



Business Principles
Progress Report 2016



From juicy idea
to global brand



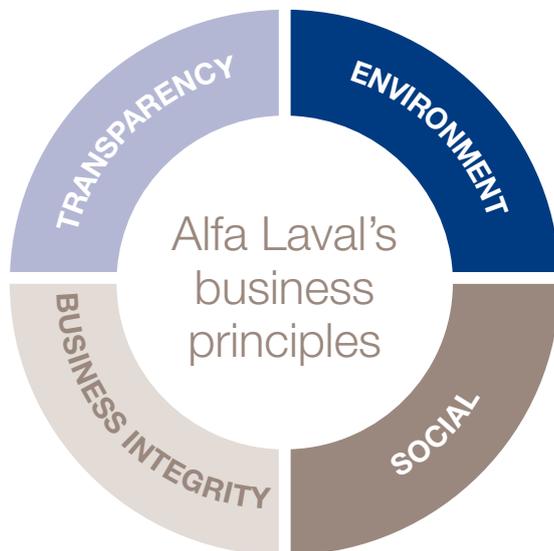
1883: That was the year when Gustav de Laval founded the company that today is Alfa Laval. Its success was based on his brilliant invention of the continuous separator. Alfa Laval has become a world leader in separation, heat transfer and fluid handling. Our mission is to optimize the performance of our customers' processes. Time and time again. By doing this we enable our customers to, amongst others, improve their energy efficiency, increase yield and reuse water. It is a fruitful partnership.

Editorial comment

Setting the stage for 2020

During 2016 Alfa Laval reorganized with the aim of reaching out to our customers in a swifter and more responsive manner. This reorganization, together with new environmental goals, a broadened approach to anti-bribery and anti-corruption, improved efficiency in our supply chain and the results from a materiality assessment, set the stage for our future journey.

The materiality assessment, which was carried out towards the end of the year, pointed at the important role Alfa Laval's products and services play in helping our customers reach their energy efficiency, climate and water goals. This was ranked as an important factor, both internally and externally. Internally because of the business opportunities created for the company, and externally because of the impact our products and service can have, put in relation to the UN Sustainable Development Goals.



Alfa Laval's Business Principles define the way we should act in society whilst working towards achieving our business goals. With this report, we aim to show the initiatives we focused on during the year to ensure that we live up to these Business Principles. Our approach is to focus on the areas where we have identified the highest risks and where we can exert an influence and make improvements. We believe that our focused approach makes it easier to allocate resources in an efficient manner to achieve results.

2016 Highlights

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

Environment Principles:

This year we launched our new environmental strategy which sets targets to be met by 2020 with the base year 2015 for the whole group. The new goals are:

- Energy: Reduce use by 10%
- Carbon: Reduce emissions by 15%
- Water: Reduce water consumption by 10% with focus on water scarce regions
- Chemicals: No banned substances used, 50% reduction of substances of concern used
- Waste: 85% recycling by 2020

Our new strategy encompasses all our sites including acquisitions and smaller service sites. This means our base line for 2015 will be significantly different from the base line used in the previous period which focused on the 23 manufacturing sites with most significant environmental impact.

We experienced some set-backs in reaching our energy and CO₂ targets. We increased our absolute energy consumption by 4.4% compared to 2015. The increase is mainly attributable to a change in the product mix in manufacturing. We increased the emissions of CO₂ by 6.3%. There was also an increase in greenhouse gas emissions per ton kilometer by 15.6%. These figures from 2016 are not satisfactory. We are analyzing the causes of these results and actions will be taken to improve.

We did reduce our water consumption by 6.1%. The amount of banned chemicals increased mainly due to the use of a chemical for paint stripping which will be replaced during 2017. During 2016 we recycled about 60% of our waste.

Social Principles:

During 2016 we continued working towards our health and safety goals (50% reduction of Lost Time Injuries (LTIs) and 8% reduction in Lost Working Days (LWD) by 2017 compared to 2012). Figures for 2016 show that we are well on our way to reaching these goals by the end of 2017.

During the year we have prioritized those sites which have had the largest number of LTIs and on a project called 3PR (three prioritized risks) which focuses on behavior change as we have seen this makes a positive impact on reducing injuries.

Our process to ensure that our high risk suppliers work according to our Business Principles still builds on three pillars: competence development, assessment and improvement. As we still see the highest risk of finding breaches to our Business Principles to be in China and India, this is where we concentrated our attention also during 2016. This year we complemented this work with a desk-top study of our 700 largest suppliers to analyze whether they have publically available information and documents supporting our Business Principles. We will follow-up on these findings during 2017.

We continued to work systematically with the implementation of our process for handling “conflict free” minerals as defined in the USA Dodd Frank Act. We also took steps to implement the Modern Slavery Act in our organization.

Business Integrity:

Our focus in the “prevent-detect-correct” process to further reinforce our Anti-Bribery and Anti-Corruption stance continues to be on risk analysis and training. We have now provided training for most 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.

Transparency:

To learn about the priorities we should have in sustainability we carried out a materiality assessment in the end of 2016 together with BSR. Although a summary of the results is presented in this progress report, we will use this as a basis for reporting starting 2017.

We continue to see a rise in the number of customer requests on sustainability issues. These requests included replying to questionnaires on our work with sustainability, both in our own sites and in our work with suppliers. The requests regarding conflict minerals continued to rise and so did the number of questions related to our Anti-Bribery and Anti-Corruption work. Regionally, we also received questions regarding the implementation of the UK Modern Slavery Act. Sustainability issues increasingly became a part of customer contracts.

We also experienced more interviews with investors which we see as a good way to exchange knowledge and get feedback on our progress.

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

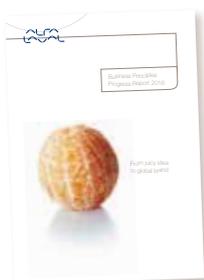
To summarize the CSR work for 2016, we prioritized:

- Work with health and safety in our sites
- Customer requests
- Dissemination of our new environmental strategy
- Business Principles implementation in the supply chain
- Anti-Bribery Anti-Corruption activities.

Finally, we gained insights from our materiality assessment. This year will serve as an interim year regarding GRI reporting as we prepare to report according to the GRI standards and work to implement the new legislation on CSR reporting. This means this report is complemented by a report inspired by GRI. I hope this report gives you some insight into our key activities but if you do not find the information you seek here, or in our GRI-inspired report, please feel free to contact me.

Catarina Paulson, Corporate Social Responsibility, Alfa Laval.

catarina.paulson@alfalaval.com



About this report

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

While the Sustainability section in our Annual Report summarizes 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 2016. It should be read together with our GRI (Global Reporting Initiative) inspired Sustainability Report.

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



Environmental Progress 2016



Environmental goals

This year we set our next strategy period for environment. Key Environmental targets for the Alfa Laval Group (baseline 2015, target 2020) are:

Energy: Reduce use by 10%

CO₂ emissions: Reduce by 15%

Water: Reduce consumption by 10% focusing on water scarce areas

Chemicals: No use of banned substances, 50% reduction of substances of concern used

Recycling: 85% recycling of waste by 2020

Summary environmental progress against the targets

During 2016 we experienced some set-backs in reaching our targets. We increased our absolute energy consumption by 4,4% compared to 2015. The increase is mainly attributable to a change in the product mix in manufacturing and is affected also by weather conditions. We increased the emissions of CO₂ by 6,3 %. This is partly due to the increase in energy used but also to the relative increase in production in China where CO₂ emission factors are higher. Our water consumption went down 6.1%. The amount of banned chemicals increased mainly due to the use of a chemical for paint stripping which will be replaced during 2017. We introduced a new goal to recycle 85% of the waste by 2020. During 2016 we recycled about 60% of our waste.

In 2016, goods transportation greenhouse gas emissions per kilometer of ton transported were 106 (91.7 g/tonkm). The figures from 2016 are not satisfactory. The reason for the increase in CO₂ from goods transported is related both to an increased transport need and to the relative increase in use of air freight as compared to sea freight. The increased need for transport was mainly due to an increased transport to China and the US relative to transport within Europe. In addition we experienced production set-backs in one of our sites which in turn forced us to increase goods transport from other sites. The mix of products delivered during 2016 has entailed a relatively higher air transport need.

Acquisitions are included in our targets

Acquisitions are included into the Alfa Laval Group environmental targets. They are required to report their full environmental indicators within three years of the acquisition. This means that not all acquired companies are part of the report and this will of course have an impact on the absolute energy values in the future.

Please take care when making conclusions from our environmental reports

Our financial figures will always have total sales data accurately for the whole enterprise (including recent acquisitions) whilst the energy data from acquisitions may not be included in the GRI inspired report for up to three years. Thus, in our opinion, using ratios such as Tons of GHG per million Euros of sales tends to skew our environmental performance and so we discourage such a methodology. In addition the results are affected by other changes such as closing of sites and acquisitions.

Our targets apply to all sites in the Alfa Laval group

Starting this year we are reporting on all our sites which is a change from previous years. Whereas we focused on 23 large sites from a reporting point of view, we now include the majority of our sites (acquisitions start reporting after three years of acquisition).



Environmental progress

Reducing the use of hazardous chemicals (M-EN1)

All manufacturing and workshops sites in Alfa Laval are required to have careful control of all substances used in their processes and they must also 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 articles (products, spare parts, components, materials and preparations), production processes and packaging materials. These data sheets are scrutinized to identify whether the substance appears on the prohibited or restricted materials list (so called "Black or Grey list").

The use of banned ("Black" listed) chemicals has historically been reduced, however we saw an increase in the amount of black listed chemicals between 2015 and 2016 in five of our sites. The majority of the increase occurred in two of the sites which used a banned chemical for paint stripping. Our ambition is to find an alternative to this chemical during 2017. The remaining banned chemicals are harder to replace but we are working on projects to phase out these chemicals. The use of restricted/substances-of-concern chemicals has increased due to the reclassification of chemicals due to legislation.

The latest version (10) of our list of prohibited and restricted chemical list can be found by following this link: [Alfa Laval Black and Grey List](#)

Direct and Indirect Energy Consumption: An increase during 2016 (M-EN3 M-EN4).

Our target is to achieve a reduction of energy consumption of 2 percent per year between 2016 and 2020 (base line 2015). In 2016 the energy consumption increased by 4.4% compared with 2015. Although there are several reasons for small fluctuations in the energy consumed in our sites, the shift in the type of products we produced during 2016 has a significant impact on these figures as these products require more energy in production. We are evaluating different projects to be able to compensate for this increased use of energy. Although we have had a drop in added value during the year, some of the energy use is not affected by this reduction in production.

Energy: Reduce use by 10%



Energy saving projects

We continued working with energy-savings projects in cooling, heating, electricity use, lighting and compressed air, depending on the improvement areas identified for each site. These projects have resulted in energy savings of on average about three percent yearly the past two years. We will continue working with these types of energy savings projects.

Although energy projects have reduced energy use we see that the impact these projects have decreased with time as it is more difficult to pin-point the "low hanging fruit". For this reason, we also performed energy audits in two of our largest sites during 2016. These energy audits have identified actions with the best potential to improve energy efficiency. During 2017 we will implement some of these suggested actions.

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

Banned

Completely prohibited

Restricted

Prohibited in certain applications

Substances of concern

Monitored substances



CO₂ emissions: Reduce by 15%



Total Direct and Indirect Greenhouse Gas emissions (GHG) by weight: (M-EN16)

Nearly all the GHG from our production processes are from energy use of which roughly 80 percent is indirect energy (purchased electricity and district heating). The remaining 20 percent is direct energy (from fuels such as natural gas or oil which is burnt directly at the Alfa Laval site to produce heat). Our environmental targets focus on efficiency improvements in both direct and indirect energy which will have a consequential improvement on our related GHG emissions.

Our sites accounted for approximately 71 000 tons of CO₂e (carbon dioxide equivalents), an increase of 6,3% compared with 2015. The increase is partly attributable to the fact that we have increased our production in China and India and these countries have globally high emission factors for electricity generation (790 and 936 grams CO₂e per kWh respectively) compared with, for example the low levels of GHG emissions from electricity generation in France and Sweden (77 and 22 grams CO₂e per kWh respectively according to the 2012 IEA emission factors).

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

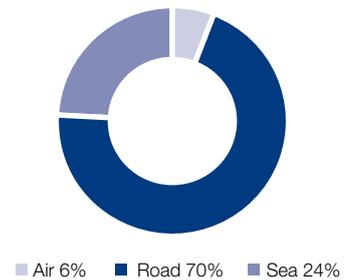
The most significant environmental impact from goods transportation is carbon dioxide and other climate-changing gases.

The impact comes from three factors: the weight of the shipment, the distance travelled and the means of transportation. To set goals for this activity we consider the aggregated emissions per ton kilometer transported. Whilst the total emissions will depend on sales volume (in weight of product sold), the manufacturing location and the customer location, the value of carbon emissions per ton kilometer gives us a normalized measure of how effective we are at reducing the environmental impact of goods transportation. To do this, we monitor the weight and distance and method of transportation for 19 major product lines.

Thus, our main challenge is to change the transportation method from air to land and sea. To drive the change, each product group has had the responsibility to run projects to eliminate air transport and logistic distribution.

In 2016, goods transportation greenhouse gas emissions per ton kilometer were 106 (91.7 g/ tonkm). The figures from 2016 are not satisfactory. The reason for the increase in CO₂ from goods transported is related both to an increased transport need and to the relative increase in use of air freight as compared to sea freight. The increased need for transport was mainly due to an increased transport to China relative to transport within Europe. The mix (type) of products delivered during 2016 has also entailed a relatively higher air transport need.

Goods transport by mode of transport 2016 (%)



Water: Reduce consumption by 10% focusing on water scarce areas



Water consumption reduced during 2016 (M-EN8)

Our main production process does not require significant amount of water. Most of the water is used in testing of our products and in their servicing. The water consumption decreased by 6.1% during 2016 for the group as a whole. This however does not mean we are satisfied with the results as we see that certain sites are still increasing their water use. Our goal is to reduce water use by 2% per year and to concentrate on those sites in regions where there is water scarcity. We will continue to prioritize these sites going forward.

Reduction in the environmental impact from new products. (M-EN6)

In 2016, the environmental impact of 34 (145) new and upgraded product development projects were assessed, using the Life Cycle Assessment (LCA) method that we have used since 2007. Of the 34 (145), 14 (22) were replacements of existing products. 13 (21) had a 1.25 to 42 percent lower environmental impact and none had a higher impact.



Social Progress 2016

Focus on: Health & Safety, Business Principles in our supply chain

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

Number of accidents resulting in one or more days absence:



Number of accidents

4.7

Number of accidents per million working hours in 2016.

- Total number of reportable accidents (including travel accidents) was 136 (175) in 2016. On a like for like basis the number was 101 (166).
- The number of accidents per million working hours for 2016 was 4,7 (5.6). Like for like the accidents per million working hours was 4.5 (5.4).
- In 2016, the days lost per million working hours due to accidents was 121 (169), like for like the figure was 125 (169).
- In 2016, 1.93 (1.95) days were lost through any form of illness (including lost time injury (LTI)) as percent of working days. The like for like figure was 2.21 (2.01).

We continued working towards our health and safety goals of 50% reduction in Lost Time Injuries (LTIs) and 8% reduction in Lost Working Days (LWD) by 2017 compared to 2012. Figures for 2016 show that we are well on our way to reaching these goals by the end of 2017.

During 2016 we have focused on those sites which have had the largest number of LTIs and on a project called 3PR (three prioritized risks) which focuses on behavior change as we have seen this makes a positive impact on reducing injuries.

We have also continued with the implementation of our safety vision: "We return home safely- every day" through the development of a new e-learning which will be launched in 2017. Starting in 2017 we will structure our Health & Safety work around five pillars namely - ownership, safety priorities, culture, risk reduction and follow-up systems.

Health and safety in our acquired companies

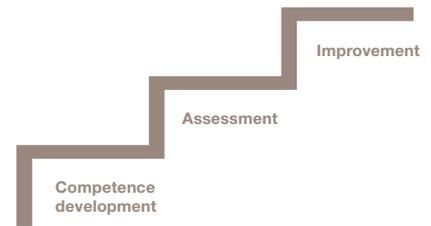
In 2014 we reported that we would focus on acquired companies as more accidents occur in these companies. In 2015 we trained the top management and health and safety managers in order to improve the focus on this area. We requested action plans to ensure that health and safety is implemented into the daily operations of these companies. During 2016 our focus has been on ensuring that the companies collect and report data and on following up on the action plans. Although we see that many of the companies are making progress, our experience tells us that there are few "quick fixes" for these companies because safe working requires a safety-first culture and cultural change takes time. We have thus also increased the number of resources allocated to work with health, safety and environment in these companies.

Business Principles implementation in the supply chain: Competence and accountability identified as key factors to reach improvements efficiently (HR2)

As our organizational structure for implementing our Business Principles in the supply chain takes shape, we continue to focus on competence development, assessment and improvement. We have noted two key factors that create improvements in our supply chain – one is improving the suppliers in-depth understanding of our Business Principles and the other is accountability within our own organization. These key factors enable us to reach continuous improvements and minimize risks in the supply chain in a more efficient manner

Competence development

During 2016 we continued training employees within the purchasing organization on how to work with business principles in the supply chain and its implications. The training has been done at three different levels based on exposure to the issues and the risk level of suppliers. In total we have trained more than 250 employees within the purchasing organization. All managers within the purchasing organization have gone through a six hour training regarding suppliers and our Business Principles. In addition all employees working within purchasing must complete a compulsory training regarding Anti-Bribery Anti-Corruption.



At the supplier level, we continued to inform our suppliers about our Business Principles during the year through awareness information sessions and trainings. During 2016 we have prioritized India and China where we have run several workshops to increase supplier understanding. We have noted that the suppliers who have participated in these workshops see the benefits for their own companies and thus make improvements quicker and in a more integrated manner. In total we have trained more than 200 suppliers in the region at a general level. In addition another 150 suppliers have participated in in-depth workshops regarding implementation of our Business Principles.

Risk assessment: Prioritizing risks and auditing

Prioritized Risks:

One of our highest priorities is to improve the health and safety, labor conditions and the working environment of our suppliers' employees in countries and industries of high risk. Where the working conditions need to be improved we are committed to support the supplier to continuously improve.

To ensure that we are prioritizing the suppliers that pose the highest risk of breaches to our business principles we work with three levels of risk assessment:

Country risk

If the country where the supplier is defined as having a high risk from corruption/ bribery perspective and/or human rights perspective. We base this country risk calculation on tools such as the Transparency International Corruption Index.

Production Process Risk

If the supplier works with production processes resulting in high risks from an occupational health and safety perspective and/or environmental impact perspective.

The scale of our markets and production facilities

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

Audit platform:

Our audit platform highlights six areas with deviations that we define as critical: child labor, forced labor, freedom of association, fire protection, and severe damage to the environment and severe risks in the health and safety areas. Deviations in these areas will require immediate correction if Alfa Laval shall be interested to start or continue to do 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 in 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 2016. Our auditors carried out around 120 audits in these two countries during the year. We experienced positive examples where suppliers worked according to our suggested improvement plan and implemented preventive action. A relatively high number of suppliers in India fell under our acceptable level threshold score this year. This is due to the lack of implementation of the new legislation on pollution control launched during 2016 in India (MPC). We are closely monitoring their progress as well as the progress of other suppliers where their improvement levels have not been fully satisfactory. A relatively high number of audits were follow-up audits as we have noted a need to ensure that improvements are put into practice.

Roles and responsibilities: Essential for accountability

In order to ensure accountability we have worked with clarifying responsibilities and action plans in our purchasing organization. We continue working with a supplier audit council which sets the yearly improvement plans and allocates resources accordingly. They have the responsibility to ensure that the supply chain gives attention to the Business Principles and ensures continuous improvement. Master auditors conduct supplier audits and support in supplier development activities. They also have the responsibility to train and certify auditors internally and to escalate non-compliance in the organization. Sourcing managers are responsible for the continuous development of our suppliers including the implementation of Business Principles. We also started a project with the aim of establishing an escalation process to ensure that those suppliers which continuously refuse to improve according to agreed action plans are phased-out in a responsible manner.

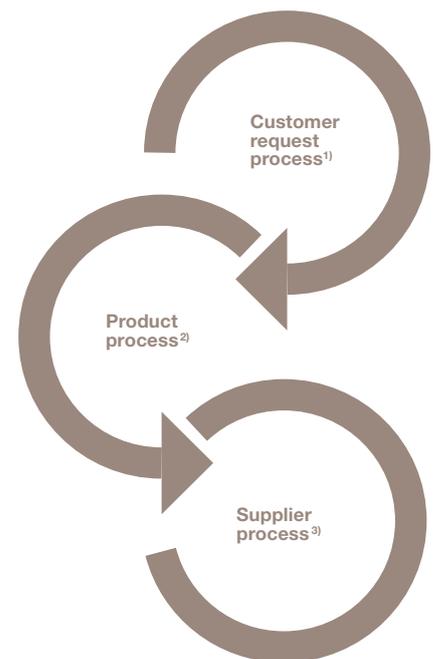
Working to achieve conflict free deliveries has extended the scope of our supplier due diligence

The Dodd Frank Act in the USA requires companies to conduct due diligence to ensure that the minerals used in its products are not sourced from mines financing armed groups that are guilty of some of the worst human rights violations in the Democratic Republic of Congo (DRC). Correspondingly, Alfa Laval published its own policy on this issue during 2013 on our website (www.alfalaval.com) and we have since then worked systematically with the ambition to achieve conflict free deliveries to our customers. Since then Alfa Laval has been working systematically with the ambition to achieve conflict free deliveries to our customers.:

We continue to work with the process to systematically reduce the risk of exposure to conflict minerals. This process is essentially divided into three areas:

- 1) The customer request process includes logging of requests regarding products which may contain conflict minerals and internal process to answer these.
- 2) Our product process encompasses risk assessment (which current or coming products use 3TG and thus run the risk of using conflict minerals), education and training for relevant employees and identification of suppliers of tantalum, tin, tungsten and gold (3TG).
- 3) The supplier process includes identification of relevant suppliers, contact with suppliers, collection of relevant information and follow-up procedures.

During 2016, we launched a new supplier communication platform to increase the efficiency in communicating, training and reviewing supplier responses. Until now we have identified close to 800 suppliers whom we are communicating with through this platform to ensure compliance with the requirements.



**Our progress in implementing the Modern Slavery Act**

The continued prevalence of forced labor and human trafficking is a serious global issue with many victims. Alfa Laval will not tolerate this within our organization or within our supply chain. Alfa Laval is committed to taking appropriate steps to ensure that acts of modern slavery and human trafficking are not occurring within our organization or in our supply chain. Alfa Laval is committed to upholding human rights and support the principles contained within the Universal Declaration of Human Rights, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the ILO Core Conventions on Labor Standards. We operate in accordance with the Alfa Laval Business Principles. The Business Principle "Social" includes human rights, freedom of association, child labor, forced labor, discrimination and working conditions.

Progress in implementing the Modern Slavery Act

Alfa Laval has published a Modern Slavery Act Statement for 2016, which can be found on www.alfalaval.com. We have during the past year concentrated our attention on including the concept of Modern Slavery in our training (internal and for suppliers); in our monitoring, assessment and auditing of suppliers; and in our auditing follow-up activities with suppliers.

Training: We have trained around 250 purchasers and 250 suppliers in our Business Principles including Human rights issues in the time period 2015-2016. The concept of Modern Slavery has been introduced into the training program in the end of 2016. Starting in 2017 the concept of Modern Slavery will also be included into our Business Principles training for new employees.

Monitoring/assessment: We have a self-survey assessment sent to those suppliers which we define as medium risk, where Modern Slavery has been included during 2016. In addition to self-assessments, Alfa Laval conducts audits of those suppliers we define as high risk. Modern Slavery has been included into the audit questionnaire starting November 2016. We have sent more than 750 letters to selected suppliers requiring a report on the origin of the tantalum, tin, tungsten and gold they use in our products. This is part of our work with conflict minerals also includes risks associated with the concept of Modern Slavery.

Improvement: For Alfa Laval the most essential aspect of working with suppliers is to ensure improvement. We therefore follow up on audits and hold workshops to ensure our supplier's understanding of our Business Principles, including respecting human rights (which will include the concept of Modern Slavery starting from the end of 2016).



Business Integrity Progress 2016

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 2016, 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. Until end of 2016 more than 4,000 employees world wide completed this training. Starting 2017 we will develop a training program which will be mandatory for all white collar employees.



Transparency Progress 2016



Customer communication is our priority

Supporting our customers in reaching their sustainability goals

Our products can have a positive impact on the sustainability goals of our customers by, for example, contributing with energy efficiency improvements, lowering pollution from vessels at sea, being part of 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 alfalaval.com site. We also publish a customer magazine [Here](#) focusing on how processes can be improved to save energy and protect the environment, [Here](#) explores global and local challenges and the innovations and solutions that can address them.

The Product Responsibility section of the GRI report classifies all articles in [Here](#) that are related to sustainability issues and provides links to the magazines and articles.

Customer requests help us adapt and prioritize

The requests from customers regarding Corporate Social Responsibility (CSR) performance, implementation of strategies and policies and other information has continued to grow – both quantitatively and in depth.

These requests included replying to questionnaires on our work with sustainability, both in our own sites and in our work with suppliers. The requests regarding conflict minerals continued to rise and so did the number of questions related to our Anti-Bribery and Anti-Corruption work. Regionally, we also received questions regarding the implementation of the UK Modern Slavery Act.

Sustainability issues increasingly became a part of customer contracts. More customers are including sustainability parameters in their contracts with us as their supplier. Understanding these requirements and making sure that we live up to them is a high priority.

Some of Alfa Laval's customer sectors have encouraged standardization and asked their suppliers to report data through different information platforms such as SEDEX or EcoVadis. At present we report into EcoVadis at global level and our engagement is ranked as advanced. At local level we also report to SEDEX requests from our customers in China and India.

Alfa Laval welcomes sustainability data exchange because it helps place sustainability as an integral part of business and decision making. Standardizing the structure of sustainability data and exchanging this data within industrial sectors has the potential to cut complexity. It also provides a platform around which 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 those industry standards relevant for industries to which Alfa Laval has a larger exposure. One example is the IMPA-ACT standard in the marine industry where we were recognized as “preferred supplier” in 2016.

Far from all the requests we receive from customers are standardized, however, and sales companies receive specific questions or requests. Our aim is to become more proactive in our communication with our customers to better reflect the positive contribution our products and services can have on several of our customers' sustainability goals.



In most processes, some form of heat transfer solution is required for heating, cooling, ventilation, evaporation or condensation. All of this can be achieved efficiently using heat exchangers.



Investors are pushing the sustainability agenda

Increasing number of SRI interviews

We have seen an increase in the number of investors that have contacted us to better understand how Alfa Laval works with sustainability issues has increased during 2016. The most common questions are about our targets, processes and governance structures. We are happy to be part of these interviews as they give us the opportunity to learn and to act in accordance with expectations.

SRI reports further improve stakeholder understanding

We are grateful to receive draft reports from analysts each year for our comments. Sometimes these comments identify aspects that we have either omitted from our reporting or perhaps we have not considered enough. One example is that we now report on climate according to CDP as this has been an increasing request from investors Reports which in many cases are impressively thorough are proof of the growing importance of sustainability to the investment community and help in driving 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 a corporate level on aspects of sustainability that are relevant to the management of the risk. Consequently, we recognize that our published sustainability reports do not always provide all the detailed information that some analysts require. Therefore we welcome any questions regarding our progress and work with implementing our Business Principles.

Materiality assessment

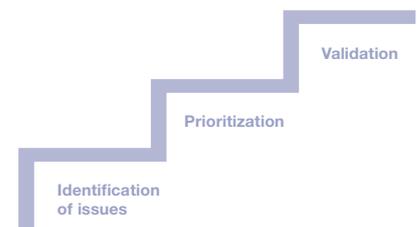
During 2016 we conducted an materiality assessment to identify the issues within the area of sustainability which we should focus on going forward. We used a three step process of identification of issues, prioritization and finally validation of the material issues.

The process for identification of issues included an analysis of impacts along our value chain. A long list of potential issues was developed and grouped into four areas based on our four business principles – environment, social, business integrity and transparency. The issues were rated first in relation to the impact on our company and secondly in relation to the importance to our stakeholders. The prioritization of relevant sustainability issues was generated through research and interviews with both internal and external stakeholders.

A brief summary of the results:

Growing customer, policy, regulatory and stakeholder attention to greenhouse gas emissions, energy efficiency and access to water drive market opportunities for Alfa Laval products and services. Further, increased water stress and scarcity may fuel demand for products and services that contribute to improved access to water including improved water efficiency and waste water management.

Alfa Laval customers increasingly adopt energy efficiency goals and science-based climate targets that put increasing focus on applied technologies throughout the value chain. 'Getting closer to the customer' also means serving customer's sustainability strategies. Issues such as ethical practices, privacy and data security and legal compliance are all rated high due to the impact on Alfa Laval's cost, brand, and compliance. Upholding high standards of governance, data privacy/security, and rule of law is a pre-condition for sustainable development and business success. Human capital related issues, such as talent attraction, diversity and maintaining good working conditions are of key importance for Alfa Laval's continued success. Supply chain standards, traceability in the supply chain and management of supply chain issues is considered critical and supports building key supplier partnerships.



The Sustainable Development Goals and Alfa Laval

Alfa Laval's work contributes directly to many of the UNs Sustainable Development Goals. These are some examples:

<p>2 ZERO HUNGER</p> 	<p>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.</p>
<p>6 CLEAN WATER AND SANITATION</p> 	<p>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.</p>
<p>7 AFFORDABLE AND CLEAN ENERGY</p> 	<p>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.</p>
<p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> 	<p>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.</p>
<p>13 CLIMATE ACTION</p> 	<p>In our own manufacturing, we work on reducing the CO₂ 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 CO₂ emissions. In other areas, our products are efficient in heat recovery, which reduces the amount of energy needed for heating and thus also CO₂ emissions.</p>
<p>14 LIFE BELOW WATER</p> 	<p>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.</p>

We continue to meet interested external parties

Meetings with SRI analysts continued in 2016 as in previous years. We are very pleased to meet SRI analysts: please contact catarina.paulson@alfalaval.com to arrange a meeting.

Students show a great interest in our Business Principles activities and there were a number of student visits and discussions during 2016. Students can contact catarina.paulson@alfalaval.com to arrange a meeting either by telephone or face-to-face.

CEO statement of continued commitment to the Global Compact:



I am pleased to submit this Progress Report and the associated sustainability report and associated reports 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 business strategy, day-to-day operations, and organizational culture.

Tom Erixon, March 27th, 2017

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