




“Alfa Laval is a performance-driven company and, as such, works systematically to ensure that we focus on sustainability areas that entail a high risk and where we are able to exert an influence and make improvements. Sustainability challenges are continuously evolving, and so are our sustainability risk assessments and management systems. As we identify new challenges, we typically start a project that we then integrate into the normal line management responsibilities. This report summarizes our current sustainability management structure and highlights the aspects on which we are currently focusing.”

  
Lars Renström

# Sustainability report 2014

## Our Business Principles

Our four Business Principles form the basis of our work on sustainability.



They incorporate the 2011 “Protect, Respect and Remedy” framework introduced in the United Nations Guiding Principles on Business and Human Rights, as well as the 2011 revision of the OECD Guidelines for Multinational Enterprises. We are also signatories to the UN Global Compact.

**We recognize that we cannot focus on everything at the same time:**

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. In reality, some of the challenges actually lie outside our sphere of influence. So we set priorities to reach a good balance between the severity of the risk and our ability to influence and create meaningful change.

Our efforts to achieve such a balance are referred to as the “Vital Few.”

**Committed and involved Board and Group Management:**

Each year, our progress, targets and priorities towards realizing the aspirations described in our Business Principles are reviewed on two different occasions by both the Board of Directors and Group Management.

**Implementation is a line management function**

Our goal is to integrate necessary risk mitigation steps into our regular day-to-day business. The implementation process is guided by councils made up of managers from relevant departments and chaired by a member of Group Management.

## Each Business Principle has its own management structure

**Social:**

The Social Business Principle could be considered to have the broadest scope of all of the Principles. It is based on the United Nations Guiding Principles and the OECD Guidelines. Our risk assessment looks at the possibility of human rights breaches against people in our supply chain, our company and our customers’ organizations. In accordance with the UN Guiding Principles, our priorities are based on the risk to people, rather than the risk to business.

**Suppliers and supply chain:** *Risk assessment and mitigation is the prime responsibility of the purchasing departments.*

We have found that the main risks arise in countries with ineffective enforcement of national employment legislation, as well as international human rights standards. For Alfa Laval, this is largely China and India. In these countries, we focus on suppliers with an inherent risk to people based on the processes they operate, for example, metal

polishing, casting and forging. With several thousand suppliers worldwide, priority is given to pushing for improvements in suppliers where we can influence change – in other words, suppliers for whom we represent a large and significant customer.

**Alfa Laval employees:** *Risk assessment and mitigation is the prime responsibility of the line management, supported by human resources.*

Internally, we have found that the most severe risks to health and safety arise in our workshops and among our field service engineers working at customer sites. The Health & Safety Council sets the policies and prioritizes Group-wide initiatives. The council is chaired by the Senior Vice President of Human Resources and also includes the most senior managers from the organizations exposed to the highest risks, such as the Operations Division and Service.

General employee welfare is also essential. Important employee feedback is provided

through a global employee satisfaction survey, as well as representative bodies such as the European Employee Council. As with all Swedish companies, employee representatives are present at all Board meetings at the Group level, helping to create a strong communication link between employees and management.

**Customers:** *Risk assessments and mitigation initiatives are the main responsibility of the sales management teams.*

They are supported and guided by the Commercial Ethics Council (CEC), which is chaired by the CEO and also includes three other members of Group management.

Human rights issues are frequently at the root of international trade embargoes. Thus, export control is a key focus for the CEC to ensure that all relevant embargoes are respected and implemented throughout the sales channels used for Alfa Laval products. Commercial dilemmas originating from conflicts and human rights issues, but

not subject to official trade embargoes, are also addressed.

Customer safety is a prime concern and any safety-related product issues are automatically referred to the Group Crisis Management team to ensure that a thorough root cause analysis is performed and appropriate corrective actions implemented, including product recalls, if necessary.

**Vital Few:** We have prioritized two significant risk aspects: 1: Improving the working conditions of employees of selected suppliers in low-cost countries, and 2: Reducing the frequency and severity of workplace accidents in our workshop areas.

### Business Integrity:

Our Business Integrity Principle includes: legal compliance; conflicts of interest; political contributions; anti-bribery and anti-corruption (ABAC); fair competition and governance. The Commercial Ethics Council drives risk assessments and mitigation processes, while managers are responsible for ensuring compliance with Group policies and applicable laws. Recently, the focus has been on ABAC processes, with sales companies conducting a new risk and mitigation assessment. We see the most significant risks arising in countries with high levels of corruption, where we sell through third-party agents.

In 2014, we rolled out improved ABAC processes, including e-learning modules in multiple languages. All sales personnel will be required to complete the e-learning modules in 2015.

**Vital Few:** The implementation of improved ABAC processes in all sales organizations.

### Environment:

Our products represent our main contribution to sustainability since they play an increasingly important role in minimizing industrial energy consumption (and thus greenhouse gases) and maximizing the yield from natural resources. Our environmental solutions are sometimes essential if industrial processes are to meet legislation on emissions to both air and water. A list of sustainability case studies can be found in the GRI Report on our website.

#### Our environmental management processes are in focus

Our efforts to minimize our own environmental impact are overseen by the Environment Council. Chaired by the President of the Operations Division, the council includes top managers from organizations with the most significant environmental impact, such as manufacturing, repair shops and new product development.

Alfa Laval's manufacturing processes are neither energy nor water intensive. However, the most significant energy consumption still occurs here, with 23 of our major sites accounting for about 85 percent of the total Group manufacturing energy consumption. Water pollution risks mainly arise in the service repair workshops, where residue and cleaning chemicals from customer production processes require careful handling to avoid leaks.

Emissions from air freight are of the same order of magnitude as those from manufacturing. The logistics department analyzes the weight and distance of all air freight shipments every month to help pinpoint projects that can reduce the need for air freight.

The positive environmental impact of Alfa Laval products, once installed, far exceeds the negative impact from our operations. The effective implementation of an environmental life cycle impact assessment is therefore an integral part of the new product design process.

**Vital Few:** We aim to: 1. Ensure that we have close control over the use of chemicals which may be associated with environmental or health risks, 2: Ensure that the new products have a lower environmental impact than the ones they replace, and 3. Minimize greenhouse gas emissions from manufacturing and goods transportation.

### Transparency:

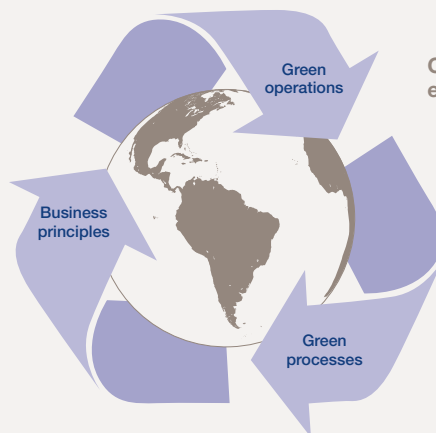
Our main audiences for sustainability information are SRI analysts, investors, students and, more recently, our customers as a part of their responsible supply chain initiatives.

Alfa Laval's CSR Manager, who reports to the CEO, provides implementation support to the line managers and handles communication to external and internal audiences. A prime tool is the Alfa Laval website [www.alfalaval.com](http://www.alfalaval.com), which contains two additional sustainability reports: the Progress Report, which is a summary of key achievements and challenges, and the GRI Report, containing detailed statistics.

**Vital Few:** Improving our dialog with customers.

#### Alfa Laval's environmental work

Optimising the use of natural resources is our business



Our internal environmental work

Environmental products



## Practicing what we preach

Alfa Laval's site for plate heat exchanger manufacturing in Lund, Sweden, consumes 3,700 MWh of district heat annually to heat its buildings and tap water. This corresponds to the annual consumption of 176 average-sized Swedish homes.

After considering the best way to utilize the heat generated in the production, by presses and other equipment, for several years, an installation including heat exchangers was

made on site. The solution means that 80 percent of the heating requirements will be met using recovered heat. This will cut costs by SEK 1.5 million per year and reduce CO<sub>2</sub> emissions by 140 tons per year, corresponding to 141 one-way journeys from Copenhagen to New York.

The investment has a payback period of three years and is expected to generate long-term savings. In addition, the facility

will serve as a reference installation, where customers can observe several of the company's products at work.

The overall gains however go beyond monetary value since the investment is completely in line with Alfa Laval's focus on sustainability. With the new solution, waste heat can be utilized and the carbon footprint reduced. A true gain for the environment.