

Responsible process for customers and Alfa Laval

"The world is seeking a number of ways to reduce emissions, produce fresh, clean water and use less energy. Over the past 125 years, Alfa Laval has offered its customers solutions that help them to generate, reuse and protect natural resources – such as energy and water – in industrial processes."

Lars Renström,
President and CEO,
Alfa Laval



SINCE ALFA LAVAL commercialized its first innovation – the milk separator – as far back as 1883, the company has developed operations close to its markets. Operations have expanded continually in pace with global industrial development. The company's endeavors to create better conditions for people in their everyday life are the driving force for our business – and for all those employed at Alfa Laval.

In recent years, Alfa Laval has shown a special interest in sustainability by managing the company's operations in terms of its environmental impact, social responsibility and business ethics. Alfa Laval's Business Principles provide the basis for these efforts, and are in turn based on the UN's *Global Compact*.

Solutions for a better environment

Alfa Laval's technology provides excellent opportunities for industries worldwide to create clean solutions and energy savings.

Alfa Laval's technology cleans water

The rapid urbanization of the vast populations of China and India requires government decisions regarding the expansion of sanitary facilities and efficient wastewater management. Alfa Laval's wastewater management technology is already utilized in many major cities worldwide and is generally viewed as one of the most efficient approaches to treating water. Alfa Laval's presence in India and China permits the company to participate in solving the issue of providing effective domestic sanitary facilities and clean water.

Alfa Laval's technology reduces carbon dioxide by customers

Global climate change – the result of rising carbon-dioxide emissions – is one of the greatest challenges facing the world. Alfa Laval contributes to reducing this threat in two ways: Firstly, by reducing emissions from the company's



Cleaner water – and faster

ALDEC 32 – the latest decanter series – separates sludge from wastewater. Decanters of various sizes can treat small flows, as in industrial applications, as well as enormous flows in municipal treatment plants. The new series offers superior capacity and output, but in a much smaller space.

plants; and, secondly – by far a greater contribution – by reducing carbon-dioxide emissions using the company’s energy saving products. Stricter legislation governing the emission of greenhouse gases, and goals for the reduction of carbon-dioxide emissions, are also driving energy intensive industry to move from outdated, less efficient technologies to the compact plate heat exchanger technology from Alfa Laval.

Alfa Laval’s own carbon-dioxide emissions will be reduced

Even though emissions and the environmental impact of Alfa Laval’s own processes represent a tiny portion of the environmental savings offered by the company’s products, Alfa Laval also assumes responsibility for its own emissions. Programs in recent years to implement an environmental management system provided tangible results in 2007. For the first time ever, Alfa Laval has also been able to quantify its CO₂ emissions, which, for a comparable volume of output, are to be reduced 15 percent from 2007 through 2011.

Programs aimed at improving social conditions are continuing

A greater presence in rapidly growing economies offers Alfa Laval the opportunity and potential to assume its social responsibility and improve employment conditions for sub-supplier workforces. Alfa Laval has focused on the social conditions of employees at its suppliers over a number of years and is now beginning to see that the definite improvements of these efforts. As India and China continue to develop – both economically and socially – these programs will continue into the foreseeable future. The goal for efforts in these countries is to accelerate the rate of development of good work conditions for those employed in the supply chain.

Sustainability efforts in 2007

- Target set for reducing carbon-dioxide emissions: 15 percent from 2007 through 2011.
- The major environmental impact derives from transport; thus, Alfa Laval’s transport suppliers are now subject to environmental criteria.
- Alfa Laval’s analysis of greenhouse gases entails total emissions of 31,000 tons from production facilities.
- The development of supplier processes has shown considerable progress in term of employee conditions.
- The environmental management system has now been implemented in 43 plants (2006: 15).
- ISO 14001 certification at an additional 4 plants. Another two plants were certified in January 2008. In total, 11 plants, corresponding to 69 percent of the total delivery volume are approved. Including the two plants certified in January 2008, the figure is 77 percent.

Alfa Laval’s four Business Principles in brief:

1. Environment

“Optimizing the use of natural resources in an efficient manner.”

Alfa Laval and its products make a significant contribution in reducing the environmental impact of industrial processes.

2. Social

“Respect for human rights is fundamental.”

Alfa Laval respects human rights and the very different social cultures in which the company operates and to which it supplies products and services.

3. Business integrity

“High ethical standards guide our conduct.”

Alfa Laval conducts its business with honesty, integrity and respect for others.

4. Transparency

“Our commitment to open dialogue builds trust.”

Alfa Laval believes in open communication, but is careful not to reveal commercially sensitive or valuable information.

The complete “Business Principles” are available at: www.alfalaval.com.

Processes and products that spare the environment

Optimizing the use of natural resources is Alfa Laval's business. Alfa Laval makes a significant contribution to reducing the environmental impact of industrial processes.

From Alfa Laval's Business Principles

THE ENVIRONMENTAL section of Alfa Laval's Business Principles is divided into two parts: *Green Operations* deals with how the company's own environmental impact is to be handled.

Green Processes – reducing emissions by customers

Alfa Laval's core expertise in heat transfer, separation and fluid handling assists to protect the environment. The products and know-how contribute to efficient utilization of energy, purification of water and other fluid flows, as well as the efficient manufacture of food and pharmaceuticals.

New product lifecycle analyses

To reduce the environmental impact of its products, Alfa Laval has decided to deploy a standard method to calculate the product's environmental impact throughout its entire life cycle when new products are developed. By this means, design and development engineers can better assess their conclusions with regard to the environmental impact. The pilot method chosen by Alfa Laval was tested on four products in 2007 and proved to be a practical tool that offers opportunities to influence design decisions. The method is now ready for introduction in all major product development centers.

Green Operations – clean processes throughout the Group

Alfa Laval seeks to ensure that its operations are as clean as possible and to include environmental aspects when products are developed, designed, produced, serviced and marketed. The "Greenhouse Gas Reporting Protocol" defines the scope of emissions of various greenhouse gases. A study undertaken in 2007 revealed that the company's

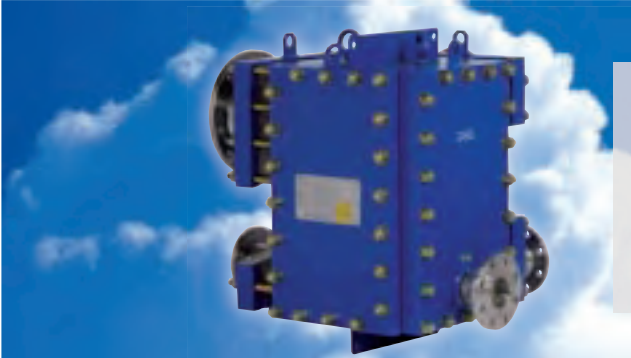
emissions from goods transport and business travel – excluding transport to and from the workplace – are greater than emissions from the company's own production units. Based on this study, Alfa Laval has set a goal – in terms of comparable values – to reduce carbon-dioxide emissions by 15 percent from 2007 through 2011. Emissions during this period may vary depending on the business activity and organizational size, which means that individual goals are established for goods transport, company cars, business travel and internal production processes.

In addition, an environmental group, or Environmental Council, monitors in-house environmental goals. This consists of those in charge of production, distribution, aftermarket, materials laboratory, research and development and personnel, and is headed by the manager of the Operations division. It is supported by Alfa Laval's environmental management system (EMS), which is implemented at all plants to reduce environmental impact and environmental risk.

The environmental management system has two levels: *Gold* for production plants with a sizeable workforce (more than 100 employees) and *Bronze* for smaller production units and all service centers.

The plants within the Gold level must be certified in accordance with ISO 14001 and must be able to deal with all aspects of environmental risks. They report all relevant sustainability data to a central web-based reporting system. The outcome is gauged vis-à-vis the annual goals set up by the management for each plant in a star-like graph for each plant. At year-end 2007, 11 plants were at the Gold level, representing about 69 (47) percent of production value. Two plants were approved in January 2008, which raises the figure to 77 percent.

Plants within the Bronze level must have complete



A greener future for the oil industry

Oil refineries are increasingly replacing older shell-and-tube heat exchangers with modern plate heat exchangers, such as Compabloc. In addition to the clear financial benefits in the form of lower maintenance and stoppage time, the refineries save up to 25 percent in energy, which has a significant impact on our environment.

documentation and data showing how they have complied with environmental legislation. They must have a plan to reduce greenhouse gas emissions and use of chemicals with the greatest environmental impact and a plan for reacting to acute environmental emissions. At year-end 2007, 37 (less than 10) plants were at the Bronze level, representing about 85 percent of production value.

Plants at the Gold and Bronze levels must report emissions (GHG) that have an environmental impact and any other environmental effects as well as the use of black and grey chemicals.

Reduction of the environmental impact of transport

Alfa Laval's global operations mean that products must be transported among a number of destinations worldwide. Carbon-dioxide emissions from such transport operations account for almost 50 percent of Alfa Laval's total emissions of greenhouse gases. To reduce carbon-dioxide emissions and attain goals, Alfa Laval has categorized the transport companies that the company uses on the basis of three levels: At the *Gold* level are the companies that are leaders in developing transport solutions to reduce environmental impact. Companies at the *Silver* level have identified environmental issues and are working actively with them, but need to improve to move up to the Gold level. At the *Bronze* level are companies that do not have any policies or guidelines for environmental issues and thus not show any significant documented improvements.

Air transport

Air transport accounts for about 80 percent of total carbon-dioxide emissions from goods transportation. Analyses show that a few routes account for these emissions.

Projects have commenced to review the supply chain in an effort to reduce the need for airfreight.

Reduction in the environmental impact of business travel

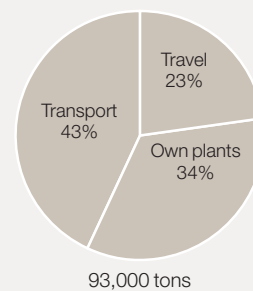
Alfa Laval is a global company and it is important to circulate information, knowledge and experience among the company's various units worldwide. Thus, international travel is a key factor and helps Alfa Laval to create higher customer value. Alfa Laval is working to reduce the environmental impact of business travel in a number of ways:

- Replacing personal meetings with video conferences or telephone meetings
- Continual reviews of travel modes.
- Selection of appropriate suppliers.

Alfa Laval uses company vehicles primarily for its sales personnel and technical service staff. To remain a competitive employer, company vehicles are available as a potential fringe benefit for certain personnel. Since 2003, all vehicles are leased in accordance with a policy entailing limits to carbon-dioxide emissions.

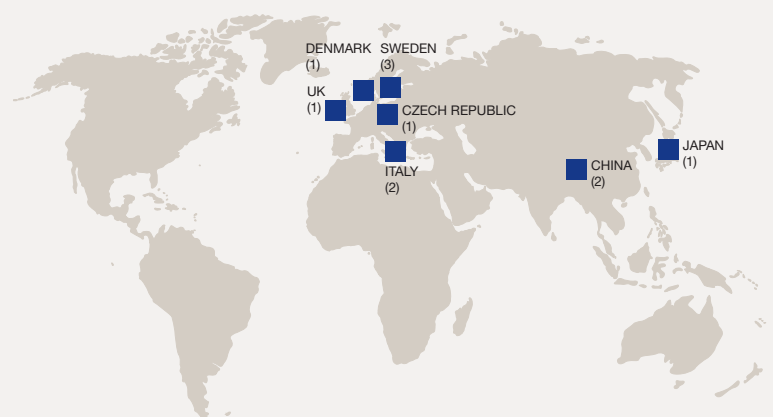
Alfa Laval's environmental management system includes the management of chemicals included in the list of *Black* chemicals, which are particularly negative for the environment or health and dangerous to health, and *Grey* chemicals. The use of *Black* chemicals must be replaced by an acceptable alternative within three years.

Alfa Laval's carbon-dioxide emissions by type of operation, estimate for 2007



Alfa Laval's analysis of the company's carbon-dioxide emissions shows that greenhouse gas emissions from transport are greater than emissions from Alfa Laval's plants. Thus, this factor is the focus of continuing environmental programs. Product life cycle analyses have also become an integral part of R&D processes, giving the company's design engineers innovative and significant insights for future product development.

ISO-certified units 2007



All information is excluding acquired units during 2005-2007. The acquisitions are integrated successively and most of the acquisitions in 2005-2007 will be included in 2008.

Social responsibility improves conditions for humanity

Respect for human rights is fundamental. Alfa Laval respects the human rights of its employees, as well as the societies in which they live and work.

From Alfa Laval's Business Principles

ALFA LAVAL is a global business. In 2007, Asia accounted for 31 percent of the Group's total order intake. Central and Eastern Europe for 9 percent. This means that Alfa Laval locates its production in its own plants as well as among those of suppliers in these countries.

Alfa Laval gives customers competitive and sustainable solutions

Alfa Laval offers local customers products and service that create quality and economic value.

Neither the company nor its employees must ever be involved in any form of competition-curtailing activity such as illegal pricing or the splitting up of markets.

Alfa Laval includes the health of its workforce in its "star" goals for sustainable development

Alfa Laval's star goals for sustainable development focus on continual improvements in health and safety at local production plants. The goals for health and safety are discussed and approved by line managers in the same manner as other operating targets.

The goals are that injury frequency shall decline by 10 percent per hour, while absentees due to illness shall decline by 2 percent annually.

Employee development is the base for future success

Alfa Laval's successes are based on a culturally diversified, flexible, motivated and skilled workforce. Consequently, the company consistently trains and develops its employees, who are also offered safe and healthy working conditions. Alfa Laval does not discriminate against anybody

on the basis of ethnicity, gender, religion, political viewpoint, disability, nationality or social position. Alfa Laval's employees worldwide are also entitled to organize in trade unions.

Alfa Laval's suppliers are expected to comply with the set standards

In pace with Alfa Laval relocating its supplier chain to low-cost countries, the company has developed processes to manage the social and ethical dilemmas that may ensue. All suppliers are expected to comply with local legislation in such areas as working conditions and safety as well as environmental protection. In many high growth countries, however, the economy, social conditions and infrastructure are not yet sufficiently developed. In these cases, it is not a realistic demand that local suppliers immediately meet all international standards. Alfa Laval actively tries to improve working conditions by means of repeated inspections, training and commercial pressure on suppliers. The guiding star for our efforts is that working conditions for sub-supplier employees must be improved at a faster pace than among other companies in the same social context.

Program for the approval of suppliers

Alfa Laval's suppliers are subjected to a detailed selection process before being approved as suppliers. Among other things this involves two questionnaires. The first is used to identify and assess if the suppliers have the potential to meet Alfa Laval's profile in terms of commercial and technical requirements.

The second, deployed before commercial agree-



Indian paper industry favors people and the environment

Indian farmers are gaining better conditions as a result of the local paper industry moving increasingly towards replacing logging with cultivated forest holdings, which favors the environment. The environment also benefits from the recycling of a full 95 percent of the paper industry's condensed water, which is turned into energy using condensers such as AlfaCond.

ments are signed, is used to ensure that suppliers comply with certain basic requirements in accordance with the Business Principles.

Improvements in India

In recent years, Alfa Laval has developed a point-based method for gauging the social standards of suppliers. Points are awarded for employment terms and conditions, working conditions and working environment as well as for health and safety. During 2007 this program resulted in major improvements. The results from the 97 suppliers selected for this program in India confirm that repeated inspections, training and encouragement assist suppliers in developing better working conditions for their employees. Suppliers, who following Alfa Laval's assistance, do not improve in line with the standards demanded will be replaced.

The goals for 2008 are to add at least 30 new suppliers to the audit program in India.

Alfa Laval plans to work with the challenge of improving conditions for sub-supplier workforces for many years ahead in pace with continued economic and social development in many countries.

Conference and improvements in China

Ethical risks in the supplier chain and their management formed the main theme for a conference for Alfa Laval's purchasing managers in China. Alfa Laval designed the conference in cooperation with other major Swedish companies.

The goal for 2008 in China is to continue to increase the number of inspections using the same methods as in India. Overall, Alfa Laval will inspect and coach 25 suppliers in a bid to attain the appropriate qualification levels.

A global company with global responsibility



*Including Middle East and Oceania

Respect for human rights

Alfa Laval respects the human rights of our employees and the communities in which we live and supply.

- **Human rights:** Alfa Laval supports and respects the protection of internationally proclaimed human rights within our sphere of influence.
- **Complicity:** Alfa Laval should make sure it is not complicit in human rights abuses in its course of operations.
- **Freedom of Association:** Alfa Laval should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- **Forced Labour:** Alfa Laval will not use any form of forced or compulsory labour.
- **Child labor:** Alfa Laval works towards the effective abolition of child labour in the community.
- **Discrimination:** Alfa Laval works to eliminate direct and indirect discrimination in respect of employment and occupation.

Strong growth imposes new demands on the company's employees

GROWTH ENTAILS that all executives must develop their own management skills as well as a broader understanding of the company's business.

Focus on "the vital few"

To reflect Alfa Laval's changing requirements, a new program for the company's core values was developed and launched in 2007. Entitled "Pure Performance," the program explains how the company must adjust its core values to cope with new requirements.

Although much of the content is similar to previous versions, focus is on the employees needing to concentrate on "the vital few" to avoid unnecessary time-consuming activities, which can be tempting when a company is growing successfully.

Career opportunities on equal terms – a key point

"Pure Performance" strengthens the company's believe in diversity. Career opportunities on equal terms contribute to releasing the inherent power in the organization and further strengthening the leadership role.

In line with this, Alfa Laval has introduced a new part of the company's intranet to publicize vacant positions. All vacant positions, including senior executive posts, are published and internal candidates are encouraged to seek the positions.

International career opportunities have been a key factor in moving Alfa Laval's core skills about the world to develop a shared corporate culture. In the past, vacant positions were filled through suitable candidates being identified by their superiors and human resources managers. Today, all positions are advertised openly on the intranet. Twenty-seven nationalities were identified in Alfa Laval's 96 international assignments at year-end 2007.

Alfa Laval's managers are ranked in terms of performance and behavior

As part of efforts to change organizational behavior, the management evaluation and development process has been changed to better reflect our core values. All executives worldwide are to evaluate their performance by using the same documentation. This means that all executives are gauged in terms of the business results they achieve and the degree to which they match the core values in their behavior. Action plans and plans for continual improvement have been drafted with both of these factors in mind.

Alfa Laval University continues to focus on the Vital Few

Alfa Laval focuses on developing the skills that are vital for ensuring success in the company's operations.

Alfa Laval University is one of the instruments used in achieving this. This is governed by a group consisting of three people drawn from the company management group and three external people from universities and other educational establishments. Their role is to ensure that training activities focus on issues that are significant in developing Alfa Laval's business.

During 2007 the focus has been on improving:

- Price management. Training programs have been completed in sales companies worldwide to offer executives and sales-related employees a superior and deeper understanding of Price Management and the implications of the process for better and deeper understanding of Alfa Laval's earnings.
- "Time-to-Market." Reducing "Time-to-Market," including commercial product development, involves executives and other employees throughout the value chain. The goal is to cut the time for a new product to reach the set volume target, while simultaneously retaining or raising quality.

Pure Performance – core values

Action!

Be alert, act now. You need to realize that speed is an essential business asset in achieving performance. Now is the best time for you to get things done. Both internally and externally.

Courage!

Have the courage to change. You are part of a performance-driven organization that plays to win. You must dare to try, and dare to do things differently.

Teamwork!

Think flexibly. It is only by being adaptable and combining your resources and strengths with others that you can be truly effective and keep promises.

Profit!

Look at the bottom line. Controlling costs and managing prices is essential for the company's ongoing success. Alfa Laval shall take every opportunity to improve financial performance for both its customers and the company.

- Leadership skills. A number of programs for managers worldwide have been completed. These include:
 - “Challenger” for 20 potential executives. This program consists of one week in Sweden, one week in Shanghai and a more protracted challenging assignment.
 - “Adept” for all newly employed sales personnel. This training program consists of a week’s general introduction of Alfa Laval plus a week with specific product know-how, depending on the particular segment in which the person is employed.
 - Management program with participants from the sales divisions, Operations Division and sales companies. The program is split into two modules and 200 managers in Sweden, Denmark, Norway, Finland, Germany, Switzerland and Austria took part in the program in 2007.
 - “Alfa Laval Management Habits” is a program focusing on the personal development of leadership characteristics. In 2007, the program was conducted with 40 participants in Russia and Argentina.
 - “Booster” is a specially tailored two-week program, for 100 top executives in the Group. The program was developed and is conducted by Ashbridge Business School in the UK.
 - *Lean Six Sigma*. A quality program implemented in productions and distribution.
 - *ALTECH* is a training for managers with technical duties. Alfa Laval University is responsible for content in cooperation with Chalmers Advanced Management Programs (CHAMPS).

During 2007, 760 (700) employees, representing a total of 45 (43) countries, participated in international training program that were centrally arranged and support the normal training conducted locally.

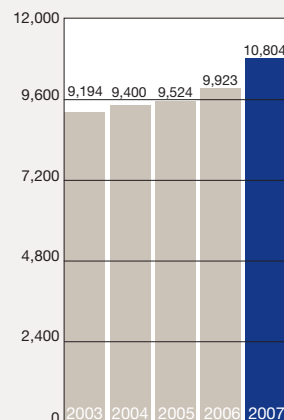
Controlled recruitment prioritizes growth markets

Vacant positions at Alfa Laval are monitored globally via an internal database. Each available position is registered and must be approved by the Group’s management group ahead of any offer of employment. Statistics relating to employee turnover and recruitment are watched closely as part of efforts to monitor costs and ensure that resources are allocated to the segments and countries showing superior returns and the potential for structural growth.

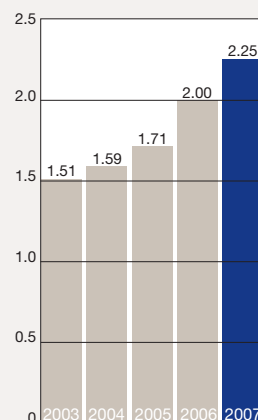
The culture of continually improving the search process rather than adding additional employees is well established in Alfa Laval and has been strengthened by the detailed manner in which the group monitors this at the central level.

For example, the number of employees since 2005 has increased by 40 percent in China while the Group-wide workforce has increased by 13 percent.

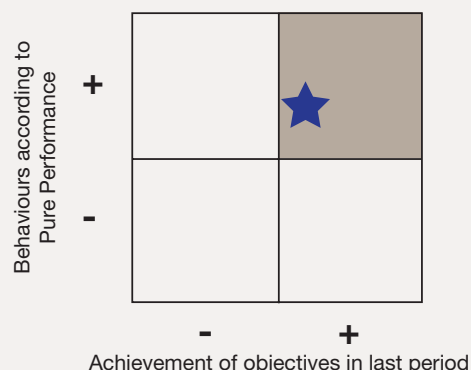
Average number of employees during the past five years



Sales per employee SEK M



Stars drive profitability



Alfa Laval’s senior executives are evaluated based on how well they attain established goals-, how well they comply with the Group’s core values, summarized in the Pure Performance concept. In this manner, an increasing number of the Group’s senior executives will move into the optimal start square in which goals are surpassed and compliance with core values is exemplary, which ultimately will have apposite impact on the Group’s results.

Sound ethics ensure long-term success

Alfa Laval will pursue its business in an honest manner with high integrity and respect for others.

From Alfa Laval's Business Principles

DURING 2007, Alfa Laval reviewed employment policies at sales companies in 48 countries. This review included the training of company presidents, who then presented the risks for their particular company. Based on this, the companies have revised their employment policies to ensure that they include distinct guidelines for ethical behavior, notably in respect of conflicts of interest, political contributions, bribes and corruption. The global, ethical purchasing code was also updated. Alfa Laval has developed a web-based reporting system to identify employees who breach "Business integrity", as outlined in the Business Principles.

Whistle blowing to reveal any breaches of the Business Principles

Alfa Laval investigates all suspected violations of the company's Business Principles. Employees are to report suspected violations to the Group's Human Resources Manager, who coordinates the investigation. Alfa Laval protects all whistle blowers, that is, employees who report suspected breaches of the Business Principles. The Chairman of the Board is contacted if anyone in group management is suspected of being involved in or participates in any violation of the Business Principles.

Open dialog creates confidence in the financial markets

Alfa Laval's financial accounting and supporting documentation describes and reflects the underlying transac-

tions in correct manner. No unaccounted or concealed items, funds or other assets are permitted.

Alfa Laval's reporting and internal monitoring are conducted so that external, independent parties can verify operations. All share price-sensitive information is communicated in line with the company's policy, stock exchange contract and applicable legislation.

Transparency

The company's pledge of an open dialog creates confidence. Alfa Laval believes in open communication but is careful not to disclose commercial valuable information. More information on Alfa Laval's sustainability processes and data is available at

 www.alfalaval.com

Principles underlying measurement and governance ensure sustainable development

Alfa Laval has defined a couple of operational principles to secure its Business Principles and sustainable development:

- The goal for sustainable development must be integrated into and be a natural component in day-to-day operations.
- Reliable and consistent measuring methods are essential. Internal comparisons and learning from best practices, internally and externally, are the most powerful way of driving improvement.



Secure temperatures

The demand for comfort cooling is rising in the South, whereas demand in the North is for heat. Changing the temperature is an energy-consuming process, particularly since ozone-depleting freons are prohibited. New, superior energy-saving solutions – such as Alfa Laval's Alfa Nova heat exchangers, which cope with high heat and pressure – permit the replacement of hazardous but effective freons by natural cooling agents.

Application and Compliance

It is the responsibility of the Alfa Laval Group Management to ensure that the Business Principles are communicated to, understood and observed by all employees. The managing director of each Alfa Laval company is responsible for implementing these principles through appropriate rules and policies in addition to those necessary for compliance with local legislation

No manager or employee will be criticised for any loss of business resulting from adherence to these principles. Equally the Alfa Laval Board and Group Management undertake that no employee will suffer as a consequence of bringing to their attention or that of senior management, a breach or suspected breach of these principles.

Alfa Laval's Business Principles – Business Integrity

High ethical requirements comprise the basis for Alfa Laval's performance. Alfa Laval pursues its operations in an honest manner with integrity and respect for others.

- **Legal compliance.** Alfa Laval shall not only meet regulations and requirements in countries in which the company is active but also shall continually stay abreast of developments in international legislation, social conditions and voluntary initiatives and accept these when it is relevant to the company's operations.
- **Conflicts of interest.** Alfa Laval's employees shall not get into situations in which their personnel or financial interests conflict with those of the company.
- **Political contributions.** Contributions are not to be made to political parties or committees, or to individual politicians.
- **Bribes and corruption.** Alfa Laval and its employees shall not offer, promise, accept or demand a bribe or other inappropriate benefit to win or retain business; also, suppliers or other business partners shall not demand or expect a bribe or other inappropriate benefit.