

Sustainability



Vision:

Committed to creating better everyday conditions for people

Alfa Laval's products are often at work at the very heart of our customers' processes, where they optimize the energy use and reduce environmental impact. They also indirectly contribute to creating better everyday conditions for people as they participate in the pasteurization and processing of milk or fruit juices; the processing and refrigeration of food; the creation of a comfortable indoor climate; the production of bio-fuels for cars and buses; the reduction of pollution from diesel engines; the production of pharmaceuticals and the cleaning of wastewater from domestic and industrial processes.

Our products are used to help create better everyday conditions for people in so many ways, providing us with a natural driver for the way we act and do business. This is encapsulated in our Business Principles, which are based on the United Nations' Global Compact and are the result of a consultation involving Swedish investors, trade-union representatives and employee representatives from the European Works Council, as well as sustainability consultants.

Alfa Laval's Business Principles

Environmental: Optimizing the use of natural resources is our business.

Social: Respect for human rights is fundamental.

Business Integrity: High ethical standards guide our conduct.

Transparency: Our commitment to open dialogue builds trust.

Alfa Laval's structure for working with sustainability

When the Business Principles were launched, it was stressed that they must apply to the entire organization. For this to happen, line management has to be responsible for implementing improvements. At the same time, a management structure was developed to decide on Groupwide priorities:

- Alfa Laval's Board of Directors reviews results, progress, priorities and targets at least once a year.
- Group Management sets annual goals, decides on priorities and allocates resources for all areas covered by the Business Principles, as a regular part of its meetings. It also discusses in detail specific projects regarding social and business ethics.
- The Environmental Council is responsible for environmental oper-

ational decisions, project establishment, results and progress reviews. It is also responsible for the environmental management system, data reporting processes and tools. It makes recommendations on priorities and targets to Group Management. The Council is run by the Senior Vice President, Operations, who is a member of Group Management.

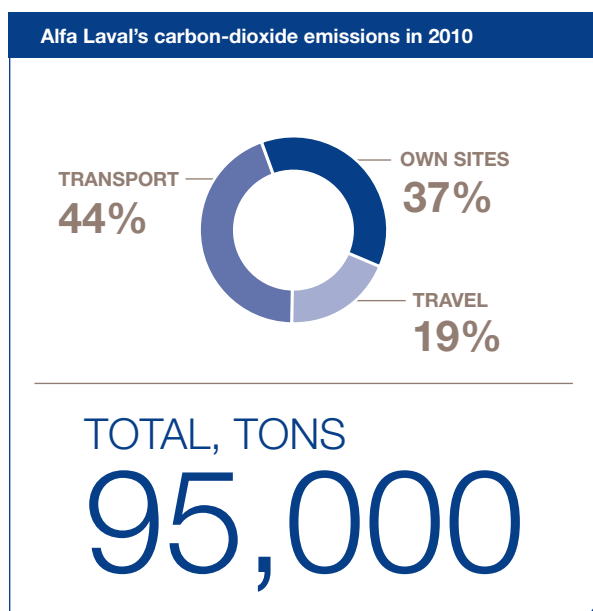
- The Health and Safety Council, set up in 2009, focuses on health and safety matters at a Groupwide level. It is run by the Vice President of Human Resources, who is also a member of Group Management.
- Internal Audit assesses compliance with the Business Integrity Principle and also audits environmental and social aspects as part of its scope of work.

Annual progress reports and a sustainability report, based on the Global Reporting Initiative Guidelines, can be found in the sustainability section of the Alfa Laval website: www.alfalaval.com/about-us/sustainability.

Key initiatives and results in 2010**Environment**

- Continuous energy-saving projects at production sites focus on, for example, implementing more efficient lighting, heating and cooling systems, as well as improving energy efficiency of production processes. Since 2007, 44 projects has been completed saving an estimated 4 percent of energy consumption. Additional projects are currently in progress.
- Greenhouse gas emissions from transportation of goods totaled 42,000 tons versus 31,000 tons in 2009. The increase is partly due to a 26 percent increase in tonnage of goods shipped and

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partly a result of proportionally more parts and fluid handling products being shipped by air freight in response to rapidly changing market demands. Air freight has a significantly greater emissions impact compared to surface transportation.

- Alfa Laval's calculated carbon-dioxide emissions from production and service facilities totaled 36,000 tons (35,000). Additional sites, included for the first time in the 2010 reporting, contributed a combined total of 650 tons. Helped by energy saving projects emissions increased at a lower rate than the rise in production volume.
- Alfa Laval targets a 15-percent reduction in the calculated carbon dioxide emissions between 2007 and 2011. The target includes production and service workshops as well as employee and goods transportation. Many progress efficiency projects were completed in 2008 and 2009 and we seemed on track to achieving our goal. During 2010 the need to respond to very rapidly changing and growing sales demands caused some disruption. While energy-efficiency improvements in factories, together with lower car fleet emissions, had a positive impact, an increase in air freight caused a negative effect. Achieving our five-year goal in 2011, now seem very stretched.
- Changes in the company car policy toward more environmentally friendly models reduced the calculated CO₂ emissions of the car fleet to an average of 175 g/km, compared with 186 g/km in 2007.
- Employee travel increased as the economy started to recover. This had a negative effect on calculated emissions, which rose 17 percent in 2010.
- Lifecycle assessments of new products continued and 23 (19) new products were assessed during the year. Of these, 18 directly replaced existing products. One product had a 25 percent higher environmental impact, but the remaining new products could show a 11 to 24 percent smaller environmental impact than the products they replaced. See Case 3.

Case 1

Improving the internal energy efficiency

Alonte is a small town of some 600 households, located in the province of Vicenza in northeast Italy. Alfa Laval has a plant there that manufactures heat exchangers for air conditioning and refrigeration applications. Under the supervision of environmental manager Marco Coquinati, it has also been a pioneer of Alfa Laval's environmental management system: "We have always been very conscious of our plant's impact on the community and on the environment. Still, when we started working systematically with the environmental management system, we found many ways to further improve our performance."

The first priority was to gain better control of the chemicals used on the site. On systematically going through Alfa Laval's list of restricted chemicals, ways were found to eliminate the chemicals, one after the other. A major breakthrough came when a way was found to change the production process, enabling degreasing of the product during the actual production phase without the use of chemicals. Another positive effect was that it improved productivity and quality while cutting the consumption of natural gas and water.

After that, attention was turned to the site's energy consumption and energy meters were fitted throughout the factory. By improving lighting, heating and compressed air systems, the site's energy consumption has been cut by almost 20 percent since 2006.

"Production volumes and change in the mix of products we manufacture, makes year-on-year comparisons difficult but, based on the savings from our projects, we are confident that we have reduced our energy and hence greenhouse gas emissions by 19 percent since 2006 – exceeding the group target," says Coquinati.



Social

- Alfa Laval's supplier development process continued. The aim is to improve health, safety and working conditions in developing economies. More than 200 (200) suppliers in India, China, Mexico and Eastern Europe were included in this process by the end of the year and more than 130 (150) social inspections were carried out. The average score has improved by approximately 3 percent.
- A new Health and Safety policy and reporting system was introduced. See pages 42–43.

Case 2

Working with suppliers

Veekay Engineering in Satara (Maharashtra India) was founded in 1997. It is a small specialist metal fabrication and cutting company, managed by Sunil Sanglikar:

"We became a part of Alfa Laval India's supplier health, safety and environment development program in November 2006. At first, we were a little confused because we had supplied them with quality products for some years. After a couple of visits by their HSE inspectors, we started to see our operations in a different way and have steadily improved our HSE score from 38 percent to 75 percent. Clearly, we still have some way to go, but this initiative has helped greatly. Our employees now enjoy a much-improved work environment, with fewer accidents and machine breakdowns, and so our productivity has increased. Our new way of working has also definitely helped us to win new customers, including our first export orders."

Business Integrity

- The training of management in the Fair Competition Policy continued. This helped identify a number of potential non-compliances due to limited prior knowledge of detailed points in the relevant legislation. All risks identified were discussed with the Group Legal department and, when necessary, with external legal counsels. Corrective action on the wording of some customer contracts was required in a few cases.
- The whistle-blower process was used to notify management of ethical non-compliances in one country in Asia. This resulted in a forensic examination, which found that the Business Principles had been compromised. As a result, all employees were trained in the Business Principles with a special focus on business integrity. This was followed up by the introduction of new internal controls. A few months later, interviews were conducted to assess the effectiveness of the training.
- The Business Principles are part of the due diligence carried out in an acquisition process. New acquisitions are normally also audited within six months. The audit includes a focus on identifying any non-compliance with Alfa Laval's business integrity policies.

Transparency

The structure of our sustainability reporting, which was changed in 2009, received generally positive feedback from stakeholders.

In recognition of the growing importance of sustainability issues for various stakeholders, we have received an increasing number of requests for individual data reports and specific questions from analysts and rating agencies. In order to comply with our own Transparency Business Principle, we have adopted a policy where we will include supplementary questions in our GRI report and answer them when this is updated each year. Consequently, we will no longer populate external databases with sustainability data.

We welcome dialog with all stakeholders. We are very pleased to have the opportunity to comment on draft reports about Alfa Laval's sustainability performance. We particularly welcome meetings with those who share Alfa Laval's commitment to creating better everyday conditions for people.

Case 3

New, more efficient products



Alfa Laval's large decanter centrifuges can be used to dewater the sludge in municipal water treatment plants. These decanters compete with another technology - belt filter presses.

The key issue for sludge dewatering is to separate the water from the sludge and thus produce a dry cake. Increasing the amount of water extracted cuts the volumes and the weight of the dry cake. This means lower financial and environmental costs when the dry cake is transported for disposal. If the cake is used instead to generate heat or power through incineration, then the dryer it is, the more efficiently it will release its energy.

The decanter separator normally has a higher cost than the belt filter technology it often replaces. However, over the product's entire life cycle savings are considerable. Life-cycle thinking and design for the environment is well established in Alfa Laval. By adding Alfa Laval power plates, the decanter's energy consumption can be reduced by up to 40 percent, while at the same time generating a 10-percent dryer cake.