- Asia-Pacific 15% (13%)
- Rest of the world 4% (3%)

Teams from Metso Automation and UPM Wisaforest have cooperated for a number of years.

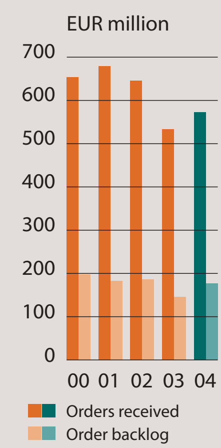
Net sales



Operating profit



Orders received and order backlog



In field systems, the biggest orders came from Asia Pulp & Paper for a large package of process analyzers and sensors for the Hainan pulp mill in China, and from Veracel Celulose S/A for valves and analyzers for its pulp mill project in Eunápolis, Brazil.

New solutions for improved performance

The nature of competition between process automation suppliers has changed. Instead of hardware and software, automation suppliers today are concentrating on creating industry-specific applications that produce added value for the customer. This is due to all suppliers having access to economical standard computers and operating systems, suited for demanding operating environments.

The metsoDNA automation system developed by Metso Automation offers a completely new approach to process automation and information management. The metsoDNA solution offers flexible scalability and easy integration and compatibility with the plant's other systems. MetsoDNA is based on the free networking of knowledge and information, control automation and embedded field control applications. The concept was first introduced in 1999, and it is constantly being developed by adding new industry-specific applications. Among the most significant of the many new products introduced by Metso Automation in 2004 were the new metsoDNA features aimed at improving process performance and information security.

Metso Automation has also expanded its portfolio of advanced profilers for paper, tissue and board machines. The product portfolio now includes IQProfilers for both new production lines and production line rebuilds, as well as for stand-alone units.

One of the main field solutions in 2004 was the Field Care configuration and condition monitoring tool which enables one system to be used to monitor the condition of different manufacturers' field equipment in customer production processes.

> **"Our objective is to introduce new products, solutions and services that better *correspond* to the needs of our customers and *improve* the performance of their industrial processes."**

Focus on improving growth potential

The positive profit performance in 2004 shows that Metso Automation's cost structure is competitive. The focus is now on the further improvement of the business area's growth potential, without compromising on profitability. Metso Automation is also looking into the possibility of strengthening its competitive position through acquisitions.

In the pulp and paper sector, Metso Automation is seeking growth by strengthening its operations in growing markets such as China and Brazil. Metso Automation will also continue to develop its cooperation with Metso Paper. Existing, installed equipment will be utilized in the market for services and aftermarket solutions. In the power, oil and gas sector, the objective is to expand into new markets along with customers. ■

For further information, visit **www.metsoautomation.com**

Metso Ventures

Metso Panelboard, part of Metso Ventures' business area, delivered a recycled wood cleaning system to Pina, a particleboard manufacturer, in 2003. These photos were taken at Pina's Cuenca mill in Spain in January 2005.

Manuel Casáis, Pina's Mill Director and Bernardo Alvarez de Prado, Metso Panelboard's Sales Manager in Spain.

Pina S.A.

Pina S.A, a mid-sized particleboard mill in Cuenca, Spain, produces both base panels and panels covered with veneer or melamine. Its products are derived as much as possible from wood sector sub-products like doors and pallets.

As part of Spain's Losán Group, Pina operates with a dual strategy: constant process improvement and maximum use of recycled wood as a raw material. Recently, both of these points were put to the test when increasing prices for traditional materials led Pina to seek better recycling alternatives.

Weighing the options

Pina knew the potential savings in waste wood, but the recycling options left much to consider. Impurities in the wood, such as stones, sand, metals and plastic, could lead to machine wear and breakdowns. Likewise, inadequate cleaning might leave the end product too abrasive or too poorly surfaced for Pina's customers.

Pina's managers were therefore doubtful that existing solutions would meet their needs. Instead they turned to Metso Panelboard, having heard about a new process technology for contaminated wood.

Trust and technique

For Pina employees, Metso was a trusted name. Pina had purchased Metso's ClassiFormer and ClassiScreen in 1996, and experience with both products had been extremely positive. Metso's qualified staff, knowledge of particleboard and familiarity with Pina operations were major advantages.

As it turned out, Metso's ClassiCleaner technology was also aligned with Pina's needs. Using roller screens, ClassiCleaner separates impurities and sorts flaked wood particles by size, removing a high percentage of contamination before the flake dryer. This leaves a material flow of one-fifth the original volume, enriched with the impurities, to be handled by ClassiCleaner's air separators.

Though ClassiCleaner had only recently left the prototype stage, Pina was impressed with its potential. Its sophisticated separation technique offered a cost-effective solution for raw material cleaning.

Wide-ranging improvements

With its ClassiCleaner purchase, Pina's aim was to maintain quality and capacity while using a greater share of recycled wood. When the system came on-stream in 2003, it proved to have been a very profitable investment.

Today, Pina achieves quality products with low-grade waste wood, no matter how high the level of contamination is. ClassiCleaner removes 90 percent of impurities before the flake dryer, creating cleaner material that gives a lighter board surface.

In addition, ClassiCleaner wastes little wood with the reject, and the cleaner material flow has reduced problems later in the production chain. This means that by replacing logs and round wood with recycled material, Pina has gained lower costs, higher quality and even greater yield.

PINA S.A.

Particleboard mill, Cuenca, Spain

Produces 700 m^3 of particleboard per day

Veneer and melamine overlaying

Equipment:
ClassiCleaner W system

MIDDLE: Standing in front of the particleboard mill's drying line are Jose Maria Chavarria, Rufino Martínez, Alejandro Hernández and Manuel Casáis.

Metso Ventures

The business area comprises five business groups.

Metso Panelboard designs and supplies globally entire production lines and individual equipment for the panelboard industry for manufacturing fiberboard, particleboard and OSB (oriented strand board), and provides supporting aftermarket services.

Metso Drives designs, manufactures and sells mechanical power transmissions systems and related aftermarket services for the pulp and paper industry, power generation and rock and minerals processing.

Metso Powdermet converts competence in metallic materials into commercial products, and designs materials technology and component solutions.

The foundries' products include cast components.

Valmet Automotive is a contract manufacturer of specialty cars.

Key figures

Metso Ventures (millions)	2003 EUR	**2004 EUR**
Net sales	370	**387**
Operating loss before nonrecurring items and amortization of goodwill	(2.6)	**(6.5)**
Operating loss	(8.7)	**(7.1)**
Capital employed, Dec. 31	160	**126**
Gross capital expenditure	24	**18**
Research and development expenses	10	**8**
Orders received	398	**361**
Order backlog, Dec. 31	175	**118**
Personnel, Dec. 31	2,482	**2,544**

TOP: In 1996, Metso Panelboard delivered a ClassiFormer forming station for Pina's particleboard production process.

BOTTOM: The Pina mill's particleboard production capacity is 700 cbm/d.

Metso Panelboard

Metso Panelboard is one of the world's leading suppliers of equipment and aftermarket services to the panelboard industry. Its strength lies in its broad knowledge of total processes, enabling the creation of customer-oriented solutions. Metso Panelboard is seeking growth in new market areas such as China, Russia and Eastern Europe. It is also aiming to increase its aftermarket operations especially in Europe and North America, where Metso Panelboard has a large base of installed machinery. It has supplied its customers with over 850 panelboard production lines. Metso Panelboard's customers include panelboard manufacturers for the furniture and construction industry. About 70 percent of panelboards made with equipment supplied by the company are used for furniture production.

In 2004, the willingness of European particleboard manufacturers to invest increased slightly compared with the previous year. North American housing construction increased the demand for OSB board and raised the capacity utilization rate of customers' mills, increasing demand for production line modernizations and aftermarket services. In Asia, consumption of furniture, laminate flooring and transportation packaging grew rapidly, increasing the demand for these products. Prices of panelboard industry products rose moderately in all markets.

The net sales of Metso Panelboard increased from the previous year, thanks to deliveries to China and a higher market share in aftermarket services. However, tightened competition weakened profitability. To improve efficiency, Metso Panelboard combined its Willich and Hannover operations in Germany and concentrated them in Hannover.

Metso Panelboard's orders received fell on the comparison year, and the end-of-year order backlog was lower than the year before. The most significant orders came from Pfleiderer Grajewo in Poland for a modernization of a particleboard production line and from Alfa Wood-Pindos in Greece for an upgrade and equipment delivery for an MDF-line.

Products launched during the year included a new type of construction solution for defibrator grinder blades. The solution extends blade life and reduces energy consumption in the defibration process by up to 30 percent. A new screening structure was also designed for the OSB production process.

Metso Drives

Metso Drives is one of the world's ten largest suppliers of mechanical power transmission equipment. Its strengths are its competence in mechanical power transmission for the process and power generation industry, its top-of-the-line development and technology center featuring a gear testing facility, and its service which covers the entire life cycle of gears. Metso Drives' strategic objectives are to gain a strong position as a supplier of gears for the process industry, to increase deliveries to wind energy producers and to focus on the aftermarket business, for which it has good potential due to its large installed machinery base and worldwide service network. Additionally, close cooperation with Metso Corporation's other businesses, mainly Metso Paper and Metso Minerals, creates growth potential for Metso Drives in the pulp and paper industry markets as well as in rock and minerals processing.

On the whole, the market situation was satisfactory in 2004. Wind turbine gear deliveries remained at a good level, particularly in Europe. The market situation in pulp and paper industry equipment investments was satisfactory. The rock and minerals processing industry markets continued their strong growth in the Americas and in Asia.

Metso Drives' net sales increased from the comparison year, thanks to the increase in wind turbine and minerals processing gear deliveries. Gear deliveries for the pulp and paper industry also increased somewhat from the previous year. Process industry gears accounted for about 40 percent of the deliveries, wind turbine gears a good one-third and aftermarket services for the rest. Metso Corporation accounted for about one-fifth of Metso Drives' net sales.

The group's profitability improved substantially, thanks to the products launched in the previous year and the increased production capacity utilization ratio.

The value of orders received rose on the comparison year. Due to seasonal variations in orders for wind turbine gears and changes undergone by the sector's customers, the end-of-year order backlog was weaker than that of the

Key figures

Metso Panelboard (millions)	2003 EUR	**2004 EUR**
Net sales	93	**104**
Operating profit before nonrecurring items and amortization of goodwill	2.0	**0.9**
Operating profit (loss)	(3.3)	**0.4**
Capital employed, Dec. 31	10	**(10)**
Order backlog, Dec. 31	87	**32**
Personnel, Dec. 31	283	**264**

Key figures

Metso Drives (millions)	2003 EUR	**2004 EUR**
Net sales	128	**157**
Operating profit before nonrecurring items and amortization of goodwill	2.3	**10.9**
Operating profit	1.5	**10.8**
Capital employed, Dec. 31	88	**80**
Order backlog, Dec. 31	60	**53**
Personnel, Dec. 31	869	**897**

end of the previous year. Among the most significant orders were gear deliveries to Stora Enso's Kvarnsveden paper mill in Sweden and to Arauco's Itata pulp mill in Chile, mill drives for Newmont Gold Corporation's mines and gear deliveries to a Spanish manufacturer of wind turbines.

The product launches of 2004 included integrated planet gearing for a new-generation wind power plant, silent and slightly vibrating drives for rock crushing equipment, and a set of single-step modular gears whose development took account of industrial design perspectives and emphasized easy installation, usability and serviceability.

Metso Powdermet

Metso Powdermet designs, subcontracts the manufacture of, and delivers machine parts based on powder metallurgy and other corresponding manufacturing techniques. It also advises Metso Corporation's businesses in issues related to materials technology. There is a growing need to find new material solutions, since increased process speeds and efficiencies are placing more stringent demands on the strength and durability of machine parts. Additionally, new kinds of wear and spare parts solutions that are more durable and cost-efficient are being developed for the needs of the service and aftermarket business. Metso Powdermet employs approximately 25 people.

In 2004, Metso Powdermet's net sales increased due to strong demand in the offshore industry. Profitability also improved from the previous year.

Foundries

Metso Ventures' foundries group comprises three foundries, the combined annual capacity of which is about 50,000 tons of iron and steel castings.

The objective of Metso Ventures' foundries is to join forces to competitively provide advanced castings for Metso Corporation's own units, and increasingly also for customers outside the Corporation. In 2004, the foundries won new customers in the power generation industry, among others.

Deliveries of the foundries increased in 2004 mainly due to buoyant demand for cast products. The good capacity utilization ratio improved the foundries' profitability substantially from the comparison year.

Valmet Automotive

The strengths of Valmet Automotive, a contract manufacturer of specialty cars, are its high quality and cost-efficiency, the competence of its personnel and its readiness to manufacture new products. The plant's production equipment is among the best in Europe. In cooperation with its partners, Valmet Automotive can deliver complete specialty car projects, from design to production.

One of Valmet Automotive's essential objectives is to acquire another car production contract alongside the existing agreement on Porsche Boxsters. Valmet Automotive's cooperation agreement with Porsche AG covers the manufacture of Porsche Boxster cars until 2008 with an option until 2011.

In 2004, Valmet Automotive boosted its marketing to win new contracts. The car plant developed a prototype car equipped with a folding hard top to present its competence in automotive shows and to various carmakers.

Valmet Automotive's net sales decreased and its profitability weakened in 2004. This was due to a decrease in car production volumes from the previous year. In the comparison year Valmet Automotive manufactured not only Porsche Boxsters but also Saabs, the production of which ended at the expiry of the agreement in spring 2003.

In the second half of the year under review, a three-year investment program advanced to its final stage. This program upgraded the car production process for the production of a new generation Porsche Boxster sports car. Manufacture of the new Porsche Boxsters commenced in the third quarter of 2004, as agreed in 2001. As a result, car-making volumes started to increase in the final quarter of the year under review. Some of the laid-off personnel were called back to work. At the end of the year, about 760 persons were working and approximately 400 laid off. ■

Key figures

Foundries (millions)	2003 EUR	**2004 EUR**
Net sales	69	**75**
Operating profit (loss) before nonrecurring items and amortization of goodwill	(0.1)	**3.6**
Operating profit (loss)	(0.1)	**3.6**
Capital employed, Dec. 31	26	**25**
Order backlog, Dec. 31	20	**28**
Personnel, Dec. 31	580	**587**

Key figures

Valmet Automotive (millions)	2003 EUR	**2004 EUR**
Net sales	70	**40**
Operating loss before nonrecurring items and amortization of goodwill	(7.4)	**(23.1)**
Operating loss	(7.4)	**(23.1)**
Capital employed, Dec. 31	31	**25**
Number of cars produced	19,226	**10,051**
Personnel, Dec. 31	716	**763**

For further information, visit **www.metsopanelboard.com, www.metsodrives.com, www.metsopowdermet.com, www.metsofoundries.com, www.valmet-automotive.com**

The values and ethical principles guiding us

Metso Corporation complies with applicable laws, regulations and generally accepted practices in all its operations. Additionally, our operations are governed by Metso's values, ethical principles and good governance practices. The values and ethical principles guide our operations and the operations of our cooperation partners. We use them to ensure that our operations are consistent and uniform in each country and business area and that they fulfil the criteria set for good corporate citizens.

VALUES

The four values guiding Metso's operations were defined in 2001, and since then they have been a guideline for business operations and everyday work. Our personnel have been acquainted with these values through internal training sessions, and information concerning them is available on Metso's intranet pages in eight languages and Internet pages in two languages.

Customers' success

Profitable business is only possible through our customers' success. We develop solutions that predict our customers' future needs and take environmental factors into account. In serving customers we commit ourselves to high standards and professional performance.

Profitable innovation

We create added value for our customers and owners through innovation. We are ready to question current practices and abandon obsolete ones. We utilize and combine the vast and diverse knowledge of the entire organization. Metso's growth is based on creativity and healthy risk taking in a working environment which encourages and rewards innovation.

Personal commitment

As we finish what we undertake and accept ownership of and responsibility for our actions, we can always be trusted. We are direct and honest in our communication and respect cultural differences. Even though we openly express our views, we work diligently to achieve mutually agreed targets.

Professional development

We are willing to learn – and that includes from each other. We regard professional development as an integral part of our work. We welcome new challenges and tackle them to the best of our abilities. The wellbeing of our working community is of paramount importance to us.

ETHICAL PRINCIPLES

The ethical principles describe Metso's culture, commonly accepted practices, and its commitment to comply with laws and regulations. Since Metso's ethical principles were first published in 2002, they have been increasingly discussed and put into practice by employees with the aid of training programs and training material written in nine languages. The ethical principles have also been promoted on Metso's intranet and Internet pages, and they have received regular coverage in Metso's personnel magazine.

Integrity

Integrity is fundamental to all of Metso's dealings, actions, statements and reporting, and is an essential aspect of sustainable development. Metso respects its promises and commitments.

Compliance with laws and regulations

Metso is committed to full compliance with all valid laws, regulations and generally accepted practices.

Should these prove to be insufficient or open to interpretation, the best available expertise is consulted.

Transparency and openness

Metso is a public company whose shares are quoted on the Helsinki and New York Stock Exchanges.

Metso provides its stakeholders with information on its status and performance simultaneously and with the same content, transparently and openly, without preference or favor for any group or individual and in compliance with the law, the regulations of the said exchanges and the accepted practices of the equities market.

Metso considers it highly important to continuously interact with authorities and non-governmental organizations in order to develop and sustain open and direct contact with society.

Respect for human rights

Metso supports and respects the protection of human rights as expressed in the UN Declaration of Human Rights.

As an employer, Metso accepts the basic labor rights stated by the International Labor Organization (ILO): freedom of association, the right to organize, collective bargaining, abolition of forced labor, and equality of opportunity and treatment.

Metso neither uses child labor, nor engages subcontractors or suppliers that do so.

Metso does not allow behavior that is physically coercive, threatening, abusive or exploitative.

Customer success is one of Metso's four core values. As a result of cooperation between Metso Minerals and Edward Kraemer & Sons from the USA, a 10-year mine plan was created to improve productivity. Doug Poush, the EKS Quarry Operations Manager, Floyd Gast, Metso Minerals' Area Sales Manager and Jim Squiers, District Manager, RB Scott, study the plan.

Metso serves its customers with commitment and know-how. Wang Xiang, Chairman of the Board, Tiger Forest & Paper Group and Fan Ze, General Manager, Sales and CRM, Metso Paper China.

Equal opportunities and non-discrimination
Metso selects and appoints employees according to their personal qualifications and skills for the job.

Metso does not engage in or support discrimination in hiring, compensation, selection for training, promotion, termination of employment, or retirement based on e.g. race, caste, national origin, religion, disability, gender, sexual orientation, union membership or political affiliation.

Respect for intellectual property
Metso values the creation and protection of knowledge and intellectual property.

Accordingly, Metso's employees act to safeguard the company's intellectual property and do not allow unauthorized access to it by outsiders. Conversely, employees respect the intellectual property held by outsiders and do not try to obtain it by illegal means.

Metso encourages and supports its employees' commitment and efforts to increase the company's intellectual property and thus to contribute to the competitiveness and profitability of the company.

Rejection of corruption and bribery
Metso's management and personnel are expected to act in the corporation's best interests at all times.

Employees must not be involved in business relationships that may lead to conflicts of interest. Metso and its employees must not pay bribes or illegal payments to obtain or retain business.

Nor will Metso's employees accept gifts from business partners exceeding normal standards of hospitality. Should the acceptance of a gift or favor lead to a possible conflict of interest, the employee must clarify the situation with the management in advance.

> "Metso's management and personnel are expected to act in the corporation's *best interests* at all times."

Health and safety
Metso strives to provide a safe and healthy working environment.

To this end, it works to prevent accidents and injury by executing policies and actions that minimize, as far as is reasonably practicable, the causes of hazards inherent in the working environment.

Metso establishes and maintains systems to detect, avoid or respond to potential threats to the health and safety of all personnel.

Community involvement and sponsorship
Metso encourages its units and personnel to participate in community programs promoting the common good.

Metso's sponsorship policy is to primarily support programs related to youth activities, science, research, culture, and environmental protection and conservation.

Protection of the environment
Metso contributes to ecological sustainability in all its activities.

Metso anticipates the environmental concerns of customers and the expectations of the public.

Metso cooperates with customers and partners to develop best practices and processes for the efficient and sustainable use of energy and materials and the prevention of pollution.

Metso has established an environmental policy that is available on Metso's Internet pages.

Ethical standards of suppliers
Metso expects its suppliers and contractors to demonstrate similar high ethical standards and, accordingly, this criterion is of prime importance when establishing or continuing business relationships.

Application of ethical principles
Metso's ethical principles govern the actions of Metso's management and all employees in their business operations and employment relationships. Metso ensures that these ethical principles are effectively communicated to all employees and requires that they are adopted and put into practice by everyone.

Ensuring appropriate and ethically sustainable procedures
Metso, like all public companies that are listed on U.S. stock exchanges, is obliged to implement internal control guidelines and deal with suspected misconduct in compliance with the Sarbanes-Oxley Act. In 2004, Metso, in compliance with the legislation, introduced guidelines for the prevention of misconduct, set up a confidential contact channel on its intranet and Internet sites, arranged related training, and communicated the guidelines and procedural instructions to its personnel. As with other operational matters, implementation of the act will be overseen by Metso's management, Internal Audit and the Audit Committee of Metso's Board. ■

▶▶▶ For further information, visit **www.metso.com**

Risks and risk management

Metso's Board of Directors approves the risk management principles and Treasury Policy of the company. It also ensures that the planning, information and control systems for risk management in place are sufficient. Metso's business areas are responsible for the management of risks related to their own operations. The Corporate Risk Management function assesses and coordinates the level of risk management in the business units, creates Corporation-wide risk management principles, develops risk management tools and establishes Corporation-wide insurance programs.

The task of Metso's Corporate Treasury is to manage financial risks in accordance with the Treasury Policy, and to safeguard the availability of the Corporation's equity and debt capital under competitive terms. The Corporate Treasury functions as the counterparty in financial transaction to the operating units of Metso's business areas, centrally manages external funding and is responsible for the management of financial assets and appropriate hedging measures.

The following describes the key risks of Metso's operations categorized under business risks and financial risks. Despite the actions taken to manage and limit the effects of these risks, there can be no assurance that such risks, if materialized, will not have a material adverse effect on the business, financial condition or results of operations.

BUSINESS RISKS

Business cycles in the global economy and customer industries

Business cycles in the global economy and customer industries influence the demand for Metso's products, financial condition and results of operations, especially in the short-term.

Metso Paper and Metso Automation are affected by the business cycles of the pulp and paper industry. In addition, Metso Automation is also affected by the power, oil and gas industry cycles. Metso Minerals' operations are dependent on the development of the mining, construction and civil engineering industries. Within construction and civil engineering the level of infrastructure investments has most significance for Metso Minerals.

In the long-term, the effects of the business cycles are reduced by the geographical diversity of operations and the various customer industries served. In addition, new equipment orders tend to be more affected by business cycles than the demand for rebuilds and process improvements as well as aftermarket operations, for which Metso's large global installed base offers a strong platform. In order to further reduce the risks of business cycles Metso has actively grown process life cycle related operations and long-term partnerships with customers, as well as increased the flexibility of the cost base through outsourcing and focusing on the manufacture and assembly of core components.

Competition

Metso's competitors vary by business area and product. The aim is to differentiate from competitors through quality, reliability, service and availability, as well as through a high level of technological know-how and long-term commitment to customers. Competitive advantage is targeted through continuous product development based on research and technology development (RTD) and cooperation with customers. In addition, a flexible and cost-efficient way to operate is sought to ensure competitiveness.

Project activity

Metso's operations consist partly of large project deliveries to the pulp and paper industry and the mining industry. These deliveries can involve project-specific risks concerning delivery schedules as well as equipment start-up, capacity and end product quality. In some cases, project-specific risks may also arise from new technology included in the deliveries. The risks of individual projects are generally not significant compared to the magnitude of the business and the aim is to reduce project-specific risks by exact sales contract terms.

Raw materials, suppliers and subcontractors

Developments in the global economy or sudden problems with deliveries by raw material producers can influence the prices and availability of raw materials that are used for Metso's products. This may, in turn, affect the business by increasing purchasing costs and/or lengthening delivery lead-times.

Among key raw materials used are steel and scrap iron, for which the prices and availability may fluctuate and have an adverse effect on operations. The global coverage of Metso's businesses and suppliers is expected to reduce the effect of any local disturbances. Long-term supply contracts are preferred in order to reduce the effects of short-term price volatility or availability issues. In addition, when possible, replacement suppliers are identified in order to manage risks related to a single supplier. However, there are limitations to the availability of such actions. For example, a raw material used by Metso Minerals in manufacturing wear parts for crushers is virgin manganese for which the supply is mainly limited to South Africa. Delivery problems facing local producers or political or legislative


ARD HAT
AREA
HATS MUST BE WORN
OR DONT LOAD

changes in South Africa can affect the availability of manganese, which may have an adverse effect on the wear parts business of Metso Minerals. This risk is managed by maximizing the use of recycled manganese.

Indirectly, changes in the prices of electricity, oil and metals may have a material adverse effect on Metso, if these variations decrease the willingness of customer industries to invest.

Generally, the risks related to the purchase of raw materials have decreased because of the increasing focus on manufacturing and assembling core components only. On the other hand, outsourcing increases the importance of, and risks related to suppliers and subcontractors. The majority of product components are purchased from suppliers, for whom it is not necessarily possible to find alternative suppliers at short notice. The delivery problems of subcontractors may also adversely affect customer relationships and business.

> “Generally, the *risks* related to the purchase of raw materials have *decreased* because of the increasing focus on manufacturing and assembling core components only.”

Political, economic and legislative changes in developing countries

Both Metso's operations and the operations of customers are geographically widespread. The Corporation's own manufacturing and suppliers are based in many developing countries. In addition, the demand for new machinery and equipment is increasingly coming from countries in Asia and South America. Sudden political, economic and/or legislative changes in these countries could have a material adverse effect on the business. For example, China currently represents a significant portion of Metso's business and, hence, any sudden adverse political, economic or legislative changes in China could, especially in the short-term, have a material adverse effect. The risks related to these developing countries are somewhat reduced by the wide geographical and industry coverage as well as the more stable aftermarket operations in Europe and North America.

Product liability

Metso is occasionally involved in product liability claims typical of companies in comparable industries. These possible claims are covered by an insurance policy with coverage of up to EUR 100 million per year, subject to applicable insurance conditions. The aim is to minimize product liability risks by improving product safety through RTD investments, automation and customer training as well as by applicable sales contract terms. Although the insurance coverage is estimated currently as adequate to cover the liability risks, Metso may be held responsible for damages beyond the scope of the insurance coverage.

Property and liability risks

Metso's exposure to property, business interruption, transport and liability risks (general liability, product liability and management liability) is managed through global insurance schemes. The insurance coverage consists of property, business interruption, transport and liability insurance schemes and their local applications. The total risk bearing capacity is taken into consideration when setting the amount of deductibles. Metso's captive insurance company will bear risks to the extent that is financially sustainable.

FINANCIAL RISKS

Liquidity

Cash and committed revolving credit facilities are used to protect short-term liquidity. Liquidity is managed by balancing the proportion of short-term and long-term loans as well as the average remaining maturity of long-term loans. Risks in the availability of funds and pricing are also managed in the long-term by diversifying funding between money and capital markets and banks. Credit rating agencies assess Metso's business and publish credit ratings.

Interest rate risks

Changes in market interest rates and interest margins may influence financing costs, returns on financial investments and valuation of derivative contracts. Interest rate risks are managed through the ratio of floating-rate to fixed-rate loans and the average length of interest rate periods. Additionally, interest rate swaps and other derivative contracts may be used.

Currency risks

Exchange rate changes affect the business, although the geographical diversity of operations decreases the significance of any individual currency. Exchange rate variations can have a direct effect on the prices of raw materials and production commodities purchased in non-domestic currencies and in the prices of end products for export, in which the invoicing currency is different from the currency of the manufacturing costs (transaction effect). More than one-half of Metso's net sales originate from outside the euro zone. Alongside the euro, the most important currencies used in invoicing are the U.S. dollar and the Swedish krona. When the

Mike Strom, Supervisor, Edward Kraemer & Sons, at the company's limestone quarry in Minnesota, USA.

net sales and results of subsidiaries outside the euro zone are translated into euros, they may increase or decrease because of exchange rate changes, even though no real change in such net sales or results has occurred (translation effect). Exchange rate movements may also affect Metso's competitive position by weakening the cost competitiveness of the products against competitors' products manufactured in another currency area.

In accordance with Metso's Treasury Policy, the operating units are required to hedge in full the currency exposures that arise from firm delivery and purchase agreements. In addition, the units can hedge anticipated foreign currency denominated cash flows by taking into account the significance of such cash flows, the competitive situation and other opportunities to adapt. Metso has operations in countries in which currency regulation affects hedging risks. The most important of these are Brazil and China. Hedging operations are centralized in Metso's Corporate Treasury. Upper limits on the open currency exposures of the Corporate Treasury, calculated on the basis of their potential profit impact have been set. These limits cover net exposures from transfers between units and items arising from financing activities. Future currency cash flows are hedged for periods which do not normally exceed two years. Accordingly the majority of future currency cash flows related to the order backlog are hedged.

The equity of subsidiaries outside the euro zone is affected by exchange rate risks, which may lead to translation differences in the consolidated equity. These risks are hedged with respect to essential currencies in accordance with Metso's Treasury Policy by using non-euro denominated loans and forward exchange agreements.

Credit risks and other counterparty risks

Metso's operating units are primarily responsible for credit risks pertaining to sales activities. The business areas determine the guidelines for delivery and payment terms granted to customers, their supervision and enforcement, which are then implemented at the business line and operating unit level. 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.

When investing cash assets and making derivative contracts, Metso's Corporate Treasury only accepts counterparties that fulfill the credit rating criteria defined in the Treasury Policy, or parties separately approved in advance by Metso's Board of Directors. With respect to investments, derivative contracts and borrowing, counterparty-specific limits have been set to avoid risk concentrations.

Extended payment terms have been agreed with selected customers. In establishing credit arrangements, management must assess the creditworthiness of the customer and the timing of cash flows expected to be received under the arrangement. However, should the actual financial position of customers or general economic conditions differ from the assumptions, the ultimate collectibility of such trade credits may be required to be re-assessed, which could result in a write-off of these balances in future periods.

Metso's ability to manage trade credit exposure, customer financing, risk concentrations and financial counterparty related risks depends on a number of factors, including Metso's capital structure, market conditions affecting counterparties and the ability to mitigate exposure on acceptable terms. The risks of individual customers or other counterparties are generally not significant compared to the magnitude of the business and the aim is to reduce customer risks by exact sales contract, payment terms and collaterals. ■

For further information, visit **www.metso.com/investors**

Corporate Governance

General Governance Issues

The duties of Metso Corporation's bodies are determined by the laws of Finland and by Metso's corporate governance policy.

Metso follows the guidelines issued by the Helsinki Stock Exchange, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers relating to the governance of publicly quoted companies with the exception that Metso's Board of Directors does not have a nomination committee as Metso's Annual General Meeting established a shareholders' nomination committee on April 6, 2004. Metso further complies with the guidelines for insiders published by the above bodies and the Helsinki Stock Exchange.

Metso is also listed on the New York Stock Exchange and is an SEC-registered company. The company follows the requirements of the NYSE and U.S. Federal Securities Laws concerning foreign companies, when these are not in conflict with the law of Finland.

The Annual General Meeting is the supreme decision-making body of Metso Corporation and it meets at least once a year. The Annual General Meeting decides on the matters stipulated in the Companies Act such as the acceptance of the financial statements and proposed dividend, the release from liability of members of the Board of Directors and the President and CEO, the election of the members of the Board of Directors and the Auditors, and the compensation paid to them.

The Board of Directors (Board) and the President and Chief Executive Officer (CEO) are responsible for the management of Metso. Other executives have an assisting and supporting role. The Board shall ensure good corporate governance practice within Metso.

Board

The Board supervises the operations and management of Metso and decides on significant matters relating to strategy, investments, organization and finance. The main duties of the Board are as follows:

- To approve Metso's long term goals and strategy
- To approve Metso's annual business and other major action plans
- To approve Metso's organizational structure and the main principles for the incentive systems, and to nominate the President and CEO, the Presidents of the Business Areas and the members of the Metso Executive Team
- To approve Metso's corporate policies in key management areas, such as corporate governance, risk management, financial control, financing, internal audit, information security, corporate communications, human resources, ethical principles, values and environment
- To decide on matters the Board delegates to the President and CEO for decision
- To ensure that the supervision of the accounting and financial matters is properly organized, and to ensure proper preparation of the interim and yearly financial statements
- To ensure the adequacy of planning, information and control systems for monitoring the bookkeeping and handling of financial matters and managing risks in operations
- To monitor and evaluate the performance of the President and CEO and to decide upon his remuneration and benefits
- To make proposals for and convene the General Meetings of Shareholders
- To decide upon other matters that do not belong to day-to-day operations or are of major importance, such as major investments, acquisitions and divestitures, and major joint ventures and loan agreements. The Board also decides upon guarantees given by Metso Corporation
- To decide upon other matters in accordance with the provisions in the Companies Act.

The Committees of the Board of Directors

The Board has two permanent committees, i.e. an Audit Committee and a Compensation Committee. The Board supervises the activities of these committees.

The Audit Committee consists of the committee's chairman and two members, who are all elected by the Board from among its independent members. The Audit Committee draws up a written working order for itself.

Duties of the Audit Committee include:

- review of financial reporting by
  auditing draft financial statements, interim reports and Metso's accounting principles and
  auditing significant or exceptional business transactions and management's estimates,
- review of compliance by
  assessing compliance with laws and provisions and
  assessing compliance with code-of-conduct procedures,
- review of internal control and risk management by
  assessing Metso's internal control system and the appropriateness of risk management,
- review of internal audit by
  assessing the internal audit and approving the audit plan and
  following up on internal audit reporting,
- matters relating to auditors such as
  preparing for the election of auditors,


Nina Makkonen, Technical Support Manager and Aulis Kylänpää, System Specialist, at Metso Automation's product development testing facilities.

assessing the audit plan and costs, **thoroughly studying** the auditor's reports and discussing them with the auditors, and assessing the quality and scope of the audit.

The Compensation Committee consists of the committee's chairman and two members, who are all elected by the Board from among its members.

The Compensation Committee shall review and monitor the competitiveness of the remuneration and incentive systems within Metso, prepare and make proposals to the Board for the remuneration and benefits of the President and CEO and decide upon the remuneration and benefits of the officers reporting to the President and CEO. The committee may authorize its Chairman to decide upon the remuneration and benefits of these officers.

President and CEO

The Board nominates a President and CEO, who shall be in charge of the management of Metso's businesses in accordance with the provisions of the Companies Act and instructions given by the Board.

The President and CEO reports to the Board and keeps the Board sufficiently informed about Metso's business environment, such as customers, competition and markets, as well as the financial position of Metso and other significant matters.

The President and CEO prepares the matters on the agenda of the Board and its committees and implements the decisions made by the Board and its committees if not decided otherwise by the Board. The President and CEO shall guide and supervise the operations of Metso and its Business Areas. The President and CEO will also act as chairman for the Metso Executive Team and the Boards of the Business Areas.

> "The Board and CEO are responsible for the management of Metso. Other executives have an assisting and supporting role."

Metso Executive Team

The President and CEO and other members designated by the Board form Metso's Executive Team.

The Executive Team assists the President and CEO in the preparation of matters such as Metso's business plans, strategy, policies and other matters of joint importance within Metso's business areas and the Corporation. The Metso Executive Team will convene when called by the President and CEO.

Business Area Presidents

The Business Area Presidents report to the President and CEO and keep him sufficiently informed about the Business Areas' business environment, such as customers, competition and markets, as well as about the Business Areas' financial position and development.

The Business Area Presidents shall be in charge of the day-to-day management of the Business Areas.

Business Area Boards and other Metso Boards

The President and CEO as Chairman and two to four other members will form the Boards of the Business Areas.

The Business Area Boards will ascertain that operations in all companies within the Business Area are managed in accordance with the prevailing laws, regulations and Metso

Jaana Alajärvi, Executive Assistant, Metso Automation's process automation systems, is pictured with Sales Managers Juha Mykkänen and Kari Yli-Muilu.

policies. The specific responsibilities of the boards of holding and other similar companies within Metso will be defined by the President and CEO.

Legal Compliance and Ethical Standards

In its business Metso complies with all applicable laws and the ethical principles it has approved.

Each Metso Business Area complies with Metso's ethical principles, ensures compliance with applicable laws, and ensures that employees are familiar with and comply with the laws, regulations and principles relating to their work.

Nomination Committee established by the Annual General Meeting

The Nomination Committee established by the Annual General Meeting on April 6, 2004 prepares proposals for the following General Meeting in respect of the composition of the Board and director remuneration.

The Nomination Committee consists of representatives of the four biggest shareholders along with the Chairman of the Board of Directors as an expert member. The right to appoint a member is held by those four shareholders registered in Metso's shareholder register maintained by the Finnish Central Securities Depository Ltd., who on December 1 prior to the General Meeting hold the most votes in Metso.

The Nomination Committee is convened by the Chairman of the Board, and the Committee elects a chairman from among its members. The Nomination Committee shall present its proposal to the Board no later than February 1 prior to the General Meeting.

Auditors

The auditor's statutory obligation is to audit the company's accounting, financial statements and corporate governance for the financial year. The parent company's auditor must also audit the consolidated financial statements and the mutual relationships of Group companies in other respects, too.

According to the Articles of Association, Metso has no fewer than one and no more than three auditors. In addition, the Annual General Meeting may elect no more than two deputy auditors. The auditor and deputy auditor must be public accountants or a firm of public accountants certified by the Central Chamber of Commerce. The Annual General Meeting elects the auditors for a term of one year.

Internal audit

The goal of Metso's internal audit is to verify the efficiency and effectiveness of Metso's operations, the reliability of financial and operational reporting and compliance with applicable laws and regulations. It also ensures that the Corporation's property is safeguarded. The internal audit supervises all units and operations of Metso.

Internal audit reviews the efficiency and appropriateness of policies and procedures and inspects the functioning of internal auditing. In addition, the internal audit proactively encourages the development of risk management in Metso's various operations.

Internal audit reports to the management of Metso, the external auditors and the Audit Committee. The head of internal audit reports administratively to the Executive Vice President and CFO, but also has direct access to the President and CEO and to the Chairman of the Audit Committee.

> "Internal audit *reviews* the *efficiency* and appropriateness of policies and procedures."

Insiders

Under the Finnish Securities Market Act, permanent insiders in Metso Corporation are the members of the Board of Directors, the President and CEO, the Deputy to the President and CEO, and the auditor, or the principally responsible auditor of a firm of public accountants. In addition, Metso Corporation's extended list of insiders includes the Executive Team.

Metso complies with the Guidelines of the Helsinki Stock Exchange for Insiders, which recommend that insiders schedule the trading of company securities to the point when markets have as exact information as possible on issues influencing the value of the security. Hence, Metso's permanent insiders are not allowed to trade in company securities 14 days prior to the publication of the company's interim reviews or financial statements.

Metso Corporation's register of insider holdings is maintained by the Corporate Legal Department, which updates the information in the Central Securities Depository. The share and option holdings of Metso Corporation's insiders (extended) are listed on Metso's Internet pages.

Metso's corporate governance practices compared to the requirements of Section 303A of the NYSE Listing Rules are presented on www.metso.com/investors > Governance. ■

For further information, visit **www.metso.com/investors**

Corporate Governance in 2004

■ Metso's Annual General Meeting was held in Helsinki on April 6, 2004.

■ The Annual General Meeting elected seven members to Metso's Board of Directors. Matti Kavetvuo was re-elected as Chairman and Jaakko Rauramo was elected as Vice Chairman. Risto Hautamäki and Satu Huber were elected as new Board members. Board members re-elected were Maija-Liisa Friman, Juhani Kuusi and Pentti Mäkinen.

■ The Annual General Meeting decided to establish a Nomination Committee to prepare proposals on the composition of the Board of Directors and director remuneration for the following General Meeting. The Nomination Committee consists of representatives named by the four biggest shareholders along with the Chairman of the Board of Directors as an expert member. Metso's four biggest registered shareholders on December 1, 2004 were UPM-Kymmene Corporation, the State of Finland, Ilmarinen Mutual Pension Insurance Company and Varma Mutual Pension Insurance Company.

■ In 2004 Metso Corporation's Board of Directors met 12 times. The average attendance at meetings was 96.4 percent.

■ As of April 28, 2004, the Board's Audit Committee consisted of Maija-Liisa Friman (Chairman), Satu Huber and Jaakko Rauramo. The Board of Directors assigned Satu Huber as the financial expert of the Audit Committee. In 2004 the Audit Committee met 13 times.

■ As of April 28, 2004, the Compensation Committee consisted of Board members Matti Kavetvuo (Chairman), Risto Hautamäki and Juhani Kuusi. In 2004 the Compensation Committee met 6 times.

■ Jorma Eloranta started as Metso's new President and CEO on March 1, 2004. Olli Vaartimo, Metso's Executive Vice President and CFO, was acting President and CEO of Metso Corporation from September 25, 2003 – March 1, 2004.

■ On April 28, 2004, the Board of Directors appointed Jorma Eloranta, Metso's President and CEO, as Chairman of Metso's Executive Team. Olli Vaartimo, Metso's Executive Vice President and CFO, was appointed as Vice Chairman, and Business Area Presidents Bertel Karlstedt (Metso Paper), Bertel Langenskiöld (Metso Minerals), Matti Kähkönen (Metso Automation) and Vesa Kainu (Metso Ventures) were appointed as members of the Executive Team. Metso's Extended Executive Board was abolished.

■ In 2004, Metso's Executive Team convened 10 times.

■ Metso has an on-going corporate-wide program to develop internal control procedures in order to fulfil section 404 of the Sarbanes-Oxley Act regulating internal control and the treatment of suspicions of fraud. During 2004 the procedures and instructions related to the suspicion of fraud were augmented and an independent channel was introduced for reporting such suspicions.

■ Metso's renewed corporate governance principles became effective as of May 1, 2004.

■ Metso's auditor since 1999 has been PricewaterhouseCoopers, Authorized Public Accountants, with the responsible auditors being Lars Blomquist, APA, and Heikki Lassila, APA. In 2004, PricewaterhouseCoopers was paid EUR 3.1 million in auditing fees and EUR 1.6 million in auditing-related fees. In addition, they were paid EUR 1.5 million for taxation services.

■ During 2004, the Audit Committee requested bids for the auditing and will propose auditors to the 2005 Annual General Meeting.

Board remuneration

Fees totaling EUR 315,258 were paid to the nine members of the Board of Directors in 2004 including previous Board members Heikki Hakala and Mikko Kivimäki. According to a decision of the Annual General Meeting of April 6, 2004, annual fees were as follows: Chairman of the Board EUR 60,000, Vice Chairman EUR 40,000, and other members EUR 30,000. In addition, a fee of EUR 500 per meeting is paid to all members for meetings of the Board and its Committees they attend. Compensation for traveling expenses and daily allowances is paid in accordance with Metso's general travel rules.

Management remuneration

The salaries of the Executive Team comprise a fixed basic salary and a bonus based on the result of the Corporation and/or of the business area in question. The bonus may also be based on other development objectives central to operations. Senior Corporate Management is also included in option schemes. More detailed information on Metso's option programs is given on page 4 of the Financial Statements. The retirement age of Executive Team members is 60 years.

The following changes in the Executive Team's option holdings took place in 2004: 30,000 options under the Metso 2001 A/B option program and 100,000 options under the Metso 2003 A option program were granted to Jorma Eloranta. Vesa Kainu sold his 65,000 options under the Metso 2000 A/B option program. Metso Executive Team's option holdings are presented on Metso's Internet pages.

In 2004 salaries and bonuses totaling EUR 1,880,476 were paid to the eight members of the Executive Team for the actual period they were members. This includes EUR 77,518 based on the performance bonus for 2003, or 4.1 percent of the total sum paid. In addition to the current Executive Team members, Arto Aaltonen and Harri Luoto were members of the Executive Team until April 28, 2004.

Jorma Eloranta started as Metso's President and CEO on March 1, 2004. His annual salary in 2004 was EUR 438,000, in addition to which he receives benefits in the form of a car and a telephone. He has also been granted a total of 130,000 Metso options, of which 30,000 options are under Metso's 2001 A/B option program and 100,000 under Metso's 2003 A option program. According to his contract, Jorma Eloranta's age of retirement is 60 years, and the full pension is 60 percent of his annual salary. If his contract is terminated, he is entitled to compensation corresponding to 24 months' salary.

On December 31, 2004, no members of the Executive Team or of the Board of Directors had any loans outstanding from the Corporation or its subsidiaries.

Matti Kavetvuo, born 1944
Metso Board member and Chairman of the Board since 2003.
Chairman of Metso's Compensation Committee and expert member of the Nomination Committee.
Independent Board member.
Finnish citizen.
M.Sc. in Engineering and M.Sc. in Economics.

Matti Kavetvuo was President and CEO of Pohjola Insurance Group until 2001, when he retired. Previously he was President and CEO of Valio Ltd. in 1992–1999, and President and CEO of Orion Corporation in 1985–1991. Kavetvuo was employed by Instrumentarium Corporation in 1971–1984, serving as President in 1979–1984.

CHAIRMAN OF THE BOARD:
Orion Corporation,
Suominen Corporation.

VICE CHAIRMAN OF THE BOARD:
Kesko Corporation.

BOARD MEMBER:
Alma Media Corporation,
KCI Konecranes International Plc,
Marimekko Corporation,
Perlos Corporation.

Jaakko Rauramo, born 1941
Vice Chairman of the Board
Metso Board member since 1999, Vice Chairman of the Board since 2004.
Member of Metso's Audit Committee.
Independent Board member.
Finnish citizen.
M.Sc. in Engineering.

Jaakko Rauramo was President and CEO of SanomaWSOY in 1999–2001 and President of Sanoma Corporation in 1984–1999.

CHAIRMAN OF THE BOARD:
SanomaWSOY Corporation.

BOARD MEMBER:
The Foundation of the Confederation of Finnish Industry and Employers,
European Publishers Council,
Stiftelsen Svenska Dagbladet.

MEMBER OF THE INTERNATIONAL COUNCIL:
The Museum of Television & Radio, New York.

TRUSTEE:
Reuters Founders Share Company Limited.

CHAIRMAN:
National Board of Economic Defense.

Maija-Liisa Friman, born 1952
Metso Board member since 2003.
Chairman of Metso's Audit Committee.
Independent Board member.
Finnish citizen.
M.Sc. in Engineering.
President and CEO, Aspocomp Group Oyj.

Maija-Liisa Friman has been President and CEO of Aspocomp Group Oyj since April 2004. Prior to that she was Managing Director of Vattenfall Oy in 2000–2004. Previously, she was President of Gyproc Oy in 1993–2000.

BOARD MEMBER:
SYK Ltd., Sponda Plc,
the Finnish Medical Foundation.

Risto Hautamäki, born 1945.
Metso Board member since 2004.
Member of Metso's Compensation Committee.
Independent Board member.
Finnish citizen.
M.Sc. in Engineering.
President and CEO, Tamfelt Corporation.

Risto Hautamäki has been President and CEO of Tamfelt Corporation since 1995. He was President and CEO of Valmet Paper Machinery Inc. in 1990–1994 and Executive Vice President and Chief Operating Officer in 1989–1990. Prior to that he held various managerial, sales and project engineering positions at Valmet since 1970. Risto Hautamäki has been appointed the new President of Metso Paper and a member of Metso Executive Team as of April 1, 2005.

BOARD MEMBER:
Wärtsilä Corporation.

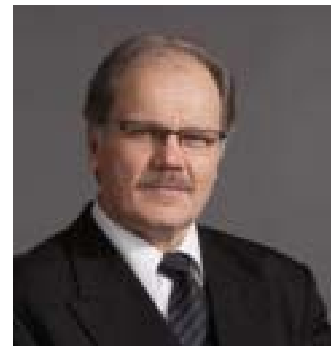
Satu Huber, born 1958.
Metso Board member since 2004.
Member of Metso's Audit Committee.
Independent Board member.
Finnish citizen.
M.Sc. in Economics and Business Administration.
State Treasury; Director of Finance and Head of Finance Division.

Satu Huber has been Director of Finance and Head of Finance Division of the State Treasury since 1997. In 1995–1997 she was First Vice President in Merita Investment Banking, her latest responsibilities being Scandinavian money and bond markets and Global Sales. In 1992–1995 she was Vice President of Treasury Sales in Union Bank of Finland.

BOARD MEMBER:
Ekonomiska Samfundet i Finland rf., Boliden Ab.

Juhani Kuusi, born 1938
Metso Board member since 2000.
Member of Metso's Compensation Committee.
Independent Board member.
Finnish citizen.
D.Sc. (Tech.)
Senior Advisor, Finnish National Fund for Research and Development Sitra.

Juhani Kuusi has been Senior Advisor in Sitra since 2004. Previously he was Senior Vice President, Head of Nokia Research Center in 1995–2002.



Pentti Mäkinen, born 1952
Metso Board member since 2000.
Finnish citizen.
Employee of Metso since 1969.
Plater-welder.

Pentti Mäkinen works as a Coordinator, Vocational Competence Development in Metso Paper, Jyväskylä, Finland. Previously, he was the Chief Shop Steward in Metso Paper, Jyväskylä in 1999–2004 and 1995–1996, and an Industrial Safety Delegate in 1990–1995. Mäkinen is the Second Vice Chairman of the National Council of the Finnish Metal Workers' Union.

Metso's definition of Board members' independence complies with the guidelines of the Helsinki Stock Exchange, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers on the governance of publicly quoted companies. The definition of independence also complies with the regulations of the New York Stock Exchange and the Sarbanes-Oxley Act concerning foreign companies.

The Board members' holdings of Metso shares are presented at www.metso.com/investors > Governance > Insiders.

Jorma Eloranta, born 1951
Chairman of the Executive Team.
President and CEO.
Finnish citizen.
M.Sc. in Engineering.
Started in the position on March 1, 2004.

Jorma Eloranta was President and CEO of Kvaerner Masa-Yards Inc. in 2001–2004. Previously, he served as President and CEO of Patria Industries Group in 1997–2001, as Deputy Chief Executive of Finvest Group and Jaakko Pöyry Group in 1996–1997, and as President of Finvest Ltd in 1985–1995.

VICE CHAIRMAN OF THE SUPERVISORY BOARD:
Sampo Life Insurance Company Ltd. (until March 2005).

MEMBER OF SUPERVISORY BOARD:
Ilmarinen Mutual Pension Insurance Company.

Olli Vaartimo, born 1950
Vice Chairman of the Executive Team.
Member of the Executive Team since 1999.
Executive Vice President and CFO and Deputy to the President and CEO.
M.Sc. in Economics and Business Administration.
Finnish citizen.
Joined the company in 1974.

Olli Vaartimo has been Executive Vice President and CFO since 2003. He served as President and CEO of Metso and as Chairman of the Boards of Directors of Metso's business areas from September 25, 2003 to March 1, 2004, after which he returned to his duties as Metso's Executive Vice President and CFO and Deputy to the President.
In 1999–2003 Vaartimo served as President of Metso Minerals and in 1993–1999 as President of Nordberg in the Rauma Group. From 1991 to 1998 he was also Executive Vice President of Rauma Corporation.

Vesa Kainu, born 1947
Member of the Executive Team since 2003.
President, Metso Ventures.
Bachelor of Science in Engineering.
Finnish citizen.
Joined the company in 1971.

Vesa Kainu has been President of Metso Ventures since 2003. In 2001–2003 he served as Executive Vice President of Metso Minerals, while in 1999–2001 he was President of Metso Paper Service. Prior to that, he headed Valmet's Service business line from 1994.

BOARD MEMBER:
Exel Oyj.

Bertel Karlstedt, born 1962
Member of the Executive Team since 2003.
President, Metso Paper.
M.Sc. in Engineering.
Finnish citizen.
Joined the company in 1988.

Bertel Karlstedt has been President of Metso Paper since 2003. Prior to that, he headed Metso Paper's Paper Making business line in 1999–2003, and Valmet's pulp drying business unit from 1996. Bertel Karlstedt will continue in the position until March 31, 2005, and will then become Executive Vice President of Metso Paper. Risto Hautamäki (59), M.Sc. in Engineering, has been appointed the new President of Metso Paper and a member of Metso Executive Team as of April 1, 2005.

Matti Kähkönen, born 1956
Member of the Executive Team since 2001.
President, Metso Automation.
M.Sc. in Engineering.
Finnish citizen.
Joined the company in 1980.

Matti Kähkönen has been President of Metso Automation since 2001. Prior to that, he headed the Metso Automation Field Systems division in 1999–2001, and served as Division President of Neles Controls in the Rauma Group from 1993.

Bertel Langenskiöld, born 1950
Member of the Executive Team since 2003.
President, Metso Minerals
M.Sc. in Engineering.
Finnish citizen.
Joined the company in 2003.

Bertel Langenskiöld has been President of Metso Minerals since 2003. Previously, he was President and CEO of Fiskars Corporation in 2001–2003, and President of Tampella Power/Kvaerner Pulping, Power Division in 1994–2000.

BOARD MEMBER:
Wärtsilä Corporation.

Corporate Office

President and CEO – **Jorma Eloranta**
Executive Vice President and CFO – **Olli Vaartimo**
Corporate Development – **Juhani Kyytsönen**
Finance – **Reijo Kostiainen**
Human Resources – **Taina Sopenlehto**
Information Technology and Business Infrastructure – **Harri Nikunen**
Internal Audit – **Jarmo Kääriäinen**
Internal and external communications – **Kati Renvall**
Legal Matters – **Harri Luoto**
Stakeholder Relations and Trade Policy – **Jukka Seppälä**
Treasury – **Pekka Hölttä**

Valmet and Rauma merged in July 1999 to form Metso.

The Executive Team members' holdings of Metso shares and options are presented at www.metso.com/investors > Governance > Insiders.

January

1.22 Metso supplies equipment for iron ore pelletizing plant in China

1.28 Metso to rebuild a paper machine at UPM-Kymmene's Jämsänkoski mill in Finland

February

2.2 Metso's Converting group sale has been closed

2.4 Jorma Eloranta appointed in Metso's Executive Board and Business Area boards

2.4 Notice of Annual General Meeting

2.4 Metso reviews development alternatives for compaction and paving equipment business Dynapac

2.4 Metso Corporation's Financial Statements 2003

2.5 Rating on Metso Corporation placed on credit watch by Standard & Poor's

2.5 Rating on Metso Corporation placed on credit watch by Moody's

2.16 Short-term rating on Metso placed on credit watch by Standard & Poor's

2.17 Rating on Metso Corporation downgraded to Ba1 by Moody's

2.18 Metso to deliver board making line to Jianhui Paper in China

2.20 Proposal for the composition of Metso's Board and establishing of the Nomination Committee

March

3.1 Jorma Eloranta to start as President and CEO of Metso Corporation

3.3 Ratings on Metso Corporation downgraded by Standard & Poor's

3.4 Metso Paper streamlines its structure and increases customer and regional orientation

3.5 Metso's deliveries to Papiers Gaspésia delayed

3.12 Metso to supply woodhandling and BCTMP pulping line to Shandong Chenming in China

3.12 Metso to deliver board making line to Foshan Huafeng Paper in China

3.16 Metso to supply a tissue machine to HengAn Holding in China

3.17 Metso to supply BCTMP pulping and baling line equipment to M-real Kaskinen

3.26 Metso annual report on Form 20-F

3.29 Metso to sell its shares in Sato-yhtymä to Ilmarinen

3.31 Metso to rebuild Stora Enso's paper machine at Whiting mill, Wisconsin, USA

April

4.6 The Annual General Meeting of Metso Corporation: Dividend of EUR 0.20 per share

4.6 Metso Corporation's Annual General Meeting on April 6, 2004: President and CEO Jorma Eloranta's review

4.20 Metso to supply Stora Enso with world-class SC paper line to Kvarnsveden in Sweden

4.26 Metso to sell Dynapac to the Nordic private equity investor Altor for EUR 275 million

4.28 Management of Metso

4.28 Metso Corporation's Interim Review, January-March 2004

May

5.6 Metso to supply a paper finishing line to Sun Paper in China

5.26 Metso's Board sets earnings criteria for the distribution of year 2003 B stock options

5.28 Metso and The European Investment Bank agreed on EUR 135 million R&D loan facility

June

6.1 Metso to supply valves and analyzers for Veracel Pulp Mill project in Brazil

6.2 Metso to supply a pulp drying line and a board machine rebuild for Ripasa, Brazil

6.2 Metso to rebuild CMPC's board machine in Chile

6.2 Metso to rebuild specialty paper machine at UPM in Finland

6.7 ThyssenKrupp Automotive will divest the shares of Metso's Valmet Automotive

6.24 Metso to supply BCTMP and roll finishing lines for Shandong Huatai Paper in China

6.29 Metso's management agenda for 2004–2005

July

7.1 Metso's Dynapac Group sales has been closed

7.28 Metso Corporation's Interim Review, January-June 2004

August

8.24 Metso to supply a papermaking line to Hankuk Paper in South Korea

8.30 Metso to supply a waste processing plant to China

September

9.2 Metso Paper's cost reduction program advances

9.15 Metso to deliver a board machine to Tonic Emballage in Algeria

9.16 Metso to deliver a board machine to Smurfit España in Mengibar, Spain

9.28 Metso Paper to supply CTMP pulping line to Rottneros in Sweden

9.30 Metso to supply wood handling plant to CMPC Celulosa in Chile

Heidi Lappalainen, Tester, Kari Hongisto, Instrument Installer, and Jorma Eloranta, President and CEO, observe winder manufacture at Metso Paper's Järvenpää plant.

October

10.6 Metso and Albany International reach new business accord
10.13 Marathon Asset Management holding in Metso
10.18 Taina Sopenlehto appointed head of Metso's Human Resource Management
10.27 Metso's paper machine delivery to Stora Enso in Langerbrugge, Belgium
10.28 Metso Corporation's Interim Review, January-September 2004
10.29 Metso launches Debt Exchange Offer

November

11.3 Metso's Financial Information in 2005
11.8 Metso announces final Exchange Offer spreads
11.12 Metso has completed its Bond Exchange Offer
11.12 Franklin Resources Inc.'s holdings in Metso
11.24 A personnel change in the Metso Corporate Communications organization
11.30 Metso to sell Reedrill to Terex Corporation

December

12.14 Metso's Nomination Committee representatives
12.15 Metso to reacquire Thyssen Krupp's minority holding in Valmet Automotive
12.16 Metso to supply rotary railcar unloaders to Rizhao port in China
12.21 Metso to supply raw materials handling system to Companhia Siderúrgica de Tubarão, Brazil
12.29 Metso Paper concludes an agreement to outsource its Karhula, Finland production
12.31 Metso to deliver equipment for groundwood pulp and paper making processes to Myllykoski Group

For further information, visit **www.metso.com**

Principles

Mission and goals

The main mission of Investor Relations in Metso is to inform the capital markets on matters concerning Metso and its operating environment. Our goal is to provide correct, adequate and up-to-date information regularly and equally to all market participants. In our work we aim for promptness, openness and good service.

Mode of operation

Metso Investor Relations is responsible for investor communications and daily contacts. The Corporate executives actively participate in these activities and are regularly available for meetings with capital market representatives.

Silent period

Metso is not in contact with capital market representatives during a period of three weeks prior to the publication of its financial statements or interim reviews.

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Email: mike.phillips@metso.com

Investor Relations email:
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Additional investment information on Metso is available at www.metso.com/investors.

Changes of address

Should your address have changed, you are requested to send written notification of this to the bank where your book-entry account is held. If your account is held at the Finnish Central Securities Depository Ltd's account operator, please send written notification to:

Finnish Central Securities Depository Ltd.
P.O. Box 110
FI-00131 Helsinki, Finland
Fax: +358 9 6862 0656
(Free customer helpline Monday to Friday 9 a.m. – 4 p.m. EET, tel. +358 800 180 500, only in Finnish and Swedish)

The notification must include the shareholder's name, new address and, for identification purposes, the old address or book-entry account number.

Metso ADS holders are requested to contact the Bank of New York:

The Bank of New York
Investor Services
P.O. Box 11258
Church Street Station
New York, NY 10286-1258, USA
Tel. (national): 1-888-BNY-ADRs
Tel. (international): +1 610 382 7836
Email: shareowners@bankofny.com
Internet: www.stockbny.com

People other than shareholders are requested to notify Metso Corporate office of changed addresses.

Investment analysis

According to our knowledge the following banks and brokerage firms evaluate Metso Corporation as an investment. This is not necessarily a full list. Those listed here are following Metso Corporation on their own initiative. Metso is not responsible for any statements they make.

Equity research

ABG Sundal Collier
Alfred Berg Finland
CAI Cheuvreux
Citigroup Global Markets
Credit Suisse First Boston
D. Carnegie
Danske Equities
Deutsche Bank
Dresdner Kleinwort Wasserstein
Enskilda Securities
eQ Bank
Evli Bank
FIM Securities
Goldman Sachs
Handelsbanken Capital Markets
JP Morgan Securities
Kaupthing Bank
Lehman Brothers
Mandatum Stockbrokers
Merrill Lynch
Opstock
UBS

Credit research

Citigroup Global Markets
Danske Bank
Deutsche Bank
Dresdner Kleinwort Wasserstein
JP Morgan Securities
Merrill Lynch
Nordea Debt Capital Markets
SEB Merchant Banking
Société Générale

Updated information on analysts following Metso is available on the Corporation's web site.

Codes used for Metso by the news agencies

Bloomberg: MEO1V FH
Reuters: MEO1V.HE
Startel: MEO1V

Forward-looking statement

It should be noted that certain statements herein which are not historical facts, including, without limitation, those regarding expectations for general economic development and the market situation, expectations for customer industry profitability and investment willingness, expectations for company growth, development and profitability and the realization of synergy benefits and cost savings, and statements preceded by "expects", "estimates", "forecasts" or similar expressions, are forward-looking statements. These statements are based on current decisions and plans and currently known factors. They involve risks and uncertainties which may cause the actual results to materially differ from the results currently expected by the company.

Such factors include, but are not limited to:
1. general economic conditions, including fluctuations in exchange rates and interest levels which influence the operating environment and profitability of customers and thereby the orders received by the company and their margins
2. the competitive situation, especially significant technological solutions developed by competitors
3. the company's own operating conditions, such as the success of production, product development and project management, and their continuous development and improvement
4. the success of pending and future acquisitions and restructuring.

Additional investment information on Metso is available at **www.metso.com/investors**

> Metso's Annual Report 2004 contains *two* separate *reports:* an Annual Review and the Financial Statements.

Annual General Meeting

The Annual General Meeting of Metso Corporation will be held on Monday, April 4, 2005 at 2 p.m. in the Marina Congress Center at Katajanokanlaituri 6, FI-00160 Helsinki. Registration of shareholders participating in the meeting and distribution of ballots will begin at 1 p.m.

Shareholders who are entered as shareholders in the Corporation's shareholder register maintained by the Finnish Central Securities Depository Ltd. by March 24, 2005 shall have the right to participate in the Annual General Meeting.

Shareholders who wish to participate in the meeting should notify the Corporation of their intention to participate by no later than 4 p.m. on March 30, 2005. A notice of participation can be submitted at www.metso.com, by phone on +358 10 808 300, by fax on +358 20 484 3125, or by mail to Metso Corporation, P.O. Box 1220, FI-00101 Helsinki. Notices of participation must be received by the above-mentioned deadline. Any powers-of-attorney should also be sent to the above address by the same deadline.

Payment of dividends

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of EUR 0.35 per share be paid for 2004.

Dividends will be paid to those shareholders who are entered in the Corporation's shareholder register maintained by the Finnish Central Securities Depository Ltd. on the record date for payment of dividends, i.e. on April 7, 2005. The actual payment of dividends will take place on April 14, 2005.

Symbols and units used in trading

Metso Corporation has one share series. Metso's shares are listed on the Helsinki Stock Exchange and are registered in the Finnish Book-Entry Register maintained by the Finnish Central Securities Depository. On the New York Stock Exchange Metso's shares are listed as American Depository Shares (ADS). Each Metso ADS represents one Metso share. The Bank of New York acts as the depository for Metso ADSs.

Metso's A/B share options for 2000 and 2001 are quoted on the Helsinki Stock Exchange. The subscription period for both options ends on April 30, 2005.

Helsinki Stock Exchange

Share
Trading code MEO1V
Lot size 100 shares
Trading currency EUR
Options
2000 A/B options
Trading code MEO1VEW100
2001 A/B options
Trading code MEO1VEW101

New York Stock Exchange

ADS
Trading code MX
Trading currency USD

Indexes

Metso's shares are included in at least the following indexes:
HEX General Index
HEX Portfolio Index
HEX Metal Index
OMXH25 Index
Bloomberg World Index
Bloomberg World Industrials Index
Bloomberg World Machinery-Diversified Index
Bloomberg Europe – World Index
Bloomberg Europe Industrial Index
Bloomberg Europe Machinery-Diversified Index
Dow Jones STOXX Industrial Index
Dow Jones STOXX 600
Dow Jones STOXX 600 Industrial Index
Dow Jones EURO STOXX
Dow Jones EURO STOXX Industrial Index
Dow Jones World Industrials Index
FTSE Intl – World Europe ex-UK Index
FTSE World Europe ex-UK General Industrials Index
FTSE World Europe ex-UK Engineering & Machinery Index

Sustainability indexes:

Dow Jones STOXX Sustainability Index
Dow Jones World Sustainability Index
FTSE4GOOD Index
Ethibel Sustainability Index
GES/SIX Sustainability Index
Kempen/SNS Smaller Europe SRI Index
Nordic Sustainability Index

Credit ratings

Metso's credit ratings are:
Standard & Poor's (Mar 3, 2004)
Corporate credit rating: BB+
Outlook: stable
Ratings for bonds and EMTN program: BB
Short term rating: B

Moody's (Feb 17, 2004)
Long-term rating: Ba1
Outlook: negative

Publication dates of reviews and reports in 2005

Financial Statements release 2004 ....February 2, 2005
Annual Report and Sustainability Report...................... March 10, 2005
Publication of comparison figures according to IFRS .... March, 2005
Annual Report in accordance with US securities regulations (Form 20-F)......................April, 2005
Interim review for January–March ....April 27, 2005
Interim review for January–June............................. July 27, 2005
Interim review for January–September ....October 26, 2005

Distribution of financial information

Metso's Annual Report 2004 contains two separate reports: an Annual Review and the Financial Statements. Metso has also published a Sustainability Report for 2004. These reports are published in Finnish, Swedish and English, and they are also available on Metso's Internet pages. Finnish and English web reports are also published. The Annual Report is mailed to all Metso shareholders. The Annual Report and Sustainability Report is also sent to anyone who orders it.

The Form 20-F is mailed on request. It is also published on Metso's Internet pages and the web pages of the U.S. Securities and Exchange Commission (SEC) at www.sec.gov.

Interim reviews and related releases in Finnish and English are published on Metso's Internet pages at www.metso.com. Webcasts of the related press conferences are held in English, and can also be viewed on Metso's Internet pages.

Metso publishes its Index investor magazine twice a year in Finnish and English. The magazine is sent to all shareholders and to anyone who orders it.

Metso's releases are published in Finnish and English. You can go to Metso's Internet pages and order them to be sent to you by e-mail.

Ordering financial publications

Metso Corporation
Corporate Communications
P.O. Box 1220
FI-00101 Helsinki
By phone: +358 20 484 100
By fax: +358 20 484 3123
By email: metso.info@metso.com
www.metso.com > News & Info > Order publications.

BUSINESS AREAS

Metso Paper
Rautpohjankatu
P.O. Box 587
FI-40101 Jyväskylä, Finland
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Fax: +358 20 482 151
Email: metsopaper.info@metso.com
Internet: www.metsopaper.com

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Internet: www.metsopowdermet.com

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Financial Statements 2004

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Financial Statements 2004

Shares and Shareholders

Share capital and shares
According to Metso's Articles of Association, the minimum share capital is EUR 170 million and the maximum share capital is EUR 680 million. Metso has a single series of shares. Each share has a nominal value of EUR 1.70 and entitles its holder to one vote at a general meeting.

On December 31, 2004, Metso's share capital was EUR 231,625,926.50, and it was divided into 136,250,545 fully paid shares. No changes took place in the share capital during 2004. If the year 2000 options are exercised to subscribe for all 5,000,000 shares, if the year 2001 options are exercised to subscribe for all 1,000,000 shares, and if the year 2003 options are exercised to subscribe for all 7,800,000 shares, Metso's share capital will increase to EUR 255,085,926.50 and the number of shares to 150,050,545, of which the new shares will account for 9.20 percent.

Redemption obligation
Any shareholder whose ownership of the Corporation's shares or the voting rights produced by these shares reaches or exceeds 33 1/3 percent or 50 percent, is obliged to redeem the shares of the other shareholders upon demand and in the manner defined in the Articles of Association.

Own shares
The Annual General Meeting of April 6, 2004 authorized the Board of Directors to decide, within one year of the Meeting, on the acquisition of the Corporation's own shares, using its distributable funds. The Corporation's own shares may be acquired for use as payment in acquisitions or in financing investments or as an incentive for key personnel. Such shares may be acquired provided their combined nominal value does not exceed 5 percent of the Corporation's share capital, i.e. 6,812,527 shares. The Meeting also authorized the Board of Directors to decide on the disposal and annulment of the Corporation's own shares.

In 2004, no own shares were acquired or disposed of. On December 31, 2004 the Corporation held 60,841 of its own shares, representing 0.04 percent of total shares and votes. These shares were acquired in 1999 for a total price of EUR 654,813, i.e. EUR 10.76/share.

Board authorizations
The Annual General Meeting of April 6, 2004 authorized the Board to decide on raising the share capital by a rights offering, a convertible bonds issue and/or an issue of share options. The authorization expires one year from the Annual General Meeting. No more than 12,500,000 new shares with a nominal value of EUR 1.70 may be subscribed for as a result of the rights offering, convertible bond issue or issue of share options. The Corporation's share capital may be raised in total by no more than EUR 21,250,000, which represents 9.17 percent of the share capital and votes.

The authorization allows a deviation from the shareholders' preemptive subscription rights, provided there are substantial financial grounds from the Corporation's perspective, such as financing acquisitions, enabling joint operation arrangements or other development of the Corporation's business operations. The Board of Directors had not exercised these authorizations by December 31, 2004.

Market capitalization and trading
Metso Corporation's shares have been listed on the Helsinki Stock Exchange (HEX:MEO1V) and the New York Stock Exchange (NYSE:MX) since July 1, 1999. The year 2000 A and B options and the year 2001 A and B options were combined and accepted for trading as separate securities on April 1, 2003.

The highest quotation of Metso's share on the Helsinki Stock Exchange was EUR 12.89 and the lowest EUR 9.12. The share price on December 31, 2004 was EUR 11.66 and the average trading price for the year was EUR 10.85. The Corporation's end-of-year market capitalization was EUR 1,588 million, excluding shares held by the Corporation.

“The highest quotation of Metso's share on the Helsinki Stock Exchange was EUR 12.89 and the lowest EUR 9.12.”

In 2004, 108,469,701 Metso shares were traded on the Helsinki Stock Exchange. The total turnover was EUR 1,177 million. The average daily trading volume was 428,734 shares. The relative turnover including the ADS turnover was 84.1 percent.

The highest price of Metso's American depository share (ADS) on the New York Stock Exchange was USD 16.49, and the lowest USD 11.10. The ADS price on December 31, 2004 was USD 16.02, and the average trading price was USD 14.22. In 2004, 6,057,500 Metso American depository shares were traded on the New York Stock Exchange, to a value

Metso Automation's PaperIQ Plus quality management system improves the performance of the papermaking process by accurately measuring paper properties at different process stages.

of USD 86,120,293. Each ADS represents one share.

The highest quotation for Metso's year 2000 A/B options on the Helsinki Stock Exchange was EUR 0.68 and the lowest EUR 0.09, with the value of the option on December 31, 2004 being EUR 0.12. The highest quotation for Metso's year 2001 A/B options on the Helsinki Stock Exchange was EUR 0.35 and the lowest EUR 0.11, with the value of the option on December 31, 2004 being EUR 0.13. In 2004, a total of 2,139,000 of Metso's year 2000 A/B options and a total of 155,400 of Metso's year 2001 A/B options were traded. The value of the year 2000 A/B options traded was EUR 489,502 and the value of the year 2001 A/B options traded was EUR 24,171.

Options programs

Metso Corporation currently has three options programs, launched in 2000, 2001 and 2003. The programs are part of the incentive system for key personnel, and included 183 persons at the end of 2004. Initially, the programs gave the right to subscribe for a maximum of 13,800,000 new shares. Metso's Board of Directors decided on May 26, 2004 to reduce the year 2003 options program, after which the programs give the right to subscribe for a maximum of 8,900,000 new shares.

The year 2000 options program includes 5,000,000 options, which entitle their holders to subscribe for a maximum of 5,000,000 shares. The year 2001 options program includes 1,000,000 options, which entitle their holders to subscribe for a maximum of 1,000,000 shares. The year 2000 A and B options and the year 2001 A and B options were combined as separate securities on April 1, 2003, and the subscription period for these options will end on April 30, 2005.

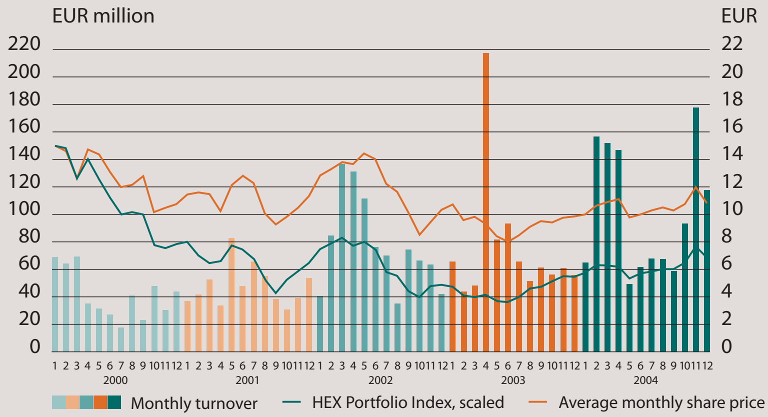
"Metso's Board of Directors has decided to propose that a dividend of EUR 0.35 per share be distributed for 2004."

The share subscription price was EUR 13.60 on December 31, 2004. Annually paid dividends are deducted from the subscription price.

Metso's Board of Directors decided on May 26, 2004 to reduce the number of options related to the year 2003 option program to 2,900,000. Previously 2,600,000 of the options were marked with the symbol 2003A, 2,600,000 were marked with the symbol 2003B and 2,600,000 were marked with the symbol 2003C. However, Metso's Board decided that it will not distribute 2,400,000 year 2003A and 2,500,000 year 2003C options, and that it will propose to the 2005 Annual General Meeting that these options be canceled. With respect to the year 2003 program, Metso's Board of Directors reserved 100,000 year 2003A options and 100,000 year 2003C options for future needs.

Metso's Board of Directors decided that the maximum number of year 2003B options that could be distributed would be 2,500,000. The minimum criteria for a partial distribution of options were a 2004 operating

Monthly turnover and average share price on the Helsinki Stock Exchange 2000–2004



Breakdown by shareholder category on December 31, 2004

- UPM-Kymmene Corporation 14.6%
- State of Finland 11.5%
- Finnish private investors 6.1%
- Finnish institutions, companies and foundations 17.7%
- Nominee-registered and non-Finnish holders 50.1%

profit that is at least 4 percent of net sales, a return on capital employed of at least 8 percent and earnings per share of at least EUR 0.40. As the minimum criteria were not fulfilled, no options will be distributed from the program.

The share subscription prices are for the 2003A options EUR 10.45, for the 2003B options the trade-weighted average price of the Metso share on the Helsinki Stock Exchange during January 1 – March 31, 2005, and for the 2003C options the trade-weighted average price of the Metso share on the Helsinki Stock Exchange during January 1 – March 31, 2006. Annually paid dividends are deducted from the subscription price. The share subscription periods are for the 2003A options April 1, 2006 – April 30, 2009, for the 2003B options April 1, 2007 – April 30, 2010, and for the 2003C options April 1, 2008 – April 30, 2011.

Holdings of Metso's Board of Directors and executive management on December 31, 2004

At the end of 2004, the members of Metso Corporation's Board of Directors, Jorma Eloranta, President and CEO, and Olli Vaartimo, Executive Vice President and CFO, held a combined total of 21,149 Metso shares. These shares represent 0.02 percent of the Corporation's share capital and voting rights. The total number of options held by Jorma Eloranta and Olli Vaartimo at the end of the year was 260,000. On the basis of these options, the share capital of Metso Corporation may increase by EUR 442,000 and the number of shares by 260,000, which on December 31, 2004 would have represented 0.19 percent of the company's share capital and voting rights.

Metso Corporation's extended insider holdings are presented on the Corporation's homepages at www.metso.com/investors > Governance > Insiders.

The taxable value of Metso's share in Finland

The taxable value of Metso Corporation's share in Finland in 2004 is EUR 8.26/share.

Dividend policy

Metso's objective is to distribute annual dividends equivalent to at least one third of the average earnings per share over five years. The dividend policy is founded on the Corporation's long-term profitability and financial strength.

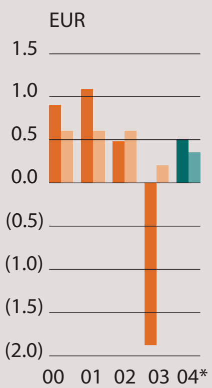
Metso's Board of Directors has decided to propose to the Annual General Meeting, which will convene on April 4, 2005, that a dividend of EUR 0.35 per share be distributed for 2004.

Shareholders

At the end of 2004, Metso's biggest shareholders were UPM-Kymmene Corporation, which held 14.6 percent of all shares, and the State of Finland with an 11.5 percent holding. Nominee-registered shares and shares in direct foreign ownership accounted for 50.1 percent of the total stock. 6.1 percent of the total stock was held by Finnish private individuals. ■

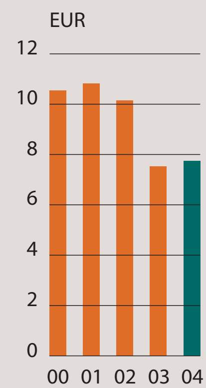
▶▶▶ Up-to-date information on Metso's share price and shareholders can be found at Metso's Internet site at **www.metso.com/investors.**

Earnings/share and dividend/share

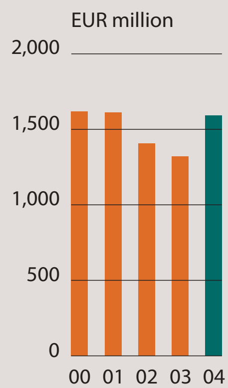


Earnings/share
Dividend/share
* Proposal by the Board of Directors

Equity/share



Market capitalization, on December 31



Metso's biggest shareholders on December 31, 2004		Number of shares and votes	% of share capital and voting rights
1	**UPM-Kymmene Corporation**	**19,922,115**	**14.6**
2	**State of Finland**	**15,695,287**	**11.5**
3	**Ilmarinen Mutual Pension Insurance Company**	**2,877,478**	**2.1**
4	**Varma Mutual Pension Insurance Company**	**1,813,769**	**1.3**
5	**Oy Etra Invest Ab**	**1,453,500**	**1.1**
6	**OP Funds**	**1,412,339**	**1.1**
	OP-Delta Mutual Fund	872,800	0.7
	OP-Finland Small Firm Fund	265,000	0.2
	OP-Focus Non-UCITS Fund	128,000	0.1
	OP-Finland Index Fund	74,577	0.1
	OP-Forest Fund	39,000	0.0
	OP Fund Managament Company Ltd	32,962	0.0
7	**Odin Funds**	**1,270,913**	**1.0**
	Odin Norden	1,062,876	0.8
	Odin Finland	208,037	0.2
8	**Svenska litteratursällskapet i Finland**	**928,477**	**0.7**
9	**Sampo Funds**	**882,311**	**0.6**
	Sampo Finnish Equity Fund	394,260	0.3
	Sampo Finnish Institutional Equity Fund	301,911	0.2
	Sampo European Balanced Fund	186,140	0.1
10	**Etera Mutual Pension Insurance Company**	**880,427**	**0.6**
	10 largest owner groups in total	**47,136,616**	**34.6**
	Nominee-registered shares*	66,854,483	49.1
	Other shareholders	22,198,605	16.3
	Shares held by Metso Corporation	60,841	0.0
	Total	**136,250,545**	**100.0**

*The Corporation was informed that the holding managed by Capital Research and Management Company was 4.7% of the share capital and the voting rights on December 31, 2004.

The Corporation was informed on November 11, 2004 that the funds managed by Franklin Resources, Inc. held 4.96% of the share capital and 7.01% of the voting rights on November 10, 2004.

The Corporation was informed on October 12, 2004 that the funds managed by Marathon Asset Management (Services) Ltd held 5.0% of the share capital and the voting rights on October 8, 2004.

The Corporation was informed on March 25, 2003 that the funds managed by Harris Associates L.P. held 5.07% of the share capital and the voting rights on March 18, 2003.

American depository shares

(Each ADS represents one share)

	2003	2004
Earnings/ADS, USD	(2.14)	**0.63**
Highest ADS price, USD	12.77	**16.49**
Lowest ADS price, USD	8.31	**11.10**
ADS price, Dec. 31, USD	12.53	**16.02**

Changes in number of shares and share capital, July 1, 1999 – December 31, 2004

		Number of shares	Change in number of shares	Share capital EUR	Change in share capital
1999	July 1, 1999, Metso Corporation.				
	Share capital FIM 1,358,172 750.00.	135,817,275		228,428,258.60	
2000	April 25, 2000 Conversion of share capital into euros. In addition to a transfer from the share premium reserve, own 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

Breakdown of share ownership on December 31, 2004

Number of shares	Number of shareholders	% of share-holders	Total number of shares and votes	% of share capital and voting rights
1–100	10,451	44.2	473,655	0.4
101–1,000	10,863	46.0	3,809,527	2.8
1,001–10,000	2,085	8.8	5,227,212	3.8
10,001–100,000	195	0.8	5,390,521	4.0
Over 100,000	43	0.2	54,422,006	39.9
	23,637	100.0	69,322,921	50.9
Nominee-registered shares	15		66,854,483	49.1
Shares held by Metso Corporation			60,841	0.0
On shared account			12,300	0.0
Total			**136,250,545**	**100.0**

Share capital and share data 2000–2004

(In EUR millions except for per share data and share prices)	2000	2001	2002	2003	**2004**
Share capital, Dec. 31	230	232	232	232	**232**
Number of shares					
Number of outstanding shares, Dec. 31	135,501,634	136,189,704	136,189,704	136,189,704	**136,189,704**
Average number of shares	135,363,537	136,135,223	136,189,704	136,189,704	**136,189,704**
Number of shares redeemed and canceled	500,000	-	-	-	**-**
Number of own shares, Dec. 31	60,841	60,841	60,841	60,841	**60,841**
Trading volume, Helsinki Stock Exchange	39,455,032	51,858,765	76,737,801	97,816,594	**108,469,701**
Trading volume, NYSE	950,824	980,606	914,715	2,042,018	**6,057,500**
% of shares**	40.5	52.5	77.2	73.3	**84.1**
Earnings/share	0.90	1.09	0.48	(1.89)	**0.51**
Dividend/share	0.60	0.60	0.60	0.20	**0.35** *
Dividend	81	82	82	27	**48** *
Dividend/earnings, %	67	55	126	neg.	**69** *
Effective dividend yield, %	5.2	5.2	5.8	2.1	**3.0** *
P/E ratio	13.00	10.62	21.54	neg.	**23.07**
Equity/share	10.51	10.78	10.12	7.51	**7.72**
Highest share price	16.20	14.10	15.15	11.41	**12.89**
Lowest share price	8.61	7.81	7.73	7.52	**9.12**
Average share price	12.67	11.16	12.13	9.21	**10.85**
Share price, Dec. 31	11.90	11.80	10.30	9.68	**11.66**
Market capitalization, Dec. 31 ***	1,612	1,607	1,403	1,318	**1,588**

*) Proposal by the Board of Directors **) Of the total amount of shares for public trading ***) Excluding own shares held by the company

Formulas for calculation of share-related indicators are on page 68.

Board of Directors' Report

Metso's operating environment
The U.S. economy turned clearly upward in 2004, while in Europe growth remained modest. China's rapid economic growth continued, although the government's measures to prevent the economy from overheating slowed down decision-making, particularly concerning investments in larger projects.

The paper industry experienced strengthening demand for paper and higher paper machine capacity utilization in 2004, but only small changes in product prices. In North America, paper prices started to increase slightly during the year, while in Europe prices are expected to increase in 2005. Pulp prices fluctuated, although towards the end of 2004 they began to climb again.

In the civil engineering industry, the demand for aggregates increased in the USA and in Asia. The demand for aggregates grew moderately in Europe. In the mining industry, the strong increase in metal prices continued. Demand and prices were mostly affected by the Chinese economy's strong growth rate that has made China the world's largest consumer of metals.

Increases in the prices of key raw materials, such as steel, in 2004 were reflected in Metso Corporation's costs. However, the effects of cost increases will be spread over a longer period, because Metso's materials purchases are mainly based on long-term contracts. In addition, it has been possible to compensate increases in raw material prices by improving productivity and increasing end product prices.

Demand for Metso's products
The demand for Metso Paper's products was satisfactory, as in the previous year. The paper industry's market situation was reflected in cautious investment activity by customers, and few new paper machines were ordered in 2004. Investments in entire production lines were pending mainly in Asia and to some extent also in Europe. In other market areas, demand focused on maintenance and process services and rebuilds. The markets for pulping equipment and lines were good mainly in China and South America. The demand for aftermarket services began to increase in the second half of the year, as capacity utilization improved in customer mills.

The demand for Metso Minerals' crushing and screening equipment for the civil engineering industry improved considerably in North America and Asia, but remained at the previous year's level in Europe. Due to the fact that metal prices have remained high for a long time the demand for mining industry equipment was good in South America and in the Asia-Pacific region. The demand for metals recycling equipment remained buoyant. The markets for Metso Minerals' aftermarket and service operations were good.

The demand for Metso Automation's field equipment increased significantly, although the demand for automation systems remained at the previous year's level. Pulp and paper industry demand was focused on solutions that enhance the production of existing machinery and equipment. Increases in crude oil and gas prices boosted the demand for the power, oil and gas industry systems and equipment to a clearly higher level than in the previous year.

> **"The Corporation's operating profit before nonrecurring items and amortization of goodwill clearly strengthened from the comparison year."**

Orders received and order backlog
The value of orders received by Metso Corporation's continuing operations increased by 10 percent on the comparison year 2003 and totaled EUR 4,110 million in 2004. The order backlog of continuing operations at the end of the year was 25 percent higher than at the end of 2003. Including the divested businesses, the value of orders received by Metso in 2004 totaled EUR 4,374 million, and the order backlog at the end of 2004 was EUR 1,745 million.

Metso Paper accounted for 38 percent, Metso Minerals for 35 percent, Metso Automation for 13 percent and Metso Ventures for 8 percent of orders received. Divested businesses accounted for 6 percent of orders received.

47 percent of orders originated from Europe, 21 percent from North America, 17 percent from Asia-Pacific, 10 percent from South America and 5 percent from the rest of the world.

Net sales
The net sales of Metso's continuing operations were at the level of the comparison year, totaling EUR 3,709 million. Aftermarket operations accounted for 39 percent (37% in 2003) of the Corporation's net sales

(excluding Metso Ventures). Including the divested businesses, Metso's net sales were EUR 3,976 million.

Of the net sales, 38 percent came from the deliveries of Metso Paper, 33 percent from Metso Minerals, 13 percent from Metso Automation and 9 percent from Metso Ventures. Divested businesses accounted for 7 percent of the Corporation's net sales.

42 percent of net sales came from Europe, 21 percent from North America, 23 percent from Asia-Pacific, 8 percent from South America and 6 percent from the rest of the world.

Result

The Corporation's operating profit before nonrecurring items and amortization of goodwill clearly strengthened from the comparison year and was EUR 173.0 million, or 4.4 percent of net sales. The positive performance was due to the substantially improved profitability of Metso Minerals and Metso Automation that resulted from efficiency improvement measures and increased volumes.

Metso Paper's operating profit before nonrecurring items and amortization of goodwill was burdened by the EUR 15 million costs booked for the Papiers Gaspésia paper machine project. Metso Ventures' result was weakened by Valmet Automotive's operating loss of EUR 23 million, due to the exceptionally small volume of cars manufactured in 2004.

The operating profit of Metso's continuing operations before nonrecurring items and amortization of goodwill was EUR 160.1 million, or 4.3 percent of corresponding net sales.

Net nonrecurring expenses in 2004 totaled EUR 25 million, with the largest reported items being gains of EUR 9 million from the divestiture of businesses and disposal of shares, expenses of EUR 26 million related to Metso Paper's business concept renewal and cost streamlining program, and losses and expenses of EUR 20 million related to the divestiture of businesses.

Metso's operating profit was EUR 110.9 million, or 2.8 percent of net sales. Metso's net financial expenses were EUR 62 million, including dividend income of EUR 3 million.

Metso's profit before taxes was EUR 49 million.

The Corporation's taxes were a positive EUR 21 million. Metso received confirmation from the Finnish Tax Office for Major Corporations that the write-down of certain subsidiary shares was accepted as being tax-deductible. Based on this, Metso booked deferred tax assets totaling EUR 53 million in the third quarter.

The net profit was EUR 69 million. Earnings per share were EUR 0.51.

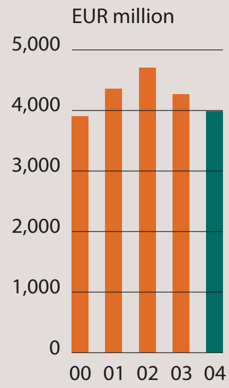
BUSINESSES

METSO PAPER

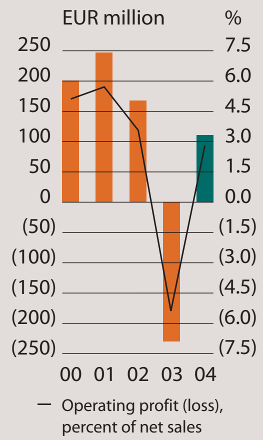
Key figures EUR million	**2004**	2003
Net sales	**1,559**	1,651
Operating profit before nonrecurring items and amortization of goodwill	**37.1**	68.3
% of net sales	**2.4**	4.1
Operating profit	**11.1**	24.6
% of net sales	**0.7**	1.5
Capital employed, 31.12.	**356**	538
Gross capital expenditure	**33**	54
Research and development expenses	**50**	56
Orders received	**1,726**	1,710
Order backlog, 31.12.	**946**	784
Personnel, 31.12.	**8,660**	9,085

Metso Paper's net sales were EUR 1,559 million, down 6 percent on the comparison year. Paper machine

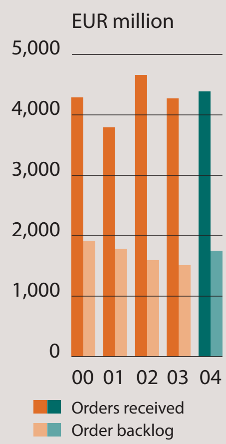
Net sales



Operating profit (loss)



Orders received and order backlog



deliveries were equivalent to those of the comparison year, but tissue machine deliveries were at a clearly lower level than in 2003. Aftermarket and service operations accounted for 35 percent of net sales (34% in 2003).

Metso Paper's operating profit before nonrecurring items and amortization of goodwill was EUR 37.1 million, or 2.4 percent of net sales. Operating profit before nonrecurring items and amortization of goodwill included the EUR 15 million costs booked for the Papiers Gaspésia paper machine project, which is expected to fully cover the project-related risk, even if the project is cancelled entirely. The operating profit included the nonrecurring expenses of EUR 26 million due to the streamlining of the cost structure. Metso Paper's profitability was clearly better in the second half than in the first half of the year. The efficiency improvement measures were reflected especially in the improved profitability of the Paper business line. Metso Paper's result was burdened by the heavy losses of the Tissue business line. Metso Paper's operating profit for the entire year was EUR 11.1 million, or 0.7 percent of net sales.

The value of orders received by Metso Paper was at the level of the comparison year, totaling EUR 1,726 million. Excluding the few significant investments in new lines, the orders received were for machine and process rebuilds, modernizations and service operations. The order backlog strengthened by 21 percent from the end of 2003 and stood at EUR 946 million at the end of 2004.

METSO MINERALS

The following Metso Minerals figures exclude the divested Dynapac and Reedrill businesses.

Key figures EUR million	**2004**	2003
Net sales	**1,343**	1,253
Operating profit before nonrecurring items and amortization of goodwill	**100.3**	48.1
% of net sales	**7.5**	3.8
Operating profit/loss	**84.3**	(189.3)
% of net sales	**6.3**	(15.1)
Capital employed, 31.12.	**729**	741
Gross capital expenditure	**24**	27
Research and development expenses	**9**	10
Orders received	**1,566**	1,213
Order backlog, 31.12.	**560**	347
Personnel, 31.12.	**8,048**	8,284

Metso Minerals' net sales increased by 7 percent on the comparison year and were EUR 1,343 million. In particular, deliveries of crushers and metals recycling equipment to the civil engineering industry clearly increased from the previous year. Aftermarket and service operations accounted for 52 percent of net sales (51% in 2003).

Metso Minerals' operating profit before nonrecurring items and amortization of goodwill was EUR 100.3 million, or 7.5 percent of net sales. Profitability improved due to the streamlined cost structure that resulted from the efficiency improvement program, and to increased demand. All of Metso Minerals' business lines improved their profitability compared with the previous year. The effects of the efficiency improvement program were visible particularly in the substantial profitability improvement of the Crushing and screening business line. During the year's last quarter, the profitability of Metso Minerals continued to develop favorably. Metso Minerals' operating profit for the entire year was EUR 84.3 million, or 6.3 percent of net sales.

The value of orders received by Metso Minerals increased by 29 percent from the comparison year and was EUR 1,566 million. Orders from the mining and crushing industries increased substantially. Metso Minerals' order backlog strengthened by 61 percent from the end of 2003 and was EUR 560 million at the end of 2004.

METSO AUTOMATION

Key figures EUR million	**2004**	2003
Net sales	**535**	531
Operating profit before nonrecurring items and amortization of goodwill	**57.9**	31.4
% of net sales	**10.8**	5.9
Operating profit	**52.9**	28.4
% of net sales	**9.9**	5.3
Capital employed, 31.12.	**136**	150
Gross capital expenditure	**6**	8
Research and development expenses	**31**	33
Orders received	**570**	531
Order backlog, 31.12.	**176**	145
Personnel, 31.12.	**3,267**	3,314

Metso Automation's net sales were at the level of the comparison year, totaling EUR 535 million. In particular, deliveries of field equipment for the power, oil and gas industry increased from the previous year and accounted for almost half of Metso Automation's net sales. Aftermarket and service operations accounted for 25 percent of net sales (25% in 2003).

Metso Automation's operating profit before nonrecurring items and amortization of goodwill was EUR 57.9 million, or 10.8 percent of net sales. The operating profit increased significantly from the comparison year due to efficiency improvement measures and the increased sales volume of field equipment. Metso Automation's profitability continued to be very strong in the year's final quarter. The operating profit for the entire year was EUR 52.9 million, or 9.9 percent of net sales.

The value of orders received by Metso Automation increased by 7 percent from the comparison year and was EUR 570 million. Metso Automation's order backlog strengthened by 21 percent from the end of 2003 and was EUR 176 million at the end of 2004.

METSO VENTURES

Key figures EUR million	2004	2003
Net sales	**387**	370
Operating loss before nonrecurring items and amortization of goodwill	**(6.5)**	(2.6)
% of net sales	**(1.7)**	(0.7)
Operating loss	**(7.1)**	(8.7)
% of net sales	**(1.8)**	(2.4)
Capital employed, 31.12.	**126**	160
Gross capital expenditure	**18**	24
Research and development expenses	**8**	10
Orders received	**361**	398
Order backlog, 31.12.	**118**	175
Personnel, 31.12.	**2,544**	2,482

Metso Ventures' net sales were up 5 percent on the comparison year, totaling EUR 387 million. The operating loss before nonrecurring items and amortization of goodwill was EUR 6.5 million. The loss was due to the volume of cars delivered by Valmet Automotive being clearly smaller than in the comparison year. Metso Ventures' operating loss was EUR 7.1 million. In the final quarter of the year, Metso Ventures' profitability improved.

The value of orders received by Metso Ventures was down 9 percent on the comparison year, totaling EUR 361 million. Metso Ventures' order backlog weakened by 33 percent from the end of 2003 and was EUR 118 million at the end of 2004.

Metso Drives

Metso Drives' net sales increased by 23 percent from the comparison year, totaling EUR 157 million. The growth in net sales was due to increased deliveries of wind turbine gears and equipment for the minerals processing industry. The operating profit was EUR 10.8 million, or 6.9 percent of net sales. Metso Drives' profitability improved substantially, which was due to new products and improved production capacity utilization.

Metso Panelboard

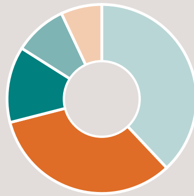
Metso Panelboard's net sales increased by 12 percent on the comparison year and were EUR 104 million. The increase in net sales was due to deliveries to China and the demand for aftermarket services. However, the operating profit was only EUR 0.4 million due to the challenging competitive environment.

Foundries

The deliveries of the foundries increased in 2004 due to the buoyant demand for cast products. The combined net sales of the three foundries were EUR 75 million, of which invoicing outside Metso Corporation accounted for 55 percent. Good capacity utilization clearly improved the foundries' profitability from the comparison year, and the operating profit increased to EUR 3.6 million.

Valmet Automotive

Valmet Automotive's net sales decreased by 43 percent and were EUR 40 million. In 2004, the number of cars manufactured decreased to 10,051 (19,226 cars in 2003). Valmet Automotive's operating loss was EUR



Net sales by business area

- Metso Paper 38% (2003: 38%)
- Metso Minerals 33% (28%)
- Metso Automation 13% (12%)
- Metso Ventures 9% (9%)
- Discontinued operations 7% (13%)

Net sales by market area

- Finland 8% (2003: 9%)
- Other Nordic countries 8% (7%)
- Other European countries 26% (30%)
- North America 21% (23%)
- South America 8% (6%)
- Asia-Pacific 23% (19%)
- Rest of the world 6% (6%)

Order backlog by market area

- Finland 8% (2003: 6%)
- Other Nordic countries 16% (4%)
- Other European countries 24% (26%)
- North America 13% (13%)
- South America 14% (7%)
- Asia-Pacific 20% (37%)
- Rest of the world 5% (7%)

23.1 million, of which EUR 6.5 million was related to personnel reductions. At the end of the year, the total number of Valmet Automotive's personnel was 1,160, of which about 760 were employed and about 400 were laid off. In the second half of 2004, Valmet Automotive began the manufacture of the new Porsche Boxster model. In 2005, net sales are expected to grow and profitability to improve substantially.

Efficiency improvement program

The efficiency improvement program commenced in June 2003 was completed in all of Metso's business areas during the year under review. The decisions made are estimated to result in annual savings of slightly over EUR 100 million. The efficiency improvement measures implemented generated cost savings of about EUR 65 million in 2004. As a result of the efficiency improvement program, Metso's personnel has been reduced by about 1,900 persons, including a reduction of 1,300 in 2004. According to the program and decisions already made, the number of personnel will be reduced further by about 140 persons in 2005. The costs of the program will be EUR 93 million, rather than the EUR 103 million estimated in the previous financial statements.

Renewal of Metso Paper's business concept

In June 2004, Metso commenced a program to renew Metso Paper's business concept and to streamline Metso Paper's cost structure by EUR 50 million annually.

Metso Paper's nonrecurring expenses, resulting from the decisions made under the program in 2004, totaled EUR 26 million and the related annual savings target is about EUR 40 million. The measures left for 2005 are related to certain unfinished outsourcing plans in Finland and Sweden and to the global re-engineering of the Tissue business. The program's nonrecurring expenses are estimated to be less than EUR 40 million. This includes the already recorded provision of EUR 26 million.

Decisions made in 2004 will result in the reduction of about 670 Metso Paper employees, of which some 200 had left the company's payroll by the year's end. In all, the program is estimated to affect 1,100-1,300 persons, with half being affected by reductions and the other half participating in outsourcing and other production arrangements.

Cash flow and financing

Metso's net cash provided by operating activities was EUR 262 million. Cash flow was strengthened by improved profitability and increasingly efficient utilization of working capital.

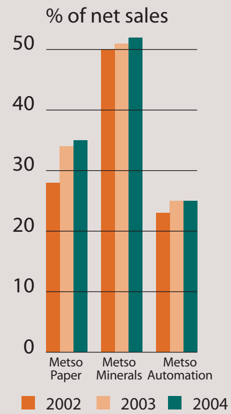
Net interest bearing liabilities were EUR 529 million, or EUR 580 million less than at the beginning of the year. Gearing, i.e. the ratio of net interest bearing liabilities to shareholders' equity, was 50.0 percent, while at the beginning of the year it was still 107.7 percent.

Cash assets generated through divestitures totaled EUR 390 million, while cash assets from sales of other asset items totaled EUR 66 million. These and the strengthened cash flow from operating activities helped to substantially reduce short-term debt and strengthen the Corporation's

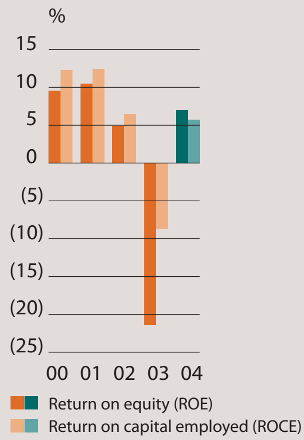
Orders received by market area

- Finland 9% (2003: 8%)
- Other Nordic countries 13% (7%)
- Other European countries 25% (26%)
- North America 21% (21%)
- South America 10% (6%)
- Asia-Pacific 17% (27%)
- Rest of the world 5% (5%)

Aftermarket operations



Return on equity and capital employed



financial position. Metso's equity to assets ratio was 32.7 percent at the end of the year.

Metso's offer to exchange bonds issued under the Euro Medium Term Note program maturing in 2006, to new Euro-denominated bonds maturing in 2011 was completed in November. EUR 256.1 million of existing notes were validly submitted and accepted for exchange corresponding to 62.2 percent of the total outstanding amount of existing notes. EUR 274.2 million of new bonds were issued on November 19, 2004.

On March 3, 2004, Standard & Poor's Ratings Services lowered Metso's long-term corporate credit rating to BB+ and considered the outlook on ratings to be stable. Additionally, the ratings of Metso's outstanding bonds and EMTN program were lowered to BB. At the same time, the short-term rating was lowered to B. On February 17, 2004, Moody's Investors Services lowered the long-term ratings of Metso Corporation to Ba1 and considered the outlook on ratings negative.

Capital expenditure

Metso's gross capital expenditure including acquisitions totaled EUR 99 million (EUR 130 million in 2003). As the efficiency improvement program was implemented during the year under review, Metso's investments were mainly focused on maintenance.

Acquisitions and divestitures

In January, Metso divested its Converting group to the Swiss Bobst Group. The final transaction price was EUR 68 million net of cash sold, and the loss resulting from the divestiture was approximately EUR 8 million. In June, Metso divested the Dynapac compaction and paving equipment group that was a part of Metso Minerals to Altor, a Nordic private equity investor. The transaction price was EUR 291 million net of cash sold, and the loss resulting from the divestiture and the expenses related to the sale totaled approximately EUR 12 million. At the end of the year under review, Metso divested the Reedrill rock drilling equipment business that was a part of Metso Minerals to the U.S. company, Terex Corporation, for approximately EUR 28 million. The transaction resulted in a slight gain for Metso.

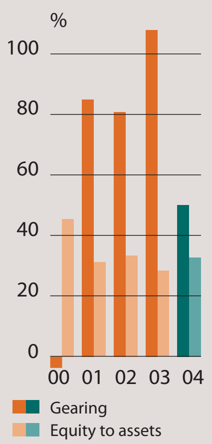
In December, Metso reacquired ThyssenKrupp Automotive AG's minority holding in Valmet Automotive (10 percent) in accordance with the terms of the original agreement. During the financial year, Metso reversed the EUR 5 million gain from the sale, originally booked in 2001.

Research and development

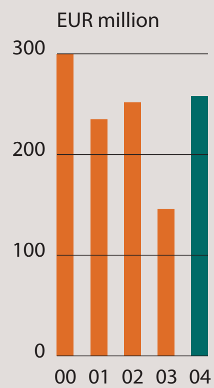
Metso's research and development expenses for the year under review

> **"The efficiency improvement program commenced in June 2003 was completed in all of Metso's business areas during the year under review."**

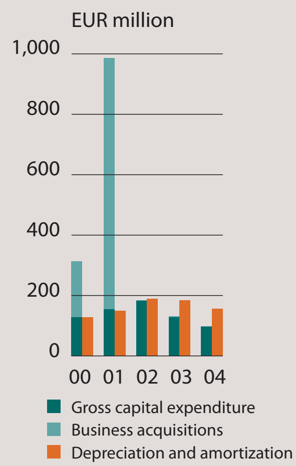
Gearing and equity to assets



Operating cash flow



Capital expenditure and depreciation

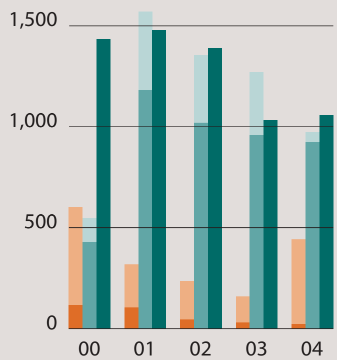


Personnel by area

- Finland 40% (2003: 35%)
- Other Nordic countries 11% (13%)
- Other European countries 13% (18%)
- North America 16% (16%)
- South America 8% (7%)
- Asia-Pacific 6% (6%)
- Rest of the world 6% (5%)

Capital structure

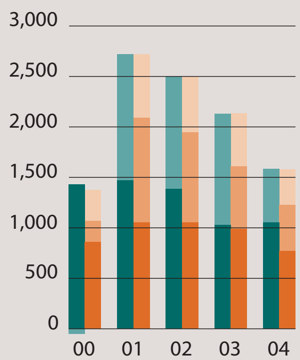
EUR million



- Interest-bearing receivables
- Bank and cash
- Shareholders' equity
- Long-term interest-bearing debt
- Short-term interest-bearing debt

Balance sheet structure

EUR million



- Shareholders' equity
- Net interest bearing liabilities
- Fixed assets
- Goodwill
- Net working capital

totaled EUR 106 million (EUR 129 million in 2003), representing 2.7 percent of the Corporation's net sales. The reduction in R&D expenditure was mainly due to some of the joint corporate-level long-term research projects being cut and the business areas' research and development activities being streamlined and refocused.

In 2004, Metso Paper launched new products for paper web management, paper coating technology and wood handling and chipping. In recycled fiber technology, a number of important reference deliveries of applications for paper and board pulp were successfully completed in Europe and China. In May, Metso Paper launched the new, more cost-efficient Advantage DCT100 concept for tissue production. The concept is designed particularly for emerging markets, where tissue consumption is increasing.

Metso Minerals launched the Chamber Optimi service based on customization of crushers' wear parts, in which Metso Minerals' experts analyze the customers' crushing process and develop cost-efficient wear parts. Early in the year a customer facility put into test use a hybrid wear part that is clearly more durable than before and suitable for demanding applications. Additionally, Metso Minerals developed the shear product family used in metals recycling.

Metso Automation integrated into the metsoDNA automation system a number of new features, including process performance and information security solutions. One of the most significant field equipment product launches was the configuration and condition monitoring tool, Field Care, that allows condition monitoring with just one system for different manufacturers' field equipment in customers' production processes.

Personnel

In 2004, Metso's personnel numbered 24,363 on average, which is 11 percent or 3,037 persons less than in 2003. At the end of the year, the number of personnel was 22,802, or 13 percent less than at the end of 2003. The total salaries and wages paid amounted to EUR 881 million.

Of the Corporation's personnel, 38 percent were employed by Metso Paper, 35 percent by Metso Minerals, 15 percent by Metso Automation and 11 percent by Metso Ventures at the end of the year. The Corporate Office and the Corporation's shared service centers employed 1 percent of Metso's personnel.

The Corporation employed 40 percent of its total personnel in Finland, 11 percent in other Nordic countries, 13 percent in other European countries, 16 percent in North America, 6 percent in Asia-Pacific, 8 percent in South America and 6 percent in the rest of the world.

Corporate management

Jorma Eloranta started as President and CEO of Metso Corporation on March 1, 2004. He was also appointed as Chairman of Metso's Executive Team and as Chairman of Metso's Business Area Boards. Olli Vaartimo, who had been the acting President and CEO of Metso Corporation, continued as Metso's Executive Vice President and CFO, deputy to the CEO and Vice Chairman of the Executive Team. The other members of the Executive Team were the Presidents of Metso's business areas, Bertel Karlstedt (Metso Paper), Bertel Langenskiöld (Metso Minerals), Matti

Kähkönen (Metso Automation) and Vesa Kainu (Metso Ventures).

Decisions of the Annual General Meeting

The Annual General Meeting of Metso Corporation held on April 6, 2004 approved the financial statements for 2003 and discharged the members of the Board of Directors and the President and CEO of Metso Corporation from liability for the 2003 financial year. The Annual General Meeting approved the proposals of the Board of Directors concerning authorizations to repurchase and dispose of the Corporation's own shares. In addition, the Annual General Meeting authorized the Board of Directors to decide on increasing the share capital by issuing new shares, convertible bonds and/or stock options. The Board of Directors had not utilized these authorizations by December 31, 2004.

The Annual General Meeting elected Matti Kavetvuo as the Chairman of the Board and Jaakko Rauramo as the Vice Chairman of the Board. Maija-Liisa Friman, Risto Hautamäki, Satu Huber, Juhani Kuusi and Pentti Mäkinen were elected as Board members. The auditing company, PricewaterhouseCoopers, Authorized Public Accountants, was re-elected to act as the Auditor of the Corporation.

The Annual General Meeting decided to pay a dividend of EUR 0.20 per share for the financial year ending on December 31, 2003. The dividend was paid on April 20, 2004.

Nomination Committee

Metso Corporation's Annual General Meeting held on April 6, 2004 decided to establish a Nomination Committee of the Annual General Meeting to prepare proposals for the following Annual General Meeting concerning the composition of the Board of Directors and the remuneration of the directors. The Nomination Committee comprises the representatives appointed by Metso's four biggest registered shareholders as of December 1, 2004 along with the Chairman of the Board as an expert member.

Metso's four biggest registered shareholders on the given date were UPM-Kymmene Corporation, the State of Finland, Ilmarinen Mutual Pension Insurance Company and Varma Mutual Pension Insurance Company.

Financial targets

Metso published its financial targets for 2005 at the end of June. In 2005, Metso is targeting an operating profit that is 6 percent of net sales and a 12 percent return on capital employed before taxes (ROCE). The operating profit targets for each business area in 2005 are: Metso Paper 5 percent, Metso Minerals 7 percent, Metso Automation 8 percent and Metso Ventures 6 percent.

In calculating the above operating profit percentage and ROCE targets Metso's transfer to International Financial Reporting Standards (IFRS) from the beginning of 2005 and the consequent end to the practice of goodwill amortization has been taken into account.

Short-term outlook

Improved capacity utilization in Metso Paper's customer industries is expected to gradually increase customers' willingness to invest. However, in the near future the demand for Metso Paper's products is expected to mainly focus on rebuilds and aftermarket services.

Metso Minerals' strong order backlog provides a solid foundation for net sales growth. Demand for products related to aggregates production is expected to remain good in North America and Asia. Due to the strong investment activity in the mining industry, the demand for Metso Minerals' products related to minerals processing is expected to remain buoyant.

Metso Automation's markets are expected to remain good in the power, oil and gas industry and to recover in the pulp and paper industry.

The completed measures to streamline the cost structure and the strengthened order backlog will support favorable profit performance in Metso Corporation. Metso's operating profit is expected to be better in 2005 than in the previous year. The positive profit performance of Metso Minerals and Metso Automation will help the Corporation to attain its financial targets. However, the targets set for Metso Paper and Metso Ventures are demanding. The 2005 financial targets set for Metso Corporation as a whole are expected to be reached.

Board of Directors' proposal for the distribution of profit

The consolidated distributable funds of Metso Corporation on December 31, 2004 were EUR 572 million. The parent company's distributable funds totaled EUR 543 million. On December 31, 2004, a total of 136,189,704 Metso shares, giving entitlement to full dividends for 2004, were held outside the Corporation.

Metso Corporation's Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.35 per share be distributed. ■

Helsinki, February 2, 2005
Metso Corporation's Board of Directors

Metso Minerals' conveyors are used for transporting aggregates and minerals in quarries and mines, for example. Mobile conveyor systems can connect the mobile crushing plant operating in the quarry to the next stage of the process.

Consolidated Statements of Income

		Year ended December 31,		
		2002	2003	**2004**
(In millions, except for per share amounts)	Note	EUR	EUR	**EUR**
Net sales		4,691	4,250	**3,976**
Cost of goods sold	3), 5)	(3,425)	(3,211)	**(2,959)**
Gross profit		1,266	1,039	**1,017**
Selling, general and administrative expenses	2), 3), 5)	(1,015)	(906)	**(844)**
Operating profit before nonrecurring				
operating items and amortization of goodwill		251	133	**173**
% of net sales		5.3%	3.1%	**4.4%**
Nonrecurring operating income and expenses, net	4), 9)	(27)	(106)	**(25)**
Goodwill impairment	11)	-	(205)	**-**
Amortization of goodwill	5), 11)	(57)	(51)	**(37)**
Operating profit (loss)		167	(229)	**111**
% of net sales		3.6%	(5.4%)	**2,8%**
Financial income and expenses, net	6)	(74)	(74)	**(62)**
Share of profits of associated companies	7)	0	0	**0**
Income (loss) before extraordinary items and income taxes		93	(303)	**49**
Extraordinary income and expenses, net		-	-	**-**
Income (loss) before taxes		93	(303)	**49**
Income taxes	8)	(26)	44	**21**
Minority interests		(2)	1	**(1)**
Net income (loss)		65	(258)	**69**
Earnings per share	10)	0.48	(1.89)	**0.51**

Consolidated Balance Sheets

Assets

(In millions)	Note	As at December 31, 2003 EUR	**2004 EUR**
Fixed assets and financial assets			
Intangible assets	11)		
Goodwill		623	**458**
Other intangible assets		137	**104**
		760	**562**
Tangible assets	11), 12)		
Land and water areas		80	**65**
Buildings		329	**257**
Machinery and equipment		336	**283**
Other tangible assets		28	**17**
Assets under construction		37	**19**
		810	**641**
Financial assets			
Shareholdings and other securities	13)	44	**27**
Own shares	13)	1	**1**
Loan and other receivables	16)	37	**54**
Accounts receivable	16)	2	**7**
Other long-term investments	14), 16)	10	**4**
		94	**93**
Total fixed and financial assets		1,664	**1,296**
Current assets			
Inventories			
Materials and supplies		169	**150**
Work in process		275	**316**
Finished products		299	**221**
		743	**687**
Receivables	16)		
Accounts receivable		719	**651**
Cost and earnings of projects under construction in excess of billings	15)	269	**191**
Loans receivable		5	**5**
Accrued income and prepaid expenses		88	**86**
Deferred tax asset	8)	145	**187**
Other receivables		53	**52**
Other short-term investments		7	**4**
		1,286	**1,176**
Cash and cash equivalents		130	**419**
Total current assets		2,159	**2,282**
Total assets		3,823	**3,578**

Shareholders' equity and liabilities

(In millions)	Note	As at December 31, 2003 EUR	2004 EUR
Shareholders' equity	17)		
Share capital		232	**232**
Share premium reserve		14	**14**
Legal reserve		228	**228**
Cumulative translation differences		(76)	**(80)**
Reserve for own shares		1	**1**
Other reserves		202	**202**
Retained earnings		681	**386**
Net income (loss) for the financial year		(258)	**69**
Total shareholders' equity		1,024	**1,052**
Minority interests		6	**5**
Liabilities			
Long-term debt	18)		
Bonds		695	**746**
Loans from financial institutions		183	**107**
Pension loans		29	**5**
Other long-term debt		50	**62**
		957	**920**
Other long-term liabilities			
Accrued expenses	19), 22)	134	**122**
Deferred tax liability	8)	22	**8**
Other long-term loans		5	**6**
		161	**136**
Current liabilities			
Current portion of long-term debt		17	**19**
Other interest bearing short-term debt	20)	295	**31**
Advances received		147	**219**
Accounts payable		282	**296**
Billings in excess of cost and earnings of projects under construction	15)	41	**124**
Accrued expenses and deferred income	21), 22)	818	**719**
Other current liabilities		75	**57**
		1,675	**1,465**
Total liabilities		2,793	**2,521**
Total shareholders' equity and liabilities		3,823	**3,578**

Consolidated Statements of Cash Flows

	Year ended December 31,		
	2002	2003	**2004**
(In millions)	EUR	EUR	**EUR**
Cash flows from operating activities:			
Net income (loss)	65	(258)	**69**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	197	183	**155**
Efficiency improvement programs:			
Provisions, including usage of previous year provision	-	60	**(31)**
Asset write-downs	-	25	**10**
Impairment of goodwill	-	205	**-**
Gain on sale of fixed assets	(7)	0	**(13)**
(Gain) loss on sale of subsidiaries and associated companies	(1)	(12)	**18**
Gain on sale of marketable securities	(7)	(3)	**(9)**
Share of profits and losses of associated companies	(1)	(2)	**(4)**
Change in deferred taxes [1)]	27	(65)	**(51)**
Other non-cash items [2)]	28	23	**56**
Change in net working capital, net of effect from business acquisitions and disposals [1)]	(49)	(10)	**62**
Net cash provided by (used in) operating activities	252	146	**262**
Cash flows from investing activities:			
Capital expenditures on fixed assets	(191)	(128)	**(89)**
Proceeds from sale of fixed assets	33	14	**39**
Business acquisitions, net of cash acquired	(1)	(2)	**(2)**
Investments in associated companies	(1)	-	**(1)**
Proceeds from sale of subsidiaries and associated companies, net of cash sold	38	31	**390**
Proceeds from sale of shares and marketable securities	110	6	**34**
Investments in shares and marketable securities	(2)	(1)	**(7)**
Other items	-	-	**(5)**
Net cash provided by (used in) investing activities	(14)	(80)	**359**
Cash flows from financing activities:			
Dividends paid	(82)	(82)	**(27)**
Hedging of net investment in foreign subsidiaries	-	12	**11**
Net borrowings (payments) on short-term debt	(50)	17	**(258)**
Proceeds from issuance of long-term debt	200	110	**180**
Principal payments of long-term debt	(311)	(171)	**(234)**
Notes receivable issued	(4)	(8)	**(5)**
Proceeds from payments on notes receivable	14	2	**6**
Other items	0	(1)	**(6)**
Net cash provided by (used in) financing activities	(233)	(121)	**(333)**
Effect of changes in exchange rates on cash and cash equivalents	(27)	(5)	**1**
Net increase (decrease) in cash and cash equivalents	(22)	(60)	**289**
Cash and cash equivalents at beginning of year	212	190	**130**
Cash and cash equivalents at end of year	190	130	**419**

[1)] Prior year information has been reclassified to conform to current year presentation.

[2)] In the year ended December 31, 2004 Other non-cash items include EUR 15 million of bad debt expense related to Papiers Gaspésia.

(In millions)	2002 EUR	2003 EUR	**2004 EUR**
	Year ended December 31,		
Change in net working capital, net of effect from business acquisitions and disposals: [1]			
(Increase) decrease in assets and increase (decrease) in liabilities:			
Inventory	24	23	**(129)**
Receivables	183	70	**(61)**
Other assets	(25)	86	**(26)**
Percentage of completion: recognized assets and liabilities, net	(71)	(140)	**113**
Accounts payable	(46)	(26)	**74**
Accrued liabilities	(86)	(34)	**17**
Other liabilities	(28)	11	**74**
Total	(49)	(10)	**62**
Supplemental cash flow information:			
Acquisition of businesses:			
Intangible assets	0	-	**1**
Tangible assets	1	-	**-**
Goodwill	4	0	**1**
Current assets, other than cash	2	-	**1**
Minority interests	0	2	**-**
Liabilities assumed	(6)	-	**(1)**
Total, net of cash acquired	1	2	**2**
Disposals of businesses:			
Intangible assets	0	1	**35**
Tangible assets	13	4	**67**
Goodwill	15	0	**120**
Current assets, other than cash	28	38	**334**
Minority interests	-	-	**(1)**
Liabilities sold	(19)	(24)	**(147)**
Gain (loss) on sale	1	12	**(18)**
Total, net of cash sold	38	31	**390**
Revolving credit facility activity:			
Borrowings	1,409	398	**50**
Payments	1,513	426	**116**
Cash paid (received) during the year for:			
Interest	83	69	**60**
Income taxes [2]	57	(6)	**31**

[1] Prior year information has been reclassified to conform to current year presentation.

[2] Includes cash receipt of EUR 30 million related to income tax benefit realized for the goodwill impairment for the year ended 2003.

Consolidated Statements of Changes in Shareholders' Equity

(In millions)	Number of shares (thousands)	Share capital EUR	Share premium reserve EUR	Legal reserve EUR	Cumulative translation differences EUR	Reserve for own shares EUR	Other reserves EUR	Retained earnings EUR	Total EUR
Balance at December 31, 2001	136,251	232	14	221	25	1	202	774	1,469
Dividends	-	-	-	-	-	-	-	(82)	(82)
Translation differences	-	-	-	-	(85)	-	-	-	(85)
Other	-	-	-	6	-	-	-	6	12
Net income	-	-	-	-	-	-	-	65	65
Balance at December 31, 2002	**136,251**	**232**	**14**	**227**	**(60)**	**1**	**202**	**763**	**1,379**
Dividends	-	-	-	-	-	-	-	(82)	(82)
Translation differences	-	-	-	-	(16)	-	-	-	(16)
Other	-	-	-	1	-	-	-	0	1
Net income (loss)	-	-	-	-	-	-	-	(258)	(258)
Balance at December 31, 2003	**136,251**	**232**	**14**	**228**	**(76)**	**1**	**202**	**423**	**1,024**
Dividends	-	-	-	-	-	-	-	(27)	(27)
Translation differences	-	-	-	-	(12)	-	-	-	(12)
Transfer of translation differences	-	-	-	-	8	-	-	(8)	0
Other	-	-	-	-	-	-	-	(2)	(2)
Net income	-	-	-	-	-	-	-	69	69
Balance at December 31, 2004	**136,251**	**232**	**14**	**228**	**(80)**	**1**	**202**	**455**	**1,052**

Shareholders' equity includes EUR 5 million nondistributable accelerated depreciation and untaxed reserves and EUR 80 million negative translation differences at December 31, 2004.

A pulp mill recovery line may feature over 1,000 Metso Automation control valves and on/off valves used for controlling the flow of liquids and stock within the process.

Notes to Consolidated Financial Statements

1 Accounting Principles

Basis of presentation

The consolidated financial statements, prepared in accordance with Finnish generally accepted accounting principles ("Finnish GAAP"), include the financial statements of Metso Corporation (the "Parent Company") and its subsidiaries (together, "Metso"). Metso Corporation was formed in 1999 as a result of the merger of Rauma Corporation ("Rauma") and Valmet Corporation ("Valmet"). The merger was consummated on July 1, 1999 and is accounted for by the pooling-of-interests method.

The financial statements are presented in millions of euros ("EUR"), except for share and per share amounts.

Use of estimates

The preparation of financial statements, in conformity with Finnish GAAP, 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.

Principles of consolidation

The consolidated financial statements include the accounts 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. The companies acquired during the financial period have been consolidated from the date that 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 separately before net income. They are also shown separately from shareholders' equity and liabilities on the consolidated balance sheets.

Acquisitions of companies are accounted for using the purchase method. Goodwill represents the excess of the purchase cost over the book value of the net assets of the acquired companies. A portion of the goodwill is allocated to fixed assets, which are depreciated over their useful lives. The remaining goodwill arising from acquisitions is amortized over a period not to exceed twenty years. Deferred credit (negative goodwill) represents the excess of net assets of acquired companies over the purchase cost. Deferred credit arising from acquisitions is allocated to reduce the acquired fixed assets.

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. Under the equity method, the share of profits and losses of associated companies is included in the consolidated statements of income. The share of the result of associated companies, the activity of which is closely connected with the business areas of Metso, is recorded in other income and expenses, net. Metso's share of post-acquisition retained profits and losses of associated companies is reported as part of investments in associated companies in the consolidated balance sheets.

Other shareholdings and securities (voting rights less than 20 percent) are stated at cost and dividends received are included in the statements of income; a write-down is made where it is deemed necessary to reduce the cost to estimated net realizable value.

Foreign currency translation

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the date of the transactions. 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 treated as adjustments to sales and purchases. Foreign exchange gains and losses associated with financing are entered as a net amount under financial income and expenses.

The statements of income of foreign subsidiaries (i.e., outside the Euro area) 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 directly to equity. 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 in equity, net of taxes.

Derivative financial instruments

Metso uses a variety of derivative financial instruments, mainly forward exchange contracts, and a limited number of interest rate, currency and cross-currency swaps as well as currency options, interest rate futures and commodity contracts, as part of an overall risk management policy. These instruments are used to reduce the foreign currency and interest rate risks relating to existing assets, liabilities, firm commitments, forecasted sales and estimated consumption of raw materials.

Metso does not hold nor issue derivative financial instruments for trading purposes.

Metso uses principally forward exchange contracts to hedge the currency risk on certain commercial assets (receivables) and liabilities (payables) and firm commitments (orders). The derivatives are designated at inception as a hedge with respect to the hedged item or group of items with similar characteristics. If a derivative has been contracted to close or reduce net exposure to a certain currency or group of currencies, it is fair valued quarterly and the arising variation in fair values is recognized in the consolidated statements of income.

Currency options are used to hedge forecasted sales. Options are recorded at fair value.

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 forward exchange contracts, and to some extent cross-currency swaps. Both realized and unrealized exchange gains and losses measured on these instruments are recorded, net of taxes, in a separate component of equity against the translation differences arising from consolidation to the extent that these hedges are effective.

Currency and cross-currency swaps are used to hedge foreign currency denominated loans. The translation differences arising from the derivative instruments are recorded concurrently with the translation difference of the underlying loans. Interest expense and income, net is recognized as incurred.

Metso's exposure to interest rate risk, arising from interest bearing receivables and loans, is managed through interest rate swaps and interest rate futures. The net of interest payable and receivable on the swaps is accrued and recorded in interest and other financial expenses to match the interest income/expense on the related underlying hedged items. Realized gains and losses occurring from early termination of contracts are recorded in income over the remaining period of the original swap agreement.

If the interest leg of a cross-currency swap or an interest swap has not been designated as a hedge of an underlying item at its inception, the interest portion of the swaps is recorded at fair value. Interest rate futures are fair valued quarterly and the change in fair value is recognized in financial income and expenses, net.

Metso has entered into electricity futures to reduce the effects of the volatility of the electricity prices of its units located in Finland. The unrealized gains and losses of the contracts are deferred and recognized concurrently with the underlying consumption at the maturity date of the related contracts.

Other long-term investments

Marketable debt securities, e.g. bonds, commercial papers and time deposits are included in other long-term investments when their maturity, at the time of their inception, exceeds one year. The unrealized gains and losses on marketable securities are deferred and recognized in income when realized either at disposal or at maturity.

Capitalization of costs related to exchange of debt instruments

Costs and fees arising from exchange of debt instruments are capitalized and amortized over the remaining period of the modified liability provided 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. Should the difference be less than ten percent, the conditions are not considered to be substantially different and the costs and fees are capitalized.

Revenue recognition

Revenues from goods and services sold are recognized, net of sales taxes, discounts and foreign exchange differences, 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 clause of the contract. The credit worthiness of the buyer is verified before engaging in a sale. However, should a risk of non-payment arise after revenue recognition, a provision for non collectibility risk is established.

Percentage-of-completion method: Sales and anticipated profits under significant long-term engineering and construction contracts are recorded on a percentage-of-completion basis. The measurement is done 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.

Sales with repurchase commitments are recognized at the time of the delivery and the commitment is included in contingent liabilities.

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.

Research and development

Research and development costs are expensed as incurred. Research and development costs comprise salaries, administration costs, depreciation and amortization of tangible and intangible fixed assets.

Maintenance, repair and renewals

Maintenance, repairs and renewals are charged to expense as incurred. However, major betterments are capitalized and depreciated over their expected useful lives.

Pensions and coverage of pension liabilities

The companies within Metso have various pension schemes in accordance with the local conditions and practices in the countries in which they operate. The schemes are generally funded through payments to insurance companies or to trustee-administered funds as determined by periodic actuarial calculations. Metso has met local minimum funding requirements for the countries in which it maintains pension schemes. Metso's contributions to defined contribution plans and to multi-employer and insured plans are charged to the income statement concurrently with the payment obligations.

Fixed assets and long-term investments

Intangible and tangible assets are stated at cost, less accumulated depreciation. 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	15–40 years
Machinery and equipment	3–20 years
Other tangible assets	5–20 years
Intangibles, other than goodwill	3–12 years
Trade names	20 years
Goodwill	5–20 years

Impairments of fixed assets and capital gains and losses on the disposal of fixed assets are included in operating profit (loss) or in extraordinary items depending on the nature of the event.

Goodwill arising from strategic business acquisitions is amortized over 20 years. The acquisition of Svedala in 2001 has been classified as strategic and the goodwill arising from it is being amortized over 20 years.

Metso reviews long-lived assets and certain intangibles, other than goodwill, 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.

The carrying value of goodwill for each business area is reviewed annually or, more frequently, 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 is performed at the reporting unit level, which in Metso is one level below the segment level. The annual testing may be waived if there has not been significant changes to the assets and liabilities of the reporting unit, if in the previous testing the fair value clearly exceeded the carrying values tested, and if the likelihood that the current fair value would be less than the current carrying value of the reporting unit is remote. Metso uses discounted cash flow analysis to assess the fair value of goodwill.

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.

Revaluation of fixed assets

Fixed assets are stated at historical acquisition price reduced by accumulated depreciation. Revaluations are not permitted.

Leasing

Rental expenses for operating leases are expensed as incurred. Acquisitions of property and equipment under capital lease arrangements are recorded in fixed assets and depreciated over their expected useful lives.

Own shares (treasury stock)

Own shares held by Metso are valued at reacquisition price in a separate caption under financial assets. Own shares have been deducted from the number of shares outstanding and the share capital for the calculation of per share and other performance related indicators.

Cash and cash equivalents

Cash and cash equivalents consist of cash in banks and other liquid investments with a maturity of ninety days or less.

Inventories

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

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

Accounts receivable and securitization
Accounts receivable are recognized at original invoice amount to customers net of allowance for doubtful receivables. The allowance 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 honoured.

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

Metso sells certain receivables through arrangements with third party financial institutions. If specific criteria are met, including legal isolation from the Company, these receivables are removed from Metso's books, and a gain or loss on sale of the receivables is recorded.

Nonrecurring operating income and expenses
Nonrecurring operating income and expenses include restructuring and reorganization costs which have either been realized or planned and to which the management is committed, and other major one-time operating income and expenses.

Extraordinary items
Extraordinary items, net of taxes, include significant unusual income and expenses not resulting from the ordinary course of business operations.

Equity share of untaxed reserves
In Finland and certain other countries, companies are permitted to reduce or increase taxable income by adjustments to untaxed reserve accounts, provided that such amounts are reflected in the company's financial statements. Such amounts are included, net of taxes, in other shareholders' equity in the consolidated accounts.

Warranty
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.

Restructuring costs
A provision for restructuring is recognized only after management has developed and approved a formal plan to which it has committed. The costs included in a provision for restructuring are those costs that are either incremental and 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 costs also include other costs incurred as a result of the plan, which are recorded separately under nonrecurring income and expenses, such as asset write-downs, environmental liabilities and costs to transfer operations to new locations.

Environmental remediation costs
Metso accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. 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. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

Income taxes
Income taxes presented in the income statement consist of current and deferred taxes. Current taxes include estimated taxes corresponding to the results for the financial year of the companies, 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 at their estimated realizable amounts. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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 of foreign subsidiaries.

Earnings per share
Earnings per share is based on income before extraordinary items and income taxes adjusted for minority interests and taxes related to normal business operations. The amount is divided by the weighted average number of shares outstanding during each period. The average number of own shares has been deducted from

the number of outstanding shares.

The diluted earnings per share have been computed 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, if later, 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 assumption of exercise is not reflected in earnings per share when the exercise price of the warrants and options exceeds the average market price of the common stock during the period. 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.

2 Selling, general and administrative expenses

	Year ended December 31,		
	2002	2003	**2004**
(In millions)	EUR	EUR	**EUR**
Marketing and selling expenses	548	492	**481**
Research and development expenses, net [1)]	146	126	**103**
Administrative expenses	341	299	**278**
Other income	(26)	(17)	**(25)**
Other expenses	6	6	**7**
Total	1,015	906	**844**

[1)] Research and development expenses are presented net of grants received of EUR 8 million, EUR 7 million and EUR 8 million and net of capitalized investments of EUR 13 million, EUR 7 million and EUR 4 million and include depreciation of EUR 11 million, EUR 11 million and EUR 10 million for the years ended December 31, 2002, 2003 and 2004, respectively.

3 Personnel expenses and the number of personnel

	Year ended December 31,		
	2002	2003	**2004**
(In millions)	EUR	EUR	**EUR**
Salaries to the members of Boards of Directors and			
Managing Directors of group companies	14	13	**10**
Other wages and salaries	1,062	951	**871**
Pension costs	112	104	**104**
Other indirect employee costs	183	173	**152**
Total	1,371	1,241	**1,137**

Number of personnel:	2002	2003	**2004**
Personnel, average	29,258	27,400	**24,363**
Personnel, at end of year	28,489	26,240	**22,802**

4 Nonrecurring operating income and expenses

	Year ended December 31,		
	2002	2003	**2004**
(In millions)	EUR	EUR	**EUR**
Gain on sale of businesses	-	12	**2**
Gain on sale of listed and other shares	8	3	**7**
Other income	-	-	**3**
Nonrecurring operating income, total	8	15	**12**
Restructuring expenses 1)	(28)	(108)	**(17)**
Loss on sale of businesses	-	-	**(20)**
Other expenses	(7)	(13)	**0**
Nonrecurring operating expenses, total	(35)	(121)	**(37)**
Nonrecurring operating income and expenses, net	(27)	(106)	**(25)**

1) For additional information on restructuring expenses, see also note 9.

5 Depreciation and amortization

Depreciation and amortization expenses consist of the following:

	Year ended December 31,		
	2002	2003	**2004**
(In millions)	EUR	EUR	**EUR**
Intangible assets			
Goodwill	57	51	**37**
Other intangible assets	19	16	**16**
Tangible assets			
Buildings	26	25	**24**
Machinery and equipment	87	84	**72**
Other tangible assets	8	7	**6**
Total	197	183	**155**

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

	Year ended December 31,		
	2002	2003	**2004**
(In millions)	EUR	EUR	**EUR**
Cost of goods sold	83	82	**71**
Marketing, selling and administrative expenses			
Marketing and selling	12	8	**8**
Research and development	11	11	**10**
Administrative	34	31	**29**
Goodwill	57	51	**37**
Total	197	183	**155**

6 Financial income and expenses

	Year ended December 31,		
	2002	2003	**2004**
(In millions)	EUR	EUR	**EUR**
Financial income			
Dividends received	7	4	**3**
Interest income	11	7	**8**
Other financial income	3	1	**1**
Net gain (loss) from foreign exchange	(4)	(4)	**(2)**
Financial income, total	17	8	**10**
Financial expenses			
Interest expenses	(87)	(73)	**(63)**
Other financial expenses	(4)	(9)	**(9)**
Financial expenses, total	(91)	(82)	**(72)**
Financial income and expenses, net	(74)	(74)	**(62)**

7 Investments in associated companies

	Year ended December 31,		
	2002	2003	**2004**
(In millions)	EUR	EUR	**EUR**
Dividends received	0	0	**0**
Share of profits or losses in associated companies	1	2	**4**
Equity value of investments in associated companies	14	15	**17**

In addition to the information provided above for investments in associated companies, see also note 13.

8 Income taxes

The domestic and foreign components of income (loss) before extraordinary items and income taxes are as follows:

	Year ended December 31,		
	2002	2003	**2004**
(In millions)	EUR	EUR	**EUR**
Finland	103	(48)	**(8)**
Other countries	(10)	(255)	**57**
Total	93	(303)	**49**

The components of income taxes are as follows:

	Year ended December 31,		
	2002	2003	**2004**
(In millions)	EUR	EUR	**EUR**
Current taxes			
Finland	(18)	(12)	**(6)**
Other countries	17	33	**35**
	(1)	21	**29**
Deferred taxes			
Finland	22	(53)	**(44)**
Other countries	5	(12)	**(6)**
	27	(65)	**(50)**
Income taxes, total	26	(44)	**(21)**

The Finnish corporate income tax rate was 29% for the years ended December 31, 2002, 2003 and 2004, respectively. As of January 1, 2005, the enacted rate was reduced to 26%, thus impacting the deferred tax amounts presented in the table below for the year ended December 31, 2004. The differences between income tax expense (benefit) computed at Finnish statutory rates and income tax expense (benefit) provided on earnings are as follows:

	Year ended December 31,		
	2002	2003	**2004**
(In millions)	EUR	EUR	**EUR**
Income tax expense (benefit) at Finnish statutory rate	27	(88)	**14**
Income tax for prior years	(9)	(3)	**(4)**
Write-down of subsidiary shares [1]	(29)	(53)	**(53)**
Temporary differences for which no deferred tax has been provided	2	(3)	**0**
Benefit of operating loss carryforward	(3)	(12)	**(10)**
Amortization and impairment of goodwill	16	74	**11**
Nondeductible expenses	1	1	**1**
Taxes on foreign subsidiaries' net income in excess of income taxes at Finnish statutory rates	4	8	**6**
Operating losses with no current tax benefit [2]	16	26	**4**
Change in Finnish statutory rate as of January 1, 2005	-	-	**3**
Other	1	6	**7**
Income tax expense (benefit)	26	(44)	**(21)**

1) Write-down of subsidiary shares includes, for the year ended December 31, 2003, the impact of a realized tax benefit of EUR 51 million related to a write-down of subsidiary shares recorded in 2002 with full valuation allowance. Correspondingly, the tax benefit of EUR 53 million for the year ended December 31, 2004 relates to a write-down recorded in 2003.

2) Operating losses with no current tax benefit relate to current year losses for which no deferred tax asset has been recognized.

The components of net deferred tax asset (liability) consist of the following:

	Year ended December 31,	
	2003	**2004**
(In millions)	EUR	**EUR**
Non-current assets:		
Tax losses carried forward	171	**210**
Provisions	21	**33**
Other	0	**0**
Valuation allowance	(111)	**(113)**
	81	**130**
Current assets:		
Intercompany profit in inventory	8	**7**
Provisions	116	**80**
Valuation allowance	(3)	**0**
	121	**87**
Current liabilities:		
Inventories and other	(6)	**(1)**
Non-current liabilities:		
Accelerated depreciation and other untaxed reserves	(22)	**(8)**
Other	(51)	**(29)**
	(73)	**(37)**
Deferred tax asset (liability), net	123	**179**

As at December 31, 2004, Metso had EUR 672 million of losses carried forward, primarily attributable to foreign subsidiaries. New losses for the year ended December 31, 2004, amounting to EUR 87 million, increased the deferred tax asset on loss carry-forward by EUR 17 million. Approximately 25 percent of the accumulated loss carry-forwards at December 31, 2004 have no expiration date, 45 percent expires between years 2005–2014 and the remaining 30 percent between years 2015–2024.

The valuation allowance for the deferred tax asset is as follows:

(In millions)	Balance at beginning of year EUR	Deduction EUR	Increase EUR	Balance at end of year EUR
2003				
Losses carried forward	110	(49)	50	111
Other	0	0	3	3
Total	110	(49)	53	114
2004				
Losses carried forward	111	(20)	22	113
Other	3	(3)	0	0
Total	**114**	**(23)**	**22**	**113**

9 Restructuring costs

2003 Program

In June 2003, Metso launched its group-wide efficiency improvement program aiming to reach substantial cost savings. The plan included streamlining of sales and administrative organizations and closing down of sites both in the United States and in Europe. As a result of the efficiency improvement program, Metso's personnel has been reduced by some 1,900 persons. Based on decisions already made, the number of personnel will be reduced further by some 140 persons in 2005.

For the year ended December 31, 2003, the costs recognized under the program amounted to the following:

(In millions)	**EUR**
Pensions and postretirement benefits	21
Employee termination and exit cost	42
Write-down of fixed assets and inventory	25
Restructuring expenses	7
Other expenses	8
2003 program, total	**103**

During the year ended December 31, 2004, the 2003 program cost was reduced by EUR 10 million due to receiving the results of a final soil contamination analysis, finding more favorable solutions to certain termination plans and reducing certain personnel costs. In addition, gains on the sale of fixed assets and business activities of EUR 2 million, and increases in the program cost of EUR 2 million, were recorded under nonrecurring items.

No further costs are expected under the 2003 efficiency improvement program.

The accrued liabilities related to the 2003 program are the following:

(In millions)	2003 EUR	**2004 EUR**
Pensions and postretirement benefits [1]	12	**7**
Employee termination and exit cost	33	**7**
Restructuring expenses	7	**3**
Other expenses	25	**1**
Accrued liabilities at end of year	77	**18**

[1] As at December 31, 2004, accrued pensions comprised EUR 6 million of long-term liabilities.

2004 Program

In June 2004, Metso announced a program for the renewal of Metso Paper's business concept, which targets to streamline cost structure. The main locations affected by the measures are in the Finnish, Swedish and North American operations. The measures comprise personnel reductions in certain administrative and production functions, disposal of non-core sites and global reorganization of the tissue business line. The costs related to the program are not expected to exceed EUR 40 million.

For the year ended December 31, 2004, the costs recognized under the program amounted to the following:

(In millions)	**EUR**
Pensions and postretirement benefits	**6**
Employee termination and exit cost	**8**
Write-down of fixed assets	**10**
Other expenses	**2**
2004 program, total	**26**

For the year ended December 31, 2004, the accrued liabilities related to the 2004 program amounted to the following:

(In millions)	**EUR**
Pensions and postretirement benefits [1)]	**4**
Employee termination and exit cost	**7**
Other expenses	**1**
Accrued liabilities at end of year	**12**

[1)] EUR 4 million of pension liabilities recognized under the program are long-term liabilities payable after 2006.

Other restructuring programs

Other restructuring programs refer to restructruring programs other than the 2003 or 2004 programs. During 2003 and 2004, other restructuring program costs charged to expense amounted to EUR 5 million and EUR 6 million, respectively. The EUR 6 million charged in 2004 primarily relates to site closures within Metso's business areas. During 2004, EUR 3 million of prior year reserves were reversed.

The change in accruals related to restructuring programs have been recognized as follows during the financial year 2004:

(In millions)	Balance at beginning of year EUR	Impact of exchange rates EUR	Additions charged to expense EUR	Adjustments to prior year reserves EUR	Amounts paid/charged to reserve EUR	Balance at end of year EUR
2003 and 2004 programs:						
Pension liabilities for personnel with terminated contracts	12	0	6	(2)	(5)	11
Employee termination and exit costs	33	0	10	(3)	(26)	14
Accrued restructuring expenses	7	0	1	(1)	(4)	3
Other	25	(1)	1	(4)	(19)	2
Other restructuring programs	23	0	6	(3)	(10)	16
Total	**100**	**(1)**	**24**	**(13)**	**(64)**	**46**

The total expense, net of reversals, by restructuring programs has been recognized as follows in the consolidated income statement:

(In millions)	2002 EUR	2003 EUR	**2004 EUR**
2003 program	-	(103)	**10**
2004 program	-	-	**(26)**
Other restructuring programs	(28)	(5)	**(1)**
Total	(28)	(108)	**(17)**

10 Earnings per share

Earnings per share are calculated as follows:

	Year ended December 31,		
	2002	2003	**2004**
(In millions, except for per share amounts)	EUR	EUR	**EUR**
Income (loss) before extraordinary items and income taxes	93	(303)	**49**
Minority interests	(2)	1	**(1)**
Taxes on normal business operations	(26)	44	**21**
	65	(258)	**69**
Weighted average number of shares issued and outstanding (in thousands)	136,190	136,190	**136,190**
Earnings per share	0.48	(1.89)	**0.51**
Weighted average number of diluted shares issued and outstanding (in thousands)	136,190	136,190	**136,192**
Diluted earnings per share	0.48	(1.89)	**0.51**

The diluted earnings per share have been computed 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 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.

Metso Panelboard's ClassiCleaner system has been designed for cleaning and separating recycled wood raw material before it enters panelboard production.

11 Intangible and tangible assets

	Year ended December 31, 2003	**2004**
(In millions)	EUR	**EUR**
Goodwill		
Acquisition cost at beginning of year	1 137	**888**
Increases	1	**1**
Decreases	(13)	**(204)**
Impairment	(205)	**-**
Translation differences	(32)	**(7)**
Accumulated depreciation at end of year	(265)	**(220)**
Net book value at end of year	623	**458**
Other intangible assets [1)]		
Acquisition cost at beginning of year	202	**233**
Increases [2)]	41	**29**
Decreases	(8)	**(66)**
Translation differences	(2)	**(1)**
Accumulated depreciation at end of year	(96)	**(91)**
Net book value at end of year	137	**104**
Land and water areas		
Acquisition cost at beginning of year	85	**80**
Increases	1	**0**
Decreases	(4)	**(14)**
Translation differences	(2)	**(1)**
Net book value at end of year	80	**65**
Buildings		
Acquisition cost at beginning of year	599	**582**
Increases	43	**10**
Decreases	(38)	**(80)**
Translation differences	(22)	**(6)**
Accumulated depreciation at end of year	(253)	**(249)**
Net book value at end of year	329	**257**

(In millions)	Year ended December 31, 2003 EUR	**2004 EUR**
Machinery and equipment		
Acquisition cost at beginning of year	1,293	**1,308**
Increases	101	**68**
Decreases	(51)	**(171)**
Translation differences	(35)	**(11)**
Accumulated depreciation at end of year	(972)	**(911)**
Net book value at end of year	336	**283**
Other tangible assets		
Acquisition cost at beginning of year	93	**90**
Increases	9	**4**
Decreases	(8)	**(14)**
Translation differences	(4)	**(2)**
Accumulated depreciation at end of year	(62)	**(61)**
Net book value at end of year	28	**17**
Assets under construction		
Acquisition cost at beginning of year	82	**37**
Increases	25	**11**
Decreases [2)]	(70)	**(29)**
Translation differences	0	**0**
Net book value at end of year	37	**19**

1) Includes patents and licences for a net book value of EUR 32 million and EUR 40 million for the years ended December 31, 2003 and December 31, 2004, respectively.

2) Includes reclassifications between Other intangible assets and Assets under construction of EUR 20 million and EUR 10 million for the years ended December 31, 2003 and December 31, 2004, respectively.

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 reporting unit level, i.e. one level below reportable segment. In the discounted cash flow method, Metso discounts forecasted performance plans to their present value. The discount rate is the weighted average cost of capital for the reporting unit, calculated as the opportunity cost to all capital providers weighted by their relative contribution to the reporting unit's total capital and the risk associated with the cash flow and the timing of the cash flow. The comparison methods and other estimation techniques are utilized to verify the reasonableness of the value derived from the discounted cash flow.

In the year ended December 31, 2003, Metso Minerals had to face tightened competition, reduced demand in certain market areas and unfavorable exchange rate development, especially the impact of the weakened U.S. Dollar, and its operating profits were lower than expected for the year. As of September 30, 2003, upon completion of the annual impairment assessment, based on updated forecasted plans approved by the Board of Directors, it was determined that Metso should recognize an impairment loss of EUR 205 million related to the Metso Minerals and discontinued operations.

A summary of changes in Metso's goodwill during the years ended December 31, 2003 and 2004 by business area is as follows:

(In millions)	Balance at beginning of year EUR	Amortization EUR	Translation difference and other changes EUR	Impairment loss EUR	Balance at end of year EUR
2003					
Metso Paper	96	(8)	(10)	-	78
Metso Minerals	562	(29)	(4)	(143)	386
Metso Automation	25	(3)	(1)	-	21
Metso Ventures	16	(1)	0	-	15
Discontinued operations	196	(10)	(1)	(62)	123
Total	895	(51)	(16)	(205)	623
2004					
Metso Paper	78	(7)	(4)	-	**67**
Metso Minerals	386	(21)	(4)	-	**361**
Metso Automation	21	(4)	0	-	**17**
Metso Ventures	15	(2)	0	-	**13**
Discontinued operations	123	(3)	(120)	-	**-**
Total	**623**	**(37)**	**(128)**	**-**	**458**

12 Capitalization of interest expenses

(In millions)	Year ended December 31, 2003 EUR	2004 EUR
Net capitalized interest, beginning of year	3	**2**
Amortization of capitalized interest expense	(1)	**(1)**
Net capitalized interest, end of year	2	**1**

13 Shareholdings and other securities

Investments in associated companies:

(In millions)	2003 Ownership %	2003 Equity value EUR	2004 Ownership %	2004 Equity value EUR
Allimand S.A.	35.8%	5	**35.8%**	**5**
Valmet-Xian Paper Machinery Co. Ltd.	48.3%	5	**48.3%**	**7**
Shanghai Neles-Jamesbury Valve Co. Ltd.	50.0%	3	**50.0%**	**3**
Avantone Oy	-	-	**48.2%**	**1**
Others		2		**1**
Total investments in associated companies		15		**17**

Shareholdings and other securities:

(In millions, except for number of shares)	2003 Number of shares	2003 Ownership %	2003 Book value EUR	2003 Fair value EUR	2004 Number of shares	2004 Ownership %	2004 Book value EUR	2004 Fair value EUR
Tamfelt Corporation [1]	484,200	2.7%	4	7	**726,300**	**2.7 %**	**4**	**6**
Sato Corporation plc	239,555	10.9%	12	12	**-**	**-**	**-**	**-**
Exel plc	650,000	12.2%	5	8	**-**	**-**	**-**	**-**
Other shares and securities			8	8			**6**	**6**
Total investments in shares and other securities			29	35			**10**	**12**
Total shareholdings and other securities			44				**27**	
Own shares held by Metso Corporation	60,841	0.0%	1	1	**60,841**	**0.0%**	**1**	**1**

[1] Bonus Issue 2:1 in 2004.

14 Other long-term investments

Other long-term investments consist of certificates of deposits, bonds and other securities with a maturity of greater than one year at the time of acquisition. They amounted to EUR 10 million at December 31, 2003 and to EUR 4 million at December 31, 2004. Other long-term investments are recorded at the lower of cost or market value.

	Year ended December 31,							
	2003				**2004**			
(In millions)	Cost EUR	Unrealized gains EUR	Unrealized losses EUR	Fair value EUR	**Cost EUR**	**Unrealized gains EUR**	**Unrealized losses EUR**	**Fair value EUR**
Bonds and Treasury bills	5	0	-	5	**2**	**0**	**-**	**2**
Other securities	5	0	-	5	**2**	**0**	**-**	**2**
Total	10	0	-	10	**4**	**0**	**-**	**4**

15 Cost and earnings of projects under construction in excess of billings/ billings in excess of cost and earnings of projects under construction

Information on balance sheet items of uncompleted contracts at December 31, 2003 and 2004 is as follows:

(In millions)	Cost and earnings of uncompleted projects EUR	Billings of projects EUR	Net EUR
2003			
Projects where cost and earnings exceed billings	600	331	269
Projects where billings exceed cost and earnings	420	461	41
2004			
Projects where cost and earnings exceed billings	576	385	191
Projects where billings exceed cost and earnings	428	552	124

16 Interest bearing and non-interest bearing assets

	Year ended December 31,					
		2003			**2004**	
(In millions)	Interest bearing EUR	Non-interest bearing EUR	Total EUR	**Interest bearing EUR**	**Non-interest bearing EUR**	**Total EUR**
Financial assets						
Loan and other receivables [1)]	9	28	37	**6**	**48**	**54**
Accounts receivable	1	1	2	**6**	**1**	**7**
Other long-term investments	10	-	10	**4**	**-**	**4**
Total	20	29	49	**16**	**49**	**65**
Receivables						
Accounts receivable	0	719	719	**0**	**651**	**651**
Cost and earnings of projects under construction in excess of billings	-	269	269	**-**	**191**	**191**
Loans receivable	3	2	5	**3**	**2**	**5**
Prepaid expenses and accrued income	-	88	88	**-**	**86**	**86**
Deferred tax asset	-	145	145	**-**	**187**	**187**
Other receivables	-	53	53	**-**	**52**	**52**
Other short-term investments	7	-	7	**4**	**-**	**4**
Total	10	1,276	1,286	**7**	**1,169**	**1,176**

[1)] Non-interest bearing loan and other receivables include EUR 18 million and EUR 19 million of prepayments to foreign pension plans and of pension insurance premiums at December 31, 2003 and 2004, respectively. At December 31, 2004, the non-interest bearing portion also includes EUR 21 million of capitalized costs related to the exchange and issuance of bonds.

17 Shareholders' equity

As at December 31, 2004 Metso had 136,250,545 issued shares with a par value of EUR 1.70, the share capital being EUR 232 million. Under its Articles of Association Metso Corporation's authorized share capital may not be less than EUR 170 million nor more than EUR 680 million. At the closing of the financial year Metso held 60,841 of its own shares. The reacquisition price of EUR 1 million has been recorded in the reserve of own shares at cost.

Calculation of distributable funds at December 31, 2004:

(In millions)	**EUR**
Other reserves	**202**
Retained earnings	**386**
Result for the financial year	**69**
Equity share of accelerated depreciation and other untaxed reserves	**(5)**
Translation differences	**(80)**
Total distributable funds	**572**

The Parent Company's distributable funds at December 31, 2004 were EUR 543 million. The distribution of dividends to shareholders is limited to the lower of consolidated distributable funds or distributable funds held by the Parent Company.

Foreign currency translation included in the shareholders' equity at December 31:

	2003	**2004**
(In millions)	EUR	**EUR**
Cumulative translation adjustment at beginning of year	(60)	**(76)**
Change in foreign currency translation	(55)	**(12)**
Hedging of net investment denominated in foreign currency	55	**3**
Tax effect	(16)	**(3)**
Transfer of translation differences	-	**8**
Cumulative translation adjustment at end of year	(76)	**(80)**

18 Long-term debt

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

	2003	**2004**
(In millions)	EUR	**EUR**
Bonds	697	**746**
Loans from financial institutions	187	**114**
Pension loans	38	**13**
Other long-term debt	52	**66**
	974	**939**
Less current maturities	17	**19**
Total	957	**920**

Bonds:

The bonds consist principally of three loans: a USD 174 million (EUR 128 million) bond, a EUR 156 million bond and a EUR 274 million bond. The USD denominated bond was issued in the United States in December 1997 and registered with the Securities Exchange Commission (SEC). It matures in 2007 and bears a fixed annual interest rate of 6.875%. A portion of the bond has been converted through a currency swap agreement of GBP 45 million (EUR 64 million) into British pound sterling with a fixed annual rate of 7.51%. The currency swap agreement matures concurrently with the bond.

In December 2000 Metso established a Euro Medium Term Note Program of EUR 1 billion, under which originally a EUR 500 million bond was issued in December 2001. The bond matures in 2006 and carries a fixed interest of 6.25%. As at December 31, 2004, the outstanding amount of this bond totaled EUR 156 million. In November 2004, Metso completed its offer to exchange bonds to new Euro-denominated bonds maturing in 2011. EUR 256 million of existing notes were validly submitted and accepted for exchange, corresponding to 62% of the total outstanding amount of existing notes. EUR 274 million of new bonds were issued and they carry a fixed interest of 5.125%.

EUR 21 million of costs related to the exchange offering and bond issuings have been included in long-term receivables and EUR 4 million in short-term receivables. These costs are expensed over the maturities of the bonds.

Loans from financial institutions:

Loans from financial institutions consist of international bank borrowings with either fixed or variable interest rates. A major share of loans is either USD or SEK denominated. The interest rates vary from 2.4% (USD) to 10.5% (ZAR). The loans are payable from year 2005 to 2011.

In June 2003, Metso signed a five-year EUR 450 million revolving credit facility agreement with a syndicate of 14 international banks. Of the current revolving facility EUR 66 million was utilized as at December 31, 2003. As at December 31,2004, the facility was undrawn.

As at December 31, 2004 the undrawn committed long-term facilities of Metso totaled EUR 450 million.

In the end of May 2004, Metso signed a ten-year EUR 135 million loan agreement with the European Investment Bank (EIB). Funds may be drawn within 18 months from signing. As at December 31,2004, the facility was undrawn.

Pension loans:

Pension loans consist of Finnish pension insurance reborrowing loans amounting to EUR 8 million and of foreign pension loans amounting to EUR 5 million.

Other long-term debt:

As at December 31, 2003 other long-term debt comprised EUR 29 million pension liabilities, EUR 16 million obligations under finance leases and EUR 7 million other liabilities. As at December 31, 2004 other long-term debt comprised EUR 30 million pension liabilities, EUR 24 million obligations under finance leases and EUR 12 million other liabilities.

Maturities of long-term debt as at December 31, 2004 are as follows:

(In millions)	Bonds EUR	Loans from financial institutions EUR	Pension loans EUR	Other long-term debt EUR	Total EUR
2005	0	7	8	4	19
2006	156	45	0	7	208
2007	128	11	1	13	153
2008	0	25	0	3	28
2009	83	11	0	3	97
Later	379	15	4	36	434

19 Other long-term liabilities – Accrued expenses

Long-term accrued liabilities consist of the following at December 31:

(In millions)	2003 [1] EUR	**2004 EUR**
Pension liabilities and other postretirement benefits	95	**91**
Warranty and guarantee liabilities	12	**8**
Accrued restructuring expenses [2]	13	**14**
Other long-term provisions and accruals	14	**9**
Total	134	**122**

[1] Prior year information has been reclassified to conform to current year presentation.

[2] For additional information on restructuring expenses, see also note 9.

20 Other interest bearing short-term debt

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

(In millions)	2003 EUR	**2004 EUR**
Loans from financial institutions	25	**17**
Domestic commercial paper financing	262	**-**
Other	8	**14**
Total	295	**31**

The weighted average interest rate applicable to short-term borrowing at December 31, 2003 and 2004 was 2.4% and 3.8%, respectively.

Metso had undrawn committed short-term credit facilities with banks totaling EUR 100 million at December 31, 2004.

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. Both facilities were undrawn as of December 31, 2004.

21 Accrued expenses and deferred income

Accrued expenses and deferred income consist of the following at December 31:

(In millions)	2003 [1] EUR	**2004 EUR**
Accrued restructuring expenses [2]	87	**32**
Accrued interest expenses	6	**7**
Accrued personnel expenses	156	**165**
Accrued project costs	322	**300**
Environmental and product liabilities	4	**3**
Taxes currently payable	51	**32**
Warranty and guarantee liabilities	127	**112**
Other	65	**68**
Total	818	**719**

[1] Prior year information has been reclassified to conform to current year presentation.
[2] For additional information on restructuring expenses, see also note 9.

22 Changes in cost accruals

The cost accruals, including both long- and short-term portions, have changed as follows during the financial year 2004:

(In millions)	Balance at beginning of year [1] EUR	Impact of exchange rates EUR	Additions charged to expense EUR	Deductions/ other additions EUR	Balance at end of year EUR
Allowance for doubtful notes and receivables	34	(1)	2	2	37
Allowance for inventory	67	(2)	5	(13)	57
Environmental and product liabilities	4	0	0	(1)	3
Accrued restructuring expenses [2]	100	(1)	11	(64)	46
Total	**205**	**(4)**	**18**	**(76)**	**143**

[1] Prior year information has been reclassified to conform to current year presentation.
[2] For additional information on restructuring expenses, see also note 9.

The cost accruals for warranty and guarantee liabilities have changed as follows during the financial year 2004:

(In millions)	Balance at beginning of year EUR	Impact of exchange rates EUR	Increase for current year's deliveries EUR	Increase for previous year's deliveries EUR	Deductions [1] EUR	Balance at end of year EUR
Warranty and guarantee liabilities	139	(2)	52	17	(86)	120

[1] Includes reversals of EUR 20 million.

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.

23 Mortgages and contingent liabilities

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

(In millions)	2003 EUR	**2004 EUR**
Mortgages on corporate debt	1	**2**
Other pledges and contingencies		
Mortgages	2	**2**
Pledged assets	4	**4**
Guarantees on behalf of associated company obligations	-	**-**
Other guarantees	7	**9**
Repurchase and other commitments	48	**42**

The mortgage amount on corporate debt has been calculated as the amount of corresponding loans. The nominal value of the mortgages at December 31, 2004 was EUR 0.2 million higher than the amount of the corresponding loans.

Other guarantees include EUR 6 million guarantees given on behalf of sold businesses. The respective buyers have indemnified Metso and have committed themselves to release Metso from its guarantee obligations within agreed time periods.

The repurchase commitments, amounting to EUR 20 million and EUR 10 million for the years ended December 31, 2003 and 2004, respectively, represent engagements whereby Metso guarantees specified trade-in values for products sold to customers and third parties. The amounts in the above schedule comprise the agreed value in full of each repurchase commitment.

Other commitments include EUR 13 million and EUR 24 million of unfunded pension liabilities for foreign subsidiaries for the years ended December 31, 2003 and 2004, respectively.

24 Lawsuits and claims

Several lawsuits, including product liability suits in the United States, are pending against Metso Corporation. However, management does not believe that the outcome of these actions, individually or in the aggregate, will have a material adverse effect on Metso's business, liquidity, results of operations or financial position. The normal risks of legal disputes concerning deliveries cannot either be regarded as material in terms of Metso's total business activities.

Pending asbestos litigation

As of December 31, 2004 there had been a total of 349 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, 134 are still pending and 215 cases have been closed. Of the closed cases, 160 were dismissed and 55 were settled. For the 55 cases settled the average compensation has been USD 540 per case. The outcome of the still pending cases is not expected to materially deviate from the outcome of the previous claims. Hence, management believes that Metso has not material asbestos related claims in the United States.

Environmental issues

Metso Minerals Industries Inc. has been named, together with a number of other parties, as a potentially responsible party ("PRP") for the remediation of two Wisconsin landfills: Hunt and Muskego. By the end of year 2004 Metso Minerals had paid a total of approximately USD 0.5 million for the clean-up costs at these sites. Management estimates that Metso Minerals' maximum remaining liability with respect to the Hunt and Muskego sites will not exceed USD 0.3 million, and that the reserves already established will be sufficient for any remaining liability.

Metso Minerals Industries Inc. owned an industrial facility at Milwaukee, Wisconsin, with certain environmental concerns. During the year ended December 31, 2004 Metso Minerals Industries Inc. entered into a contract with an environmental consulting and remediation firm to clean up the property for a fixed price and, in addition to that, an environmental insurance was also purchased. The costs of the basic remediation of USD 1.1 million have been fully funded and the entire insurance premium of USD 0.4 million has also been paid. On January 31, 2005, the sale of this property was closed, with the purchaser accepting assignment of the remediation contract, including the potential responsibility for any additional payments, as well as the company's insured status under the insurance policy.

As a result of the acquisition of Svedala, Metso Minerals has two sites with certain environmental concerns: Mt. Olive in New Jersey and Danville in Pennsylvania. Metso Minerals sold the site in Mt. Olive in December 2003, but the liabilities for ground water contamination issues were retained by Metso Minerals. The estimated reserve required for the remediation measures is USD 0.6 million. The second site with environmental concerns is a former manufacturing property in Danville, Pennsylvania. An approved remediation plan is being developed in conjunction with the state of Pennsylvania and a USD 1.2 million reserve is the best estimate of potential remediation costs at this time.

Metso Minerals, through its Reedrill division was identified as a PRP in two sites. At one of the sites, liability has been assumed by a predecessor company. Regarding the other site, Metso Minerals (Svedala) responded in March 2000 to an EPA request for information and identified predecessor companies as the proper responsible parties. To date, no response from the EPA has been received.

In addition, in Colorado Springs there is an old industrial facility, which is for sale and where Metso Minerals Industries Inc. may become subject to remedial costs. A reserve of approximately USD 0.4 million has been established to cover the anticipated costs of additional evaluation of the environmental conditions and the purchase of environmental insurance.

Since 1992, Metso Minerals Industries Inc. has been monitoring the groundwater at its Keokuk Iowa facility after the removal of contaminated soil. In November 2004, the authorities advised that monitoring requirements for most of the compounds being tested for were eliminated, but an additional work plan was required to enhance the degradation of certain compounds. A reserve of USD 0.1 million has been established for the estimated costs associated with near-term compliance with the additional requirements.

In October 2004, the Kansas environmental authorities advised that the predecessor of Metso Minerals Industries Inc. had disposed of foundry sand at a location where the soil now is contaminated. The company is investigating scope of the potential liablility if any, and has reserved USD 0.1 million for estimated legal and investigation costs.

Metso Panelboard, part of the Metso Ventures business area, previously owned a site with certain environmental concerns. The site, located in Belgium, was owned by Constructiewerkhuizen De Mets N.V., a company divested in 2001. In accordance with the conditions of the sales agreement, the estimated remaining responsibility for remediation costs will be limited to the currently established reserve of EUR 0.8 million.

25 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, 2004 are shown in the table below:

(In millions)	Operating leases EUR	Capital leases EUR
Fiscal 2005	40	4
2006	28	5
2007	21	4
2008	15	2
2009	12	2
2010 and later	26	6
Total minimum lease payments	**142**	**23**

Total rental expense amounted to EUR 41 million, EUR 39 million and EUR 42 million in the years ended December 31, 2002, 2003 and 2004, respectively.

Future lease payments for empty premises

Due to reorganization of production and sales activities, Metso has, from time to time, empty leased premises with noncancellable rental engagements. A cost reserve for the remaining lease period is made when it is probable that economically realistic sub-lease or early termination arrangements cannot be negotiated. The cost accrual is based on discounted future lease payments. Metso has recognized an accrual for duplicate lease costs, and the remaining reserve amounted to EUR 5 million and EUR 4 million as of December 31, 2003 and 2004, respectively.

26 Financial instruments

Foreign currency risk management

Both the production and sales activities of Metso are geographically widely spread creating exposure to various currency risks, the main currencies being USD, EUR, SEK and CAD.

Foreign exchange gains and losses, reported in the operating profit resulted in a net loss of EUR 3 million in 2002 and a net gain of EUR 1 million in 2003 and a net gain of EUR 9 million in 2004.

Trade flow related derivatives

The trade flow related currency exposures are hedged with forward exchange contracts. The Corporate Treasury monitors the global currency risk and enters into forwards with third parties to reverse the currency exposures created through internal derivative transactions with the subsidiaries. External forwards contracted by the Corporate Treasury are fair valued quarterly. External currency forwards entered into directly by the subsidiaries are designated at inception as hedges of an underlying transaction. The currency leg of such forwards is fair valued and the interest component is recognized upfront concurrently with the respective underlying.

Foreign currency denominated equity

Metso hedges its USD, SEK and, to some extent, CAD denominated net investments to reduce the effect of exchange rate fluctuations. As of December 31, 2004, the hedging istruments were foreign currency loans and forward exchange contracts. Both realized and unrealized exchange gains and losses measured on these instruments are recorded, net of taxes, in a separate component of equity against the translation differences arising from consolidation. The forwards are designated as hedges of net investments at inception and their effectiveness is measured quarterly. The interest component of forwards is fair valued and the change in fair value is recognized in the income statement.

Foreign currency denominated loans

Metso has made medium-term, mainly USD denominated, loans to its foreign subsidiaries. The resulting currency risk has been hedged with cross-currency swaps and forward exchange contracts.

Short-term funding and liquidity management

Forward exchange contracts are used to mitigate foreign currency risk arising from short-term borrowing and liquidity management. Such forwards are fair valued quarterly. Metso also enters into call and put options to allow more flexible control of the net currency exposures. The options have maturities not exceeding 12 months and they are fair valued quarterly.

Metso measures and monitors foreign currency risk using sensitivity analysis. The consolidated net exposures in different currencies are continuously controlled and the risk is mitigated through different financial instruments, including derivatives, as required by the Corporate Treasury Policy. The financial derivatives for other than trade flow related currency risks are all entered into by the Corporate Treasury.

Interest rate management

Metso uses both interest rate and cross-currency swaps and interest rate futures contracts to mitigate the risks arising from interest bearing receivables and debt. The notional amount of interest rate swaps outstanding at December 31, 2003 and 2004 was EUR 60 million and EUR 188 million, respectively. The notional amount of interest rate futures contracts at December 31, 2003 and 2004 amounted to EUR 15 million and EUR 10 million, respectively. The interest rate risk is measured using sensitivity analysis and controlled by the Corporate Treasury.

Commodity risks

In 2003, Metso extended its risk management policy to include the volatility in electricity prices and authorized its affiliates located in Finland, together with the Corporate Treasury, to enter into electricity forward contracts. The commodity risk is measured using sensitivity analysis.

The utilization of financial derivatives (expressed as notional amounts) can be divided as follows:

	Year ended December 31, 2003	2004
(In millions)	EUR	**EUR**
Trade flow related currency derivatives		
Fair valued derivatives	654	**275**
Ear-marked with underlying item	3	**234**
Foreign currency denominated equity	481	**445**
Foreign currency denominated loans	84	**75**
Short-term funding and liquidity management	405	**421**
Currency risk management	71	**421**
Interest risk management	75	**198**
Total notional amount of derivative instruments	1,773	**2,069**

The following table presents the notional amounts,
carrying amounts and fair values of derivative financial instruments as at December 31:

	2003			**2004**		
	Notional amount	Carrying amount	Fair value	**Notional amount**	**Carrying amount**	**Fair value**
(In millions)	EUR	EUR	EUR	**EUR**	**EUR**	**EUR**
Forward exchange contracts	1,567	20	36	**1,770**	**3**	**18**
Cross-currency swaps	3	0	0	**2**	**0**	**0**
Currency swaps	81	(1)	(2)	**73**	**(8)**	**(8)**
Interest rate swaps	60	(1)	0	**188**	**(1)**	**(4)**
Interest rate futures contracts	15	0	0	**10**	**0**	**0**
Option agreements						
Bought	13	0	0	**10**	**0**	**0**
Sold	34	(1)	(1)	**16**	**0**	**0**
Electricity forward contracts [1)]	344	0	(1)	**329**	**0**	**(1)**

[1)] Notional amount GWh

Carrying amounts noted in the table above are included in the balance sheet. The notional amounts indicate the volumes in the use of derivatives, they do not indicate the exposure to risk. The fair value reflects the estimated amounts that Metso would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts.

As at December 31, 2004 the maturities of the financial derivatives are the following (expressed as notional amounts):

(In millions)	2005 EUR	2006 EUR	2007 EUR	2008 EUR	2009 and after EUR
Forward exchange contracts	1,659	73	38	-	-
Cross-currency swaps	-	-	2	-	-
Currency swaps	7	-	64	2	-
Interest rate swaps	-	40	-	-	148
Interest rate futures contracts	10	-	-	-	-
Option agreements					
Bought	10	-	-	-	-
Sold	16	-	-	-	-
Electricity forward contracts [1)]	188	105	36	-	-

[1)] Notional amount GWh

Fair value of financial instruments

Disclosures about fair values of financial instruments require the disclosure of estimated fair values for all financial instruments, both on- and off-balance sheet, for which it is practicable to estimate fair value. Metso has used a variety of methods and assumptions, which were based on market conditions and risks existing at the time to estimate the fair value of the Group's financial instruments at December 31, 2003 and 2004. For certain instruments, including cash and cash equivalents, accounts payable and accruals and short-term debt, it was assumed that the carrying amount approximated fair value due to the short maturity of those instruments. Quoted market prices or dealer quotes for the same or similar financial instruments were used to estimate the fair value for marketable securities and long-term investments. Other techniques, such as estimated discounted cash flows or replacement cost have been used to determine fair value for the remaining financial instruments.

	Year ended December 31,			
	2003		**2004**	
(In millions)	Carrying value EUR	Fair value EUR	**Carrying value EUR**	**Fair value EUR**
Assets:				
Shareholdings and other securities (excluding shares in associated companies)	29	35	**10**	**12**
Own shares	1	1	**1**	**1**
Loan and other receivables, long-term	37	37	**54**	**54**
Accounts receivable, long-term	2	2	**7**	**7**
Other interest bearing long-term investments	10	10	**4**	**4**
Accounts receivable, short-term	719	719	**651**	**651**
Loans receivable, short-term	5	5	**5**	**5**
Short-term investments	7	7	**4**	**4**
Cash and cash equivalents	130	130	**419**	**419**
Liabilities:				
Bonds	695	731	**746**	**774**
Loans from financial institutions	183	187	**107**	**109**
Pension loans	29	29	**5**	**5**
Other long-term debt	50	50	**62**	**62**
Current portion of long-term loans	17	17	**19**	**19**
Other interest bearing short-term debt	295	295	**31**	**31**

27 Concentrations of credit risk

Metso is exposed to credit risk primarily in relation to project deliveries, trade receivables and the use of financial instruments. The companies within Metso conduct diverse business activities with a large number of customers and suppliers. The receivables are well diversified and, where appropriate, secured by various trade finance instruments such as letters of credit, export guarantees or by withheld security interest in products sold under extended credit terms. In the use of financial instruments, Metso minimizes credit and counterparty risk by dealing only with major local or international banks and financial institutions or companies with investment grade credit ratings.

Management believes that no significant unmanaged concentration of credit risk with any individual customer, counterparty or geographical region exists for Metso.

28 Principal subsidiaries

	Country	Shareholder percentage
Metso Paper		
Metso Paper Oy	Finland	100
Metso Paper USA Inc.	United States	100
Metso Paper Sundsvall AB	Sweden	100
Metso Paper Valkeakoski Oy	Finland	100
Metso Paper Ltd	Canada	100
Metso Paper Pori Oy	Finland	100
Metso Minerals		
Metso Minerals Industries Inc.	United States	100
Metso Minerals (Tampere) Oy	Finland	100
Metso Minerals (France) S.A.	France	100
Metso Minerals (Australia) Ltd	Australia	100
Metso Brazil Indústria e Comércio Ltda	Brazil	100
Metso Automation		
Metso Automation Oy	Finland	100
Metso Automation USA Inc.	United States	100
Metso Ventures		
Metso Drives Oy	Finland	100

29 Business area and geographic information

Net sales by business area:

(In millions)	2002 EUR	2003 EUR	**2004 EUR**
Metso Paper	1,778	1,651	**1,559**
Metso Minerals	1,406	1,253	**1,343**
Metso Automation	622	531	**535**
Metso Ventures	446	370	**387**
Intra Metso net sales	(119)	(122)	**(115)**
Continuing operations	4,133	3,683	**3,709**
Discontinued operations	558	567	**267**
Metso total	4,691	4,250	**3,976**

Operating profit (loss) before nonrecurring operating items and amortization of goodwill by business area:

(In millions)	2002 EUR	% of net sales	2003 EUR	% of net sales	**2004 EUR**	**% of net sales**
Metso Paper	129.3	7.3%	68.3	4.1%	**37.1**	**2.4%**
Metso Minerals	73.5	5.2%	48.1	3.8%	**100.3**	**7.5%**
Metso Automation	21.9	3.5%	31.4	5.9%	**57.9**	**10.8%**
Metso Ventures	28.6	6.4%	(2.6)	(0.7%)	**(6.5)**	**(1.7%)**
Corporate office and other	(31.8)	-	(35.7)	-	**(28.7)**	**-**
Continuing operations	221.5	5.4%	109.5	3.0%	**160.1**	**4.3%**
Discontinued operations	29.1	5.2%	23.7	4.2%	**12.9**	**4.8%**
Metso total	250.6	5.3%	133.2	3.1%	**173.0**	**4.4%**

Nonrecurring operating items by business area:

(In millions)	2002 EUR	2003 EUR	**2004** **EUR**
Metso Paper	(5.9)	(36.0)	**(19.2)**
Metso Minerals	(12.7)	(65.8)	**5.5**
Metso Automation	(2.6)	(0.3)	**(1.1)**
Metso Ventures	(7.1)	(4.7)	**0.6**
Corporate office and other	6.9	1.6	**6.8**
Continuing operations	(21.4)	(105.2)	**(7.4)**
Discontinued operations	(5.1)	(0.3)	**(17.8)**
Metso total	(26.5)	(105.5)	**(25.2)**

Amortization of goodwill by business area:

(In millions)	2002 EUR	2003 EUR	**2004** **EUR**
Metso Paper	(8.2)	(7.7)	**(6.8)**
Metso Minerals	(33.0)	(29.0)	**(21.5)**
Metso Automation	(3.0)	(2.7)	**(3.9)**
Metso Ventures	(1.4)	(1.4)	**(1.2)**
Corporate office and other	-	-	**-**
Continuing operations	(45.6)	(40.8)	**(33.4)**
Discontinued operations	(11.5)	(10.6)	**(3.5)**
Metso total	(57.1)	(51.4)	**(36.9)**

Operating profit (loss) by business area:

(In millions)	2002 EUR	% of net sales	2003 EUR	% of net sales	**2004 EUR**	**% of net sales**
Metso Paper	115.2	6.5%	24.6	1.5%	**11.1**	**0.7%**
Metso Minerals	27.8	2.0%	(189.3)	(15.1%)	**84.3**	**6.3%**
Metso Automation	16.3	2.6%	28.4	5.3%	**52.9**	**9.9%**
Metso Ventures	20.1	4.5%	(8.7)	(2.4%)	**(7.1)**	**(1.8%)**
Corporate office and other	(24.9)	-	(34.1)	-	**(21.9)**	**-**
Continuing operations	154.5	3.7%	(179.1)	(4.9%)	**119.3**	**3.2%**
Discontinued operations	12.5	2.2%	(49.6)	(8.7%)	**(8.4)**	**(3.1%)**
Metso total	167.0	3.6%	(228.7)	(5.4%)	**110.9**	**2.8%**

Operating losses of Metso Minerals and Discontinued operations include a goodwill impairment of EUR 205 million, which was booked in September 2003.

Capital employed by business area at the end of year:

	2002 EUR	2003 EUR	**2004 EUR**
Metso Paper	498	538	**356**
Metso Minerals	996	741	**729**
Metso Automation	207	150	**136**
Metso Ventures	172	160	**126**
Corporate office and other	417	340	**682**
Continuing operations	2,290	1,929	**2,029**
Discontinued operations	452	370	**-**
Metso total	2,742	2,299	**2,029**

Gross capital expenditure (including business acquisitions) by business area:

(In millions)	2002 EUR	2003 EUR	**2004 EUR**
Metso Paper	72	54	**33**
Metso Minerals	39	27	**24**
Metso Automation	13	8	**6**
Metso Ventures	40	24	**18**
Corporate office and other	18	5	**14**
Continuing operations	182	118	**95**
Discontinued operations	12	12	**4**
Metso total	194	130	**99**

Depreciation and amortization by business area:

(In millions)	2002 EUR	2003 EUR	**2004 EUR**
Metso Paper	62	60	**60**
Metso Minerals	72	62	**47**
Metso Automation	18	15	**14**
Metso Ventures	22	22	**21**
Corporate office and other	3	4	**4**
Continuing operations	177	163	**146**
Discontinued operations	20	20	**9**
Metso total	197	183	**155**

Orders received by business area:

(In millions)	2002 EUR	2003 EUR	**2004 EUR**
Metso Paper	1,611	1,710	**1,726**
Metso Minerals	1,437	1,213	**1,566**
Metso Automation	643	531	**570**
Metso Ventures	468	398	**361**
Intra Metso orders received	(120)	(121)	**(113)**
Continuing operations	4,039	3,731	**4,110**
Discontinued operations	607	525	**264**
Metso total	4,646	4,256	**4,374**

Order backlog by business area:

(In millions)	2002 EUR	2003 EUR	**2004 EUR**
Metso Paper	735	784	**946**
Metso Minerals	413	347	**560**
Metso Automation	185	145	**176**
Metso Ventures	154	175	**118**
Intra Metso order backlog	(55)	(55)	**(55)**
Continuing operations	1,432	1,396	**1,745**
Discontinued operations	157	109	**-**
Metso total	1,589	1,505	**1,745**

Information about Metso's operations in different geographical areas as at and for the years ended December 31, 2002, 2003 and 2004 is as follows:

Net sales to unaffiliated customers by destination:

(In millions)	Finland EUR	Other Nordic Countries EUR	Other European Countries EUR	North America EUR	South America EUR	Asia-Pacific EUR	Rest of the World EUR	Eliminations EUR	Metso total EUR
2002	382	453	1,363	1,199	417	652	225	-	4,691
2003	357	310	1,272	989	264	824	234	-	4,250
2004	**332**	**337**	**1,017**	**837**	**298**	**909**	**246**	**-**	**3,976**

In year 2004, 20 percent of net sales was recognized under the percentage of completion method. The percentage was highest in the Metso Paper business area, where it accounted for 40 percent of net sales.

Metso's exports, including sales to unaffiliated customers and intra-group sales from Finland, by destination:

(In millions)	Other Nordic Countries EUR	Other European Countries EUR	North America EUR	South America EUR	Asia-Pacific EUR	Rest of the World EUR	Total EUR
2002	297	567	183	137	248	21	1,453
2003	195	523	209	38	372	15	1,352
2004	**210**	**420**	**141**	**75**	**526**	**23**	**1,395**

Fixed assets and financial assets by location:

(In millions)	Finland EUR	Other Nordic Countries EUR	Other European Countries EUR	North America EUR	South America EUR	Asia-Pacific EUR	Rest of the World EUR	Eliminations EUR	Metso total EUR
2002	514	935	108	357	24	57	10	-	2,005
2003	504	746	96	233	23	52	10	-	1,664
2004	**481**	**499**	**47**	**190**	**25**	**45**	**9**	**-**	**1,296**

Fixed and financial assets include goodwill, other intangible assets, tangible assets, shares and other long-term interest bearing and non-interest bearing receivables.

Gross capital expenditure (excluding business acquisitions) by region:

(In millions)	Finland EUR	Other Nordic Countries EUR	Other European Countries EUR	North America EUR	South America EUR	Asia-Pacific EUR	Rest of the World EUR	Eliminations EUR	Metso total EUR
2002	119	23	23	14	5	8	1	-	193
2003	70	15	19	10	5	7	2	-	128
2004	**54**	**10**	**11**	**9**	**8**	**4**	**1**	**-**	**97**

Metso Paper's OptiReel reels paper coming from the paper machine into large parent reels for the next process stage, such as the winder.

Parent Company Statement of Income

	Year ended December 31,		
	2002	2003	**2004**
(In millions)	EUR	EUR	**EUR**
Net sales	-	-	**-**
Cost of goods sold	-	-	**-**
Gross profit	-	-	**-**
Selling, general and administrative expenses	(31)	(34)	**(29)**
Other income and expenses, net	(11)	3	**9**
Operating loss	(42)	(31)	**(20)**
Financial income and expenses, net	201	57	**(27)**
Profit (loss) before contributions, untaxed reserves and income taxes	159	26	**(47)**
Group contributions	2	(24)	**0**
Change in untaxed reserves	-	-	**-**
Change in accelerated depreciation	-	-	**-**
Extraordinary income and expenses, net	-	-	**-**
Income (loss) before taxes	161	2	**(47)**
Income taxes	(44)	(1)	**0**
Net income (loss)	117	1	**(47)**

Parent Company Balance Sheet

Assets

(In millions)	As at December 31, 2003 EUR	**2004 EUR**
Fixed assets and financial assets		
Intangible assets		
Goodwill	-	**-**
Other intangible assets	3	**5**
	3	**5**
Tangible assets		
Land and water areas	2	**1**
Buildings	1	**1**
Machinery and equipment	1	**1**
Other tangible assets	0	**0**
Assets under construction	2	**-**
	6	**3**
Financial assets		
Shareholdings and other securities	1,602	**1,633**
Own shares	1	**1**
Loan and other receivables	780	**589**
Accounts receivable	-	**-**
Other long-term investments	5	**2**
	2,388	**2,225**
Total fixed and financial assets	2,397	**2,233**
Current assets		
Inventories		
Materials and supplies	-	**-**
Work in process	-	**-**
Finished products	-	**-**
	-	**-**
Receivables		
Accounts receivable	5	**7**
Loans receivable	426	**357**
Accrued income and prepaid expenses	71	**21**
Other receivables	0	**0**
Other short-term investments	6	**244**
	508	**629**
Cash and cash equivalents	6	**5**
Total current assets	514	**634**
Total assets	2,911	**2,867**

Shareholders' equity and liabilities

(In millions)	As at December 31, 2003 EUR	**2004 EUR**
Shareholders' equity		
Share capital	232	**232**
Share premium reserve	88	**88**
Legal reserve	216	**216**
Reserve for own shares	1	**1**
Other reserves	202	**202**
Retained earnings	413	**387**
Net income (loss) for the financial year	1	**(47)**
Total shareholders' equity	1,153	**1,079**
Untaxed reserves	0	**0**
Liabilities		
Long-term debt		
Bonds	693	**744**
Loans from financial institutions	177	**109**
Pension loans	9	**0**
Other long-term debt	1	**1**
	880	**854**
Other long-term liabilities		
Accrued expenses	1	**-**
Current liabilities		
Current portion of long-term debt	9	**11**
Other interest bearing short-term debt	777	**899**
Advances received	-	**-**
Accounts payable	7	**4**
Accrued expenses and deferred income	83	**16**
Other current liabilities	1	**4**
	877	**934**
Total liabilities	1,758	**1,788**
Total shareholders' equity and liabilities	2,911	**2,867**

Parent Company Statement of Changes in Shareholders' Equity

(In millions)	Number of shares (thousands)	Share capital EUR	Share premium reserve EUR	Legal reserve EUR	Reserve for own shares EUR	Other reserves EUR	Retained earnings EUR	Total EUR
Balance at December 31, 2001	136,251	232	88	216	1	202	460	1,199
Dividends	-	-	-	-	-	-	(82)	(82)
Net income	-	-	-	-	-	-	117	117
Balance at December 31, 2002	**136,251**	**232**	**88**	**216**	**1**	**202**	**495**	**1,234**
Dividends	-	-	-	-	-	-	(82)	(82)
Net income	-	-	-	-	-	-	1	1
Balance at December 31, 2003	**136,251**	**232**	**88**	**216**	**1**	**202**	**414**	**1,153**
Dividends	-	-	-	-	-	-	(27)	(27)
Net income (loss)	-	-	-	-	-	-	(47)	(47)
Balance at December 31, 2004	**136,251**	**232**	**88**	**216**	**1**	**202**	**340**	**1,079**

Financial indicators 2000–2004

(In millions)	2000 EUR	2001 EUR	2002 EUR	2003 EUR	**2004 EUR**
Net sales	3,891	4,343	4,691	4,250	**3,976**
Net sales change, %	14.9	11.6	8.0	(9.4)	**(6.4)**
Operating profit (loss)	200	246	167	(229)	**111**
% of net sales	5.1	5.7	3.6	(5.4)	**2.8**
Income (loss) before extraordinary items and taxes	180	222	93	(303)	**49**
% of net sales	4.6	5.1	2.0	(7.1)	**1.2**
Income (loss) before taxes	448	214	93	(303)	**49**
% of net sales	11.5	4.9	2.0	(7.1)	**1.2**
Net income (loss) for the year	389	141	65	(258)	**69**
Exports and international operations	3,530	3,764	4,320	3,724	**3,482**
% of net sales	90.7	86.7	92.1	87.6	**87.6**
Orders received	4,268	3,778	4,646	4,256	**4,374**
Order backlog, December 31	1,907	1,772	1,589	1,505	**1,745**
Gross capital expenditure	127	154	193	128	**97**
% of net sales	3.3	3.5	4.1	3.0	**2.4**
Depreciation and amortization	128	149	197	183	**155**
% of net sales	3.3	3.4	4.2	4.3	**3.9**
Business acquisitions, net of cash acquired	186	828	1	2	**2**
% of net sales	4.8	19.1	0.0	0.0	**0.1**
Research and development	127	150	156	129	**106**
% of net sales	3.3	3.5	3.3	3.0	**2.7**
Shareholders' equity	1,425	1,469	1,379	1,024	**1,052**
Net interest bearing liabilities (receivables)	(53)	1,251	1,118	1,109	**529**
Balance sheet total	3,564	5,042	4,399	3,823	**3,578**
Gearing, %	(3.7)	84.8	80.6	107.7	**50.0**
Return on equity (ROE), %	9.5	10.4	4.8	(21.3)	**6.9**
Return on capital employed (ROCE), %	12.2	12.3	6.4	(8.7)	**5.7**
Equity to assets ratio, %	45.4	31.1	33.3	28.3	**32.7**
Average number of employees	22,372	25,613	29,258	27,400	**24,363**

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

Formulas for Calculation of Indicators

Formulas for calculation of financial indicators

Gearing, %:

$$\frac{\text{Net interest bearing liabilities}}{\text{Shareholders' equity + minority interests}} \times 100$$

Return on equity (ROE), %:

$$\frac{\text{Profit before extraordinary items and income taxes – taxes}}{\text{Shareholders' equity + minority interests (average for period)}} \times 100$$

Return on capital employed (ROCE), %:

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

Equity to assets ratio, %:

$$\frac{\text{Shareholders' equity + minority interests}}{\text{Balance sheet total – advances received}} \times 100$$

Formulas for calculation of share-related indicators

Earnings/share:

$$\frac{\text{Profit before extraordinary items and income taxes – taxes +/– minority interest}}{\text{Average number of shares during period}}$$

Equity/share:

$$\frac{\text{Shareholders' equity}}{\text{Number of shares at end of period}}$$

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, %:

$$\frac{\text{Dividend per share}}{\text{Weighted average share price on Dec. 31}} \times 100$$

P/E ratio:

$$\frac{\text{Weighted average share price on Dec. 31}}{\text{Earnings per share}}$$

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				
		2004	2003	2002	2004	2003	2002	2001	2000
USD	(US dollar)	1.2433	1.1309	0.9449	1.3621	1.2630	1.0487	0.8813	0.9305
SEK	(Swedish krona)	9.1250	9.1244	9.1591	9.0206	9.0800	9.1528	9.3012	8.8313
GBP	(Pound sterling)	0.6786	0.6919	0.6288	0.7051	0.7048	0.6505	0.6085	0.6241
CAD	(Canadian dollar)	1.6170	1.5821	1.4828	1.6416	1.6234	1.6550	1.4077	1.3965

Auditors' Report

To the shareholders of Metso Corporation

We have audited the accounting, the financial statements and the corporate governance of Metso Corporation for the period January 1, 2004 to December 31, 2004. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the President and CEO. Based on our audit we express an opinion on these financial statements and on corporate governance of the parent company.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the President and CEO of the parent company have legally complied with the rules of the Companies' Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies Act.

Helsinki February 18, 2005

PricewaterhouseCoopers Oy
Authorized Public Accountants

Lars Blomquist
Authorized Public Accountant

Heikki Lassila
Authorized Public Accountant

Quarterly information

Net sales by business area

(In millions)	1–3/03 EUR	4–6/03 EUR	7–9/03 EUR	10–12/03 EUR	**2003 EUR**	1–3/04 EUR	4–6/04 EUR	7–9/04 EUR	10–12/04 EUR	**2004 EUR**
Metso Paper	359	402	363	527	**1,651**	360	351	378	470	**1,559**
Metso Minerals	286	307	322	338	**1,253**	279	339	334	391	**1,343**
Metso Automation	126	132	120	153	**531**	113	135	140	147	**535**
Metso Ventures	98	93	76	103	**370**	91	106	92	98	**387**
Intra Metso net sales	(25)	(32)	(22)	(43)	**(122)**	(24)	(25)	(30)	(36)	**(115)**
Continuing operations	844	902	859	1,078	**3,683**	819	906	914	1,070	**3,709**
Discontinued operations	139	170	132	126	**567**	109	119	17	22	**267**
Metso total	983	1,072	991	1,204	**4,250**	928	1,025	931	1,092	**3,976**

Operating profit (loss) before nonrecurring operating items and amortization of goodwill by business area and net income

(In millions)	1–3/03 EUR	4–6/03 EUR	7–9/03 EUR	10–12/03 EUR	**2003 EUR**	1–3/04 EUR	4–6/04 EUR	7–9/04 EUR	10–12/04 EUR	**2004 EUR**
Metso Paper	7.8	11.1	15.3	34.1	**68.3**	(16.4)	10.9	22.7	19.9	**37.1**
Metso Minerals	5.2	7.0	15.5	20.4	**48.1**	13.4	24.9	26.1	35.9	**100.3**
Metso Automation	1.7	6.9	8.1	14.7	**31.4**	6.4	12.9	19.6	19.0	**57.9**
Metso Ventures	0.2	4.6	(1.7)	(5.7)	**(2.6)**	(0.8)	(0.2)	(5.0)	(0.5)	**(6.5)**
Corporate office and other	(8.5)	(10.4)	(6.2)	(10.6)	**(35.7)**	(7.2)	(5.8)	(6.0)	(9.7)	**(28.7)**
Continuing operations	6.4	19.2	31.0	52.9	**109.5**	(4.6)	42.7	57.4	64.6	**160.1**
Discontinued operations	5.3	15.8	3.0	(0.4)	**23.7**	5.1	8.4	(1.5)	0.9	**12.9**
Operating profit (loss) before nonrecurring operating items and amortization of goodwill	11.7	35.0	34.0	52.5	**133.2**	0.5	51.1	55.9	65.5	**173.0**
Nonrecurring operating income and expenses, net	7.3	(7.9)	(108.0)	3.1	**(105.5)**	(3.1)	(8.8)	(28.8)	15.5	**(25.2)**
Goodwill impairment	-	-	(205.0)	-	**(205.0)**	-	-	-	-	**-**
Amortization of goodwill	(13.7)	(13.6)	(13.5)	(10.6)	**(51.4)**	(9.5)	(9.7)	(8.3)	(9.4)	**(36.9)**
Operating profit (loss)	5.3	13.5	(292.5)	45.0	**(228.7)**	(12.1)	32.6	18.8	71.6	**110.9**
Financial income and expenses, net	(18)	(17)	(18)	(21)	**(74)**	(11)	(18)	(14)	(20)	**(62)**
Income (loss) before taxes	(13)	(3)	(311)	24	**(303)**	(23)	15	5	52	**49**
Income taxes	0	(1)	6	39	**44**	(2)	(9)	47	(15)	**21**
Minority interests	0	(1)	1	1	**1**	0	0	0	(1)	**(1)**
Net income (loss)	(13)	(5)	(304)	64	**(258)**	(25)	6	52	36	**69**
Earnings per share, EUR	(0.09)	(0.04)	(2.23)	0.47	**(1.89)**	(0.18)	0.04	0.38	0.27	**0.51**

Consolidated balance sheets

(In millions)	Mar 31, 2003 EUR	June 30, 2003 EUR	Sep 30, 2003 EUR	**Dec 31, 2003 EUR**	Mar 31, 2004 EUR	June 30, 2004 EUR	Sep 30, 2004 EUR	**Dec 31, 2004 EUR**
Fixed assets and financial assets								
Intangible assets	988	973	755	**760**	730	590	581	**562**
Tangible assets	876	862	855	**810**	763	704	674	**641**
Financial assets	107	92	92	**94**	78	72	124	**93**
Current assets								
Inventories	885	875	853	**743**	791	702	744	**687**
Receivables	1,253	1,355	1,379	**1,286**	1,247	1,243	1,207	**1,176**
Cash and cash equivalents	127	126	130	**130**	164	419	301	**419**
Total assets	4,236	4,283	4,064	**3,823**	3,773	3,730	3,631	**3,578**
Share capital	232	232	232	**232**	232	232	232	**232**
Other shareholders' equity	1,132	1,048	751	**792**	766	740	797	**820**
Minority interests	8	6	7	**6**	7	7	6	**5**
Long-term liabilities	1,085	1,165	1,175	**1,118**	1,114	1,095	1,080	**1,056**
Current liabilities	1,779	1,832	1,899	**1,675**	1,654	1,656	1,516	**1,465**
Total shareholders' equity and liabilities	4,236	4,283	4,064	**3,823**	3,773	3,730	3,631	**3,578**
Net interest bearing liabilities								
Long-term interest bearing liabilities	926	1,001	1,010	**957**	962	946	934	**920**
Short-term interest bearing liabilities	319	341	320	**312**	258	213	42	**51**
Cash and cash equivalents	(127)	(126)	(130)	**(130)**	(164)	(419)	(301)	**(419)**
Other interest bearing assets	(28)	(26)	(28)	**(30)**	(34)	(47)	(30)	**(23)**
Total	1,090	1,190	1,172	**1,109**	1,022	693	645	**529**
Equity to assets ratio, %	34.5	32.4	26.8	**28.3**	28.3	28.5	31.2	**32.7**
Gearing, %	79.5	92.5	118.5	**107.7**	101.7	70.9	62.3	**50.0**

Orders received by business area

(In millions)	1–3/03 EUR	4–6/03 EUR	7–9/03 EUR	10–12/03 EUR	**2003 EUR**	1–3/04 EUR	4–6/04 EUR	7–9/04 EUR	10–12/04 EUR	**2004 EUR**
Metso Paper	733	268	421	288	**1,710**	436	699	291	300	**1,726**
Metso Minerals	325	295	265	328	**1,213**	368	374	373	451	**1,566**
Metso Automation	160	131	121	119	**531**	140	154	146	130	**570**
Metso Ventures	104	77	75	142	**398**	86	109	63	103	**361**
Intra Metso orders received	(36)	(30)	(22)	(33)	**(121)**	(25)	(33)	(26)	(29)	**(113)**
Continuing operations	1,286	741	860	844	**3,731**	1,005	1,303	847	955	**4,110**
Discontinued operations	139	143	127	116	**525**	122	109	19	14	**264**
Metso total	1,425	884	987	960	**4,256**	1,127	1,412	866	969	**4,374**

Order backlog by business area

(In millions)	Mar 31, 2003 EUR	June 30, 2003 EUR	Sep 30, 2003 EUR	**Dec 31, 2003 EUR**	Mar 31, 2004 EUR	June 30, 2004 EUR	Sep 30, 2004 EUR	Dec 31, 2004 **EUR**
Metso Paper	1,108	973	1,031	**784**	864	1,211	1,124	**946**
Metso Minerals	442	428	371	**347**	447	476	525	**560**
Metso Automation	184	182	181	**145**	175	193	198	**176**
Metso Ventures	157	144	146	**175**	170	141	114	**118**
Intra Metso order backlog	(68)	(69)	(70)	**(55)**	(58)	(64)	(62)	**(55)**
Continuing operations	1,823	1,658	1,659	**1,396**	1,598	1,957	1,899	**1,745**
Discontinued operations	151	125	118	**109**	68	17	19	-
Metso total	1,974	1,783	1,777	**1,505**	1,666	1,974	1,918	**1,745**

Personnel by business area

(In millions)	Mar 31, 2003 EUR	June 30, 2003 EUR	Sep 30, 2003 EUR	**Dec 31, 2003 EUR**	Mar 31, 2004 EUR	June 30, 2004 EUR	Sep 30, 2004 EUR	**Dec 31, 2004 EUR**
Metso Paper	9,394	9,776	9,323	**9,085**	9,127	9,340	8,891	**8,660**
Metso Minerals	8,472	8,615	8,481	**8,284**	8,180	8,267	8,113	**8,048**
Metso Automation	3,648	3,689	3,412	**3,314**	3,253	3,365	3,270	**3,267**
Metso Ventures	3,271	2,618	2,509	**2,482**	2,453	2,575	2,515	**2,544**
Corporate office and other	135	166	204	**223**	230	266	273	**283**
Continuing operations	24,920	24,864	23,929	**23,388**	23,243	23,813	23,062	**22,802**
Discontinued operations	2,857	2,862	2,854	**2,852**	2,117	258	278	-
Metso total	27,777	27,726	26,783	**26,240**	25,360	24,071	23,340	**22,802**

Exchange rates used

	1–3/2003	1–6/2003	1–9/2003	1–12/2003	1–3/2004	1–6/2004	1–9/2004	1–12/2004
USD (US dollar)	1.0734	1.1049	1.1114	1.1309	1.2507	1.2275	1.2257	1.2433
SEK (Swedish krona)	9.1818	9.1623	9.1628	9.1244	9.1826	9.1640	9.1620	9.1250
GBP (Pound sterling)	0.6698	0.6856	0.6900	0.6919	0.6801	0.6736	0.6731	0.6786
CAD (Canadian dollar)	1.6202	1.6045	1.5874	1.5821	1.6492	1.6430	1.6286	1.6170
	Mar 31, 2003	June 30, 2003	Sep 30, 2003	Dec 31, 2003	Mar 31, 2004	June 30, 2004	Sep 30, 2004	Dec 31, 2004
USD (US dollar)	1.0895	1.1427	1.1652	1.2630	1.2224	1.2155	1.2409	1.3621
SEK (Swedish krona)	9.2608	9.2488	8.9625	9.0800	9.2581	9.1451	9.0588	9.0206
GBP (Pound sterling)	0.6896	0.6932	0.6986	0.7048	0.6659	0.6708	0.6868	0.7051
CAD (Canadian dollar)	1.6037	1.5506	1.5717	1.6234	1.5979	1.6343	1.5740	1.6416

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