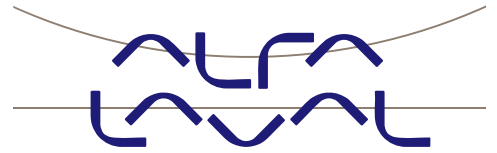


Business Principles Progress Report 2005



This report is a summary of our progress in each of our Business Principles during 2005.

Environment Progress 2005 – Improving our Environmental Management Systems

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. The Alfa Laval EMS has three levels of attainment:

Bronze Level: This is for small sites (less than 100 employees) and is awarded when the site has met the internal standard for control and documentation of all environmental aspects that are regulated by law. Any non-compliance will be reporting centrally.

Silver Level: This will be awarded to sites that have achieved Bronze level and who have introduced a reliable method to identify significant environment aspects, have environmental improvement plans, and completed structured training of employees in environmental management. These sites will therefore be able to demonstrate how they exceed the legal minimum requirements.

Gold Level: Gold level is achieved by sites having reached first Bronze and then Silver levels. These sites will be reporting the environmental key performance indicators and have established the environmental star goals to chart their targets and progress. Our goal is for 80% of Alfa Laval's production to be covered at Gold Level by the end of 2008. (These sites will also have ISO14001 certification.)

Read the full Environment Progress Report 2005 on the Alfa Laval Business Principles website.

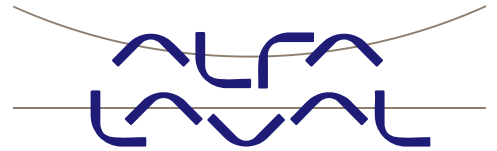
Social Progress 2005 – Human rights issues of suppliers in developing economies

Based on a risk analysis conducted in 2004; Alfa Laval is focusing on achieving measurable improvements in the working conditions, health and safety of employees in our suppliers in countries with developing economies. In 2005 Alfa Laval developed and implemented a social evaluation of suppliers in India. The same process will be introduced in China in 2006.

Alfa Laval has approximately 500 suppliers in India. We categorise these according to risk:

Medium risk (53 suppliers). These are inspected by an external independent consultant who gives them a score for objective criteria for health and safety, working and employment conditions; and house keeping. The supplier then has to increase their score. In 2004 26 medium risk suppliers (50%) were inspected with an average score of 146 out of a possible 250. Of these; 10 suppliers have received their second assessment with an average 12% improvement in score. Suppliers involved in this process have been invited to two Business Principles workshops at Alfa Laval during 2005.

High risk (23 suppliers). We do not wish to have any suppliers in this category but removing our business would be to the significant economic detriment of the workers. Therefore we give the supplier all reasonable assistance to achieve the necessary standards. Because



these suppliers need significant assistance from Alfa Laval to achieve the necessary standards in 2005 we focused on suppliers of polished metal products; corrective actions included loans to install proper health and safety equipment and technical assistance.

Read the full Social Progress Report 2005 on the Alfa Laval Business Principles website.

Business Integrity Progress 2005 – Ethics training started

During 2005 ethical conduct was introduced into the regular Sales and Marketing Management (SAM) programme. The SAM programme is a modular course run by the Alfa Laval University in conjunction with the Ashridge Business School, UK. SAM is targeted at all senior Sales and Marketing managers worldwide. The ethics module was introduced as a pilot and focused specifically on bribery and unfair inducements in the sales process. The module was run in a workshop style in which some of the risks and ethical dilemmas facing Alfa Laval in the market place were identified and examined using group work and discussion. The findings and experience will be used as a base for further work during 2006.

Also, during 2005 Alfa Laval published the Whistle Blowers policy on its web site to clarify how people can notify the company of any suspected breaches of its Business Principles.

Transparency Progress 2005 – Website expanded, dialogue continues

During 2005 we have expanded the Business Principles section of the Alfa Laval Corporate Web site to include more information that is frequently requested by those interested in Corporate Social responsibility.

We have benefited from our meetings with other Swedish manufacturing companies during 2005. In these meetings we share methodologies and they have helped Alfa Laval to gain insights into best practice in Corporate Social Responsibility.

We continue to have very constructive and helpful dialogue with SRI analysts. These have given us encouragement and useful advice in an open atmosphere.

We encourage questions from interested parties on our work on sustainability and these can be directed either to david.ford@alfalaval.com or mikael.sjoblom@alfalaval.com