



Business Principles
Progress Report 2015



Bringing waste
back to life



Bring waste back to life – Thousands of cubic meters of effluents run out into our environment every minute of every day. Only a fraction is currently purified. Dealing with effluents through recycling has therefore become a matter of survival. Alfa Laval has unique knowledge of the art of closing this loop.

We offer industries and municipalities our world-leading technologies and we are continuously broadening our product range to deliver complete treatment systems.

Editorial comment

Continuous improvement requires focus, competence and follow-up

The issue of sustainability attracted considerable global attention during 2015 – from the publication of the new UN Sustainable Development Goals to the Paris Climate Change Conference. As a company, we experienced increasing demands from customers and investors during the year. Our business (products, systems and services) has the potential to contribute in many ways to the achievement of the new Sustainable Development Goals and to support our customers to make their operations more sustainable and to reach their energy-efficiency, climate and water goals.



Alfa Laval's Business Principles define the way we are to act in society while achieving our business goals. This report describes our efforts during 2015. Our approach is to focus on the areas where we have identified the highest risks and where we are able to exert an influence and make improvements. We believe that focusing on specific issues makes it easier to allocate the necessary resources to achieve sustainable results. This year, we allocated many of our resources to competence development in such areas as health and safety, anti-bribery and anti-corruption, and the implementation of our business principles in our supply chains. We also focused on following up to ensure that our work leads to sustainable improvements.

Highlights from 2015

Our progress in various areas of our Business Principles is described below.

Environment Principles:

We carried out more than 145 life cycle assessments on new and upgraded Alfa Laval products during 2015. All of the products that replace older products showed an improvement in environmental performance of between 0.2% and 42% (with a median of 25%).

2015 marked the end of the target period established in 2012 (with 2011 as the base year). Overall, we achieved our energy and CO₂ goals on a like-for-like basis. We were very close to achieving our water goal (19% reduction the target was 20%) and, although we have drastically reduced the number of hazardous chemicals used, it is difficult to make a conclusion on the total reduction due to the changing nature of the chemical lists.

We are now launching a new set of Group-wide environmental goals for the period from 2016 to 2020, with 2015 as the base year.

We continued focusing on the 23 manufacturing sites we have assessed as having the most significant environmental impact. We refer to these as the "Vital Few" in our reporting. At these sites, we saw that overall energy efficiency continued to improve, while there was a slight increase in water consumption and we are determined to reduce the use of hazardous chemicals. We also made progress at our other sites with respect to energy efficiency and water consumption.

This year, we reached our goal of reducing the amount of carbon emissions from goods transportation as a result of projects to replace air transport with land freight.

Social Principles:

During the year, we focused on competence development in behavior-based safety, including the launch of a new safety vision and a safety manual to be followed by all our sites.

Furthermore, we progressed on the implementation of our new audit platform and strengthened our organization through the implementation of the Business Principles in our supply chain. As we have identified the highest risks of breaches to our Business Principles in China and India we continue to concentrate our attention here. We also trained auditors in some of our other prioritized countries during the year.

We continued to work systematically on the implementation of our process for handling conflict-free minerals, as defined in the US Dodd-Frank Act.

Business Integrity:

We continued to focus on our "prevent, detect and correct" processes in order to further reinforce our anti-bribery and anti-corruption stance. During 2015, we focused on competence development through our e-learning program targeted at employees working in purchasing and sales.

Transparency:

There was an increase of more than 50% in the number of customer inquiries related to sustainability issues. These inquiries included questions about our sustainability work, both at our own sites and in our work with suppliers. The number of inquiries regarding conflict minerals continued to rise, as did the number of questions related to our anti-bribery and anti-corruption work. Sustainability issues were included in an increasing number of customer contracts. We also engaged in more interviews with investors, which we see as a good way to exchange knowledge and obtain feedback on our progress. During the year, we sharpened our focus on improving employee understanding and commitment with respect to the implementation of our Business Principles.

ENVIRONMENT

Optimizing the use of natural resources is our business

SOCIAL

Respect for human rights is fundamental

BUSINESS INTEGRITY

High ethical standards guide our conduct

TRANSPARENCY

Our commitment to open dialog builds trust

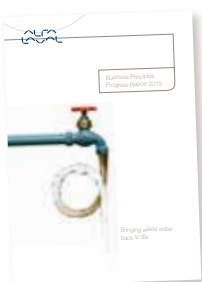
To summarize our sustainability work in 2015, we concentrated our attention on meeting customer demands, internal knowledge building and implementation of processes. Our top priorities included:

- Continue to focus on safety at our sites
- Responding to customer inquiries
- Strengthening the implementation of our Business Principles in the supply chain
- Maintaining focus on anti-bribery and anti-corruption activities

Finally, we are now preparing to begin reporting according to GRI 4, starting in 2016. We would therefore be grateful for any comments from our stakeholders regarding our work and priorities. I hope this report gives you some insight into our key activities, but if you do not find the information you are looking for here or in our GRI Report, please feel free to contact me.

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About this report

Alfa Laval's Business Principles form the basis for our work on Sustainability.

While the Sustainability section in our Annual Report summarises the present sustainability management structure and highlights the aspects on which we are currently focusing, this report gives additional information about key initiatives carried out in 2015. It should be read together with our GRI (Global Reporting Initiative) Sustainability Report.

Combined, the three reports (Sustainability Report, Progress Report and GRI report) represent the Annual Communication of Progress required from a member of the UN Global Compact.

You can find all reports in our website alfalaval.com/sustainability.



Environmental Progress 2015

Environmental goals

2015 marks the target year for the key objectives we set in 2012 (with 2011 as the base year). In essence, we have met our energy, carbon and water consumption goals on a like-for-like basis. When it comes to our goal for the use of chemicals, a like-for-like comparison is more difficult due to changes in the composition of the chemicals listed.






Summary of environmental progress compared with goals

We have identified 23 manufacturing sites (referred to as the "Vital Few") which, combined, account for over 85% of the energy consumption of our manufacturing operations. We anticipate that the aggregate environmental performance of these sites will be only marginally influenced by production volume changes, product mix changes and increases in energy use due to weather, thus giving us the most accurate year-on-year view as to whether we are achieving our environmental goals. During 2015, we closed down our site in Groningen in the Netherlands, which was one of these 23 sites.

In summary, we saw an increase in energy efficiency of 20% despite volume growth at our Vital Few sites. The energy consumption per million euros of added value for the Group as a whole was reduced by 3% annually between 2012 and 2015.

During this period we have also seen that the CO₂ emissions for the whole Alfa Laval group have been reduced by 12% in accordance with our goals.

Key environmental goals for manufacturing sites including workshop units (goals for 2012 to 2015, base year 2011):

Improve energy efficiency by 12%	
Reduce CO ₂ emissions by 3% per year	
Reduce water consumption by 20%	
Reduce the use of restricted "Grey List" chemicals by 50%	
Reduce greenhouse gas (GHG) emissions from freight transportation by 12%	

We are now in the process of setting key environmental goals for the next five-year period (2016 to 2020, base year 2015), which we will measure for the entire Alfa Laval Group.



Water efficiency at all sites in the Alfa Laval Group has increased 14% since 2011. On a like-for-like basis, we have increased our water efficiency by 20%, which means that we have successfully achieved our goal for water efficiency for the 2012 to 2015 period.

Our “Black and Grey” chemicals list has been restructured according to EU legislation into three groups (banned, restricted and substances of concern). As a result of this new classification and continuous changes to the composition of the lists due to legislation, it is difficult to compare the figures in this area. However, we have reduced our use of hazardous chemicals significantly since 2011.

In 2015, GHG emissions from goods transportation totaled 91.7 grams per ton-kilometer (105.5), corresponding to a reduction in carbon emissions of nearly 17% compared with the base year of 2011. This means that we have reached our goal of a 12% reduction for the 2012 to 2015 period, which demonstrates that our efforts to transport spare parts by ocean freight have yielded positive results.

Our goals apply to all sites with a workshop

Although our reports focus on the Vital Few sites, our environmental goals apply to every site that has a workshop. Service centers all have an impact on certain environmental areas, namely water, energy and chemical consumption. We have corporate-level resources in place to advise our smaller sites on how to focus on and improve in these areas.

Acquisitions are included in Table 2 “Other sites with workshops”

When we include acquisitions in our GRI Report, the data appears in the table “Other sites with workshops”. Acquired units are required to report their full environmental indicators within three years of the acquisition. For 2015, a total of 119 (115) reporting units are included in Table 2.

Exercising caution when drawing conclusions based on environmental reports

In our GRI Report, we report data from 23 major sites (referred to as the “Vital Few”) in one table and the remaining 119 sites (including recent acquisitions) in another. Users are advised not to compare data from the two tables with data from another year since the data does not necessarily relate to the same sites/entities due to changes such as acquisitions, closures, mergers or changes of function.

Our financial figures will always contain accurate total sales data for the entire enterprise (including recent acquisitions), while the energy data from acquisitions may not be included in the GRI Report for up to three years. Thus, in our opinion, using ratios such as “Tons of GHG per million euros of sales” tends to make our environmental performance look better than it actually is and we therefore discourage such a methodology. In addition, the results are affected by other changes such as site closures and acquisitions.

Alfa Laval’s Black and Grey list compiles substances that are:

Banned

Prohibited

Restricted

Prohibited in certain applications

Substances of concern

Monitored substances

Environmental progress at the Vital Few

Reducing the use of hazardous chemicals (M-EN1)

All manufacturing and workshop sites in Alfa Laval are required to maintain control of all substances used in their processes and to have material safety data sheets available. An important part of managing the Alfa Laval Group's environmental impact is the control of hazardous substances in purchased items (products, spare parts, components, materials and preparations), production processes and packaging materials. These data sheets are used to determine whether the substance appears on the banned or restricted materials list (referred to as the "Black and Grey List").

We have actively worked to reduce the number of banned ("Black List") chemicals used at our production sites. This effort resulted in a significant reduction of these chemicals during the 2012 to 2015 period (compared with the base year of 2011). However, we are still facing challenges in the elimination of banned substances at our site for the production of membranes. We are working hard on various projects to phase out chemicals at this site, but – like most other companies in the membrane industry – we have not been able to find viable alternatives for all of the chemicals used.

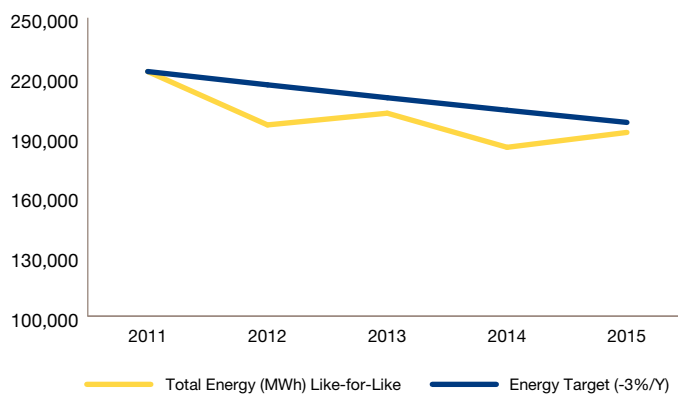
The amount of "restricted substances" and "substances of concern" increased over the period, mainly due to the reclassification of chemicals as a result of legislation, but also due to volume growth. The latest version (Version 9) of our list of banned and restricted chemicals can be found at the following link: [Alfa Laval Black and Grey List](#)

Direct and indirect energy consumption:

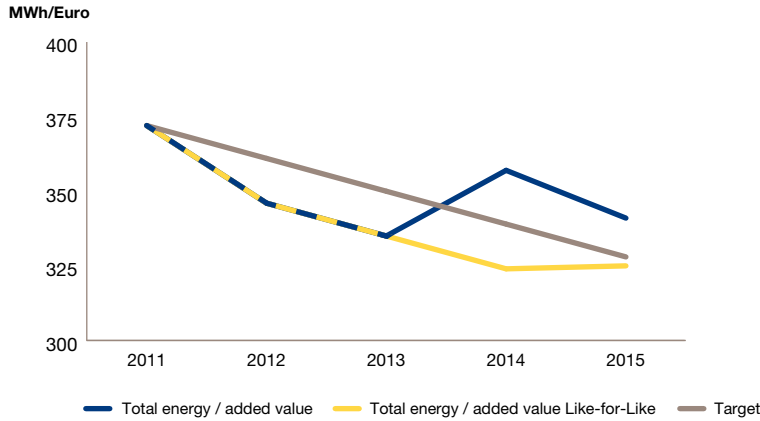
Steady improvement in energy efficiency in line with our goal (M-EN3 M-EN4)

Our goal was to achieve a reduction of energy consumption (per million euros of added value) of 12% r between 2012 and 2015 (base year 2011). For the Alfa Laval Group as a whole, we achieved this energy goal on a like-for-like basis. In 2015, energy consumption at the Vital Few sites totaled 300 MWh per million euros (301 MWh in 2014). Compared with 2011, energy efficiency has increased almost 20%.

Energy consumption – Alfa Laval Group



Energy efficiency – Alfa Laval Group



Improved energy efficiency

20%

Compared with 2011, the energy efficiency has improved almost 20%.

Energy-saving projects continued to generate positive results

We continued our work on energy-saving projects related to cooling, heating, electricity use, lighting and compressed air, determining the focus of the projects based on the improvement areas identified for each site. The projects resulted in annual energy savings of about 3% for the past two years. We will continue working on these types of energy-saving projects, which will be further enhanced through the addition of energy audits, making it easier to identify the projects with the best potential to reduce energy used.

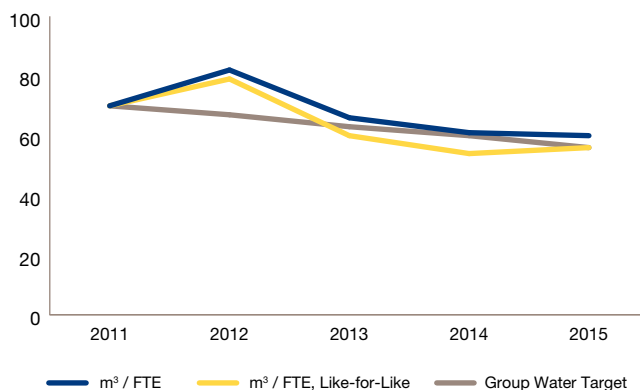
Further reduction in environmental impact from new products (M-EN6)

In 2015, the environmental impact of 145 (76 in 2014) new and upgraded product development projects was assessed using the life cycle assessment (LCA) method that we have used since 2007. Of the 145 products assessed, 22 (71) were replacements for existing products. The environmental performance of 21 (69) of these replacement products was 0.2 to 42% lower than the products they replaced and none of the products had a higher impact. The increase in the number of LCAs in 2015 was mainly due to the update of complete product ranges, in particular in the boiler product range.

Water consumption reduced significantly during 2015 (M-EN8)

For the Alfa Laval group water consumed per million Euros of added value has fallen 20% (like for like) since the start of the target period. Water consumption in the “Vital Few” sites totaled 291,000 m³ (287,000) in 2015. Water consumption per million of Euros of added value for these sites fell more than 25% since 2011 due to our water efficiency program.

Water consumption – Alfa Laval Group



Water efficiency

20%

The water efficiency for the whole Group (like for like) has improved by 20% since the start of the target period.

Total direct and indirect GHG emissions by weight (M-EN16)

Nearly all the GHG emissions from our manufacturing processes are generated from energy use, approximately 80% of which comprises indirect energy (purchased electricity and district heating). The remaining 20% comprises direct energy (from fuels such as natural gas or oil, which is burnt directly at the Alfa Laval site to produce heat). Our environmental goals focus on efficiency improvements – in both direct and indirect energy – that will result in consequential improvements to our related GHG emissions.

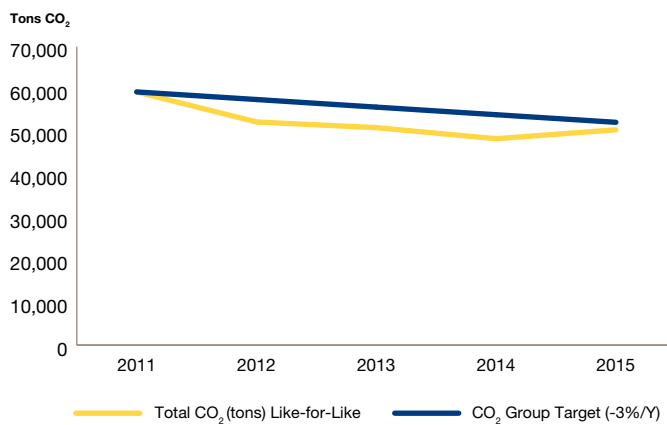
The Vital Few sites accounted for approximately 40,000 tons of CO_{2e} (carbon dioxide equivalents) during 2015. There was an increase in carbon emissions in 2015, which was partly attributable to the fact that we increased our production in China and India and these countries have high global emission factors for electricity generation (790 and 936 grams per kWh, respectively) compared with, for example, the low levels of GHG emissions from electricity generation in France and Sweden (77 and 22 grams per kWh, respectively, according to the 2012 IEA emission factors).

CO₂ emissions

-12%

We reduced the CO₂ emissions for the Alfa Laval Group (like for like) in accordance with our goal.

CO₂ emissions – Alfa Laval Group



We can see this effect by comparing the 2015 data with the base year of 2011. During this period, total energy consumption fell, while GHG emissions continued to increase. However, increased production emissions in India and China were offset by a reduction of emissions from the transportation of imported goods into these countries.

Environmental impact of transporting products and other goods and materials used for the organization's operations (M-EN29 (goods))

The most significant environmental impact from goods transportation is carbon dioxide and other climate-changing gases.

The scope of the impact is determined by three factors: the weight of the shipment, the distance travelled and the means of transportation. To set goals in this area, we consider the aggregate emissions per ton-kilometer transported. While the total emissions depend on sales volume (in weight of product sold), the manufacturing location, customer location and amount of carbon emissions per ton-kilometer provide us with a normalized measure of how effective we are at reducing the environmental impact of goods transportation.

To do this, we monitor the weight, distance and method of transportation for our major product lines.

Thus, our main challenge is to change the transportation method from air to land and sea. To drive this change, each product group has been responsible for carrying out projects to eliminate air transport and logistic distribution.

Our goal for the 2012 to 2015 target period was to reduce our annualized carbon dioxide equivalent emissions per ton-kilometer of goods by 12% (with 2011 as the base year). In 2015, emissions per ton-kilometer travelled totaled 91.7 g/ton-km (105.5). This represents a reduction of almost 17% between the base year of 2011 and the target year of 2015. This result is partly attributable to our efforts to replace a portion of our air freight between Europe and the US with sea freight.

Environmental management progress at other sites with workshops

Energy consumption at these sites is highly fragmented and difficult to target

In the GRI Report, data from 119 workshop sites is consolidated under the heading "Other sites with workshops". However, because many of the sites differ from year to year (due to acquisitions, closures, mergers, changes of function, etc.), a year-on-year comparison of this aggregate data is not particularly useful. In 2015, ten such sites were added to our environmental reporting system and six sites were removed. Of these sites, 74 are service and repair workshops. These sites typically employ 15 or fewer people and their most significant potential environmental risks are ground and water pollution. Therefore, our focus is to help them address pollution risks and, in the case of sites located in areas with water shortages, to reduce their water consumption.

The small number of employees at these 119 workshop sites makes conducting energy-reduction projects – and the coordination of such projects – impractical. Employees are expected to conserve energy by applying good practices and making continuous improvements (turning off lights, controlling heating and air-conditioning, etc.).

CO₂ emissions from goods transported



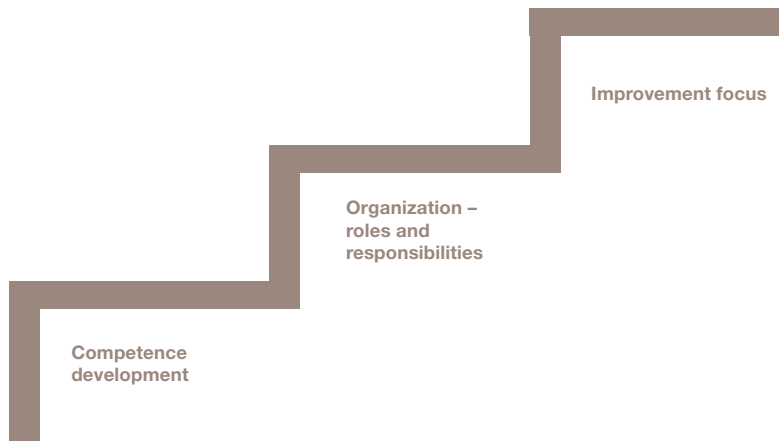
In 2015 emissions per ton kilometer transported was 91.7 g/ton km (105.5). This represents a reduction of almost 17% percent since the target baseline of 2011.



Social Progress 2015

Implementation of the Business Principles in the supply chain: focusing on competence development and continuous improvement (HR2)

In 2014, we launched an organizational structure to ensure the implementation of the Business Principles in the supply chain. During 2015, we worked according to this new structure, focusing on competence development, defining roles and responsibilities within the organization and developing methods to ensure improvements at the supplier level and to minimize risks in the supply chain.



Competence development

During 2015, we trained almost 200 employees in the purchasing organization on how to apply the Business Principles in the supply chain and the implications of this work. This training was carried out at three different levels based on the level of exposure to various issues and the risk level of the suppliers. All managers in the purchasing organization completed a six-hour training course focusing on suppliers and our Business Principles. In addition, all employees working in purchasing are required to complete compulsory training regarding anti-bribery and anti-corruption activities.

At the supplier level, we continued to inform our suppliers about our Business Principles through awareness-raising information sessions and training programs for suppliers in both India and China.

Roles and responsibilities

To ensure improvement in the supply chain, clarified the roles and responsibilities within the organization. A supplier audit council was appointed and tasked with establishing annual improvement plans and allocating resources accordingly. The council is responsible for ensuring that the supply chain follows the Business Principles and that continuous improvements are made. Master auditors were appointed to conduct supplier audits and provide support in the implementation of supplier development activities. These master auditors are also responsible for training and certifying auditors internally and escalating non-compliance in the organization. Sourcing managers are responsible for the continuous development of our suppliers, including the implementation of the Business Principles.

Risk assessment

One of our highest priorities is to improve the health and safety, labor conditions and working environment of our suppliers' employees in high-risk countries and industries. In cases where working conditions need to be improved, we are committed to supporting the supplier and helping to implement continuous improvements. Our focus is on high-risk deviations, primarily in China and India.

To ensure that we are prioritizing the suppliers that pose the highest risk of breaches to our Business Principles, we conduct three levels of risk assessment:

Country risk

Cases where a supplier operates in a country that is defined (according to the corruption risk index published by Transparency International and the country human rights risk published by Verisure Maplecroft) as being high-risk from a corruption/bribery perspective and/or human rights perspective.

Production process risk

Cases where a supplier's production processes are defined as high-risk from an occupational health and safety perspective and/or environmental impact perspective.

Scale of markets and production facilities

In markets where we have large production facilities and a significant market presence, we see an elevated risk due to an increased use of local suppliers.

Audit platform: Our audit platform highlights six areas of deviation that we define as critical: child labor, forced labor, freedom of association, fire protection, severe damage to the environment and severe risks pertaining to health and safety. Deviations in these areas must be rectified immediately if Alfa Laval is to begin or continue doing business with the supplier.

China and India in focus

Due to the scale of our markets and production facilities in China and India, these countries are the main focus for our ambition to eliminate unacceptable labor conditions.

With this in mind, we continued our efforts to work together with suppliers in India and China during 2015. Our auditors carried out the planned number of social audits (close to 100 audits) in both countries and our work to close the compliance gap remained as intense as in previous years. We noted a number of positive examples, with suppliers working according to our suggested improvement plans and implementing preventive actions. In other cases, we are closely monitoring the suppliers' improvement plans since these have not been fully satisfactory.

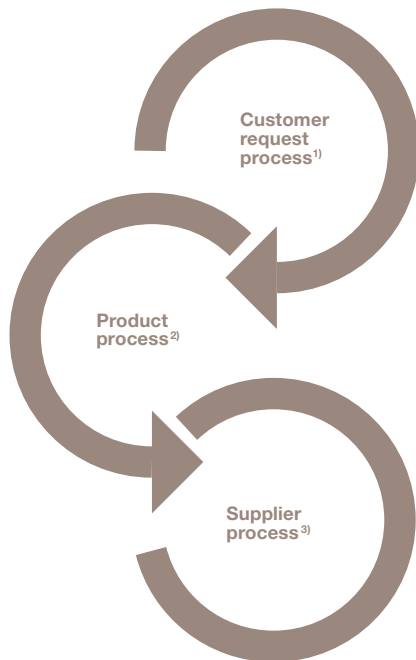
Human rights violations in the Democratic Republic of Congo have extended the scope of our supplier due diligence

The US Dodd-Frank Act requires companies to conduct due diligence to ensure that the minerals used in their products are not sourced from mines that finance the armed groups responsible for some of the worst human rights violations in the Democratic Republic of Congo (DRC). Alfa Laval published its own policy on this issue on its website (www.alfalaval.com) in 2103 and, since then, we have worked systematically to achieve conflict-free deliveries to our customers. We started our journey by gathering information from available sources, including:

- The Dodd-Frank Wall Street Reform and Consumer Protection Act
- SEC Rules and Guidance
- OECD Guidelines
- Other international initiatives and regulatory regimes (such as the EU)

We continued by determining the applicability of conflict minerals to our products and conducting risk assessments. In 2014, we initiated a pilot project involving one of our products (brazed heat exchanger) to learn more about how to manage this issue within our company and with respect to our products.

During 2015, we implemented a systematic process for reducing the risk of exposure to conflict minerals. We divided this process into three areas:

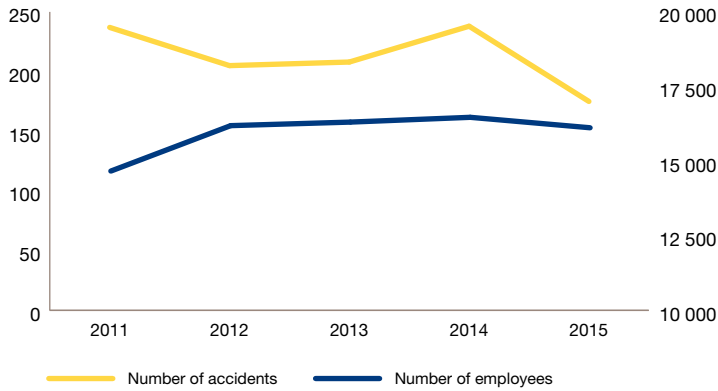


1) The customer inquiry process includes logging inquiries and establishment of internal processes for responding to these.

2) The product process encompasses risk assessment, education and training for relevant employees, and identification of suppliers of tantalum, tin, tungsten or gold (3TG).

3) The supplier process includes identification of relevant suppliers, collection of relevant information and follow-up procedures.

Number of accidents resulting in one or more days absence:



Number of accidents

5.6

Number of accidents per million working hours in 2015.

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

- The total number of reportable accidents (including travel accidents) in 2015 was 175 (238). On a like-for-like basis, the number was 166 (200).
- The number of accidents per million working hours for 2015 was 5.6 (7.7). On a like-for-like basis, the number of accidents per million working hours was 5.4 (6.7).
- In 2015, the number days lost per million working hours due to accidents amounted 169 (169). On a like-for-like basis, the figure was 169 (163).
- In 2015, 1.95 (1.78) days were lost due to illness (including lost time injury, LTI) as percentage of working days. On a like-for-like basis, the figure was 2.01 (1.77).

Due to the improvements achieved in our pilot project using behavior-based safety (BBS) in Alfa Laval's Indian factories, we worked to implement a methodology based on these principles at other sites. We started rolling out a program for behavioral improvement in our operations and service sites. We provided training at all sites in Europe during 2015 and will continue in the US and Asia during 2016.

Health and safety in our acquired companies

In 2014, we reported that we would focus on acquired companies, since more accidents occur in these companies. In 2015, we trained the management and health and safety managers in order to improve the focus on this area. We requested action plans and will follow up on these two times per year. Our experience tells us that there are few quick fixes for these companies since safe working practices require a safety-first culture and cultural change takes time.

In 2015, one of our sites, Broken Arrow, located in the United States, was found to be non-compliant with the health and safety standards established by the Occupational Health and Safety Association (OHSA). We are taking this violation very seriously and have acted to ensure we are compliant and to prevent this type of incident from happening again. The actions that were immediately taken to ensure compliance included the installation of new equipment that meets the safety requirements and an agreement that a third-party audit would be performed annually at this site.

Since this was a newly acquired site, we also changed our procedures for due diligence and post-acquisition follow-up. In addition, Alfa Laval Inc. and the US Environmental, Health and Safety Department will hold an annual EHS meeting and workshop to discuss the required regulatory compliance issues with the management teams at the various facilities. We also changed the organizational structure to ensure that timely action is taken when safety issues arise.



Business Integrity Progress 2015

Implementation of anti-bribery and anti-corruption (ABAC) initiatives

Our Business Principles include Business Integrity Principles, where we clearly state our zero tolerance approach to bribery and corruption. The Commercial Ethics Council (CEC), chaired by the CEO, is responsible for ensuring that we have appropriate policies and processes in place to ensure compliance. All managers are responsible for assuring compliance with our ABAC policy and, if necessary, implementing local ABAC guidelines throughout the local organization.

Our ABAC program, which was revised in 2013, builds on the six steps outlined in the UK Bribery Act and is based on a “prevent, detect and correct” methodology. It builds on a standard risk assessment carried out by the various companies in the Group on an annual basis. The process also includes an analysis of the different actions taken to mitigate these risks.

The international scope of Alfa Laval’s sales means that we are active in several countries with a high risk of bribery (geographic bribery risk). Alfa Laval uses a risk scorecard based on the Transparency International Bribery Risk Perception Index to assess its geographic bribery risk.

Top level commitment	Alfa Laval Business Principles, Group ABAC policy, Governance sign-off process, Commercial Ethics Council
Risk assesment	Annual Corporate Sustainability Reporting
Proportionate procedures	12 Risk mitigation actions
Communication & Training	ABAC intranet page / e-learning
Due dilligence	Agent and distributor due dilligence guidelines
Monitoring & review	Internal audit / Whistleblower function / Annual Corporate Sustainability Reporting

Examples of how Alfa Laval works with the implementation of the six steps of the UK Bribery Act

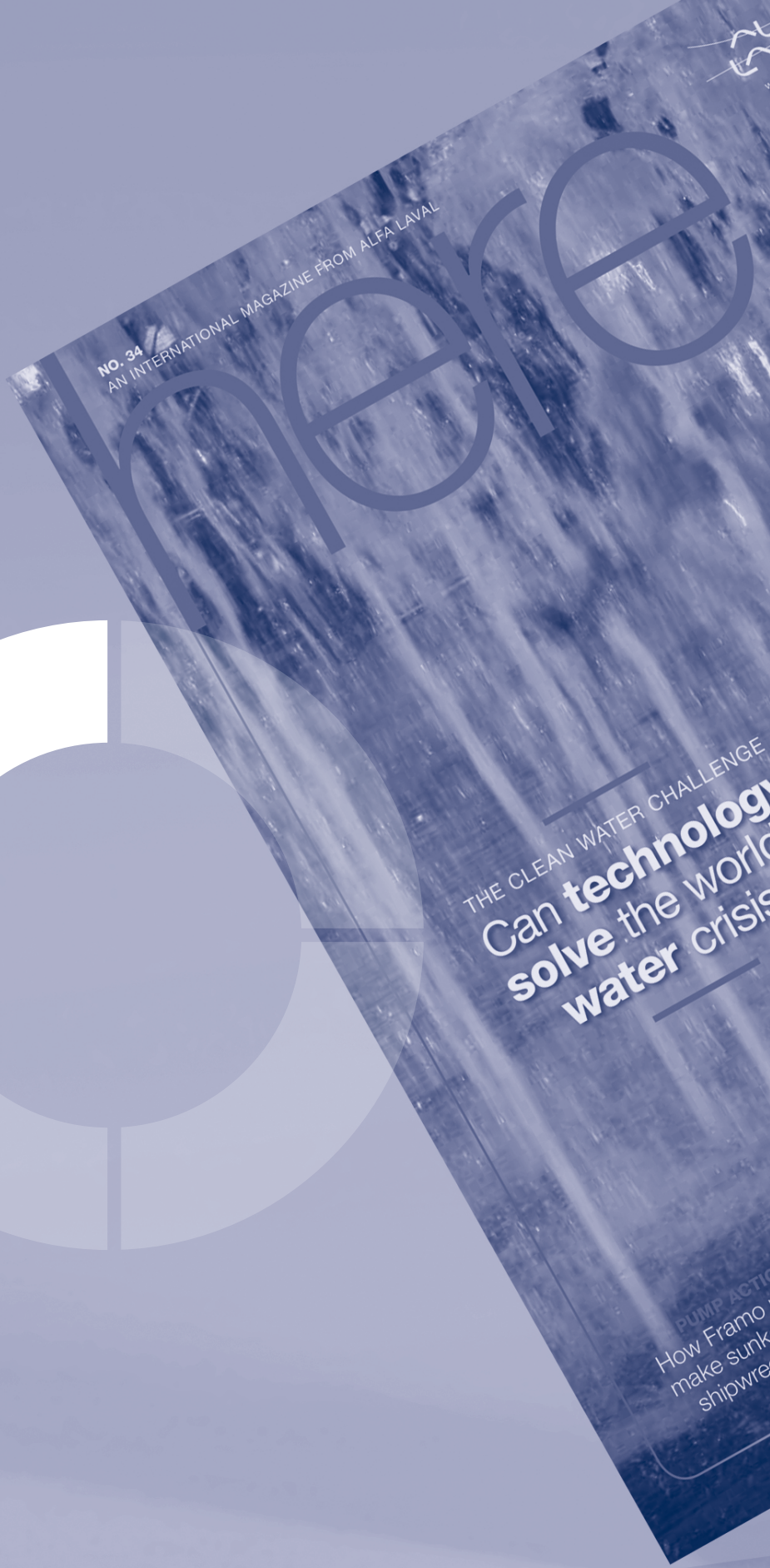


Selling through multiple sales channels is an important part of Alfa Laval's sales strategy. The ABAC scorecard helps managers to quantify the bribery risk inherent in different channels. Of these various channels, commission-based agents represent the highest risk and thus were the main focus of our new due diligence guidelines. During 2015, we continued our work to ensure that our existing agency agreements contain an adequate and standardized ABAC clause, whereby our agents/business partners commit to follow our ABAC policy and any applicable rules or regulations concerning bribery and corruption.

Bribery risk also refers to the risk of corrupt government officials attempting to extort money for permits, licenses, etc. Purchasing staff also face pressure to accept kickbacks or inappropriate gifts and bribes in various countries. These risks are also included in the scorecard.

The management teams at Alfa Laval's companies are required to sign an annual statement affirming that the company for which they are responsible complies with all corporate governance policies. The risk and mitigation scorecard helps them to identify the areas that require attention, thereby helping them to ensure that all employees understand and follow the company's policies and that corrective measures are taken when needed.

During the course of our risk assessment, we found that employees involved in sales and purchasing run the highest risk of exposure to bribery and corruption. One of the most important steps that can be taken to mitigate this risk is to develop an internal training program with information about the Alfa Laval ABAC policy, the risks associated with breaching the policy and how to obtain assistance and further information. The first step was taken in 2014 with the launch of an e-learning program for sales personnel. In 2015, we launched a similar training program for our purchasing staff. During 2015, more than 3,800 employees worldwide completed this training. The next step will be to invite all employees to complete the e-learning module in order to raise their knowledge about ABAC and our work in this field. This training will form a part of our continued development of suitable procedures in our ABAC processes.



Transparency Progress 2015



Customer communication is our priority

Our products support our customers to make their operations more sustainable, for example, by contributing to energy efficiency improvements, reducing pollution from vessels at sea, being involved in the cleaning of water and reducing the amount of natural resources needed for production. We communicate these benefits to our customers directly and on our website at alfalaval.com. We also publish a customer magazine, *Here*, which focuses on how processes can be improved in order to save energy and protect the environment. *Here* explores global and local challenges and the innovations and solutions that can address them. The latest issue (Issue 34) focuses on the world's water challenge and how technology can help solve the problem.

The "Product Responsibility" section (PRA1) of the GRI Report includes a list of all articles published in *Here* that are related to sustainability issues and provides links to the magazine and articles.

Customer inquiries help us adapt to a changing landscape

Inquiries from customers regarding corporate social responsibility (CSR), the implementation of strategies and policies, and other information continued to grow – both quantitatively and in terms of the scope of the inquiries themselves.

Some of Alfa Laval's customer sectors encourage standardization and ask their suppliers to report data through different information platforms, such as SEDEX and EcoVadis. At present, we report through EcoVadis at the global level and our commitment has been ranked as "advanced". At the local level, we also report any inquiries from our customers in China and India through SEDEX.

Alfa Laval welcomes this exchange of sustainability data because it helps to reinforce sustainability as an integral part of business and decision-making. Standardizing the structure for sustainability data and exchanging this data within industrial sectors has the potential to reduce complexity. It also provides a platform where companies can meet to discuss the development of responsible supply chains.

In our case, selling to so many different industrial sectors makes it important to focus on the industry standards that are relevant to the industries to which Alfa Laval has the greatest exposure. One example is the IMPA-ACT standard in the marine industry, which we are actively following.

However, far from all the inquiries we receive from customers are standardized and our sales companies often receive specific questions or requests. As a reflection of the growing number of customer CSR inquiries, the Group has appointed divisional coordinators to provide input to the sales companies when responding to these inquiries, to facilitate an exchange of experience between the divisions and to keep updated on trends in the CSR area. Our aim is to become more proactive in our communication with customers in order to better reflect the positive contribution our products and services can make toward several of our customers' sustainability goals.

Here customer magazine

The latest issue, 34, focuses on the water challenge and how technology can help solve the problem.



**Our policy on SRI questionnaires remains firm**

Socially responsible investment (SRI) funds evaluate our operations based on a set of sustainability criteria and we are pleased to be listed in several indexes of the “most sustainable” companies. Although we enjoy the recognition and encouragement that these listings give us, our sustainability work is motivated by our Business Principles and not by winning awards.

Alfa Laval has adopted a policy of no longer populating external databases or completing other types of questionnaires about these matters (except customer questionnaires), referring stakeholders instead to this report, our Annual Report and the GRI Report for more information. In 2016, we will also start reporting our climate performance according to the CDP (www.cdp.net) standard.

SRI reports improve stakeholder understanding

We are grateful to receive draft reports from analysts each year for our comments. Sometimes, these reports help us to identify aspects that we have either omitted from our reporting or perhaps have not considered thoroughly enough. One example is our plan to begin reporting our climate performance according to the CDP standard, which has become an increasingly common request from investors. These reports – which, in many cases are impressively thorough – are proof of the growing importance of sustainability in the investment community and will help drive our progress.

Our risk-based focus means we cannot always answer every question

Each SRI stakeholder has its own scope and areas of particular concern. Our risk-based approach means that we collect key data at the corporate level on aspects of sustainability that are relevant to the management of the specific risk in question. Consequently, we recognize that our published sustainability reports do not always provide all the detailed information that some analysts require.

Increased focus on employee engagement

During 2015, we concentrated more of our efforts on improving our employees’ understanding of and commitment to our Business Principles. In addition to training on specific issues, such as health and safety, ABAC and supplier auditing, we conducted workshops at several sites to discuss the importance of our Business Principles. We improved our internal communication channels in order to make our policies, whistleblower system and knowledge about sustainability more easily accessible. We also launched an annual Corporate Social Responsibility Award, which is handed out by the CEO to the individual or team exhibiting the most outstanding performance in the implementation of our Business Principles. For 2015, the award was handed out to the supplier audit team.

We continued to meet with external stakeholders

Meetings with SRI analysts continued in 2015, as in previous years. We are always pleased to meet with SRI analysts. Please contact catarina.paulson@alfalaval.com to arrange a meeting.

Students have shown a great interest in our Business Principles and we were involved in a number of student visits and discussions during 2015. Students can contact catarina.paulson@alfalaval.com to arrange a meeting.

CEO statement of continued commitment to the Global Compact:



I am pleased to submit this Progress Report and the associated Sustainability Report and GRI Report as Alfa Laval's Annual Communication on Progress.

Alfa Laval is committed to continuing to make the UN Global Compact and its Principles an integral part of its business strategy, day-to-day operations and organizational culture.

Tom Erixon, March 30, 2016

Alfa Laval in brief

Alfa Laval is a leading global provider of specialized products and engineered solutions.

The company's equipment, systems and services are dedicated to helping customers optimize the performance of their processes. Time and time again.

Alfa Laval helps customers to heat, cool, separate and transport products such as oil, water, chemicals, beverages, foodstuffs, starch and pharmaceuticals.

Alfa Laval's worldwide organization works closely with customers in 100 countries to help optimize their processes.

More information on the Internet

Alfa Laval's website is continuously updated with new information, including contact details for all countries.

Read more at www.alfalaval.com