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Company report review

Alcan

Sustainability Report 2005 –

‘Taking acti8n’

Presented by: the Ethical Insight team at Maplecroft

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Note

This review is based on information contained in the PDF download version of Alcan's Sustainability Report 2005. The report is available at: <http://www.alcan.com>. This review is intended as a summary only and does not provide full and complete discussion of all the issues contained in the report or on Alcan's website.

1 Company background

Alcan is the world's second largest producer of primary aluminium, and is a leading supplier of other raw materials, such as bauxite and alumina. Alcan is also a producer of finished products (engineered and packaging), ranked no.1 worldwide in food flexible, pharmaceutical and cosmetics packaging and no.2 in tobacco packaging.

Headquartered in Montreal, Canada, Alcan has more than 500 operating facilities in 55 countries and regions with some 70,000 employees. With 'maximising value' as its governing objective, Alcan began implementing its Alcan Integrated Management System (AIMS) in 2004 to help maintain the same standards in all its operations, regardless of business focus or geographical location.

The present report is Alcan's fourth annual Sustainability Report. According to Alcan's CEO Travis Engen, under the theme, 'Taking action', this year's report aims to show how sustainability is becoming an integral part of decision-making processes.

2 Reporting practices

2.1 Materiality

Alcan has identified a set of eight 'priority sustainability focus areas', known as the 'Alcan 8':

- Energy
- Climate change
- Natural resource stewardship
- Community development
- Well-being
- Environmental releases
- Innovation and industry shifts
- Product stewardship.

In line with good practice, Alcan adopted a participatory, multi-stakeholder approach to identifying these issues. Significant input was provided by an environmental NGO, as well as internal and external experts attending a 'direction setting session' of the Sustainability Steering Team in April 2004.

The 'Alcan 8' issues are used to inform the structure of the report – with detailed discussion provided of each issue. Each of these sections also provides a breakdown of the key challenges and opportunities and the different business groups and stakeholders most closely allied to each subject area. Alcan has gone even further by identifying clear sub-categories or 'analysis areas' and examples of performance for each issue.

2.2 Transparency

The substantial 75-page report contains significant information regarding Alcan's activities and performance in the above eight key areas of sustainability, supported by relevant indicators. Some of this information could be more effectively highlighted and collated for clarity and ease of reference – through summary tables and diagrams. The report could also go further in conveying the voices and opinions of stakeholders.

Alcan has a number of important stakeholder engagement and feedback processes in place, including a global employee survey, participation in the World Business Council for Sustainable Development, the World Economic Forum and other high-level initiatives, as well as engagement with numerous community organisations. It would be of particular interest to include further quotes, discussions and even critical dialogue with such organisations on issues, as well as an independent expert review of the report itself.

Closer attention could also be paid to potentially sensitive or difficult issues, such as political lobbying, environmental fines and non-compliance and bribery/corruption.

2.3 Comparability

Alcan has followed the guidelines set out by the Global Reporting Initiative (GRI). A summary index is included in the report and a more detailed and hyperlinked version is included on the company website. The table highlights issues that have been well covered and areas that have not been reported.¹

The report includes a good range of performance indicators with data provided over the last three years, allowing comparison over time. Indicators presented in the data section could be more clearly categorised under relevant themes, as in the main body of the report. Relevant definitions, and an analysis and explanation of trends could also be added.

A table of Alcan's actions relative to the ten principles of the UN Global Compact provides a useful overview of the company's actions and policy framework underpinning each principle. This is an excellent feature of the report and provides a clear and unambiguous insight into Alcan's commitment and willingness to both disclose performance and work to international best practice initiatives/standards.

Alcan is also among the few exceptional companies to establish an ambitious, time-bound target with regards the reduction of greenhouse-gas (GHG) emissions. It was less clear how many such targets had been established in other areas. A summary table would be extremely helpful in providing a clear overview of where the company stands and aims to be in future.

2.4 Assurance and verification

Alcan has not opted for any direct assurance, verification or external independent review of its report.

It tackles this issue by stating that ...

'All information in this report has been reviewed at senior levels and by the relevant functional specialists. Alcan undertakes a variety of audit and assurance activities on data and information that is used in this report, including financial, environment, health and safety (EHS) performance, management system and compliance audits. Both internal and external parties conduct and/or participate in these activities. When using internal personnel, independence is achieved by including participants from other businesses in the company, providing a degree of separation of interest.'

Despite the above it remains unclear to what extent the content/processes of the report itself have been audited or independently reviewed in its entirety i.e. as a whole. As such it remains the opinion of Maplecroft that Alcan should ideally seek to obtain independent verification of future reports. Although costly, the process of checking the relevance and accuracy of facts and figures, as well as the systems and processes that generated them, significantly adds to the credibility and, in many cases, quality of the report. At the least, future reports should include an unedited independent review by a range of experts in the field, with any recommendations accompanied by a discussion of Alcan's response and planned actions.

3 Management structure

Alcan's commitment to sustainability is evident in its appointment in 2003 of a Sustainability Steering Team reporting directly to the Executive Committee. The Team brings together senior business group representatives and corporate function leaders, ensuring the necessary high-level input to the overarching goal of integrating sustainability into mainstream business strategy and culture. Alcan's report provides a more detailed account than most other companies of the Team's work programme during the reporting year.

Crucially, the report provides clear evidence of steps towards embedding the 'Alcan 8' issues, with the appointment of sustainability champions within each business group and the formation of internal networks. The current report is largely issue focussed, but future reports might also elaborate on measures taken to create a sustainability mindset within key function areas e.g. procurement, human resources and EHS.

¹ Given Alcan's exceptional reputation on environmental and social issues, one might expect it to report 'in accordance' with the GRI to enhance comparability with other companies. If a conscious decision has been made not to report in accordance, then Alcan might consider explaining 'why' this is the case more clearly to the reader e.g. because of lack of flexibility or because the GRI indicators and process used do not fully represent the issues Alcan feels it is necessary to address.

4 Review of core issues

4.1 Climate change

4.1.1 Position

Alcan has adopted a leading position on the issue of climate change, recognising that, 'the future acceptability of its operations and products will be judged, in significant measure, by its ability to reduce the intensity of its greenhouse gas (GHG) emissions.' Alcan describes its approach to climate change as 'prudent, pragmatic and voluntary,' and this is evidenced in the array of partnerships it has formed with other companies, government and non-government organisations on this issue, detailed in the report. Alcan has set itself an ambitious target to be climate neutral by 2020 through the full life cycle assessment of its products.

4.1.2 Programmes

The report includes a good explanation of Alcan's impact on climate change, with 75% of GHG emissions coming from smelting activities in producing aluminium. Crucially, GHG emissions management is a fully integrated component of Alcan's EHS FIRST and business management systems. Indeed, all sites are required to produce an inventory of all GHG-related emissions. In 2001, Alcan launched TARGET – a GHG reduction programme which uses a moving baseline to allow for a comparison of reductions to a reference year, and allows for adjustments to reflect corporate changes due to acquisitions, divestments etc.

There is also evidence in the report of Alcan's significant work with external stakeholders to reduce its GHG emissions, and improve measurement and reporting in this area. Notably, Alcan participated in the G8 Climate Change Roundtable at the World Economic Forum annual meeting in 2005 which pressed for urgent global action on this issue. Alcan also participated in the Organisation for Economic Cooperation and Development's (OECD) Round Table on Sustainable Development to explore the role that sectoral strategies could play in reducing GHG emissions. Alcan is participating in the ISO work to develop an international standard to measure and report GHG emissions, known as ISO14064. Finally, Alcan is one of the first companies to take part in the World Economic Forum's Global Greenhouse Gas Register launched in January 2004 to promote corporate GHG emissions transparency.

Beyond extensive discussion of climate change issues in relevant fora, Alcan has committed itself to specific GHG reductions through a number of industry initiatives, including a landmark agreement with the government of Quebec, AERES in France (targeting 33% emissions' reductions between 2005 and 2007, compared to 1990), and the Climate Change Leaders programme in the US. It would be interesting to know how these commitments perform/fit with Alcan's own rigorous longer-term goal to be carbon neutral in its products by 2020.

4.1.3 Performance

Absolute GHG emissions increased between 2003 and 2004, due to the integration of new sites and a change in the energy mix. Unfortunately, the report does not show GHG emission levels excluding these new sites, thus making direct comparison with previous years difficult. Nevertheless, there are clear signs of significant progress over the last few years as a whole. During the first four years of TARGET (2001-04), Alcan reduced GHG emissions by 2.9 million tonnes, significantly surpassing its objective of 575,000.

Alcan identifies three 'key challenges and opportunities' for its future work on climate change:

- Continue process-related improvements (including energy efficiency) to reduce greenhouse gas (GHG) emissions from operations.
- Continue to develop more efficient products, the use and disposal of which contributes to lower GHG emissions.
- Continue efforts with other companies, governments and third parties to ensure that pragmatic and cost-effective solutions are found to reduce GHG emissions.

These challenges and opportunities could be more clearly linked to time-bound targets and actions that illustrate neatly how Alcan is going to achieve its overall goal to be carbon neutral by 2020.

4.2 Product stewardship

4.2.1 Position

It is highly commendable that Alcan includes product stewardship as one of its eight priority sustainability issues, and assumes 'the greatest share of responsibility' for this as a product manufacturer. Indeed, as Alcan recognises, sustainability must involve taking into account a broad range of impacts over the entire life-cycle of a product, including not only environmental, but also social- and long-term impacts on resource availability, climate change and consumer behaviour. The report provides a good explanation of Alcan's understanding of 'life cycle thinking', an approach which seeks to address impacts from the earliest stage of product design, through to manufacturing and recycling. Alcan describes this approach as a matter of long-term stability, competitive advantage and profitability for the company, evidence of which is provided in examples of Alcan's work programme.

4.2.2 Programmes

The report includes an interesting case-study showing how investment in research and development activities over the last few years have allowed lightweight aluminium to replace steel components in vehicles, reducing the environmental impact of the vehicles during their life-cycle. The report would benefit from additional case-studies of how life-cycle considerations have been taken into account in specific products, and what changes have been made as a result, particularly where sustainability and financial concerns are not so clearly aligned.

Importantly, the report provides evidence of ways in which Alcan is promoting product stewardship as 'a way of doing things', rather than as a separate programme. Notably, Alcan is currently developing a product stewardship 'toolbox' in order to introduce the concept into existing decision-making processes. An assessment of impacts along the product life-cycle is also integrated into Alcan's Future Options programme, designed to collect and assess ideas for new technologies, as well as packaging R&D.

4.2.3 Performance

Examples in the report of how life-cycle thinking is being applied to specific products show significant success. In 2004, for example, Alcan shipped about 250,000 tonnes of aluminium for vehicle applications, estimated to reduce GHG emissions by more than six million tonnes during the vehicles' life-cycle. A new building façade for solar-based electricity production is estimated to lead to GHG savings of 300-1000 kg per square metre. Again, the report would benefit from additional case-studies showing the quantifiable impacts of a life-cycle approach. Progress towards meeting the requirements of international standards such as the ISO 14040 on the methodology of life-cycle assessments would also be of interest.

4.3 Well-being

4.3.1 Position

Alcan identify the concept of 'well-being' as covering an array of issues including occupational health and safety, work-life effectiveness, mental health, smoking and employee fitness. It covers both Alcan's direct impact on employees, suppliers, communities and consumer health, as well as the company's contribution to progress on broader community issues, for example HIV/AIDS. The wide definition of well-being recognises very clearly Alcan's emerging 'sphere of influence' ... in particular with respect to the health and safety impacts of its operations in both developed and developing countries.

A quote from the report:

'...while it [well-being] includes the direct impact on employees, suppliers, communities and consumer health, well-being is also an area where Alcan recognises its role as a contributor to making progress on broader community issues, whether they be HIV/AIDS or other diseases prevalent in the community.'

4.3.2 Programme

Despite this broad definition however, the report focuses mainly on occupational health and safety with only minimal discussion of the other areas.² Alcan's occupational health and safety system, EHS FIRST, applies at all sites in all Alcan business groups and is aligned with the international occupational standard OHSAS 18001. There is also significant evidence of ongoing measures to embed these standards, with over 90 managers' training sessions held in 2004, reaching some 2,000 participants who will continue training others.

The report also highlights two interesting initiatives undertaken on a more decentralised basis:

- Awareness-raising 'Health Days' timed to coincide with periodic medical examinations.
- 'Bonsai Awards' which reward best internal practices in EHS.

Alcan could improve its discussion of these issues further by demonstrate the significance of its actions in the context of the company's operations, and providing insight into the programme of work going forward.

Note: Alcan does shows definite responsiveness and continual improvement in the health and safety area, having carried out a 'fact-based analysis' of mobile-equipment risks following four fatalities in 2004, the recommendations of which are now being implemented including the appointment of a senior EHS resource position.

4.3.3 Performance

The most important performance indicator highlighted in the report is that all sites (except those newly acquired) had achieved the company goal of full compliance with the EHS FIRST standard by the end of 2004, although no explanation is offered as to why only 53% of sites are actually OHSAS 18001 certified. Other indicators also show positive results, with a 33% improvement in the lost time due to injury/illness rate, and a 37% improvement in the recordable case rate. Despite these improvements, serious injuries and fatalities remain a concern with twice the number of deaths in 2004 compared to the previous year (4 deaths in 2004), and Alcan's next report will hopefully show the impact of a new action plan currently being implemented. It is a pity that there is insufficient information to evaluate the company's performance in other important areas of employee well-being, including work-life effectiveness, mental health, fitness etc.

5 Certification

Alcan helpfully collates the awards and recognition it has received during the reporting year in a sub-section of the report. In future reports, Alcan should consider listing its inclusions and rankings for all the reporting initiatives in which it participated, rather than selecting highlights. Nevertheless, the highlights of the company's performance are impressive, including:

- Top ranked company in the metals sector in *Fortune Magazine's* 'Most Admired Companies' list
- Ranked joint first place in its sector in the Dow Jones Sustainability World Index
- Inclusion in the FTSE4Good Index Series
- Innovest's highest ranking of AAA
- Ranked 3rd out of Canada's Best 50 Corporate Citizens by *Corporate Knights Magazine*

² A notable exception to this is the discussion on community engagement and fighting HIV/AIDS in Africa. At Silicon Smelters in South Africa, an HIV/AIDS management system has been put in place. The program, in place since 1999, encourages employees to undergo voluntary counselling and confidential testing.

6 Ethical Insight's comment

4 star rating: ★★★★★

Alcan's fourth sustainability report is excellent but in some respects does not do justice to its work in the sustainability field. Commendably, Alcan has worked with external stakeholders to identify a set of eight priority sustainability issues which could also be prioritised and aligned more clearly with performance indicators. Alcan is engaged in extensive stakeholder dialogue, yet stakeholder voices appear lacking from the report which was not subject to review or verification. Alcan is among the few exceptional companies to have established an ambitious, time-bound target for emissions' reduction, but it was unclear to what extent such targets had been defined for other areas – thus suggesting they could be better communicated. Filling these gaps and highlighting information more effectively will allow Alcan's next report to contribute even further to its leadership position in the field.

Reporting practices

Materiality – Alcan, in line with good practice, undertook a multi-stakeholder process to identifying a set of eight 'priority sustainability focus areas', known as the 'Alcan8'. Alcan could go further in its work on materiality by devising criteria for prioritising its key issues which could help in the development of a systematic, phased approach to sustainability management and reporting.

Transparency – The substantial 75-page report contains significant information regarding Alcan's activities and performance in its eight sustainability focus areas, some of which could be more effectively presented – through structured summary tables, for example. Alcan shows a real commitment to stakeholder engagement and could better convey in its report the voices of stakeholders. Closer attention could also be paid to potentially sensitive issues, such as political lobbying, environmental non-compliance and bribery/corruption.

Comparability – In future reports, Alcan should seek to report 'in accordance with' the Global Reporting Initiative (GRI) index which sets the international standard and is the most useful framework for inter-company comparisons. A good range of performance indicators are currently presented, with data provided over multiple years to allow comparison over time. However, time-bound targets and relevant actions need to be established in many areas and presented in a summary table. The data section itself could be much improved by introducing relevant categories, graphs and analysis/explanation of trends

Assurance and verification – Alcan has not opted for assurance or verification of its report which would help build credibility. Future reports should include an unedited independent review by a range of experts in the field, with any recommendations accompanied by a discussion of Alcan's response and planned actions.

Review of core issues

Climate change: Alcan has adopted a leadership position on climate change. Recognising the urgent need to reduce greenhouse gas (GHG) emissions, Alcan is among the few exceptional companies to have committed itself to an ambitious (but feasible), time-bound emissions' reduction goal, specifically to be carbon neutral across the full life-cycle of its products by 2020. Alcan also participates in several voluntary GHG reduction initiatives, as well as multi-stakeholder discussion fora. Importantly, the report details the goal of reducing GHG emissions is integrated into the company's management systems and there is evidence of progress over the last few years, although absolute GHG emissions increased between 2003 and 2004 due to the integration of new sites.

Product stewardship: It is commendable that Alcan includes product stewardship as one of its eight priority sustainability issues, as taking into account a product's impact over the full life-cycle is indeed vital. Importantly, the report provides evidence of ways in which Alcan is promoting product stewardship as 'a way of doing things', rather than as a separate programme. Two examples of how life-cycle thinking is being applied to specific products show significant success. However, the report would benefit from additional case-studies highlighting changes as a result of life-cycle considerations, particularly where sustainability and financial concerns are not clearly aligned. Progress towards meeting the requirements of international standards such as the ISO 14040 on the methodology of life-cycle assessments should also be monitored and reported.

Well-being: Alcan's concept of well-being is extremely broad, incorporating issues of occupational health and safety, work-life effectiveness, mental health, smoking and employee fitness. But this section of the report focuses largely on occupational health and safety. Health and safety issues are clearly taken seriously – Alcan's health and safety system, EHS FIRST, is applied at all sites, with considerable training. Despite improvements in lost time due to injury/illness and some other key indicators, serious injuries and fatalities remain a concern with four deaths in 2004, compared to only two in the previous year. Alcan has shown itself to be responsive to the problem and its next report will hopefully show the impact of a new action plan currently being implemented.

7 Appendices

7.1 Maplecroft's Ethical Insight report review criteria

Maplecroft's Ethical Insight report reviews are based on a four-pillar framework, taking into account reporting practices, corporate responsibility management structure, management systems (policy, programme and performance), and certification. The review of management systems considers the company's core issues as identified by the company in its report and by Maplecroft on the basis of the company's industry sector. Maplecroft is currently developing a map of core issues by sector which will be available shortly. The report review criteria are not comprehensive, but are designed to highlight the most significant practices and performance within each company, as well as important omissions and areas for improvement in future reporting.

- **Reporting practices** are reviewed on the basis of four key reporting principles:
 - **Materiality:** Does the report cover all the key issues relevant to the sector? Does the report provide the context and relevance of each issue to the company? Has the company engaged with key stakeholders in identifying and exploring material issues?
 - **Transparency:** Does the report disclose regulatory non-compliance? Does the report make other sensitive or groundbreaking disclosures? Is there public reporting at the local level?
 - **Comparability:** Does the company report in accordance with the GRI guidelines or other external metrics? Have internal metrics and data collection/management systems been developed? Does the report clearly present key indicators and targets?
 - **Assurance and verification:** What type of assurance and verification are provided? What is the scope of assurance and verification? What are the feedback / results of the assurance and verification process?
- **Management structure** is assessed on the basis of three main criteria: Is there a board level CSR Committee (or equivalent) in place? Is there a dedicated CSR network in place? Has the company signed up to any best practice principles or external bodies?
- **Management systems** incorporate principles (governance level), policies (strategic level), procedure and guidance (executive level) and practise (operational level). For a selection of the company's core issues, Maplecroft reviews policy, programme and performance.
- **Certification** refers to the company's listing on sustainability indices, such as the FTSE4Good and Dow Jones; external certification such as SA8000 and ISO14001; and any external awards received during the reporting year.

7.2 Previous Ethical Insight report reviews

Ethical Insight includes a review of a company sustainability report in each fortnight's edition. These reviews, together with the original report, can be accessed from the Maplecroft website at <http://www.maplecroft.net>.

Previous Maplecroft reviews are as follows:

- ABN Amro Sustainability Report 2003
- Alcan Corporate Sustainability Report 2004
- Alcan Corporate Sustainability Report 2005
- Alcatel - Sustainable Development Report 2004
- Anglo American Report to Society 2004
- BAA Annual Report 2003/2004
- BAE Systems Corporate Responsibility Report 2003
- BBC Corporate Sustainability Report 2004
- BHP Billiton Sustainability Report 2005
- BP Sustainability Review 2004
- Cadbury Schweppes Corporate and Social Responsibility Report 2004
- Citigroup Citizenship Report Review 2004
- Coca-Cola's 2004 Citizenship Report
- Co-operative Group corporate responsibility report 2003
- Ford Sustainability Report 2004/05
- HSBC Corporate Social Responsibility Report 2004
- Hydro Corporate Social Responsibility Annual Report 2003
- Marks & Spencer Corporate Social Responsibility Report 2005
- Merck Corporate Responsibility Report 2005
- NEC Corporate Social Responsibility Report 2005
- Nike Corporate Responsibility Report 2004
- Rio Tinto 2004 Sustainable Development Review
- Royal Bank of Scotland's Corporate Responsibility Report 2004
- Royal Mail Corporate Responsibility Report 2004
- RWE Corporate Responsibility Report 2003
- Shell Foundation 'Enterprise solutions to poverty' Report 2005
- Standard Chartered 2004 Corporate Responsibility Report
- TPG annual report 2003
- TPG Corporate Sustainability Report 2004
- Unilever Social and Environmental Reports 2004
- Vodafone Corporate Social Responsibility Report 2003/04
- Volkswagen Sustainability Report 2005/06
- WestLB Sustainability Report 2005
- Westpac Stakeholder Impact Report 2004

7.3 Ethical Insight's sustainability reporting services

The Ethical Insight team at Maplecroft works with global organisations across all sectors, providing a range of specialist corporate responsibility advisory services. Further details about the wider range of Maplecroft services and the Maplecroft team are available at <http://www.maplecroft.net>.

In the area of sustainability reporting, we have considerable expertise in the full range of management systems that underlie effective social and environmental reporting, including auditing, indicators, monitoring, impact assessment and performance management. Maplecroft is also experienced in report writing, verification and assurance, having contributed substantively to several award winning reports.

The Ethical Insight team is also able to provide independent assurance and verification services of the highest standard, including in accordance with GRI and AA10000 criteria.

Maplecroft has developed a number of proprietary tools to assist companies in the reporting process. Specifically, we have developed the *Principles-plus multi-audit etool*, a practical and comprehensive auditing method that brings together a host of social and environmental standards, international best practice principles and instruments of corporate citizenship in a set of worksheets. The tool is designed to help companies assess their conformance with best practice requirements and identify the specific areas in which performance can be improved. A corrective action request form assists in the performance management process.

Maplecroft has also developed a *Human rights monitoring mechanism*, a straightforward electronic human rights survey, which can be used and adapted by companies to provide a detailed picture of human rights risk in its operations around the world. The survey assesses the human rights situation and management systems in place at the country level which, together with external country and issue specific human rights research, allow for a detailed analysis of the company's risk of complicity in human rights violations, and specific recommended action points.

The Ethical Insight team comprise fully trained and experienced SA8000 and ISO14001 auditors.

Please call us or email to discuss how our award winning Ethical Insight team might help:

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