

A constant, ongoing process – listen, learn, change

“Running a business in a more sustainable way requires continuous learning. We have made real progress over the past few years, but we still have many opportunities to improve.” This was CEO Lars Renström’s message when reflecting on Alfa Laval’s progress toward the aspirations for sustainability expressed in the Business Principles.

The Business Principles focus on improving Alfa Laval’s social, environmental and ethical performance, as well as enhancing the company’s transparency. First published in 2003 based on the UN Global Compact and the OECD Guidelines for Multinational Enterprises, the Business Principles will be updated and reviewed during 2012 in light of the revised OECD guidelines published in May 2011.

With our revised Business Principles on the horizon, this year’s Sustainability Report highlights some of our key goals and achievements – and in some cases, our underperformance – since the Business Principles were introduced.

Environment:

In recent years, the environmental debate has been dominated by the contribution of human activity to climate change, as well as the shortage of drinking water resulting from climate change. Legislation such as the EU REACH regulation, which came into force in June 2007, has also had a major impact on companies such as Alfa Laval. The aim of REACH is to improve the protection of human health and the environment through better control of chemical substances.

Since 2003, we have*:

1. Introduced environmental management systems in all our factories and repair workshops. At the end of 2011, about 92 percent of our produced volumes came from factories with environmental management systems certified in accordance with the ISO 14001 standard.
2. Introduced a global reporting system for environmental data so that we can track key performance indicators from over 120 production and repair workshops.
3. Set a target to reduce greenhouse gas emissions (GHG) from our operations and transportation by 15 percent between 2007 and 2011.
4. Reduced the annual GHG emissions from our factories by over 10 percent, mainly by focusing on more efficient lighting, heating, cooling and electrical equipment. The decline still means we failed to achieve our overall target, which was disappointing. However, since we do not have energy-intensive production processes, energy-saving initiatives must be implemented in other areas. We underestimated the number of energy-saving projects needed.
5. Reduced the annual GHG emissions from goods transportation by 5 percent. This required changes in production scheduling, stocking and distribution practices. From 2006 to 2009, we were very successful in these activities and operated ahead of our annual savings target. However, during the economic recovery in 2010, our production load changed significantly as several customers demanded air freight to meet changing market demands, and much of our positive environmental work was undone.
6. Reduced the emissions from our car fleet by 10 percent by changing our policy and utilizing more fuel-efficient models from the manufacturers.
7. Seen a significant increase in customer interest in our technology to help reduce their energy and CO₂ emissions. This is naturally gratifying since one of Alfa Laval’s major contributions to reducing society’s impact on the environment is our product and solution offerings.
8. Introduced an environmental life-cycle assessment to the new product design process. All high-volume products are now assessed in this way and 88 assessments have been completed since the system was introduced in 2008. 87 products have shown a reduced environmental impact during their life cycle, with reductions ranging from 9 percent to 24 percent.
9. Eliminated over 25,000 kg of chemicals included on our black list. In other words, we are very close to our goal of eliminating all blacklisted chemicals. However, we have failed to find alternatives for some chemicals that are essential in three production processes. While the use of these chemicals is permitted by law, our objective is to eliminate their use due to their hazardous nature.
10. Invested in new recycling systems in several factories, which have led to a more than 10 percent reduction in total water consumption in the production processes. Our production processes are not particularly water intensive, but we do use water for cleaning and pressure testing of products. The overall reduction was achieved despite having increased water consumption at some sites, as chemical cleaning methods were replaced with water to reduce the use of chemicals.
11. Increased the volume of purchases from suppliers with ISO 14001 environmental certification. At the end of 2011, more than 65 percent of our total manufacturing purchases came from certified suppliers and our next goal is to increase this to 80 percent before 2015.

“I think we have successfully integrated environmental management into the responsibilities of line managers over the past few years. We have eliminated large quantities of chemicals and reduced our carbon emissions. I believe we now have the infrastructure to tackle the main goal of significantly reducing our environmental impact. However, to achieve our goals, we must activate everyone throughout the organization.”

Göran Mathiasson.
Executive Vice President of the Operations Division
and Head of the Environmental Council

* For information on how these numbers have been calculated, see the GRI report on our website - www.alfalaval.com/about-us/sustainability

Social:

This Business Principle covers both the human rights and labor principles of the UN Global Compact. Alfa Laval has been a global employer for many years, with companies in more than 50 countries. We are proud of our culture of employee training and the high standards of our workplace conditions. However, in our initial risk assessment of possible non-compliance with our Business Principles, we identified key areas where we needed to improve.

Since 2003, we have:*

1. Improved our reporting system for accidents and health and safety. Global health and safety targets have been set and new training initiatives have been implemented. The accident frequency rate has fallen from 11.11 accidents per million working hours in 2009 to 9.93 in 2011.
2. Implemented a new reporting system for absence due to illness in Alfa Laval. Our 2011 figure of less than 2 percent lost working time is quite good and reflects well on our work environment. We were pleased to have been rated among the top 50 workplaces in China for graduates during 2011.
3. Implemented an open recruitment policy as part of our strategy to increase the career opportunities for all employees, regardless of nationality, ethnicity, gender or disability. All positions are now advertised internally. One specific goal is to increase the number of women in management positions.
4. Assessed the risk level of all suppliers in India and China for potential non-compliance with our Business Principles. High-risk suppliers are inspected regularly and targets are set for improvement. Those who repeatedly fail to improve their working conditions are terminated. Over 230 suppliers were included in the inspection system in 2011, with more than 750 inspections carried out between 2004 and 2011. The standards of these high-risk suppliers have improved considerably, but there is a need for more focused education and training in many aspects of health and safety.
5. Introduced a new stage in our supplier assessment process aimed at identifying any risk of child, forced and bonded labor. We focus particularly closely on production processes (such as metal polishing) in

countries shown to have a high risk of using illegal labor practices. To date, we have not identified any occurrence of such practices.

Business Ethics:

Over the past few years, we have witnessed an increased focus on corporate governance. Within Europe, various high-profile cases of unethical business practices have been featured in the media. It is clear that we cannot take high ethical standards for granted.

Since 2003, we have:

1. Conducted a central training and ethical risk assessment process involving over 100 top managers.
2. Strengthened our corporate governance processes so that all top managers are reminded of our policies through a yearly sign-off.
3. Introduced a new Fair Competition Policy and Business Ethics Policy to clarify and provide manager training in legislation pertaining to competition, bribery and corruption.
4. Implemented a whistleblower process, enabling us to identify one case of unethical behavior, which resulted in retraining and other corrective actions in the unit concerned.

Transparency:

Demand for increased corporate transparency has grown in recent years. Transparency itself is partly governed by laws intended to ensure

that everyone is given access to the same financial information at the same time and that corporations present accounting records and supporting documentation that accurately describes and reflects the nature of the underlying transactions. Other areas deal with the disclosure of corporate governance practices. But today, transparency can refer to so much more than compliance. The disclosure of various aspects other than purely financial information is becoming increasingly important. This is why Alfa Laval focuses on providing detailed information on its sustainability efforts in order to ensure we live up to our Business Principles, as well as describing the targets set and the outcome of our efforts.

Since 2003, we have:

1. Published annual progress reports on our website to show how we have been implementing our Business Principles.
2. Published a data-rich report based on the Global Reporting Initiative Guidelines.
3. Adopted an "open door" approach to any stakeholder who wishes to discuss our sustainability performance. So far, this has mainly been used by students and representatives of investors.
4. Met other large industrial companies in Sweden to regularly share experiences and learn from each other.



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