



External demands and expectations benefit Alfa Laval's business

The UN introduced new sustainable development goals in September 2015 and alternative solutions for reducing climate emissions were discussed at the Paris climate conference. Proposals for new legislation on sustainability reporting, EU legislation on conflict minerals and national action plans on business and human rights were also presented during the year. Every year, we receive a growing number of questions from customers and investors about the environmental impact of our products and about our work practices, particularly our efforts to combat corruption. Our employees are also asking more questions about our work on various sustainability aspects – everything from human rights to environmental impact.

Alfa Laval firmly believes that external demands and expectations with respect to sustainability create opportunities for us to continue to succeed. Our products reduce energy consumption and optimize the use of resources in many industrial processes. We offer products for water treatment processes, as well as products that reduce the marine industry's emissions to air and water. We also offer service solutions that ensure the performance of our products throughout their service life and reconditioning of certain products in order to reuse materials. We are confident that our products and service offering are well positioned to meet future challenges.

We take a highly proactive approach to implementing our four business principles in order to ensure that we are working in a way that meets external sustainability requirements – at all stages of the value chain. It is this combination of what we do and how we do it that will ensure our short and long-term success.

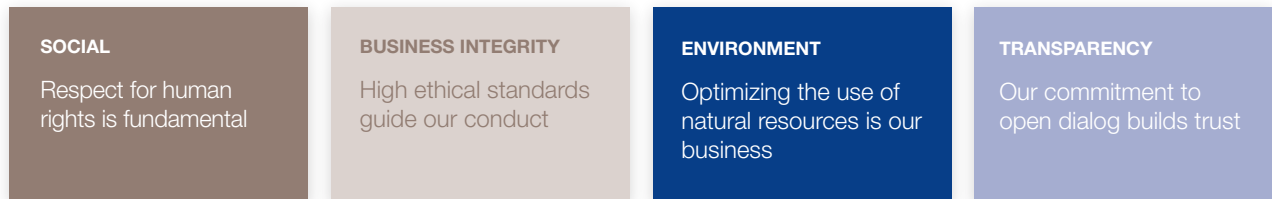
A handwritten signature in black ink, appearing to read 'Lars Renström'. The signature is fluid and cursive, with a horizontal line at the end.

Lars Renström

Sustainability report 2015

Our business principles:

Our business principles incorporate the “Protect, Respect and Remedy” framework introduced in the UN Guiding Principles on Business and Human Rights, as well as the OECD Guidelines for Multinational Enterprises. We are also signatories to the UN Global Compact.



Our approach: focus, execution and review

Focus on areas where we have an opportunity to make a difference

The Business Principles are very broad and thus enable us to identify many potential risks. However, it would not be realistic for us to tackle them all at the same time. So we set priorities to reach a good balance between the severity of the risk and our ability to influence and create meaningful change.

Execution: a line responsibility

The line organization bears the main responsibility for integrating the business principles into the ongoing work throughout Alfa Laval's value chain.

Management structure

The implementation process is guided by various councils, led by members of Group management and comprising managers from relevant departments.

Commercial Ethics Council

The management groups of the sales organizations bear the main responsibility for risk assessments and risk reduction measures with respect to our business contacts. They are supported and guided by the Commercial Ethics Council (CEC), which is led by the CEO and comprises three additional members of Group management. Since human rights violations are frequently at the root of international trade embargoes, export control is a key focus area. The CEC is responsible for ensuring that all relevant embargoes are respected and implemented throughout the sales channels used for Alfa Laval products. The CEC also handles commercial dilemmas originating from conflicts and human rights

violations that do not result in official trade embargoes. The CEC is also responsible for implementing risk assessments and risk reduction processes, while the line managers are responsible for ensuring compliance with Group policies and all applicable laws, rules and regulations.

Environmental Council

The Environmental Council makes decisions regarding the company's environmental strategy, establishes Group-wide environmental goals and monitors the work to minimize the company's environmental impact. The council is led by the President of the Operations Division and includes managers from the organizations in the company's value chain deemed to have the most significant environmental impact.

Health and Safety Council

The Health and Safety Council sets policies and prioritizes Group-wide initiatives. The council is chaired by the Senior Vice

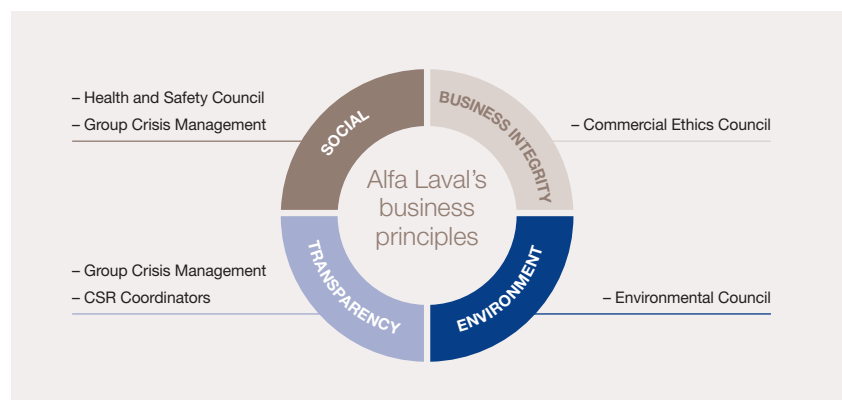
President of Human Resources and also includes senior managers from the organizations exposed to the highest risks, such as the Operations Division and Service.

Group Crisis Management

Customer safety is a prime concern, which is why any product-related safety issues are automatically referred to the Group Crisis Management organization. This ensures that a thorough root cause analysis is performed and appropriate corrective actions are implemented, including product recalls if necessary. This organization is also convened to handle incoming warnings from our whistleblower system.

Review: Board and management

Once per year, the Board and Group management perform separate reviews of the Group's progress, as well as the goals and priorities established to achieve the objectives stipulated in the business principles.



Business principles – status

Social:

The social business principle has the broadest scope of all of the business principles and is based on the UN Guiding Principles and the OECD Guidelines. Our risk assessment evaluates the possibility of human rights violations in our supply chain, our company and our customers' organizations.

Our focus is on:

- Improving the working conditions of high-risk suppliers
- Reducing the frequency of workplace accidents in our workshops and the percentage of serious accidents.

Suppliers and supply chain – status 2015

The procurement departments bear the main responsibility for both risk assessments and risk reduction measures. In 2015, a new process was established to ensure that our suppliers implement continuous improvements in line with our business principles.

This process begins by mapping out our suppliers and their processes. We have found that the main risks arise in countries with ineffective enforcement of national employment legislation and international human rights standards. However, we also focus on suppliers with inherent health, safety or environmental risks due to the nature of their operations (for example, metal polishing and foundry work). We review how well suppliers in high-risk zones comply with our business principles and work together with the suppliers to prepare an improvement plan, which is then followed up. Suppliers with serious breaches are given between one and six months to implement improvements. If no progress has been achieved by the end of the period, the supplier may be phased out.

Education is an important part of the improvement process and all employees in Alfa Laval's procurement organization receive training in the company's business principles. Procurement managers must also undergo mandatory anti-corruption training. Suppliers in countries deemed to be high risk are also offered training in the areas covered by the business principles.

Safe workplace – status 2015

A new safety manual was developed in order to provide better instructions on how Alfa Laval's organization is to tackle safety issues and outline the guidelines and work practices to be followed. In 2015, we also developed various tools to reduce the risks to health and safety in our service centers and among our field engineers working on-site at customer

facilities. These tools include risk assessment, prioritization, safety plans and training.

Business integrity:

This principle includes conflicts of interest, political contributions, anti-bribery and anti-corruption (ABAC), fair competition, legislative compliance and corporate governance. The CEC is responsible for implementing risk assessments and risk reduction processes, while the line managers are responsible for ensuring compliance with Group policies and all applicable laws, rules and regulations. Internal audits are conducted regularly and are intended to ensure that appropriate processes are in place and functioning properly.

Anti-corruption processes – status 2015

In 2014, the company rolled out improved ABAC processes, including e-learning modules in multiple languages for its sales personnel. In 2015, we also launched a mandatory training program for employees working with procurement.

Environment:

Our products are our main contribution to sustainability since they play an increasingly important role in minimizing energy consumption and thus greenhouse gas emissions, at the same time as they optimize the use of natural resources, including the recycling of water in industrial processes. In some cases, Alfa Laval's environmental solutions are essential to ensuring that industrial processes comply with emissions legislation.

Our environmental focus is on:

- Ensuring that new products have a lower environmental impact than the ones they replace.
- Minimizing greenhouse gas emissions from manufacturing and goods transportation.
- Ensuring that we have good control over the use of chemicals associated with environmental or health risks.

Environmental impact of new products – status 2015

Alfa Laval's products are, by their nature, designed to reduce the effects on the environment. This means that the positive environmental impact that arises once our products have been installed is significantly larger than the negative impact caused by the company's operations. Alfa Laval aims to consistently improve its products so that all new products are more environmentally friendly than the products they replace. Accordingly, the effective implementation of a life cycle per-

spective is a key component of our product design process. In 2015, some 145 life cycle assessments were made. The LCAs done on product replacements showed improvements of up to 42 percent.

Greenhouse gas emissions – status 2015

Our goal is to continuously minimize the greenhouse gas emissions from manufacturing and goods transportation. Our focus in 2015 was on the transportation of goods and the projects we conducted have yielded results in the form of a reduction in emissions during the year.

Chemicals – status 2015

All of Alfa Laval's production and service facilities are to have good control over the chemical substances used. They must also make safety data sheets available that clearly indicate whether chemicals on the company's so-called "black and gray list" have been used. This list is updated continuously in line with prevailing chemical legislation. Suppliers are asked to follow this list and phase out chemicals accordingly.

Transparency

Alfa Laval aims to build trust through open dialog. This is particularly true of the dialog the company engages in with various parties concerning its progress and challenges in the area of sustainability.

Our focus in the area of transparency is on:

- Improving our dialog with customers when it comes to our sustainability results.

Greater dialog concerning business principles – status 2015

Over the past few years, the number of questions we receive from customers regarding our work on sustainability has increased.

Based on our goal of being transparent and at the request of our customers, we therefore began reporting in Eco Vadis. Facing greater pressure for public information about our sustainability efforts, we aim to be as transparent as possible when it comes to communicating our guidelines, work practices and the results of our work.

We are also working actively to strengthen our cooperation with our customers in the area of sustainability. For example, Alfa Laval is participating in a collaborative project related to sustainable supply chains in the marine industry.

In 2015, we also worked to increase internal awareness of our business principles, their content and background.

Alfa Laval's work contributes directly to many of the UN's newly launched Sustainable Development goals. The following are some examples:

| SUSTAINABLE DEVELOPMENT GOAL | EXAMPLES OF HOW ALFA LAVAL CONTRIBUTES TO THEIR SUCCESS |
|---|--|
| Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture. | Alfa Laval products and solutions improve shelf life, reduce waste and make food production hygienic and safe. The energy use reduction made possible for food and fruit processing plants using pumps from Alfa Laval is about 50 percent. Our pumps, valves, separators and heat exchangers are important components in food production, while our refrigeration solutions help keep food fresh during storage and distribution. |
| Goal 6: Ensure availability and sustainable management of water and sanitation for all. | Alfa Laval offers a wide range of technologies to treat wastewater, among them decanter centrifuges which help dewater sludge in municipal wastewater treatment plants, contributing to clean water around the globe. |
| Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all. | The world's growing demand for energy is encouraging the growth of alternative energy sources, such as making biofuel from waste. Alfa Laval products are involved throughout the biofuel production process, from heating and cooling to mixing and separation. |
| Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable. | Alfa Laval provides energy-efficient district heating and cooling – often using waste heat from other processes, as well as thermal storage solutions that save energy and money. The offering also includes products that play an important role in the wastewater cleaning process in municipal wastewater treatment plants in cities all over the world. |
| Goal 13: Take urgent action to combat climate change and its impacts. | In our own manufacturing, we work on reducing the CO ₂ emissions from production through to transportation. At our customers' plants, our diverse products improve energy efficiency, which lowers the need for fossil fuels and helps to reduce CO ₂ emissions. In other areas, our products are efficient in heat recovery, which reduces the amount of energy needed for heating and thus also CO ₂ emissions. |
| Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development. | Alfa Laval's Marine & Diesel division offers a whole range of products in the areas of energy and the environment, mainly for customers in the marine industry. The offering includes exhaust gas cleaning systems, heat recovery systems and ballast water treatment systems. |