

The background of the cover is a photograph of a large-scale industrial mining or processing plant. In the foreground, a conveyor belt is shown in motion, carrying large, dark, irregularly shaped rocks. The middle ground features several large piles of grey, crushed aggregate material. In the background, there are more conveyor systems, large mounds of earth or aggregate, and distant hills under a sky with soft, pinkish-orange clouds, suggesting a sunrise or sunset. A large, semi-transparent white circle is centered over the middle of the image, containing the title text.

Metso 2016

Annual Review

Free cash flow

EUR 339 million

Operating profit

EUR 227 million

Metso achieved satisfactory profitability and strong cash flow in a challenging market environment. We progressed in renewing our operating model, streamlining procurement and standardizing our offering. Our goal is to create added value for our stakeholders throughout the business cycle.

Dividend proposal

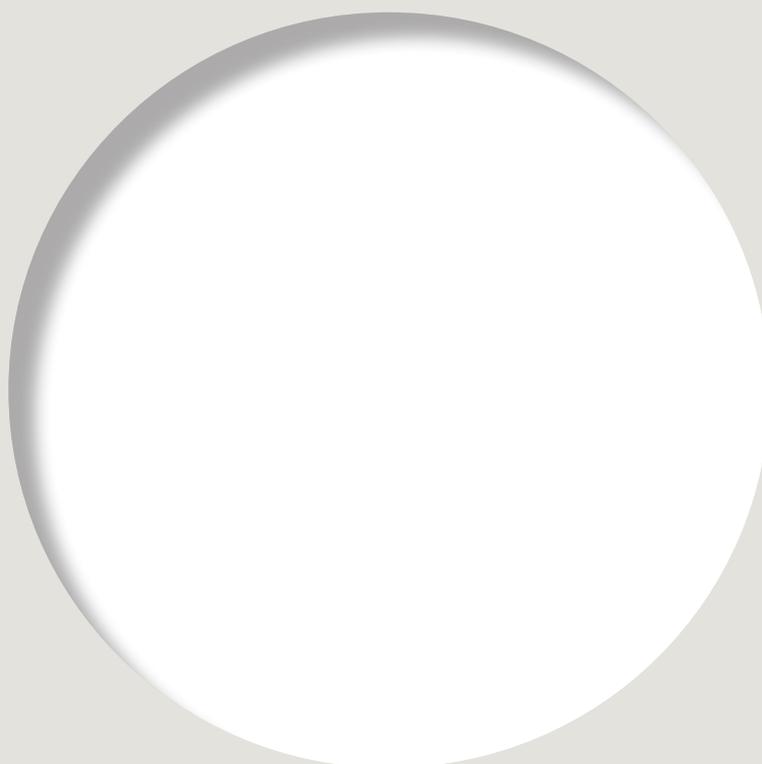
EUR 1.05

Personnel

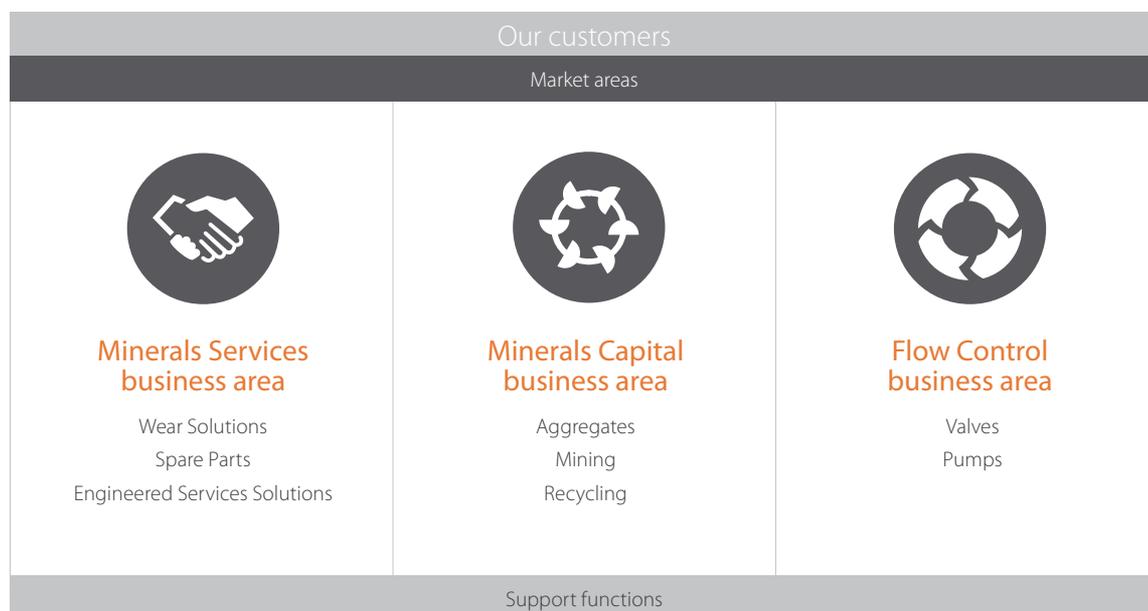
11,542

Earnings per share

EUR 0.87



Our operating model

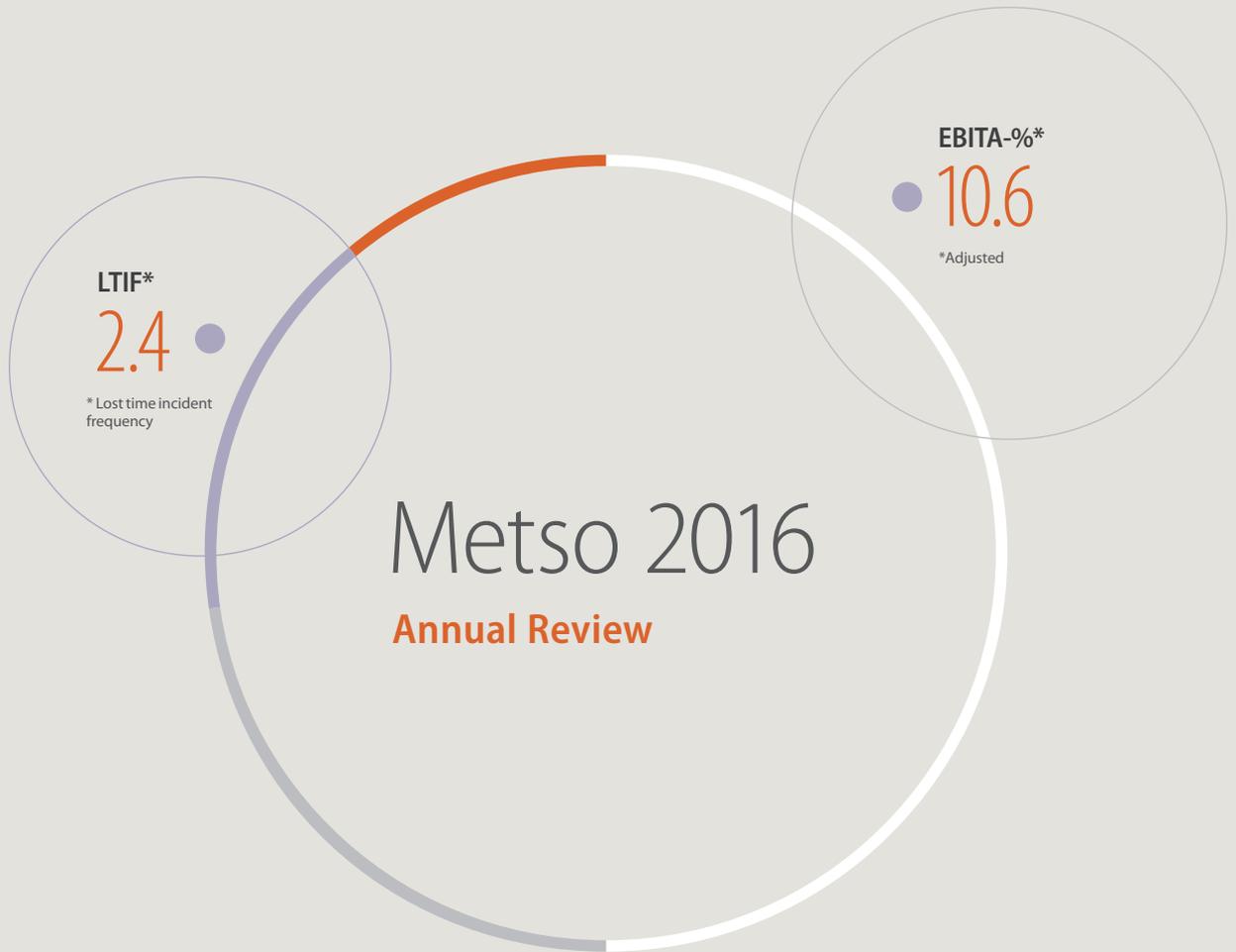


Sales

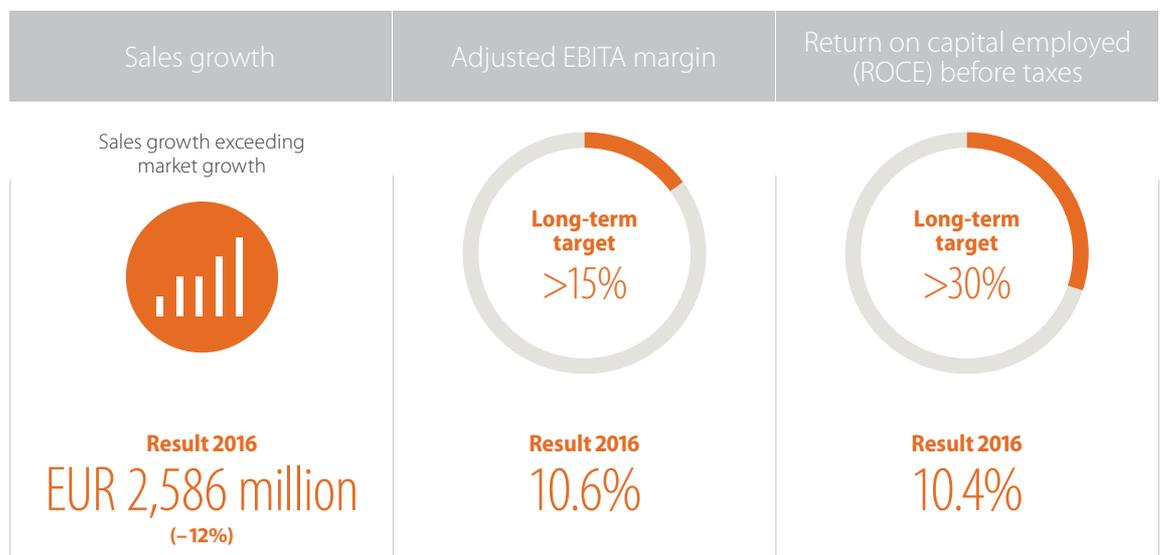
EUR 2,586 million

Orders received

EUR 2,724 million



Financial targets and achievements



This is Metso

How to read Metso's reports for 2016

Metso has published four reports that together form the Annual Report for 2016. This Annual Review has been published and printed in English and Finnish. The "Read more" section contains additional sources and information about the topics presented in the Review.

To read all of the four reports, the Annual Review, the Financial Statements, the Corporate Governance Statement and the Sustainability Supplement, please visit our website www.metso.com/2016. On the website, you can read our Financial Statements and Corporate Governance Statement for 2016 as a PDF file in either English or Finnish. Sustainability information is presented on the website in English, as a PDF file. The Sustainability Supplement has been externally assured.

SUSTAINABILITY



The sustainability icon marks sustainability content. More information about the content will be found in our Sustainability Supplement.



Read more

- > metso.com
- > www.metso.com/2016
- > twitter.com/metsogroup
- > facebook.com/metsoworld
- > youtube.com/metsoworld



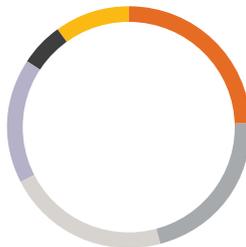
Metso is a world leading industrial company serving the mining, aggregates, recycling, oil, gas, pulp, paper and process industries. In 2016, Metso's sales totaled EUR 2,586 million. Services business accounted for 66% of our sales.

We help our customers improve their operational efficiency, reduce risks and increase profitability by using our unique knowledge, experienced people and innovative solutions.

Our products range from mining and aggregates processing equipment and systems to industrial valves and controls. Our customers are supported by a broad scope of services and a global network of over 80 service centers and about 6,000 services professionals. Metso has an uncompromising attitude towards safety. Metso employs over 11,000 persons in more than 50 countries.

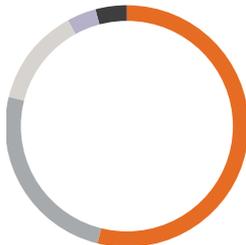
Metso is listed on the NASDAQ Helsinki Ltd, Finland.

Sales by market area



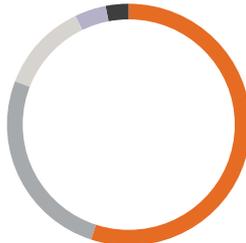
- Europe 25% (23%)
- North America 22% (22%)
- South and Central America 20% (20%)
- Other Asia Pacific 17% (16%)
- China 6% (7%)
- Africa and Middle East 10% (12%)

Sales by customer industry



- Mining 54% (54%)
- Aggregates 25% (24%)
- Oil and Gas 13% (14%)
- Pulp and Paper 4% (5%)
- Other 4% (3%)

Orders received by customer industry



- Mining 55% (57%)
- Aggregates 26% (23%)
- Oil and Gas 12% (14%)
- Pulp and Paper 4% (4%)
- Other 3% (2%)

Highlights



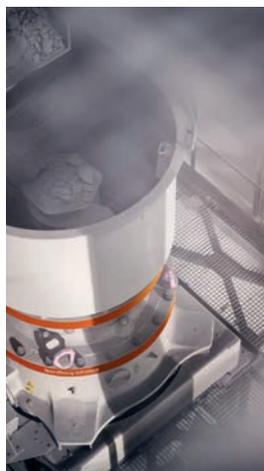
10 From the CEO

Our ambition level is high: we want to be a leading provider in every business we are in. The key word of our strategy is growth. Read more in the CEO's letter.



14 Sustainability strategy

Metso's sustainability strategy was revised in 2016 to meet the ambition level. We have set targets for our approach to sustainability for the 2016–2018 period and long-term environmental and LTIF targets to 2020.



20 Customer industries

We are well-positioned in all of our customer industries, either globally or in a selected niche market. Our offering covers services, products and systems for our customer industries.



26 Financial performance

Our financial performance was satisfactory despite lower sales in 2016. Our profitability remained healthy and our balance sheet strengthened. Metso continues to target high profitability and low volatility.

4 Strategy



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From the CEO

The tough market situation witnessed during recent years prevailed in 2016, making it yet another challenging year for Metso's customer industries. Aggregates markets improved during the year, but demand for the mining business remained weak. The oil and gas downstream market took an unfavorable turn during the second half of the year, as customers became clearly more cautious with their investments.

All this considered, we pulled off a good result. With strong cash flow and a firm balance sheet, we have a healthy foundation. Our orders in 2016 exceeded sales and we maintained a satisfactory level of profitability despite overall lower sales. I believe we are well positioned, thanks to the determined work done to improve Metso's structure and efficiency.

The best choice

Our ambition level is high: we want to be a leading provider in every business we are in. The key word of our strategy is growth. In addition to continuously striving to grow the existing business and capitalizing on the potential of our installed base, we are also looking into entirely new growth opportunities through an expansion to new markets and segments. Growing services is at the core of our strategy. Metso is the leading full-scope services supplier for minerals processing today, and we are continuously developing our offering and capabilities to provide even more customer value.

Our customers' needs define our strategy and our priorities follow their priorities. There is no doubt that digitalization is opening growth opportunities for Metso. Intelligent products and processes and increased automation together with faster processing of large amounts of data will improve productivity and transparency and increase efficiency. We have taken a pragmatic approach to digitalization: strictly business driven, with no heavy organizational structures. The focus is on customer benefits.

We renewed our vision to state that Metso is the best choice for sustainable processing and flow of natural resources for our customers, employees, shareholders and other stakeholders. We work hard every day to live up to that vision and believe that Metso plays an important role as an enabler of a more sustainable global society. Together with our customers, we address complicated

challenges and utilize our knowledge and advanced technology to meet their needs. As a result, raw material processing takes place in the most productive and efficient way.

Sustainable everywhere, every day

Metso's sustainability strategy and targets were revised in 2016 and approved by top management and reviewed by the Board. We want to be considered a thought leader in sustainability by 2020. The sustainability strategy defines more concretely what sustainability means at Metso, grouped into four focus areas: performing together, building customer success, contributing to the environment and responsible supply chain. In our view, we can make the biggest difference by innovating new technologies and constantly improving our ways of operating. When selecting development actions, we maintain an active dialogue with our stakeholders. All the sustainability focus areas include defined targets, and we have over 20 key performance indicators in place to measure the impact. The achievements and the sustainability strategy will be covered in more detail later on in this report.

One sustainability topic that is crucial not only for us, but also for all our customers – due to the nature of their business – is safety. The key safety indicator LTIF (lost-time incident frequency) provides essential information on how we have succeeded in advancing safer working conditions. Metso's LTIF index in 2016 was 2.4 compared to 2.7 in 2015. In practical terms, the decrease translates to hundreds of individual acts, observations, reports and constant education to improve safety in our facilities everywhere we operate. The current level of accident frequency corresponds roughly to one reported incident per week among our more than 11,000 employees all over the world. We have every reason to be proud of this achievement and the steep downward

Earnings per share
EUR 0.87

LTIF*
2.4

* Lost time incident frequency

Operating profit
EUR 227 million



In our view, we can make the biggest difference by innovating new technologies and constantly improving our ways of operating



trend since we started meticulously following the LTIF. Our long-term target is zero accidents and I believe it is reachable.

Performing together is one of Metso's values. Indeed, good performance always comes as a result of numerous individual contributions and intensive team work. I am grateful to all my Metso colleagues, customers, shareholders and partners for

their sustained support and commitment. Let us continue with the same energy and focus in 2017.

Matti Kähkönen
President and CEO



People

Metso people feel strongly engaged in their own work and to Metso as an organization according to our employee engagement survey, PeoplePulse, conducted in 2016.



METSO'S FLOW CONTROL VALVE TECHNOLOGY CENTER IN VANTAA, FINLAND.

Drivers accelerating our business



Sales by business area

49%
Minerals Services

27%
Minerals Capital

24%
Flow Control



Operating environment



Mining

With low commodity prices for most of the year, mining companies continued to adjust to the weak market and focused their efforts on cost reduction and on asset and production optimization. The capital expenditure of major miners continued to decline. Many mining companies continued with asset-disposals in an effort to protect their balance sheets. The industry saw further mine closures and curtailments. In metal recycling, low scrap prices continued throughout 2016 negatively impacting the demand for new equipment and services.

Aggregates

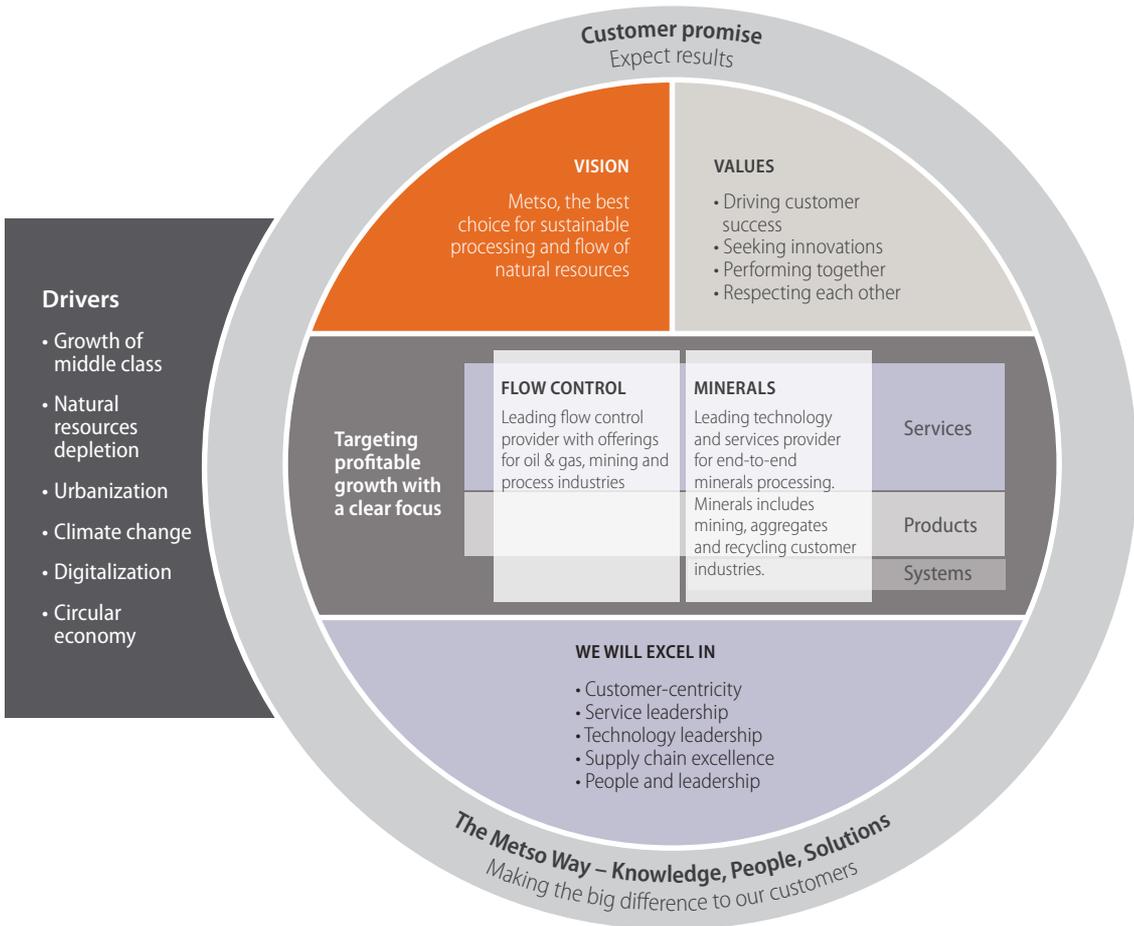
On the aggregates side, the global construction industry regained strength after a relatively sluggish 2015. On a regional basis, the North American construction sector continued to improve as did the Indian market, while China's weakened economic growth put pressure on infrastructure investments. Europe saw signs of improvement, especially in Northern Europe.

Flow Control

In oil and gas, low price environment was reflected in capital spending discipline and continued cost-cutting programs with midstream and downstream projects put on hold as well. Whereas midstream was impacted early in 2016 the impact on downstream projects became visible only in the second half of 2016. Demand for services and replacements remained relatively stable throughout the year.

The activity level of pulp and paper flow control cooled in 2016, driven by the lack of large investments compared to the previous years. However, this does not reflect a decline in the demand; rather, it was more of a project timing issue. The future outlook for pulp and paper investments remains relatively healthy.

Metso strategy drives customer success



- Drivers**
- Growth of middle class
 - Natural resources depletion
 - Urbanization
 - Climate change
 - Digitalization
 - Circular economy

VISION:

Metso, the best choice for sustainable processing and flow of natural resources.

Our ambition is – and we work hard for it – to be **the best choice** for our customers, employees, shareholders and other stakeholders in all that we do.

Sustainable – sustainability for us means reducing energy consumption and emissions, using less raw ingredients and water and producing less and less waste while delivering the same or increased production output. Sustainability also means that we follow the highest health, safety and environmental standards and practices.

Processing and flow of natural resources – Metso’s solutions to the customers are converting raw natural resources into materials that are used to build the modern world.





Values

Driving customer success

- We succeed through the success of our customers.
- We work closely with our customers to understand their needs and to respond quickly.
- We are focused on delivering profitable solutions and services for our customers.
- We have deep industry knowledge and expertise that makes the big difference to our customers.

Seeking innovations

- Creativity and continuous renewal are essential for our long-term competitiveness and daily operations.
- We continuously seek new ways of thinking and better ways of working.
- We encourage the introduction of new technologies, and value innovative ideas and practices.

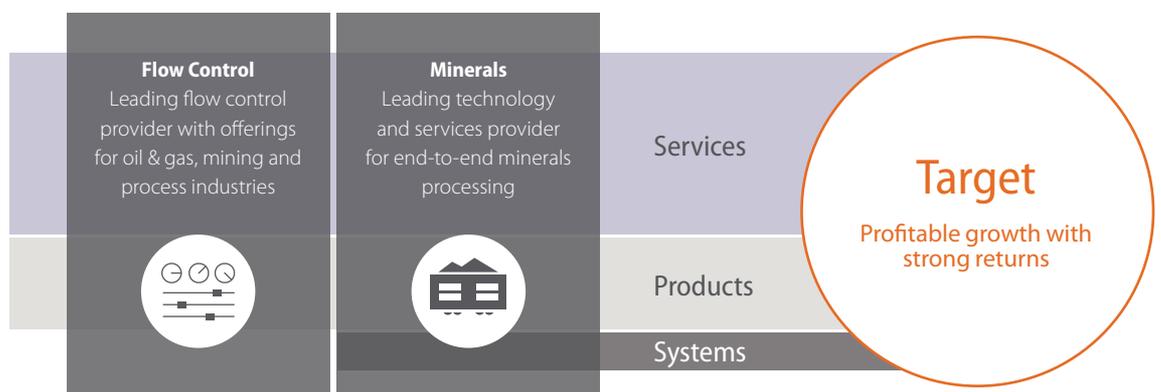
Performing together

- We share knowledge and are willing to learn from each other.
- We combine our deep industry knowledge and experience to create profitable solutions for our customers.
- We respect each other's contributions and solve problems together with our global network of colleagues.
- We keep our promises.
- We take responsibility and work hard to achieve our targets.

Respecting each other

- We prioritize the well-being, health and safety of all individuals.
- We treat each other with respect and benefit from our global diversity.
- We are open and honest in our communication, and create an environment of mutual trust.
- We encourage and provide opportunities for each other to develop as professionals.

Targeting growth and higher profitability



Our business model relies heavily on **services** where we have the strongest position and product portfolio in the market.

We build on our leading technically advanced **product** portfolio.

In addition, we provide complete **systems** in minerals processing. Systems deliveries often consist of Metso and

other equipment and involve a significant degree of work related to process design, engineering, project management and commissioning.

Our strong emphasis is on services and product businesses. We aim to balance the share of system deliveries to optimize the profitability and risk level of our complete business portfolio.

Strategy execution

Highlights of strategy execution focus areas in 2016



Customer-centricity

- We started implementing the next generation company-wide customer satisfaction program.
- Our marketing and sales processes were strengthened to make customer engagement more intensive; this included increasing the use of digitalized processes and tools.
- Our Flow Control business continued to develop its global distributor channel to serve its customers locally by signing close to 15 new distributor partner contracts globally.
- We launched a new distribution management program for aggregates customers with proven results and better availability of solutions and services.



Service leadership

- We introduced new Life Cycle Services (LCS) packages for the aggregates industry.
- We further improved the availability and service level for our aggregates customers, which was welcomed by our customers and resulted in the growth of spare parts sales.
- Our Flow Control shutdown and turnaround solution services concept ensures safe and reliable shutdown planning and execution for shutdowns. We were involved in more than 100 demanding shutdown and turnaround operations in various customer industries.
- We have a strong global service presence close to our customers with more than 80 local service centers. We continued to strengthen this presence, e.g., by opening a new service center for our flow control customers in Poland.



Technology leadership

- Codelco El Teniente was the first mining company in the world to use our innovative grinding technology: the next generation of Poly-Met discharge grates for SAG mills.
- A new generation of crusher upgrades for the mining industry was launched with the aim to increase productivity by up to 30%.
- Metso Metrics – a digital, cloud-based remote monitoring and data visualization service for Lokotrack® – was launched; it gives customers remote access to vital operating and maintenance information about their crushing and screening equipment.
- We introduced innovative solutions for the mining industry, such as MHC™ Hydrocyclones and UltraFine™ to simplify the adoption of wet fine classifying technologies to improve efficiency and profitability. Both products strengthen our position as a unique supplier of fine classification technologies.
- We launched an energy-efficient comminution solution that combines the HRC™ high-pressure grinding roll with Vertimill®'s stirred milling technology.
- We introduced the NW Rapid Series of high-performance crushing and screening equipment on wheels for increased capacity with reduced transportation and plant erection costs.
- We launched and received the first order for the N-Series, a new recycling equipment product range for the scrap metal industry.
- The new Neles® NDX intelligent valve controller was launched in 2016. It was designed for compatibility with virtually all valves and any distributed control systems (DCS).
- Our Neles® BWX butterfly valve has proved to be widely applicable and successfully entered new process industry segments around the world.



Supply chain excellence

- Procurement costs savings totaled approximately EUR 50 million.
- Supplier on-time delivery performance improved significantly over 2015.
- Several strategic initiatives concerning procurement progressed well: we improved our global procurement operating model, established a global savings pipeline and started digitalization of procurement tools.
- New digital tools for flow control sales: we launched an Installed Base Management tool for valve services and the global implementation of the integrated quotation and order tool started successfully.



People and leadership

- Leaders continued to support their teams in performing with quality and speed.
 - We continued to develop and expand our global leadership development portfolio to support managers.
- Organization was optimized for growth.
 - We focused on implementing effective organizations and operating models.
- Resources and competences for the future were developed.
 - Our professional competence development focused on excellence in sales capabilities.
- We continued to acknowledge and build on each other's strengths to drive growth.
 - We conducted a global employee engagement survey: 85% of our people feel strongly engaged in their own work and to Metso as an organization.

Sustainability strategy

We work hard to be the best choice for the sustainable processing and flow of natural resources. For us at Metso, this means that our efforts and focus are set on reducing energy consumption and emissions, using less water and raw ingredients, and producing less waste while delivering the same or increased production output. We also follow the highest health, safety and environmental standards and practices.

Metso's sustainability strategy was revised in 2016 to meet the ambition level. We have set targets for our approach to sustainability for the 2016–2018 period and long-term environmental and LTIF** targets to 2020. Our revised sustainability strategy consists of four focus areas, and each of them has measurable subcategories concerning our own operations.

Sustainability strategy



Focus area	Sustainability targets and action plan 2016–2018	Progress in 2016
Building customer success	<ul style="list-style-type: none"> All the new R&D* projects have to set environmental efficiency and product safety innovation targets (if applicable) as of 2016 and verify the results when the project is closed. Solid verification development More focused customer engagement and Metso responsiveness on sustainability development Brand awareness; Metso is well-known for its sustainability performance and capabilities 	<ul style="list-style-type: none"> 83% of R&D projects have set environmental efficiency and/or product safety innovation targets Metso launched a global initiative on customer experience management with a pilot in 2016 Metso ranked at the Leadership level in CDP's Climate Change evaluation. We have continued our systematic work to build Metso brand awareness. We received several recognitions in 2016, e.g., for our HSE work in Chile and for our long-term strategic partnership with Freepport-McMoRan
Performing together	<ul style="list-style-type: none"> Long-term LTIF target: LTIF<1** Human rights impact assessment conducted, action plans for corrective actions made, and Metso employees and relevant partners trained Code of conduct updated, all employees trained and all the relevant partners informed More focused stakeholder engagement and responsiveness Employee engagement surveys done regularly and related actions done in teams KPIs*** to track social benefits for the major sponsorship projects 	<ul style="list-style-type: none"> LTIF in 2016 was 2.4 (2015: 2.7) Labor rights assessment was conducted in six higher risk countries. Based on this assessment, essential labor rights aspects were identified related to our own operations within the six higher risk countries. As part of this process, our HR management reviewed the assessment results and identified new possible development areas. Code of Conduct review process ongoing Focus in stakeholder engagement was on employees, customers and investors; Dialogue with investors led to the publishing of a new 'Sustainability for investors' webpage Metso conducted a global employee engagement survey "PeoplePulse" for all Metso employees (response rate 85%, favorable responses 77%). KPIs in major sponsorship projects have been further developed together with our cooperation partners
Contributing to the environment	<ul style="list-style-type: none"> Water reduction target for each unit in 2016 and 15% in total by 2020 Waste going to landfill reduced by 15% by 2020 from 2014 level including yearly targets Energy saving and CO₂-emission reduction targets for each unit in 2016 and 20% total by 2020 All production units have to conduct environmental audits with Metso audit tools Zero environmental accidents All employees receive environmental training Externally assured CO₂ levels of procurement, logistics and business travel 	<ul style="list-style-type: none"> Water consumption was reduced by 2.8%, with the help of a new water audit tool and water-saving actions Share of landfill waste reduced to 60%, thanks to a new waste audit tool and improvements in waste processing A total of 47,000 MWh (11.9%) of energy savings since 2010, thanks to wide range of actions around the world. These actions have reduced CO₂ emissions by 15,900 tCO₂ HSE audits were carried out at 28 locations No significant spills or any other environmental accidents Majority of locations have had environmental training CO₂ emissions (Scope 3) externally assured: procurement, logistics, business travel, and fuel and energy related emissions (not included in Scope 1 and Scope 2)
Responsible supply chain	<ul style="list-style-type: none"> Third-party sustainability audits for higher- and medium-risk supplier base; minimum 15 per year Established sustainability follow-up tools and processes: <ul style="list-style-type: none"> 100% of new suppliers in high-risk areas screened on sustainability issues Existing high- and medium-risk supplier base screened on sustainability issues Procurement personnel trained on sustainability Compliance with chemical legislation and restricted materials through systematic qualification process 	<ul style="list-style-type: none"> More systematic sustainability screening of new suppliers started in higher-risk areas More systematic sustainability screening of existing higher-risk suppliers started 15 third-party sustainability audits conducted in China and India Sustainability training organized for procurement and supplier quality personnel in India Internal program on restricted materials ongoing

*R&D=Research and Development **LTIF=Lost Time Incident Frequency ***KPI=Key Performance Indicator



Solutions

Metso's solutions for customers convert raw natural resources into materials that are used to build the modern world.



MINING CONVEYORS AT METSO'S CRUSHING AND SCREENING INSTALLATION AT MINAS DE AGUAS TEÑIDAS MINE IN SPAIN.

Global presence

Metso is making every effort to be the best choice for our customers. We have operations in more than 50 countries on six continents, an extensive logistics network and over 11,000 industry experts ready to help.



North America

Sales

EUR 569 million

Personnel 1,609

Europe

Sales

EUR 642 million

Personnel 4,097

China

Sales

EUR 149 million

Personnel 1,032

South and Central America

Sales

EUR 521 million

Personnel 2,420

Africa and Middle East

Sales

EUR 246 million

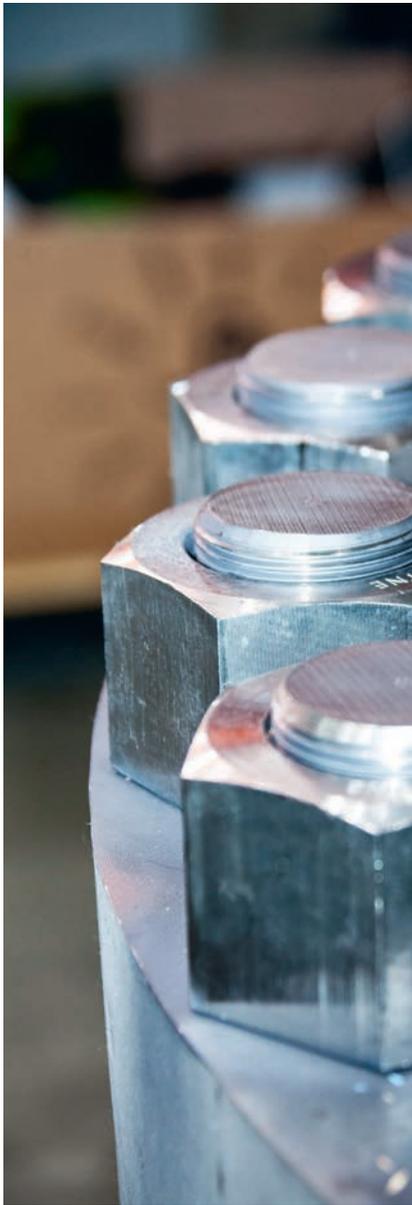
Personnel 886

Other Asia Pacific

Sales

EUR 459 million

Personnel 1,498



Case

Further expanding our customer presence and service levels through world-class distribution channels

Metso has a strong direct sales organization and an extensive service network serving its valve customers globally. In North America, Flow Control has a well-established distributor network serving the process industries. Our flow control portfolio answers the needs of many customer industries, and there is also horizontal growth potential in the process industries.

Development of the distributor channel is one of the most important strategic growth initiatives in many key markets for Flow Control.

Flow Control confirmed close to 15 new sales partners in many key markets in 2016. New partner contracts were signed for example in China, India and the Middle East. Furthermore, we expanded our cooperation with many existing distributor channel partners and grew our OEM (Original Equipment Manufacturer) customer base.

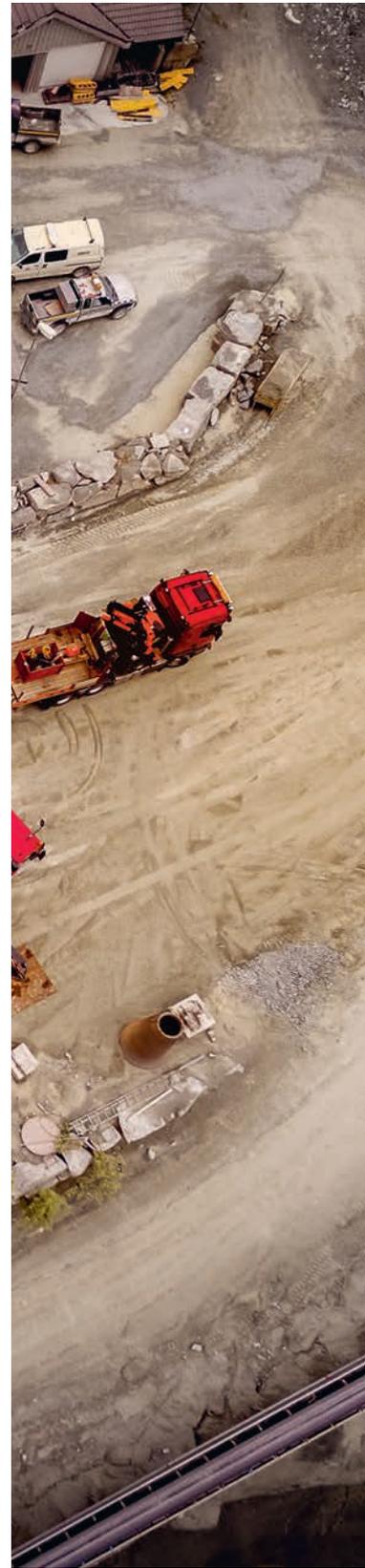


Case

Increasing mine capacity through new crushing and screening plant for Tata Steel, South Africa

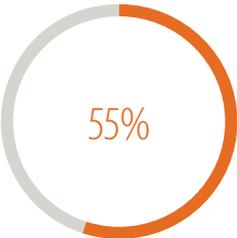
Tata Steel's Sedibeng Iron Ore mine in South Africa has previously used a Metso mobile crushing and screening solution. A planned increase in the mine capacity led Tata Steel to contact Metso. The key targets for their Sedibeng Iron Ore mine was to guarantee the plant availability and lower the production costs.

Based on a thorough analysis, Metso came up with a high-end technical solution that boosts plant availability from 65-70% to 90% and increases plant capacity to 600 tons per hour. The order consists of a stationary crushing and screening plant and Life Cycle Services for a five-year contract period. The Life Cycle Services agreement includes the supervision of the plant maintenance, maintenance planning, training of the customer's personnel as well as spares and wears management.



Our customer industries

We are well-positioned in all of our customer industries, either globally or in a selected niche market. Our offering covers services, products and systems for our customer industries.

End markets	Orders received	Share of services
Mining	 <p>55%</p>	 <p>75%</p>
Aggregates	 <p>26%</p>	 <p>43%</p>
Flow Control	 <p>19%</p>	 <p>65%</p>

Shaping the industry conventions by introducing easier ways of buying, maintaining and operating aggregates equipment



Metso has extensive experience in supporting our aggregates customers globally. We continue to use this knowledge to develop our offering to flexibly suit customers' needs. No matter how basic or complex customer needs are, our services run the entire spectrum.

The progressive and customizable Life Cycle Services programs are targeted to simplify ownership, lower the total cost of ownership and improve end-product quality, with the goal of ensuring the most profitable operations for the customers. As part of the new offering, Metso has introduced equipment leasing and rental options via selected global financing partners, as well as the new Metso Metrics Services (for mobile equipment), enabling our customers to gain remote visibility into their equipment data, facilitate their maintenance planning and activities, and reduce operational risks and costs.

The new Life Cycle Services offering for the aggregates industry is built on three program levels that are designed for different customer needs and can be easily customized. Our first program level, **Support Service**, secures our customers' assets through inspections, extended warranty coverage and inventory and parts planning. **Maintenance Service** is the second program level, with service



experts taking more responsibility for plant reliability, through the development of a comprehensive maintenance strategy. At the top level, **Optimization Service** is our most comprehensive program; it focuses on ensuring that the customer's aggregates process and operations are optimized for the most sustainable performance.

Metso's Life Cycle Services offering is delivered jointly by Metso, our distribution network and financing partners. The rollout of the solution has begun in Europe and will be expanded globally.



Customer industries

Mining



Aggregates



Flow Control



Global drivers

- Urbanization
- Growth of middle class
- Natural resources depletion
 - Digitalization
- Climate change
- Circular economy

Metso's business drivers

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> • Declining ore grades requiring more ore to be processed. • Miners' productivity requirements and asset optimization needs to drive demand for technology improvements. • Increasing demand for sustainable and energy-efficient solutions. • Demand for digital solutions and new technologies that increase safety and productivity. • Demand for retrofit solutions that prolong the lifetime of existing equipment. | <ul style="list-style-type: none"> • Construction industry investments, such as infrastructure projects, residential and commercial building. • Need for total cost-per-ton solutions. • The demands of quarries and contractors regarding the availability of equipment and services have grown. | <ul style="list-style-type: none"> • Growing demand for energy. • Changes in energy mix. • Modernization investments. • Continuous drive for more cost-efficient solutions. • New production technologies. • Demand for process safety and uptime. • Increasing focus on sustainability and environmental regulations. |
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Market outlook

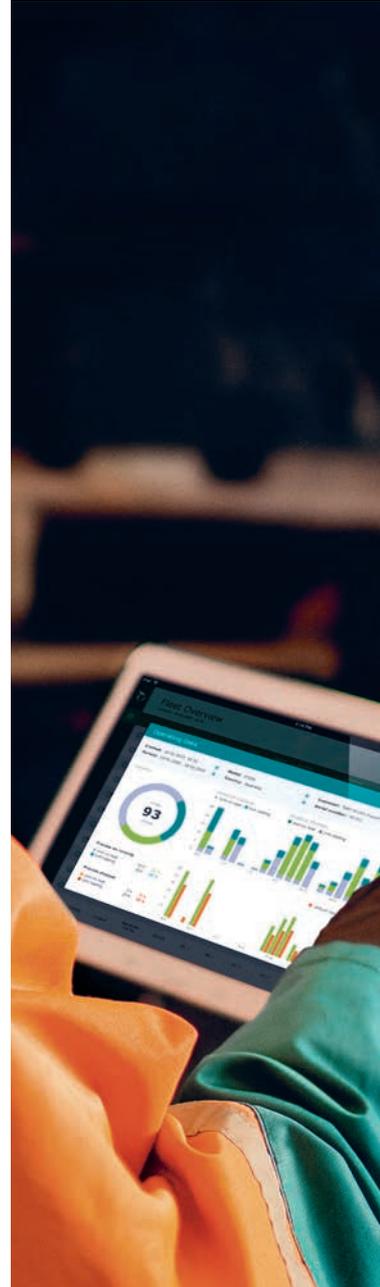
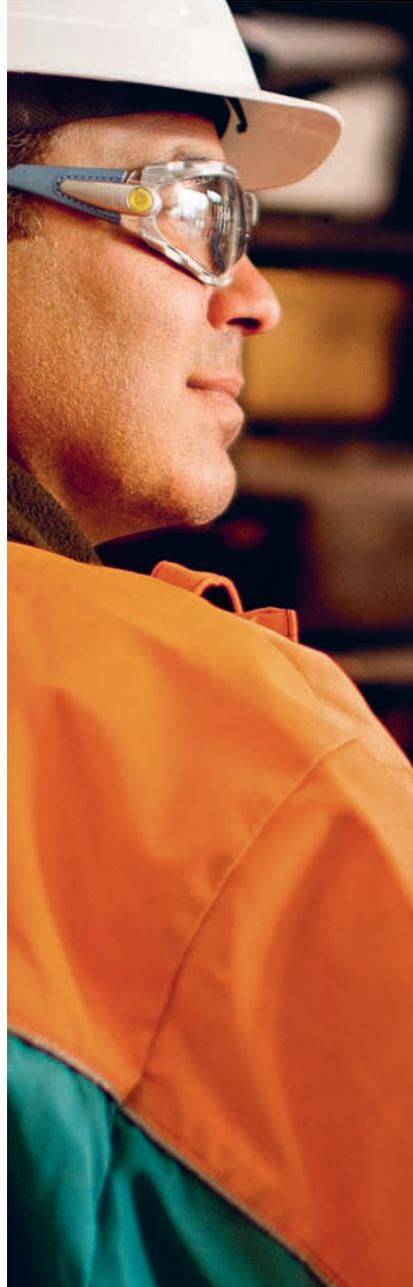
- | | | |
|--|--|--|
| <ul style="list-style-type: none"> • Low investments in the mining sector continues to impact the demand for new equipment, rebuilds and refurbishments. The demand for wear and spare parts is more stable as production rates in mines are high. • We expect the demand for mining equipment to remain weak and the demand for mining services to remain satisfactory. | <ul style="list-style-type: none"> • Economic growth in the United States, Europe and India is expected to have a positive impact on our aggregates business. • The demand has improved to good for aggregates equipment and services. | <ul style="list-style-type: none"> • Investments in the oil & gas downstream sector were low in the latter half of 2016 and we expect uncertainty to continue in 2017. The demand for pulp & paper projects is expected to increase as new investments are foreseen in 2017. High utilization rates create demand for our services business. • Demand is expected to remain satisfactory for products related to customers' new investments and satisfactory for services. |
|--|--|--|

Achievements

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> • Codelco El Teniente was the first mining company in the world to use Metso's innovative grinding technology: the next level of Poly-Met discharge grates for SAG mills. • Metso provided a crushing and screening plant and LCS* to increase capacity and reduce operating costs at Tata Steel's Sedibeng Iron Ore mine in South Africa. • Boliden selected Metso to supply equipment for a new surface crushing station for the Aitik copper mine in Sweden. • Assmang Iron Ore Khumani mine's LCS process and product improvements achieved ore lump-to-fine ratio targets and maintenance team achieved crushing plant availability targets. • Kennecott LCS agreement with Metso covered metallic and rubber liners. • IAMGOLD's Suriname Grinding Media contract: a 2-year annual supply of all grinding media needs, incl. SAG and ball mills. • The world's largest copper producer, Codelco, relied on Metso to increase availability of its Symons crusher by 23%. | <ul style="list-style-type: none"> • Major systems order received from South East Asia. • New Life Cycle Services (LCS) packages introduced for aggregates industry. • Launch of Metso Metrics – digital, cloud-based remote monitoring and data visualization service for Lokotrack®. • We further improved the availability and service level for our aggregates customers, which was welcomed by our customers and resulted in the growth of spare parts sales in the aggregates segment. • A new generation of crusher upgrades for the mining industry was launched with the aim to increase productivity by up to 30%. | <ul style="list-style-type: none"> • The new Neles® NDX intelligent valve controller was launched in 2016. It was designed for compatibility with virtually all valves and any distributed control systems (DCS). • Several oil and gas project orders from China and Middle East. • Significant pulp and paper projects captured in Finland, Poland and Russia. • We were involved in more than 100 demanding shutdown and turnaround operations in various customer industries. • New digital tools for flow control sales: we launched an Installed Base Management tool for valve services and the global implementation of the integrated quotation and order tool started successfully. |
|---|---|--|

*LCS= Life Cycle Services

Remote access to equipment data with Metso Metrics



Case

Digitalization is transforming the way Metso does business, interacts with customers and builds new business models, products and services. One of the new digital solutions offered to aggregates customers is Metso Metrics, a cloud-based, remote monitoring and data visualization service for Metso Lokotrack® mobile crushing plants.

A satellite modem enables location, key operating data and maintenance needs of a unit or a complete fleet to be monitored remotely 24/7 from anywhere in the world through a secured web-based portal.

Metso Metrics helps reduce the workload for routine site checks and manual reporting by providing a remote visibility to our customers on their productive asset conditions: utilization, production, energy consumption, and other reportable attributes associated with operations and maintenance management.

Metso Metrics facilitates troubleshooting and decision-making with historical trending so that best practices can be created and ensured over time. It makes the planning of maintenance activities and spare and wear parts orders easier, thus reducing operational costs and total cost of ownership.

Developed by Metso, this value-adding digital solution provides the customers with a key management tool to ensure that they get the most out of their

operations and assets in an organized and centralized manner. All this data and increased visibility over equipment performance result in better availability, reliability, productivity and safety.

Significant business potential

The new digital solution provides enormous business potential for Metso and its partners. With the help of Metso Metrics, it is possible to provide new, value-adding analyses and services to customers.

Metso's businesses

We deliver results to our customers through three business areas: Minerals Capital, Minerals Services and Flow Control.



Minerals Services

Sales in 2016
EUR 1,261 million



Minerals Capital

Sales in 2016
EUR 694 million



Flow Control

Sales in 2016
EUR 631 million

Products and services

- Expert and maintenance services
- Spare and wear parts for the mining and aggregates industries
- Refurbishments, rebuilds and upgrades
- Field service and repairs
- Life Cycle Services
- Full scope solutions for the mining industry
- Grinding mills
- Mining crushers, screens and feeders
- Mining conveyors
- Process equipment (e.g. separation, flotation, filtration and thickening)
- Bulk materials handling solutions
- Pyro processing
- Aggregate crushers, screens and feeders
- Mobile crushers and screens
- Mid-market equipment for aggregates
- Products and systems for metal and waste recycling
- Mining and Aggregate systems
- Control valves, automated on-off valves and emergency shutdown (ESD) valves
- Ball and butterfly valves
- Intelligent positioners
- Slurry pump solutions
- Intelligent field services
- Spare and wear parts

Customer industries

- Mining industry
- Aggregates industry (quarries and contractors)
- Mining industry
- Aggregates industry (quarries and contractors)
- Scrap yards, automotive industry, waste handling companies
- Oil and gas industry
- Mining industry
- Pulp and paper industry
- Other process industries

Competitors

- Tega, Excel Foundry, Elecmetal, Bradken*, Multotech
- **Mining:** FLSmidth, Outotec, ThyssenKrupp, Sandvik, Weir, Citic Heavy Industries
- **Aggregates:** Sandvik, Terex, Wirtgen, Astec, McKloskey
- **Valves:** Emerson, Pentair V&C**, Flowserve, Schlumberger, Samson, Bray, IMI
- **Pumps:** Weir, KSB, FLSmidth

*Hitachi has offered to buy Bradken (Oct '16). The deal is subject to regulatory approvals.

**Emerson has offered to buy Pentair V&C (Aug '16). The deal is subject to regulatory approvals.



Minerals Services



Minerals Capital



Flow Control

Global market position

We have strong market positions in all of our businesses.

#1 Services for minerals processing

#1 Mining crushers and grinding mills
#1 Aggregates crushing and screening
#1 Metal recycling equipment

#1 Pulp and paper valves
#3 Intelligent valve controllers
+ Strong position in control valves
+ Strong niche position in automated on / off valves
+ A global leader in slurry pumps

Businesses

Wear Solutions
Sales

EUR 537 million

Spare Parts
Sales

EUR 315 million

Engineered Service Solutions
Sales

EUR 409 million

Aggregates
Sales

EUR 346 million

Mining
Sales

EUR 237 million

Recycling
Sales

EUR 112 million

Valves
Sales

EUR 528 million

Pumps
Sales

EUR 103 million

Operating model

Wide network of resources, repair centers, distribution centers and manufacturing units close to customers. In-house manufacturing complemented by wide range of suppliers for components, spare and wear parts.

Mining equipment highly outsourced with focus on engineering and managing delivery projects. Aggregate equipment and quality control focus on the final assembly of components supplied by our subcontractor network. Recycling focusing on metal and waste recycling equipment and services.

Focus on engineering, manufacturing, delivery, maintenance and optimization of control, automated on-off valves and pumps. Designing and assembling products as well as providing knowledge based and OEM services in-house.

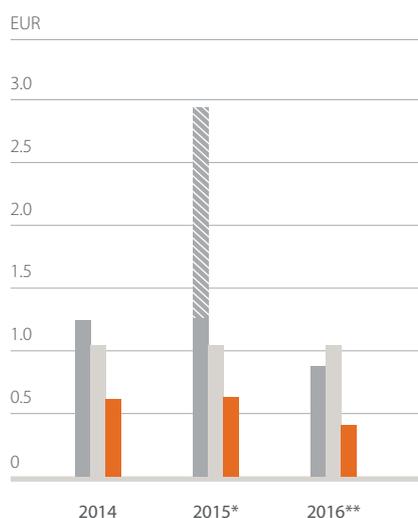
Share of orders received in 2016



Financial performance

Our financial performance was satisfactory despite lower sales in 2016. Our profitability remained healthy and our balance sheet strengthened. Metso continues to target high profitability and low volatility.

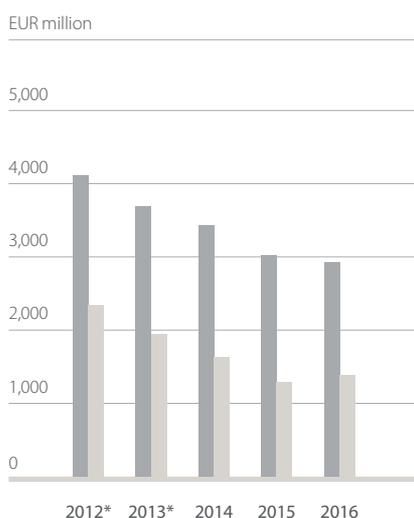
Dividend history



- EPS (Earnings per share)
- DPS (Dividend per share)
- Dividend policy (at least 50% of EPS)
- ▨ Gain from divestment of Process Automation Systems

* An additional dividend of EUR 0.40
** Board's dividend proposal

Orders received and order backlog



- Orders received
- Order backlog

* Including Process Automation System

Net gearing

-1.8%
at the end of period

Dividend proposal

EUR 1.05

Group key figures

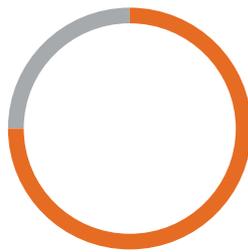
EUR million	2016	2015	Change
Sales	2,586	2,923	-12%
Services sales	1,703	1,840	-7%
Services, % of sales	66	63	
Adjusted EBITA (Earnings before interest, tax and amortization)	274	356	-23%
% of sales	10.6	12.2	
Profit	130	442**	-71%
Earnings per share, EUR	0.87	2.95**	-71%
Dividend per share	1.05*	1.05	
Return on capital employed (ROCE) before taxes, %	10.4	25.7**	
Gearing at the end of year, %	-1.8	10.6	
Free cash flow	339	341	-1%
Orders received	2,724	2,965	-8%
Orders received of services business	1,741	1,879	-7%
Order backlog, December 31	1,320	1,268	4%
Personnel, December 31	11,542	12,619	-9%

* 2016 Board's proposal

** Gain from Process Automation Systems included.



Sales by reporting segment



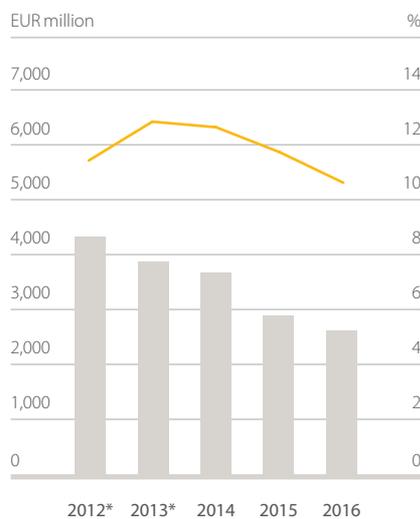
- Minerals 76% (75%)
- Flow Control 24% (25%)

Sales by business area



- Minerals Capital 27% (28%)
- Minerals Services 49% (47%)
- Flow Control 24% (25%)

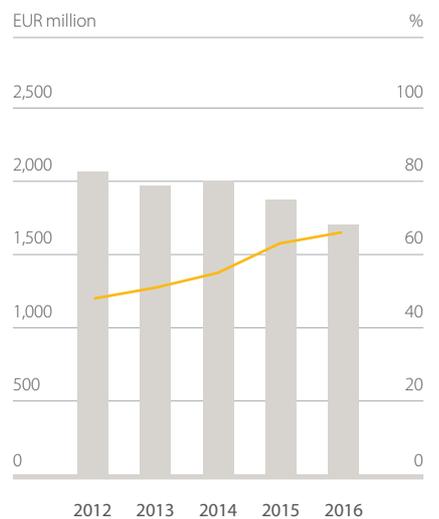
Sales and adjusted EBITA



- Sales
- Adjusted EBITA, % of sales

* Including Process Automation Systems

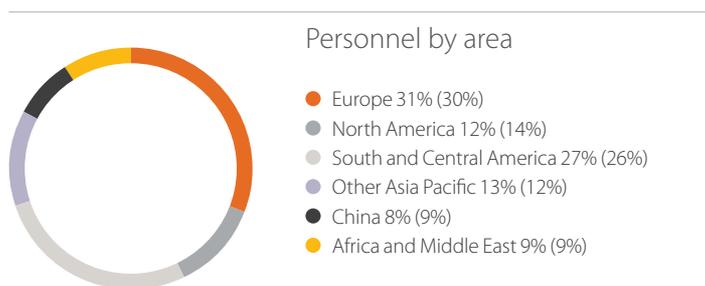
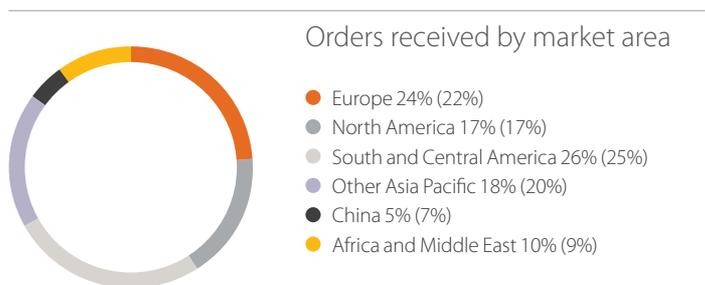
Services sales



- Services sales
- % of sales

Minerals

Minerals reporting segment consists of two business areas, Minerals Capital and Minerals Services. Minerals Capital is responsible for providing minerals processing solutions and system deliveries for mining customers and crushing and screening products for aggregates customers. Minerals Services is providing minerals customers with full-scope services solutions, ranging from spare and wear parts all the way to highly tailored engineering services.



EUR million	2016	2015
Sales	1,956	2,198
Services sales	1,325	1,437
% of sales	68	65
Adjusted EBITA (Earnings before interest, tax and amortization)	190	241
% of sales	9.7	11
Operating profit	148	213
Capital employed, Dec 31	1,046	1,162
Gross capital expenditure	19	29
Research and development expenses	19	17
Orders received	2,115	2,260
Services orders received	1,348	1,477
Order backlog, Dec 31	1,078	1,006
Personnel, Dec 31	8,370	9,222

 **Read more**

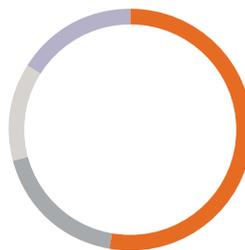
metso.com

Flow Control

Flow Control is a product and service focused organization focusing on valves and pumps and related services. Flow Control is responsible for developing both the valve offering for oil and gas, pulp and paper and other process industries as well as pumps for mining by pursuing new opportunities in these markets.



Sales by customer industry



- Oil and gas 51% (53%)
- Pulp and Paper 17% (18%)
- Other 14% (13%)
- Mining (including pump) 17% (16%)

Orders received by market area



- Europe 31% (28%)
- North America 32% (35%)
- South and Central America 7% (6%)
- Other Asia Pacific 15% (16%)
- China 7% (7%)
- Africa and Middle East 8% (8%)

Personnel by area



- Europe 46% (44%)
- North America 20% (22%)
- South and Central America 5% (6%)
- Other Asia Pacific 13% (12%)
- China 12% (12%)
- Africa and Middle East 4% (4%)

EUR million	2016	2015*
Sales	631	723
Services sales	393	402
% of sales	60	56
Adjusted EBITA (Earnings before interest, tax and amortization)	95	126
% of sales	15.1	17.5
Operating profit	90	119
Capital employed, Dec 31	314	321
Gross capital expenditure	7	12
Research and development expenses	15	23
Orders received	609	705
Services orders received	393	402
Order backlog, Dec 31	242	262
Personnel, Dec 31	2,663	2,821

* Comparison numbers excluding Process Automation Systems

 Read more

> metso.com



Knowledge

We build on 149 years of engineering passion and process knowledge. We work closely with our customers to help them reduce energy consumption and emissions, use less raw ingredients and water, and produce less and less waste while delivering the same or increased production output.



OUR CUSTOMER'S BELGIAN SCRAP TERMINAL (BST) RECYCLED METAL AT THE PORT OF ANTWERP (KALLO) IN BELGIUM READY FOR SHIPMENT TO GLOBAL DESTINATIONS.

Sustainability is at the core of our research and development

To ensure that our targets concerning sustainability are met systematically in our product development work, we have developed Metso's own sustainability metrics for setting and measuring environmental targets in our new research and development projects starting in 2016.

In today's world our customers are expecting new and significant ways to develop and enhance their business. They are looking for step changes that could improve their profitability and, at the same time, use less resources to achieve their production targets. For example, water and energy savings are cost-effective to our customers. In response to their quest, we are developing our technologies further. To keep sustainability in the research and development focus, Metso has created its own sustainability metrics. The purpose is to follow and measure the

improvements consistently and to monitor that the targets set by the business are being met.

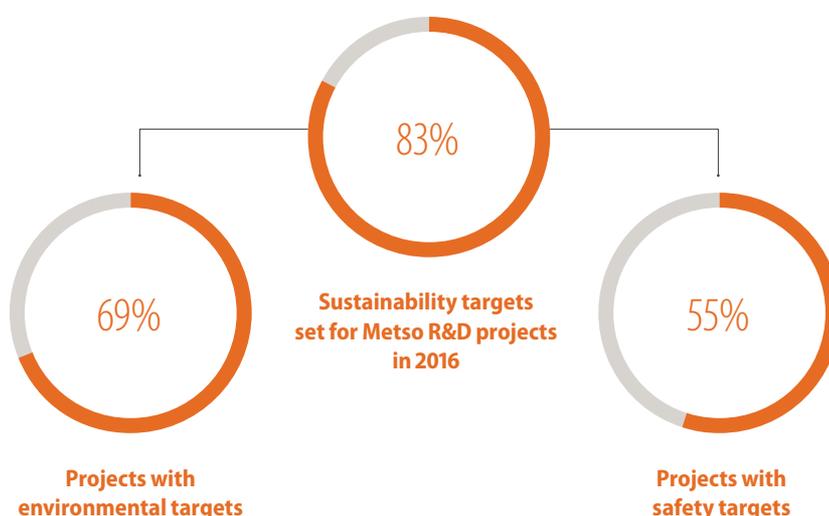
All new research and development projects have sustainability targets

According to our sustainability strategy, revised last year, each of Metso's new research and development (R&D) projects launched in 2016 has to set sustainability targets, concerning environmental efficiency and/or product safety innovation. Once these research and development projects are closed, targets will be verified. This is also one way to

further develop our responsiveness on customer expectations and fulfilling their needs. Working together to re-invent the way our customer industries use resources, control emissions and use their surroundings is a joint effort for us and our customers.

Metso's global research and technology development network includes approximately 20 locations around the world. A significant number of our research and development work is carried out in a collaboration with a network of customers, research institutions, universities and other partners.

Sustainability targets in R&D projects 2016



Metso has a new R&D sustainability metrics for R&D projects. Sustainability targets can be divided to environmental and safety targets. Environmental targets have three categories: efficiency targets, emission targets and materials efficiency targets. One project may have targets from several different categories.



Case

Latest Lokotrack® innovations enable 20% fuel savings

Lokotrack is Metso's mobile crushing plant product family. Over the past decade, we have continuously developed our Lokotrack offering to be more sustainable and energy efficient. With our latest innovations, our customers have gained close to 20% savings in fuel consumption compared to the year 2010 level. Based on the equipment sold in 2016, we enabled annual savings of 3.9 (3,853,000) million liters of diesel oil and 10.3 kilotons less (10,326) of CO₂ emissions.*

In addition to the technological improvements of our mobile crushers and screens, we have been able to improve the process efficiency with automation and new process models. In-pit crushing is a good example of energy efficient processing. It replaces the conventional truck fleet with a fully mobile crushing plant and a mobile conveying system.

When the primary crushing can be done in the pit instead of transporting the materials, e.g. rock, ore or waste, in to the crushing sites with trucks, significant amount of

fuel and CO₂ emissions are saved and emissions and noise minimized. Our customers have been able to save approximately 3.2 million liters of diesel oil in 10 years with an average Metso-delivered in-pit crushing system.

*CO₂-emission factor source: www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2016 (2.68 kg CO₂-e/liter diesel)

Delivering sustainable results to our customers

We work hard to be the best choice for our customers and the preferred partner in all that we do. We bring our customers solutions that convert raw natural resources into the materials that are used to build the modern world.

Environmental savings and improved safety with Metso's Vertimill® grinding technology

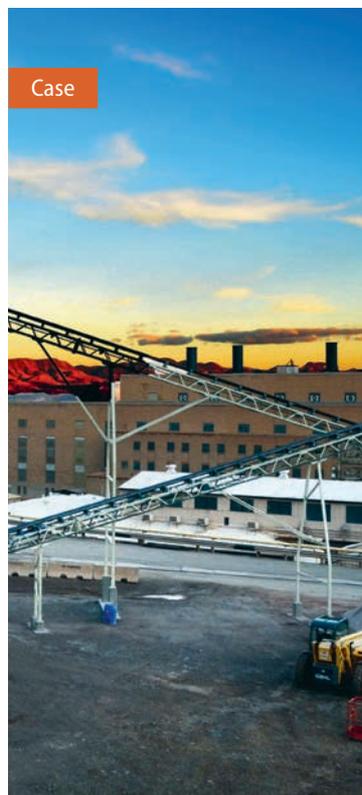
Our Vertimill® grinding mills are globally recognized for energy efficiency. Vertimills have been proven to grind more efficiently than the mining industry's traditional ball mills. The operating limits range from feeds finer than 6 mm to products finer than 20 microns. In addition to higher grinding efficiency compared to ball mills, the Metso Vertimill offers reduced media consumption, lower

installation cost and high availability, resulting in a lower total cost of ownership. In many applications, Vertimills can substantially improve the profitability of a concentrator.

The Vertimill also offers many safety features. The noise level is significantly less than that of a conventional ball mill. All moving parts are enclosed, making it safer to operate. And few moving parts means

there is less downtime and less risk of injuries. The specially designed screw access stairs for the largest Vertimills provide safe and easy access for maintenance operations.

The following example highlights the energy benefits of a Vertimill. The example does not take into consideration the significant extra benefits arising from reduced steel media consumption.



Case

Metso Vertimill 1,500 WB*

- 35% more energy efficient than a ball mill in a regrind duty
 - » This is equivalent to an annual energy savings of 5,014 MWh
- Annual CO₂-emissions savings** of 2,971 tons
 - » With a concentrator operating for 20 years, this means a per-unit savings of 59,400 tons of CO₂-emissions. A typical concentrator can include several units

*Calculations are based on average mine with 95% availability of the unit (5% goes to maintenance)

**CO₂-emission factor source: carbonfund.org/how-we-calculate



Metso Neles® BWX valve enters new process industry segments

Metso's Neles BWX high-performance metal-seated butterfly valve has shown its wide applicability and has successfully entered new process industry segments globally. In 2016, it gained ground in meeting the challenging requirements of air separation, purified terephthalic acid and liquefied natural gas processes as well as turbine operation, among others. The valve's modular design allows for easy and fast customization for all main process industries, from cryogenic to extreme warm temperatures.

This state-of-the-art valve provides real value for Metso's customers especially with regard to safety, efficiency, reliability and compliance with continuously tightening certifications, standards and regulations.

The valve was originally developed for the oil and gas industry in close collaboration with the gases and engineering company Linde.



Fit-for-purpose machinery for metal recycling of all sizes

An increasing variation of scrap material is a significant and strengthening trend in the metal recycling industry. The relative share of traditional steel is falling and new materials, like plastics and aluminum, are rising.

Under these circumstances, the more efficient use of resources and raw materials requires all-around processing equipment that can handle diverse material streams in different conditions and changing locations.

The Metso N Series of metal recycling equipment launched in 2016 is designed to meet these needs.

The N Series shears and balers are applicable for processing metal of all sizes, a fact that did not go unnoticed in Texas, USA, where Oak Cliff Recycling acquired a Metso N Series Inclined Shear for the company's wide-ranging recycling unit. With the new Metso equipment, Oak Cliff Recycling aims to accelerate the material processing of bulky, oversized scrap.



Health and safety

We are committed to ensuring a safe working environment for all employees.

Safety is an integral part of everyday management and is not to be compromised under any circumstances. We expect everybody to carefully plan their work and to act according to the rules and procedures set both globally and locally.

We continued to improve safety performance and were able to decline the total recordable incident frequency by 9% compared to 2015. Additionally, it was the third year in a row with zero (0) work-related fatalities. Our LTIF (Lost-time incident frequency) in 2016 was 2.4 (2.7). We strive for continuous improvement and our occupational safety target is to achieve an LTIF of less than one.

Discussions on safety help us to keep the focus

We encourage all our employees to openly discuss safety at all levels of the organization. A brief safety conversation can educate us on different ways of working safely and on identifying safe and unsafe work practices. To further promote this behavior, one of our targets for 2016 was to encourage all managers to create a routine for safety conversations.

Management has a vital role in the development of Metso's safety culture.

We have increased safety awareness by continuing the safety leadership training program started in 2015 in Australia. In 2016 we clearly exceeded the set target for health, safety and environment (HSE) training for employees (8 hours/year).

A high level of risk observations equals a high level of commitment

The only way to prevent incidents is to proactively look for deficient issues and make corrective actions in advance. Metso strongly encourages active risk observation reporting, as we believe the level of commitment correlates to the number of risk observations. The number of risk observations has increased annually and was at a satisfactory level 15,894 (14,696) in 2016. Risk observations alone don't eliminate risks, so that is why we have emphasized corrective actions this year. We monitor the number of risk observations that have been processed and the corrective actions that have been taken.

Our internal HSE audit function has a global audit program to ensure that our locations follow Metso's HSE guidelines and local legislation. These audits concentrate on finding hidden hazards in our local work practices and track good



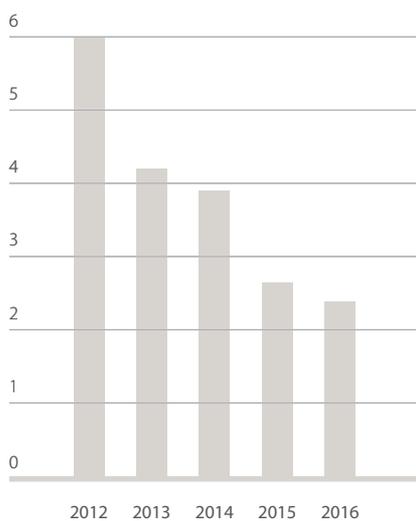
We believe that every accident can be prevented.



practices. Corrective actions are to be made within a certain timeline, depending on the severity of the finding. All major locations are audited every other year. In 2016 HSE audit was carried out at 28

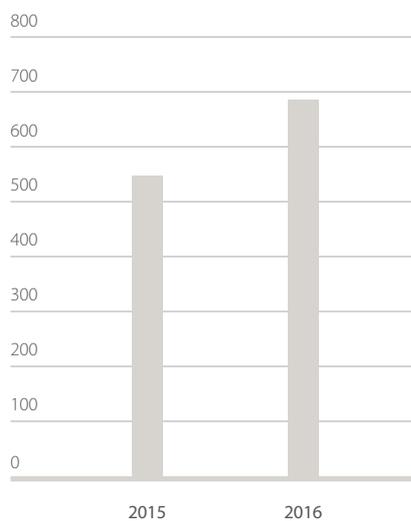
locations, and hundreds of HSE-related actions were identified to quickly improve the safety at our locations. In 2016 we started to systematically use audit findings for internal best practice training purposes.

LTIF at Metso



● Lost-time incident frequency reflects the number of incidents resulting in an absence of at least one workday per million hours worked.

Risk observation frequency



● Risk observation frequency reflects the number of risk observations per million hours worked.



Read more

> More about

Health and safety at

www.metso.com.



85%
of our people feel strongly engaged in their own work and to Metso as an organization



Metso people

People drive our customer success

Metso is a global company with a highly committed network of industry professionals. The knowledge, expertise and skills of Metso's people ensure a strong base for our success. We believe that we can drive growth through customer success and reach our goals through engaged employees and by performing together.

Metso's vision and values form the foundation for our strategic people and leadership priorities. For us, leadership, organization, and resources and

competencies are the fundamentals with which we can ensure Metso's ability to deliver with quality and speed. We acknowledge and build on each other's strengths; to reach our growth targets, we want to attract the right people to work with us, ensure the engagement of our employees and help our managers lead their teams. Seeking and sharing new ways of working and seizing new opportunities in digitalization is crucial for us in the future.

People and leadership



Our people are strongly engaged

In 2016 we conducted an employee engagement survey, PeoplePulse, to which 10,149 employees responded. The results are excellent: 77% of all responses are favorable, and 85% of our people feel strongly engaged in their own work and to Metso as an organization. The results indicate that Metso is succeeding in combining a challenging, result-oriented culture with a friendly and respectful working environment that enables employees to share knowledge, learn together and get support from each other.



Read more

- > about People and leadership strategic achievements on p.12
- > about Metso as an employer in metso.com/Careers



SUSTAINABILITY

- > Read more in Sustainability Supplement

Metso as an employer

We have a strong global presence, and our employees form a diversified network of colleagues to offer solutions for our customers around the world.

Number of countries

51

(2015:51)

Number of locations

179

(2015:192)

We are focused on performing and delivering our customer promise "Expect results". We know that every single one of us can make a difference.

Number of employees

11,542

(2015: 12,619)

New employees

1,240

(2015: 1,359)

We are competent and committed industry professionals, with the spirit of making things happen.

Average length of service

9.6

(2015: 9.3)

Voluntary turnover rate

5.8%

(2015: 6.3%)

Our employees from various countries and cultures are driving customer success.

Average age

41.8

(2015: 41.5)

Number of nationalities

84

(2015: 83)

Our proactive approach to safety is integrated in our everyday work. We raise awareness about health, safety and environmental topics as part of our daily routines.

LTIF*
(lost-time incident frequency)

2.4

(2015: 2.7)

Work related fatalities

0

(2015: 0)

We succeed in combining challenging tasks with a friendly and respectful working environment. Our people are strongly engaged, and they feel empowered to do their work.

Engagement survey – response rate

85%

Engagement survey – total favorable

77%

*LTIF reflects the number of injuries in an absence of at least one workday per million hours worked

Word from the management



In 2017 we will determinedly continue implementing our strategy to create value to our customers and shareholders based on motivated and competent Metso employees. Our clear focus is on growth and digitalization initiatives.



We will focus on scalability to ensure efficiency and agility while supporting the growth strategies of our businesses.



We will focus on growth through customer centricity. Our understanding of customer needs, combined with end-to-end process expertise and breadth of offering, will add value for our customers better than anyone else.



Our ambition is to grow in our core businesses. We will achieve this by focusing on customer-centric processes, continuous renewal of our offering and by adding efficiency in our operations in all functions.



Our core markets remain challenging but we are targeting profitable growth with our own initiatives. Our industry approach and go-to-market model will continue to expand.



We support business to drive growth by enabling employee engagement and performance. We will focus on good leadership, organization optimized for growth and ensuring resources and competencies for the future.



We support our businesses in defining and implementing sustainable growth strategies.



Building dialogue with our customers and all stakeholders will be the main focus going forward. We are going fully into digital, to provide real-time-information about our products and services and to enhance the integrated communications, marketing and sales execution.



Transforming Metso into a digital leader in its industries with IoT and advanced analytics, engaging customer experiences in digital channels, and digitized processes.



Metso's Annual Report 2016

Our Annual Report 2016 consists of four reports: a printed Annual Review and a printed Financial Statements and Investor package, which are available in Finnish and English, a Corporate Governance Statement, available in PDF format in Finnish and English, as well as an externally assured Sustainability Supplement available as a PDF in English. All reports can be viewed as PDF files on our website www.metso.com/2016. The reports for the year 2016 present Metso's reviewed strategy, our way of working with our customer, our customer industries, our businesses and sustainability issues. On the website you can also view an interview of our CEO, Matti Kähkönen.

Welcome to explore more at www.metso.com/2016

Financial calendar 2017

Financial Statements Review, 2016 February 3, 2017	Annual Report 2016 week 9 2017	Annual General Meeting March 23, 2017	Interim Review April 25, 2017	Half year 2017 result publication July 21, 2017	Interim Review October 20, 2017
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