



# Progress Report

Alfa Laval's Business Principles form the basis for its work on Sustainability. The [Alfa Laval Annual Report pages 34 to 43](#) for the financial year 2007 gives a summary of the main sustainability activities of the Group. This report supplements the Annual Report with additional information on progress on key initiatives in 2007 – for ease of comparison this report broadly follows the same structure as the 2006 progress report.

## Environment Progress 2007

### **ISO 14001 - a total of 69 % of deliveries were from certified sites as at 31st December 2007**

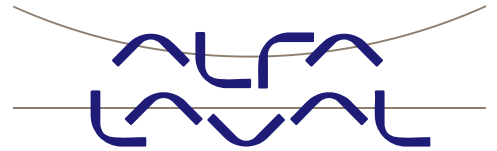
In 2003 we had no ISO14001 certificated manufacturing sites. Using the experience of the three sites that gained ISO 14001 certificates in 2004 (representing 18% of our factory deliveries by value), we developed a Group wide environmental management system (EMS) during 2005. By the end of 2006, a total of 6 sites have gained ISO 14001 certificates (representing a 47% of our factory deliveries by value). By the end of 2007 11 sites (representing a 69% of our factory deliveries by value) had achieved ISO 14001. By the end of January 2008 the figures were 13 plants (77%). Our target is to have over 80% of our factory deliveries to be from certified sites.

### **The Alfa Laval Environmental Management System was operating at Bronze or Gold level in a total of 43 sites as at 31st December 2007.**

In 2006 15 sites had implemented the Alfa Laval EMS, most of these were the larger manufacturing plants (see above). Small workshops (less than 100 employees) are required to implement the Alfa Laval EMS at Bronze level. To achieve Bronze status they have to report all key environmental data into the Group web-based environmental data collection tool, they have written down how they comply with all local environmental legislation and they are taking action to reduce their most significant environmental impacts. The majority of these sites are small service workshops that repair and service customer's equipment. (Typically they have below 10 full time employees). The focus on these small workshops started in 2006 and increased in 2007.

### **We have quantified our Carbon Dioxide Equivalent emissions – transportation has a significant impact.**

The Alfa Laval EMS has produced data on many environmentally related potential impacts. "Greenhouse Gas Emissions" (GHG) that contribute to Global Warming are included in this analysis. Alfa Laval has used the GHG Reporting Protocol as the basis for its reporting. This looks at emissions according to scope 1, 2 and 3. As far as currently practically possible; Alfa Laval has calculated the emissions from significant activities for each of these scopes. The summary shows that the GHG emissions in 2007 relating to Alfa Laval's' production, delivery and sales processes total approximately 93,000 tonnes. This is split 43% for goods transportation; 28% employee travel including company cars; 34% from production and service workshops.



**Alfa Laval's products do contribute significantly to reducing environmental impact from many industrial and municipal processes.**

The Alfa Laval web site illustrates several environmental applications of our products, [link to case studies>>](#). The November 2007 issue (January 2008 issue of the on-line version) of the customer magazine "[Here](#)" highlights several environmental applications.

**Alfa Laval Compact Heat Exchangers are already saving millions of tonnes of GHG emissions.**

Our compact heat exchangers when used in energy intensive industries such as oil refineries save a considerable amount of energy compared with the shell-and-tube type of heat exchangers traditionally installed by this industry. For example, one such project that was sold in 2007 reduced the customer GHG emissions by over 10,000 tonnes of carbon dioxide equivalent per year. We have estimated that the existing installed base of Alfa Laval compact heat exchangers in these industries are already saving over 10 million tonnes of GHG emissions per year. The potential savings are much larger because the market share of this type of heat exchanger is only in the region of 10% of the less efficient shell-and-tube type.

**Environmental Management continues to be integrated into the line functions**

The Environment Council was formed in 2006 to oversee policy implementation; initiate impact reduction projects and review environmental reporting. However, our approach remains 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.

As environmental performance becomes more and more in focus in society, many initiatives are taken throughout different companies in Alfa Laval. The Environmental Council focuses on those initiatives that are considered to be critical to the main environmental impacts of the company.

During 2007 the Environmental Council were given the task to oversee the GHG reduction targets set by the Group Management. To do this they work with a simplified value chain in mind. Projects and more information according to the value chain can be seen in Appendix 1.

**Life Cycle Analysis methodology of core products was finalised.**

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 (LCA) during 2006. These projects were finalised in 2007 with the result that a standard LCA process has been agreed and will be incorporated in all significant new product development projects. Alfa Laval has a large number of such projects under way at all times. Therefore, introducing LCA calculations into all projects is unlikely to be completed during 2008.



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

The Black/ grey list was updated and a new list published in December 2007. Volumes of the chemicals are recorded in the environmental database and summary statistics will be published in the GRI based sustainability report in June 2008.

### **Executive Management Introduce Carbon Dioxide Reduction targets:**

In 2007 the Group Management set the targets to reduce the greenhouse gas emissions of the group.

The target is to reduce the annual carbon dioxide equivalent emissions by 15% by the end of 2011 compared with 2006. Since much of the impact is related to goods transportation, the overall GHG emissions are very much volume dependent. The targets were therefore set in proportion to the volume of production (see Appendix 1 for more details). One example is that GHG emissions from each production related sites are normalised with the direct hours employed in the same period. See Appendix 1 for more details of key performance indicators and targets.

### **Environment included in factory supplier evaluations.**

In 2006 the global purchasing organisations introduced environmental factors in their evaluation of new suppliers. In 2007 a decision was taken to survey the existing suppliers which, combined, total 80% of Alfa Laval's purchased value to the factories. The intention is to measure the suppliers that have environmental management systems and those who have set GHG reduction targets – this will lead to goals to encourage our suppliers to have GHG reduction targets. We expect to publish the results of this survey during 2008.

### **Goods Transportation is in Focus.**

Goods transportation represents approximately 43% of Alfa Laval's GHG emissions. We have assessed our carriers according to their activities to reduce their GHG emissions. By doing this we are able to apply pressure on those who we do not consider to be taking climate change seriously enough. If they do not respond then, in some cases we are able to switch supplier to ones that are acting more responsibly.

However, Alfa Laval's absolute freight volume is rather small on a global scale and our direct influence over the environmental policies of big transportation companies is therefore weak. Our best approach to reduce the impact from transportation is to switch volume from air freight to surface transportation. This is being investigated but is not necessarily straight forward because air freight provides an opportunity to reduce inventory as well as giving reliable delivery precision. To shift from air freight will normally require increased working capital (more goods in transportation, more in warehouses) to achieve existing levels of delivery precision and customer service. We do not expect easy wins in this area, but work to identify components that can be switched to surface transportation is underway.

### **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. This is accomplished by changing to cars with lower emissions at the end of each lease period. Initially this activity focused on the car fleet in 16 European countries. During 2007 this activity has now been expanded to include a total of 56 countries.



## Social Progress 2007

### **The supplier evaluation process in India has produced some results.**

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 method of suppliers in India.

In 2005 an external audit company was selected to measure the level of adherence of the suppliers to our Business Principles. However, 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 at the beginning of 2006.

In India, as at 31<sup>st</sup> December 2007 a total of 97 suppliers were included in the programme based on a risk assessment. A total of 275 supplier inspections have been carried out since January 2006. This volume of inspections has shown that repeated inspections, education and encouragement does have the effect of improving working conditions for employees.

### **Our goals for suppliers in India are becoming clearer**

Our goal is that these suppliers constantly improve to a minimum of full legal compliance. The legal requirements in India are very demanding and generally of an equivalent standard to those in Europe. Whilst legal compliance may seem to be a minimum requirement, it has become clear during our inspection work that legal enforcement by government agencies is often inadequate, and is likely to be so for some years to come. We have concluded, based on our experience and that of other multi-national corporations in other industrial sectors, that insisting on legal compliance too quickly tends to drive a culture of falsification of records by suppliers so that they can pass audits satisfactorily whilst malpractice is covered up. To avoid this, we are encouraging transparency and openness and a continuous improvement of working conditions. We are now confident that our points based system provides a good method to do this. One short-medium term goal is that an Alfa Laval supplier should be a positive benchmark for health, safety, working conditions and work environment in the local community in which it is sited.

### **The targets for suppliers are being increased.**

We are now at a stage where we have defined a minimum number of points that a supplier should achieve after a few inspections from Alfa Laval. We call this the qualification level. Our work in 2008 will focus in two areas: First: Those companies that fail to reach the qualifying level quickly enough will be informed that they will lose our business if they do not act quickly on our advice. Secondly: The development of revised inspection processes and activities that will continue to develop "qualified" suppliers to achieve a higher score for working conditions, health and safety; working environment.

### **We are building local competence for supplier evaluations in China.**

Following the same process as in India, 26 suppliers were selected based on potential risk. Alfa Laval has fewer suppliers in China than in India and we have decided to carry out the inspections using our own purchasing and human resource employees. We started this type of inspection in 2006 and by the end of 2007; 12 suppliers had been inspected, six of them twice.



Alfa Laval joined with several other Swedish engineering companies in 2007 to hold a two day conference in Shanghai for local purchasing staff on the subject of supplier social auditing. Guest speakers included experts from the United Nations Global Compact, the Swedish Embassy and Beijing University as well as speakers from the furniture and retail industry. The goal of the conference was to start to share best practice between the Swedish companies locally and to encourage a uniformly high standard of inspections and corrective actions in China in our industrial sector.

**Internally Health and Safety has taken an even higher profile.**

Accident frequency and severity as well as days lost due to ill health are monitored through a central database for all factories. Targets to improve performance are set as part of the normal performance review with the factory management team. A centrally reportable accident is defined as one that results in one day lost from work. Statistics are collected on: The number of accidents per million working hours; accident severity as days lost per million working hours; Illness which is defined as absence from work due to illness of any kind in days per million working hours. Figures for 2007 and 2006 will be released in June 2008.

**More internal job postings shows that Equal Career Opportunity is led by example.**

During 2007 the company's recent policy to advertise all open positions internally has been well received by employees. Vacancies have included positions reporting to the President and CEO, Lars Renström. Previously, such positions would have been filled by appointment. This policy and practice is a part of the company's drive to encourage more internal mobility, to ensure that there is no discrimination and also to encourage a greater number of women into management positions.

The importance of diversity and equal career opportunities is highlighted in the new employee handbook of mission, core values, Business Principles and targets called "Pure Performance". This was produced in 10 languages and issued to all companies during 2007.

*"I very much want Alfa Laval to have a culture that sparkles with life and brims with new ideas. Our spirit of diversity and equal career opportunities will contribute to setting free the inherent power of our organization and further strengthening our leadership."*

Lars Renström  
President and CEO of Alfa Laval, from the introduction of the Pure  
Performance booklet Lund, May 2007

**Diversity of nationality is well established in Alfa Laval.**

International career opportunities have been a key factor in moving Alfa Laval's core skills around the world and in assisting the development of a shared corporate culture. 27 different nationalities were represented in Alfa Laval's 96 international assignments at year-end 2007.



## Business Integrity Progress 2007

### **Business Ethics policy review focussed on sales companies**

The initiative to review business ethics policies throughout the company was started in 2006 and continued throughout 2007. By the end of 2007 the Managing Directors of sales companies in 48 countries had completed a training programme and subsequently reported on some ethics key performance indicators in a global database.

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

Following training, each managing director had to complete an ethical conduct risk assessment and consequently review the personnel policies in their companies. This process broadly follows the recommendations of the Transparency International guidelines for combating bribery and corruption and their Six-Step Implementation 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

### **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 or acceptable as a part of the normal purchasing activity.

### **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.

**Global reporting tool on business ethics has been implemented.**

To follow up the policy review each sales company has to report certain indicators each year to ensure that the business ethics policies are kept in focus. 48 sales companies reported using this tool in 2007. The report includes questions such as: The number of employment discrimination cases raised against Alfa Laval and the number where Alfa Laval has been found to have acted illegally (1 cases raised, none found against the company); The number of disciplinary proceedings taken against employees who breach the Business Principles (6 cases in 2007).

**The Business Ethics Review will be broadened during in 2008.**

The Business ethics policy review was started in the sales companies because that was the area that probably represents the greatest risk. Our sales people interact with many potential customers in many industries in many countries and inevitably some will be confronted with unethical business expectations from potential customers at some time in their work.

We will now modify this review process to suit the slightly different needs of product and marketing centres and aim to include all the major centres during 2008.

## Transparency Progress 2007

Climate change and global warming have been key issues for public and political debate during 2007. Alfa Laval's product range includes many products that can have a direct bearing on reducing the energy consumption and environmental impact of many industrial processes. Consequently, this represents an increasingly important business opportunity for the company several of which were illustrated during the company's capital markets day held on 18<sup>th</sup> November 2007.

Communicating these opportunities is important for the morale of employees, both to build their pride in working for Alfa Laval but also to show the importance of implementing our Business Principles throughout the organisation.

Internal communication (Transparency) activities during 2007 have included a new internal internet site where all employees can follow the progress of key environmental management projects.

A new employee handbook called "Pure Performance" was published and distributed to all companies. This combines our mission, core values, business principles and objectives in one document for the first time.

**The Sustainability Report is included in the 2007 Company Annual report.**

[Alfa Laval Annual Report pages 34 to 43](#) contain more information on sustainability than ever before. However, this will be supplemented in June 2008 by our first sustainability report written along the guidelines set by the Global Reporting Initiative (GRI) Version 3.0. This will be published as a downloadable file on the internet. Principally intended for those wishing to



conduct in-depth research into Alfa Laval's sustainability work (e.g. SRI analysts) it will be and contain much more detailed data than previously published by the company.

#### **We continue to meet interested external parties**

Meetings with SRI analysts have continued in 2007 as before. Meetings have been also been conducted with customers who are assessing Alfa Laval as a part of their own sustainability work. We hope these meetings will continue because they give us encouragement and useful advice. We are very pleased to meet more SRI analysts please contact [david.ford@alfalaval.com](mailto:david.ford@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 2007. Students can contact our student relations officer [Studentrelations.sweden@alfalaval.com](mailto: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 2007. In these meetings we share methodologies and they have helped Alfa Laval to gain insights into best practice in Corporate Social Responsibility.

In 2007 we joined with other Swedish engineering companies to run a conference in China focussed on sharing best practice when assessing suppliers in China for social and environmental performance.

These meetings and joint training events will continue during 2008.

#### **We like to talk with interested parties**

We encourage questions from interested parties on our work on sustainability which can be directed to [david.ford@alfalaval.com](mailto:david.ford@alfalaval.com).