

Business Principles Progress Report 2006



2006 was a year when many of the Business Principle initiatives started in 2004 and 2005 were further implemented. This report is a short summary of progress on key initiatives in 2006.

Environment Progress 2006

ISO 14001 - a total of 47 % deliveries were from certified sites as at 31st December 2006

In 2003 we had no ISO14001 certificated manufacturing sites. Using the experience of the three sites that gained ISO 14001 certificates in 2004 (representing 18% of our factory deliveries by value), we developed a Group wide environmental management system (EMS) during 2005. By the end of 2006, a total of 6 sites have gained ISO 14001 certificates (representing a 47% of our factory deliveries by value). By the end of 2007 we expect 80% of our factory deliveries to be from certified sites**.

(** Our statistics exclude companies acquired recently)

Environmental Management integrated in to the line functions

The Environment Council was formed in 2006 to oversee policy implementation; initiate and review environmental reporting and impact reduction projects. Our approach is to incorporate environmental management in the normal line management duties with the belief that this will make the process of impact reduction sustainable. The Environmental Council contains two members of the Group Management team and is chaired by the Executive Vice President of Operations. Members of the Environment Council include senior managers from Manufacturing; Research and Development; Materials Laboratory; Customer Service; Purchasing; and the Vice President of Human Resources.

An environmental data collection system was purchased and implemented

The data collection tool went live in December 2006. 66 reporting units were reporting data by the end of March 2007. Because much of the data collected is a new requirement on the reporting units, we expect it to take a few years before the data is consistently comparable year-on-year. This tool will allow us to analyse and publish more quantifiable data on our environmental performance. (*More details – see [Environmental Management System](#)*).

Life Cycle Analysis of core products was started

Many Alfa Laval Products are used for environmental protection or renewable energy applications (*More details – see [Case studies](#)*). However, we have recognised that we can increase our focus on environmental issues during the design and development phase of the product. Four key products were selected for initial Life Cycle analysis. These are expected to be concluded in 2007.

The development of Black/Grey chemicals lists linked to customer requirements

This was developed during 2006 and measurement against this list included in the environmental data collection system.

Carbon Dioxide reduction targets will be set

The Alfa Laval Group Management decided during 2006 to set targets for Carbon Dioxide reduction. The data collected in the reporting tool for 2006 and the first half of 2007 will be used to set challenging, but realistic reduction targets. It is expected that these targets will be set and communicated before October 2007.



Environment included in supplier evaluations

The global purchasing organisations have introduced environmental factors in their evaluation of suppliers. The main outcome so far has been an increased awareness of the importance of the environment within our purchasing departments and some suppliers. In the future we expect to focus on those suppliers that represent the largest environmental impact in our supply chain. Transportation is one of those categories.

Company Car Policy reviewed to reduce Carbon Dioxide emissions

The company car policy was reviewed in 2006 with the target to reduce the Carbon Dioxide emissions from the car fleet by 25% between 2005 and 2008.

Social Progress 2006

Based on a risk analysis conducted in 2004; Alfa Laval is focusing on achieving measurable improvements in the working conditions, health and safety of employees in our suppliers in countries with developing economies. In 2005 Alfa Laval developed and implemented a social evaluation of suppliers in India. This process has been continued in 2006 with key points:

The supplier evaluation process in India had to be started again

In 2005 an external audit company was selected to measure the level of adherence of the suppliers to our Business Principles. (*More details – see [Supplier assessment](#)*). Repeated measurements were taken of some suppliers and those with the best improvements identified. However, when Alfa Laval corporate social responsibility staff visited those suppliers in the first quarter of 2006 the improvements were considered inadequate.

It was judged that the external party had been unduly influenced by the suppliers' management and so a decision was taken to appoint a new inspector and start the process again. This was a disappointment to all concerned but proved a very useful learning experience. As at end of March 2007 a total of 49 suppliers have been included in the inspections in India. 33 suppliers have had more than one visit with an average improvement in their ratings of 25%.

The supplier evaluation reports are now standard practice in India

The supplier inspections in India follow a set format and have been standardised in an inspection manual. The results of inspections are summarised on the global purchasing database. If a supplier does not improve their rating then they are informed that this is unacceptable with the first consequence that they will receive no new business from Alfa Laval and secondly, if they still do not improve the existing business will be terminated and moved to another supplier.

Supplier evaluations in China started

Purchasing management from Alfa Laval, China visited Alfa Laval in India to learn from their experience. The same supplier assessment process was then started in China, although Alfa Laval purchasing employees conduct the assessment and an external inspector is not used. This serves the purpose of increasing the awareness of the purchasing staff in the inspection and assessment process. The use of external inspectors will be investigated during 2007.

Global Purchasing Team take ownership of the social inspection process

The supplier inspection process developed in Alfa Laval in India for Alfa Laval's Social Business Principle was a joint project between the management in India and corporate social responsibility staff. After the change of inspector in India in April 2006 (see above) and



subsequent improvements in the documentation of the process, the global purchasing management took over responsibility for the process, but are still supported by corporate social responsibility staff. In 2006 this resulted in more business principle factors being incorporated in the global supplier assessment process and integration of business principle evaluation in the global supplier database.

Business Integrity Progress 2006

Business Ethics training focussed on sales companies

During 2005 initial ethical conduct training was developed in conjunction with our regular Sales and Marketing Management (SAM) programme at Ashridge Business School in the UK.

During 2006 a more comprehensive training programme was developed together with a risk assessment, policy review and communication programme. This process broadly follows the recommendations of the Transparency International guidelines for combating bribery and corruption and their Six-Step Implementation Process.

All sales company managing directors will have completed training by end of May 2007

During autumn of 2006 a pilot programme was run in Alfa Laval India with senior managers and managing directors of the sales companies from Malaysia, Indonesia and Singapore.

Training was then conducted for all the sales company managing directors in the remainder of Asia in December of 2006. In March 2007 all the managing directors of sales companies in Western Europe and North America attended the training as did those of Latin America in February 2007. Similar training for the remaining managing directors (Africa, central and eastern Europe) is scheduled for May 2007.

The training focuses on the risks in the sales process

Training includes three key elements:

- a) A “train-the-trainer” concept so that managing directors can cascade appropriate training through their organisation.
- b) A risk assessment method (Conflict of interest, bribery and corruption).
- c) Local Policy Review and action planning

Each managing director has to submit a progress report on each element within 6 months of the training. This reporting will be repeated after a further 6 months and then annual data will be collected in a new reporting system that has been piloted in 2006.

Risks have been identified and corrective action taken

Risks have been identified and certain issues surfaced in this training. Some unacceptable practices have been identified and corrective action put in place.

In this process it is essential that risks and bad practice can be “put on the table” in a safe and supportive atmosphere. Usually, the only corrective action needed is to tighten the local policy and training so that employees clearly understand how our Business Principles should be applied in practice.

Token-Value gifts are defined

One element of the ethics training in the sales companies is to discuss and debate at what point does a legitimate marketing activity “cross-the-line” to an offer of an undue advantage



or even a bribe. After the training each managing director has to implement a policy review in their company and define a "Token-Value" gift policy. This describes the gifts and entertaining that are allowed as normal marketing activities. Alfa Laval has decided that this is a locally developed policy because cultural and local legal considerations have to be made. All companies have to submit a report on their Token-Value gifts policy as a part of the implementation process.

Policy Review means that consequences of non-compliance can be dealt with

A key part of the Business Integrity Training is a systematic review of all our employee policies and communication in all sales companies world-wide. We have found that, with a few exceptions, the policies can be improved. Once the policies are updated and employee communication conducted, (including the involvement of relevant employee representative bodies and unions), then it will be much clearer to employees when and how disciplinary action will be taken for breach of our Business Integrity Principles.

Transparency Progress 2006

2006 has seen an increased public interest in the social, environmental and ethical performance of multi-national organisations. Therefore transparency of our reporting and dialogue with interested parties is very important. Quantifiable information is essential in order to measure and manage improvement activities.

One key activity in 2007 has been the internal implementation of a management reporting tool to track our performance against our Business Principles. This means that we will be able to report publicly with more quantifiable data at the end of 2007.

We want to make sure that our reporting has substance and we will continue to avoid reporting data that is not an integral part of a line management or improvement process.

We will publish more environmental data

We recognised that Alfa Laval needs to publish more environmental information to be comparable with other Swedish companies in the same industrial sector.

We continue to meet interested external parties

Meetings with SRI analysts have continued in 2006 as before. These continue to give us encouragement and useful advice in an open atmosphere. We are very pleased to meet more SRI analysts please contact mikael.sjoblom@alfalaval.com to arrange a meeting.

Students show a great interest in our Business Principles activities and there have been a number of student visits and projects during 2006. Students can contact our student relations officer studentrelations.sweden@alfalaval.com.

Our links with other Swedish Manufacturing Companies are important

We continue to benefit from our meetings with other Swedish manufacturing companies during 2006. In these meetings we share methodologies and they have helped Alfa Laval to gain insights into best practice in Corporate Social Responsibility. These meetings have developed in 2006 and now tend to focus on practical implementation experience and ideas sharing rather than policy and reporting comparisons. In 2006 we have focused on supplier related improvement methodologies and this is expected to continue in 2007.

We like to talk with interested parties

We encourage questions from interested parties on our work on sustainability and these can be directed either to david.ford@alfalaval.com or mikael.sjoblom@alfalaval.com.