



Communication On Progress 2018

Metso Corporation



6.3.2018

CEO statement of continued support

Our sustainability strategy defines what sustainability means at Metso, and is 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 impact by innovating new technologies and improved performance solutions to reduce the lifecycle impact of our customers' processes. 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.

Sustainability remains at the heart of Metso's operations, with safety among the key components. We meticulously track LTIF (long term incident frequency). Our firm view is that our own or our customers' safety must not be compromised under any circumstances.

We updated our Code of Conduct last year and implemented a company-wide learning program to ensure global compliance. In less than three months, we managed to get an astonishing 99.8% of our employees to sign their agreement to the updated code, signaling extremely strong commitment.

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,

Eeva Sipilä
Interim President and CEO
Metso Corporation

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.

Metso's 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. Metso respects and supports the protection of internationally proclaimed human rights, such as those described in the United Nations Guiding Principles on Business and Human Rights, the International Labor Organization's Declaration of Fundamental Principles and Rights at Work, and the Ten Principles of the United Nations Global Compact in the areas of human rights, labor, environment and anti-corruption.

Human rights have been integrated into Metso's values, assessments, processes and procedures. In 2015, we conducted a human rights impact assessment against the UN Guiding Principles on Business and Human Rights, which helped us to initiate some improved practices in this area.

Compliance with human rights

Managing human right issues is incorporated into our employment practices and processes in all Metso countries.

Examples of human rights topics that we continuously review:

- Occupational health and safety: Our Health, Safety and Environment Policy defines our commitment to responsible management of HSE in our own operations and in stakeholder collaboration. Metso has clearly defined its HSE minimum safety standards. HSE instructions and procedures are available, and in addition, HSE audits, safety conversations, risk observations are used to improve our HSE performance.
- Avoidance of forced labor: All Metso employees have signed employment contracts including agreements about salaries and other terms of employment.
- Wages: to ensure appropriate salary levels for Metso employees, Metso regularly reviews external salary benchmarks to create salary range references in all Metso countries.
- Working hours and overtime: In Metso, time cards and attendance records are used for tracking working hours and overtime.

- Grievance channels and remediation mechanism: in 2017, we reinforced our communications related to the Whistleblower channel covering all Code of Conduct related misconduct in addition to financial misconduct.

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

We continue to train our Human Resources teams on labor rights, (e.g. wages and benefits, contracts, working hours, leave and rest periods, discrimination, and employee grievance channels). As part of the renewal of our Code of Conduct in 2017, Metso employees were trained on sustainability matters, including human rights. In addition, the procurement and quality assurance personnel had training on human and labor rights.

Human rights in our supply chain

Respecting human rights is a requirement that we expect all our suppliers to follow. Metso has a vast global network of suppliers, and we strive to make sure that they commit to the same high standards that we have set for ourselves. For this purpose, we have established processes and tools to assess suppliers on how they ensure that all human rights are respected in their operations.

Human rights topics are covered by Metso's third-party supplier audits. Our annual target in 2017 was to conduct 58 sustainability audits for our higher-risk suppliers in 2017, and we developed a more systematic tracking of corrective actions. We have also included human rights issues in our internal supplier audits and self-assessment for all suppliers. In 2016, we started giving sustainability training, including human rights issues, for our procurement and quality assurance personnel in India. In 2017, the training continued in other countries such as Brazil, China, Finland, Russia, Sweden, South Africa, and Turkey.

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. Metso's renewed Code of Conduct was published in June 2017 to provide us with an updated framework that guides our behavior. 99.8 percent of Metso employees have taken the Code of Conduct training in a given timeline.

In addition to the Code of Conduct, Metso also has 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 is responsible for policies and guidelines for people management as well as their implementation within Metso.

Metso supports freedom of association for all our employees and the right to collective bargaining. Fifty percent of Metso employees are covered by bargaining agreements in 2017. The percentage varies widely between regions; it is highest in Europe (87%) and lowest in North America (2%).

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.

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. Our internal HSE (Health, Safety & Environment) audit function monitors the development of HSE related issues at Metso. Internal HSE audits were carried out at 20 locations in 2017, 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 find new opportunities to decrease energy consumption at our locations. Since the start of the program, a total of 51,833 MWh (12.6%) of energy has been saved through a wide range of actions around the world. These actions have reduced CO₂ emissions by 16,908 tCO₂.

Limited investment during the market decline has slowed down our energy efficiency actions, and we are lagging our original savings goals. We are revisiting our investment plans and will update our energy targets accordingly in 2018.

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 2017, 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, each of Metso's new research and development (R&D) projects 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 2017, 84% of R&D projects have set environmental efficiency and/or product safety innovation targets.

Services

Services is at the core of our business and in 2017 65% of our sales came from service business. 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. We are committed to conducting our activities in accordance with applicable anticorruption laws and regulations. The Metso Global Anti-Corruption Policy provides more detailed instructions 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 2017, we have conducted face to face anti-corruption trainings and focused on having third parties either approved or rejected in a meaningful time frame.

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.

Our anonymous Whistleblower channel has been primarily intended for reporting financial misconduct cases. In 2017, in conjunction with Metso's Code of Conduct update, Metso's Whistleblower channel was opened for reporting all Code of Conduct-related misconduct. All Metso employees can file a confidential, anonymous report via either telephone or the Internet.

In 2017, we received 3 reports of suspected financial misconduct via the Whistleblower channel. Additionally, Internal Audit received 8 direct contacts. A total of 11 cases were investigated. There were also cases of misconduct revealed in conjunction with internal audits.

The cases of misconduct were reviewed by the Audit Committee in line with our guidelines on reporting misconduct. The cases did not have a significant impact on our financial results.

Risk management audits conducted in 2017 covered 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 five-year period.