

Report of the Month

ReportWatch e.com

July-August 2009

Metso

Helsinki, Finland

Metso Annual Report 2008

Report Facts

- Company name: Metso Corporation
- Fiscal year end: December 31, 2008
- Report title: Annual Report 2008
- President and CEO: Jorma Eloranta
- Number of books: Two
- Report length: 152 + 36 pages
- Auditors: PricewaterhouseCoopers
- Production: Gyro Scandinavia - Kreab Gavin Anderson
- E-mail: metso.info@metso.com

Report Rating: ★★*(★)

(Rating scale below)

Profile-Products (Excerpts, as from the report)

Metso is a global supplier of sustainable technology and services for mining construction, energy, metal recycling and the pulp and paper industries. We have... operations in more than 50 countries... we employ more than 29,000 professionals. Core competence areas are: engineering and process know-how, services business, project management, supply chain management and efficiency...

(Annual Report source) (Italics are own company's words)

Key Figures

- Net sales: EUR 6,400 million
- Operating profit: EUR 637.2 million
- Profit (before taxes): EUR 548 million
- Earnings per share: EUR 2.75
- Dividend per share: EUR 0.70
- Return on equity: 26.0%
- Return on capital employed: 23.2%
- Equity to total assets: 30.9%

(Source: 2008 figures sourced from the annual report)

Competitors or Rivals

- ABB
- Siemens
- Hitachi
- Alfa Laval
- Terex

Report Rating: ★★★(★)

Triple A

> A *Management discussion on strategy* comes on pp 6-11 and addresses *key drivers* of growth strategy, *key requirements for success*, *core competences developed*, *short-term priorities* and medium-term challenges.

> Clear description of the operating environment and its *megatrends*.

> Outstanding chapter about risk factors and their management (see Selected Page below). It contains: key facts for the year in review, next year goals in risk policies, the implementation of management (diagram), a thorough list of risk factors, and, last but not least, a *Risk map* mapping setting out risk profile, examples...

Double A

> *Metso in brief* charts orders, sales and personnel by market area, and sales by customer industry, which gives an immediate grasp of segment contribution in percentage. *Businesses at a glance* (pp 30-31) goes further on.

> *Prosperity for our stakeholders* sums up benefits: wages and salaries, income taxes, purchases, capital and debt structures, capitalization, and earnings and dividends.

Simple A

> Why almost hiding the *Key figures* (rich in percentage items) as a small table stuck on p 9?

> Board of Directors' report is unevenly developed.

B sides ?

> Little use of covers as a communication vehicle. On second thought, it represents the use of the logo but...

> CEO's *greetings* (sic) are very short –in all meanings.

> Lack of details on board and executive compensation.

> Design concept, layout, illustration, typography are plainly functional and sometimes do not encourage readability (see e.g. that one-column grid for CEO's message and for introducing business areas).

Rating Scale

★★★★: First-rate ★★★(★): Excellent ★★★★: Very good ★★★(★): Sound ★★: Average

★(★): Uneven ★★: Common ★(★): Substandard ★: Poor (★): Uncompetitive

The rating is based on ReportWatch internal desk research and does not take into account the independent Rating Panel's judgment. It may therefore differ from ratings (to be) published in the *Annual Report on Annual Reports*.

How does the company report in key areas? What are the main report pluses and minuses?

*The **Report Scan** gives an overview of strengths and weaknesses, and scores each item.*

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RISK MANAGEMENT IN 2008

- We assessed the risks related to our business in spring, as we do every year. In addition, due to our market environment changing significantly, we re-adjusted the assessment during the autumn. Compared to 2007, all our strategic risks had increased as a result of the faster-than-anticipated downturn in the global economy and our customer industries. Risks related to the global economy increased particularly towards the year-end. Solvency risks and credit risks increased significantly. Production-related operational risks decreased slightly.
- We worked with our insurance broker to evaluate the functionality of risk management at nine of our units. In particular, we reviewed the management of risks related to business continuity as well as data security and fire safety. Overall, risk management at the unit level functioned well.
- In financial risk management, we focused on managing the impacts of the global economic crisis. We paid special attention to securing our solvency and managing the effects related to currency exchange fluctuations.
- We adopted new methods to manage business continuity risks relating to e.g. information system risks.
- We developed the coverage and quality of our insurance programs. We worked with insurance companies to improve preventive audits.
- We developed methods to improve occupational and environmental safety e.g. by launching a new occupational safety pilot program. The new methods will be gradually phased in globally throughout Metso in upcoming years. We also improved personnel safety by implementing global travel insurance throughout Metso. Consequently, we can offer all business travelers a similar level of insurance security and services.
- We also renewed our crisis communications process, guidelines and readiness so that we can provide the most real-time information possible during crisis situations both internally and externally.
- We continued risk management collaboration and the development of best practices with Finnish and international organizations.



GOALS IN 2009

- We will focus on managing risks related to business fluctuations in the global economy.
- We will invest in coordinating auditing activities and in boosting the efficiency of internal cooperation. We will also develop the risk management model and risk management tools and ensure that the regional perspective is represented more strongly than it is today.
- We will continue developing information system risk management and will implement the methods to improve occupational safety.

METSO'S MOST SIGNIFICANT RISKS AND OPPORTUNITIES

- Impact of business cycles in the global economy and customer industries on our operations
- Brand and reputation: Maintaining our position as the sector's leading company
- Recruiting and committing skilled personnel
- Emerging markets' impact on our business
- Strengthening global presence
- Opportunities in energy and environmental technology
- Impacts of corporate acquisitions
- Impacts of global and regional unrest
- Intellectual property rights of our products

Our business development is strongly linked to our ability to expand our operations in new, rapidly emerging markets. We aim to increase our local presence and subcontracting in e.g. China, India and Brazil.

In addition to opportunities, there are also risks related to emerging markets, associated with our reputation as an ethical corporate citizen. Due to local legislation, it may be difficult to adjust the number of our

