



“I would like all our managers to look in the mirror and ask themselves how they can manage our business in a more sustainable manner. Our review of the Business Principles in 2012 comprised a key component of this reflection.

I am very pleased with the resulting document, but even more pleased by the positive engagement of everyone in this work. The review generated many helpful suggestions, comments and, at times, lively discussions. I am therefore confident that the revised Business Principles have a strong ownership in the company’s management.

But the real challenge of such a document is not in its production but in its implementation. Some of the Principles are simple instructions and unequivocal in their meaning. But, like some parts of the United Nations and OECD documents on which they are based, some of the Principles are more aspirational.

Whether an instruction or an aspiration, I am certain that by persistent implementation our revised Business Principles will help us find new opportunities to provide better everyday conditions for people.”

A handwritten signature in dark ink, appearing to read 'Lars Renström'. The signature is fluid and cursive, with a horizontal line at the end.

Lars Renström

Alfa Laval's four Business Principles

Alfa Laval's Business Principles form the basis for the company's work on sustainability.

SOCIAL

Respect for human rights is fundamental

BUSINESS INTEGRITY

High ethical standards guide our conduct

TRANSPARENCY

The company's commitment to open dialogue builds trust

ENVIRONMENT

Optimizing the use of natural resources is our business

This Sustainability Report focuses on the revision of the Business Principles and the environmental targets that were developed in 2012. We also outline some of the expected implications from the changes in our Business Principles.

More detailed sustainability information can be found on www.alfalaval.com with the complete text of the Business Principles, the 2012 Progress Report and the data rich Global Reporting Initiative (GRI).

WHY WE UPDATED OUR BUSINESS PRINCIPLES:

Alfa Laval's Business Principles were published in 2003. In the Annual Report for 2011, we gave a summary on the development since then – key goals, achievements and, in some cases, our underperformance.

The impetus to review our Business Principles came from the 2011 publication of the United Nations Guiding Principles on Business and Human Rights, the latest revision of the OECD Guidelines for Multi-National Enterprises, as well as our continued support for the United Nations Global Compact.

HOW WE WENT ABOUT IT:

We believe it is critical to make the Principles come alive in our day-to-day business. Therefore, ever since the inception of the original Business Principles, our philosophy has been to incorporate management systems, goal setting and monitoring into normal line-management functions. Thus, input from line managers and employees has been an essential part of our consultation process. Alfa Laval has a pragmatic "tell it as it is"

culture, and, accordingly, we have tried to follow the wording of the source documents as closely as possible. With these considerations in mind, comments to the various drafts were invited from employee representatives and management as well as SRI analysts and shareholders. Finally, the document was reviewed, improved and approved by the Group Management and Board of Alfa Laval.

WHAT'S NEW IN THE 2012 BUSINESS PRINCIPLES

Social

Respect for human rights is fundamental

In the past years, our social business principle has led to improved health and safety for our own employees, and has also focused on the labor conditions of workers at suppliers in low labor-cost countries. The revised OECD Guidelines encourage us to broaden this risk-based approach towards all business relationships. In response, we have added the "Protect, Respect and Remedy" concept of the United Nations Guiding Principles on Business and Human Rights, with the new clauses:

- *Alfa Laval should carry out human-rights due diligence processes as appropriate to the size, nature and context of operations and the severity of the risks of adverse human rights impacts.*
- *Provide for, or co-operate through legitimate processes, in the remediation of adverse human rights impacts if Alfa Laval has caused or contributed to these impacts.*

We expect these additional clauses to add new ethical and moral dilemmas to normal business decision making. At the moment, these paragraphs are aspirations and so we will proceed cautiously and gradually to introduce a broader human-rights risk assessment process into our operations.

Alfa Laval engages in many local community initiatives. However, inspired by the 2012 launch of the United Nations Global Compact Children's Rights and Business Principles, we will be guiding group companies to focus initiatives on the development of human rights, education and health for children.

– *Wherever it operates, Alfa Laval wants to make a positive contribution to local community activities commensurate with its relative size as an employer in the community. Contributions could be targeted at projects committed to the care and development of human rights, education and health for children.*

Social responsibility is an important consideration when talented people are seeking employment. Our new community engagement focus does not mean we will immediately pull out of other existing community activities but we believe a unified focus will encourage more employees and management teams to engage in community activities with a consequent benefit to society as well as an enhancement of our attractiveness as an employer.

Business Integrity:

High ethical standards guide our conduct

Eliminating bribery and corruption is essential for the continued development of international fair trade. Alfa Laval has conducted intensive training, internal auditing and reporting on this issue during the past years. This amended paragraph in the Business Principles includes quotes about agents and third parties which previously were to be found in training material and internal policies.

– *Alfa Laval works against corruption in all its forms, including extortion and bribery. Alfa Laval companies or employees must not give, promise or offer anything of value to any customer, government employee or any person for the purpose of improperly securing a decision, securing an advantage, avoiding a disadvantage or obtaining or retaining business. Furthermore, Alfa Laval does not permit agents, suppliers, contractors, consultants or other third parties working on its behalf to engage in this kind of behavior.*

To further strengthen the implementation of our Anti-Bribery and Corruption Policy we have created a “Commercial Ethics Council” which is chaired by the CEO. The Council has the responsibility of ensuring that there are adequate anti-bribery and corruption policies and processes in the company as well as of reviewing risk assessments.

Transparency:

The company’s commitment to open dialog builds trust

The foundation on which our Transparency Principles stand is accurate factual information. Since 2003, we have implemented reporting systems to track essential non-financial indicators linked to the Business Principles. The inclusion of the following paragraph gives recognition to the importance of these systems as a part of “business-as-usual”.

– *All entities in Alfa Laval strive to measure and record relevant non-financial information relating to the implementation of the Business Principles. This helps to maintain a focus on the issues as well as provide key data by which targets can be set and progress can be tracked. Progress reports are published externally in the sustainability report section of www.alfalaval.com. and internally via the intranet and through meetings of the European Employee Council and other employee representative groups.*



Whilst the initial reporting focus has been on employee and shareholder information, in recent years, sustainability information has become an important element of market communication. In 2012 we published a special sustainability issue of our customer magazine, Here.

Environment:

Optimizing the use of natural resources is our business.

During 2012, a new environmental improvement strategy was developed and announced together with new key targets.

KEY ENVIRONMENTAL TARGETS FOR MANUFACTURING UNITS (BASELINE 2011, TARGET 2015)

- Improve energy efficiency by 12 percent
- Reduce water consumption by 20 percent
- Reduce restricted “grey” chemicals usage by 50 percent
- Reduce Greenhouse gas from freight transportation by 12 percent

During the past years, the Alfa Laval Environmental Management System (EMS) has been implemented in 34 sites. In 2006, when the last environmental targets were set, there were only 20 sites in the EMS. Each year, additional sites have also been added through organic growth and acquisitions. These changes make year-on-year comparisons of environmental data very difficult. Our new targets apply to all sites but, to facilitate tracking of progress, we will provide comparative data for the 23 sites that together accounted for over 85 percent of our manufacturing energy consumption in 2011.

In 2012, 3 energy-savings projects were completed and 19 started in the manufacturing sites that consume 85 percent of total energy. At the end of 2012, we recognized that we have not yet initiated enough projects in the year to achieve our challenging targets. We are taking actions to increase the number of projects in all areas. More details can be found in the 2012 Business Principles Progress Report.

ALFA LAVAL’S ENVIRONMENTAL WORK

