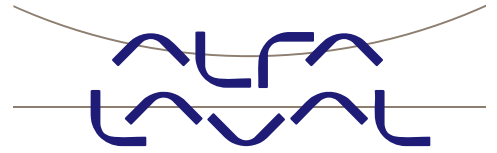


Business Principles

Progress Report 2008



Page 1 of 12. (Published 26th March 2009)

1.0 Introduction.

[Alfa Laval's Business Principles](#) form the basis for its work on Sustainability. The Alfa Laval Annual Report pages 34 to 41 for the financial year 2008 gives a summary of the main sustainability activities of the Group. This report supplements the Annual Report with additional information about key initiatives in 2008 – for ease of comparison this report broadly follows the same structure as the 2006 and 2007 progress reports. We intend to publish more detailed information and statistics on 1 May 2009 in the Alfa Laval GRI (Global Reporting Initiative) Sustainability report which will be available through the Alfa Laval web site.

2.0 Environment Progress 2008

2.01 ISO 14001 - a total of over 80 % of deliveries were from certified sites as at 31st Dec. 2008

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 had gained ISO 14001 certificates (representing a 47% of our factory deliveries by value). By the end of 2007 11 sites (representing 69% of our factory deliveries by value) had achieved ISO 14001. Our target to have over 80% of our factory deliveries to be from certified sites was achieved in 2008 with 18 plants having ISO 14001 certification. We will continue this process during 2009 when more sites will achieve ISO 14001 certification.

2.02 The Alfa Laval Environmental Management System was operating at Bronze or Gold level in a total of 53 sites as at 31st December 2008.

Larger manufacturing sites have to reach the Gold level of our environmental management system. This means that they have achieved ISO14001 certification and they are continuously setting targets to reduce their environmental impacts. We call the targets “Star Goals”, which are set as a normal part of the annual business target setting process. Star Goals means that every site monitors the same environmental aspects as a minimum.

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 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 less than 10 full-time employees).

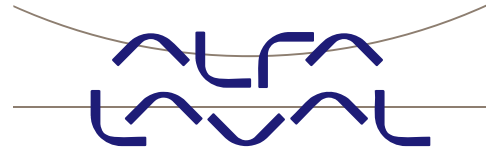
All manufacturing sites and workshops must report environmental data via the group EMS system. 71 sites (64 in 2007) reported environmental data in 2008 and 53 sites (43) had achieved Bronze or Gold status.

2.03 Our environmental data is improving in quality but there will always be some errors.

Environmental data is collected centrally once per year at which time the data is scrutinised and checked for consistency and validity. During this process several sites have been identified with missing or incorrect data from previous years' reporting, caused by inexperience or poor quality source material. To make year-on-year comparisons, we only compare those sites where we have reliable data each year or where we can make appropriate adjustments for known errors. Out of the 71 sites reporting in 2008; 64

Business Principles

Progress Report 2008



Page 2 of 12. (Published 26th March 2009)

sites also reported data in 2007 from which a total of 55 sites can make reasonable year-on-year comparisons. These 55 sites represent approximately 83% of total site based carbon dioxide emissions.

We have to accept that it is likely that there will always be some errors in our environmental data from some small sites. This is because we report data from a large number of relatively small sites (50% of those reporting have less than 50 employees; only 20% have more than 200 employees). Since reporting environment data is generally an infrequent and small part of a person's job – only a few sites have a dedicated environmental responsible person – it is difficult to achieve and maintain a deep competence in the subject.

2.04 Since 2006 Alfa Laval has calculated Carbon Dioxide emission in a consistent way. Our method has some advantages and some limitations.

Alfa Laval has many small workshops across the world, many of these are service workshops close to the customer providing rapid repair and servicing of equipment. Since 2006 each site has to identify its sources of energy following the Greenhouse Gas Reporting Protocol definitions of scope 1 and 2 emissions. Scope 1 data is collected from purchase ledger and other internal documentation (e.g. LPG, Natural Gas, Light oil etc). This is converted to MWh using the conversion factors in the IPCC* energy sector guidelines. (*IPCC = Intergovernmental Panel on Climate Change)

Similarly, the indirect (Scope 2) energy consumption from electricity providers is collected locally from invoices and meter readings. The local Alfa Laval office requests the split of source of energy from its electricity supplier (hydro; coal, nuclear etc.) and the total MWh consumed is then reported in the database proportioned according to the type of source.

The central database subsequently calculates the tonnes of CO₂ emissions from these MWh values for each type of energy source using the IPCC energy sector factors.

This method has some limitations: Power stations in different countries can have different levels of emissions even though they have the same source of fuel (e.g. a coal-fired power station in China may have a different emission level than a coal-fired power station in the UK). Also, energy losses in the power distribution grid are excluded from the calculation.

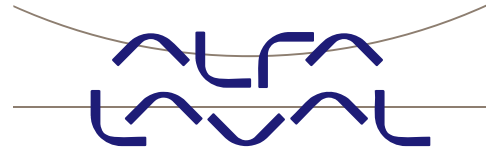
It should be noted that this method is not exactly the same as the method defined by the GHGRP which is used by many companies. (Although for reporting to the Carbon Disclosure Project we will recalculate according to the GHGRP methods).

However, the method also has some advantages that we feel outweigh the disadvantages:

- 1) The local reporting of energy is fairly simple – each site does not have to do their own CO₂ calculations which introduce considerable possibility for error.
- 2) The local management can see the relative changes for their own site i.e. what difference a switch to another (“greener”) energy-provider will give.
- 3) Local management can benchmark with other similar sites in Alfa Laval more easily because the calculation method is the same.
- 4) The underlying calculation method is consistent from year-to-year and figures are not distorted by changes in the average emissions at each national level. Thus the effects of site-level energy saving initiatives can be clearly seen.
- 5) Centrally we can easily restate the emissions historically or calculate total CO₂ figures to other standards because energy source, amount and location are known.

Business Principles

Progress Report 2008



Page 3 of 12. (Published 26th March 2009)

2.05 We have quantified our carbon dioxide emissions and are on the road to achieve our reduction targets.

Alfa Laval has a target to reduce its carbon dioxide emissions for comparable operations by 15% over a 5 year period between 2007 and 2011. Alfa Laval has conducted a value chain approach to identify significant environmental impacts and opportunities. This is described in appendix 1 of the 2007 Business Principles Progress Report and is largely unchanged in 2008.

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 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 CO₂ emissions in 2008 relating to Alfa Laval's production, delivery and sales processes total approximately 92,000 tonnes (93,000). This is split 42% for goods transportation; 22% employee travel including company cars; 36% from production and service workshops.

During 2008 an additional 7 sites were added to our environmental reporting from companies acquired during the past 3 years. These represent additional CO₂ emissions of 4,000 tonnes, which means that on a comparable basis Alfa Laval reduced its emissions by 5,000 tonnes (over 5%) during 2008.

2.06 Our consolidated environmental reporting is not yet externally audited.

All sites with ISO 14001 certification have regular external auditing of their processes. However, our consolidated environmental reporting is not yet externally audited. We still feel that we are identifying opportunities to improve our systems and data reliability from internal activities so that employing external auditors at this stage would not be cost effective. As we have gained experience of environmental reporting we also have increasingly realised that this is a developing field that still lacks effective and well accepted reporting standards.

2.07 Environment Projects start to have an effect to reduce Scope 1 and 2 GHG Emissions.

Site-based GHG emissions in 2008 represent 36% of total calculated emissions. Site-based emissions are mainly from indirect energy consumption (electricity) which is used for heating and cooling and lighting the workplace, and to power computers and machinery. Alfa Laval's production processes are generally not energy intensive – the majority of the processes are pressing and machining stainless steel. Some heat exchanger production requires the use of ovens for the brazing process – these sites have the highest energy consumption.

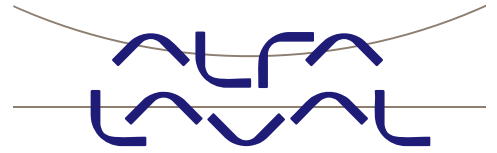
Site-based emissions were reduced by approximately 8% during 2008 when compared with 2007, excluding acquisitions. Whilst this headline figure is pleasing, we must allow for the possibility of some reporting errors being identified in the future (see 2.03) before we celebrate too much!

However, those sites with reliable data reporting are also those earliest to adopt energy and GHG reduction projects and so we are fairly confident that these savings will be maintained. Larger scale projects are reported centrally and at the end of 2008 we are tracking 89 such projects. Of these: 22 have been completed; 49 are in progress; 16 are in the planning phase and 2 have been delayed. Examples of projects are illustrated in the 2008 Annual report. (Installation of solar panels in Pune, India, to heat water needed for product testing; redesign of the production process in Alonte, Italy to eliminate the need for washing products during production).

2.08 Goods transportation has a significant impact on the total carbon dioxide emissions.

Business Principles

Progress Report 2008



Page 4 of 12. (Published 26th March 2009)

Goods transportation represents approximately 42% of Alfa Laval's total calculated GHG emissions. The main driver for GHG emissions is airfreight, which has been a very cost-effective method of transportation during the past few years as sales have grown rapidly with consequent pressure on production capacity and logistics.

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 to suppliers 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 very limited. Our best approach to reduce the impact from transportation is to switch volume from air freight to surface transportation. This is not necessarily straight forward because air freight provides an opportunity to reduce inventory as well as giving reliable delivery precision. We do not expect easy wins in this area, but work to identify components that can be switched to surface transportation is underway.

Influencing customer behaviour is a key part of this change. Many customers specify airfreight as a part of their order for the increased security of delivery accuracy, particularly when the Alfa Laval products are a relatively small proportion of a much larger project and the cost saving of sea freight is not significant.

The central transportation department have the overview of all product shipping and it is their responsibility to identify and take opportunities to reduce GHG emissions. This is a difficult task with close to 100,000 transactions being analysed in 2008 to identify opportunities to shift from airfreight to surface transportation. When making this shift, the whole logistics chain has to be reviewed, with increased stock and warehousing is needed before the change can be effected.

The transportation department have targets to reduce the average emissions (g CO₂ per tonne km) of transportation. Their target is to reduce emission by more than 15% between the years 2007 to 2011. The various projects undertaken resulted in a decrease from 115,8 g/tonne-km in 2007 to an average of 114,6 g/tonne-km in 2008. However, the 2008 average was negatively influenced by some very large air freight shipments in the first part of 2008 which were specified by the customer. Average emissions for the last two quarters of 2008 were 109,1 and 107,5 g/tonne-km which means we believe the projects are having a positive effect on the average and that we are on track to achieve our overall reduction target.

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

The Alfa Laval Annual Report 2008 (particularly pages 10 to 17) illustrates several environmental applications of our products. The November 2007 issue (January 2008 issue of the on-line version) of the customer magazine "Here" highlights several other environmental applications. For decades, our products have been essential components in many energy saving, waste stream processing and environmental protection systems and we are continuously developing new products and technologies for these applications. However, in recent years the growing concern about climate change and environmental protection means that the environment is a growing value of our customers. Thus, recent market communication and promotional material places stronger emphasis on these factors.

We are sometimes asked "How much of Alfa Laval's business is cleantech?"; we find this a very difficult question to answer because we have found no consistent definitions of what constitutes "green" or "cleantech" business. Because the efficient use of heat energy is one of our core competences we estimate that over 50% of our business and maybe over 70% provides our customers with the opportunity to reduce their negative environmental impacts.

Business Principles

Progress Report 2008



Page 5 of 12. (Published 26th March 2009)

2.10 Alfa Laval compact heat exchangers are already saving millions of tonnes of carbon dioxide emissions.

Our compact heat exchangers save a considerable amount of energy compared with the traditionally installed shell-and-tube type of heat exchangers, when used in energy-intensive industries such as oil refineries. We estimated in 2007 that the installed base of Alfa Laval compact heat exchangers in these industries are already saving over 10 million tonnes of CO₂ emissions per year. The potential future 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.

2.11 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.

The Chairman of the Environmental Council reports directly to the Company President and Chief Executive Officer. Environmental targets, data and initiatives are discussed regularly in the Group Executive Management Meetings and at least once per year in the Board Meetings.

As environmental performance becomes more and more in focus in society, many initiatives are taken in individual units in Alfa Laval. The Environmental Council focuses on those initiatives that are considered to be critical to the main environmental impacts of the whole company. As well as monitoring the progress towards our target of GHG emission reduction; issues in focus during 2008 included the implementation of Environmental Life Cycle Assessment; better control of chemicals; evaluation of environmental certification of products.

2.12 Environmental Life Cycle Assessment of core products was further implemented in 2008.

To reduce the life-time environmental impact of our products we have introduced an environmental Life Cycle Assessment (LCA) into our new product design and development process. Four key products were selected for initial life cycle assessments during 2006. These projects were finalised in 2007 with the result that the Eco-indicator 99 methodology was selected as the standard for LCAs in Alfa Laval. (This method was developed by joint research between academic, government and industry teams in the Netherlands and Switzerland and partially funded by one of the ministries of the government of the Netherlands).

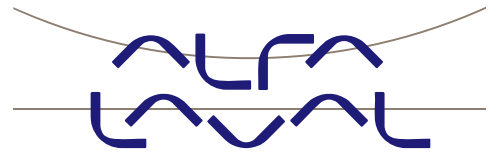
In 2008 the Eco-indicator 99 method was implemented in the new product development process in 4 of the largest product groups within Alfa Laval. In 2008, 20 new products were assessed using LCAs. Of these 10 were replacements of existing products with an average reduction of environmental impact greater than 20 percent. All the new products have a lower environmental impact than the products they replace.

2.13 Progress has been made to implement the restricted and prohibited chemicals lists .

The "Black/ grey" list was updated and a new list published in December 2007. During 2008 our focus has been on improving the communication of the restricted and prohibited chemical standards and compliance procedures. This effort has been reinforced by the work to ensure we comply with the "REACH" legislation within the European Union.

Business Principles

Progress Report 2008



Page 6 of 12. (Published 26th March 2009)

Several uses of prohibited chemicals have been eliminated during 2008 resulting in a reduction of 34% by weight even though an additional 11% were added through acquisitions. The quantities will drop considerably in 2009 because a major proportion of prohibited chemicals were used in an old product cleaning facility which was replaced in December 2008.

During 2008 prohibited chemicals were identified in 13 (14 in 2007) different applications on 10 (10) different sites of which 1 site and 4 applications were added during 2008 due to acquisitions.

However, although the total quantity by weight will be reduced significantly during 2009, we anticipate that our efforts in this area will mean we will constantly identify small amount of prohibited chemicals used in day-to-day operations.

One example found during 2008 was that some small repair workshops were using generic penetrative dyes for crack detection which were found to contain some prohibited chemicals. This example illustrates that, to achieve our goals, we require control processes whereby employees with no specialised chemical qualifications can identify constituent chemicals within purchased products and quickly check their acceptability according to the to the latest chemical restrictions (the list of which contains over 400 restricted or prohibited chemicals). If necessary, they have to then identify alternative products that are acceptable but also achieve the technical task required of them.

To help with this complex and technical task we have a central materials and chemicals department and laboratory, based in Sweden which is a competence centre and have the responsibility to update and communicate the internal standards as well as provide assistance to all company units in the implementation of our standards.

2.14 Environmental considerations 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, made up a total of 80% of Alfa Laval's purchased value to the factories

During 2008 a questionnaire was designed and sent to suppliers whose volumes represented approximately 80% of total purchased value. This was approximately 215 suppliers. Of these 177 replied which, combined, represent between 50 and 60 % of total purchased value. Those who did not reply received several reminders, but some still declined to respond. This lack of response slowed down our analysis and so a decision was taken to work with the companies who did respond and tackle those who either ignored or refused to reply at a later date.

The analysis of those who responded shows that 65% of suppliers have an Environmental Management System across all or part of their production; 43% have an EMS that is certified to ISO14001 standard.

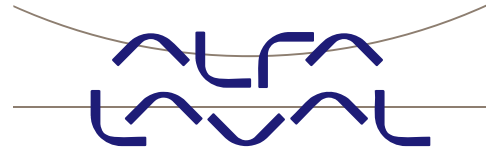
Only 32% of suppliers calculate their CO₂ emissions and 26% have published targets to reduce CO₂ emissions. 48% produce a written report on their sustainable development activities.

Alfa Laval's goal is to influence suppliers to increase the number who are actively working to reduce their GHG emissions. Our main target is that suppliers should have GHG reduction targets and publish public reports on their sustainable development activities.

We had an ambition that suppliers should be qualified according to our "bronze" level of environmental reporting. However, we have realised that this is impractical – suppliers are facing ever increasing requests for environmental data from their customers and this is rapidly creating a paper mountain. We, as their customers, cannot reasonably analyse such a mass of data produced by such a process. We will therefore modify our ambition level to a more pragmatic solution based on increasing the proportion of our supply base with good GHG monitoring and reductions targets.

Business Principles

Progress Report 2008



Page 7 of 12. (Published 26th March 2009)

2.15 Company Car Policy reviewed to reduce carbon dioxide emissions

Alfa Laval's company cars are all leased. Company cars are often essential tools for the jobs of service technicians and sales personnel; we also have many company cars that are part of the employment package for management. 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 when cars are replaced. Initially this activity focused on the car fleet in 16 European countries. During 2007 this activity was expanded to include a total of 56 countries. In 2008, now with a much clearer overall view of the global leased fleet, a new policy was introduced to further reduce the average carbon dioxide emissions from leased cars. The new policy limits the choice of cars to those with attractive CO₂ efficiency whilst still providing a safe and relatively stress free working environment.

In total the car fleet represents approximately 10% of Alfa Laval's total calculated carbon dioxide emissions. This is calculated based on the maximum number of kilometres in each lease agreement multiplied by the g/km rating of the car. Of course, company cars are used extensively for private mileage by the employee – we make no deduction from our calculation for this and so the actual CO₂ emissions relating only to Alfa Laval's business would be significantly lower than shown here.

2.16 GHG Emissions from Employee business travel increased in 2008 by more than 10%

Calculating the CO₂ emissions from employee travel is probably the least precise of all our measurements. We attempt to do this through close liaison with our travel agents who monitor the reservations and calculate the emissions accordingly. Not all travel agents have this capability and so we concentrate on the 10 countries with travel agents with the systems in place in Western Europe and the USA. These countries contain most of our global product support centres from which most international travel originates and so we "capture" the majority of environmental impacts in this way.

We only report emissions from air transportation which is, by far, the greatest cause of CO₂ emissions in employee transportation. We have found it to be hugely complicated to measure rail, rental car and other transportation for which many transactions do not pass through travel agents. Our analysis, based on data gathered in 2006 & 2007 has shown that other transportation has a very small CO₂ impact compared with air transportation. (see 2.15 re. company cars).

Emissions from air transport in the countries measured increased by 8% due to increased business volume (particularly in Asia). We have therefore estimated on a global basis that these emissions increased by approximately 10% in 2008.

Alfa Laval's global business presence means that international air travel is an essential part of providing customer service. Our main focus is to reduce the air travel for internal business. Telephone conferencing and web-based meetings are now common-place. One opportunity is to reduce internal flights in Sweden with rail transport.

3.0 Social Progress 2008

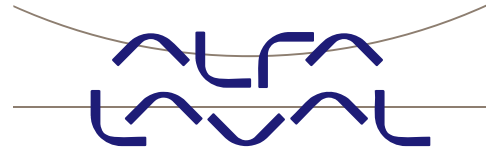
3.01 The supplier evaluation process in India has produced some results.

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 India in 2005; Alfa Laval developed a method to evaluate the social performance of suppliers.

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

Business Principles

Progress Report 2008



Page 8 of 12. (Published 26th March 2009)

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 31st December 2007 a total of 97 suppliers were included in the programme. By the end of 2007 a total of 275 supplier inspections have been carried out since January 2006.

In 2008 a total of over 126 suppliers were included in the programme. There have been total of over 400 inspections since the beginning of 2006. Our approach remains to focus on making improvements in those suppliers with greatest risk rather than extend the programme to every supplier.

3.02 We now know that our process creates improvement.

Our goal is that suppliers with poor social performance constantly improve to a minimum of full legal compliance.

The legal requirements in India (&China) are 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 in several countries, 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. When inspecting a supplier, points are awarded for over 50 different aspects of health, safety, working conditions and working environment. Repeated inspections allow us to measure the change of score.

During 2008 we analysed the suppliers who had the worst scores during 2007 to see if they had improved. Of the 35 suppliers that did not reach our minimum requirement in 2007; 34 had improved to a level above our minimum requirement. In 2008 we had a total of 27 suppliers below our minimum standard of which 26 had been newly included in the inspection process. We will follow up the progress of these "worst" suppliers during 2009 to help them improve to at least our minimum requirement.

We are often asked why we do not simply terminate suppliers that do not meet minimum requirements. Our driver for this type of work is to help create better everyday conditions for people. This means that we would rather help our suppliers to improve than move the business - with consequent potential unemployment for workers in social environments with (often) very little state welfare systems. It is also much more motivating for our purchasing staff responsible for this work to assist in improving working conditions in their local communities rather than act purely as a "ruthless" profit-oriented company.

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.

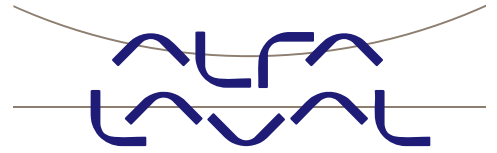
3.03 During 2008 we continued to build local competence for supplier evaluations in China and started this work in Mexico and East Europe.

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. At the end of 2008; 24 suppliers had been included in the process of which 22 had reached the qualifying level.

Alfa Laval joined with several other Swedish engineering companies in 2007 and again in 2008 to hold a two day conference in China for local purchasing staff on the subject of supplier social auditing. The goal

Business Principles

Progress Report 2008



Page 9 of 12. (Published 26th March 2009)

of the 2008 conference was to start to share best practice between the Swedish companies locally and to identify specific activities that could accelerate the supplier development processes in China.

During 2008 similar inspections were started in suppliers in East Europe (9 inspections) and Mexico (6 inspections).

3.04 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 or more day(s) lost from work. Statistics are consolidated from 32 (26 in 2007) factories.

Total number of accidents (including travel accidents) : 171 (141)

The number of accidents per million working hours: 13,3 (10,6)

Accident severity as days lost per million working hours: 585 (430)

Caution must be used when using this data for trend analysis. Our increased focus on health and safety and closer scrutiny of reported accidents may be having the effect of improving the quality of reporting.

New initiatives to further improve Health and Safety Management are a core activity for the Human resource function in 2009.

3.05 Equal Career Opportunity and Diversity continue to have a high profile during 2008.

Alfa Laval has a 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

The increased focus on Equal opportunity and diversity is reflected in the published 2008 annual report Pages 34 to 35.

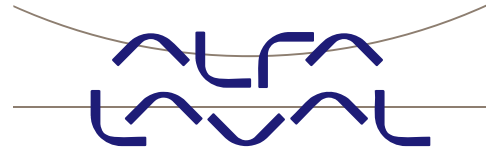
4.0 Business Integrity Progress 2008

4.01 Our process to secure good business ethics has structure.

Since 2006 we have broadly been following the recommendations of the Transparency International guidelines for combating bribery and corruption and their Six-Step Implementation Process.

Business Principles

Progress Report 2008



Page 10 of 12. (Published 26th March 2009)

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.

4.02 Business ethics policy review focussed on sales companies in 2006 and 2007

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. The reporting was continued in 2008.

4.03 Central management were the focus for business ethics training in 2008.

During 2008 the top management teams of the three divisions of Alfa Laval received training on business ethics. This was a modified version of the training given to the managing directors of the sales companies during 2007.

During the training each management team had to complete an ethical conduct risk assessment and subsequently conduct the same risk assessment in their management teams. In total this means that over 100 of the top central managers in Alfa Laval were involved in the risk assessment process.

Risks of non-compliance with our ethical code were assessed using a method that “forced” managers to produce a relative scale of risk across a number of ethical topics. The risk assessment results from each management team were collated to determine the most significant perceived risks of non-compliance from a corporate viewpoint.

4.04 Risks have been identified and corrective action taken

No urgent immediate risks were identified in the process described in 4.03 above – however the risk process used “forces” certain issues to the surface that would benefit from more attention. Some areas where our internal policies can be improved both in content, communication and enforcement have been identified and corrective actions are being put in place.

4.05 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 and 2008. The report includes questions such as: The number of employment discrimination cases raised against Alfa Laval during 2008 = 1, (2007 = 1) and the number where Alfa Laval has been found to have acted illegally in 2008 = 0 (0). The number of disciplinary proceedings taken against employees who breach the Business Principles in 2008 = 2 (4).

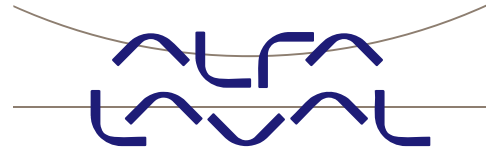
4.06 The Business ethics review will continue in 2009.

During 2009 we will continue to strengthen some of our internal policies, conduct training and implement improved documentation that managers are fully aware and compliant with our Ethical standards.

5.0 Transparency Progress 2008

Business Principles

Progress Report 2008



Page 11 of 12. (Published 26th March 2009)

5.01 The environment has a higher profile in marketing and internal communication during 2008.

Climate change and global warming remained issues for public and political debate during 2008. 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 18th November 2007. The increased commercial significance of environmental solutions is reflected in Alfa Laval's product marketing which features increasingly more environmental information. The 2007 and 2008 annual reports contain more environmental product application examples than ever before.

5.02 The Annual Report is supplemented by a GRI report on the web for the first time in 2009.

Alfa Laval Annual Report 2008 contains more quantitative information on sustainability than ever before. However for the first time in 2009, this will be supplemented on the Alfa Laval web site with data reported along the guidelines set by the Global Reporting Initiative (GRI) Version 3.0. Principally intended for those wishing to conduct in-depth research into Alfa Laval's sustainability work (e.g. SRI analysts) this file will contain much more detailed data than previously published by the company. We expect to publish the GRI report on 1 May 2009.

5.03 But, our focus remains on continuous improvement - not data reporting.

Our focus has always been to identify improvement opportunities quickly and then take action rather than produce a mass of statistical data for its own sake. As we have gained experience of reporting we have increasingly realised that this is a developing field that still lacks effective and well accepted reporting standards.

Our reporting is increasingly focused in three key documents: The Company Annual Report; The Business Principles Progress Report and the GRI report.

We do feel pressure from various stakeholders for other and more detailed statistics. In some cases we feel that certain types of requested data does not relate to the significant risks and opportunities for improved environmental performance of Alfa Laval's business. We try to meet these requests but increasingly we will reduce the reporting to the "Vital Few" measurements that drive real improvement.

Over time, we intend to include the answers to some of these questions, in addition to the reports mentioned above, in the GRI report file so all analysts can see them.

5.04 We continue to meet interested external parties

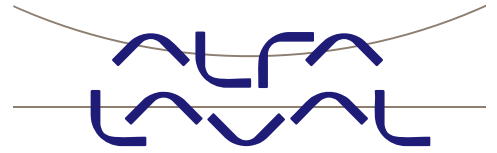
Meetings with SRI analysts have continued in 2008 as in previous years with the addition of three new interested parties. We hope these meetings will continue because they give us encouragement and useful advice. We are very pleased to meet SRI analysts: please contact Gabriella.Gotte@alfalaval.com to 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 2008. Students can contact david.ford@alfalaval.com to arrange a meeting.

5.05 Our links with other Swedish Manufacturing Companies are important

Business Principles

Progress Report 2008



Page 12 of 12. (Published 26th March 2009)

We continue to benefit from our meetings with other Swedish manufacturing companies during 2008. In these meetings we share methodologies and they have helped Alfa Laval to gain insights into best practice in Corporate Social Responsibility.

In 2008 we joined with other Swedish engineering companies to run a conference in China focussed on developing best practice when assessing suppliers in China for social and environmental performance.

These meetings and joint training events will continue during 2009.

5.06 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.