Financial Statements 2016

and investor information

metso

How to read Metso's reports for 2016

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

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 Annual Review 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.

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From the CEO

Our financial result in 2016 was good, despite the challenging market environment. Orders received exceeded sales and our profitability remained on a satisfactory level even though sales decreased. A strong cash flow and balance sheet create a solid foundation for the future. I believe that we are well positioned, because we have worked with determination to improve Metso's structure and operational efficiency.

Challenges in our customer industries reflected on Metso's performance last year. The eight percent decline in order intake last year was mainly due to the decrease in valve orders in Flow Control. The orders decreased in the oil and gas industry as well as in paper and pulp. The reduced order intake by Minerals is explained by the fact that last year we received one big mining equipment order less than in the previous year. Excluding that order, mining industry orders were on the previous year's level, while orders in the aggregates business increased.

Profit at a satisfactory level

Sales decreased in both segments and caused the entire company's sales to decrease by 12 percent from the previous year. As in previous years, sales of products and projects decreased more than the more steadily developing service business. Our adjusted EBITA (earnings before interest, tax and amortization) was EUR 274 million, i.e. 10.6 percent of sales. The decrease in sales weakened the profit compared to the previous year, but with cost savings we have managed to keep it at a satisfactory level. The renewal of operating models and other structural arrangements have led to personnel reductions, and additionally we have continued to improve the efficiency of our procurement function. On the other hand, the costs we incurred from restructuring programs impacted earnings per share, which were EUR 0.87.

Balance sheet further strengthened

We can be pleased with the cash flow and balance sheet development last year. Our free cash flow was EUR 339 million, which is on the same level as in 2015. The cash flow was positively impacted by the decrease in net working capital and particularly the decrease in receivables. In this regard, we have worked resolutely for a few years and have achieved good results. Our balance sheet further strengthened, and at year-end the company's gearing was negative, i.e. our cash holdings exceeded our debt. A strong balance sheet and the ability to generate good cash flow also in challenging market situations give Metso a good foundation to develop and grow in the future and to continue paying shareholders a competitive dividend.

Together even better

Our goals are high: we want to be a leading provider in all our business operations. We are continuously striving to grow our existing business and to capitalize on the potential of our installed equipment base. Additionally, we are looking into entirely new growth opportunities through an expansion to new markets and segments.

Performing together is one of Metso's values. In fact, a good performance always requires the contribution of multiple individuals and tight team work. I want to thank all Metso employees, our customers, shareholders and partners for their support and commitment. I wish you all a successful 2017.

Matti Kähkönen
President and CEO

Financial Statements 2016 and investor information

Financial Statements 2016 comprise the audited Consolidated Financial Statements of Metso and Parent company Financial Statements as well as the Board of Directors´ Report. Corporate Governance statement has been published separately and is available on our website **www.metso.com**.

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Board of Directors' Report

Operating environment in 2016

The market environment was challenging in 2016, due to uncertainty especially in the mining and oil & gas industries. Low investments in the mining sector impacted the demand for new equipment, rebuilds and refurbishments. Underlying demand for smaller mining equipment improved slightly during the year, while there were only a few large project investments. Demand for wear and spare parts was stable following healthy production rates in mines. Market activity in the aggregates business varied substantially across different market areas, but the overall demand for aggregates equipment improved as a result of growth in the United States, Northern Europe and India. The oil & gas downstream market deteriorated in the second half of the year and we saw less new project orders. Investments in the pulp & paper markets were also significantly lower than in 2015. The day-to-day and services-related activity in Flow Control held up better.

Orders and order backlog

Orders received in 2016 totaled EUR 2,724 million, which is 8 percent lower than in 2015. Services orders accounted for 64 percent and totaled EUR 1,741 million, which is 7 percent lower than in 2015. The Group's lower order intake resulted from weaker demand for mining equipment, rebuilds and refurbishments as well as Flow Control projects. This was only partly offset by strengthening demand for aggregates equipment. The Group's order backlog totaled EUR 1,320 million, which is 4 percent higher than at the end of 2015. Around 90 percent of the backlog have delivery dates in 2017.

Sales and financial performance

Sales in 2016 totaled EUR 2,586 million, which is 12 percent lower than in 2015. Sales of services totaled EUR 1,703 million and accounted for 66 percent of sales (EUR 1,840 million and 63 percent). Minerals' sales were EUR 1,956 million (EUR 2,198 million) and Flow Control's sales totaled EUR 631 million (EUR 723 million). Sales declined in both Minerals and Flow Control due to lower equipment sales during the year. Minerals services was also affected by a decline in the sales of rebuilds and refurbishments to the mining sector.

Adjusted earnings, before interest, tax and amortization (EBITA) in 2016 was EUR 274 million, or 10.6 percent of sales (EUR 356 million or 12.2%). Minerals' EBITA declined as a result of lower volumes in mining equipment, rebuilds and refurbishments and totaled EUR 190 million (EUR 241 million). Fewer deliveries to the oil & gas industry affected Flow Control's EBITA, which amounted to EUR 95 million (EUR 126 million). Operating profit was EUR 227 million, or 8.8 percent of sales. Net adjustment items in 2016 were EUR 30 million negative and included the in-

Metso's key figures

EUR million	2016	2015	Change %
Orders received	**2,724**	2,965	-8
Orders received by the services business	**1,741**	1,879	-7
% of orders received	**64**	63	
Order backlog	**1,320**	1,268	4
Sales	**2,586**	2,923	-12
Sales of the services business	**1,703**	1,840	-7
% of sales	**66**	63	
Earnings before interest, tax and amortization (EBITA), adjusted	**274**	356	-23
% of sales	**10.6**	12.2	
Operating profit	**227**	555*	-59
% of sales	**8.8**	18.7*	
Earnings per share, EUR	**0.87**	2.95*	-71
Free cash flow	**339**	341	-1
Return on capital employed (ROCE) before taxes, %	**10.4**	25.7*	
Equity-to-asset ratio, %	**48.0**	48.3	
Net gearing, %	**-1.8**	10.6	
Personnel at the end of the year	**11,542**	12,619	-9

The Process Automation Systems (PAS) business was divested on April 1, 2015. The 2015 comparison numbers for Metso Group and Flow Control including the PAS business are presented in the notes of the Financial Statements.
* Including the capital gain on the disposal of PAS business.

The figures in brackets refer to the corresponding year 2015.

come from the divestment of the head office property and restructuring costs from adapting the structure and footprint to market conditions.

Profit before taxes was EUR 188 million (EUR 516 million including the gain from the divestment of PAS). The effective tax rate for 2016 was 30.8 percent. Net cash generated by operating activities totaled EUR 346 million (EUR 360 million) and free cash flow was EUR 339 million (EUR 341 million). Decrease in net working capital had a EUR 92 million positive impact on the cash flow (EUR 62 million positive impact).

Net financing expenses in 2016 were EUR 39 million (EUR 39 million). Interest expenses accounted for EUR 29 million (EUR 28 million), interest income for EUR 7 million (EUR 8 million), foreign exchange net losses for EUR 1 million (EUR 4 million loss) and other net financial expenses for EUR 16 million (EUR 15 million).

Financial position

Metso's liquidity position is strong. Total cash assets at the end of 2016 were EUR 807 million (EUR 657 million at the end of 2015), of which EUR 109 million (EUR 67 million) was invested in financial instruments with an initial maturity exceeding three months, and the remaining EUR 698 million (EUR 590 million) is accounted for as cash and cash equivalents. The Group has a committed EUR 500 million revolving credit facility, which is undrawn.

The Group's balance sheet strengthened in 2016. Net interest-bearing liabilities were EUR 26 million negative at the end of December (EUR 153 million positive at the end of 2015) and gearing was -1.8 percent (10.6% at the end of 2015). The equity-to-asset ratio was 48.0 percent (48.3% at the end of 2015). Our credit rating in 2016 was unchanged and Standard & Poor's Ratings Services confirmed the latest rating in March 2016: long-term corporate credit rating BBB and short-term A-2, outlook stable.

Capital expenditure

Gross capital expenditure in 2016, excluding business acquisitions, was EUR 31 million (EUR 45 million). Maintenance accounted for 89 percent, i.e. EUR 28 million (80% and EUR 36 million). In 2017, capital expenditure excluding acquisitions is expected to increase compared to 2016, but remain below depreciation and amortization.

Reporting Segments

Minerals

EUR million	2016	2015	Change %
Orders received	**2,115**	2,260	-6
Orders received by the services business	**1,348**	1,477	-9
% of orders received	**64**	65	
Order backlog	**1,078**	1,006	7
Sales	**1,956**	2,198	-11
Sales of the services business	**1,325**	1,437	-8
% of sales	**68**	65	
Earnings before interest, taxes and amortization (EBITA), adjusted	**190**	241	-21
% of sales	**9.7**	11.0	
Operating profit	**148**	213	-31
% of sales	**7.6**	9.7	
Return on operative capital employed (ROCE), %	**13.4**	17.5	
Personnel at the end of the year	**8,370**	9,222	-9

Minerals' orders in 2016 totaled EUR 2,115, which is 6 percent lower than in 2015. Mining equipment orders totaled EUR 337 million, including one large order (EUR 399 million and two large orders in 2015). Demand for small equipment improved slightly during the year, while there were very few large project opportunities. Aggregates equipment orders increased 10 percent during 2016 and totaled EUR 390 million following improved activity in the United States, Northern Europe and India. Minerals services orders declined 9 percent during the year, as our customers' limited investment budgets continued to affect the demand for rebuilds and refurbishments.

Sales for the segment totaled EUR 1,956 million, of which services accounted for 68 percent (EUR 2,198 million and 65%). The decline resulted from a lower order backlog and some postponements of deliveries in the equipment business. Low investments in the mining sector affected the services business, rebuilds and refurbishments in particular, in which we saw sales decline 15 percent during 2016.

Adjusted EBITA was EUR 190 million, or 9.7 percent of sales (EUR 241 million or 11.0%). Mining equipment was loss-making in 2016 and lower sales in rebuilds and refurbishments affected the profitability of services negatively. Operating profit was EUR 148 million, or 7.6 percent of sales (EUR 213 million or 9.7%).

The order backlog in Minerals at the end of 2016 was EUR 1,078 million, which is 7 percent higher than at the end of 2015. Around 90 percent of the backlog's delivery dates are for 2017.

Flow Control

EUR million	2016	2015	Change %
Orders received	**609**	705	-14
Orders received by the services business	**393**	402	-2
% of orders received	**65**	57	
Order backlog	**242**	262	-8
Sales	**631**	723	-13
Sales of the services business	**378**	402	-6
% of sales	**60**	56	
Earnings before interest, taxes and amortization (EBITA), adjusted	**95**	126	-25
% of sales	**15.1**	17.5	
Operating profit	**90**	119	-24
% of sales	**14.3**	16.5	
Return on operative capital employed (ROCE), %	**28.5**	37.2	
Personnel at the end of the year	**2,663**	2,821	-6

*Comparison numbers including PAS are presented in notes to the Financial Statements.

Flow Control's orders received in 2016 decreased 14 percent and totaled EUR 609 million. Services orders declined 2 percent and we continued to see high utilization rates at our customers' production facilities. Flow Control's sales in 2016 were EUR 631 million, of which services were 60 percent (EUR 723 million and 56%). Lower project demand from oil & gas and pulp & paper customers affected both orders and sales for Flow Control's new equipment. In oil & gas, the demand for new downstream projects deteriorated in the second half of the year.

Adjusted EBITA in 2016 was EUR 95 million, or 15.1 percent of sales (EUR 126 million and 17.5%). The decline was largely volume related. Profitability of pumps was on the same level as in 2015. Operating profit was EUR 90 million, or 14.3 percent of sales (EUR 119 million and 16.5%) and it included EUR 2 million in restructuring related adjustments.

Flow Control's order backlog at the end of December was EUR 242 million, which is 8 percent lower than at the end of 2015. The backlog's delivery dates are for 2017.

Research and technology development

Research and development expenses in 2016 totaled EUR 34 million, i.e. 1.3 percent of sales (EUR 33 million or 1.1%). Metso's research and technology development (RTD) network encompasses approximately 20 units around the world. Metso actively develops and protects new technologies, processes and service solutions, and the RTD network made 91 (93) invention disclosures during 2016, resulting in 15 (21) priority patent applications. As of the end of 2016, Metso had 283 (293) inventions that were protected by patents. Expenses related to intellectual property rights amounted to EUR 2.6 million in 2016 (EUR 2 million).

In the Minerals equipment business, we continued to develop a lean and agile sales-to-delivery process to increase profitability, competitiveness and growth rate. We introduced a set of new products at MINExpo 2016: the new MHC™ Hydrocyclones and UltraFine™ Screens make it easier for customers to adopt wet fine classifying technologies to improve efficiency and profitability. An energy-efficient comminution solution that combines the HRC™ high-pressure grinding roll with Vertimill®'s stirred milling technology was also launched in 2016.

In Minerals services, we launched several products that increase uptime and improve operational efficiency for our customers. A new Life Cycle Services (LCS) package for the aggregates industry was launched in early 2016. The LCS package introduces a new way of maintaining and operating the equipment and is easily accessible for our clients across different markets. 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 new crusher upgrade package, designed to improve product rate capability, simplify setting adjustments and reduce bridging from oversized materials, was also launched in 2016.

In Flow Control, the Neles NDX valve controller and the BWX butterfly valve, both launched in 2015, won more ground in 2016, thanks to their usability in different process industries. In 2016 we launched a partial stroke test system called NelesValvGuard. The solution helps customers diagnose the performance of emergency shutdown valves and hence eliminate risks with such installations for our oil & gas customers. At MINExpo 2016, we also launched the heavy-duty MD Series mill discharge pump for slurry pumping applications.

Health, safety and environment

Metso's safety culture, prioritizing the health, safety and wellbeing of our employees, customers and partners in all our operations, has improved significantly and resulted in fewer work-related incidents. In 2016, we continued to improve our safety performance, and our total recordable incident frequency declined by 9 percent compared to 2015. Our occupational safety target is to achieve an LTIF (Lost Time Incident Frequency) of less than one. The LTIF reflects the number of incidents resulting in an absence of at least one workday per million hours worked. Our LTIF in 2016 was 2.4 (2.7). We continued with our safety leadership training and our internal HSE audit was carried out in 28 locations.

In order to develop our environmental performance throughout our global value chain, we set a Group-wide water reduction target of 15 percent in our own operations by 2020. We also set a new waste reduction goal in 2016; the target is to reduce the share of waste going to landfill by 15 percent by 2020 compared to 2014. Our Group-wide energy-savings and carbon dioxide emissions reduction targets for our own production were launched in 2009 to reduce energy use and CO_2 emissions by 20 percent by 2020. Since the beginning of the program, 13 percent, i.e. a total of 50,600 MWh of energy (16,700 tons of CO_2), has been saved through a wide range of actions around the world. To avoid environmental accidents because of lack of knowledge, a global environmental training program created in 2015 was rolled out as mandatory personnel training in 2016.

Personnel

Metso had 11,542 employees at the end of December, 1,077 less than at the end of December 2015. Personnel in Minerals and Flow Control decreased by 852 and 158, respectively. Personnel in emerging markets accounted for 50 percent (49%).

Personnel by area

	Dec 31, 2016	**% of personnel**	Dec 31, 2015	% of personnel	Change %
Europe	**4,097**	**35**	4,380	35	-6
North America	**1,609**	**14**	1,961	15	-18
South and Central America	**2,420**	**21**	2,623	21	-8
China	**1,031**	**9**	1,189	9	-13
Other Asia-Pacific	**1,498**	**13**	1,493	12	0
Africa and Middle East	**887**	**8**	973	8	-9
Metso total	**11,542**	**100**	12,619	100	-9

Decisions of the Annual General Meeting

Metso's Annual General Meeting (AGM) was held on March 21, 2016. The AGM approved the Financial Statements for 2015 and discharged the members of the Board of Directors and the President and CEO from liability for the 2015 financial year. The dividend of EUR 1.05 per share was paid on April 1, 2016, in accordance with the AGM's decision.

The Annual General Meeting also approved the proposal of the Board of Directors to authorize the Board to decide on the repurchase of Metso shares, share issuance and issuance of special rights entitling to shares. The Nomination Board's Proposals concerning Board members and their remuneration were also approved. Authorized Public Accountant Firm Ernst & Young was elected as the company's Auditor until the end of the next Annual General Meeting.

Board of Directors

The Annual General Meeting confirmed the number of Board members as eight, and Mikael Lilius was elected as Chairman and Christer Gardell as Vice Chairman. Wilson Nélio Brumer, Ozey K. Horton Jr., Lars Josefsson and Nina Kopola were re-elected for a new term, and Arja Talma and Peter Carlsson were elected as new members. The term of office of the Board members will last until the end of the next AGM.

The Board elected the members of its Audit Committee and the Remuneration and HR Committee. The Audit Committee consists of Arja Talma (Chairman), Lars Josefsson and Nina Kopola. The Remuneration and HR Committee consists of Mikael Lilius (Chairman), Christer Gardell and Ozey K. Horton Jr.

After the reporting period, on January 23, 2017, Metso's Nomination Board announced that it will propose to the next Annual General Meeting that the number of members of the Board of Directors will be seven and that Mikael Lilius, Christer Gardell, Ozey K. Horton, Jr., Lars Josefsson, Arja Talma, Peter Carlsson and Nina Kopola will be re-elected as members of the Board of Directors. Mikael Lilius is proposed to be re-elected as Chairman and Christer Gardell as Vice Chairman.

Changes in Metso's Executive Team

On June 9, 2016, Metso announced the following changes in its Executive Team; the changes took effect on August 1, 2016. The new members of the Executive Team were Eeva Sipilä, Chief Financial Officer; Jani Puroranta, Chief Digital Officer; Urs Pennanen, Senior Vice President, Marketing and Customer Operations and Olli-Pekka Oksanen, Senior Vice President, Strategy and Business Development. Former CFO, Harri Nikunen, was appointed Senior Vice President, Mergers & Acquisitions. After the review period, on February 2, 2017, Metso's Board of Directors appointed Chief Financial Officer Eeva Sipilä, as Deputy to the CEO with immediate effect.

Metso's Executive Team consists of:

Matti Kähkönen	President and CEO (Chairman)
Eeva Sipilä	CFO and Deputy to the CEO
João Ney Colagrossi	President, Minerals Capital
Perttu Louhiluoto	President, Minerals Services
John Quinlivan	President, Flow Control
Merja Kamppari	Senior Vice President, Human Resources
Olli-Pekka Oksanen	Senior Vice President, Strategy and Business Development
Urs Pennanen	Senior Vice President, Customer and Marketing Operations
Jani Puroranta	Chief Digital Officer

On December 14, 2016, Metso announced that Victor Tapia will join Metso as President of Minerals Capital. He will join Metso in February 2017 and start in his new role on July 1, 2017, at the latest. João Ney Colagrossi will continue heading Minerals Capital until the end of June, after which he will take on a new role in Metso as a part of planned job rotation.

Divestment of the head office property

On July 12, 2016, Metso completed the divestment of its head office property in Helsinki, Finland, for a value of EUR 19 million. Following the divestment, Metso booked a EUR 10 million capital gain before taxes. Metso's head office moved to Töölönlahdenkatu 2 in Helsinki in December 2016.

Shares and share trading

As of December 31, 2016, Metso's share capital was EUR 140,982,843.80 and the number of shares was 150,348,256. This included 363,718 shares held by the Parent Company, which represented 0.2 percent of all shares and votes. A total of 143,948,012 Metso shares were traded on NASDAQ OMX Helsinki in 2016, equivalent to a turnover of EUR 3,269 million. The volume-weighted average trading price for the period was EUR 22.71. The highest quotation was EUR 28.34 and the lowest EUR 17.40. The closing price on December 31, 2016, was EUR 27.10, giving Metso a market capitalization, excluding shares held by the Parent Company, of EUR 4,065 million (EUR 3,105 million at the end of 2015).

Metso's ADRs (American Depositary Receipts) are traded on the International OTCQX market in the United States, under the ticker symbol 'MXCYY', with four ADRs representing one Metso share. The closing price of the Metso ADR on December 31, 2016, was USD 6.99.

Flagging notifications

Under the provisions of the Finnish Securities Markets Act, shareholders of listed companies have an obligation to notify both the Finnish Financial Supervision Authority and the listed company of changes in their holdings. Metso is not aware of any shareholders' agreements. A list of received flagging notifications in 2016 can be found in the shares and shareholders section.

Corporate Governance Statement

Metso publishes a separate Corporate Governance Statement for 2016 that complies with the recommendations of the Finnish Corporate Governance Code for listed companies and also covers other central areas of corporate governance. The statement will be published on our website, separately from the Board of Directors' Report.

Short-term business risks and market uncertainties

Uncertainties surrounding economic growth and political developments globally might affect our customer industries, reduce the investment appetite and cut spending among our customers, and thereby weaken the demand for Metso's products and services and also affect business operations and projects under negotiation. There are also other market or customer-related factors that may cause on-going projects to be postponed, delayed or discontinued.

Exchange rate fluctuations and changes in commodity prices might affect our order intake, sales and financial performance, although the wide scope of our operations limits the exposure to single currencies or commodities. Metso hedges currency exposure linked to firm delivery and purchase agreements.

Uncertain market conditions might affect our customers' payment behavior and increase the risk of lawsuits, claims and disputes taken against Metso in various countries related to, among other things, Metso's products, projects and other operations.

Outlook for 2017

Metso's overall trading conditions are expected to be slightly better than in 2016. Demand for our products and services in 2017 is expected to develop as follows:

- Remain weak for mining equipment and satisfactory for mining services,
- Improve to good for aggregates equipment and services
- Remain satisfactory for Flow Control products related to customers' new investments and satisfactory for Flow Control services, with some positive signs seen in the oil & gas markets in the beginning of the year.

At the end of December 2016, our backlog for 2017 totaled approximately EUR 1.2 billion. In the current market conditions, we continue to expect some postponements to planned delivery timetables. Negative adjustment items from restructuring programs initiated in 2016 are expected to be EUR 10–15 million. Capital expenditure excluding acquisitions is expected to increase compared to 2016, but remain below depreciation and amortization.

Board of Directors' proposal on the use of profit

The Company's distributable funds on December 31, 2016, totaled EUR 924,869,578.11, of which the net profit for 2016 was EUR 165,948,580.22.

The Board of Directors proposes that a dividend of EUR 1.05 per share be paid based on the balance sheet to be adopted for the financial year, which ended December 31, 2016 and that the remaining portion of the profit is retained and included in the Company's unrestricted equity.

Annual General Meeting 2017

Metso Corporation's Annual General Meeting 2017 will be held on Thursday, March 23, 2017 at Scandic Grand Marina Congress Center.

Helsinki, February 2, 2017
Metso Corporation's Board of Directors

Shares and Shareholders

Shares and share capital

Metso Corporation's share capital, fully paid up and entered in the trade register on December 31, 2016, was EUR 140,982,843.80 and the total number of shares 150,348,256. Metso Corporation held on December 31, 2016, a total of 363,718 of the company's own shares, which represents 0.2 percent of all shares and votes. Metso has one share series, and each share entitles its holder to one vote at the General Meeting and to an equal amount of dividend. Metso's shares are registered in the Finnish book-entry system.

Share trading

Metso Corporation's shares are quoted on the NASDAQ OMX Helsinki (OMXH) since July 1,1999, where shares are traded under the ticker symbol METSO. Prior to September 15, 2016, the ticker symbol was MEO1V. Metso shares are also traded on alternative marketplaces like BOAT, BATS Chi-X and Turquoise.

Metso's ADS (American Depositary Shares) are traded in the United States on the International OTCQX market under the ticker symbol MXCYY. Four Metso ADS represents one Metso share. The Bank of New York Mellon serves as the depository bank for Metso's ADS.

Market capitalization

Metso's share price on the NASDAQ OMX Helsinki increased 31 percent in 2016, from EUR 20.70 to EUR 27.10. The NASDAQ OMX Helsinki portfolio index, OMX Helsinki CAP, increased 8 percent during the same period. The highest quotation of Metso's share on the NASDAQ OMX Helsinki in 2016 was EUR 28.34 and the lowest EUR 17.40. The average trading price for the year was EUR 22.71 (24.15). Metso's market capitalization at year-end, excluding shares held by the company, was EUR 4,065 million (EUR 3,105 million at the end of 2015).

The ADS price on the OTCQX market at year-end 2016 was USD 6.99. The highest closing price for Metso's ADS in the United States was USD 7.49 and the lowest USD 4.76.

Share turnover

A total of 143,948,012 Metso shares were traded on the NASDAQ OMX Helsinki during 2016, equivalent to a turnover of EUR 3,269 million. The average daily trading volume was 568,964 shares, which was a 6 percent decrease from the previous year. During the year, the relative turnover was 96 percent (101%).

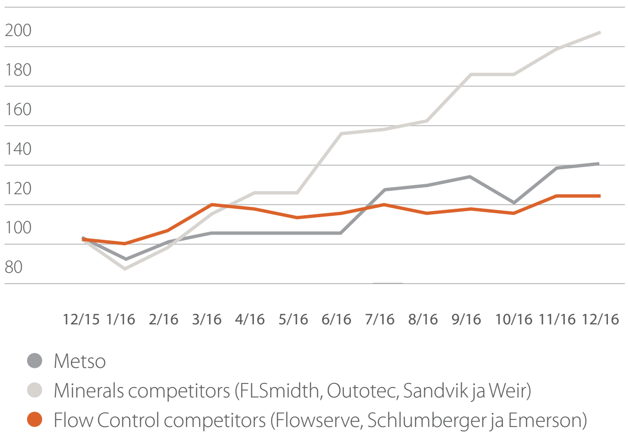
Shareholders

At the end of 2016, Metso had 46,623 shareholders in the book-entry system, the largest of which was Solidium Oy with 14.9 percent (14.7%) ownership. Nominee-registered shares and shares in direct foreign ownership accounted for 55.1 percent (49.5%) of the total stock. Finnish institutions, companies and organizations accounted for 32.6 percent (36.5%) and Finnish private persons for 12.2 percent (14.0%) of Metso's shares.

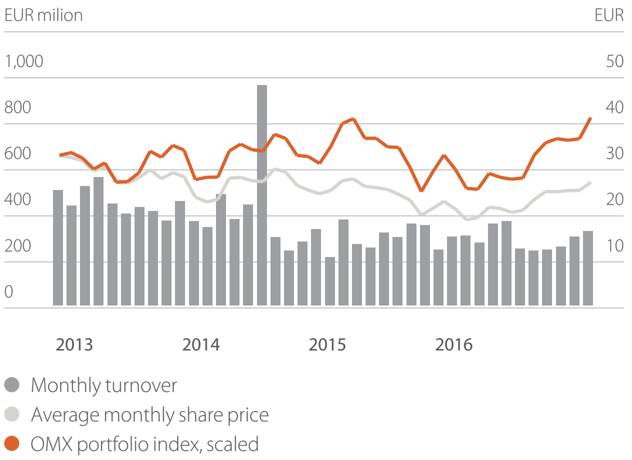
Flaggings

Under the provisions of the Finnish Securities Markets Act, shareholders of listed companies have an obligation to notify both the Finnish Financial Supervision Authority and the listed company of changes when their holdings reach, exceed or fall below certain thresholds. Metso is not aware of any shareholders' agreements regarding Metso shares or voting rights.

Metso and competitors' share price development



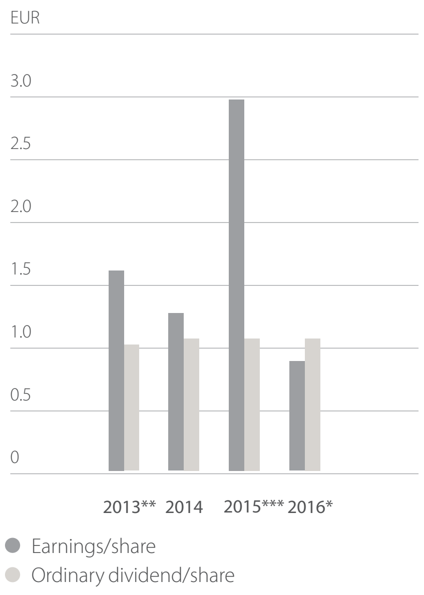
Metso share's monthly turnover and average share price on the NASDAQ OMX Helsinki 2013–2016



Flagging notifications in 2016

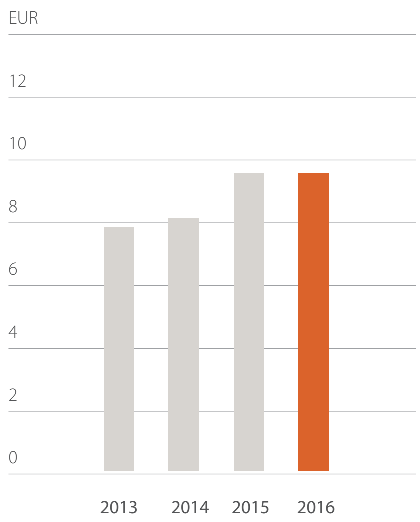
Date	Shareholder	Threshold	Direct, %	Indirect, %	Total, %	Total
April 4, 2016	Blackrock, Inc.	above 5%	5.19	1.55	6.75	10,161,873
April 7, 2016	Blackrock, Inc.	below 5%	4.81	1.40	6.22	9,352,194
April 11, 2016	Blackrock, Inc.	at 5%	5.00	1.21	6.21	9,340,068
April 15, 2016	Blackrock, Inc.	below 5%	4.85	1.36	6.21	9,350,928
June 9, 2016	Blackrock, Inc.	above 5%	5.05	1.00	6.05	9,097,501
June 13,2016	Blackrock, Inc.	below 5%	4.96	1.08	6.04	9,086,976
June 22, 2016	Blackrock, Inc.	above 5%	5.03	1.09	6.13	9,218,427
June 23, 2016	Blackrock, Inc.	below 5%	4.95	1.08	6.04	9,081,528
June 28, 2016	Blackrock, Inc.	above 5%	5.06	0.97	6.04	9,081,795
June 29, 2016	Blackrock, Inc.	below 5%	4.96	1.02	5.98	9,000,535
August 16, 2016	Blackrock, Inc.	above 5%	5.01	0.91	5.92	8,910,131
August 19, 2016	Blackrock, Inc.	below 5%	4.84	1.02	5.87	8,834,722
August 22, 2016	Blackrock, Inc.	above 5%	5.07	1.01	6.08	9,155,653
August 23, 2016	Blackrock, Inc.	below 5%	4.85	1.05	5.90	8,877,298
August 25, 2016	Blackrock, Inc.	above 5%	5.09	0.94	6.03	9,074,575
August 31, 2016	Blackrock, Inc.	below 5%	4.97	0.87	5.85	8,799,162
September 2, 2016	Blackrock, Inc.	above 5%	5.03	0.76	5.80	8,727,744
September 5, 2016	Blackrock, Inc.	below 5%	4.93	0.92	5.86	8,817,007
November 8, 2016	Blackrock, Inc.	above 5%	5.11	0.64	5.76	8,661,879
November 11, 2016	Blackrock, Inc.	below 5%	4.93	0.82	5.76	8,659,259

Earnings/share and dividend/share



* Board's proposal
** Profit from continuing operations
*** An additional dividend of EUR 0.40 per share was paid in August 2015

Equity/share



Share repurchases

On March 21, 2016, the Annual General Meeting authorized the Board to decide on the repurchase and/or accept as a pledge of the company's own shares. Under the authorization granted, the Board is entitled to decide on the repurchase and/or acceptance as a pledge of a maximum of 10,000,000 of the company's own shares acquired through public trading on the NASDAQ OMX Helsinki Ltd at the market price at the time of repurchase.

The company's repurchased shares can be held by the company, cancelled or conveyed. The Board of Directors shall decide on other matters related to the repurchase and/or acceptance as a pledge of the company's own shares. The repurchase authorization is valid until June 30, 2017, and it revokes the repurchase authorization given by the Annual General Meeting on March 27, 2015.

Incentive plans

Metso's share ownership plans are part of the remuneration program for Metso management. For further information, see www.metso.com/investors and the Notes to the Consolidated Financial Statements (note 7). Any shares to be potentially rewarded are acquired through public trading, and therefore the incentive plans will have no diluting effect on the share value.

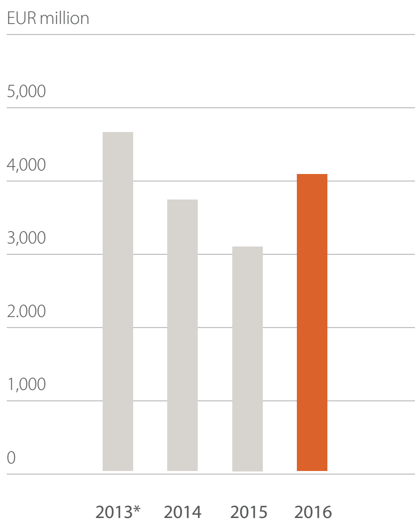
Holdings of Metso's Board of Directors and executive management

At year-end, the members of Metso's Board of Directors and President and CEO Matti Kähkönen held a total of 80,946 Metso shares, corresponding to 0.05 percent of the total amount of shares and votes in Metso.

Dividend policy

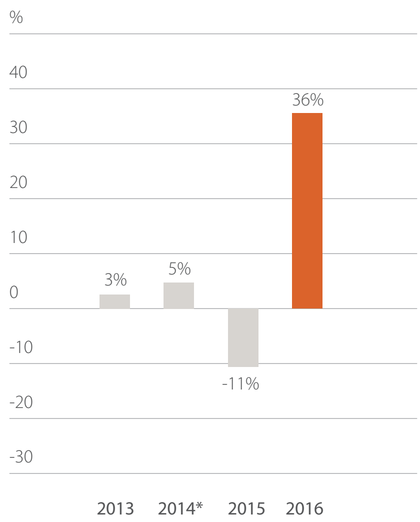
Metso's dividend policy is to distribute at least 50 percent of annual earnings per share as an annual dividend. The Board of Directors proposes to the Annual General Meeting, to be held on March 23, 2017, that the dividend of EUR 1.05 per share be paid for the financial year 2016. The proposed dividend of EUR 1.05 (EUR 1.05) corresponds to 121 percent (36%) of the profit attributable to shareholders for the year, and the effective dividend yield is 3.9 percent (5.1%).

Market capitalization, on December 31



* Metso's market capitalization after listing of Valmet Corporation on January 2, 2014 was EUR 3,656 million

Total shareholder return (TSR)



* Metso shareholders received Valmet share (EUR 6.65 a piece) in consideration of the demerger.

Breakdown by shareholder capital

- Nominee-registered and non-Finnish holders 55% (50%)
- Solidium Oy 15% (15%)
- Private investors 12% (14%)
- General government 8% (10%)
- Financial and insurance corporations 3% (4%)
- Non-profit institutions 5% (5%)
- Finnish institutions, companies and foundations 2% (2%)

Read more

> metso.com/governance
> metso.com/shareholders

Metso´s biggest shareholders on December 31, 2016

		Shares and votes	% of share capital and voting rights
1	**Solidium Oy**	**22,374,869**	**14.9**
2	**Varma Mutual Pension Insurance Company**	**4,348,465**	**2.9**
3	**Ilmarinen Mutual Pension Insurance Company**	**2,232,126**	**1.5**
4	**The State Pension Fund**	**1,539,000**	**1.0**
5	**Keva**	**1,527,810**	**1.0**
6	**Odin Funds**	**1,512,005**	**1.0**
	Odin Norden	1,142,257	0.8
	Odin Finland	369,748	0.2
7	**Svenska litteratursällskapet i Finland r.f.**	**1,180,176**	**0.8**
8	**Mandatum Life Insurance Company Limited**	**1,092,381**	**0.7**
9	**Elo Pension Company**	**977,000**	**0.6**
10	**Schweitzerische Nationalbank**	**747,199**	**0.5**
	10 largest owner groups in total	**37,531,031**	**25.0**
	Nominee-registered and non-Finnish holders *	82,835,681	55.1
	Other shareholders	29,609,386	19.7
	Own shares held by the Parent Company	363,718	0.2
	In the issuer account	8,440	0. 0
	Total	**150,348,256**	**100.0**

* Under the provisions of the Finnish Securities Markets Act, shareholders of listed companies have an obligation to notify both the Finnish Financial Supervision Authority and the listed company of changes when their holdings reach, exceed or fall below certain thresholds. According to their flagging notification on February 6, 2015, Cevian Capital's holding totaled 7,560,179 shares or 13.84 percent of share and votes February 5, 2015.

Changes in number of shares and share capital

		Number of shares	Change in number of shares	Share capital, EUR	Change in share capital, EUR
2001	New shares subscribed with the Metso 1994 options, which were transferred from Valmet Corporation	136,250,545	793,270	231,625,926.50	1,348,559.00
2005	New shares subscribed with the Metso 2000A/B and 2001A/B options	141,654,614	5,404,069	240,812,843.80	9,186 917.30
2006	New shares subscribed with the Metso 2003A options	141,719,614	65,000	240,923,343.80	110,500.00
2007	New shares subscribed with the Metso 2003A options	141,754,614	35,000	240,982,843.80	59,500.00
2008	No changes in number of shares nor in share capital	141,754,614	-	240,982,843.80	-
2009	New shares issued as consideration for Tamfelt acquisition	150,348,256	8,593,642	240,982,843.80	-
2010 – 2012	No changes in number of shares nor in share capital	150,348,256	-	240,982,843.80	-
2013	Metso's share capital decreased in connection with the demerger by an amount equaling Valmet Corporation's share capital.	150,348,256	-	140,982,843.80	-100,000,000.00
2014	No changes in number of shares nor in share capital	150,348,256	-	140,982,843.80	
2015	No changes in number of shares nor in share capital	150,348,256	-	140,982,843.80	
2016	No changes in number of shares nor in share capital	150,348,256	-	140,982,843.80	

Breakdown of share ownership on December 31, 2016

Number of shares	Shareholders	% of shareholders	Total numberof shares and votes	% of share capital and voting rights
1 – 100	20,619	44.2	1,060,165	0.7
101 – 1,000	21,937	47.1	7,806,309	5.2
1,001 – 10,000	3,760	8.1	9,669,826	6.4
10,001 – 100,000	255	0.5	6,736,512	4.5
over 100,000	41	0.1	44,688,728	29.7
Total	46,612	100.0	69,961,540	46.5
Nominee-registered shares	10		80,014,558	53.3
Own shares held by the Parent Company	1		363,718	0.2
In the issuer account			8,440	0.0
Number of shares issued			**150,348,256**	**100.0**

Share capital and share data 2012 – 2016

	2016	2015	2014	2013	2012
Share capital, December 31, EUR million	**141**	141	141	141	241
Number of shares, December 31:					
Number of outstanding shares	**149,984,538**	149,984,538	149,889,268	149,864,619	149,756,034
Own shares held by the Parent Company	**363,718**	363,718	458,988	483,637	592,222
Total number of shares	**150,348,256**	150,348,256	150,348,256	150,348,256	150,348,256
Average number of outstanding shares	**149,984,538**	149,964,701	149,884,338	149,826,119	149,715,383
Average number of diluted shares	**150,113,107**	149,989,417	149,969,729	149,941,820	149,870,074
Trading volume, NASDAQ OMX Helsinki Ltd	**143,948,012**	150,739,847	170,218,971	173,318,027	223,439,548
% of shares [1]	**96**	100.5	113.6	115.6	149.2
Earnings/share, basic, EUR	**0.87**	2.95	1.25	1.59	1.71
Earnings/share, diluted, EUR	**0.87**	2.95	1.25	1.59	1.71
Free cash flow/share, EUR	**2.26**	2.27	1.36	1.68	1.72
Dividend/share [2], EUR	**1.05**	1.05	1.45	1.00	1.85
Dividend [2], EUR million	**157**	157	217	150	277
Dividend/earnings [2], %	**121**	36	116	63	108
Effective dividend yield [2], %	**3.8**	5.1	5.8	3.2	5.8
P/E ratio	**31.15**	7.02	19.89	19.51	18.74
Equity/share, EUR	**9.54**	9.58	8.15	7.83	14.74
Highest share price, EUR	**28.34**	29.55	31.97	34.93	37.27
Lowest share price, EUR	**17.40**	17.31	21.74	25.64	24.88
Average share price, EUR	**22.71**	24.15	26.42	30.12	30.02
Share price, December 31, EUR	**27.10**	20.70	24.86	31.02	32.04
Market capitalization, December 31 [3], EUR million	**4,065**	3,105	3,726	4,649	4,798

1) Of the total amount of shares for public trading
2) 2016 proposal by the Board of Directors
3) Excluding own shares held by the Parent Company

Formulas for share-related key figures

Earnings per share, basic:

$$\frac{\text{Profit attributable to shareholders}}{\text{Average number of outstanding shares during period}}$$

Earnings per share, diluted:

$$\frac{\text{Profit attributable to shareholders}}{\text{Average number of diluted shares during period}}$$

Dividend/share:

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

Dividend/earnings, %:

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

Total shareholder return (TSR), %:

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

Equity/share:

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

Free cash flow/share:

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

Effective dividend yield, %:

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

P/E ratio:

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

Average share price:

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

Market capitalization:

Number of outstanding shares x share price at end of period

Key Figures

EUR million	2016	2015	2014	2013	2012
Sales	**2,586**	2 977	3 658	3 858	4 282
Operating profit	**227**	555	351	423	458
% of sales	**8.8**	18.7	9.6	11.0	10.7
Profit before taxes	**188**	516	282	369	400
% of sales	**7.3**	17.3	7.7	9.6	9.3
Profit from continuing operations	**130**	442	189	238	256
% of sales	**5.0**	14.8	5.2	6.2	6.0
Profit from continuing operations, attributable to shareholders of the company	**130**	442	188	238	256
Exports from Finland and international operations	**2,501**	2,881	3,501	3,710	4,125
% of sales	**96.7**	96.8	95.7	96.2	96.3
Amortization	**17**	18	19	19	18
Depreciation	**44**	51	56	54	53
Depreciation and amortization, total	**61**	69	75	73	71
% of sales	**2.4**	2.3	2.1	1.9	1.7
EBITA	**244**	573	370	442	476
% of sales	**9.4**	19.3	10.1	11.5	11.1
EBITDA	**288**	624	426	496	529
% of sales	**11.1**	21.0	11.6	12.9	12.4
Financial expenses, net	**39**	39	69	54	58
% of sales	**1.5**	1.3	1.9	1.4	1.4
Interest expenses	**29**	28	38	48	55
% of sales	**1.1**	0.9	1.0	1.2	1.3
Interest cover (EBITDA)	**7.4x**	16.0x	6.2x	9.2x	9.1x
Gross capital expenditure (excl. business acquisitions)	**31**	46	74	95	93
% of sales	**1.2**	1.5	2.0	2.5	2.2
Business acquisitions, net of cash acquired	**-**	-	19	44	4
Net capital expenditure (excl. business acquisitions and disposals)	**19**	31	66	80	91
% of sales	**0.7**	1.0	1.8	2.1	2.1
Net cash provided by operating activities	**346**	360	256	316	359
Free cash flow	**339**	341	204	251	257
Cash conversion, %[1)]	**261**	180	108	105	70
Research and development	**34**	41	60	63	61
% of sales	**1.3**	1.4	1.6	1.6	1.4
Balance sheet total	**3,236**	3,209	3,403	3,678	3,923
Equity attributable to shareholders	**1,431**	1,436	1,221	1,173	1,326
Total equity	**1,439**	1,444	1,229	1,181	1,326
Interest bearing liabilities	**794**	822	863	1,049	1,094
Net interest bearing liabilities	**-26**	153	561	490	377
Net working capital (NWC)	**487**	598	709	651	452
% of sales	**18.8**	20.1	19.4	16.9	10.6
Capital employed	**2,233**	2,267	2,092	2,230	2,420
Return on equity (ROE), %	**9.0**	33.1	15.7	19.0	19.8
Return on capital employed (ROCE) before taxes, %	**10.4**	25.7	16.4	18.6	21.2
Return on capital employed (ROCE) after taxes, %	**7.8**	22.4	12.1	12.9	14.7
Equity to assets ratio, %	**48.0**	48.3	40.5	36.9	39.1
Net gearing, %	**-1.8**	10.6	45.6	41.6	28.4
Debt to capital, %	**35.6**	36.3	41.2	47.0	45.2
Orders received	**2,724**	3,027	3,409	3,709	4,215
Order backlog, December 31	**1,320**	1,268	1,575	1,927	2,324
Average number of personnel	**12,059**	13,754	16,091	16,687	16,457
Personnel, December 31	**11,542**	12,619	15,644	16,425	16,612

1) In 2015, cash conversion is calculated on profit excluding the gain on the sale of Process Automation (PAS) business disposal.

Years 2012–2013 are presented for continuing operations unless otherwise indicated. For illustrative purposes, the balance sheet for 2012 has been restated to represent the continuing operations. For calculating averages in 2012, also 2011 balance sheet has been recalculated to present comparable average information. Key figures for 2012 are in this respect based on unaudited numbers.

Formulas for Key Figures

Earnings before interest, tax and amortization (EBITA):
Operating profit + amortization + goodwill impairment

Earnings before interest, tax, depreciation and amortization (EBITDA):
Operating profit + depreciation and amortization + goodwill impairment

Return on equity (ROE), %:

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

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

$$\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Capital employed (average for period)}} \times 100$$

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

$$\frac{\text{Profit for the year + interest and other financial expenses}}{\text{Capital employed (average for period)}} \times 100$$

Net gearing, %:

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

Equity to assets ratio, %:

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

Debt to capital, %:

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

Net working capital (NWC):
Inventory + trade receivables + other non-interest bearing receivables + Percentage of completion: recognized assets, net - trade payables - advances received - other non-interest bearing liabilities

Net interest bearing liabilities:
Long-term debt + current portion of long-term debt + short-term debt - loan and other interest bearing receivables (non-current and current) - financial instruments held for trading - cash and cash equivalents

Capital employed:
Net working capital + intangible and tangible assets + non-current investments + interest bearing receivables + financial instruments held for trading + cash and cash equivalents + tax receivables, net + interest receivables, net

Free cash flow:
Net cash provided by operating activities - capital expenditures on maintenance investments + proceeds from sale of fixed assets

Cash conversion, %:

$$\frac{\text{Free cash flow}}{\text{Profit for the year}} \times 100$$

Interest cover (EBITDA):

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

Consolidated Financial Statements

Consolidated Statements of Income

EUR million	Note	2016	2015
		Year ended December 31,	
Sales	1, 2, 3	**2,586**	2,977
Cost of goods sold	6, 19	**-1,849**	-2,062
Gross profit		**737**	915
Selling, general and administrative expenses	4, 6, 19	**-516**	-593
Other operating income and expenses, net	5	**6**	234
Share in profits and losses of associated companies	29	**0**	-1
Operating profit		**227**	555
Financial income	8	**8**	10
Financial expenses	8	**-47**	-49
Financial expenses, net		**-39**	-39
Profit before taxes		**188**	516
Income taxes	9	**-58**	-74
Profit for the year		**130**	442
Attributable to:			
Shareholders of the company		**130**	442
Non-controlling interests		**0**	0
Profit for the year		**130**	442
Earnings per share			
Basic, EUR	10	**0.87**	2.95
Diluted, EUR	10	**0.87**	2.95

Consolidated Statements of Comprehensive Income

EUR million	Note	2016	2015
		Year ended December 31,	
Profit for the year		**130**	442
Items that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges, net of tax	24, 27	**-2**	2
Available-for-sale equity investments, net of tax	22, 24	**0**	0
Currency translation on subsidiary net investments	24	**23**	-19
		21	-17
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains (+) / losses (-), net of tax	16	**3**	12
Other comprehensive income (+) / expense (-)		**24**	-5
Total comprehensive income (+) / expense (-)		**154**	437
Attributable to:			
Shareholders of the company		**154**	437
Non-controlling interests		**0**	0
Total comprehensive income (+) / expense (-)		**154**	437

The notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

Assets

EUR million	Note	2016	2015
		As at December 31,	
Non-current assets			
Intangible assets	17		
Goodwill		**452**	452
Other intangible assets		**86**	98
		538	550
Tangible assets	18		
Land and water areas		**45**	49
Buildings and structures		**113**	123
Machinery and equipment		**149**	161
Assets under construction		**8**	10
		315	343
Financial and other assets			
Investments in associated companies	29	**1**	1
Available-for-sale equity instruments	22	**1**	1
Loan and other interest bearing receivables	22	**3**	11
Derivative financial instruments	22, 27	**8**	10
Deferred tax asset	9	**112**	108
Other non-current assets	12, 22	**32**	39
		157	170
Total non-current assets		**1,010**	1,063
Current assets			
Inventories	13	**709**	715
Receivables			
Trade and other receivables	12, 22	**605**	632
Cost and earnings of projects under construction in excess of advance billings	3	**66**	90
Loan and other interest bearing receivables	22	**10**	1
Financial instruments held for trading	22, 23	**109**	67
Derivative financial instruments	22, 27	**9**	6
Income tax receivables		**20**	45
		819	841
Cash and cash equivalents	23	**698**	590
Total current assets		**2,226**	2,146
Total assets		**3,236**	3,209

The notes are an integral part of these consolidated financial statements.

Shareholders' equity and liabilities

EUR million	Note	2016	2015
		As at December 31,	
Equity	24		
Share capital		**141**	141
Cumulative translation adjustments		**-48**	-71
Fair value and other reserves		**299**	302
Retained earnings		**1,039**	1,064
Equity attributable to shareholders		**1,431**	1,436
Non-controlling interests		**8**	8
Total equity		**1,439**	1,444
Liabilities			
Non-current liabilities			
Long-term debt	22, 25	**767**	765
Post-employment benefit obligations	16	**88**	99
Provisions	15	**40**	27
Derivative financial instruments	22, 27	**5**	7
Deferred tax liability	9	**11**	15
Other long-term liabilities	14, 22	**2**	2
Total non-current liabilities		**913**	915
Current liabilities			
Current portion of long-term debt	22, 25	**0**	27
Short-term debt	22, 25	**27**	30
Trade and other payables	14, 22	**470**	469
Provisions	15	**81**	68
Advances received		**186**	164
Billings in excess of cost and earnings of projects under construction	3	**54**	54
Derivative financial instruments	22, 27	**21**	9
Income tax liabilities		**45**	29
Total current liabilities		**884**	850
Total liabilities		**1,797**	1,765
Total shareholders' equity and liabilities		**3,236**	3,209

The notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

		Year ended December 31,	
EUR million	Note	**2016**	2015
Cash flows from operating activities:			
Profit for the year		**130**	442
Adjustments to reconcile profit to net cash provided by operating activities			
Depreciation and amortization	19	**61**	69
Gain (-) / loss (+) on sale of fixed assets	5	**-10**	-1
Gain (-) / loss (+) on sale of subsidiaries and associated companies	5	**-**	-252
Gain on sale of available-for-sale equity investments	5	**0**	0
Share of profits and losses of associated companies	29	**0**	1
Financial income and expenses, net	8	**39**	39
Income taxes	9	**58**	74
Other non-cash items		**22**	20
Change in net working capital, net of effect from business acquisitions and disposals	11	**92**	64
Interest paid		**-29**	-28
Interest received		**7**	8
Other financing items, net		**-3**	-4
Income taxes paid		**-21**	-72
Net cash provided by operating activities		**346**	360
Cash flows from investing activities:			
Capital expenditures on fixed assets	17, 18	**-31**	-46
Proceeds from sale of fixed assets		**21**	17
Proceeds from sale of businesses, net of cash sold	30	**-**	305
Investments in associated companies		**-**	-2
Proceeds from sale of available-for-sale equity investments		**0**	0
Investments in financial instruments held for trading		**-201**	-82
Proceeds from sale of financial instruments held for trading		**159**	26
Increase in loan receivables		**1**	-3
Decrease in loan receivables		**0**	0
Net cash provided by (+) / used in (-) investing activities		**-51**	215
Cash flows from financing activities:			
Dividends paid		**-157**	-217
Net borrowings (+) / payments (-) on short-term debt		**-4**	-39
Proceeds from issuance of long-term debt		**0**	0
Principal payments of long-term debt		**-36**	-1
Principal payments of finance leases		**0**	0
Net cash used in financing activities		**-197**	-257
Net increase / decrease in cash and cash equivalents		**98**	318
Effect of changes in exchange rates on cash and cash equivalents		**10**	-7
Cash and cash equivalents at beginning of year	23	**590**	279
Cash and cash equivalents at end of year		**698**	590

The notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

EUR million	Share capital	Cumulative translation adjustments	Fair value and other reserves	Retained earnings	Equity attributable to shareholders	Non-controlling interests	Total equity
Balance at December 31, 2014	**141**	**-52**	**302**	**830**	**1,221**	**8**	**1,229**
Profit for the year	-	-	-	442	442	0	442
Other comprehensive income (+) / expense (-)							
Cash flow hedges, net of tax	-	-	2	-	2	-	2
Available-for-sale equity investments, net of tax	-	-	0	-	0	-	0
Currency translation on subsidiary net investments	-	-19	-	-	-19	-	-19
Defined benefit plan actuarial gains (+) / losses (-), net of tax	-	-	-	12	12	-	12
Total comprehensive income (+) / expense (-)	-	-19	2	454	437	0	437
Dividends	-	-	-	-217	-217	0	-217
Share-based payments, net of tax	-	-	-1	-1	-2	-	-2
Other	-	-	-1	1	0	0	0
Changes in non-controlling interests	-	-	-	-3	-3	0	-3
Balance at December 31, 2015	**141**	**-71**	**302**	**1,064**	**1,436**	**8**	**1,444**
Profit for the year	-	-	-	130	130	0	130
Other comprehensive income (+) / expense (-)							
Cash flow hedges, net of tax	-	-	-2	-	-2	-	-2
Available-for-sale equity investments, net of tax	-	-	0	-	0	-	0
Currency translation on subsidiary net investments	-	23	-	-	23	-	23
Defined benefit plan actuarial gains (+) / losses (-), net of tax	-	-	-	3	3	-	3
Total comprehensive income (+) / expense (-)	-	23	-2	133	154	0	154
Dividends	-	-	-	-157	-157	0	-157
Share-based payments, net of tax	-	-	1	-	1	-	1
Other	-	-	-2	-1	-3	0	-3
Changes in non-controlling interests	-	-	-	0	0	0	0
Balance at December 31, 2016	**141**	**-48**	**299**	**1,039**	**1,431**	**8**	**1,439**

The notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Basic information

Metso Corporation (the "Parent Company") and its subsidiaries (together with the Parent Company, "Metso" or the "Group") form a world leading industrial equipment and service provider for the mining and aggregates industries and in the flow control business. The main customers operate in the mining, oil and gas and aggregates industries.

Group has two reporting segments, Minerals and Flow Control. The Minerals segment supplies technology, equipment and services to mining, aggregates and recycling businesses and the Flow Control segment supplies valves, pumps and flow control solutions for oil and gas, pulp and paper and other process industries.

Metso Corporation is a publicly listed company and its shares are listed on the NASDAQ OMX Helsinki Ltd under the trading symbol METSO. Metso Corporation is domiciled in Finland and the address of the Group Head Office is Töölönlahdenkatu 2, 00100 Helsinki, Finland.

These consolidated financial statements were authorized for issue by the Board of Directors on February 2, 2017 after which, in accordance with Finnish Company Law, the financial statements are either approved, amended or rejected in the Annual General Meeting.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC Interpretations as adopted by European Union. The consolidated financial statements are prepared under the historical cost convention, except for financial assets and liabilities classified as fair valued through profit and loss, available-for-sale investments, financial instruments held for trading and derivative instruments, which are recognized at fair value. The financial statements of parent company comply with Finnish accounting principles and corporate legislation. The financial statements are presented in euros, which is the Parent Company's functional currency and Metso's presentation currency.

Metso's more detailed accounting principles are presented in the relevant note of the financial statements.

Critical accounting estimates and judgements by management

The preparation of financial statements, in conformity with IFRS, requires management to make estimates and assumptions and to exercise its judgement in the process of applying the group's accounting policies. These 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. The assets and liabilities involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to Metso's consolidated financial statements are disclosed in the following notes:

Note 3	Sales by category
Note 7	Share-based payments
Note 9	Income taxes
Note 12	Trade and other receivables
Note 13	Inventory
Note 15	Provisions
Note 16	Post employment obligations
Note 17	Goodwill and other intangible assets
Note 18	Tangible assets

How to read Metso Group's Financial statement?

Metso has improved the content of it´s Financial Statements in order to disclose the financial information more usable for readers. Disclosed Metso Group's Financial Statements represent Metso Corporation's statutory financial statements. Notes to consolidated financial statements have been combined to the sections representing group performance, capital structure and financing as well as the principles of preparation. The accounting principle applied and critical estimates and assessments required by the management are included in the relevant note under headings "Accounting principle" or "Estimates and assessments by management".

ACCOUNTING PRINCIPLE

ESTIMATES AND ASSESSMENTS BY MANAGEMENT

A Group performance

Performance

1 Reporting segments

ACCOUNTING PRINCIPLE

Metso's reportable segments are based on type of business operations. Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors, which has been identified as Metso's chief operating decision maker being responsible for allocating resources and assessing performance of the operating segments, selecting key employees, as well as deciding on strategy, major development projects, business acquisitions, investments, organization and financing. The accounting principles applied to the segment reporting are the same as those used for establishing the consolidated financial statements.

Metso uses alternative performance measures to reflect the underlying business performance and to improve comparability between financial periods. In 2016, Metso replaced the previously referenced "non-recurring items" with "adjustment items" and is measuring the performance of segments with alternative measures; Earnings before interest, tax and amortization (EBITA), adjusted and Return on operative capital employed for reporting segment (segment ROCE). Adjustment items comprise capacity adjustment costs, outcome of material intellectual property rights disputes, gains and losses on business disposals, business prospection and acquisition costs and other infrequent events. Their nature and net effect on cost of goods sold, selling, general and administrative expenses as well as other income and expenses are presented in the segment information. Alternative performance measures should, however, not be considered as a substitute for measures of performance in accordance with the IFRS.

Corporate structure

Metso Group is a global supplier of sustainable technology and services for mining, aggregates, oil and gas, pulp, paper as well as other process industries.

Metso reports its result in line with the strategy and reporting structure, which consists of two segments: Minerals and Flow Control. Minerals segment covers mining, aggregates and recycling businesses. Flow Control segment covers valves and pumps businesses. Process Automation Systems was part of Flow Control segment until divestment on April 1, 2015.

Minerals segment supplies technology, process solutions, machinery and services for aggregates production, mining, minerals processing and recycling. The segment is organized in two business areas: Minerals Capital and Minerals Services.

Flow Control segment supplies process industry flow control solutions and services. The Flow Control customers are operating in oil and gas, pulp and paper and other process industries. The segment is organized into two business areas: Valves and Pumps.

Group Head Office and other is comprised of the Parent Company with centralized group functions such as treasury and tax as well as shared service centers and holding companies.

Financial income and expenses and income taxes are not allocated to segments, but included in the profit and loss of Group Head Office and other. The treasury activities of Metso are centralized into the Group Treasury to benefit from cost efficiency obtained from pooling arrangements, financial risk management, bargaining power, cash management and other measures. Metso has centralized Group tax management function. The objective of group management is to ensure compliance and optimized and predictable overall tax cost for Metso.

Segment assets comprise intangible and tangible assets, investments in associated companies and joint ventures, available-for-sale equity investments, inventories and non-interest bearing operating assets and receivables. They exclude interest bearing assets, cash and cash equivalents, income tax receivables and deferred tax assets, which are included in the assets of Group Head Office and other.

Segment liabilities comprise non-interest bearing operating liabilities and exclude income tax liabilities, deferred tax liabilities and interest bearing liabilities, which are included in the liabilities of Group Head Office and other.

Non-cash write-downs include write-offs made to the value of receivables and inventories and impairment and other write-offs recognized to reduce the value of intangible or tangible assets and other assets.

Gross capital expenditure comprises investments in intangible assets, tangible assets, associated companies, joint ventures and available-for-sale equity investments including additions through business acquisitions.

Intra-group transactions are at arm's length basis.

EUR million	Minerals	Flow Control	Group Head Office and other	Eliminations	Metso total
2016					
External sales	1,956	630	-	-	**2,586**
Intra-group sales	0	1	0	-1	**-**
Sales	1,956	631	-	-1	**2,586**
EBITA	154.0	93.0	-2.7	0	**244.3**
% of sales	7.9	14.7	n/a	-	**9.4**
Adjusted EBITA	190.3	95.0	-11.3	-	**274.0**
% of sales	9.7	15.1	n/a	-	**10.6**
Operating profit (loss)	148.0	90.4	-11.4	-	**227.1**
% of sales	7.6	14.3	n/a	-	**8.8**
Adjustments in cost of goods sold	-23.3	-1.4	-	-	**-24.7**
Adjustments in selling, general and administrative expenses	-7.6	-0.6	-1.8	-	**-10.0**
Adjustments in other operating income and expenses, net	-5.4	-	10.4	-	**5.0**
Total adjustments	-36.3	-2.0	8.6	-	**-29.7**
Amortization	-6	-3	-8	-	**-17**
Depreciation	-31	-12	-1	-	**-44**
Gross capital expenditure (including business acquisitions)	19	7	5	-	**31**
Non-cash write-downs	-15	-6	0	-	**21**
Intangible and tangible assets	696	132	25	-	**853**
Investments in associated companies	1	-	-	-	**1**
Available-for-sale equity investments	0	0	1	-	**1**
Inventories and other non-interest bearing assets	1,082	312	35	-	**1,429**
Interest bearing receivables	-	-	13	-	**13**
Tax receivables and deferred tax assets	-	-	132	-	**132**
Liquid funds	-	-	807	-	**807**
Total assets	1,779	444	1,013	-	**3,236**
Non-interest bearing liabilities	733	130	84	-	**947**
Tax payables and deferred tax liability	-	-	56	-	**56**
Interest bearing debt	-	-	794	-	**794**
Total liabilities	733	130	934	-	**1,797**
Operative capital employed / Capital employed	1,046	314	873	-	**2,233**
Segment ROCE % / ROCE %	13.4	28.5	n/a	-	**10.4**
Orders received	2,115	609	-	0	**2,724**
Order backlog	1,078	242	-	0	**1,320**

Formulas for key figures:

Operative capital employed:
Intangible and tangible assets + investments in associated companies and joint ventures + available-for-sale equity instruments + inventories + non-interest bearing operative assets and receivables (external) - non-interest bearing operating liabilities (external)

Return on operative capital employed (segment ROCE), %:

$$\frac{\text{Operating profit}}{\text{Operative capital employed}} \times 100$$

EUR million	Minerals	Flow Control	Group Head Office and other	Eliminations	**Metso total**
2015					
External sales	2,198	777	2	-	**2,977**
Intra-group sales	-	1	-	-1	**-**
Sales	2,198	778	2	-1	**2,977**
EBITA	220.5	113.0	239.9	-	**573.4**
% of sales	10.0	14.5	n/a	-	**19.3**
Adjusted EBITA	240.7	117.5	-11.0	-	**347.2**
% of sales	11.0	15.1	n/a	-	**11.7**
Operating profit (loss)	213.2	110.4	231.7	-	**555.3**
% of sales	9.7	14.2	n/a	-	**18.7**
Adjustments in cost of goods sold	-11.3	-0.4	-	-	**-11.7**
Adjustments in selling, general and administrative expenses	-6.4	-0.8	-1.5	-	**-8.7**
Adjustments in other operating income and expenses, net	-2.4	-3.3	252.3	-	**246.6**
Total adjustments	-20.1	-4.5	250.8	-	**226.2**
Amortization	-7	-3	-8	-	**-18**
Depreciation	-37	-14	0	-	**-51**
Gross capital expenditure (including business acquisitions)	29	12	5	-	**46**
Non-cash write-downs	-9	-4	0	-	**-13**
Intangible and tangible assets	722	132	39	-	**893**
Investments in associated companies	1	-	0	-	**1**
Available-for-sale equity investments	0	0	1	-	**1**
Inventories and other non-interest bearing assets	1,137	319	81	-	**1,537**
Interest bearing receivables	-	-	12	-	**12**
Tax receivables and deferred tax assets	-	-	108	-	**108**
Liquid funds	-	-	657	-	**657**
Total assets	1,860	451	898	-	**3,209**
Non-interest bearing liabilities	696	130	102	-	**928**
Tax payables and deferred tax liability	-	-	822	-	**822**
Interest bearing debt	-	-	15	-	**15**
Total liabilities	696	130	939	-	**1,765**
Operative capital employed / Capital employed	1,162	321	784	-	**2,267**
Segment ROCE % / ROCE %	17.5	32.5	n/a	-	**25.7**
Orders received	2,260	767	-	-	**3,027**
Order backlog	1,006	262	-	-	**1,268**

Adjustment items and amortization of intangible assets

2016

EUR million	Minerals	Flow Control	Group Head office and other	**Metso total**
Adjusted EBITA	**190.3**	**95.0**	**-11.3**	**274.0**
% of sales	**9.7**	**15.1**	**-**	**10.6**
Capacity adjustment expenses	-33.1	-2.0	0	-35.1
Gain on sale of fixed assets	-	-	10.4	10.4
Other costs	-3.2	-	-1.8	-5.0
Amortization of intangible assets	-6.0	-2.6	-8.7	-17.3
Operating profit	148.0	90.4	-11.4	227.1

2015

EUR million	Minerals	Flow Control	Group Head office and other	**Metso total**
Adjusted EBITA	**240.7**	**117.5**	**-11.0**	**347.2**
% of sales	**11.0**	**15.1**	**-**	**11.7**
Gain on disposal of the PAS business	-	-	252.3	252.3
Capacity adjustment expenses	-20.1	-1.2	-	-21.3
Other costs	-	-3.3	-1.5	-4.8
Amortization of intangible assets	-7.4	-2.6	-8.1	-18.1
Operating profit	213.2	110.4	231.7	555.3

2 Geographical information

ACCOUNTING PRINCIPLE

Metso presents the geographical segments´ sales by location of customers. Non-current assets are presented by location of assets.

Metso's businesses are present in over 50 countries providing a wide geographical balance for the business. The main market areas are Europe and North America accounting for over 46 percent of sales. Metso has production units on all continents.

Sales to unaffiliated customers by destination:

Year ended December 31,

EUR million	2016	2015
Finland	**87**	101
Other European countries	**555**	602
North America	**569**	655
South and Central America	**521**	602
Asia-Pacific (excl. China)	**459**	474
China	**149**	203
Africa and Middle East	**246**	340
Metso total	**2,586**	2,977

Metso's exports from Finland by destination, including intra-group sales:

Year ended December 31,

EUR million	2016	2015
European countries	**203**	233
North America	**71**	68
South and Central America	**24**	28
Asia-Pacific (excl. China)	**115**	141
China	**16**	22
Africa and Middle East	**34**	40
Metso total	**463**	532

Non-current assets by location:

As at December 31,

EUR million	2016	2015
Finland	**81**	94
Other European countries	**85**	91
North America	**103**	111
South and Central America	**65**	64
Asia-Pacific (excl. China)	**67**	69
China	**52**	61
Africa and Middle East	**7**	6
Non-allocated	**428**	437
Metso total	**888**	933

Non-current assets comprise intangible and tangible assets, investments in associated companies, available-for-sale equity investments and other non-interest bearing non-current assets. Non-allocated assets include mainly goodwill and other allocated assets arising from business acquisitions that have not been pushed down to the subsidiaries' books.

Gross capital expenditure by location:

As at December 31,

EUR million	2016	2015
Finland	**9**	9
Other European countries	**5**	8
North America	**3**	9
South and Central America	**6**	9
Asia-Pacific (excl. China)	**5**	5
China	**2**	4
Africa and Middle East	**1**	2
Metso total	**31**	46

Gross capital expenditure comprises investments in intangible and tangible assets, associated companies, joint ventures and available-for-sale equity investments.

3 Sales by category

ACCOUNTING PRINCIPLE

Metso's sales consist of sales of engineered systems, projects, equipment and related services in Minerals segment and sales of products, process solutions and related services work in Flow Control segment.

Sales from goods and services sold are recognized, net of sales taxes and discounts, when substantially all the risks and rewards of ownership are transferred to the buyer or when legal title of the goods and responsibility for shipment has been transferred to the buyer. The transfer of risk takes place either when the goods are shipped or when made available to the buyer for shipment depending on the terms of the contract. The credit worthiness of the buyer is verified before engaging into a sale. However, if a risk of non-payment arises after revenue recognition, a provision for non-collectability is established.

Metso applies the percentage-of-completion method, "POC method", for recognizing long-term delivery contracts of engineered systems and construction projects. Sales recognized under the POC method is based on estimated revenue, costs and profit. The stage of completion is determined by the cost-to-cost method of accounting. 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. Subcontractor materials, labor and equipment, are included in sales and costs of goods sold when Metso is responsible for the ultimate acceptability of the project. A projected potential loss on a firm commitment is recognized through profit and loss, when it becomes known. The estimated revenue, costs and profit, together with the planned delivery schedule of the projects are subject to regular revisions as the contract progresses to completion. Revisions in profit estimates are charged through profit and loss account in the period in which the change becomes known.

Sales from short-term service contracts are recognized once the service has been rendered. Sales from long-term service contracts are recognized using the percentage-of-completion method.

ESTIMATES AND ASSESSMENTS BY MANAGEMENT

Sales recognized under percentage of completion method require management to be able to estimate total sales, costs, margin and cash flow to complete the project. To assess the stage of completion and margin to be recognized as well as the total costs estimated to complete the project requires judgements by management throughout the project delivery. The most critical judgements are needed in case of a loss making project to estimate the time needed to close the project and the total outcome. Changes in general market conditions and the possible impact to contracts needs to be predicted as well. Metso applies the POC method only, if the total outcome of the project can be predicted reliably.

Hedging of foreign currency denominated firm commitments

Under Metso hedging policy units have to hedge their foreign currency risk when they become engaged in a firm commitment denominated in a currency different of their functional currency. The commitment can be either internal to Metso or external. When a firm commitment qualifies for recognition under the percentage of completion method, the unit applies cash flow hedge accounting and recognizes the effect of the hedging instruments in the other comprehensive income (OCI) until the commitment is recognized. Though Metso has defined the characteristics triggering a firm commitment, the final realization of the unrecognized commitment depends also on factors beyond management control, which cannot be foreseen when initiating the hedge relationship. Such factors can be a change in the market environment causing the other party to postpone or cancel the commitment. To the extent possible management tries to include in the contracts clauses reducing the impact of such adverse events to the result.

Major customers

In 2016 and 2015 Metso did not have a single customer to which sales would have exceeded 10 percent of the consolidated sales.

Sales by category:

Year ended December 31,

EUR million	2016	2015
Sale of services	**1,703**	1,869
Sale of projects, equipment and goods	**883**	1,108
Metso total	**2,586**	2,977

Sales by recognition method:

Year ended December 31,

	EUR million 2016	% of sales 2016	EUR million 2015	% of sales 2015
Percentage of completion (POC) recognition [1]	**189**	**7**	265	9
Recognition at the delivery	**2,397**	**93**	2,712	91
Metso total	**2,586**	**100**	2,977	100

1) The percentage of POC was highest in the Minerals segment, where it accounted for 10 percent in 2016 and 11 percent in 2015.

Balance sheet items of uncompleted projects at December 31 is as follows:

EUR million	Cost and earnings of uncompleted projects	Billings of projects	Net
2016			
Projects where cost and earnings exceed billings	**598**	**532**	**66**
Projects where billings exceed cost and earnings	**343**	**397**	**54**
2015			
Projects where cost and earnings exceed billings	716	626	90
Projects where billings exceed cost and earnings	362	416	54

4 Selling, general and administrative expenses

EUR million	2016	2015
	Year ended December 31,	
Marketing and selling expenses	**-284**	-339
Research and development expenses, net	**-34**	-40
Administrative expenses	**-198**	-214
Metso total	**-516**	-593

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

Research and development expenses, net, consist of following:

EUR million	2016	2015
	Year ended December 31,	
Research and development expenses, total	**-34**	-41
Capitalized development costs	**-**	-
Capital expenditure	**1**	-
Grants received	**0**	1
Depreciation and amortization	**-1**	0
Research and development expenses, net	**-34**	-40

5 Other operating income and expenses

ACCOUNTING PRINCIPLE

Other operating income and expenses, net, comprise income and expenses, which do not directly relate to the operating activity of businesses within Metso or which arise from unrealized and realized changes in fair value of foreign currency denominated financial instruments associated with the operating activity, including forward exchange contracts. Such items include costs related to significant restructuring programs, gains and losses on disposal of assets, except for those qualifying as discontinued operations, and foreign exchange gains and losses, excluding those qualifying for hedge accounting and those, which are reported under financial income and expenses, net. Additionally, non-recoverable foreign taxes, which are not based on taxable profits, are reported in other operating income and expenses, net. These include for example foreign taxes and, or for such like payments not based on Double Tax Treaties in force.

EUR million	2016	2015
	Year ended December 31,	
Gain on sale of subsidiaries and businesses	**-**	252
Gain on sale of fixed assets	**12**	2
Royalty income	**0**	1
Rental income	**1**	1
Foreign exchange gains [1]	**42**	72
Other income	**9**	8
Other operating income, total	**64**	336
Loss on sale of fixed assets	**-2**	-1
Impairment on fixed assets	**-1**	-1
Foreign exchange losses [1]	**-43**	-84
Other expenses	**-12**	-16
Other operating expenses, total	**-58**	-102
Other operating income and expenses, net	**6**	234

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

6 Personnel expenses and the number of personnel

Personnel expenses

EUR million	2016	2015
	Year ended December 31,	
Salaries and wages	**-511**	-584
Pension costs, defined contribution plans	**-31**	-30
Pension costs, defined benefit plans [1]	**-5**	-6
Other post-employment benefits [1]	**-1**	-11
Share-based payments	**-2**	-2
Other indirect employee costs	**-105**	-112
Metso total	**-655**	-745

1) For more information on pension costs, see note 16.

Number of personnel at end of year:

	2016	2015
Minerals	**8 370**	9 222
Flow Control	**2 663**	2 821
Group Head Office and others total	**509**	576
Metso total	**11 542**	12 619

Average number of personnel during the period:

	2016	2015
Minerals	**8 762**	9 875
Flow Control	**2 779**	3 232
Group Head Office and others total	**518**	647
Metso total	**12 059**	13 754

Board remuneration:

EUR thousand	2016	2015
Serving Board members December 31, 2016:		
Mikael Lilius	**-126**	-126
Christer Gardell	**-73**	-73
Wilson Nélio Brumer	**-81**	-81
Peter Carlsson	**-72**	-
Ozey K. Horton, Jr.	**-95**	-95
Lars Josefsson	**-61**	-62
Nina Kopola	**-61**	-62
Arja Talma	**-72**	-
Markku Aapakari [1]	**-8**	-6
Former Board member:		
Eeva Sipilä	**-3**	-77
Total	**-652**	-582

1) Has attended meetings as a personnel representative, without voting right.

According to the decision of the 2016 Annual General Meeting, the annual fees paid to the Board members are: Chairman of the Board EUR 110,000, Vice Chairman of the Board EUR 62,000 and other Board members EUR 50,000. An additional annual remuneration is paid to the member of the Board elected in the position of Chairman of the Audit Committee EUR 15,000 and Chairman of Remuneration and HR Committee EUR 5,000.

In addition, an attendance fee of EUR 700 per meeting attended, including committee meetings, is paid to members whose residence is in the Nordic countries, EUR 1,400 to members whose residence is elsewhere in Europe and EUR 2,800 for those residing outside Europe. Compensation for travel expenses and daily allowances is paid in accordance with Metso's travel policy.

Based on the decision of the 2016 Annual General Meeting, 40 percent of the Board's annual fees were used to buy Metso shares from the market. The shares were acquired within the two weeks following the publication of the first-quarter 2016 Interim report.

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

EUR	Annual salary	Performance bonus paid	Fringe benefits	Share-based payment	Total
2016					
President and CEO Matti Kähkönen	610,136	111,840	21,885	-	743,861
Other Executive Team Members	2,150,756	186,647	29,938	-	2,367,341
Total	**2,760,892**	**298,487**	**51,823**	**-**	**3,111,202**
2015					
President and CEO Matti Kähkönen	616,200	143,802	15,621	469,543	1,245,166
Other Executive Team Members	1,880,082	387,676	34,510	911,357	3,213,625
Total	**2,496,282**	**531,478**	**50,131**	**1,380,900**	**4,458,791**

Remuneration paid to President and CEO Matti Kähkönen is presented in the table above. The fringe benefits comprised a company car and a telephone. Mr. Kähkönen participates in the remuneration programs for Metso's management, the remuneration of which consists of Metso shares and a cash-settled portion. For more information on share-based payments, see note 7.

According to his executive contract, Matti Kähkönen is eligible to retire at the age of 63 (2019) and his retirement pension is 60 percent of his pensionable compensation during the past four service years. In case of termination of contract, he is entitled to compensation equivalent to 24 months' salary. For the years ended December 31, 2016 and December 31, 2015 contributions made to the executive defined benefit plan amounted to EUR 445 thousand and EUR 448 thousand.

Metso has subscribed supplementary pension plans for senior management for retirement, the beneficiaries include the Metso Executive Team. For the years ended December 31, 2016 and December 31, 2015 these pension insurance premium payments totaled EUR 262 thousand and EUR 231 thousand.

Board share ownership in Metso as at December 31, 2016:

Mikael Lilius	30,986
Christer Gardell	5,410
Wilson Nélio Brumer	2,399
Peter Carlsson	945
Ozey K. Horton, Jr.	4,155
Lars Josefsson	2,399
Nina Kopola	2,446
Arja Talma	1,229
Total	**49,969**

Executive Team share ownership in Metso as at December 31, 2016:

Matti Kähkönen	30,957
Eeva Sipilä	7,661
João Ney Colagrossi	19,193
John Quinlivan	2,739
Perttu Louhiluoto	759
Merja Kamppari	7,955
Olli-Pekka Oksanen	30
Urs Pennanen	-
Jani Puroranta	-
Total	**69,294**

7 Share-based payments

ACCOUNTING PRINCIPLE

Metso has share-based incentive plans for its key personnel.

The equity-settled share awards are valued based on the market price of Metso share as of the grant date and recognized as an employee benefit expense over the vesting period with corresponding entry in other reserves of the equity. The historical development of Metso share and the expected dividends have been taken into account when calculating the fair value. The liability resulting from the cash-settled transactions is measured based on the market price of Metso share as of the balance sheet date and accrued as an employee benefit expense with corresponding entry in the current liabilities until the settlement date.

Market conditions, such as the total shareholder return upon which vesting is conditioned, is taken into account when estimating the fair value of the equity instruments granted. The expense relating to market condition is recognized irrespective of whether that market condition is satisfied.

Non-market vesting conditions, such as operating profit, services business growth, return on capital employed and earnings per share targets are included in assumptions about the amount of share-based payments that are expected to vest. At each balance sheet date, Metso revises its estimates on the amount of share-based payments that are expected to vest. The impact of the revision to previous estimate is recognized through profit and loss statement with corresponding adjustment to equity and current liabilities, as appropriate.

ESTIMATES AND ASSESSMENTS BY MANAGEMENT

At each balance sheet date, the management revises its estimates for the number of shares that are expected to vest. As part of this evaluation, Metso takes into account the changes in the forecasted performance of the Group and its reporting segments, the expected turnover of the personnel benefiting from the incentive plan and other pertinent information impacting the number of shares to be vested.

Long-term incentive plan for 2012–2014

In December 2011, Metso's Board of Directors decided to establish a share-based incentive plan that had three performance periods: calendar years 2012, 2013 and 2014. For each performance period, the performance criteria and participants were subject to a separate decision by the Board.

The possible rewards will be paid partly in company shares and partly in cash. The proportion to be paid in cash is intended to cover taxes and tax-related costs arising from the reward to the participants. The reward for each performance period of the Long-term Incentive Plan 2012–2014 may not exceed 120 percent of a participant's annual total base salary. If a participant's employment or service ends for reasons relating to the participant before the reward payment, no reward will be paid.

The first two performance periods and related two-year vesting periods have already been completed; a total of 95,270 treasury shares were used to pay rewards to 56 participants in March 2015; no shares were delivered in March 2016, as the targets set for the performance period 2013 were not met.

The earning criteria for performance period 2014 continued to be the same as for 2012 and 2013, i.e. sales growth of the services business, return on capital employed (ROCE) before taxes and earnings per share. At the end of 2016, there were 52 participants; the maximum rewards to be paid in March 2017 can be 298,136 Metso shares, out of which the current Metso Executive Team can receive a reward of 89,963 shares at maximum.

Long-term incentive plan 2015 onwards

In December 2014 Metso's Board decided on a new long-term share-based incentive plan for the Group's senior management, with a Performance Share Plan (PSP) as the main structure.

The commencement of each new PSP plan and earning criteria will be subject to separate decision by the Board. The PSP consists of annually commencing performance share plans, each with a three-year earning period.

The possible rewards will be paid partly in company shares and partly in cash. If a participant's employment or service ends for reasons relating to the participant before the reward payment, no reward will be paid.

Performance Share Plan 2015–2017

The earning criteria for the PSP 2015–2017 and the potential reward is based on the total shareholder return (TSR) of Metso's share during 2015–2017. At the end of 2016, there were 89 participants in the plan and the potential reward corresponds to a maximum of 333,800 Metso shares, out of which the current Metso Executive Team can receive a maximum reward of 88,400 shares. The potential reward will be paid in 2018.

Performance Share Plan 2016–2018

In December 2015 the Board decided to continue the long-term incentive plans. The potential share reward payable under the PSP 2016–2018 is based on the total shareholder return of Metso's share during 2016–2018. At the end of 2016, there were 94 participants in the plan, and the potential reward corresponds to a maximum of 417,600 Metso shares, out of which the current Metso Executive Team can receive a maximum reward of 134,800 shares. The potential reward will be paid in 2019.

Beneficiaries and granted shares of the share ownership plan as at December 31, 2016:

Number of shares	Metso Executive Team	Shares	Other beneficiaries	Shares	Beneficiaries total	Shares total
Plan 2012–2014						
Granted 2015	6	24,370	50	70,900	56	95,270

Costs recognized for the share ownership plans:

EUR thousand	Plan 2012–2014	Plan 2014–2016	Plan 2015–2017	PSP 2016–2018	Total
2016					
Metso Executive Team	-	-65	-107	-345	-517
Other beneficiaries	-	-175	-486	-736	-1,397
Total	**-**	**-240**	**-593**	**-1,081**	**-1,914**
2015					
Metso Executive Team	-162	15	-350	-	-497
Other beneficiaries	-238	61	-827	-	-1,004
Total	-400	76	-1,177	-	-1,501

As of balance sheet date, a liability of EUR 922 thousand was recognized as an accrued expense for the cash-settled portion of plan PSP 2016-2018, EUR 683 thousand from plan PSP 2015-2017 and EUR 310 thousand from plan 2014-2016.

8 Financial income and expenses

EUR million	Year ended December 31, 2016	2015
Financial income		
Dividends received	**0**	0
Interest income on cash and cash equivalents	**7**	7
Income on financial investments	**0**	1
Other financial income	**1**	2
Financial income total	**8**	10
Financial expenses		
Interest expenses from financial liabilities at amortized cost	**-29**	-28
Interest expenses on financial leases	**0**	0
Other financial expenses	**-16**	-17
Net loss from foreign exchange	**-2**	-4
Financial expenses total	**-47**	-49
Financial income and expenses, net	**-39**	-39

9 Income taxes

ACCOUNTING PRINCIPLE

Income taxes in the consolidated income statement include taxes of subsidiaries based on taxable income for the current period, tax adjustments for previous periods and changes in deferred taxes. The other comprehensive income statement (OCI) includes taxes on items presented in OCI. Deferred taxes are determined for temporary differences arising between the tax base of assets and liabilities and their carrying amounts in financial reporting, measured with substantially enacted tax rates.

ESTIMATES AND ASSESSMENTS BY MANAGEMENT

Metso is subject to income tax in its operating countries. Metso's management is required to make certain assumptions and estimates in preparing the annual tax calculations for which the ultimate tax consequences is uncertain. Annually Metso has tax audits ongoing in several subsidiaries and Metso recognises tax liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these issues is different from the estimated amounts, the difference will impact the income tax in the period in which such determination is made.

The components of income taxes are as follows:

EUR million	Year ended December 31, 2016	2015
Income taxes for the period	**-64**	-70
Income taxes for prior years	**0**	-1
Change in deferred tax asset/liability, net	**6**	-3
Income taxes, total	**-58**	-74

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

EUR million	Year ended December 31, 2016	2015
Income before taxes	**188**	516
Income tax expense at Finnish statutory tax rate 20.0%	**-38**	-103
Income taxes for prior years	**0**	-1
Difference between Finnish and foreign tax rates	**-15**	-23
Benefit of operating loss carryforward not recognized in prior years	**2**	6
Operating losses and credits with no current tax benefit	**1**	1
Foreign non-deductible withholding taxes	**-4**	-1
Non-deductible expenses	**-2**	-5
Tax exempt income	**0**	53
Other	**-2**	-1
Income tax expense	**-58**	-74

Tax effects of components in other comprehensive income:

	Year ended December 31, 2016			2015		
EUR million	Before taxes	Tax	After taxes	Before taxes	Tax	After taxes
Cash flow hedges	-3	1	-2	0	0	0
Available-for-sale equity investments	0	0	0	0	0	0
Defined benefit plan actuarial gains (+) / losses (-)	4	-1	3	13	-1	12
Currency translation on subsidiary net investments	23	-	23	-19	0	-19
Total comprehensive income (+) / expense (-)	24	0	24	-6	-1	-7
Current tax		1			0	
Deferred tax		-1			-1	
Total		0			-1	

ACCOUNTING PRINCIPLE

Deferred tax asset or liability is determined for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in financial reporting, using the substantially enacted tax rates effective for future years. Typical temporary differences arise from provisions, depreciations and amortizations, inter-company inventory margins, defined benefits plans and tax losses carry forward. Deferred tax liabilities are recognized in the balance sheet in full, and the deferred tax assets are only recognized if it is likely that there will be taxable income in the future against which deferred tax can be used. Deferred tax assets are set off against deferred tax liabilities if they relate to taxes levied by the same taxation authority.

ESTIMATES AND ASSESSMENTS BY MANAGEMENT

In determining the deferred tax assets and liabilities, Metso is required to make certain assumptions and estimates on for example future operating performance and taxable income of subsidiaries, recoverability of tax loss carry-forwards and potential changes of tax laws in jurisdictions where Metso operates. A deferred tax liability based on foreign subsidiaries undistributed earnings has been provided only where Metso management has elected to distribute such earnings in coming years and the distribution is subject to taxation. Because the tax consequences are difficult to predict, the deferred tax asset and liabilities may need to be adjusted in coming financial years, which will have impact in the period when such determination is made.

Reconciliation of deferred tax balances:

EUR million	Balance at beginning of year	Charged to income statement	Charged to shareholders' equity	Translation differences	Balance at end of year
2016					
Deferred tax assets					
Tax losses carried forward	11	-1	0	0	10
Fixed assets	8	1	-	0	9
Inventory	32	-10	-	2	24
Provisions	18	5	-	0	23
Accruals	10	5	-	1	16
Pension related items	23	4	-1	0	26
Other	14	-6	0	0	8
Total deferred tax assets	116	-2	-1	3	116
Offset against deferred tax liabilities	-8	4	-	-	-4
Net deferred tax assets	108	2	-1	3	112
Deferred tax liabilities					
Purchase price allocations	11	0	-	0	11
Fixed assets	4	-2	-	0	2
Other	8	-6	-	0	2
Total deferred tax liabilities	23	-8	-	0	15
Offset against deferred tax assets	-8	4	-	-	-4
Net deferred tax liabilities	15	-4	-	0	11
Deferred tax assets, net	**93**	**6**	**-1**	**3**	**101**

EUR million	Balance at beginning of year	Charged to income statement	Charged to shareholders' equity	Translation differences	Acquisitions and business disposals	Balance at end of year
2015						
Deferred tax assets						
Tax losses carried forward	24	-12	0	0	-1	11
Fixed assets	6	2	-	0	0	8
Inventory	30	2	-	0	0	32
Provisions	16	3	-	-1	0	18
Accruals	18	-2	-	0	-6	10
Pension related items	25	-2	-1	1	0	23
Other	15	9	0	0	-10	14
Total deferred tax assets	134	0	-1	0	-17	116
Offset against deferred tax liabilities	-7	-1	-	-	-	-8
Net deferred tax assets	127	-1	-1	0	-17	108
Deferred tax liabilities						
Purchase price allocations	9	2	-	-	0	11
Fixed assets	3	1	-	-	0	4
Other	8	0	-	-	0	8
Total deferred tax liabilities	20	3	-	-	0	23
Offset against deferred tax assets	-7	-1	-	-	-	-8
Net deferred tax liabilities	13	2	-	-	0	15
Deferred tax assets, net	**114**	**-3**	**-1**	**0**	**-17**	**93**

For the years ended December 31, 2016 and 2015, respectively, earnings of EUR 133 million and EUR 151 million would have been subject to recognition of a deferred tax liability, had Metso management decided on distribution in coming years.

10 Earnings per share

Earnings per share are calculated as follows:

Basic

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

Year ended December 31,	2016	2015
Profit attributable to shareholders of the company, EUR million	**130**	442
Weighted average number of shares issued and outstanding (in thousands)	**149,985**	149,965
Earnings per share, basic, EUR	**0.87**	2.95

Diluted

The shares to be potentially issued in the future are treated as outstanding shares when calculating the "Diluted earnings per share" if they have a diluting effect. The own shares held by Metso are reissued within the terms of the share ownership plan to the key personnel if the targets defined in the plan are met. The diluted earnings per share are calculated by increasing the weighted average number of outstanding shares with the number of those shares, which would be distributed to the beneficiaries based on the results achieved, if the conditional earnings period ended at the end of the financial period in question. As at December 31, 2016, Metso held 363,718 own shares intended for the share ownership plans.

Year ended December 31,	2016	2015
Profit attributable to shareholders of the company, EUR million	**130**	442
Weighted average number of shares issued and outstanding (in thousands)	**149,985**	149,965
Adjustment for potential shares distributed (in thousands)	**128**	24
Weighted average number of diluted shares issued and outstanding (in thousands)	**150,113**	149,989
Earnings per share, diluted, EUR	**0.87**	2.95

Operational assets and liabilities

11 Net working capital and capital employed

Net working capital

EUR million	Balance sheet value as at December 31, 2016	2015	Cash flow effect year ended December 31, 2016	2015
Inventory	**709**	715	**24**	76
Trade receivables	**464**	483	**25**	92
Other non-interest bearing receivables	**189**	203	**16**	30
Percentage of completion: recognized assets, net	**12**	36	**26**	50
Trade payables	**-275**	-249	**20**	-53
Advances received	**-186**	-164	**10**	-99
Other non-interest bearing liabilities	**-426**	-426	**-29**	-32
Net working capital	**487**	598	**92**	64

Capital employed

EUR million	Balance sheet value as at December 31, 2016	2015
Net working capital	**487**	598
Intangible assets	**538**	549
Tangible assets	**315**	343
Non-current investments	**2**	2
Interest bearing receivables	**13**	12
Financial instruments held for trading	**109**	68
Cash and cash equivalents	**698**	590
Tax receivables, net	**76**	110
Interest payables, net	**-5**	-5
Capital employed	**2,233**	2,267
Total capital employed, average	**2,250**	2,179
Profit before tax + interest and other financial expenses	**233**	561
Profit after tax + interest and other financial expenses	**175**	488
Return on capital employed (ROCE) before taxes, %:	**10.4**	25.7
Return on capital employed (ROCE) after taxes, %:	**7.8**	22.4

Longer time series are presented in chapter Financial Indicators 2012–2016.

12 Trade and other receivables

ACCOUNTING PRINCIPLE

Trade receivables and other non-interest bearing receivables are recognized in the balance sheet at fair value which can be subsequently valued down due to impairment. The impairment is expensed under selling, general and administrative expenses. Bad debts are written off when official announcement of receivership, liquidation or bankruptcy is received confirming that the receivable will not be honored.

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

ESTIMATES AND ASSESSMENTS BY MANAGEMENT

Metso's policy is to calculate an impairment loss based on the best estimate of the amounts that are potentially uncollectable at the balance sheet date. The estimates are based on systematic, frequent reviews and evaluations performed as part of the credit-risk evaluation process. As part of this evaluation, Metso takes into account the history of collections, the size of the receivable balances, changes in payment terms and current economic events and conditions. Metso management actively monitors the amount of overdue receivables and days of sales outstanding globally and initiates necessary action. The total amount of receivables as well as overdues declined during 2016.

As at December 31,

EUR million	2016 Non-current	2016 Current	2016 Total	2015 Non-current	2015 Current	2015 Total
Non-interest bearing receivables						
Loan receivables	**0**	**-**	**0**	0	-	0
Trade receivables	**-**	**464**	**464**	-	483	483
Prepaid expenses and accrued income	**-**	**48**	**48**	-	43	43
Other receivables	**32**	**93**	**125**	39	106	145
Total	**32**	**605**	**637**	39	632	671

Other non-interest bearing receivables included EUR 22 million in 2016 (EUR 18 million in 2015) of Brazilian tax credits arising from delivery of goods and transfer of services (ICMS) recognized by local subsidiary. EUR 1 million thereof was classified as long-term in 2016 and in 2015.

Provision for impairment of trade receivables has changed as follows:

Year ended December 31,

EUR million	2016	2015
Balance at beginning of year	**46**	47
Impact of exchange rates	**-1**	-2
Additions charged to expense	**13**	14
Used reserve	**-3**	-13
Deductions / other additions	**-11**	0
Balance at end of year	**44**	46

Analysis of non-interest bearing trade receivables by age:

Year ended December 31,

EUR million	2016	2015
Trade receivables, not due at reporting date	**323**	315
Trade receivables 1-30 days overdue	**71**	75
Trade receivables 31-60 days overdue	**23**	31
Trade receivables 61-90 days overdue	**16**	21
Trade receivables 91-180 days overdue	**18**	21
Trade receivables more than 180 days overdue	**13**	20
Metso total	**464**	483

13 Inventory

ACCOUNTING PRINCIPLE

Inventories are valued at the lower of historical cost calculated or net realizable value. Costs are measured on weighted average cost basis and they 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, as well as a 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 less costs to finalize the sale.

Inventories are shown net of a provision for obsolete and slow-moving inventories. Metso's policy is to maintain a provision for slow-moving and obsolete inventory based on the best estimate of such amounts at the balance sheet date. An obsolescence provision is charged to profit and loss in the period in which they occur. The estimates are based on a systematic, on-going review and evaluation of inventory balances.

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

ESTIMATES AND ASSESSMENTS BY MANAGEMENT

Inventory valuation requires management estimates and judgements specially relating to obsolescence and expected selling prices in different conditions as well as the management's assessment of the general market development in the global markets.

Inventory

As at December 31,

EUR million	2016	2015
Materials and supplies	**107**	103
Work in process	**142**	160
Finished products	**460**	452
Total inventory	**709**	715

The cost of inventories recognized as expense amounted to EUR 1,813 million in 2016 and EUR 2,020 million in 2015.

Provision for inventory obsolescence has changed as follows:

EUR million	2016	2015
Balance at beginning of year	**64**	65
Impact of exchange rates	**2**	1
Additions charged to expense	**13**	12
Used reserve	**-4**	-2
Deductions / other additions	**-4**	-12
Balance at end of year	**71**	64

14 Trade and other payables

ACCOUNTING PRINCIPLE

The fair values and carrying amounts of trade and other payables are considered to be the same due to the short-term maturities. The maturities of the current non-interest bearing liabilities rarely exceed six months. The maturities of trade payables are largely determined the trade practices and individual agreements between Metso and its supplier.

The accrued personnel costs, which include holiday pay, are settled in accordance with local laws and stipulations.

As at December 31,

	2016			2015		
EUR million	Non-current	Current	Total	Non-current	Current	Total
Non-interest bearing payables						
Trade payables	**-**	**275**	**275**	-	248	248
Accrued interests	**-**	**6**	**6**	-	7	7
Accrued personnel costs	**-**	**77**	**77**	-	79	79
Accrued project costs	**-**	**35**	**35**	-	37	37
Other payables	**2**	**77**	**79**	2	98	100
Metso total	**2**	**470**	**472**	2	469	471

15 Provisions

ACCOUNTING PRINCIPLE

Provisions are recognized when the Group has a legal or constructive obligation as a result of a past event, and it is probable that financial benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions, for which settlement is expected to occur more than one year after the initial recognition, are discounted to their present value and adjusted in subsequent closings for the time effect.

Warranty and guarantee provisions

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. Provision for estimated warranty costs is based on historical realized warranty costs for deliveries of standard products and services in the past. The typical warranty period is 12 months from the accepted delivery. The adequacy of provisions are assessed periodically on a case by case basis.

Restructuring and capacity adjustment costs

A provision for restructuring and capacity adjustment costs is recognized only after management has developed and approved a formal plan to which it has committed to and started the implementation. Employee termination benefits are recognized after the representatives of employees or individual employees have been informed of the intended measures in detail and the related compensation packages can be reliably measured. The costs included in a provision for capacity adjustment are those costs that are either incremental or incurred as a direct result of the plan or are the result of a continuing contractual obligation with no continuing economic benefit to Metso or a penalty incurred to cancel the contractual obligation. Restructuring and capacity adjustment expenses are recognized in either cost of goods sold or selling, general and administrative expenses depending on the nature of the restructuring expenses. Restructuring costs can also include other costs incurred as a result of the plan, which are recorded under other operating income and expenses, net, such as asset write-downs.

Environmental remediation costs

Metso recognizes provisions associated with environmental remediation obligations when there is a present obligation as a result of past events, outflow of resources is considered probable and the obligation can be estimated reliably. Such provisions are adjusted as further information develops or circumstances change. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed virtually certain.

Provision for loss making projects

Provision for loss making projects is booked when the costs needed to settle the performance obligations of the contract exceed the consideration to be received. Such a provision for unrecognized part of the loss is recognized immediately when these conditions have been met and will be revised according to the progress of the project.

ESTIMATES AND ASSESSMENTS BY MANAGEMENT

Provisions booked requires management to estimate the future costs needed to settle the obligations and to estimate the possible outcomes of claims or lawsuits. The outcome depends on future development and events, so the final costs needed and timing to settle the obligation may differ from the initial provision estimated. For larger and long-term delivery projects and sales involving new technology, additional warranty provisions can be established on a case by case basis to take into account the potentially increased risk.

As at December 31,

	2016			2015		
EUR million	Non-current	Current	Total	Non-current	Current	Total
Warranty and guarantee provision	**0**	**39**	**39**	0	39	39
Restructuring provision	**1**	**28**	**29**	2	18	20
Environmental remedial provision	**0**	**1**	**1**	0	1	1
Other provisions*	**39**	**13**	**52**	25	10	35
Total	**40**	**81**	**121**	27	68	95

* Other provisions include provisions related to personnel liabilities and lawsuits.

The provisions have changed as follows during the financial year 2016:

EUR million	Warranty and guarantee provision	Restructuring provision	Environmental remediation provision	Total
Balance at beginning of year	39	20	1	**60**
Impact of exchange rates	1	0	0	**1**
Addition charged to expense	32	28	0	**60**
Used reserve	-18	-16	0	**-34**
Reversal of reserve / other changes	-15	-3	0	**-18**
Balance at end of year	**39**	**29**	**1**	**69**

16 Post employment obligations

ACCOUNTING PRINCIPLE

Metso has several different pension schemes in accordance with local regulations and practices in countries where it operates. Metso has both defined contribution and defined benefit schemes. In certain countries, the pension schemes are defined benefit plans with retirement, disability, death and other post-retirement benefits, such as health services, and termination income benefits. The retirement benefits are usually based on the number of service years and the salary levels of the final service years. The schemes are generally funded through payments to insurance companies or to trustee-administered funds. Other arrangements are unfunded with benefits being paid directly by Metso as they fall due. All arrangements are subject to local tax and legal restrictions in their respective jurisdictions.

In the case of defined benefit plans, the liability recognized from the plan is the present value of the defined benefit obligation as of the balance sheet date less the fair value of the plan assets. Independent actuaries calculate the defined benefit obligation by applying the projected unit credit method under. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates of high-quality credit rating corporate bonds that are denominated in the currency in which the benefits will be paid and having maturity approximating to the terms of the related pension obligation. The cost of providing retirement and other post-retirement benefits to the personnel is charged to profit and loss concurrently with the service rendered by the personnel. The net interest is recorded into financial income and expenses in the income statement. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized through Consolidated Statement of Other Comprehensive Income (OCI) into shareholders' equity in the period in which they arise. Past service costs, gains and losses on curtailments or settlements are recognized immediately in income statement.

The contributions to defined contribution plans and to multi-employer and insured plans are charged to profit and loss concurrently with the payment obligations.

ESTIMATES AND ASSESSMENTS BY MANAGEMENT

The present value of the pension obligations is based on annual actuarial calculations, which use several assumptions such as discount rate and expected return on assets, salary and pension increases and other actuarial factors. Thus, the liability recorded on Metso's balance sheet and cash contributions to funded arrangements are sensitive to the changes. The actuarial experience that differs from the assumptions results in gains and losses, which are recognized in OCI. Sensitivity analyses on present value of defined benefit obligation have been presented in the tables. Assets of Metso's funded arrangements are managed by external fund managers. The allocation of assets is reviewed regularly by those responsible for managing Metso's arrangements based on local legislation, professional advice and consultation with Metso, based on acceptable risk tolerances.

Metso's pension and other post-employment plans

The pension arrangements in the US, Canada and the UK together represent 73% of Metso's Defined Benefit Obligation and 80% of its pension assets. These arrangements provide income in retirement which is substantially based on salary and service at or near retirement. In the US and Canada annual valuations are carried out to determine whether cash funding contributions are required in accordance with local legislation. In the UK, Metso's defined benefit pension arrangement is closed to future accrual. Plan assets are held by a separate pension fund and are administered by a board of trustees. Cash contributions are determined on a triennial basis in accordance with local funding legislation, with the level of cash payments being agreed between the trustees and Metso. Defined benefit pension arrangements in Sweden are offered in accordance with collective labor agreements and are unfunded.

The expected contributions to plans in 2017 are EUR 8 million. Metso paid contributions of EUR 15 million to defined benefit plans in 2016.

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

	Pension benefits		Other post employment benefits		Total	Total
EUR million	**2016**	2015	**2016**	2015	**2016**	2015
Present value of funded obligations	**291**	285	**-**	-	**291**	285
Fair value of plan assets	**-300**	-284	**-**	-	**-300**	-284
	-9	1	**-**	-	**-9**	1
Present value of unfunded obligations	**47**	45	**32**	30	**79**	75
Unrecognized asset	**0**	1	**-**	-	**0**	1
Net liability recognized	**38**	47	**32**	30	**70**	77
Amounts in the balance sheet:						
Liabilities	**56**	69	**32**	30	**88**	99
Assets	**18**	22	**-**	-	**18**	22
Net liability recognized	**38**	47	**32**	30	**70**	77

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

EUR million	Pension and other post employment benefits 2016	2015
Net liability at beginning of year	**77**	105
Other adjustment to present value	**-**	2
Net expense recognized in the income statement	**7**	1
Employer contributions	**-15**	-18
Gain (+) / loss (-) recognized through OCI	**-4**	-14
Translation differences	**5**	1
Net liability at end of year	**70**	77

The amounts recognized in the income statement were as follows:

	Pension benefits		Other post employment benefits		**Total**	Total
EUR million	**2016**	2015	**2016**	2015	**2016**	2015
Employer's current service cost	**4**	2	**0**	1	**4**	3
Net interest on net surplus (+) / deficit (–)	**1**	1	**1**	1	**2**	2
Settlements	**0**	1	**-**	-1	**0**	0
Recognition of past service cost (+) / credit (–)	**0**	0	**-**	-5	**0**	-5
Administration costs paid by the scheme	**0**	1	**-**	-	**0**	1
Expense (+) / income (-) recognized in income statement	**5**	5	**1**	-4	**6**	1

The amounts recognized through OCI were following:

	Pension benefits		Other post employment benefits		**Total**	Total
EUR million	**2016**	2015	**2016**	2015	**2016**	2015
Return on plan assets, excluding amounts included in interest expense (+) / income (–)	**-25**	6	**-**	-	**-25**	6
Actuarial gain (+) / loss (–) on liabilities due to change in financial assumptions	**23**	-9	**1**	-1	**24**	-10
Actuarial gain (+) / loss (–) on liabilities due to change in demographic assumptions	**2**	-6	**-**	-	**2**	-6
Actuarial gain (+) / loss (–) on liabilities due to experience	**-4**	-1	**0**	-3	**-4**	-4
Gain (-) / loss (+) as result of asset ceiling	**-1**	-	**-**	-	**-1**	0
Total gain (-) / loss (+) recognized through OCI	**-5**	-10	**1**	-4	**-4**	-14

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

	Pension benefits		Other post employment benefits		**Total**	Total
EUR million	**2016**	2015	**2016**	2015	**2016**	2015
Defined benefit obligation at beginning of year	**330**	335	**31**	38	**361**	373
Other adjustment to present value	**-**	35	**-**	-	**0**	35
Employer's current service cost	**4**	2	**0**	1	**4**	3
Interest cost	**11**	10	**1**	2	**12**	12
Plan participant contributions	**0**	-	**-**	-	**0**	0
Past service cost (+) / credit (-)	**-**	-	**-**	-5	**0**	-5
Actuarial gain (-) / loss (+) due to change in financial assumptions	**23**	-9	**-**	-1	**23**	-10
Actuarial (gain)/loss on liabilities due to change in demographic assumptions	**2**	-6	**-**	-	**2**	-6
Actuarial gain (-) / loss (+) due to experience	**-5**	-1	**0**	-3	**-5**	-4
Settlements	**-3**	-31	**-**	-1	**-3**	-32
Benefits paid from the arrangement	**-16**	-17	**-**	-	**-16**	-17
Benefits paid direct by employer	**-3**	-4	**-1**	-2	**-4**	-6
Translation differences	**-5**	16	**1**	2	**-4**	18
Defined benefit obligation at end of year	**338**	330	**32**	31	**370**	361

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

	Pension and other post employment benefits total	
EUR million	**2016**	2015
Fair value of assets at beginning of year	**284**	269
Other adjustments to the fair value of assets	**-**	33
Interest income on assets	**10**	9
Return on plan assets excluding interest income	**25**	-4
Assets distributed on settlements	**-4**	-32
Employer contributions	**15**	18
Plan participant contributions	**0**	-
Benefits paid from the arrangements	**-16**	-16
Benefits paid direct by employer	**-5**	-5
Administration expenses paid from the scheme	**0**	-1
Translation differences	**-9**	13
Fair value of assets at end of year	**300**	284

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

	Quoted		Unquoted		**Total**	
	2016	2015	**2016**	2015	**2016**	2015
Equity securities	**28%**	33%	**0%**	0%	**28%**	33%
Bonds	**24%**	23%	**2%**	2%	**26%**	25%
Property	**1%**	1%	**0%**	0%	**1%**	1%
Cash	**1%**	1%	**0%**	0%	**1%**	1%
Insurance contracts	**1%**	0%	**15%**	13%	**16%**	13%
Other	**3%**	4%	**25%**	23%	**28%**	27%
Total	**58%**	62%	**42%**	38%	**100%**	100%

As at December 31, 2016 there were no plan assets invested in affiliated or property occupied by affiliated companies.

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

	2016	2015
Benefit obligation: discount rate	**3.32%**	3.68%
Benefit obligation: rate of compensation increase	**3.09%**	3.00%
Benefit obligation: rate of pension increase	**2.86%**	2.81%
Expense in income statement: discount rate	**3.68%**	4.93%
Expense in income statement: rate of compensation increase	**3.00%**	3.87%
Expense in income statement: rate of pension increase	**2.81%**	2.81%

The weighted average life expectancy (expressed in years) used for the major defined benefit plans are as follows:

Country	Life expectancy at age of 65 for a male member currently aged 65 2016	2015	Life expectancy at age of 65 for a male member currently aged 45 2016	2015
United Kingdom	**22.2**	21.2	**23.9**	22.5
United States	**20.9**	21.3	**22.5**	23.0
Canada	**21.4**	21.6	**22.0**	22.7

Life expectancy is allowed for in the assessment of the Defined Benefit Obligation using mortality tables which are generally based on experience within the country in which the arrangement is located with (in many cases) an allowance made for anticipated future improvements in longevity.

Sensitivity analyses on present value of Defined Benefit Obligation in below table presents the present value of the Defined Benefit Obligation when major assumptions are changed while others held costant.

	2016			2015		
	Pension	**Other**	**Total**	Pension	Other	Total
Discount rate						
Increase of 0.25%	**-9.7**	**-0.8**	**-10.5**	-8.8	-0.9	-10.7
Decrease of 0.25%	**10.3**	**0.8**	**11.1**	9.1	1.0	11.2
Salary increase rate						
Increase of 0.25%	**0.3**	**0.1**	**0.4**	0.1	0.1	0.3
Decrease of 0.25%	**-0.3**	**-0.1**	**-0.4**	-0.2	-0.1	-0.4
Pension increase rate						
Increase of 0.25%	**3.7**	**-**	**3.7**	2.6	n/a	3.3
Decrease of 0.25%	**-3.4**	**-**	**-3.4**	-2.3	n/a	-2.9
Medical cost trend						
Increase of 0.25%	**-**	**1.7**	**1.7**	n/a	1.6	1.6
Decrease of 0.25%	**-**	**-1.4**	**-1.4**	n/a	-1.4	-1.4
Life expectancy						
Increase of one year	**14.5**	**0.7**	**15.2**	12.0	0.6	15.0
Decrease of one year	**-14.2**	**-0.7**	**-14.9**	-12.2	-0.6	-15.1

Weighted average duration of Defined Benefit Obligation expressed in years

	2016			2015		
	Pension	**Other**	**Total**	Pension	Other	Total
At the end of year	**12.4**	**10.0**	**12.2**	12.4	13.1	12.6

B Intangible and tangible assets

17 Goodwill and other intangible assets

ACCOUNTING PRINCIPLE

Goodwill and other intangible assets with an indefinite useful life

Recognized goodwill represents the excess of acquisition costs over the fair value of net identified assets acquired and liabilities assumed and fair values of previously owned interest and non-controlling interest. Goodwill is allocated to cash generating unit (CGU), which are either reportable segments such as Minerals and Flow Control or separate business areas under the reportable segments. When Metso reorganizes its reporting structure, the goodwill is reallocated to the units affected based on their relative fair values at the time of the reorganization. The carrying value of goodwill is tested with the CGU's value in use or CGU's fair value less costs of disposal, when appropriate.

Other intangible assets with indefinite useful life, such as brand values, are not amortized. Currently such assets are tested for impairment annually as part of the appropriate CGU tested for impairment. Previous loss on impairment is only reversed to the extent that the new carrying amount of the assets does not exceed the carrying amount the asset would have had, if the asset had not been impaired.

Other intangible assets

Other intangible assets with a definite useful life, mainly trademarks, patents, licenses, IT software or acquired order backlog are measured at costs less accumulated amortizations and impairment losses.

Amortization of intangible assets

Amortization of intangible assets with a definite useful life is calculated on a straight-line basis over the useful life of the assets as follows:

Patents and licenses	5–10 years
Computer software	3–5 years
Technology	3–15 years
Customer relationships	3–12 years
Other intangibles	< 1–15 years

The carrying value of intangible assets subject to amortization is reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. A previously recognized impairment loss may be reversed if there is a significant improvement of the circumstances having initially caused the

Goodwill and other intangible assets

EUR million	Goodwill	Patents and licenses	Capitalized software	Other intangible assets	Intangible assets total
2016					
Acquisition cost at beginning of year	452	28	91	119	690
Translation differences	0	0	1	1	2
Capital expenditure	-	0	0	3	4
Reclassifications	-	0	2	-2	0
Other changes	-	-5	-1	-2	-8
Acquisition cost at end of year	452	24	93	119	688
Accumulated amortization at beginning of year	-	-22	-62	-56	-140
Translation differences	-	0	-1	-1	-2
Other changes	-	5	1	3	9
Impairment losses	-	0	0	0	0
Amortization charges for the year	-	-2	-8	-7	-17
Accumulated amortization at end of year	-	-19	-70	-61	-150
Net book value at end of year	**452**	**5**	**23**	**58**	**538**
2015					
Acquisition cost at beginning of year	461	29	95	119	704
Translation differences	4	0	0	3	7
Disposals of businesses	-13	-3	-3	-5	-24
Capital expenditure	-	2	1	4	7
Reclassifications	-	0	2	-2	0
Other changes	0	0	-4	0	-4
Acquisition cost at end of year	452	28	91	119	690
Accumulated amortization at beginning of year	-	-22	-60	-56	-138
Translation differences	-	0	0	-1	-1
Disposals of businesses	-	2	3	3	8
Other changes	-	0	4	5	9
Impairment losses	-	0	0	0	0
Amortization charges for the year	-	-2	-9	-7	-18
Accumulated amortization at end of year	-	-22	-62	-56	-140
Net book value at end of year	**452**	**6**	**29**	**63**	**550**

impairment, however not to a higher value than the carrying amount, which would have been recorded had there been no impairment in prior years.

Research and development costs comprise salaries, administration costs, depreciation and amortization of tangible and intangible assets and they are mainly expensed as incurred. When material development costs meet certain capitalization criteria under IAS 38, they are capitalized and amortized during the expected useful life of the underlying technology.

Impairment testing

ACCOUNTING PRINCIPLE

Goodwill and other intangible assets with an indefinite useful life are tested for impairment annually. The testing of goodwill and other intangible assets with an indefinite useful life is performed at the cash generating unit level. When the carrying value of goodwill exceeds the recoverable value, an impairment is recognized to profit and loss account under depreciations and amortizations. Impairment losses on goodwill are not reversed. Currently Metso's management has defined two separate CGUs, Minerals and Flow Control, to which goodwill has been allocated.

The recoverable values of CGU's are based on value in use calculations, where the estimated future cas h flows of CGUs are discounted to their present value. The cash flows are derived from the current year's last quarter estimate, next year's budget and approved strategy for the next four years, beyond that cash flows are calculated using the terminal value method. The terminal growth rate used is based on management's judgement on the average long-term growth. Cash flows include only normal maintenance investments and exclude any potential investments that enhance the CGUs performance and acquisitions.

ESTIMATES AND ASSESSMENTS BY MANAGEMENT

The value in use calculations are inherently judgemental and highly susceptible to change from period to period because they require management to make assumptions about future supply and demand related to its individual business units, future sales prices, profit margins and achievable efficiency savings over time. The value of benefits and savings expected from the efficiency improvement programs are inherently subjective. Metso management estimates sales growth rate and Earnings Before Interest, Tax and Amortization (EBITA) development for the testing period as well as the discount factor used. The present value of the cash generating units is discounted using cash generating unit WACCs calculated by Metso. WACC calculations include judgements on for example relevant beta factors, peer companies and capital structures to use cash generating unit WACC, before taxes used was for Minerals segment 12.1% and for Flow Control segment 10.7%.

Metso performs impairment testing annually, or whenever an indication of impairment may be visible. Typical triggering events are material and permanent deterioration in the world economy or political environment, observed significant under-performance relative to projected future performance and significant changes in Metso's strategic orientations.

Expected useful lives and remaining amortization periods for other intangible assets are reviewed annually by the management. Acquisitions, disposals and restructuring actions typically generate a need for the reassessment of the recoverable values and remaining useful lives of the assets. When other intangible assets are valued at fair value less costs of disposal, the selling price, incremental costs and selling costs need to be estimated by management.

At the initial acquisition Metso uses readily available market values to determine the fair values to acquired net assets to be allocated. However, when this is not possible, the valuation is based on past performance of such asset and expected future cash generating capacity, which requires management to make estimates and assumptions of the future performance and use of these assets. Any change in Metso's future business priorities may affect the recoverable values.

Goodwill allocation to cash generating units

EUR million	Minerals	Flow Control	Goodwill total
2016			
Balance at beginning of year	407	45	452
Translation differences and other changes	0	0	0
Acquisitions/ disposals	-	-	-
Balance at end of year	**407**	**45**	**452**
As percent of total goodwill	90%	10%	100%
2015			
Balance at beginning of year	404	57	461
Translation differences and other changes	3	1	4
Acquisitions/ disposals	-	-13	-13
Balance at end of year	**407**	**45**	**452**
As percent of total goodwill	90%	10%	100%

In 2016 there were no business transfers between the segments. In 2015, Process Automation Systems business was divested and the disposed goodwill amounted to EUR 13 million. The value of other intangible assets with indefinite useful amounted to EUR 16 million in 2016 (EUR 16 million), which comprises of the brand values in Minerals segment.

Annual impairment test in 2016

As at December 31, 2016, the goodwill amounted to EUR 452 million equaling 31.4% of the equity. In 2016, Metso's reporting structure and the allocation of goodwill remained the same as in 2015. The cash generating units tested in 2016 were the reportable segments Minerals and Flow Control and the cost of centralized group services is allocated to CGUs based on their proportional share on the sales volume.

The recoverable values of each CGU exceeded remarkably the carrying values tested, so no indication of impairment was found in 2016. The value in use calculations derived from estimates, budgets and strategy figures at the end of year were subsequently reviewed by Metso's management and approved by the Board of Directors.

Key assumptions used

The key assumptions used in assessing the recoverable amount are the profitability and growth rate for the estimate period, long term average growth in the terminal period and discount rate. Values used in 2016 were as follows:

	Minerals	Flow Control
Sales growth in four years estimate period	3.8%	2.5%
EBITA % range in four years estimate period	9.1%–13.4%	14.2%–17.7%
Growth rate in the terminal period	1.7%	1.7%
WACC after tax	8.9%	8.0%
WACC before tax	12.1%	10.7%

Values assigned to key assumptions reflect past experience and the management's expectations on the future sales and production volumes, which are based on the current structure and production capacity of each cash generating unit (CGU). The cyclicality and current market situation of each cash generating unit have been considered separately. Also data on growth, demand and price development provided by various research institutions have been utilized. Growth rate of 1.7% for the terminal period, is based on the long term expectations on the growth in the Metso's market environments, considering the current low interest rate level and overall financial market situation.

WACC (Weighted average cost of capital) before tax, is used as a discount factor in the calculations. It takes into account the expected return on both debt and equity and have been derived from the weighted average cost of capital based on comparable peer industry betas, capital structure and tax rates. Cash generating unit WACCs are evaluated annually for the testing and CGU specific risk is incorporated there through individual beta factors from the market data of segment's peer companies.

Sensitivity analysis

The sensitivity to impairment of each cash generating unit was tested by :

a) reducing the terminal growth rate from 1.7% to 1.2%
b) reducing the terminal growth rate from 1.7% to 1.2% and increasing WACC 2.0% points

The reductions into present values of CGUs in the sensitivity analysis were as follows:

	Terminal growth from 1.7% to 1.2%	Terminal growth from 1.7% to 1.2% and WACC increase by 2% points
Minerals	-5%	-26%
Flow Control	-6%	-28%
Metso total	**5%**	**-19%**

The sensitivity tests also include several cash projections on break even levels of EBITA %, WACC and sales growth based on reasonable change in the future performance of the CGU. However, the impact to the present value obtained is limited as long as there is no permanent weakening expected for the business, which would affect the terminal value. Based on these sensitivity analysis, the management believes that no reasonably possible change of the key assumptions used would cause the carrying value of any cash generating unit to exceed its recoverable amount. In 2016, the sensitivity tests did not indicate risks of impairment.

18 Tangible assets

ACCOUNTING PRINCIPLE

Tangible assets are stated at historical cost, less accumulated depreciation and impairment loss, if any. The tangible assets of acquired subsidiaries are measured at their fair value at the acquisition date.

Depreciation is calculated on a straight-line basis over the expected useful lives of the assets as follows:

Buildings and structures	15–40 years
Machinery and equipment	3–20 years

Land and water areas are not depreciated.

Expected useful lives are reviewed at each balance sheet date and if they differ significantly from previous estimates, the remaining depreciation periods are adjusted accordingly.

Subsequent improvement costs related to an asset are included in the carrying value of such asset or recognized as a separate asset, as appropriate, only when the future economic benefits associated with the costs are probable and the related costs can be separated from normal maintenance costs.

Metso reviews tangible assets 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. Gains and losses on the disposal of tangible asset and possible impairments are recognized in profit and loss account in other operating income and expenses. Previously recognized impairment loss may be reversed, if there is a significant improvement to the circumstances having initially caused the impairment, however not to a higher value than the carrying amount, which would have been recorded had there been no impairment in prior years.

Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in long-term debt, and the interest element is charged to profit and loss over the lease period. Tangible assets acquired under finance leases are depreciated over the useful life of the asset or over the lease period, if shorter.

Capitalized interests

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.

Government grants

Government grants relating to acquisition of tangible assets are deducted from the acquisition cost of the asset and they reduce the depreciation charge of the related asset. Other government grants are deferred and recognized in profit and loss concurrently with the costs they compensate.

ESTIMATES AND ASSESSMENTS BY MANAGEMENT

Acquisitions, disposals and restructuring actions typically generates a need for the reassessment of the recoverable values and remaining useful lives of the assets. When tangible assets are valued at fair value less costs of disposal, selling price, incremental costs and selling costs need to be estimated by management.

Tangible assets

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Assets under construction	Tangible assets total
2016					
Acquisition cost at beginning of year	49	254	564	10	877
Translation differences	0	5	20	1	26
Capital expenditure	0	1	16	9	26
Reclassifications	0	2	10	-12	0
Other changes	-4	-17	-38	0	-59
Acquisition cost at end of year	45	245	572	8	870
Accumulated depreciation at beginning of year	-	-131	-403	-	-534
Translation differences	-	-3	-17	-	-20
Other changes	-	13	36	-	49
Impairment losses	0	-1	-5	-	-6
Amortization charges for the year	-	-10	-34	-	-44
Accumulated depreciation at end of year	-	-132	-423	-	-555
Net book value at end of year	**45**	**113**	**149**	**8**	**315**
2015					
Acquisition cost at beginning of year	52	295	647	30	1,024
Translation differences	1	4	-14	0	-9
Disposals of businesses	-2	-36	-21	0	-59
Capital expenditure	-	4	26	9	39
Reclassifications	0	4	13	-17	0
Other changes	-2	-17	-87	-12	-118
Acquisition cost at end of year	49	254	564	10	877
Accumulated depreciation at beginning of year	-	-151	-475	-	-626
Translation differences	-	-1	13	-	12
Disposals of businesses	-	20	17	-	37
Other changes	-	14	80	-	94
Impairment losses	0	0	0	-	0
Amortization charges for the year	-	-13	-38	-	-51
Accumulated depreciation at end of year	-	-131	-403	-	-534
Net book value at end of year	**49**	**123**	**161**	**10**	**343**

Financial leases recognized are included in tangible assets and the carrying value at the year-end 2016 and 2015 were less than EUR 1 million.

19 Depreciation and amortization

Year ended December 31,

EUR million	2016	2015
Intangible assets from acquisitions	**-5**	-5
Other intangible assets	**-12**	-13
Tangible assets		
Buildings and structures	**-10**	-13
Machinery and equipment	**-34**	-38
Total	**-61**	-69

Depreciation and amortization by function are as follows:

Year ended December 31,

EUR million	2016	2015
Cost of goods sold	**-36**	-44
Selling, general and administrative expenses		
Marketing and selling	**-4**	-9
Research and development	**0**	0
Administrative	**-21**	-16
Total	**-61**	-69

20 Lease commitments

ACCOUNTING PRINCIPLE – AS LESSEE

Leases of tangible assets, where Metso does not have a significant portion of the risks and rewards of ownership, are classified as operating leases. Payments under operating leases are recognized to profit and loss account as incurred over the lease term and the commitment of non-cancellable future payments is shown as an off-balance sheet liability. Leases classified as finance leases are reported in the tangible assets (see note 18).

Metso has operating leases for offices, manufacturing and warehouse spaces, company cars and IT equipment and software. Certain contracts contain renewal options for various periods of time.

Future minimum lease payments in operating leases are :

EUR million	2016	2015
Not later than 1 year	**38**	37
Later than 1 year and not later than 2 years	**29**	28
Later than 2 years and not later than 3 years	**23**	23
Later than 3 years and not later than 4 years	**15**	18
Later than 4 years and not later than 5 years	**10**	11
Later than 5 years	**25**	25
Total minimum lease payments	**140**	142

Total rental expenses amounted to EUR 41 million and EUR 46 million in the years ended December 31, 2016 and 2015, respectively.

C Capital structure and financial instruments

21 Financial risk management

As a global company, Metso is exposed to a variety of business and financial risks. Financial risks are managed centrally by the Group Treasury under annually reviewed written policies approved by the Board of Directors. Treasury operations are monitored by the Treasury Management Team chaired by the CFO. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the operating units. Group Treasury functions as counterparty to the operating units, manages centrally external funding and is responsible for the management of financial assets and appropriate hedging measures. The objective of financial risk management is to minimize potential adverse effects on Metso's financial performance.

Sensitivity analysis

Sensitivity analysis figures presented in connection with different financial risks are based on the risk exposures at the balance sheet date. The sensitivity is calculated by assuming a change in one of the risk factors of a financial instrument, such as interest or currency. It is not likely that the future volatility of a risk factor will develop in accordance with the test assumptions and that only one factor would be impacted.

When calculating the sensitivity, Metso has chosen to use market conventions in assuming a one percentage point (100 basis points) variation in interest rates, 10 percent change in foreign exchange rates and in commodity prices because this provides better comparability from one period to another and information on the volatility to users of financial statements. Metso is aware that such assumptions may not be realistic when compared to past volatility and they are not intended to reflect the future. Metso has chosen not to use past volatility as this could mislead the users of financial statements to assume the analysis reflect management's view on the future volatility of the financial instruments.

Liquidity and refinancing risk and capital structure management

Liquidity or refinancing risk arises when a company is not able to arrange funding at terms and conditions corresponding to its creditworthiness. Sufficient cash, short-term investments and committed and uncommitted credit facilities are maintained to protect short-term liquidity. Diversification of funding among different markets and adequate number of financial institutions is used to safeguard the availability of liquidity at all times. Group Treasury monitors bank account structures, cash balances and forecasts of the operating units and manages the utilization of the consolidated cash resources.

The liquidity position of the Group remained strong supported by the solid cash flow from operations, maturity structure of the funding and the available back up credit facilities. At the end of 2016 (end of 2015 respectively) cash and cash equivalents amounted to EUR 698 million (EUR 590 million), financial instruments held for trading EUR 109 million (EUR 67 million) and committed undrawn credit facilities to EUR 500 million (EUR 500 million). The syndicated revolving credit facility matures in June 2021. Additionally, the uncommitted Finnish Commercial Paper program totaling EUR 500 million can be utilized for funding.

Metso's refinancing risk is managed by balancing the proportion of short-term and long-term debt as well as the average remaining maturity of long-term debt. The tables below analyze the repayments and interests on Metso's liabilities by the remaining maturities from the balance sheet date to the contractual maturity date. The net interest payments of interest rate swaps hedging long-term loans are included in the long-term debt repayment figures.

Maturities as of December 31, 2016

EUR million	<1 year	1–5 years	>5 years
Long-term debt			
Repayments	0	676	100
Interests	18	38	5
Short-term debt			
Repayments	27	-	-
Interests	1	-	-
Trade payables	274	-	-
Other liabilities	10	-	-
Total	**330**	**714**	**105**
Financial guarantee contracts	-		

Maturities as of December 31, 2015

EUR million	<1 year	1–5 years	>5 years
Long-term debt			
Repayments	27	681	100
Interests	20	52	8
Short-term debt			
Repayments	30	-	-
Interests	1	-	-
Trade payables	249	-	-
Other liabilities	23	-	-
Total	350	733	108
Financial guarantee contracts	-		

Detailed information on balance sheet items is presented in other notes to consolidated financial statements.

Capital structure is assessed regularly by the Board of Directors and managed operationally by the Group Treasury.

Capital structure management in Metso comprises both equity and interest bearing debt. As of December 31, 2016 the equity attributable to shareholders was EUR 1,430 million (EUR 1,437 million) and the amount of interest bearing debt was EUR 795 million (EUR 822 million). The objectives are to safeguard the ongoing business operations and to optimize the cost of capital. Metso has a target to maintain a solid investment grade credit rating.

Metso´s credit rating as at December 31, 2016:
Standard & Poor's BBB / A-2

There are no prepayment covenants in Metso's financial contracts which would be triggered by changes in credit rating. Financial covenants included in some loan agreements refer to Metso's capital structure. Metso is in compliance with all covenants and other terms of its debt instruments.

Capital structure ratios are included in chapter Financial Indicators 2012–2016 and the formulas in chapter Formulas for calculation of financial indicators in these Financial Statements.

Interest rate risk

Interest rate risk arises when changes in market interest rates and interest margins influence finance costs, returns on financial investments and valuation of interest bearing balance sheet items. Interest rate risks are managed by balancing the ratio between fixed and floating interest rates and administrating duration of debt and investment portfolios. Additionally, Metso may use derivative instruments such as forward rate agreements, swaps, options and futures contracts to mitigate the risks arising from interest bearing assets and liabilities. The interest rate risk is managed and controlled by the Group Treasury and measured using sensitivity analysis and duration of long term debt. The Macaulay Duration of long term debt was 1.9 years on December 31, 2016 (2.1 years).

At the end of 2016 the balance sheet items exposed to interest rate risk were interest bearing assets of EUR 820 million (EUR 669 million) and interest bearing debt of EUR 795 million (EUR 822 million). Of the total interest bearing debt 68 percent (66 %) was denominated in EUR but 97 percent (93 %) had exposure only to the risk of interest rate of EUR.

The basis for the interest rate risk sensitivity analysis is an aggregate group level interest rate exposure, composed of interest bearing assets, interest bearing debt and financial derivatives, such as interest rate swaps and options, which are used to hedge the underlying exposures. For all interest bearing debt and assets to be fixed during next 12 months a one percentage point move upwards or downwards in interest rates with all other variables held constant would have an effect on Metso's net interest expenses, net of taxes, of EUR +/- 1.9 million (EUR +/- 0.8 million).

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

EUR million	2016	2015
Effects in		
income statement	**+/- 1.7**	+/- 0.3
equity	**+/- 0.4**	+/- 0.7

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

Foreign exchange risk

Metso operates globally and is exposed to foreign exchange risk in several currencies, although the geographical diversity of operations decreases the significance of any individual currency. About 80 percent of Metso's net sales originate from outside the euro zone; the main currencies being euro, US dollar, Australian dollar, Chilean peso, Brazilian real, Swedish krona and Chinese yuan.

Transaction exposure

Foreign exchange transaction exposure arises when an operating unit has commercial or financial transactions and payments in other than its own functional currency, and when related cash inflow and outflow amounts are not equal or concurrent.

In accordance with the Metso Treasury Policy, operating units are required to hedge in full the foreign currency exposures on balance sheet and other firm commitments. Future cash flows denominated in a currency other than the functional currency of the unit are hedged with internal foreign exchange contracts with the Group Treasury for periods, which do not usually exceed two years. Operating units also do some hedging directly with banks in countries, where regulation does not allow corporate internal cross-border contracts.

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

Total amount of foreign currency exposures on December 31 was as follows:

EUR million	2016	2015
Operational items	**206**	191
Financial items	**442**	461
Hedges	**-630**	-597
Total exposure	**18**	55

This aggregate group level currency exposure is the basis for the sensitivity analysis of foreign exchange risk. This exposure, net of respective hedges, is composed of all assets and liabilities denominated in foreign currencies, projected cash flows for unrecognized firm commitments, both short- and long-term sales and purchase contracts and anticipated operational cash flows to the extent their realization has been deemed highly probable and therefore hedged. This analysis excludes net foreign currency investments in subsidiaries together with instruments hedging these investments. Assuming euro to appreciate or depreciate ten percent against all other currencies, the impact on cash flows, net of taxes, derived from the year-end net exposure as defined above, would be EUR -/+ 2.5 million (EUR -/+ 0.8 million).

Transaction exposure is spread in about 35 currencies and as of December 31, 2016 the biggest open exposures were in Czech Republic koruna (16 %) and South Korean won (13%). A 10 percent appreciation of any single currency would not have an effect to income statement of over EUR 1 million.

A sensitivity analysis of financial instruments as required by IFRS 7, excludes following items: projected cash flows for unrecognized firm commitments, advance payments, both short- and long-term purchase contracts and anticipated operational cash flows. The table below presents the effects, net of taxes, of a +/- 10 percent change in EUR foreign exchange rates:

EUR million	USD	SEK	Others	2016 Total	2015 Total
Effects in					
income statement	**+/- 1.4**	**+/- 0.4**	**+/- 0.1**	**+/- 1.8**	+/- 2.7
equity	**-/+ 2.8**	**-/+ 1.6**	**-/+ 1.3**	**-/+ 5.7**	-/+ 1.0

Effect in equity is the fair value change in derivatives contracts qualifying as cash flow hedges for unrecognized firm commitments. Effect in income statement is the fair value change for all other financial instruments exposed to foreign exchange risk including derivatives, which qualify as cash flow hedges, to the extent the underlying sales transaction, recognized under the percentage of completion method, has been recognized as revenue.

Translation or equity exposure

Foreign exchange translation exposure arises when the equity of a subsidiary is denominated in currency other than the functional currency of the parent company. The major translation exposures are in Chinese yuan, Brazilian real, Chilean peso and Swedish krona, which altogether comprise approximately 60 percent of the total equity exposure. Metso is currently not hedging any equity exposure.

Commodity risk

Metso is exposed to variations in prices of raw materials and of supplies including energy. Metso units identify their commodity price hedging needs and hedges are executed through the Group Treasury using approved counterparties and instruments. For commodity risks separate overall hedging limits are defined and approved. Hedging is done on a rolling basis with a declining hedging level over time. The overall importance of the commodity price risks is small compared to other financial risks, and thus cannot be considered to be significant.

Electricity exposure in the Nordic units has been hedged with electricity forwards, which are designated as hedges of highly probable future electricity purchases. Execution of electricity hedging has been outsourced to an external broker. As of December 31, 2016 Metso had outstanding electricity forwards amounting to 35 GWh (69 GWh).

To reduce its exposure to the volatility caused by the surcharge for certain metal alloys (Alloy Adjustment Factor) comprised in the price of stainless steel charged by its suppliers, Metso has entered into average-price swap agreements for nickel. The Alloy Adjustment Factor is based on monthly average prices of its components of which nickel is the most significant. As of December 31, 2016 Metso had outstanding nickel swaps amounting to 288 tons (324 tons).

The following table on the sensitivity analysis of the commodity prices based on financial instruments under IFRS 7 comprises the net aggregate amount of commodities bought through forward contracts and swaps but excludes the anticipated future consumption of raw materials and electricity.

A 10 percent change upwards or downwards in commodity prices would have following effects, net of taxes:

EUR million	**2016**	2015
Electricity – effect in equity	**+/- 0.1**	+/- 0.1
Electricity – effect in income statement	**+/- 0**	+/- 0
Nickel – effect in income statement	**+/- 0.2**	+/- 0.2

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

Other commodity risks are not managed using financial derivative instruments.

Credit and counterparty risk

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

The maximum credit risk equals the carrying value of trade and loan receivables. The credit quality is evaluated both on the basis of aging of the trade receivables and also on the basis of customer specific analysis. The aging structure of trade receivables is presented in note 12.

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

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

Fair value estimation

For those financial assets and liabilities which have been recognized at fair value in the balance sheet, the following measurement hierarchy and valuation methods have been applied:

Level 1 Quoted unadjusted prices at the balance sheet date in active markets. The market prices are readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. The quoted market price used for financial assets is the current bid price. Level 1 financial instruments include debt and equity investments classified as financial instruments available-for-sale or at fair value through profit and loss.

Level 2 The fair value of financial instruments in Level 2 is determined using valuation techniques. These techniques utilize observable market data readily and regularly available from an exchange, dealer, broker, market information service system, pricing service or regulatory agency. Level 2 financial instruments include:

- Over-the-counter derivatives classified as financial assets/liabilities at fair value through profit and loss or qualified for hedge accounting.
- Debt securities classified as financial instruments at fair value through profit and loss.
- Fixed rate debt under fair value hedge accounting.

Level 3 A financial instrument is categorized into Level 3 if the calculation of the fair value cannot be based on observable market data. Metso had no such instruments in 2016 or in 2015.

The tables below present Metso's financial assets and liabilities that are measured at fair value:

December 31, 2016

EUR million	Level 1	Level 2	Level 3
Assets			
Financial assets at fair value through profit and loss			
Derivatives	-	4	-
Securities	7	102	-
Derivatives qualified for hedge accounting	-	13	-
Available for sale investments			
Equity investments	-	-	-
Total assets	**7**	**119**	**-**
Liabilities			
Financial liabilities at fair value through profit and loss			
Derivatives	-	20	-
Long term debt at fair value	-	414	-
Derivatives qualified for hedge accounting	-	6	-
Total liabilities	**-**	**440**	**-**

December 31, 2015

EUR million	Level 1	Level 2	Level 3
Assets			
Financial assets at fair value through profit and loss			
Derivatives	-	4	-
Securities	21	46	-
Derivatives qualified for hedge accounting	-	12	-
Available for sale investments			
Equity investments	0	-	-
Total assets	**21**	**62**	**-**
Liabilities			
Financial liabilities at fair value through profit and loss			
Derivatives	-	11	-
Long term debt at fair value	-	419	-
Derivatives qualified for hedge accounting	-	5	-
Total liabilities	**-**	**435**	**-**

22 Financial assets and liabilities by category

ACCOUNTING PRINCIPLE

Metso classifies its financial instruments into the following categories: assets and liabilities at fair value through profit and loss, loans and receivables, available-for-sale financial assets and liabilities measured at amortized cost. The classification is determined at the acquisition depending on the intended purpose. Financial assets and liabilities are classified as non-current items, when the remaining maturity exceed 12 months and as current items, when the remaining maturity is less than 12 months.

Assets and liabilities at fair value through profit and loss
In this category is included financial instruments held for trading, which comprise investments in financial instruments and time deposits with various maturities exceeding three months. Also, derivatives that do not meet the hedge accounting criteria are classified into this category. The instruments are fair valued quarterly and the change in fair value is recognized through profit and loss. Purchases and sales of available-for-sale financial assets are recognized on the transaction date at fair value including transaction costs and gain or loss at disposal and impairment, if any, are recorded in profit and loss.

Long-term fixed rate debt, which have been hedged with derivatives qualified for hedge accounting (fair value hedge) are included into this category. Gains and losses at disposal are recorded in profit and loss.

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

Available-for-sale financial assets
Available-for-sale equity investments include shares in listed and unlisted companies. Available-for-sale shares in listed companies are carried at fair value, based on quoted closing prices at the balance sheet date. Unrealized gains and losses arising from changes in fair value are recognized through Other Comprehensive Income (OCI) in the fair value reserve of equity. Gains and losses at disposal and impairment, if any, are recorded in the profit and loss and the accumulated change in fair value previously recorded in the fair value reserve of equity is reversed through OCI. Unlisted shares, for which fair values cannot be measured reliably, are recognized at cost less impairment, if any.

Available-for-sale financial investments in debt instruments, which have been contracted as part of the cash management of Metso, comprise investments in financial instruments, e.g. bonds, commercial papers and time deposits. The instruments are fair valued quarterly and the change in fair value is recognized through OCI in the fair value reserve of equity. Gains and losses at disposal and impairment, if any, are recorded in profit and loss and the accumulated change in fair value previously recorded in the fair value reserve of equity is reversed through OCI. Investments with maturity less than 3 months are included in Cash and cash equivalents.

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

Liabilities measured at amortized cost
Long-term debt is typically classified in to this category, when debt is initially recognized at fair value, net of transaction costs incurred. In subsequent periods, they are valued at amortized cost using the effective interest rate method. Debts, which are hedged with a fair value hedge are recognized at fair value through the profit and loss.

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

EUR million	Assets at fair value through profit and loss	Derivatives qualified for hedge accounting	Loans and receivables	Available-for-sale financial assets	Carrying value	Fair value
2016						
Non-current assets						
Available-for-sale equity investments	-	-	-	1	1	1
Loan receivables	-	-	3	-	3	3
Trade receivables	-	-	-	-	-	-
Derivative financial instruments	-	8	-	-	8	8
Other receivables	-	-	15	-	15	15
Total	**-**	**8**	**18**	**1**	**27**	**27**
Current assets						
Loan receivables	-	-	10	-	10	10
Financial instruments held for trading	109	-	-	-	109	109
Trade receivables	-	-	464	-	464	464
Derivative financial instruments	4	5	-	-	9	9
Other receivables	-	-	141	-	141	141
Cash and cash equivalents	-	-	698	-	698	698
Total	**113**	**5**	**1,313**	**-**	**1,431**	**1,431**

EUR million	Liabilities at fair value through profit and loss	Derivatives qualified for hedge accounting	Financial liabilities measured at amortized cost	Carrying value	Fair value
Non-current liabilities					
Bonds	202	-	367	569	578
Loans from financial institutions	198	-	-	198	212
Finance lease obligations	-	-	-	0	0
Other long-term debt	-	-	-	0	0
Derivative financial instruments	4	1	-	5	5
Other liabilities	-	-	2	2	2
Total	**404**	**1**	**369**	**774**	**797**
Current liabilities					
Current portion of long-term debt	-	-	0	0	0
Short-term debt	-	-	27	27	27
Trade payables	-	-	274	274	274
Derivative financial instruments	16	5	-	21	21
Other liabilities	-	-	196	196	196
Total	**16**	**5**	**497**	**518**	**518**

EUR million	Assets at fair value through profit and loss	Derivatives qualified for hedge accounting	Loans and receivables	Available-for-sale financial assets	Carrying value	Fair value
2015						
Non-current assets						
Available-for-sale equity investments	-	-	-	1	1	1
Loan receivables	-	-	11	-	11	11
Trade receivables	-	-	-	-	-	-
Derivative financial instruments	-	10	-	-	10	10
Other receivables	-	-	18	-	18	18
Total	**-**	**10**	**29**	**1**	**40**	**40**
Current assets						
Loan receivables	-	-	1	-	1	1
Financial instruments held for trading	67	-	-	-	67	67
Trade receivables	-	-	483	-	483	483
Derivative financial instruments	4	2	-	-	6	6
Other receivables	-	-	149	-	149	149
Cash and cash equivalents	-	-	590	-	590	590
Total	**71**	**2**	**1,223**	**-**	**1,296**	**1,296**

EUR million	Liabilities at fair value through profit and loss	Derivatives qualified for hedge accounting	Financial liabilities measured at amortized cost	Carrying value	Fair value
Non-current liabilities					
Bonds	206	-	372	578	589
Loans from financial institutions	187	-	0	187	212
Finance lease obligations	-	-	0	0	0
Other long-term debt	-	-	0	0	0
Derivative financial instruments	-	7	-	7	7
Other liabilities	-	-	2	2	2
Total	**393**	**7**	**374**	**774**	**810**
Current liabilities					
Current portion of long-term debt	-	-	27	27	27
Short-term debt	-	-	30	30	30
Trade payables	-	-	249	249	249
Derivative financial instruments	5	4	-	9	9
Other liabilities	-	-	220	220	220
Total	**5**	**4**	**526**	**535**	**535**

Carrying value of other financial assets and liabilities than those presented in the fair value level table in note 21 approximates their fair value. Fair value of other debt is calculated as net present value.

For more information on derivative financial instruments, see note 27.

23 Liquid funds

ACCOUNTING PRINCIPLE

Cash and cash equivalents consist of cash in banks, deposits and liquid commercial papers with maturities of three months or less.

Financial instruments held for trading comprise highly liquid investments, which are part of the cash management of Metso. These deposit and debt investments have maturity of more than three months, but less than twelve months. They are fair valued quarterly and the change in fair value is recognized through Other Comprehensive Income (OCI) in the fair value reserve of equity. Gains and losses at disposal and impairment, if any, are recorded in profit and loss statement.

	As at December 31,	
EUR million	2016	2015
Financial instruments held for trading	**109**	67
Bank and cash	403	418
Commercial papers and other deposits	295	172
Cash and cash equivalents	**698**	590
Liquid funds	**807**	657

At the year-end portfolio, average interest rate on commercial papers and deposits was 0.57 % (1.15%) and on financial instruments held for trading 0.18 % (1.40%).

24 Equity

ACCOUNTING PRINCIPLE

Issue of new shares and own shares

Transaction costs directly attributable to the issue of new shares or options are shown net of their tax effect in equity as a deduction from the proceeds.

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

Translation differences

The translation differences arising from subsidiary net investments and non-current subsidiary loans without agreed settlement dates are recognized through Other Comprehensive Income (OCI) to the cumulative translation adjustments under equity. When Metso hedges the net investment of its foreign subsidiaries with foreign currency loans and with financial derivatives, the translation difference is adjusted by the currency effect of hedging instruments which has been recorded, net of taxes, through OCI in equity. When a foreign entity is disposed of, the respective accumulated translation difference, including the effect from qualifying hedging instruments, is reversed through OCI and recognized in the consolidated statements of income as part of the gain or loss on the sale. If the equity of a foreign currency denominated subsidiary is reduced by reimbursement of invested funds, the translation difference relating to the reduction is reversed through OCI and recognized in the consolidated statements of income.

Dividends

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

Share capital and number of shares

Metso Corporation's registered share capital, which is fully paid, was EUR 140,982,843.80 as at December 31, 2016 and 2015.

	2016	2015
Number of outstanding shares, January 1	**149,984,538**	149,889,268
Redemption of own shares by the Parent Company	-	-
Shares granted from share ownership plans	-	95,270
Number of outstanding shares, December 31	**149,984,538**	149,984,538
Own shares held by the Parent Company	**363,718**	363,718
Total number of shares, December 31	**150,348,256**	150,348,256

As of December 31, 2016 the acquisition price of 363,718 own shares held by the Parent Company was EUR 8,312,138.40 and was recognized in the treasury stock.

Dividends

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

The Board of Directors proposes that a dividend of EUR 1.05 per share be paid based on the balance sheet to be adopted for the financial year which ended December 31, 2016 and the remaining part of the profit be retained and carried further in the Company's unrestricted equity. These financial statements do not reflect this dividend payable of EUR 157 million.

Fair value and other reserves

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

Fair value reserve includes the change in fair values of assets classified as available-for-sale. Share-based payments are presented in fair value reserve.

Legal reserve consists of restricted equity, which has been transferred from distributable funds under the Articles of Association, local company act or by a decision of the shareholders.

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

Changes in fair value and other reserves:

EUR million	Treasury stock	Hedge reserve	Fair value reserve	Legal reserve	Other reserves	Total
Balance as of December 31, 2014	**-10**	**-4**	**6**	**19**	**291**	**302**
Cash flow hedges						
Fair value gains (+) / losses (-), net of taxes	-	4	-	-	-	4
Transferred to profit and loss, net of taxes						
Sales	-	2	-	-	-	2
Cost of goods sold / Administrative expenses	-	0	-	-	-	0
Interest income / expenses	-	-4	-	-	-	-4
Available-for-sale equity investments and share-based rewards						
Fair value gains (+) / losses (-), net of taxes	-	-	0	-	-	0
Transferred to profit and loss, net of taxes	-	-	0	-	-	0
Share-based payments, net of taxes	1	-	-2	-	-	-1
Other	-	-	-	-3	2	-1
Balance as of December 31, 2015	**-9**	**-2**	**4**	**16**	**293**	**302**
Cash flow hedges						
Fair value gains (+) / losses (-), net of taxes	-	4	-	-	-	4
Transferred to profit and loss, net of taxes						
Sales	-	-1	-	-	-	-1
Cost of goods sold / Administrative expenses	-	-1	-	-	-	-1
Interest income / expenses	-	-4	-	-	-	-4
Available-for-sale equity investments and share-based rewards						
Fair value gains (+) / losses (-), net of taxes	-	-	0	-	-	0
Transferred to profit and loss, net of taxes	-	-	0	-	-	0
Share-based payments, net of taxes	-	-	1	-	-	1
Other	-	-	-	-2	-	-2
Balance as of December 31, 2016	**-9**	**-4**	**5**	**14**	**293**	**299**

Cumulative translation adjustments included in the shareholders' equity:

EUR million	**2016**	2015
Cumulative translation adjustment as of January 1	**-71**	-52
Currency translation on subsidiary net investments	**23**	-19
Hedging of net investment denominated in foreign currency	**-**	-
Cumulative translation adjustment as of December 31	**-48**	-71

25 Borrowings

ACCOUNTING PRINCIPLE

Long-term debt is initially recognized at fair value, net of transaction costs incurred. In subsequent periods, the debt is valued at amortized cost using the effective interest rate method. Borrowings, which are hedged with a fair value hedge are recognized at fair value through the profit and loss. A portion of long-term debt is classified as short term debt, when the settlement of the liability is due within 12 months from the balance sheet date. Borrowings are derecognized only if the contractual obligation is discharged, cancelled or expired.

Transaction costs arising from modification of debt instruments are included in the carrying value of the debt and amortized using the effective interest method over the remaining period of the modified liability provided that the new conditions obtained through the modification 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.

	As at December 31,			
	Carrying values		Fair values*	
EUR million	**2016**	2015	**2016**	2015
Bonds	**569**	578	**578**	589
Loans from financial institutions	**198**	187	**212**	212
Finance lease obligations	**0**	0	**0**	0
Other long-term debt	**0**	0	**0**	0
Total long term interest bearing debt	**767**	765	**790**	801
Current portion of bonds	**-**	-	**-**	-
Current portion of loans from financial institutions	**-**	27	**-**	27
Loans from financial institutions	**27**	30	**27**	30
Total short-term interest bearing debt	**27**	57	**27**	57

* The fair values of long-term debt are equal to the present value of their future cash flows.

Bonds:

EUR million	Nominal interest rate at the end of year	Effective interest rate at the end of year	Original loan amount	Outstanding carrying value at December 31, 2016	2015
Public bond 2012–2019	2.75%	2.91%	400	**398**	406
Private placements maturing 2018–2022		0.82%-4.7%	170	**171**	172
Bonds total				**569**	578

Metso has a Euro Medium Term Note Program (EMTN) of EUR 1.5 billion, under which EUR 569 million (EUR 578 million) at carrying value were outstanding at the end of 2016 (2015). EUR 398 million (EUR 406 million) of the outstanding amount were public bonds and EUR 171 million (EUR 172 million) private placements.

Long term loans from financial institutions consists solely of a US dollar denominated bank loan with fixed interest. The loan has been effectively hedged with a cross currency interest rate swap so the loan has exposure only to the risk of interest rate of euro. The average interest rates in 2016 (2015) amounted to 0.99% (1.24%). The loan matures in 2018.

Short term loans from financial institutions consists of bank loans withdrawn by Metso subsidiaries to fund local operations. The loans are mainly Indian rupee denominated. The weighted average interest rate applicable to the short-term borrowing at December 31, 2016 (2015) was 6.3% (4.6%). In 2017, interest amounting to EUR 0.7 million is expected to be paid concurrently with respective principals on the short-term debt presented above.

Metso has a syndicated revolving loan facility of EUR 500 million with 10 banks. The facility will mature in 2021. Also, Metso has a Finnish commercial paper program amounting to EUR 500 million. Both additional funding facilities were undrawn at the end of 2016 and 2015.

Contractual maturities of interest bearing debt as at December 31, 2016 are as follows:

EUR million	Bonds	Loans from financial institutions	Total
Repayments	-	27	**27**
Interests	18	1	**19**
Total 2017	**18**	**28**	**46**
Repayments	70	212	**282**
Interests	16	0	**16**
Total 2018	**86**	**212**	**298**
Repayments	394	-	**394**
Interests	13	-	**13**
Total 2019	**407**	**-**	**407**
Repayments	-	-	**-**
Interests	5	-	**5**
Total 2020	**5**	**-**	**5**
Repayments	-	-	**-**
Interests	4	-	**4**
Total 2021	**4**	**-**	**4**
Repayments	100	-	**100**
Interests	5	-	**5**
Later	**105**	**-**	**105**

The maturities of derivative financial instruments are presented in note 27.

26 Contingent liabilities and other commitments

ACCOUNTING PRINCIPLE

The repurchase commitments represent engagements whereby Metso agrees to purchase back equipment sold to customer. The conditions triggering the buy back obligation are specific to each sales contract.

	As at December 31,	
EUR million	**2016**	2015
Metso group		
On behalf of others		
Guarantees	**1**	1
Other commitments		
Repurchase commitments	**2**	2
Other contingencies	**3**	3
Metso total	**6**	6
Metso parent company		
On behalf of group companies		
Guarantees	**265**	350

Metso parent company has guaranteed obligations of its subsidiaries arising in the ordinary course of business of its subsidiaries. These guarantees have typically been given to secure customer's advance payments or to secure commercial contractual obligations, or given counter guarantees to banks, which have given commercial guarantees to a subsidiary.

27 Derivative instruments

ACCOUNTING PRINCIPLE

Derivatives are initially recognized in the balance sheet at fair value and subsequently measured at their fair value at each balance sheet date. Derivatives are designated at inception either as hedges of firm commitments or forecasted transactions (cash flow hedge) or as hedges of fixed rate debt (fair value hedge), or as hedges of net investment in a foreign operation (net investment hedge), or as derivatives at fair value through profit and loss that do not meet the hedge accounting criteria.

In case of hedge accounting, Metso documents at inception the relationship between the hedging instruments and hedged items in accordance with its risk management strategy and objectives. Metso also tests the effectiveness of the hedge relationships at hedge inception and quarterly both prospectively and retrospectively.

Derivatives are classified as non-current assets or liabilities when the remaining maturities exceed 12 months and as current assets or liabilities when the remaining maturities are less than 12 months.

Cash flow hedge

Metso applies cash flow hedge accounting to certain interest rate swaps, foreign currency forward contracts and to electricity forwards.

Metso designates only the currency component of the foreign currency forward contracts as the hedging instrument to hedge foreign currency denominated firm commitments. The interest component is recognized under other operating income and expenses, net. The gain or loss relating to the effective portion of the currency forward contracts is recognized in the income statement concurrently with the underlying in the same line item. The effective portion of foreign currency forwards hedging sales and purchases is recognized in sales and the cost of goods sold, respectively. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is reversed from the hedge reserve through the Other Comprehensive Income (OCI) to the income statement within financial items concurrently with the recognition of the underlying. Both at hedge inception and at each balance sheet date an assessment is performed to ensure the continued effectiveness of the designated component of the derivatives in offsetting changes in the fair values of the cash flows of hedged items.

Metso assesses regularly the effectiveness of the fair value changes of the electricity forwards in offsetting the changes in the fair value changes of the underlying forecasted electricity purchases in different countries. The gain or loss relating to the effective portion of the electricity forward contracts is recognized in the cost of goods sold.

The effective portion of the derivatives is recognized through OCI in the hedge reserve under equity and reversed through OCI to be recorded through profit and loss concurrently with the underlying transaction being hedged.

The gain or loss relating to the ineffective portion of the derivatives is reported under other operating income and expenses, net or under financial items when contracted to hedge variable rate borrowings. Should a hedged transaction no longer be expected to occur, any cumulative gain or loss previously recognized under equity is reversed through OCI to profit and loss.

Fair value hedge

Metso applies fair value hedge accounting to certain fixed rate loans. The change in fair value of the interest rate swap hedging the loan is recognized through profit and loss concurrently with the change in value of the underlying. Both at inception and quarterly the effectiveness of the derivatives is tested by comparing their change in fair value against those of the underlying instruments.

Derivatives at fair value through profit and loss

Certain derivative instruments do not qualify for hedge accounting. These instruments, which have been contracted to mitigate risks arising from operating and financing activities, comprise foreign exchange forward contracts, currency and interest rate options, interest rate swaps and swap agreements for nickel.

Changes in the fair value of interest rate swaps are recognized in interest expenses. Changes in the fair value of foreign exchange forward contracts are mainly recognized in other operating income and expenses. However, when the foreign exchange forwards have been contracted to mitigate the exchange rate risks arising from foreign currency denominated cash and from financial instruments used for cash management, the changes in fair value of the derivatives are recognized in financial income and expenses, net. Changes in the fair value of other derivative instruments such as commodity instruments are recognized in other operating income and expenses, net.

Fair value estimation of derivative instruments

The fair value of the foreign currency forward contracts is determined using forward exchange market rates at the balance sheet date. The fair value of the interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. The fair value of the commodity forwards and swaps are based on quoted market prices at the balance sheet date. The fair value of options is determined using Black-Scholes valuation model.

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

EUR million	Notional amount	Fair value, assets	Fair value, liabilities	Fair value, net
2016				
Forward exchange contracts [1]	**998**	**9**	**20**	**-11**
Interest rate swaps	**245**	**8**	**5**	**3**
Cross currency swaps	**244**	**0**	**1**	**-1**
Option agreements				
Bought	**-**	**-**	**-**	**-**
Sold	**-**	**-**	**-**	**-**
Electricity forward contracts [2]	**35**	**-**	**0**	**0**
Nickel swap contracts [3]	**288**	**0**	**0**	**0**
Total		**17**	**26**	**-9**
2015				
Forward exchange contracts [1]	1,009	6	7	-1
Interest rate swaps	265	8	2	6
Cross currency swaps	244	1	2	-1
Option agreements				
Bought	-	-	-	-
Sold	20	0	2	-2
Electricity forward contracts [2]	69	0	1	-1
Nickel swap contracts [3]	324	-	1	-1
Total		15	15	0

1) Some 30 percent and 19 percent of the notional amount at the end of 2016 and 2015, respectively, qualified for cash flow hedge accounting.
2) Notional amount in GWh
3) Notional amount in tons

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

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

	2016		2015	
EUR million	**Assets**	**Liabilities**	Assets	Liabilities
Interest rate swaps - cash flow hedges	**-**	**-**	-	-
Interest rate swaps - fair value hedges	**8**	**-**	9	0
Interest rate swaps - non-qualifying hedges	**-**	**5**	0	3
	8	**5**	9	3
Cross currency swaps - cash flow hedges	**-**	**1**	-	2
Cross currency swaps - fair value hedges	**0**	**-**	1	-
	0	**1**	1	2
Forward exchange contracts - cash flow hedges	**5**	**5**	2	2
Forward exchange contracts - non-qualifying hedges	**4**	**15**	4	5
	9	**20**	6	7
Electricity forward contracts - cash flow hedges	**-**	**0**	0	1
Nickel swaps - non-qualifying hedges	**0**	**0**	0	1
Options - non-qualifying hedges	**-**	**-**	-	2
Total derivatives	**17**	**26**	16	16

In the year ended December 31, 2016 there was ineffectiveness related to the cash flow hedges, which resulted in recognition of EUR 0.05 million loss (a loss of EUR 0.3 million in year 2015) in the income statement. As at December 31, 2016 the fixed interest rates of swaps varied from 1.0 percent to 3.9 percent.

As at December 31, 2016 the maturities of financial derivatives are the following (expressed as notional amounts):

EUR million	2017	2018	2019	2020	2021 and later
Forward exchange contracts	997	1	-	-	-
Interest rate swaps	-	-	200	-	45
Cross currency swaps	-	244	-	-	-
Option agreements	-	-	-	-	-
Electricity forward contracts [1)]	21	14	-	-	-
Nickel swap contracts [2)]	276	12	-	-	-

1) Notional amount in GWh
2) Notional amount in tons

D Consolidation

ACCOUNTING PRINCIPLE

Principles of consolidation

Subsidiaries

The consolidated financial statements include the financial statements of the Parent Company and each of those companies in which Metso exercises control. Control is achieved when Metso is exposed, or has rights, to variable returns from the investee and has the ability to affect those returns through its power over the investee. The companies acquired during the financial period have been consolidated from the date Metso acquired control. Subsidiaries sold or distributed to the owners have been included up to their date of disposal.

All intercompany transactions, balances and gains or losses on transactions between subsidiaries are eliminated as part of the consolidation process. Non-controlling interests are presented in the consolidated balance sheets within equity, separate from the equity attributable to shareholders. Non-controlling interests are separately disclosed in the consolidated statements of income.

Acquisitions of businesses are accounted for using the acquisition method. The purchase consideration of an acquisition is measured at fair value over the assets given up, shares issued or liabilities incurred or assumed at the date of acquisition. For each acquisition the non-controlling interest in the acquiree, if any, can be recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess acquisition price over the fair value of net assets acquired is recognized as goodwill (see also intangible assets). If the purchase consideration is less than the fair value of the Group's share of the net assets acquired, the difference is recognized directly through profit and loss.

When Metso ceases to have control, any retained interest in the equity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities.

Non-controlling interest

Transactions with non-controlling interests are regarded as transactions with equity owners. In case of purchases from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets acquired in the subsidiary is recorded in shareholders' equity. Gains or losses on disposals to non-controlling interests are also recorded directly in shareholders' equity.

Non-current assets or disposal group held-for-sale

Metso shall classify a non-current asset or disposal group as held for sale if it's carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are valued at lower of its carrying value and fair value less costs to sell and assets subject to depreciation or amortization are no longer amortized. Assets related to non-current assets or disposal group classified a held-for-sale will be disclosed separately from other assets, but financial statements for prior periods are not reclassified.

Foreign currency translation

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

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the date of the transaction. At the end of the accounting period, unsettled foreign currency transaction balances are valued at the rates of exchange prevailing at the balance sheet date. Trade flow related foreign currency exchange gains and losses are recorded in other operating income and expenses, unless the foreign currency denominated transactions have been subject to hedge accounting, in which case the related exchange gains and losses are recorded in the same line item as the hedged transaction. Foreign exchange gains and losses associated with financing are entered as a net amount under financial income and expenses.

The statements of income of subsidiaries with a functional currency different from the presentation currency are translated into euro at the average of month end exchange rates for the financial year and the balance sheets are translated at the exchange rate of the balance sheet date. This exchange rate difference is recorded through Consolidated Statement of Comprehensive Income/Expense (OCI) in the cumulative translation adjustment line item in equity.

The translation differences arising from subsidiary net investments and long-term subsidiary loans without agreed settlement dates are recognized through OCI to the cumulative translation adjustments under equity. When Metso hedges the net investment of its foreign subsidiaries with foreign currency loans and with financial derivatives, the translation difference is adjusted by the currency effect of hedging instruments which has been recorded, net of taxes, through OCI in equity. When a foreign entity is disposed of, the respective accumulated translation difference, including the effect from qualifying hedging instruments, is reversed through OCI and recognized in the consolidated statements of income as part of the gain or loss on the sale. If the equity of a foreign currency denominated subsidiary is reduced by reimbursement of invested funds, the translation difference relating to the reduction is reversed through OCI and recognized in the consolidated statements of income.

Net investment hedge

Metso may hedge its net foreign investments in certain currencies to reduce the effect of exchange rate fluctuations. The hedging instruments are mainly foreign currency loans and foreign currency forward contracts. Both realized and unrealized exchange gains and losses measured on these instruments are recorded, net of taxes, through OCI in a separate component of equity against the translation differences arising from consolidation to the extent these hedges are effective. The interest portion of derivatives qualifying as hedges of net investment is recognized under financial income and expenses, net.

28 Subsidiaries

Country and company name	Ownership, %
Algeria	
Metso Algeria EURL	100.0%
Argentina	
Metso Argentina SA	100.0%
Australia	
Metso Australia Ltd	100.0%
Austria	
Metso Austria GmbH	100.0%
Brazil	
Metso Brazil Indústria e Comércio Ltda	100.0%
Canada	
Metso Flow Control Canada Ltd	100.0%
Metso Minerals Canada Inc.	100.0%
Metso Shared Services Ltd	100.0%
Chile	
Metso Chile SpA	100.0%
China	
Metso (China) Investment Co. Ltd	100.0%
Metso Flow Control (Shanghai) Co. Ltd	100.0%
Metso Minerals (Quzhou) Co. Ltd	100.0%
Metso Minerals (Tianjin) Co. Ltd	100.0%
Metso Minerals (Tianjin) International Trade Co. Ltd	100.0%
Shaoguan City Shaorui Heavy Industries Co. Ltd	75.0%
Czech Republic	
Metso Czech Republic s.r.o.	100.0%
Denmark	
Metso Denmark A/S	100.0%
Finland	
Metso Flow Control Oy	100.0%
Metso Minerals Oy	100.0%
Metso Shared Services Oy	100.0%
Rauma Oy	100.0%
France	
Metso France SAS	100.0%
Germany	
Metso Germany GmbH	100.0%
Metso Mapag GmbH	100.0%
Ghana	
Metso Ghana Ltd	100.0%
India	
Metso India Private Ltd	100.0%
Indonesia	
PT Metso Minerals Indonesia	100.0%
Italy	
Metso Italy S.p.A	100.0%
Japan	
Metso Japan Co. Ltd	100.0%
Kazakhstan	
Metso (Kazakhstan) LLP	100.0%
Lebanon	
Metso Minerals (Lebanon) sarl	100.0%
Mexico	
Metso (Mexico) SA de CV	100.0%
Metso SA de CV	100.0%

Country and company name	Ownership, %
Netherlands	
Metso Benelux B.V.	100.0%
Norway	
Metso Norway A/S	100.0%
Peru	
Metso Perú SA	100.0%
Poland	
Metso Poland Sp.z.o.o	100.0%
Portugal	
Metso Automation Portugal Lda	100.0%
Metso Minerals (Portugal) Lda	100.0%
Qatar	
Metso Automation Qatar LLC [1)]	49.0%
Russia	
OOO Metso	100.0%
Saudi Arabia	
Metso Plant Saudi Arabia LLC	70.0%
Singapore	
Metso Asia Pacific Pte Ltd	100.0%
South Africa	
Metso Mining and Construction (South Africa) Pty Ltd	74.9%
Metso South Africa Pty Ltd	100.0%
South Korea	
Metso Korea Co. Ltd	100.0%
Spain	
Forjas del Guadalquivir, S.L.U	100.0%
Metso Espana SA	100.0%
Metso Spain Holding, S.L.U	100.0%
Santa Ana de Bolueta Grinding Media, S.A.U	100.0%
Sweden	
Metso Sweden AB	100.0%
Thailand	
Metso (Thailand) Co. Ltd [1)]	48.4%
Turkey	
Metso Minerals Anonim Sirketi	100.0%
Ukraine	
LLC Metso Ukraine	100.0%
United Arab Emirates	
Metso Flow Control LLC [1)]	49.0%
Metso FZE (Dubai)	100.0%
United Kingdom	
Metso Captive Insurance Limited	100.0%
Metso UK Ltd	100.0%
United States	
Metso Flow Control USA Inc.	100.0%
Metso Minerals Industries Inc.	100.0%
Metso USA Inc.	100.0%
Neles-Jamesbury Inc.	100.0%
Vietnam	
Metso Vietnam Co. Ltd	100.0%
Zambia	
Metso Zambia Ltd	100.0%
Zimbabwe	
Metso Minerals Zimbabwe PVT Ltd	100.0%

1) Has been 100% consolidated

29 Associated companies, joint ventures and related party transactions

ACCOUNTING PRINCIPLE

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 shareholding is between 20 and 50 percent of the voting rights or if Metso is able to exercise significant influence. Investments in associated companies are initially recognized at cost after which Metso's share of their post-acquisition retained profits and losses is included as part of investments in associated companies in the consolidated balance sheets.

Under the equity method, the share of profits and losses of associated companies and joint ventures is presented separately in the consolidated statements of income.

A joint arrangement is an arrangement of which two or more parties have joint control. In Metso group all the joint arrangements are joint ventures. Investments in joint ventures in which Metso has the power to jointly govern the financial and operating activities of the investee company are accounted for using the equity method. Investments in joint ventures in which Metso has the control on the financial and operating activities of the investee company are consolidated fully and non-controlling interest is recognized.

As at December 31,

EUR million	2016	2015
Investments in associated companies and joint ventures		
Acquisition cost at beginning of year	**2**	5
Translation differences	**-**	0
Increases	**-**	1
Disposals and other decreases	**-**	-4
Acquisition cost at end of year	**2**	2
Equity adjustments in investments in associated companies and joint ventures		
Equity adjustments at beginning of year	**-1**	3
Share of results	**0**	-1
Translation differences	**0**	0
Dividend income	**-**	-
Disposals and other changes	**-**	-3
Equity adjustments at end of year	**-1**	-1
Carrying value of investments in associated companies and joint ventures at end of year	**1**	1

As at December 31,

	2016		2015	
EUR million	**Ownership**	**Carrying value**	Ownership	Carrying value
Liugong Metso Construction Equipment (Shanghai) Co. Ltd	**50.0%**	**1**	50.0%	1
Others	**-**	**0**	-	0
Total investments in associated companies and joint ventures	**-**	**1**	-	1

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

Year ended December 31,

EUR million	2016	2015
Assets	**3**	3
Liabilities	**2**	2
Sales	**1**	1
Profit	**0**	-1

Related party transactions

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

Year ended December 31,

EUR million	2016	2015
Sales	**2**	0
Purchases	**-1**	0
Receivables	**2**	2
Payables	**-**	-

30 Acquisitions and business disposals

Acquisitions

Metso made no business acquisitions during 2016 or 2015.

Disposals

2016

Metso made no business disposals in 2016.

2015

On April1, 2015 Metso closed the disposal of Process Automation Systems (PAS) business. The PAS business included process automation solutions for the pulp, paper and power industries, covering automation and quality control systems, analyzers and measurements and related services and was reported in Metso's Flow Control segment.

The final cash consideration was EUR 312 million. The net assets of the entity disposed of were EUR 52 million, direct transaction costs were EUR 6 million and related cumulative translation adjustments were EUR 1 million, whereby Metso booked a gain of EUR 252 million on the transaction.

Disposed balance sheet items as at April 1, 2015:

EUR million	
Non-current assets	
Goodwill	13
Other intangible assets	3
Tangible assets	22
Investments in associated companies	8
Deferred tax assets	17
Other non-current assets	0
Total non-current assets	**63**
Current assets	
Inventories	44
Trade and other receivables	59
POC receivables	56
Other current receivables	1
Cash and cash equivalents	48
Total current assets	**208**
Non-current liabilities	
Post employment benefit obligations	4
Provisions	3
Deferred tax liability	0
Other non-current liabilities	0
Total non-current liabilities	**7**
Current liabilities	
Short term debt	65
Trade and other payables	50
Provisions	8
Advances received	70
POC liabilities	13
Other current liabilities	3
Total current liabilities	**209**
Net assets of disposed business	**55**
Consideration received in cash	312
Net assets of disposed business	-55
Transaction costs	-6
Cumulative translation difference	1
Gain on disposal	**252**
Consideration received in cash	312
Transaction costs	-6
Cash and cash equivalents disposed of	-48
Income tax relating to divestment	-10
Debt repayments at disposal	57
Net cash inflow on disposal	**305**

31 New accounting standards

New and amended standards adopted 2016

IAS 1

The Amendments to IAS 1 Disclosure Initiative clarifies the existing IAS 1 disclosure requirements for the statement of financial position, profit and loss account and Other Comprehensive Income (OCI). Metso has applied this amendment from the beginning of 2016 and it had no major impact to its financial statements.

Annual Improvements 2012–2014 Cycle

Metso has applied the required annual improvements related to IFRS 5 Non-current assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting from the beginning of 2016 and they had no major impact to its financial statements.

New and amended standards to be applied

IFRS 15

New IFRS 15 standard Revenue from Contracts with Customer replaces existing standards related to revenue recognition, IAS 18 ’Revenue ’and IAS 11’Construction Contracts’. The new standard will be applied to all contracts with customers, which justify an entity to receive the considerations against the promised transfer of goods or services. Revenue will be recognized when the control of goods or services are transferred to the customer. When applying the new standard an entity needs to assess whether the revenue will be recognized over time or at a point in time. Also, the effect of the variable considerations and the value of money to the transaction price need to be assessed.

Currently Metso’s revenue is recognized though percentage of completion method in engineered system projects and long-term service contracts and at the delivery in sales of goods and short-term services contracts. Metso’s management, supported by external professionals, has assessed the impact of IFRS 15 to the client contracts of the main revenue streams; engineered system deliveries, service contracts, delivery contracts of valves and pumps and distributor contracts. The assessment followed the five step model of IFRS 15 and covered e.g. analysis of performance obligations promised, transaction price components and allocation of price, as well as Metso’s right to payment of performance completed. Criteria to meet the performance obligations satisfied over time or at point in time were in the focus of the assessment.

IFRS 15 is not expected to have a significant impact on timing of revenue recognition nor to the presentation of Metso’s balance sheet. Minor reducing impact to reported sales will be caused by late delivery penalties of contracts being charged against revenue in the future instead of being expensed as they are currently. Furthermore, IFRS 15 will require in Metso some further harmonization and standardization of customer contracts in business lines and some development actions to the reporting process as well as training to the appropriate personnel. Metso follows the guidance on the adoption of the standard and will apply it fully retrospectively from the beginning of the financial year 2018.

IFRS 9

IFRS 9 standard Financial instruments will replace the current IAS 39. IFRS 9 contains new requirements for the classification and measurement of financial assets and liabilities and the impairment model based on excepted credit losses. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. The new guidance for hedge accounting aligns hedge accounting more closely with risk management. Also IFRS 9 relaxes the requirements for hedge effectiveness and changes what qualifies as a hedged item. IFRS 9 allows hedge accounting for example for risk components of commodities, aggregated exposures, group of items when hedging foreign currency and equity investments. Metso will adopt the standard from the beginning of financial year 2018. Metso is not expecting significant impact of the standard to its financial statements.

IFRS 16

IFRS16 standard Leases will replace the current IAS 17. It covers all leases with certain exceptions. A lease is defined as a contract that conveys right to use an asset for a period of time in exchange for consideration. IFRS 16 requires lessees to account for all leases as finance leases under IAS 17, i.e. to recognize a liability to make lease payments and an asset representing the liability to use an asset during the lease term. Accordingly, the standard requires to recognize in profit and loss separately any depreciation on the right-to-use asset as well as any interest expense on lease liability. Standard includes two recognitions exemptions, leases of low value asset and short-term leases. Lessor accounting is substantially unchanged from current under IAS 17. The new standard requires also additional disclosures. Based on Metso's assessment, the adoption of IFRS 16 will have some impact on reported EBITDA and operating profit, non-current assets and interest bearing liabilities and total balance sheet values as well as on related key figures. The change will affect also the presentation of cash flows from operating activities and from financing activities. As at December 31, 2016 Metso's operating lease commitments amounted to EUR 140 million. Metso will apply the new standard from the beginning of the financial year 2019.

IAS 7 - Amendment

Disclosure initiative - amendment to IAS 7 Statement of Cash Flows. The amendment requires entities to provide disclosures about changes in financial liabilities, including changes arising both from cash flows and non-cash flows, such as foreign exchange gains or losses. Metso will apply the amendment from the beginning of the financial year 2017.

IAS 12 - Amendment

Recognition of deferred tax assets for unrealized losses – Amendment to IAS 12. The amendment clarifies the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. Entity needs to consider and determine, whether tax laws have restrictions to utilize unrealized losses as a deduction against the taxable income. Metso will apply the standard from the beginning of the financial year 2017.

IFRS 2 - Amendment

Classification and Measurement of Share-based Payment Transactions – amendments to IFRS 2. The amendment is narrow in scope and clarifies the classification and measurement of cash-settled share base payments. Metso will apply the amendment from the beginning of the financial year 2018.

IFRIC 22

IFRIC 22 Foreign Currency Transactions and Advance Consideration. This new interpretation gives guidance on the practice regarding the exchange change rate used when the transactions are denominated in foreign currency in circumstances in which consideration, both monetary and non-monetary, are received or paid in advance. Both monetary and non-monetary transactions are recorded using the exchange rate of the transaction date. Metso does not expect that adoption of this interpretation will have a major effect on it's financial statements. Metso will apply the interpretation from the beginning of the financial year 2018.

There are no other IFRS standards, amendments to standards and IFRIC interpretations that are not yet effective that would be expected to have an impact on Metso's reporting.

32 Exchange rates used

		Average rates		Year-end rates	
		2016	2015	**2016**	2015
USD	(US dollar)	**1.1021**	1.1130	**1.0541**	1.0887
SEK	(Swedish krona)	**9.4496**	9.3414	**9.5525**	9.1895
GBP	(Pound sterling)	**0.8159**	0.7284	**0.8562**	0.7340
CAD	(Canadian dollar)	**1.4630**	1.4236	**1.4188**	1.5116
BRL	(Brazilian real)	**3.8571**	3.7024	**3.4305**	4.3117
CNY	(Chinese yuan)	**7.3199**	6.9924	**7.3202**	7.0608
AUD	(Australian dollar)	**1.4856**	1.4836	**1.4596**	1.4897

E Other notes

33 Audit fees

	Year ended December 31,	
EUR million	**2016**	2015
Audit services	**-1.8**	-1.9
Tax services	**-0.4**	-0.5
Other services	**-0.5**	-0.6
Total	**-2.7**	-3.0

34 Lawsuits and claims

Several lawsuits, legal claims and disputes based on various grounds are pending against Metso in various countries related, among other things, to Metso's products, projects, other operations, customer receivables and bankruptcy proceedings. Metso's management assesses, however, to the best of its present understanding that the outcome of these lawsuits, claims and legal disputes would not have a material adverse effect on Metso in view of the grounds presented for them, provisions made, insurance coverage in force and the extent of Metso's total business activities.

Pending asbestos litigation

On December 31, 2016 there were 279 pending litigation cases filed in the United States in relation to asbestos injuries in which a Metso entity is one of the named defendants. Metso management's present belief is that the risk caused by the pending asbestos litigation cases in the United States is not material in the context of Metso's total business operations.

Parent Company Financial Statements

Parent Company Statement of Income, in accordance with Finnish Accounting Standards, FAS

Year ended December 31,

EUR	Note	2016	2015
Sales		**14,627,405.10**	13,924,346.59
Other operating income	2	**4,318,148.15**	245,706,382.68
Personnel expenses	3	**-11,774,135.94**	-14,093,221.77
Depreciation and amortization	4	**-538,750.27**	-514,260.87
Other operating expenses		**-26,430,038.51**	-29,701,111.90
Operating profit (loss)		**-19,797,371.47**	215,322,134.73
Financial income and expenses, net	6	**149,569,739.07**	294,526,659.35
Profit before appropriations and taxes		**129,772,367.60**	509,848,794.08
Appropriations	7	**41,798,000.00**	36,374,000.00
Profit before taxes		**171,570,367.60**	546,222,794.08
Income taxes	8		
Current tax expense		**-5,537,214.66**	-2,475,187.67
Change in deferred taxes		**-84,572.71**	63,952.26
Profit for the year		**165,948,580.22**	543,811,558.67

Parent Company Balance Sheet, FAS

Assets

As at December 31,

EUR	Note	2016	2015
Non-current assets			
Intangible assets	9	**1,293,534.52**	870,586.71
Tangible assets	9	**857,638.72**	825,685.19
Investments			
Shares in Group companies	10	**609,680,377.77**	622,815,014.43
Other investments	10	**442,358,117.97**	591,671,967.03
Total non-current assets		**1,054,189,668.98**	1,216,183,253.36
Current assets			
Long-term receivables	12	**9,098,898.11**	1,127,899.15
Short-term receivables	12	**459,711,350.11**	474,535,623.05
Securities		**235,000,000.00**	110,998,907.39
Bank and cash		**316,114,425.72**	315,335,388.86
Total current assets		**1,019,924,673.94**	901,997,818.45
Total assets		**2,074,114,342.92**	2,118,181,071.81

Shareholders' equity and liabilities

As at December 31,

EUR	Note	2016	2015
Shareholders' equity	13		
Share capital		**140,982,843.80**	140,982,843.80
Fair value reserve		**-1,275,000.00**	-
Invested non-restricted equity fund		**367,651,071.91**	367,651,071.91
Retained earnings		**392,544,925.98**	6,217,132.21
Profit for the year		**165,948,580.22**	543,811,558.67
Total shareholders' equity		**1,065,852,421.91**	1,058,662,606.59
Provisions	14	**-**	12,561.55
Liabilities			
Long-term liabilities	15	**786,882,641.52**	789,166,007.05
Current liabilities	16	**221,379,279.49**	270,339,896.62
Total liabilities		**1,008,261,921.01**	1,059,505,903.67
Total shareholders' equity and liabilities		**2,074,114,342.92**	2,118,181,071.81

Parent company statement of cash flows

	Year ended December 31,	
EUR thousand	2016	2015
Cash flows from operating activities:		
Profit for the year	**165,949**	543,812
Adjustments to operating profit (loss)		
Depreciation and amortization	**539**	514
Financial income and expenses, net	**-149,570**	-294,527
Gains (+) / losses (-) on sale, net	**-4,289**	-245,655
Group contributions	**-41,798**	-36,374
Taxes	**5,622**	2,411
Other non-cash items	**-13**	-448
Total adjustments to operating profit (loss)	**-189,509**	-574,079
Increase (-) / decrease (+) in short-term non-interest bearing trade receivables	**1,587**	-26,995
Increase (+) / decrease (-) in short-term non-interest bearing debt	**-18,049**	32,415
Change in working capital	**-16,461**	5,420
Interest and other financial expenses paid	**-20,076**	-51,851
Dividends received	**151,910**	290,848
Interest received	**2,055**	2,271
Income taxes paid	**-4,104**	416
Net cash provided by operating activities	**89,762**	216,837
Cash flows from investing activities:		
Investments in tangible and intangible assets	**-1,371**	-637
Proceeds from sale of tangible and intangible assets	**629**	0
Long-term loans granted	**-32,329**	-
Repayments of long-term loans	**173,018**	23,841
Short-term loans granted	**-33,228**	-45,562
Repayments of short-term loans	**0**	129,701
Purchase of other investments	**-166,034**	-168,634
Proceeds from sale of investments	**17,550**	312,000
Interest received from investments	**36,050**	39,345
Dividends received from investments	**0**	0
Net cash used in investing activities	**-5,716**	290,054
Cash flows from financing activities:		
Change in treasury shares	**-**	2,650
Withdrawals (+) and instalments (-) of short-term loans, net	**20,860**	-56,257
Withdrawal of long-term loans	**-**	8,387
Repayments of long-term loans	**-6,701**	-
Dividends paid	**-157,484**	-217,477
Change in Group pool accounts	**23,684**	-78,808
Group contributions	**36,374**	46,953
Net cash provided by (+) / used in (-) financing activities	**-83,267**	-294,552
Net increase (+) / decrease (-) in bank and cash	**779**	212,339
Bank and cash at beginning of year	**315,335**	102,996
Bank and cash at end of year	**316,114**	315,335

Notes to the Parent company, FAS

1 Accounting principles

The parent company financial statements have been prepared in accordance with the Finnish Generally Accepted Accounting Principles. The parent company has adopted in 2016 the Finnish Accounting Act 5:2a § and valued financial instruments and the hedging derivatives at fair value according to IFRS standards. Accordingly, the financial statements are not comparative with the previous year in this regard.

Tangible and intangible assets

Tangible and intangible assets are valued at historical cost, less accumulated depreciation according to plan. Land and water areas are not depreciated.

Depreciation and amortization is calculated on a straight-line basis over the expected useful lives of the assets as follows:

Computer software	3–5 years
Other intangibles	10 years
Buildings and structures	20–25 years
Machinery and equipment	3–5 years
Other tangible assets	20 years

Financial Instruments

Metso's financial risk management is carried out by a central treasury department (Group Treasury) under the policies approved by the Board of Directors. Group Treasury functions in co-operation with the operating units to minimize financial risks in both the Parent Company and the Group.

Long-term debt is initially recognized at fair value, net of transaction costs incurred. In subsequent periods, they are valued at amortized cost using the effective interest rate method. Debts, which are hedged with a fair value hedge are recognized at fair value through the profit and loss, unrealized adjustment is presented in hedge reserve. Transaction costs arising from issuance of bonds are recognized over the life of the bond using the effective yield method. The unrecognized portion as of the balance sheet date is presented as a decrease in liabilities.

Forward exchange contracts are measured at fair value. The change in fair value is recognized as income or expense in the income statement. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

Other financial instruments are measured at historical cost, less possible impairment loss.

Deferred taxes

A deferred tax liability or asset has been determined for all temporary differences between the tax bases of assets and liabilities and their amounts in financial reporting, using the enacted tax rates effective for the future years. The deferred tax liabilities are recognized in the balance sheet in full, and the deferred tax assets are recognized when it is probable that there will be sufficient taxable profit against which the asset can be utilized.

2 Other operating income

Year ended December 31,

EUR thousand	2016	2015
Gain on disposal of shares	**4,231**	245,641
Gain on sale of fixed assets	**59**	14
Other	**28**	51
Total	**4,318**	245,706

3 Personnel expenses

Year ended December 31,

EUR thousand	2016	2015
Salaries and wages	**-9,345**	-11,862
Pension costs	**-1,959**	-1,769
Other indirect employee costs	**-470**	-462
Total	**-11,774**	-14,093

Year ended December 31,

EUR thousand	2016	2015
Fringe benefits	**236**	273

Remuneration paid to management:

Year ended December 31,

EUR thousand	2016	2015
Chief Executive Officer	**-744**	-1,245
Board members [1]	**-644**	-576
Total	**-1,388**	-1,821

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

Number of personnel:

Year ended December 31,

EUR thousand	2016	2015
Personnel at end of year	**101**	108
Average number of personnel during the year	**103**	108

4 Depreciation and amortization

Depreciation and amortization expenses consist of the following:

Year ended December 31,

EUR thousand	2016	2015
Buildings and structures	**-30**	-223
Machinery and equipment	**-104**	-91
Other tangible assets	**-169**	0
Intangible assets	**-236**	-200
Total	**-539**	-514

5 Audit fees

Year ended December 31,

EUR thousand	2016	2015
Audit services	**-694**	-346
Tax services	**-122**	-39
Other services	**-90**	-421
Total	**-906**	-806

6 Financial income and expenses

EUR thousand	2016	2015
	Year ended December 31,	
Dividends received from		
Group companies	**151,905**	290,843
Others	**6**	5
Total	**151,911**	290,848
Interest income from investments from		
Group companies	**35,695**	39,715
Others	**808**	931
Total	**36,503**	40,646
Other interest and financial income from		
Others	**158**	345
Exchange rate differences	**925**	-
Interest and financial income, total	**189,497**	331,839
Interest expenses to		
Group companies	**-448**	-1,719
Others	**-37,288**	-35,422
Other financial expenses		
Fair value change in derivatives	**-2,191**	-
Exchange rate differences	**-**	-171
Interest and other financial expenses, total	**-39,927**	-37,312
Financial income and expenses, net	**149,570**	294,527

7 Appropriations

EUR thousand	2016	2015
	Year ended December 31,	
Group contributions received	**41,798**	36,374

8 Income taxes

EUR thousand	2016	2015
	Year ended December 31,	
Income taxes on operating activities	**-4,344**	-2,475
Income taxes fo prior years	**-1,193**	-2
Change in deferred taxes	**-85**	64
Total	**-5,622**	-2,411

9 Fixed assets

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2016							
Acquisition cost at the beginning of year	5,088	160	747	1,083	381	2,371	7,459
Additions	903	-	-	468	-	468	1,371
Decreases	-1,817	-4	-	-765	- 63	-832	-2,649
Acquisition cost at end of year	4,174	156	747	786	318	2,007	6,181
Accumulated depreciation at the beginning of year	-4,217	-	-627	-887	-31	-1,545	-5,762
Accumulated depreciation of decreases	1,573	-	-	697	1	698	2,271
Depreciation for the period	-236	-	-30	-104	-169	-303	-539
Accumulated depreciation at end of year	-2,880	-	-657	-294	-199	-1,150	-4,030
Net carrying value at end of year	**1,294**	**156**	**90**	**492**	**119**	**857**	**2,151**

EUR thousand	Intangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Tangible assets total	Total
2015							
Acquisition cost at the beginning of year	4,752	1,995	36,442	5,569	367	44,373	49,125
Additions	586	-	-	37	14	51	637
Decreases	- 250	-1 835	-35 695	-4,523	-	-42,053	-42,303
Acquisition cost at end of year	5,088	160	747	1,083	381	2,371	7,459
Accumulated depreciation at the beginning of year	-4,268	-	-20,377	-5,270	-31	-25,678	-29,946
Accumulated depreciation of decreases	251	-	19 973	4,474	-	24,447	24,698
Depreciation for the period	-200	-	-223	-91	0	-314	-514
Accumulated depreciation at end of year	-4,217	-	-627	-887	-31	-1,545	-5,762
Net carrying value at end of year	**871**	**160**	**120**	**196**	**350**	**826**	**1,697**

10 Investments

EUR thousand	Shares in Group companies	Other shares	Receivables from Group companies	Receivables from other companies	Other investments total
2016					
Acquisition cost at beginning of the year	622,815	1,161	580,815	9,696	591,672
Additions	-	-15	32,329	-	32,314
Decreases	-13,135	-169	-172,803	-8,656	-181,628
Acquisition cost at end of the year	609,680	977	440,341	1,040	442,358
Net carrying value at end of the year	**609,680**	**977**	**440,341**	**1,040**	**442,358**
2015					
Acquisition cost at beginning of the year	666,147	1,161	605,918	8,040	615,119
Additions	20,827	0	89,149	1,656	90,805
Decreases	-64,159	0	-114,252	0	-114,252
Acquisition cost at end of the year	622,815	1,161	580,815	9,696	591,672
Net carrying value at end of the year	**622,815**	**1,161**	**580,815**	**9,696**	**591,672**

11 Shareholdings

Subsidiaries

	Domicile	Ownership %
Metso Shared Services Oy	Finland, Helsinki	100.0
Metso Flow Control Canada Ltd	Canada, St. Laurent	100.0
Metso Shared Services Ltd	Canada, Lachine	100.0
Metso Captive Insurance Limited	Great Britain, Guernsey	100.0
Metso (China) Investment Co. Ltd	China, Shanghai	100.0
Metso Flow Control Oy	Finland, Helsinki	100.0
Metso Minerals Oy	Finland, Helsinki	100.0
Metso Minerals Canada Inc.	Canada, Belleville	100.0
Metso France SAS	France, Macon	100.0
Metso USA Inc.	USA, Duluth	100.0
Rauma Oy	Finland, Helsinki	100.0

12 Specification of receivables

Long-term receivables

EUR thousand	2016	2015
	As at December 31,	
Deferred tax asset	**402**	168
Derivatives	**8,129**	-
Long-term receivables from others	**568**	960
Long-term receivables total	**9,099**	1,128

Short-term receivables

EUR thousand	2016	2015
	As at December 31,	
Trade receivables from		
Group companies	**30,517**	33,049
Others	**54**	91
	30,571	33,140
Loan receivables from		
Group companies	**238,087**	290,917
Others	**9,083**	250
	247,170	291,167
Prepaid expenses and accrued income from		
Group companies	**47,663**	44,157
Others	**24,099**	34,289
	71,762	78,446
Other receivables		
Investments	**109,583**	67,550
VAT receivable	**595**	4,213
Other receivables	**30**	20
	110,208	71,783
Short-term receivables total	**459,711**	474,536

Specification of prepaid expenses and accrued income

EUR thousand	2016	2015
	As at December 31,	
Prepaid expenses and accrued income from Group companies		
Group contribution receivables	**41,798**	36,374
Accrued interest income	**3,907**	4,948
Other accrued items	**1,958**	2,835
Total	**47,663**	44,157
Prepaid expenses and accrued income from others		
Accrued interest income	**514**	917
Accrued derivatives	**7,871**	5,489
Other accrued items	**15,714**	27,883
Total	**24,099**	34,289

13 Shareholders' equity

EUR thousand	2016	2015
Share capital at beginning of the year	**140,982**	140,982
Share capital at end of the year	**140,982**	140,982
Fair value reserve beginning of the year	**-**	-
Change	**-1,275**	-
Fair value reserve	**-1,275**	-
Invested non-restricted equity fund at beginning of th year	**367,651**	365,790
Other change	**-**	1,861
Invested non-restricted equity fund at end of the year	**367,651**	367,651
Retained earnings at beginning of the year	**550,030**	222,906
Dividend distribution	**-157,485**	-217,477
Other change	**-**	789
Retained earnings at end of the year	**392,545**	6,218
Profit for the year	**165,949**	543,812
Total shareholders' equity at end of the year	**1,065,852**	1,058,663

Distributable funds at December 31

EUR	2016	2015
Fair value reserve	**- 1,275,000.00**	-
Invested non-restricted equity fund	**367,651,071.91**	367,651,071.91
Retained earnings	**392,544,925.98**	6,217,132.21
Profit for the year	**165,948,580.22**	543,811,558.67
Total distributable funds	**924,869,578.11**	917,679,762.79

At the end of the year, Metso Oyj held 363,718 treasury shares, the acquisition price of which, EUR 8,312,138.40 has been deducted from retained earnings.

14 Provisions

EUR thousand	2016	2015
Provision for restructuring	-	13

15 Long-term liabilities

As at December 31,

EUR thousand	2016	2015
Bonds from [1]		
Others	**569,069**	569,222
Loans from financial institutions	**212,798**	211,557
Loans from Group companies	**-**	8,387
Derivatives	**5,016**	-
Total	**786,883**	789,166

1) Specification of bonds in note 25 for Consolidated Financial Statements.

Debt maturing later than in five years' time

As at December 31,

EUR thousand	2016	2015
Bonds	**100,000**	100,000

16 Short-term liabilities

As at December 31,

EUR thousand	2016	2015
Trade payables to		
Group companies	**23,499**	33,944
Others	**2,398**	1,654
Total	**25,897**	35,598
Accrued expenses and deferred income to		
Group companies	**179**	158
Others	**29,908**	15,548
Total	**30,087**	15,706
Other short-term interest bearing debt to		
Group companies	**53,747**	40,881
Group pool accounts	**111,359**	177,847
Total	**165,106**	218,728
Other short-term non-interest bearing debt to		
Others	**289**	308
Total	**289**	308
Short-term liabilities total	**221,379**	270,340
Short-term liabilities to Group companies total	**188,784**	252,830

Specification of accrued expenses and deferred income

As at December 31,

EUR thousand	2016	2015
Accrued expenses and deferred income to Group companies		
Accrued interest expenses	**130**	136
Other accrued items	**49**	22
Total	**179**	158
Accrued expenses and deferred income to others		
Accrued interest expenses	**5,843**	6,125
Accrued derivatives	**20,756**	6,803
Accrued salaries, wages and social costs	**2,436**	2,620
Other accrued items	**873**	0
Total	**29,908**	15,548

17 Other contingencies

Guarantees

EUR thousand	2016	2015
	As at December 31.	
Guarantees on behalf of subsidiaries	**264,818**	349,905

Lease commitments

EUR thousand	2016	2015
	As at December 31.	
Payments in the following year	**1,148**	179
Payments later	**5,876**	135
Total	**7,024**	314

List of account books used in parent company

	Voucher class	
General journal and general ledger		in electronic format
Specifications of accounts receivable and payable		in electronic format
Bank vouchers	16, 42	in electronic format
Sales invoices	RV, 11	in electronic format
Purchase invoices	23, 25	in electronic format
Payroll accounting with vouchers	33	in electronic format
Journal entries	01, 02, 31, 46, 51, 52, 59, 64, 66, 79	in electronic format
Journal entries	34, 35	in electronic format
Notes vouchers		in electronic format

Board of Directors’ proposal on the use of profit

On December 31, 2016 the distributable equity of Metso Corporation was:

Fair value reserve	EUR	-1,275,000.00
Invested non-restricted equity fund	EUR	367,651,071.91
Retained earnings	**EUR**	**392,544,925.98**
Net profit for the year	EUR	165,948,580.22
Distributable equity, total	**EUR**	**924,869,578.11**

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.05 per share be paid based on the balance sheet to be adopted for the financial year, which ended December 31, 2016, and that the remaining portion of the profit is retained and included in the Company’s unrestricted equity.

Dividend payment	EUR	157,483,764.90
Distributable equity after dividend payment	**EUR**	**767,385,813.21**

Helsinki, February 2, 2017

Mikael Lilius
Chairman of the Board

Christer Gardell
Vice Chairman of the Board

Wilson Nélio Brumer
Member of the Board

Ozey K. Horton, Jr.
Member of the Board

Lars Josefsson
Member of the Board

Peter Carlsson
Member of the Board

Nina Kopola
Member of the Board

Arja Talma
Member of the Board

Matti Kähkönen
President and CEO

The auditor´s note

Our auditor's report has been issued today.

Helsinki, February 2, 2017
Ernst & Young Oy
Autorisied Public Accountants Firm

Roger Rejström
Autorised Public Accounting

Auditor's Report
(Translation of the Finnish original)

To the Annual General Meeting of Metso Oyj

Report on the Audit of Financial Statements

Opinion
We have audited the financial statements of Metso Oyj (business identity code 1538032-5) for the year ended 31 December, 2016. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion
- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards
- (IFRS) as adopted by the EU.

the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion
We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

1 Revenue recognition of long-term contracts
The accounting principles and disclosures about revenue recognition of long-term contracts are included in Note 3.

Metso's Minerals segment delivers complete installations to its customers, where the moment of signing a sales contract and the final acceptance of a delivery by the customer may take place in different financial periods. In accordance with its accounting principles, Metso applies the percentage-of-completion method ("POC method") for recognizing such fixed price long-term delivery projects. The recognition of revenue and the estimation of the outcome of projects require significant management's judgment, in particular with respect to estimating the stage of completion, cost to complete and the expected time to completion. Significant judgment is required to assess the expected loss when it is expected that the total project costs will exceed the project revenues. In addition, the areas with significant judgment are considered to be more prone to the risk that the assumptions may be deliberately misappropriated. In

year 2016 in total 189 m€ of Metso Minerals segment's sales were recognized using the POC method.

Our audit procedures to address the risk of misstatement in respect of the long-term fixed price contracts included:
- Assessing of the Group's accounting policies over revenue recognition of long-term fixed price contracts. Examination of the project documentation such as contracts, legal opinions and other written communication. Quarterly analytical procedures throughout the audit period.
- Review of financial KPI's, development and current status of projects by
  - comparing the contract to our prior experience with similar contracts,
  - reviewing the changes in estimated revenues, costs and reserves, and
  - discussions with the different levels of organization including project responsible, business management and group management.
- Analyzing key elements in management's estimates such as the future costs to complete and the time necessary to complete the project.
- Evaluating the appropriateness of the Group's disclosures in respect of revenue recognition.

2 Valuation of goodwill
The accounting principles and disclosures about goodwill are included in Note 17.

The annual impairment test was significant to our audit because the assessment process is judgemental, it is based on assumptions relating to market or economic conditions extending to the future, and because of the significance of the goodwill to the financial statements. As of balance sheet date December 31, 2016, the value of goodwill amounted to 452 million euro representing 14 % of the total assets and 31 % of the total equity. The valuation of goodwill is based on the management's estimate about the value-in-use calculations of the cash generating unit. Based on management judgement the cash generating units of Metso are Minerals segment and Flow Control segment. There are a number of assumptions used to determine the value-in-use, including the revenue growth, the operating profit and the discount rate applied on net cash-flows. Estimated values-in-use may vary significantly when the underlying assumptions are changed and the changes in above-mentioned individual assumptions may result in an impairment of goodwill.

Our audit procedures included involving valuation specialists to assist us in evaluating the assumptions and methodologies by comparing the management's assumptions to externally derived data and to our independently calculated industry averages. In particular those relating to

- the forecasted revenue growth,
- the operating profit and
- the weighted average cost of capital used to discount the net cash-flows.

We tested the accuracy of the impairment calculations prepared by the management and compared the sum of discounted cash flows to Metso's market capitalization. In addition, we assessed the sufficiency of the disclosures as well as whether the disclosures about the sensitivity of the impairment assessment are appropriate.

3 Valuation of trade and other receivables

The accounting principles and disclosures about trade and other receivables are included in Note 12.

Valuation of trade and other receivables was significant to our audit because of the significance of trade and other receivables to the financial statements as a whole. As of balance sheet date December 31, 2016, the carrying value of trade and other receivables amounted to 605 million euros, of which 70 million euros were trade receivables overdue for more than 30 days. Carrying value of trade and other receivables is a result of gross receivables, which is netted by a provision for bad debts based on management's judgment. The resulting net value is the carrying value in the balance sheet. Valuation of trade and other receivables at year end requires management to evaluate probability of the recoverability of receivables and to record a provision based on judgment for receivables for which payment is not probable.

On group level we evaluated the valuation methods applied on valuation of trade and other receivables as well as performed quarterly analyses of overdue and undue gross receivable balance development and corresponding movement in bad debt reserve. In addition, we analyzed management's assessment of the recoverability of the most significant aged and overdue receivables considering historical payment patterns, legal opinions as well as recent

communications with the counterparties and dunning procedures. In subsidiaries our audit procedures in connection with the valuation of trade and other receivables included analysis of the aging of receivables as well as evaluation the recoverability of individual aged receivable balances by sending receivable balance confirmation requests and testing of subsequent cash receipts.

4 Income taxes

The accounting principles and disclosures about income taxes are included in Note 9.

Income taxes were significant to our audit because of judgments involved and because the amount of income taxes is material to the financial statements as a whole. Metso's business is international and in the normal course of business Metso makes judgments and estimates in connection with tax issues and tax exposures resulting in the recognition of deferred tax assets and liabilities as well as tax provisions.

We performed audit procedures on the calculation and valuation of current tax and deferred tax. Procedures included assessment of correspondence with tax authorities and evaluation of tax exposures. Our audit procedures on income taxes included involving tax specialists, who assisted us both on group level and in significant components in evaluating the assumptions and methodologies applied by the management.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose' of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast sig-

nificant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our report thereon. We obtained the report of the Board of Directors prior to the date of the auditor's report, and the Annual Report is expected to be made available to us after the date of the auditor's report.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Opinions based on assignment of the Audit Committee

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the President and CEO of the parent company should be discharged from liability for the financial period audited by us.

Helsinki, February 2, 2017
Ernst & Young Oy
Authorized Public Accountant Firm

Roger Rejström
Authorized Public Accountant

Risks and risk management

Risk management's goal is to support the achievement of Metso's strategic targets and business objectives and to ensure the continuity of its operations also in changing circumstances. We believe that the ability to take risks and to manage them effectively is an essential element of business success and shareholder value creation.

We define risks as uncertainties, which, if materialized, can either positively or negatively impact our chances of achieving our goals. So, risk is either an opportunity or a threat to our goals – or a combination of opportunity and threat. We assess the significance of a risk as a combination of probability and impact of the occurrence. Our comprehensive risk management approach emphasizes anticipation of risks and proactive actions accordingly. We strive to execute this approach systematically and in a structured and timely manner. Risk management is embedded in all of our daily operations. Our risk management is established on the requirements of the ISO 31000 standard.

Risk management focus areas in 2016

The key focus area of Metso's risk management is on providing support for the implementation of the Group's strategy.

Health, safety and environment issues are of utmost strategic importance for us. We have a proactive approach to safety and it is integrated in our daily management. In 2016, we put special emphasis on improving the HSE function's management processes to ensure that they contribute to the achievement of our strategic targets. Find more information on HSE issues on page xx of this report.

The development of corporate security-related functions continued. As a part of that work, a large-scale information security improvement project, launched in 2014, continued and the development will carry over into 2017. During 2016 we evaluated the level of safeguarding of Metso's customer relationship management information security.

Our goal for 2016 was to ensure the appropriateness of the terms, limits and conditions of all our insurance programs with Willis Towers Watson, our insurance broker since 2015. A solid level of global insurance policies management was achieved during the year.

A new travel security procedure was implemented in 2016 with our travel security partner, International SOS. Our travel security is supported by a platform connecting us to our travel agencies. It gives us real-time information about where our employees are travelling and what kinds of trips they have planned. We therefore have a good overall understanding of the risks related to our employees' travelling and can proactively prepare for potential threats. The new travel security procedure incorporates the relevant best practices. During 2016 the best practices were actively communicated to our employees by internal training and via digital channels.

To monitor the risk management performance of our units globally, we coordinate and conduct Risk Management Evaluations. The purpose of the evaluation audits is to support our units in finding the best ways to manage risks and provide a forum for sharing best practices throughout the company in all of our risk categories: strategic, financial, operational and hazard risks. For several years we have been merging small legal entities for benefits of scale, and an administrative managing director network covering all of these units has been appointed. This has made our risk management communication significantly more efficient. The Risk Management Evaluations show that the management of all four risk categories, strategic, financial, operational and hazard risks, has improved.

Altogether, six Risk Management Evaluations, ten property damage and business interruption risk engineering audits, six logistics audits, 25 HSE audits, and 15 supplier sustainability audits were carried out during the year. More than half of the units audited include service operations. Altogether, we have over 80 service centers around the world. The efficient operation of these service centers require us to continuously improve operational and hazard risk management. This includes business continuity, and health, safety, and environmental risk management.

Most significant threats and opportunities

We define risks as uncertainties that can be both opportunities for and threats to our business operations and strategy implementation. In our annual risk assessment, we systematically assess the significance and development of various risks.

In the risk assessment for the strategic period of 2017–2020, the most significant factors creating threats and opportunities for Metso are:

1. Maintaining our competitive position and market share.
2. Occurrence of customer credit risks and ability to manage them.
3. Availability of mergers and acquisitions and capacity to utilize them.
4. Ability to ensure sufficient marketing and sales capabilities.
5. Ability to maintain high-level management competence and capability.
6. Maintaining the demand for our products and the continuity of customer relationships.
7. Effects of global and customer industry cycles on meeting our business targets.
8. Ability to manage and develop the customer interface.
9. Occurrence of capital business profitability risks and ability to manage them.
10. Ability to manage the impact of global financial market risks.

The biggest changes in the risk positions of these factors from the previous year have occurred in our ability to maintain high-level management competence and capability, our ability to maintain our competitive position and market share, and our ability to ensure sufficient marketing and sales capabilities.

Goals for 2017

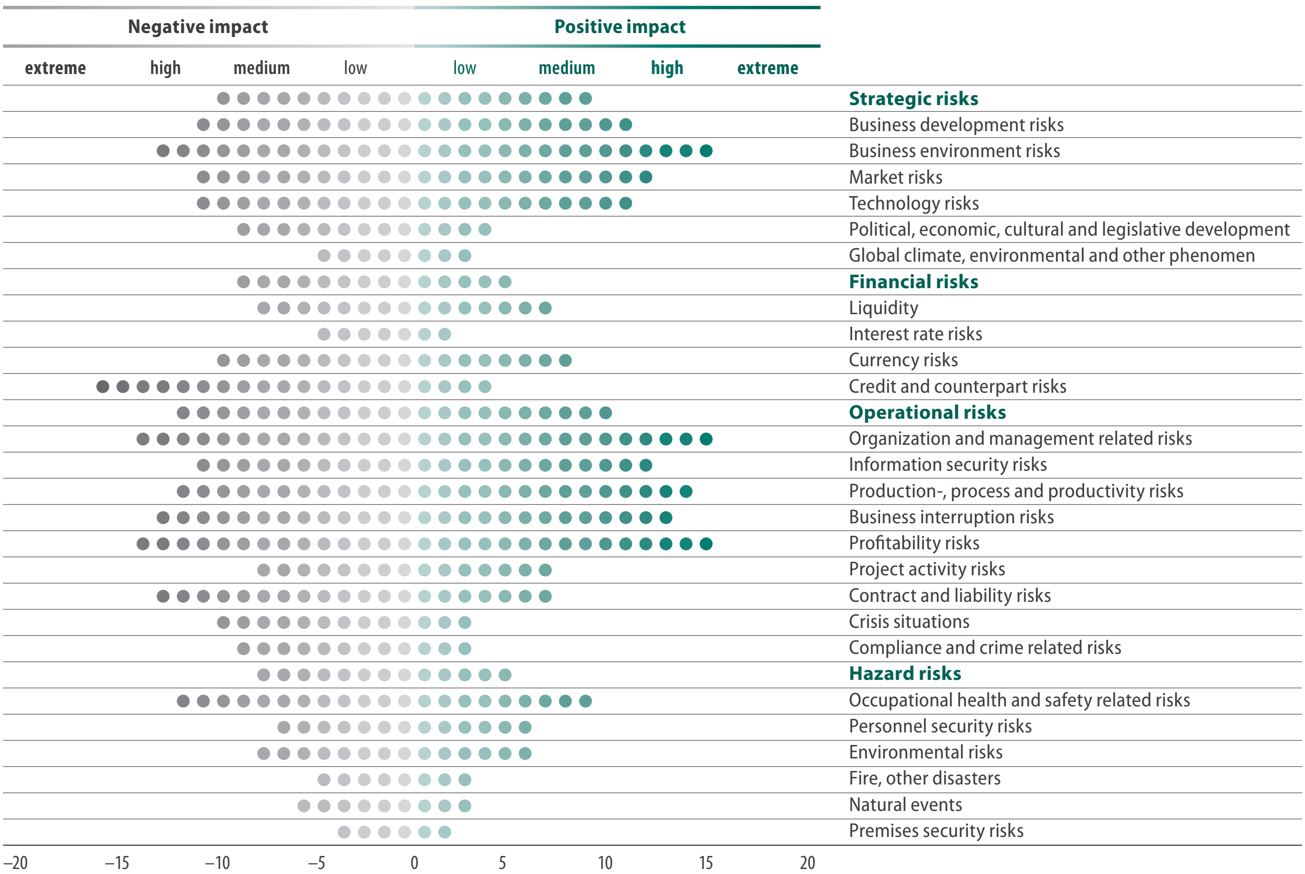
We use risk management to support the achievement of our strategic and business goals and to ensure the continuity of our operations also in changing circumstances. Particular attention is given to the most relevant findings of our annual risk assessment. We continue to focus on proactive measures, securing our operations, limiting adverse impacts and utilizing opportunities.

The focus areas of our risk management work in 2017 include the following:

- Strategic internal cooperation: how risk management can best support the planning and implementation of strategy.
- Improvement of risk management related to logistics risks. These risks are a fundamental part of supply chain risks.
- Support for the improvement of quality assurance processes.
- Issues related to digitalization.
  - Support for the implementation of data protection processes defined by EU Directive 2016/680. This directive establishing a harmonized data protection framework across the EU will apply from May 2018.
  - Safeguarding Metso's Customer Relationship Management information security.
  - Safeguarding the information security of equipment delivered by Metso.
- Improvement of the HSE key performance indicators.
- HSE IT platform development.
- Re-evaluation of information sharing of the Risk Management findings and issues.

Risk management

Average impact risk number



For shareholders

Annual General Meeting

The Annual General Meeting (AGM) of Metso Corporation will be held at 15:00 EET on Thursday, March 23, 2017 at Scandic Marina Congress Center, Katajanokanlaituri 6, 00160 Helsinki. The meeting will be held in Finnish with simultaneous interpretation in English provided.

The reception of persons registered for the meeting and the distribution of voting tickets will begin at 14:00 EET.

Right to attend

Shareholders who are entered as shareholders in Metso's shareholder register by the record date of the AGM, March 13, 2017, have the right to participate in the AGM.

Metso's shareholder register

Metso's shareholder register is maintained by Euroclear Finland Ltd.

Important dates related to the AGM

Record date of the AGM	March 13, 2017
Registration period ends	March 20, 2017 at 10:00 EET
Annual General Meeting	March 23, 2017
Dividend ex-date	March 24, 2017
Record date of dividend payment	March 27, 2017
Date of dividend payment	April 4, 2017

Registration

Shareholders wishing to participate in the AGM should register for it no later than March 20, 2017 at 10:00 EET. The registration can be made either:

1) through website at www.metso.com/agm,
2) by telephone at +358 10 808 300 (weekdays between 8:00 and 18:00 EET),
3) by fax at +358 20 484 101 or
4) by letter to Metso Corporation/AGM, P.O. Box 1220, FI-00101 Helsinki, Finland.

The registration will have to be received by Metso before the registration period ends. All letters and faxes, including authorizing a proxy to exercise a shareholder's voting right, must reach Metso before registration closes at 10:00 EET on March 20, 2017.

In connection with the registration, shareholders are required to provide their name, personal or company identification number, address, telephone number and the name of a possible assistant, authorized representative or statutory representative, as well as the personal identification number of the authorized representative or the statutory representative.

Nominee registered shares

Holders of nominee registered shares have the right to participate in the AGM by virtue of the shares which would entitle them to be registered in Metso's shareholder register on record date of the AGM, March 13, 2017. In addition, the participation requires that these shareholders are temporarily registered in Metso's shareholder register by virtue of these shares no later than March 20, 2017, at 10:00 EET. With respect to nominee registered shares, this constitutes as the registration for the AGM.

Holders of nominee registered shares are advised to request well in advance from their custodian banks the necessary instructions regarding the registration in the shareholders' temporary register, the issuing of proxy documents and participation in the AGM.

Proposal for dividend

The Board of Directors proposes to the AGM that a dividend of EUR 1.05 per share be paid for 2016. The proposed dividend is 121% of the earnings per share. The dividend will be paid to shareholders who are entered in Metso's shareholder register on the record date of the dividend payment, March 27, 2017.

The registration of shareholding generally takes two banking days, which means that the dividend will be paid to those who hold the shares at the close of the date of the AGM, March 23, 2017. Consequently, the dividend on shares traded on the date of the AGM are paid to the buyer of the shares. According to the Board's proposal, the payment of dividend would begin on April 4, 2017.

Dividend policy

According to Metso Corporation's dividend policy, at least 50% of its earnings per share is distributed as dividends taking into account the company's financial position and operating strategy.

Resolutions of the AGM

The resolutions passed at the AGM will be published without delay after the meeting has finished as a stock exchange release. Minutes of the meeting will be available on our website by April 6, 2017, at the latest.

More information about the Annual General Meeting, and the meeting proposals are available on our website at www.metso.com/agm.

Basic share information

Listed on: Nasdaq Helsinki Ltd
Trading code: METSO
ISIN code: FI0009007835
Industry: Industrials
Number of shares on December 31, 2016: 150,348,256
Market capitalization on December 31, 2016: EUR 4,074 million
Listing date: July 1, 1999

Shareholder's change of address

Shareholders are kindly asked to notify changes of address to the bank, brokerage firm or other account operator with which they have a book-entry securities account.

Financial publications

Metso publishes a printed Annual Review and Financial Statements in Finnish and in English. Pdf versions of these reports are also available on our website at www.metso.com.

Our financial reviews and our releases are available in Finnish and English on our website at www.metso.com. Metso's stock exchange releases sent by e-mail, can be ordered at www.metso.com/news.

Publication dates of financial reviews and reports in 2017

Financial statements for 2016	February 3, 2017
Annual Report 2016	Week commencing February 27, 2017 at the latest
Interim review for January–March	April 25, 2017
Half year financial review for January–June	July 20, 2017
Interim review for January–September	October 20, 2017

Board of Directors

December 31, 2016

Mikael Lilius
Chairman of the Board
Born: 1949, Finnish citizen
Education: B.Sc. (Econ.)

Chairman of the Board since December 31, 2013. Member of the Board since March 28, 2013. Chairman of the Board's Remuneration and HR Committee. Independent of the company and of significant shareholders.
Main occupation: Miscellaneous positions of trust

Wilson Nélio Brumer
Member of the Board
Born: 1948, Brazilian Citizen
Education: BA

Member of the Board since 2013. Independent of the company and of significant shareholders.
Main Occupation: Managing Director, B & P Investimentos e Participações

Christer Gardell
Vice Chairman of the Board
Born: 1960, Swedish citizen
Education: M.Sc. (Business Administration and Economics)

Vice Chairman of the Board since 2013. Member of the Board since 2006. Member of the Board's Remuneration and HR Committee. Independent of the company and not independent of significant shareholders.
Main occupation: CEO, Cevian Capital

Ozey K. Horton, Jr.
Member of the Board
Born: 1951, U.S. citizen
Education: MBA, BSE

Member of the Board since 2011. Member of the Board's Remuneration and HR Committee. Independent of the company and of significant shareholders.
Main occupation: Board professional, independent advisor

Lars Josefsson
Member of the Board
Born: 1953, Swedish citizen
Education: M.Sc. (Eng. Physics)

Member of the Board since 2013. Member of the Board's Audit Committee. Independent of the company and of significant shareholders.
Main occupation: Independent consultant

Arja Talma
Member of the Board
Born: 1962, Finnish citizen
Education: M.Sc. (Finance), eMBA

Member of the Board since 2016. Chairman of the Board's Audit Committee. Independent of the company and of significant shareholders.
Main occupation: Board professional

Nina Kopola
Member of the Board
Born: 1960, Finnish citizen
Education: M.Sc. (Chemical Eng.), Technology Licentiate

Member of the Board since 2013. Member of the Board's Audit Committee. Independent of the company and of significant shareholders.
Main occupation: President and CEO, Suominen Corporation

Peter Carlsson
Member of the Board
Born: 1970, Swedish citizen
Education: M.Sc. (Economics, Production & Quality Control)

Member of the Board since 2016. Independent of the company and of significant shareholders.
Main occupation: Angel investor, advisor and entrepreneur

Read more

These are summaries of the Board of Directors CV's. Read full CV's online on
> metso.com/board

Executive Team

December 31, 2016

Matti Kähkönen
President and CEO
Born: 1956, Finnish citizen
Education: M.Sc. (Eng.)

President and CEO since 2011. Joined the company in 1980. **Key experience:** President, Mining and Construction Technology, 2008–2011; President, Minerals, 2006–2008; President, Automation, 2001–2006.

Eeva Sipilä
Chief Financial Officer
Born: 1973, Finnish citizen
Education: M.Sc. (Econ.), CEFA

Member of the Executive Team since 2016. Joined the company in 2016.
Key experience: CFO of Cargotec Corporation from 2008–2016 and Senior Vice President, Investor Relations and Communications, 2005–2008. From 2002–2005 she worked for Metso as Vice President, Investor Relations.

João Ney Colagrossi
President, Minerals Capital
Born: 1955, Brazilian citizen
Education: Metallurgical Engineering, Business Administration

Member of the Executive Team since 2013. Joined the company in 1979.
Key experience: President, Minerals, 2014; President, Mining and Construction, 2014; President, Service Business Line, 2009–2013.

Perttu Louhiluoto
President, Minerals Services
Born: 1964, Finnish citizen
Education: Master of Laws, M.Sc. (Econ)

Member of the Executive Team in 2009 and since 2011. Joined the company in 2008.
Key experience: President, Flow Control, 2014–2015; President, Automation, 2012–2014; President, Energy and Environmental Technology, 2009–2011.

John Quinlivan
President, Flow Control
Born: 1961, U.S. citizen
Education: B.S. Mechanical Engineering

Member of the Executive Team since 2015. Joined the company in 1989.
Key experience: Senior Vice President, Global Operations, Flow Control and Automation, 2012–2015. President of Metso Automation, North America, 2004–2012.

Merja Kamppari
Senior Vice President, Human Resources
Born: 1958, Finnish citizen
Education: M.Sc. (Econ.)

Member of the Executive Team since 2011. Joined the company in 2009.
Key experience: Head of Operational Excellence, HR, 2008-2009, Head of Global HR, 2007–2008, Nokia Siemens Networks; Various senior HR positions, Nokia Networks, 1994–2007.

Jani Puroranta
Chief Digital Officer
Born: 1974, Finnish citizen
Education: M.Sc. Economics, MBA (INSEAD)

Member of the Executive Team since 2016. Joined Metso in 2016.
Key experience: Jani Puroranta worked as Director for R&D and Product Strategy at the IT consulting firm Bilot, 2014–2016, and as Managing Director and CEO at Alekstra, 2011–2013.

Olli-Pekka Oksanen
Senior Vice President, Strategy and Business Development
Born: 1979, Finnish citizen
Education: M.Sc. Economics

Member of the Executive Team since 2016. Joined the company in 2010.
Key experience: Various positions in strategy and business development in Metso since 2010. Previously responsible for corporate development at Finnlines Plc.

Urs Pennanen
Senior Vice President, Customer and Marketing Operations
Born: 1966, Finnish citizen
Education: M.Sc. in Technology (Industrial Management)

Member of the Executive Team since 2016. Joined Metso in 2013.
Key experience: SVP, APAC Sales & Services, Metso Automation in India, 2013. In 2014, he was appointed SVP, Customer and Marketing Operations.

Read more

These are summaries of the Metso Executive Team's CV's. Read the full CV's online on
› metso.com/management

Investor Relations

The main task of Metso's Investor Relations is to support the correct valuation of Metso's share by providing up-to-date information on matters concerning the company's operations, operating environment, strategy, objectives and financial situation.

Providing up-to-date and reliable information about the company

We regularly gather and analyze market information and investor feedback for use by top management and the Board of Directors. Our goal is to provide correct, adequate and current information regularly and impartially to all market participants. In our work, we aim for promptness, transparency and excellent service.

Investor Relations is responsible for investor communications and for daily contact with representatives of capital markets and the financial media. All investor meeting requests are processed centrally through Investor Relations. In addition to financial reports and actively updated internet pages, Metso's investor communications involve investor meetings and seminars in which corporate executives actively participate. We also arrange Capital Markets Day events.

Outlook and guidance

In conjunction with the publication of our Financial Statements Review for 2015, Metso announced the discontinuation of a financial guidance. Instead of providing numerical details, Metso aims to comment on the business outlook, invoicing, adjustment items, capital expenditure and financial costs in a more standardized and detailed manner.

Development of the Investor Relations webpage

In 2016, Investor Relations continued to develop investors webpages that were launched in 2015. The Investor front page was renewed in order to enable easier navigation and event promotion. Site visitors can now easily access the latest news and reports from the renewed front page (www.metso.com/investors). We also launched a "Sustainability for investors" page that provides useful details regarding our sustainability work and parameters for measuring the progress in this field. Metso's Investor Relations, also initiated a blog for investors. The blog is a good way for investors and stakeholder to stay tuned to the latest news and the themes that are discussed in our investor meetings.

Silent period

During the 21-day period prior to publication of the annual or interim financial results, we are not in contact with capital market representatives. At other times, we are happy to answer the inquiries of analysts and investors by phone, email or at arranged investor meetings.

IR activity in 2016

In 2016 the Investor Relations team hosted 225 investor meetings and held 30 pre-scheduled conference calls. We participated in 14 roadshows in Boston, Chicago, Copenhagen, Edinburgh, Frankfurt, London, Munich, New York, Oslo, Paris, Stockholm and Toronto. We attended five investor seminars in Copenhagen, London and Stockholm. Metso's Investor Relations and business professionals also met with investors at the world's largest mining seminar, MINExpo 2016, in Las Vegas. Metso held two presentations for Finnish private investors and four post-results presentations for Finnish analysts and investors. Metso hosted site visits in Seoul (Korea), and in Tampere and Vantaa (Finland). During the year the Investor Relations team and management met or talked with over 500 investors and analysts in total.

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Read more

> **metso.com/investors**

Questions and answers about 2016

Metso's Investor Relations meets and talks with a large number of investors and analysts during the year. These were the most common topics discussed in 2016. All information in this section has been previously published in annual reports, interim reports, financial statements, Capital Markets Day presentations or other investor presentations.

1 During 2016 commodity prices have recovered gradually and many miners have announced that they will increase their capital expenditure in 2017. Will new investments be seen as an increased demand for Metso's mining equipment and can growth be expected in the coming years?

Increasing commodity prices and investments benefit the industry in the long run, but it is still too early to talk about recovery for Metso's mining equipment business. Customer capital expenditure increases are not necessarily related to investments in the equipment that Metso offers, and, in some cases investments might be directed to parts of the value chain where Metso has no offering, like exploration and drilling. Commodity prices have an effect on our customers' decision making but are not the single decisive factor, especially in large projects with long delivery times. Large projects in mining, like those Metso announced in 2015 and 2016, are rare opportunities and there are very few of them on offer at the moment. The demand for smaller equipment has increased somewhat, but is still at a low level. We expect the overall demand to be largely unchanged in 2017; however, following a few larger orders in 2015 and 2016, Metso's mining equipment sales can be expected to grow slightly.

2 Has there been any significant change in the demand for engineered services? How is the demand for wears and spares?

The activity in the mining services market has been largely unchanged since the second half of 2015. In 2016, weak demand for engineered services, especially in rebuilds and refurbishments, continued. These services projects are partly related to our customers' capital expenditure decisions and hence impacted by their cost saving initiatives. Production rates in existing mines remained high throughout the year, which is why the demand for wear and spare parts was relatively stable. We expect challenges in the mining services market to continue in 2017 but Metso has several initiatives to increase its own market share. Digitalization and the offering of services that increase uptime are of the essence going forward, and Metso is constantly developing its offering in this field.

3 How did the customer industries in Flow Control develop and what the expectations going forward?

Customers in the oil & gas industry continued to cut costs in 2016, which had a negative effect on Metso's valve project business. The industry remained cautious on new investments, and the demand for replacement valves was also lower as a result of cost cutting across the sector. Metso expects 2017 to be equally challenging although a turnaround in the sector could happen fast. The demand for pulp & paper valve projects was also low in 2016, but we expect activity to improve as new investments within the industry are foreseen for 2017.

4 Can we continue to see a positive development in the aggregates business in 2017?

The aggregates business is highly dependent on local economies. Investments and government spending are the main drivers for aggregates equipment demand, which is why we have seen large regional differences within the business. Last year, the aggregates business grew slightly on the back of growing economies in India, Northern Europe and the United States. A weak performance continued in emerging markets and especially the markets in Brazil and China impacted our aggregates business negatively. We expect some of these markets to recover gradually from the historically low levels seen in 2015 and 2016, but we do not expect giant growth leaps as there are uncertainties related to many market areas in the sector.

5 Financial targets and strategy?

Metso's financial targets are unchanged and we still see the adjusted EBITA of 15 percent, ROCE of 30 percent and growth exceeding the market to be achievable targets. Currently, the market is not providing any help and even though Metso has kept its market share, it is hard to achieve the profitability targets (EBITA and ROCE) without growth. There were no major changes in Metso's overall strategy as we continue to target growth in our core businesses as the leading technology and services provider for our chosen industries. M&A remains a priority and Metso continues to explore different growth opportunities for our businesses.

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

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