

Optimizing our customers' processes – a sustainability matter



Ensuring access to safe food, reducing waste in food production and cutting emissions on land and in the world's oceans will be important steps to achieving the UN Sustainable Development Goals by 2030. Increased energy efficiency will be important to meet the climate agreement ratified in 2016. At the same time, water shortage in many countries of the world is becoming increasingly obvious. Alfa Laval supplies products and solutions that can contribute to improvements in these sustainability areas for customers in the marine, energy, water and food industries.

Alfa Laval's focus in 2016 was on establishing an organization with the ability to reach customers in a faster and more efficient way. Equally important was to continue to deliver products and solutions that optimize our customers' processes.

Our sustainability work included the preparation of a new environmental strategy towards 2020, with 2015 as the base year. The strategy included new goals with respect to energy, greenhouse gas emissions, water, chemicals and waste, which include the entire value chain. We will therefore work together with our suppliers and other partners while at the same time focusing on reaching continuous improvements at our own facilities. We will also focus on opportunities to further leverage the positive effects that our products and solutions can generate for our customers.

Furthermore, we continued to implement our business principles at our suppliers' facilities while our internal focus was on health, safety and anti-corruption.

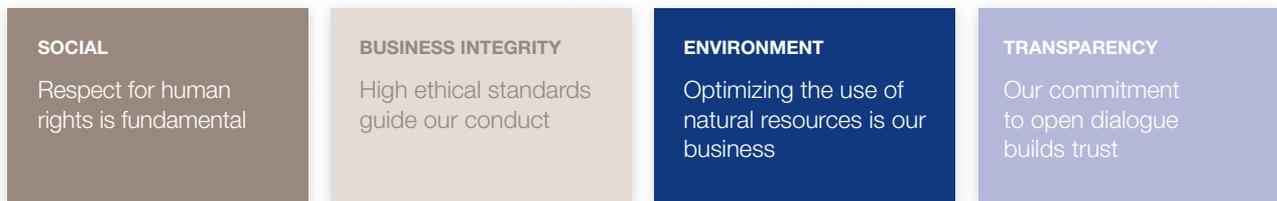
Tom Erixon
President and CEO

Sustainability report 2016

Our business principles – an important foundation

Alfa Laval's four business principles, which focus on continuously improving Alfa Laval's social, environmental and ethical efforts as well as the company's transparency – form the foundation for the company's sustainability work.

The 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.



Division of responsibility, clear priorities and follow-up are crucial to achieving continuous improvements

As part of its sustainability efforts, Alfa Laval regularly listens to various stakeholders and continuously reviews the scope and focus of its work. Accordingly, it is important to have a clear structure in place and clear processes for identifying, prioritizing and managing risks and opportunities. We know it is impossible for the organization to manage all of the risks in our operating environment at the same time, which is why we continuously weigh up the severity of the risks in question and our ability to exert an influence and create meaningful change. In other words, we have chosen to focus on the areas where we believe we have the best chance to make a real difference.

Division of responsibility

Main responsibility rests with the line organization

The line organization is responsible for integrating the business principles into the ongoing work throughout Alfa Laval's value chain and its managers are responsible for ensuring the line organization's compliance with Group policies and all applicable laws, rules and regulations.

Overall strategies and follow-up take place through management structures

The implementation process is led by various councils, which are responsible for establishing overall strategies and reviewing the work of the line organization. These councils are

chaired by representatives of Group management and comprise various managers from the relevant divisions.

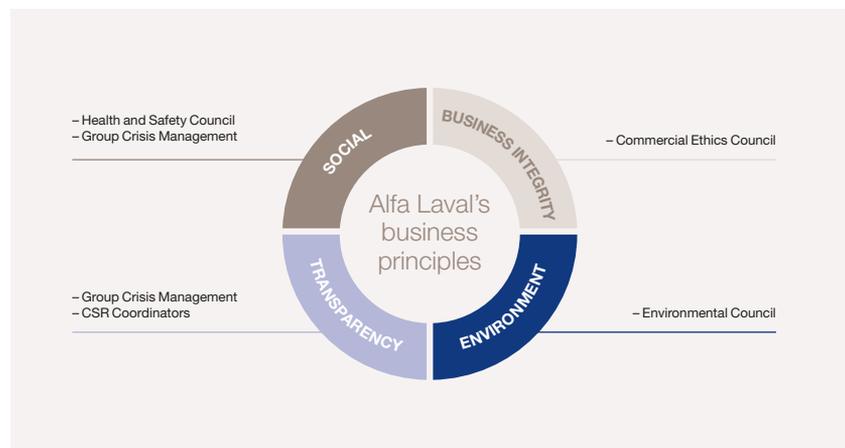
Commercial Ethics Council

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 includes 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's products and solutions. The CEC also handles commercial dilemmas originating from conflicts and human rights violations that do not result in official trade embargoes. Other areas related to business integrity, such as anti-corruption, are also addressed by the CEC. Furthermore, the CEC is responsible for implementing risk assessments and risk reduction processes.

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 throughout the value chain. The council is led by the President of the Operations Division and includes the Senior Vice President of Human Resources and managers from the organizations in the company deemed to have the most significant environmental impact.

Health and Safety Council

The Health and Safety Council sets policies and prioritizes Group-wide initiatives with a focus on health and safety. 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 in terms of health and safety, such as the Operations Division and Service.

Group Crisis Management

Customer safety is a prime concern, which is why all 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. The 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.

Priorities and results for 2016

Social:

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

Our ongoing priorities were as follows:

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

Suppliers and the supply chain

– our work in 2016

For more than a year, we have worked to ensure that our suppliers understand and uphold our business principles. The process begins with a review of our suppliers, their manufacturing processes and geographic location. During the course of this work, we found that the main risks arise in countries with ineffective enforcement of national employment legislation and international human rights standards. Some of our suppliers' manufacturing processes are also inherently associated with health, safety or environmental risks due to the nature of the work itself (for example, metal polishing and foundry work).

We review how well our high-risk suppliers comply with our business principles and work together 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.

In 2016, we learned that there are two crucial elements when it comes to ensuring that the process actually results in improvements – namely the understanding among suppliers and our organization's ability to assume responsibility and focus on follow-up.

Supplier understanding essential for improvement

Alfa Laval conducts various initiatives to increase the level of understanding in the countries with the highest risks. Approximately 100 suppliers in China and India took part in these initiatives in 2016. The suppliers who participated made faster progress after their reviews and also showed a better understanding of the fact that these improvements would also be good for their business.

At Alfa Laval, all employees in the procurement organization receive training in the company's business principles and all procurement managers are required to undergo mandatory anti-corruption training.

More effective follow-up

During 2016, we worked to achieve a more effective process for handling suppliers who do not live up to our business principles. This is to be accomplished through a more cohesive decision-making process.

Health and safety – our work in 2016

During 2016, we rolled out a project known as 3PR (three prioritized safety risks) at all of our facilities. Until now, our work on health and safety has focused on work environment, tools and training.

The aim of the new project is to help our employees understand how important their behavior and attitude toward risk are when it comes to reducing the number of accidents. By focusing on the three most important risks at each facility, our employees can prioritize the behaviors that need to change in order to cut back on accidents.

Within our service organization, we added a new resource in the area of health, safety and the environment and began rolling out the 3PR project. During the year, we also worked to raise safety awareness at service centers and among our field engineers.

Business integrity:

This principle is based on the expectation that the company is to comply with the laws in effect in the countries where we operate. The principle covers conflicts of interest, political contributions, anti-bribery and anti-corruption (ABAC), fair competition and corporate governance. At the overall company level, 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. The line managers receive risk assessment training in this area and are continuously reminded of their responsibilities through an annual debriefing. Internal audits are conducted regularly and are intended to ensure that appropriate processes are in place and functioning properly. There is also a whistleblower system that enables all stakeholders to report potential breaches anonymously.

Anti-corruption processes – our work in 2016

We aim to continuously improve and review our anti-corruption processes. In recent years, our main focus has been on risk analysis and training – and the same applied in 2016. We have now provided training for most of the employees involved in sales and procurement. During 2017, we will take the next step, which will involve the introduction of mandatory training for all white-collar employees in the company.

Environment:

For Alfa Laval, it is important that both its production and service operations continuously improve energy efficiency and reduce water consumption. But equally important – and with an infinitely greater potential for savings – is the company’s capacity to provide products, service and solutions that can limit customers’ resource consumption, thereby helping them to achieve their sustainability goals.

Alfa Laval’s most recent environmental strategy extended until the end of 2015 and we are pleased to report that we achieved our goals with respect to energy, CO₂ emissions and water. As we worked toward these goals, we also encountered new challenges and these formed the basis for the new environmental strategy for 2016 to 2020, with 2015 as the base year. Our new goals are as follows:

Energy:

reduce energy consumption by 10 percent. By conducting energy audits at our largest facilities, we will be able to map out our energy consumption and potential areas for improvement. We will then implement projects to reduce our energy consumption in the areas with the greatest potential for savings.

CO₂:

reduce emissions by 15 percent. We will focus on minimizing CO₂ emissions from transportation since these account for 40 percent of the company’s emissions. This will be achieved by improving planning throughout the supply chain.

Water:

reduce consumption by 10 percent. Since Alfa Laval does not use large quantities of water in its production, we will focus our initiatives on countries with water scarcity in order to achieve our water consumption goal.

Chemicals:

no use of prohibited chemicals and 50-percent reduction in the use of potentially harmful substances. We will continue our systematic work to control the use of chemicals.

Waste:

recycle at least 85 percent of waste. During this period, we will also focus on waste and ensure that at least 85 percent of the waste from our facilities is recycled.

In 2016, a new reporting system was introduced with the aim of achieving higher quality data, which in turn will enable better follow-up of our goals.

Alfa Laval believes that the greatest environmental gains can be achieved in the customers’ operations. Our products and solutions can help customers to become more energy efficient. They can also help to reduce water consumption, boost productivity, optimize the use of input goods and ensure compliance with prevailing environmental legislation. For this reason, our new environmental strategy focuses not only on our own environmental goals but on the entire value chain, including how our products help our customers to achieve their environmental goals.

Transparency:

Alfa Laval aims to build trust through open dialogue with our stakeholders. This is particularly true of the dialogue the company engages in with various parties concerning its progress and challenges in the area of sustainability. When it comes to transparency, our focus is on achieving an open dialogue with our customers concerning opportunities related to sustainability.

Dialogue concerning business principles – status 2016

Over the past few years, we have received a growing number of questions from customers regarding our compliance in various areas. Most of these questions concern our efforts to minimize risks in the supply chain and combat corruption.

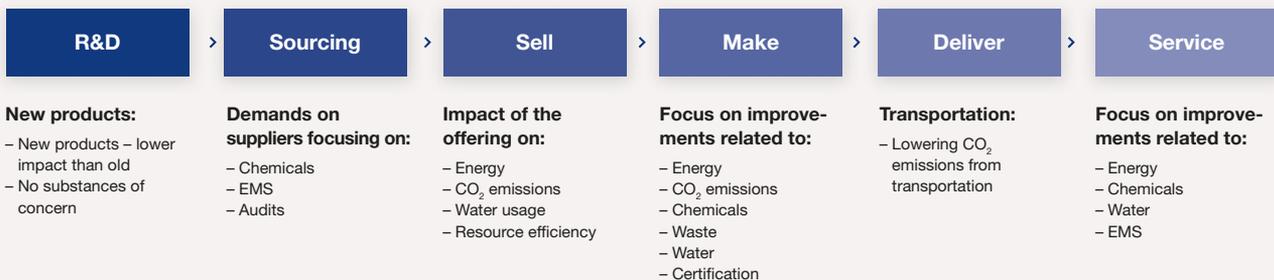
In 2016, Alfa Laval was named “preferred supplier” by IMPA, the marine industry’s association for responsible supply chain management.

Our focus going forward is to strengthen our cooperation with our customers in the area of sustainability, focusing on optimizing resources in their production processes since this creates a business opportunity for Alfa Laval.



For more information about Alfa Laval’s sustainability efforts, visit our website, where both a progress report and GRI report are available. www.alfalaval.com/about-us/sustainability/

Environmental strategy throughout the value chain



An example of how Alfa Laval can support the UN Sustainable Development Goals

Alfa Laval supports the UN Sustainable Development Goals. In addition, our offering includes products and solutions that can reduce human impact on the environment and directly contribute to the improvements needed to achieve a number of these goals. This is described in greater detail in our annual Business Principles Progress Report, available at www.alfalaval.com. We selected the following example to illustrate how our products can contribute to a sustainable marine environment, thereby helping to achieve UN Sustainable Development Goal 14: “Life Below Water.”

Ballast water and foreign organisms

Stability is a must when it comes to ensuring a ship's safe voyage. That is why seawater is pumped on-board into special ballast tanks located at the bottom of the ship. The tanks are filled as the ship is unloaded and emptied as the ship is loaded. The water in the tanks contains organisms that are transported aboard the vessel away from their natural environment to areas where they have no natural enemies, allowing them to multiply, drive out domestic species and cause significant damage to local ecosystems. The transport of organisms represents a threat to the world's oceans and lakes.

This problem has grown as international trade has increased, which is why the UN International Maritime Organization (IMO) has worked to introduce a convention in the area. This convention was ratified in 2016 and it requires that ballast water be treated before it is released.

In partnership with Wallenius Water, Alfa Laval developed and launched a system known as Alfa Laval PureBallast in 2006. The system uses UV light to eliminate foreign organisms, thereby helping the marine sector to meet the requirements of the convention – without using chemicals, with low energy consumption and in all types of water.



UN Sustainable Development Goal 14: Life Below Water

Applicable target:

By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans.

Ballast Water Management Convention

The IMO Ballast Water Management Convention was ratified in September 2016. As of September 2017, all newly built ships will be required to have an on-board ballast water treatment system, while existing vessels will be given until their next scheduled drydocking date.

Alfa Laval PureBallast

