

Business Principles

Progress Report 2010



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1.0 Introduction.

[Alfa Laval's Business Principles](#) form the basis for our work on Sustainability. This report covers each main Principle: Environment; Social, Business Integrity and Transparency.

The Alfa Laval Annual Report for the financial year 2010 (pages 45 to 47) gives a summary of some of the sustainability highlights for the Group.

This report supplements the Annual Report with additional information about key initiatives in 2010. It should be read together with our [GRI \(Global Reporting Initiative\) Sustainability Report](#). To help read the two together each paragraph in this report is numbered according to the relevant section of the GRI report.

The GRI report is data rich and provides cross references to information previously published about Alfa Laval's sustainability and corporate social responsibility initiatives.

If readers are new to the analysis of Alfa Laval's sustainability performance we recommend reading the last few Progress Reports to fully understand the progress we are making in this important area.

2.0 Environment Progress 2010

Our environmental data has improved in punctuality and quality during 2010.

To increase accuracy and focus in 2009 we worked hard to increase the sense of ownership of the data through the whole line management. We also increased the frequency of reporting energy and restricted chemicals from annual to quarterly.

The full effect of these changes was seen in 2010. The quarterly reporting has significantly helped the smaller workshops to establish a reliable routine. Head office and business unit staff increasingly review environmental performance as a normal part of business activities.

However, because we report data from a large number of relatively small sites (over half of those reporting have less than 50 employees) environment data reporting is still an infrequent and small part of a person's job. We have divided the environmental section of the GRI Report into two main sections: *Manufacturing sites* (prefaced "M-EN"); *Other sites including service workshops* (prefaced "O-EN"). Data from these two sites is then added to give consolidated data in a third section of the report.

EN0: The Alfa Laval Environmental Management System was operating in a total of 98 reporting units as of December 31st 2010, (81) .

Environmental Impact Analysis: Alfa Laval conducted an Environmental Risk and Impact analysis in 2006 (See [Appendix I on the 2009 Business Principles Progress Report](#)). In this; we assessed our environmental impacts in relation to our business value chain. This analysis formed the basis of our environmental improvement goals for the five year period 2007 to 2011. We will be reviewing the impact analysis and our environmental management goals later in 2011.

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M-EN0: ISO 14001 - a total of over 90 % of deliveries came from certified sites

Our target to have over 80% of our factory deliveries from certified sites was achieved in 2008 with 18 plants having ISO 14001 certification. At the end of 2010 19 manufacturing sites have ISO 14001 certification representing over 96% of factory deliveries (by value).

O-EN0: A total of 64 different smaller workshops now conduct environmental reporting

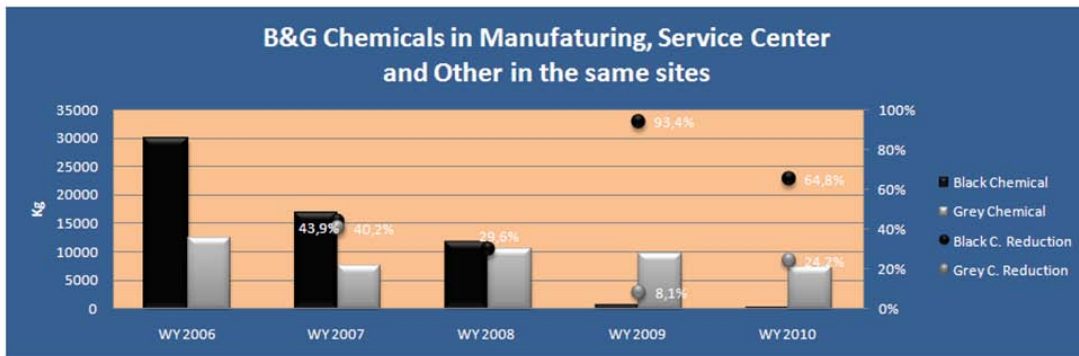
These units are required to implement the Alfa Laval EMS at Bronze level. To achieve Bronze status they have to report all key environmental data into a Group web-based data collection tool, they have to write down how they comply with local environmental legislation and they have to take action to reduce their most significant environmental impacts. The majority of these sites are service workshops that repair and service customer's equipment.

M-EN1 Materials Used by weight.

Continued good progress has been made to eliminate medium (grey) and high risk (black) chemicals.

There has been a strong focus on reducing the use of potentially harmful chemicals in the production and service workshops in the period 2007 to 2010. The result is the elimination of over 27 000 kg of high risk chemicals that were identified in our production processes in 2006. In 2010 we consumed 506kg (781) of high risk chemicals.

The use of medium risk chemicals was reduced to 7400 kg in 2010 from 9 700kg in 2009 and 11 000 kg in 2008.



EN3 EN4: Direct and Indirect Energy Consumption. A more focused approach to climate change drivers was initiated in 2010:

Direct and indirect energy consumption is an important cause of Greenhouse Gas emissions (GHG) representing 37% of the total (see 2010 Annual Report Page 46). Goods transportation accounts for 44% of total emissions.

The production processes and goods transportation are closely linked. Therefore, during 2010 we modified our environmental goal setting process so every factory manager has to review

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energy saving initiatives in the production processes as well as consider the environmental impacts of goods transportation. We have done this by incorporating the energy and transportation GHG measurements in the factories' regular operational scorecard.

We have found that people have difficulty to relate to tonnes of Carbon Dioxide. We therefore focus on energy consumption instead.

Ask someone what would emit a tonne of Carbon Dioxide in a year and you are usually answered with a blank look. Ask them what proportion of our air is Carbon Dioxide and their answers reveal that most people have little concept of one of our most critical Greenhouse Gases. Even though mass media discuss climate change and Carbon Dioxide regularly; it is clear that the facts are not understood by most people. Alfa Laval managers and employees are no exception.

Direct and Indirect energy consumption represent nearly 100% of our site based GHG emissions. The calculation of resultant tonnes of Carbon-Dioxide equivalent is an arithmetic exercise based on the externally provided conversion factors. Conversion factors are available from many sources and each produce slightly different results. However, irrespective of the conversion factor; Alfa Laval's challenge is to produce more products but using proportionally less energy and so reducing our site based GHG emissions.

We are changing our communication internally from tonnes of CO₂ to MWh of energy.

To drive a higher focus on the critical issue of saving energy we have started to switch our goal setting from Carbon Dioxide reduction to energy consumption reduction. To help drive a culture of energy efficiency, every legal entity in Alfa Laval will soon have to report their energy consumption, no matter how small the company may be. This means that energy consumption has been included in the regular financial reporting system during 2010. We know from previous experience that including non-financial measures in the finance system provides a new challenge for many people and we expect initial reporting to contain several inaccuracies but we look forward to developing this new regime during 2011.

EN3+4 Energy Efficiency.

Since we set our present environmental management goals in 2006 we have been normalizing data against a number of variables to determine what ratios give the best indication of whether we are improving or not.

For the first time in 2010, our GRI report for manufacturing (Line M-EN3+4) publishes data comparing our energy consumption against the number of direct hours and added value in all 20 factories for which we had energy data in 2006. Some improvement in our energy efficiency can be detected in these figures. However, because our factories make a very wide range of different products we will need to examine the statistics in all major manufacturing sites between 2008 and 2011 before we firmly decide that these measures are the best way to monitor our energy efficiency.

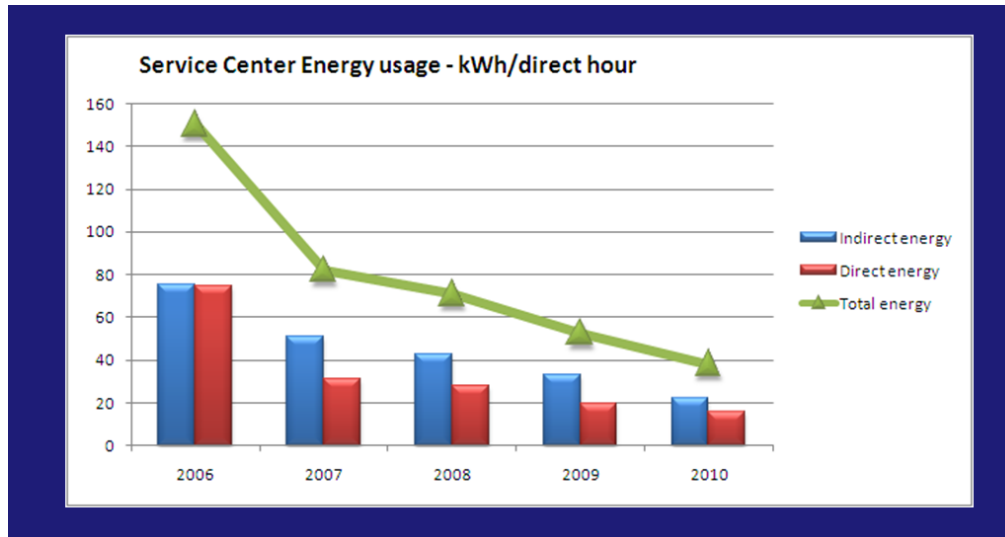
In our service workshops; the diversity of work undertaken means that direct working hours is the only useful measure against which we can normalize energy data. The figure below shows the trend for the service workshops. (Please note the dramatic change between 2006 and 2007 is probably largely due to improved reporting quality in 2007).

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M-EN5 Energy Saving Projects – Pay-back requirement has changed in 2010 to speed up projects.

For the first time in 2010 the GRI report shows statistics for energy saving projects in our production sites. We completed 22 significant energy saving projects in 2010 and 2009 with a total energy saving of 4100 MWh per year. This means that, on average, we are currently closing projects which save approximately 2% of our total energy consumption each year. Our target is to save at least 3% per year from 2007 to 2011 and so we can see that our present pace is too slow.

One contributory factor towards the slow pace has been the challenging financial pay-back period we demand for investment projects. To comply with our internal rules; energy saving projects had to meet the same financial targets as any other investment project. This means many potential projects are not proposed by local entities and several that are proposed will not receive investment approval. From the start of 2011, the financial pay-back period has been extended for energy saving projects. We expect an increase in proposals to start to filter through as a result.

Site-based emissions are mainly from indirect energy consumption (electricity) which is used for heating, 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.

Our energy saving projects focus in the following key opportunities: Heating and cooling systems; compressed air generation and use; lighting, use of solar cells.

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EN6 Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy

Environmental impact from new products significantly lower thanks to LCA

In 2010, for the first time, the GRI report shows the collated data (previously published elsewhere) of our environmental Life Cycle Assessment (LCA) process.

To help reduce the life-time environmental impact of our products we introduced LCA into our new product design and development process in 2008 after a pilot project in 2007.

In the three years since; 62 LCAs have been completed of which 61 have shown an environmental impact reduction of between 9 to 24%. 2010 saw the first new product with a higher life cycle environmental impact than the one it replaces. This is because the customer had very specific space requirements which constrained the design team from optimizing the product from an environmental viewpoint.

The R&D teams report that the use of the methodology has significantly raised the awareness of environmental impact in the new product design process and the methodology has become firmly established as an integral part of new product design.

Please note that the Eco-Indicator 99 methodology considers all environmental impacts and ascribes a weighting for each. Energy is a major factor in this. We believe it is essential to consider a product's overall environmental impact rather than just energy.

PRA 1 Case studies with a positive sustainability impact are presented in our Customer magazine

In 2010, for the first time, the GRI report provides links to recent articles in our customer magazine Here that relate to Environmental applications of our products.

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

For decades, our products have been essential components in energy saving, waste stream processing and environmental protection systems and we are continuously developing new products and technologies for these applications. The growing concern about climate change means that our long-term focus, is now also proving to be of growing importance to our customers. Thus, recent market communication and promotional material places stronger emphasis on these factors.

Alfa Laval's compact heat exchangers are already saving millions of tons 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 tons of CO₂ emissions per year which is equivalent to between one and two million passenger cars. The potential future savings are much larger because the market share of this type of heat exchanger is small compared with the shell-and-tube type.

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M-EN8 and O-EN8 Total Water withdrawn by source.

In 2010 Alfa Laval used 20% less water than in 2006 (the year when we started our present measurement system). Clearly, the environmental management system has helped operational management to focus on this increasingly important aspect. Alfa Laval production is not water intensive compared with many industries, but significant amounts are used for product washing and pressure testing products. Generally, since we started our focus on improving our environmental performance we have introduced more recycling systems, concentrating the waste more effectively before it is sent for disposal. In some case water leaks have been detected and fixed.

In some sites water consumption may have increased in the same period because we have replaced chemical cleaning of components and products with water cleaning. This increases water consumption but eliminates the use of potentially harmful chemicals and so is a very clear environmental and health impact improvement.

EN16 : Total Direct and Indirect Greenhouse Gas emissions by weight: The factories improved their energy efficiency in 2010 between 4 and 8%.

Alfa Laval targets to reduce its Greenhouse Gas emission by 15% between 2007 and 2011 with 2006 as the base year. This target includes direct and indirect emissions from sites with workshops; company cars; employee transportation; goods transportation.

The total calculated emission from all these sources was 95,000 tonnes (85 000 in 2009). This is split 44% (37%) for goods transportation; 19% (22%) employee travel including company cars; 37% (41%) from production and service workshops.

In 2010, factory loading increased by approximately 15% whilst total direct and indirect GHG emissions from production increased by 12% in 2010 This implies a 2% improvement in energy efficiency. However, the energy efficiency MWh/direct hours improved by approximately 4% during the year (see GRI report line M-EN3+4). Energy efficiency MWh/MEUR of Added Value improved by approximately 8% in the same year. (see GRI report line M-EN3+4 (4))

In the 2009 Progress report we stated that the downturn in business made it difficult to see if we are on track to achieve our 15% reduction in GHG emission between 2007 and 2011. The business changes in 2010 have not made this any easier, because we have seen significant changes in product mix that makes back-to-back comparisons rather difficult. However, the disappointing pace of energy saving projects for direct and indirect energy (see M-EN5 above) indicates that the underlying improvement is running below our ambition level which makes achievement of the goal in 2011 somewhat stretched.

M-EN29 (goods): Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations.

The Operations division is in charge of production-related procurement, manufacturing and also logistics, which means the company's goods transportation. The goal is to provide rapid and cost-efficient transportation solutions that, in line with the company's environmental focus, can reduce carbon dioxide emissions. Accordingly, over the past few years, a focused initiative has been

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underway to reduce the use of airfreight in favour of land-based or maritime transports. In the wake of the financial and economic turbulence in 2009/2010, a considerable change in the content of customer orders occurred. Orders for spares, which tend to be transported by airfreight to meet customer needs and delivery terms, increased as did their share of the total order intake. In parallel, many segments showed signs of a considerable recovery in order intake. This, in turn, placed strain on the logistic system which was solved through increasing the proportion of airfreight. In 2010, approximately 7.5 percent (7) of distribution occurred by airfreight, 32 percent (31) by ship and 60.5 percent (62) by truck.

Total emissions from goods transportation in 2010 was 42,000 tonnes CO₂. (31 000). The majority of this increase was due to the increased use of air freight.

Our target is to reduce the average emissions (g CO₂ per ton km) of transportation 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 and 102,6 in 2009 g/ tonne -km. However, for the reasons above the average in 2010 was 112,1 g/tonne-km

EN29 Significant environmental impact from employee transportation

Our GHG emissions from Employee transportation by air increased by 20% in 2010.

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 meetings etc. Telephone conferencing and web-based meetings are now "business-as-usual".

Calculating the CO₂ emissions from employee travel is probably the least precise of all our measurements. For practical reasons we are only able to monitor the employee travel patterns from 10 EU countries and the USA. Total calculated emissions from air transport in these 10 countries was 8 800 tonnes CO₂ (7 300).

Air travel reduced noticeably in 2009 in response to cost cutting initiatives and reduced business activity. In 2010 it recovered to 86% of the level we saw in 2008. However, since our business is increasingly conducted in Asia and intra-Asian air transport is not included in our published statistics we are hesitant to draw any quantitative conclusions about our travel impacts.

Change in Company Car Policy continues to cut emissions– average emission per car down 6% since 2006.

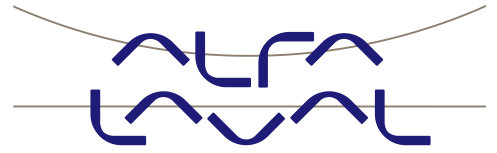
Company cars are often essential tools for the jobs of service technicians and sales personnel; we also have many company cars that are part of the employment package for management. The company car policy was reviewed in 2006 with the target to reduce the carbon dioxide emissions from the car fleet. This is accomplished by changing to cars with lower emissions when cars are replaced. This activity focuses on the car fleet in 56 countries.

In 2010, the average emission per car was 175g/km (179) a reduction of 6% since 2007. To help achieve our goal of 3% per year the car policy was changed again from 1 January 2011 and the maximum emission for any vehicle was reduced to 180g/km.

Environmental considerations included in factory supplier evaluations.

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We ask our major suppliers 6 key questions:

1. Is your company certified according to ISO 14001?
2. Does your company have a documented Environmental Management System?
3. Does your company calculate its Carbon Dioxide emissions?
4. Has your company published targets to reduce your Carbon Dioxide targets?
5. Does your company have processes to make sure it fulfills all local laws and regulations in respect of handling, labeling, disposal of waste chemicals and hazardous substances?
6. Does your company have a defined process to identify, reduce and eliminate hazardous chemicals such as those identified on Alfa Laval's prohibited and restricted chemical list?

We focus on the suppliers that, combined, represent 80% of purchased value. In 2010; approximately 65% (60%) of purchased value was from suppliers that responded "Yes" to all of these key questions. Our challenge is to influence those without appropriate environmental management systems to adopt them.

3.0 Social Progress 2010

HR 2: Significant suppliers and contractors that have undergone screening on human rights and actions taken.

Alfa Laval published its Business Principles in September 2003 and set its priorities for improvement. At that time; in order to live up to our aspirations, we realized that our highest priority was to improve our knowledge of the health and safety, labour conditions and the working environment of our suppliers' employees in countries and industries of high risk.

During 2010 this work continued to deliver improvements. Over 200 (200) suppliers in India, China, Mexico are included in this process. Over 130 (150) social inspections were carried out during the year. India represents a large proportion of this effort due to the number of suppliers and the long time that we have been manufacturing in India both for the Indian market and, more recently, for export.

Key indicators are included in our 2010 GRI report for the first time. Average scores improved in India to 75% (72%) and China 71% (69%).

In both countries we noted that the rate of supplier improvement had slowed in 2010. This is partly because the overall standard has improved so each new improvement is harder to achieve, but also because it is difficult for us to create such a strong sense of urgency when standards are generally approaching an acceptable level. In both countries management will start to focus on specific issues (e.g. Improving standards of accident reporting and first aid provision) to drive industry wide improvements in particular aspects.

LA2 Labour turnover.

For the first time in 2010, the GRI report gives a labour turnover indicator: For the largest 20 companies which combined represent over 62% of the total workforce; turnover (excluding leavers due to retirement) was 6,6%; female turnover; 7,4% and male turnover 6,5%.

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LA6 Occupational Health and Safety.

The 2009 Initiative gathered pace during 2010 and targets were set for 2013.

In 2009, Alfa Laval started a global program for Occupational Health & Safety to achieve greater focus on preventative measures. In 2010, the pace of the program accelerated and Alfa Laval took another step forward in its aim to provide all employees a safe and healthy work environment. The goals have been set – in 2013, the number of injuries and time lost due to injuries must be halved and absence due to ill health or injury must be reduced by 5 percent per year. The intensified efforts started to have effect in 2010 when the number of injuries dropped 3.5 percent from 2009, maintaining the trend of reduction. By the end of the year, eight plants had achieved certification in accordance with OHSAS 18001.

Alfa Laval also provides health promotion activities for employees. These vary from country to country and place to place and may include anything from local exercise facilities, with a gym and workout room, to help with giving up smoking.

LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities. (Factories Only)

Total number of accidents (including travel accidents): 160 (183)
The number of accidents per million working hours: 9,69 (10,31)
Days lost per million working hours due to accidents: 357 (330)

LA10 Training and Education.

When people grow, the company grows.

Alfa Laval offers a wide variety of training and development opportunities. These include Challenger, a program to promote young talent, and Impact, a mentor program for female leaders. In addition, there is Alfa Laval Academy, which comprises four faculties and a range of educational programs adapted to most levels in the organization. The range is extensive and includes sales, marketing, leadership, project management, Six Sigma, pricing and courses in many other areas.

The company utilizes E-learning, which enables an individual to study distance courses, all that is required is an Internet connection. This type of training does not have lectures, but does require considerable activity from the student.

Alfa Laval's various training programs are run on an ongoing basis, though 2010 saw a specific initiative to roll out the leadership program Pure Leadership to managers in subsidiaries in the world's fast-growing economies.

LA13 Diversity and Equal Opportunities

During 2010, 82 different nationalities were employed in the company and 19 percent of the employees were women. During the same period 28 nationalities were represented among the company's level 3 managers, that is, managers who report directly to a member of Group management.

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17% of the company's level 3 managers are women. Increasing this proportion is a priority but constitutes a long-term initiative. Change is to be accomplished through the creation of opportunities and removal of barriers rather than through a quota system.

One example of how Alfa Laval has opened new paths for employees is the implementation of open recruitment via the intranet. All available positions, including managerial positions, are announced and all employees can apply.

LA4 Labour / management Relationships.

Employee survey measures the level of satisfaction

At the end of 2009, Alfa Laval's Groupwide employee survey, Compass, was launched. This survey, which includes around 50 questions, will be carried out every second year with a follow-up survey in between.

The response rate was substantial from the start and the percentage of answers received reached 91 percent, thus providing an excellent basis for analysis and follow-up. The results are comparable over time, and even against other companies.

The survey is a development tool meant for improving work in and between groups, with the long-term goal of positively affecting the company's profitability. Compass measures how familiar the employees are with the company's strategies and whether they are acting in line with them, while also measuring the level of satisfaction in the organization by asking questions that identify how employees perceive respect, collaboration, ability to exercise influence, information flow and confidence within the Group.

The objective of Compass is for the findings to result in solid proposals for improvement, an objective that was amply achieved after the first survey. In 2010, some 5,000 action plans were launched in response to the results of the 2009 survey.

4.0 Business Integrity Progress 2009 2010?

2010 saw the first significant intervention from central management due to our whistleblower process. Many companies led new communication initiatives on our 2009 Fair Competition Policy.

S02 Anti-Corruption

Our process to secure good business ethics has a 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.

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.

S04 Actions taken in response to incidents of corruption.

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The whistle-blower process helped identify a case of non-compliance in 2010.

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 in that unit 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.

S07 Anti-competitive behaviour.

During 2009 Alfa Laval developed a new policy to reinforce our standards on fair competition and compliance with anti-trust laws. The policy was developed using internal and external legal counsel. Competition law is a complex area and the new policy had to reflect the law whilst being easily understood by people of all nationalities.

All sales company managing directors received training on the new policy as did the management teams of the three main divisions. Each senior manager has to conduct a risk assessment of their areas of responsibility and, if necessary, take advice of the corporate legal department should they perceive any possibility of non-compliance with the policy.

All sales companies managing directors have the responsibility to cascade the policy through their organisations. At the end of 2010, 8 companies were still to complete this information and training.

5.0 Transparency Progress 2010?

Alfa Laval continued to be listed in a growing number of investor sustainability indexes. Positive feedback was received about the structure of our GRI Report. We hope you like the closer ties between this report and the GRI report this year and find it easier to navigate. However, to be able to manage the increasing demand for Sustainability information we have adopted a new policy on SRI questionnaires.

5.01 Sustainability Indexes continued to recognise Alfa Laval during 2010

We reported in 2009 that we were receiving more recognition for the role our products and services play in protecting the environment and helping our customers improve yield from natural resources.

Certainly, our experience in 2010 reinforced our feeling that sustainability rating agencies increasingly look at the broad context of our business even if they have a single issue focus in their analysis.

We welcome this change of emphasis because we believe that Alfa Laval's main contribution to sustainability is the important role that our products play in the conservation and efficient use of energy and natural resources. But, this will not excuse us from paying close attention to our own operational CSR impacts.

5.02 We have changed our policy towards SRI Questionnaires.

Each year we try to respond to many questionnaires about environmental and sustainability data. To try to meet this need we: 1. Publish a sustainability report contained within our Annual

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Report. 2. Publish this progress report in line with the UN Global Compact Guidelines and 3. Publish a data rich report in line with the Global Reporting Initiative guidelines (GRI).

However, the requests for bespoke reports from environmental and sustainability analysts continues to grow. With regret therefore, from January 2011, Alfa Laval will no longer populate external databases nor complete other types of questionnaire about these matters. When the questionnaires ask for relevant new information not covered in our public reporting we will endeavour to include the questions in our GRI report for the subsequent years.

In this way, investors and all other stakeholders will have open and free access to our published sustainability data in the same way as they have access to other information about Alfa Laval.

We are very pleased to comment on any draft reports that analysts produce based on our published information. Whilst we will not check these reports in detail, we will have the opportunity to point out any obvious factual errors, or obviously misunderstood qualitative information. Many analysts routinely send us a draft report prior to publishing.

5.03 Our focus remains on continuous improvement - not data reporting.

As we said in 2008 and 2009 we remain focused on improving performance and not on data reporting for its own sake.

Our approach remains to focus on some key areas in which we need to improve each year – we call these the “Vital Few” and we then concentrate on data reporting and initiatives around these. The “Vital Few” change from year to year as we bring more control and consistent processes to manage the relevant issue. In 2010 our sustainability “Vital Few” remained: 1. Eliminate hazardous chemicals, 2. Reduce accidents, 3 Focus on best practice energy saving initiatives.

5.04 We continue to meet interested external parties

Meetings with SRI analysts have continued in 2010 as in previous years. We are very pleased to meet SRI analysts: please contact gabriella.grotte@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 2010. Students can contact david.ford@alfalaval.com to arrange a meeting.

5.05 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.