



Communication On Progress 2017

Metso Group

6.3.2017

CEO statement of continued support

Metso's sustainability strategy and targets were revised in 2016 and approved by top management and reviewed by the Board. We want to be considered a thought leader in sustainability by 2020.

The sustainability strategy defines more concretely what sustainability means at Metso, grouped into four focus areas: performing together, building customer success, contributing to the environment and responsible supply chain. In our view, we can make the biggest difference by innovating new technologies and constantly improving our ways of operating. When selecting development actions, we maintain an active dialogue with our stakeholders. All the sustainability focus areas include defined targets, and we have over 20 key performance indicators in place to measure the impact.

One sustainability topic that is crucial not only for us, but also for all our customers – due to the nature of their business – is safety. The key safety indicator LTIF (lost-time incident frequency) provides essential information on how we have succeeded in advancing safer working conditions. Metso's LTIF index in 2016 was 2.4 compared to 2.7 in 2015. In practical terms, the decrease translates to hundreds of individual acts, observations, reports and constant education to improve safety in our facilities everywhere we operate.

I am pleased to confirm that Metso Group reaffirms its support of the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labor, Environment and Anti-Corruption.

In this annual Communication on Progress, we describe our actions to continually improve the integration of the Global Compact and its principles into our business strategy, culture and daily operations. We also commit to sharing this information with our stakeholders using our primary channels of communication.

Yours sincerely,

Matti Kähkönen
President and CEO
Metso Group

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: Make sure that they are not complicit in human rights abuses

Human rights in our operations

Respecting human rights in our operations not only contributes to positive human rights impacts, it also allows us to operate and improve our operational risk management through improved working conditions. Additionally, we build and maintain transparent stakeholder relations and a culture of sustainability.

Our policies and commitment create the foundation for our approach in respecting the rights of the people that are employed in our value chain and in the communities around our businesses. We are committed to complying with the UN Declaration of Human Rights and UN Guiding Principles on Human Rights. Metso also works according to the principles described in the OECD Guidelines for Multinational Enterprises, the International Labor Organization's (ILO) Declaration of Fundamental Principles and Rights at Work, as well as the International Chamber of Commerce (ICC) Business Charter for Sustainable Development.

We have already integrated human rights in Metso values, assessments, processes and procedures to some extent, but in 2015 we initiated a human rights impact assessment against the UN Guiding Principles on Human Rights in order to understand if all the salient human rights topics in/throughout our value chain are covered comprehensively enough. In 2016, we continued the assessment with various practices.

Deepening our knowledge on human rights

Metso is working to avoid causing or contributing to adverse human rights impacts that are directly or indirectly associated with our operations. Our ambition to respect human rights in our operations sharpens our focus on creating enhanced Metso-wide operating principles and a sustainability culture.

In 2016 we continued with a labor assessment in six countries that were confirmed by an external partner to be riskiest in terms of human rights. The objective of this assessment was to prioritize our actions and to raise awareness on human rights among Metso's personnel, and to initiate a structured approach to assess the status and development areas within labor rights at Metso.

Based on the findings of this assessment, one of the areas that we will look into more is the living wage topic. We will identify the location in need of more thorough assessment and to review existing calculation models from different external parties that could be relevant in a specific country.

Human rights in our supply chain

Supply chain human rights are a globally recognized challenge and something that Metso takes very seriously. Metso has a vast global network of suppliers, and we have to make sure that they commit to the same high standards that we have set for ourselves.

Human rights topics are covered by Metso's third-party supplier audits. Our annual target to conduct 15 external sustainability audits for our higher risk suppliers continues in 2017, and we are in the process of developing more systematic tracking of corrective actions. We have also included human rights issues in our internal supplier audits and self-assessment for the high risk areas. In November 2016 we started giving sustainability training, including human rights issues, for our procurement in India; we will continue with the training in other countries during 2017.

Labor principles

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labor;

Principle 5: the effective abolition of child labor, and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Metso support and respect human rights as expressed in the International Bill of Human Rights and the fundamental rights stated by the International Labor Organization (ILO). We accept the basic labor rights stated by the ILO: freedom of association, the effective recognition of the right to collective bargaining, the abolition of forced labor, and equality of opportunity and treatment.

Metso's Code of Conduct creates a uniform foundation for all business transactions and work assignments. The Code of Conduct encompasses issues, responsibilities and practices supporting Metso's sustainability and success, and provides us and our stakeholders with commonly accepted guidelines and perspectives for future decisions. The Code of Conduct also describes our company culture, commonly accepted practices, and our commitment to compliance with laws and regulations. Metso's Code of Conduct is available on our website and is translated into 11 languages. We are in the process of updating our Code of Conduct and there will be a roll-out training for our employees during 2017.

In addition to the Code of Conduct, Metso also has other policies and guidelines to support our sustainable business practices. These include, for example, Metso's Anti-corruption Policy to describe our zero-tolerance approach to bribery and corruption. Our Health, Safety and Environment (HSE) Policy defines our commitment to responsible management of HSE in our own operations and in stakeholder collaboration. We want to provide equal opportunities and diversity at the workplace, as described in our Equal Opportunity and Diversity Policy.

The Metso HR management team drafts policies, principles and guidelines related to people management and is responsible for monitoring them in accordance with the governance model. The HR organizations are responsible for implementing the policies, principles and guidelines, and for supporting country-specific compliance.

Metso supports the freedom of association for all our employees and the right to collective bargaining. 50% of Metso employees are covered by bargaining agreements in 2016. The percentage varies widely between regions; it is highest in Europe (87%) and lowest in North America (2%) and China (6%).

Environmental principles

Principle 7: Businesses should support a precautionary approach to environmental challenges

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies
Assessment, Policy and Goals

The sustainable use of resources underpins the long-term success of our business. A global operational environment opens up possibilities and risks that we need to recognize. By increasing our eco-efficiency, we are able to reduce our environmental footprint and achieve cost savings at the same time. We view the development of our environmental performance throughout our global value chain to be our responsibility.

Focus areas

Developing our environmental efficiency is a continuous process. In 2016 we continued with many development projects that were launched in late 2015. Our internal HSE (Health, Safety & Environment) audit function monitors the development of HSE related issues at Metso. Internal HSE audits were carried out at 28 locations in 2016, and the focus was on environmental issues where we have the potential to improve. Based on the findings of the audits, the corrective actions are launched and will be followed. The audits can also result in concrete improvement actions, such as more detailed corporate-level requirements for chemical storage.

Metso's emissions reductions and energy efficiency

Metso strives for continuous reductions in emissions to minimize our environmental footprint and to reduce costs. We measure our energy usage and Scope 1 and 2 emissions for each of our business units and Group-wide. Our Group-wide energy-savings and carbon dioxide emission targets for our own production were launched in 2009 to improve efficiency. The target is to improve efficiency 20% by 2020.

In 2010 we launched a Group-wide energy efficiency program to support the set targets and to find new opportunities to decrease energy consumption at our locations. We also set plant-specific targets for 2016. Even so our energy consumption increased due to increased production and weather conditions and energy savings from new actions were low. Since the start of the program, a total of 47,000 MWh (11.9%) of energy has been saved through a wide range of actions around the world. These actions have reduced CO₂ emissions by 15,900 tCO₂.

Environmental impacts of our value chain

Metso's aim is to minimize environmental impacts throughout the value chain, which is also supported by calculation of indirect emissions from our value chain (scope 3). It is essential that we increase our understanding of our total environmental impact and to work with our suppliers to mitigate the impacts. We assess our scope 3 emissions annually.

Our understanding of scope 3 calculations is based on an analysis started in 2013. Since then, we have increased our ability to better manage the environmental impacts of our value chain. In the future, we will also focus on the environmental impacts of our supply chain and on improving our reporting of our scope 3 emissions in an effort to minimize our environmental footprint.

In 2016, Metso's CO₂ emissions (Scope 3) were externally assured: procurement, logistics, business travel, and fuel and energy related emissions (not included in Scope 1 and Scope 2).

Sustainability is at the core of our research and development

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

According to our sustainability strategy, revised last year, each of Metso's new research and development (R&D) projects launched in 2016 has to set sustainability targets, concerning environmental efficiency and product safety innovation. Once these research and development projects are closed, targets will be verified. This is also one way to further develop our responsiveness on customer expectations and fulfilling their needs. Working together to re-invent the way our customer industries use resources, control emissions and use their surroundings is a joint effort for us and our customers.

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

In 2016, 83% of R&D projects have set environmental efficiency and/or product safety innovation targets.

Services

Services is at the core of our business, and 66% of our net sales in 2016 came from services. We bring added value by solving our customers' challenges with our people, knowledge and solutions.

We drive our customers' growth through improved plant availability, reliability and safety, while reducing costs by increasing resource efficiency and minimizing environmental impacts. As an example, Metso's Life-Cycle Services solution can include streamlined start-up, wear parts optimization, efficient shutdown management and effective day-to-day maintenance.

Anti-corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery

Anti-corruption and bribery

Metso has a zero tolerance approach towards all forms of corruption and bribery. This approach is already well established and is set out in our Code of Conduct. We are committed to conducting our activities in accordance with applicable anticorruption laws and regulations. The Metso Global Anti-Corruption Policy provides more detailed provisions and guidelines in this respect.

Metso is training its employees in compliance matters, and anti-corruption training is provided regularly in connection with i.a. contract compliance training. In 2012-13 Metso Legal Compliance conducted Anti-Corruption Compliance training at practically all Metso locations globally and it was supported by a subsequent e-learning test. The target group for this training and e-learning were sales and procurement, logistics, finance and the relevant support persons.

In 2015 Metso enhanced its Third-Party Due Diligence process by introducing a more diversified screening format and enabling an automated sanctions screening process by starting to use a compliance information tool in the processing of the Due Diligence files. In 2015-16 Legal Compliance ran a project in which all Metso third parties (agents, distributors and commercial consultants), existing and new appointments (a total number of approximately 600), were subjected to the new process. All approved third parties are recorded in the compliance information tool and subject to continuous screening for sanctions, changes in corporate data and management, and adverse media.

In 2017 Legal Compliance is planning to launch an e-learning test for the same group of employees referred to above and also to the relevant representatives of the third parties.

Risk management audits conducted in 2016 cover six units, covering about 20% of the 25 units included in the program. This covers more than 80% of Metso's net sales during the 5 year period.