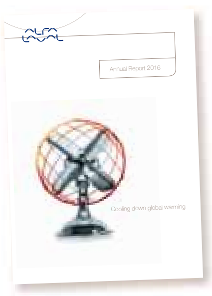
Annual Report 2016

Cooling down global warming

Contents



Carbon dioxide.
One of the most challenging menaces to our planet's climate. Mainly caused by the extensive use of fossil fuels. Forecasts predict that energy demand will increase by some 30 percent during the next two decades. The encouraging news is that renewable energy production is also on the rise. And that investments in energy-efficient equipment are accelerating.

Alfa Laval is a frontrunner in energy efficiency. Our fully welded heat exchangers are a case in point. They increase energy recovery in oil refineries by one third. Our thousands of installations worldwide reduce global carbon dioxide emissions by some 12 million tons – every year! That is more than the combined yearly emissions from all cars and households in Sweden!

Pure Performance. Energy. Environment. Marine. Mechanical engineering. Food. Chemical. You name the industry. Alfa Laval is helping all of them to purify and refine their processes and products. Time and time again.

We are hard at work in more than 100 countries implementing our expertise, technical support and service. Helping to create a cleaner environment and better living conditions for all mankind

Alfa Laval is a leading, global provider of first-rate products in the areas of heat transfer, separation and fluid handling. On the strength of this offering, Alfa Laval helps to boost the productivity and competitiveness of customers in various industries worldwide. We identify the challenges facing them and deliver products and solutions that meet their needs – mainly in the areas of energy, the environment, transport and food. Business concept: "To optimize the performance of our customers' processes, time and time again."

Three key technologies suitable for most industries

Operating in the areas of heat transfer, separation and fluid handling, Alfa Laval focuses on the development and manufacturing of heat exchangers, separators, pumps and valves – products that are required by a large number of industries across the globe. The company's products play a pivotal role in everything from power production and oil extraction to food manufacturing and wastewater treatment – making Alfa Laval a key player in areas of crucial importance to society, such as energy optimization, environmental protection and safe food production.

Heat transfer

Most industrial processes need some form of solution for heat transfer. Alfa Laval's heat exchangers transfer heat or cooling from one liquid to another – for example – and are extremely important to the efficiency of the entire process. The company's compact heat exchangers have the capability to recycle heat, optimize customers' energy consumption, cut costs and reduce the negative impact on the environment.

44 percent of invoicing in 2016

More than 30 percent of the world market

Separation

Separators have been an important part of Alfa Laval's operations since the company was founded in 1883. The technology is used to separate liquids from other liquids and solid particles from liquids or gases. In addition to separators, the offering includes decanter centrifuges, filters, strainers and membranes.

19 percent of invoicing in 2016

25 to 30 percent of the world market

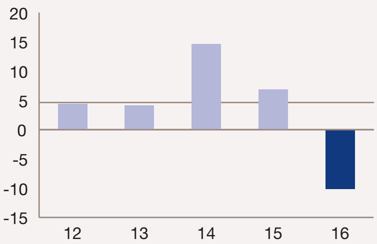
Fluid handling

Alfa Laval offers pumps, valves, tank cleaning equipment and installation material for industries with stringent hygiene requirements, such as the food and pharmaceutical industries. The portfolio also includes pumping systems designed specifically for the marine industry and offshore market.

24 percent of invoicing in 2016

10 to 12 percent of the world market

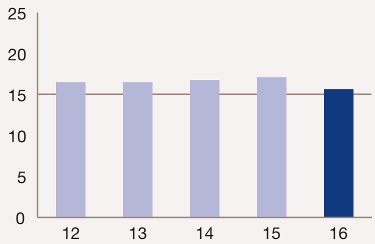
Invoicing growth, %*



The goal is to grow an average of at least 5 percent annually measured over a business cycle.

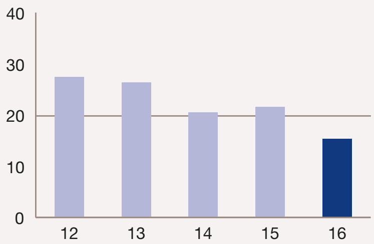
* Excluding exchange rate variations

Operating margin, %



The goal is to have an operating margin of 15 percent measured over a business cycle.

Return on capital employed, %



The goal is to have a return on capital employed of at least 20 percent.

Broad geographic presence

Alfa Laval's sales and aftermarket organization operates in more than 100 countries – either directly or in collaboration with external partners. The production structure is also global, with 42 large facilities spread across Europe, Asia, the US and Latin America. At the same time, Alfa Laval has more than 100 service centers distributed worldwide to meet customer needs. In 2016, Service accounted for 33 percent of the Group's total order intake.

Continued focus on innovation

Alfa Laval was born out of a brilliant invention – the separator – and innovation remains at the heart of everything we do. We are considered one of the most innovative companies in the sector and this reputation is accompanied by expectations of more. Accordingly, Alfa Laval continuously invests in research and development (R&D) to be able to continue providing the market with new and more efficient products. In 2016, the company invested SEK 822 million in R&D, corresponding to 2.3 percent of sales.

Three sales divisions with a shared supply chain

Alfa Laval reaches its customers through its three sales divisions: Equipment, Process Technology and Marine & Diesel. However, the supply chain for the three divisions is shared and forms a fourth division: Operations. This division is responsible for purchasing, production and logistics for all key technologies.

During the year, a decision was made to change the Group's organizational structure. As of January 1, 2017, the company was divided into three new sales divisions – Marine, Food & Water and Energy – while Operations continues to serve as the Group's shared supply chain. The description below pertains to the structure in place in 2016.

Equipment Division

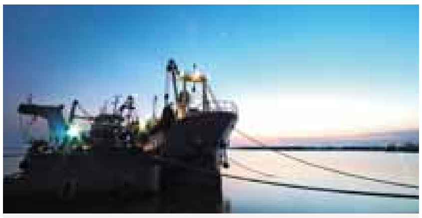
Fast-moving business comprising component sales to customers with recurring requirements and well-defined needs through various sales channels. Read more on pages 28–29.

33 percent of Group order intake

Process Technology Division

Project-based business comprising customized solutions and systems sold directly to end customers or through contracting companies. Read more on pages 30–31.

39 percent of Group order intake



Marine & Diesel Division

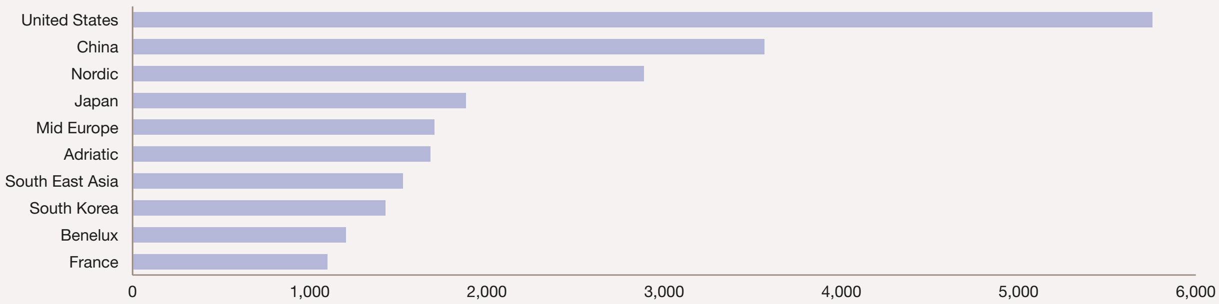
A broad offering of components, modules, systems and service for customers in the marine, offshore and diesel power markets. Read more about the division's four segments and performance on pages 32–33.

28 percent of Group order intake

Operations Division

Responsible for the Group's production-related procurement, manufacturing, distribution and logistics. This centralized, coordinated and global supply chain creates the necessary prerequisites to ensure reliable access to the company's products worldwide. Read more on pages 34–35.

Ten largest markets (SEK million)



Order intake in Alfa Laval's top ten markets in 2016.

2016 in brief

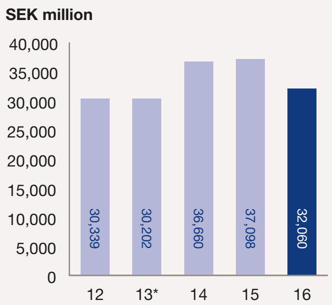
– Order intake amounted to SEK 32.1 billion, compared to SEK 37.1 billion in 2015.
– Invoicing fell 10 percent to SEK 35.6 billion.
– The adjusted EBITA margin, or operating margin, was 15.6 percent, compared with 17.1 percent in 2015.

Amounts in SEK million unless otherwise stated	+/- %[6]	2016	2015	2014	2013*	2012
Order intake	-14	32,060	37,098	36,660	30,202	30,339
Net sales	-10	35,634	39,746	35,067	29,801	29,813
Adjusted EBITDA [1]	-17	6,196	7,478	6,456	5,360	5,381
Adjusted EBITA [2]	-18	5,553	6,811	5,891	4,914	4,934
Operating margin (adjusted EBITA [2]), %		15.6	17.1	16.8	16.5	16.5
Profit after financial items	-39	3,325	5,444	4,117	4,172	4,529
Return on capital employed, %		15.3	21.6	20.5	26.4	27.4
Return on shareholders' equity, %		11.8	21.7	17.6	20.4	22.9
Earnings per share, SEK	-40	5.46	9.15	7.02	7.22	7.64
Dividend per share, SEK		4.25 [3]	4.25	4.00	3.75	3.50
Equity per share, SEK	10	48.34	43.92	41.01	38.53	34.46
Free cash flow per share, SEK [4]	-19	9.97	12.25	-23.48	7.82	0.78
Equity ratio, %		38.0	35.5	30.8	46.3	41.3
Net debt to EBITDA, times		1.81	1.56	2.46	0.49	0.80
Number of employees [5]	-3	16,941	17,417	17,753	16,262	16,419

* Restated to IFRS 11.

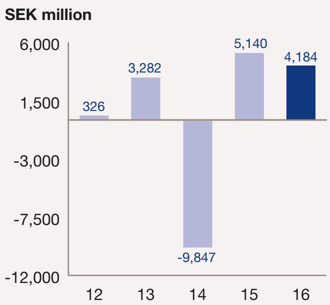
1) Adjusted EBITDA – Operating income before depreciation, amortization of goodwill and amortization of other surplus values, adjusted for items affecting comparability.
2) Adjusted EBITA – Operating income before amortization of goodwill and other surplus values, adjusted for items affecting comparability.
3) Board proposal to the Annual General Meeting.
4) Free cash flow is the sum of cash flow from operating and investing activities.
5) Number of employees at year-end.
6) Percentage change between 2015 and 2016.

Order intake



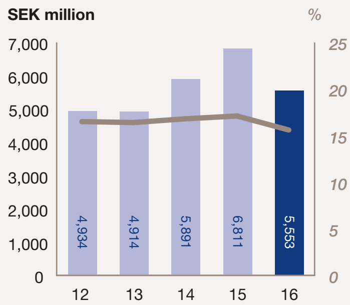
Order intake amounted to SEK 32,060 million in 2016, down 14 percent. Excluding exchange rate variations, order intake decreased 13 percent.

Free cash flow



Alfa Laval generated a free cash flow of SEK 4,184 million (5,140) in 2016.

Adjusted EBITA



Adjusted EBITA amounted to SEK 5,553 million, compared with SEK 6,811 million in 2015.

Some historical milestones

1880s

AB Separator. The trading firm of Gustaf de Laval and Oscar Lamm is incorporated under the name of AB Separator (1883). The Alfa patent is obtained from Clemens von Bechtolsheim (1889).

1900s

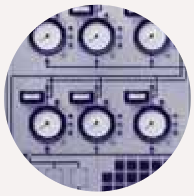
In 1901, AB Separator is listed on the Stockholm Stock Exchange. The company has already started its globalization and by 1910 established subsidiaries in the US, Canada, Austria, Denmark, France, Germany and Russia.

1930s

Alfa Laval introduces its first plate heat exchanger and adds heat transfer technology to its portfolio. Pontus Hytte, the son of the famous Swedish painter Carl Larsson, moves the development and manufacturing of heat exchangers to Lund.

1950s

AB Separator changes from being a supplier of only components to also include complete industrial process systems in the offering.

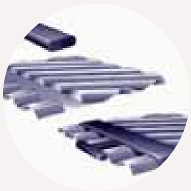


1960s

The company changes its name from AB Separator to Alfa-Laval AB. The name “Alfa” derives from the alpha discs and “Laval” from the founder of the company. Plans for a Fluid Handling division begin to materialize.

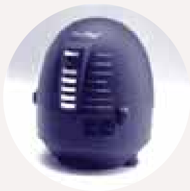
1970s

Alfa-Laval acquires a majority interest in the Danish company Lavrids Knudsen Maskinfabrik (LKM) and adds fluid handling to its technologies.



1980s

To strengthen Alfa-Laval’s core business, the company makes a number of acquisitions: Pages in France and LKM in Germany; Tri-Clover and Sharples in the US; Reginox in Brazil; and Saunders Valves in the UK.



1990s

Alfa-Laval is acquired by Tetra Pak (1991). In 1993, Alfa Laval becomes an independent industry group within the Tetra Laval Group.

2000s

Alfa Laval is acquired by Industri Kapital. In 2002, it returns to the Stockholm Stock Exchange. The main strategy is to create profitable growth, both organically and through acquisitions. The acquisition strategy focuses on companies that complement the business in terms of products, geography or new sales channels. Adding new sales channels gives an opportunity to work with a number of brands.

2010s

At this point, acquisitions are a key feature of creating value and an efficient and rapid way of building positions in the market. The target, at the time, is to add 3–4 percent to annual sales. Alfa Laval acquires Aalborg Industries in 2011 and the Norwegian company Frank Mohn three years later, which further strengthens Alfa Laval’s presence in the marine and offshore markets.

A successful year on several fronts despite challenging circumstances.

President's comments

Market conditions and development

In short, 2016 was a successful year on many fronts despite challenging circumstances in markets considered to be of major importance to Alfa Laval. The Equipment Division distinguished itself as having the strongest performance during the year. The division's order intake was stable, mainly driven by the parts of the business exposed to the food industry. At the same time, the division's long-term efforts to improve its cost-efficiency and the continued roll-out of an e-commerce platform helped to achieve results and the division was able to report an operating margin of 14.5 percent.

The Process Technology Division was impacted by the weak trend in the oil sector, which was under continued pressure from a low oil price. The lack of oil extraction projects was offset to a certain extent, not least by a strong order intake in the fourth quarter, and our smaller projects and service business displayed a stable performance. Overall, order intake declined a few percent and profitability was adversely impacted by changes in the mix. The division reported an operating margin of 10.1 percent, which is not satisfactory.

The Marine & Diesel Division started the year with a relatively strong order book, resulting in invoicing of 84 percent compared with 2015. The challenge during the year was the division's order intake. The capacity increases of recent years within the global merchant fleet have resulted in extremely low freight rates and caused significant financial problems for ship owners and shipyards alike. The number of orders for new vessels in 2016 was thus the lowest in more than 30 years, with an estimated 580 vessels ordered compared with a ten-year average of 2,200 vessels per year. Taking the market trend into consideration, the division nevertheless delivered an acceptable order intake, despite a 35-percent decline compared with 2015. At the same time, a favorable product mix and substantial aftermarket share enabled the division to achieve an operating margin of 17.1 percent – a strong result considering the circumstances.

Short-term perspective – focus on costs

With a major downturn noted in a number of Alfa Laval's key markets, the company inevitably devoted considerable focus to costs in 2016. Combined with an extensive restructuring program, the organization's continued work in the area helped to ensure a favorable cost trend.

The procurement function's ongoing efforts were further intensified, which yielded decisive results. In addition to the fact that global raw material prices remained low, the function was able to negotiate more favorable prices and terms in a large number of areas.

At the same time, the company continued its efforts to improve the execution of larger projects within Process Technology. The long-term goal was to reduce the number of negative deviations when executing and delivering projects. This work produced results, particularly toward the end of the year.

Finally, the company's efforts to implement production capacity adjustments helped to offset the negative effects of lower volumes.

All in all, the company's increased share of the aftermarket and its efforts to cut costs helped to secure a gross margin of 35.8 percent, roughly in line with 2015.

In parallel with the company's ongoing efforts to reduce its costs, a restructuring program was introduced in the autumn. This program is considered the single most important initiative when it comes to adapting the Group to the prevailing market conditions.

The program resulted in nonrecurring costs of SEK 1.5 billion, of which SEK 700 million pertained to write-off of goodwill and other non-cash items. The aim of the program is to implement structural changes in order to cut the Group's costs for administration and sales by SEK 300 million per year, with full effect from the third quarter of 2017. Manufacturing will also be concentrated to fewer units over a three-year period. This initiative is expected to generate an additional SEK 200 million in savings. Finally, we identified a number of acquired units that have not performed according to plan. These units were included in an initiative known as "Greenhouse," under which the units were removed from the normal operating structure and placed into a separate unit. Considerable focus will be devoted to measures to improve the earnings of these units in 2017.

Strategic review, conclusions and future direction

After a long, successful period characterized by organizational and strategic continuity, we decided for several reasons that it was time for a review. Not only had the Group grown from SEK 15 billion to SEK 40 billion in annual sales over a 15-year period, its structure had also become increasingly complex as a result of a number of acquisitions. Alfa Laval's cost structure and financial goals were also challenged by negative trends in several important end markets. Finally, there were questions regarding the Group's organic growth during the period.

The review and analysis resulted in a number of conclusions – both positive and negative. The company's global presence, large installed base, technology leadership in several areas and skilled organization provide a strong foundation on which to continue building in the future. However, the analysis also identified a number of improvement areas:

- A complex organization resulted in slow processes and weak decision-making
- A weaker role for product management resulted in a slower pace in certain areas of product development
- A large focus on internal issues and too little focus on the customer and the customer's situation.

The analysis resulted in an extensive restructuring program. Implementation of the program began late in the year and will continue during 2017. The most important goal is to ensure the Group's organic growth by adopting a more customer-centric approach. To provide support for this change, an organizational restructuring was carried out to create a more decentralized decision-making process. The new organization, which took effect on January 1, 2017, comprises 12 product-based business units with extensive earnings responsibilities. The business units were organized into three divisions, with a focus on our most important customer segments: Marine, Energy and Food & Water.

The work carried out during the autumn in order to implement this organizational restructuring and the necessary cost adjustments progressed quickly in the lead-up to the start date on January 1, 2017. The process moved quickly and smoothly thanks to the drive of the organization, the need to have everything in place by year-end, a consensus on what needed to be done and good cooperation with the trade unions.

Looking forward

Despite challenging market conditions in 2016 and 2017, the next few years look promising. Based on our aim of achieving a clearer focus on the customer, greater technological leadership and a more robust service business, measures are now being taken to further strengthen Alfa Laval's competitiveness.

There is a strong link between society's growing interest in sustainability and our core business. Energy efficiency and process improvements that enable increased water recycling are two areas where we truly shine and which also have the potential to create long-term growth opportunities. Alfa Laval is a small – but important – part of the solution to a number of major challenges facing society.

In the short term, we expect the most interesting developments in the area of sustainability to take place in the marine sector. In 2016, important decisions were made with respect to directives requiring the cleaning of ballast water and exhaust gas from ships. These directives will gradually open up a new market for new and existing vessels valued at approximately SEK 20 billion per year over a number of years. Alfa Laval is at the forefront of both of these application areas and the opportunities for growth are substantial.

While our technological and product development initiatives are long term in nature, a number of important launches of new product families related to gasketed heat exchangers and high-speed separators will begin toward the end of 2017. This will pave the way for a more cohesive product offering, create the potential to further improve the energy efficiency of our customers' applications and reduce our production costs.

The service organization is central for our customers. Our installed base is enormous and a single product installation is often used in our customers' processes for 20 to 40 years. Accordingly, easy access to spare parts and close proximity to a service center and service engineers are necessary prerequisites for ensuring that the customer's equipment can continue to operate. During the year, we continued to expand the service organization, which currently comprises over 2,000 employees and more than 100 service centers worldwide. Although the service offering has been our central focus area for many years, we believe there are still significant development opportunities and potential. We are now taking the next step on our journey toward a more customer-centric Alfa Laval, in which the relationship with the service organization will play a crucial role.

Last but not least, thank you

2016 was my first year as CEO of Alfa Laval and a more eventful year than I had imagined. We have adapted the organization to the prevailing challenges in the market, aimed to make smart investments in the future and initiated changes to allow us to leverage the strengths that come from a long industrial history and strong culture. I would like to thank our employees for the invaluable support I received during my first year and the excellent work carried out during 2016.

Lund, February 2017

Tom Erixon
President and CEO

Structural changes create demand

The world is changing and with change come new opportunities. Global trends in the area of the environment as well as in food, transport and energy, are creating new opportunities for growth. These structural changes include: the search for sustainable methods of energy production due to growing energy needs; a growing middle class creating a demand for processed foods; environmental legislation imposing increasingly stringent requirements with respect to emissions to air and water; and international trade creating a need for marine transport solutions. This is good news for Alfa Laval, whose operations focus on exactly these areas.

Energy

The world's energy needs are continuing to intensify – at a faster rate in some areas of the world than others. There are two ways to handle this challenge: increase the total energy production and make greater use of technologies that enable more efficient use or recycling of the energy generated.

Alfa Laval

Alfa Laval's offering encompasses products and solutions for oil and gas exploration, power production, renewable fuels, refinement and much more. With its compact heat exchangers at the heart of its solutions, the company's products also play an important role in the efforts to make the world's industrial processes more energy efficient.

Environment

Human impact on the environment is coming under greater scrutiny, resulting in new, increasingly stringent laws. In parallel with this, a sustainability mindset has also evolved and is encouraging companies to voluntarily take steps that contribute to environmental improvements.

Alfa Laval

Alfa Laval has a wide range of products for managing various environmental problems, such as cleaning of crankcase gas from trucks or dewatering of sludge in wastewater treatment plants. The company's heat exchangers are also highly energy efficient, which in itself is a gain for the environment since they help to reduce both energy consumption and CO_2 emissions.

Food

A growing number of people are joining the middle class, urbanization is continuing at an undiminished rate and women now account for a higher percentage of the workforce. This is contributing to growing demand for ready-made food and the development of more efficient supply chains with the capacity to reduce waste.

Alfa Laval

Alfa Laval's history began in 1883 with the development of a separator for separating cream from milk. Since then, the company's offering for hygienic applications in the food industry has been expanded to include heat exchangers, pumps and valves. These products meet the strictest hygiene requirements and can help to optimize the use of raw materials. Alfa Laval can also help to reduce waste by offering cooling solutions for transport and storage.

World trade

International trade helps to connect a world where raw materials are extracted in one country and processed in another, after which the end products are transported to customers across the globe. Shipping is the most efficient – and at the same time economical – transport solution, which is why approximately 90 percent of commercial tonnage is now shipped by sea.

Alfa Laval

Alfa Laval has delivered equipment for the marine industry for more than 80 years – starting in the engine room with separators for cleaning fuel and growing to include everything from heat exchangers for generating freshwater to pumping systems for efficient loading and unloading. The company also offers a number of solutions that reduce the impact on the environment, such as systems for treating ballast water or lowering the sulphur content in ships' exhaust gas.

Vision, business concept, goals and strategy

Vision and drivers

To "help create better everyday conditions for people" by offering efficient and environmentally responsible products and solutions in the areas of heat transfer, separation and fluid handling.

Business concept

The vision is at the core of the company's efforts to realize its business concept: "To optimize the performance of our customers' processes, time and time again." This is achieved by helping customers to become more productive and competitive through the delivery of high-quality products and solutions in the three key technologies.

Goals and benchmark values

Financial goals

Alfa Laval is governed with the aim of realizing its business concept, while at the same time meeting the financial goals established with regard to growth, profitability and return. By achieving or exceeding these goals, Alfa Laval creates the necessary scope for its continued development as well as generating increased value for its shareholders, both in the form of an annual dividend and by boosting the value of the company.

Growth

5% Alfa Laval's growth target was revised during the year. The new goal is to achieve average annual growth of at least 5 percent over a business cycle. This goal was deemed realistic given the prevailing business situation and Alfa Laval's performance in recent years.

Profitability

15% Alfa Laval is to achieve an operating margin – adjusted EBITA – of 15 percent measured over a business cycle. This goal was established based on historical margins, while also taking the company's growth ambitions into consideration.

Capital utilization

20% The goal is to have a return on capital employed of at least 20 percent, a realistic ambition based on a combination of organic and acquired growth.

Financial benchmark values

In addition to the Group's financial goals, the Board has established benchmark values for three key financial ratios, which further specify the framework and goals for the operation of the company.

Net debt in relation to EBITDA

2x In the long term, net debt in relation to EBITDA, meaning operating profit before depreciation and amortization of step-up values, is not to be more than 2. Although the ratio may exceed the goal in connection with major acquisitions, this should be viewed as a temporary situation, since the company's cash flow is expected to offset this effect.

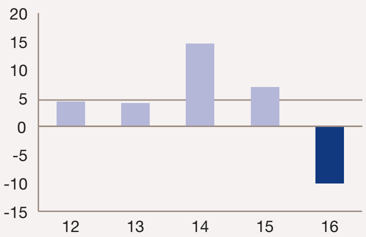
Investments

2% The benchmark value states that 2 percent of sales should go to investments. Given the investments and capacity expansion carried out in recent years, this investment level is deemed sufficient to create the scope for replacement investments and an expansion of capacity that matches the organic growth of the Group's core products.

Cash flow from operating activities

10% Cash flow from operating activities is to amount to 10 percent of sales, including investments in fixed assets. This value is lower than the goal for the operating margin, since organic growth normally requires an increase in working capital. In addition, taxes are paid in an amount corresponding to approximately 28 percent of earnings before tax.

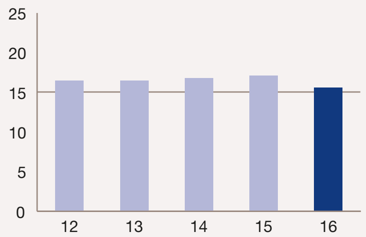
Growth, %



Invoicing fell 10.1 percent* in 2016. Of this, 10.4 percent was attributable to an organic decline, while acquisitions added 0.3 percent.

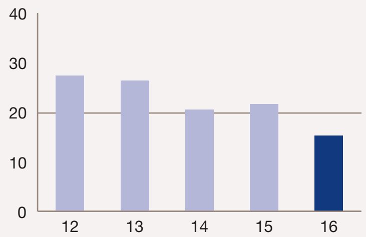
* Excluding exchange rate variations

Profitability, %



The operating margin for 2016 was 15.6 percent, compared with 17.1 percent for full-year 2015.

Return on capital employed, %

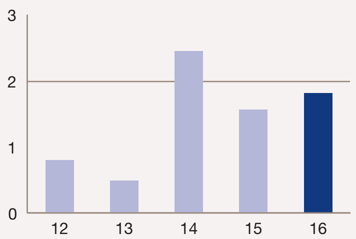


The return on capital employed for 2016 was 15.3 percent.

Sustainability goals

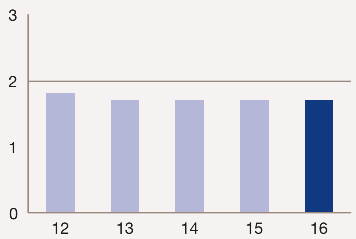
In addition to its financial goals, Alfa Laval also has a number of non-financial target parameters. These reflect the company's ambitions in the areas of the environment, health and safety. Among other areas, these key ratios encompass: a reduction in water consumption, increased energy efficiency, a reduction in the use of restricted "gray list" chemicals and a reduction in greenhouse gas emissions from freight transportation and travel. For more information about these goals and the company's various sustainability initiatives, visit: **www.alfalaval.com/about-us/sustainability**

Net debt/EBITDA



Net debt/EBITDA at year-end 2016 was 1.81.

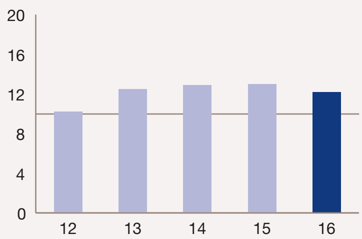
Investments, %*



Investments in 2016 amounted to 1.7 percent.

* In percent of sales

Cash flow from operating activities, %*



In 2016, cash flow from operating activities amounted to 12.2 percent**.

* As a percentage of sales
** Including investments in fixed assets

Strategy

To achieve its vision, implement its business concept and attain its growth, profitability and capital utilization goals, Alfa Laval has established various strategic priorities that include detailed Group-wide key initiatives. These strategic priorities encompass products, market presence and the continuous improvement work being performed in all areas of the company.

Products

Alfa Laval's product offering in its three key technologies – heat transfer, separation and fluid handling – serve as the foundation for achieving the company's goal for profitable growth. The high efficiency of these products is – and is expected to remain – an important criterion for customers who want to improve their competitiveness and reduce their environmental impact. Every year, the company invests between 2 and 2.5 percent of its sales in R&D in order to ensure that Alfa Laval's product offering remains a step ahead. These investments result not only in brand new offerings, but also improved and even more efficient versions of existing products. Identifying new areas of application for existing products and key technologies is another important strategic approach. At the same time, the product offering is also continuously being strengthened and expanded through acquisitions. These involve supplementary products in the three key areas as well as products that are new to the company and complement the offering in application areas where Alfa Laval is already represented.

Market presence

Having a local presence is extremely important for Alfa Laval. This includes everything from production and new sales to the aftermarket. Accordingly, the company continuously makes decisions regarding the selective expansion and/or strengthening of its presence in certain geographic areas. Expansion should primarily occur organically – either in terms of breadth by entering new geographic areas or in terms of depth by further expanding the presence in countries and regions where Alfa Laval is already established. Acquisitions can be used as a secondary means of expansion – providing an efficient way of quickly strengthening the local presence. Another way to expand is to add new sales channels.

Profitability and return

A number of basic questions must be answered in order to ensure profitability and a favorable return. One such question, concerning procurement and production, is where Alfa Laval should conduct its production operations, which products it should produce itself and which products should be purchased from suppliers. Another question, pertaining to logistics, is how Alfa Laval can meet its customers' requirements in terms of service level, while at the same time ensuring an efficient allocation of capital. The third question pertains to the business models to be applied in the company's divisions and the breadth that Alfa Laval should have in its offering.

Example of product strategy:

The product center in Asia was established in 2010 to enable Alfa Laval to successfully leverage the potential identified in the region by developing products specifically for local needs. This resulted in i-Range – a line of products featuring Alfa Laval's trademark quality but with limited functionality. Six product groups are currently represented at the product center. Since 2010, the local organization has demonstrated its ability to identify specific needs in the market. By supporting the sales organization during product launches and by being close to the local production, the organization has contributed to Alfa Laval's success in the region.

Example of market presence strategy:

Alfa Laval continuously expands its service network while at the same time establishing new sales offices in markets deemed to offer growth potential. One such area is Northwest Africa, including Ghana and Nigeria – the latter of which has the largest economy on the continent. Alfa Laval established a sales office in the region in autumn 2014. Since then, employees have been added to address such industries as the food and oil and gas sectors as well as the all-important aftermarket business. In 2016, Alfa Laval's presence in the region was supplemented with a service center in Angola.

Example of profitability strategy:

In 2015, a decision was made to establish a new distribution center. The next step was to select the location – a decision that came down to three countries. After conducting a study, it was determined that the best option would be to invest in building a new facility at the existing center in Kolding, Denmark. The location was deemed to offer the best solution since it provided close proximity to the manufacturing unit in Kolding as well as the Nordic market, where customers require quick reactions and short lead times. The transportation options at the Kolding site were also more competitive compared with the other two alternatives. The new center is expected to be completed in early 2017.

Acquisitions

Between 2012 and 2016, Alfa Laval acquired eight companies with combined sales of SEK 5,140 million, corresponding to average annual growth of SEK 1,028 million.

2012

ACQUISITIONS	REASON	SALES, SEK MILLION*
Additional 8.5 percent of the share capital in Alfa Laval India. (Total holding 97.5 percent)	Geography	Did not affect sales
Vortex Systems, USA	Product	100
Ashbrook Simon-Hartley, USA	Product	500
Gamajet Cleaning Systems, USA	Product/geography	75
Air Cooled Exchangers, LLC, USA	Product/geography	350**

DIVESTMENTS	REASON	SALES, SEK MILLION*
–	–	–

2013

ACQUISITIONS	REASON	SALES, SEK MILLION*
Gas combustion unit	Product	40***
Niagara Blower Company	Product	425

DIVESTMENTS	REASON	SALES, SEK MILLION*
–	–	–

2014

ACQUISITIONS	REASON	SALES, SEK MILLION*
Frank Mohn AS	Product	3,600

DIVESTMENTS	REASON	SALES, SEK MILLION*
–	–	–

2015

ACQUISITIONS	REASON	SALES, SEK MILLION*
Service Multibrand	Channel	50****

DIVESTMENTS	REASON	SALES, SEK MILLION*
–	–	–

2015

ACQUISITIONS	REASON	SALES, SEK MILLION*
–	–	–

DIVESTMENTS	REASON	SALES, SEK MILLION*
–	–	–

* Refers to sales for the year preceding the acquisition or divestment.

** Sales for 2012.

*** Expected sales for 2013 on the acquisition date.

**** Expected sales for 2015 on the acquisition date.

Increased turnover but varied price trend

The price trend for the Alfa Laval share varied considerable during 2016, ending the year at SEK 150.8 (155.0), down a total of 3 percent. Including the dividend of SEK 4.25 per share, the total return for the Alfa Laval share was marginally positive but amounted to only 0.03 percent.

The highest share price during the year was SEK 154.4, quoted on December 27 and 28. The lowest share price of the year was SEK 121.3, quoted on May 3. Alfa Laval's market capitalization at year-end was SEK 63.3 billion (65.3).

OMX Stockholm Industrials, the sector index for industrial shares in which Alfa Laval is listed, rose 18 percent in 2016, while the Stockholm Stock Exchange as a whole rose 6 percent. The Alfa Laval share is listed on Nasdaq Stockholm and is included in the large cap segment in Stockholm and the Nordic region. The share is also included in a number of other indexes in Sweden and abroad, including the OMXN40 Index, which comprises 40 companies with the largest market capitalization and most-traded shares in the Nordic region, as well as the OMXS30 Index, which includes 30 companies with the most-traded shares in Stockholm.

Strong long-term return

Since Alfa Laval was relisted on the Stockholm Stock Exchange on May 17, 2002, the company's share, including reinvested dividends, has generated a yield of 791 percent. Measured over the full listing period, this corresponds to an average annual effective yield of 15.1 percent, compared with an average annual effective yield of 8.1 percent for the Stockholm Stock Exchange (SIX Return Index) during the same period.

Share turnover

Alfa Laval's share is not traded exclusively on Nasdaq OMX Stockholm, but also on BATS, Turquoise and the London Stock Exchange, to name a few of the major alternative marketplaces. In 2016, the Stockholm Stock Exchange accounted for 35.0 percent (40.0) of all trade in the share and BATS for nearly as much at 34.8 percent (39.1). The liquidity of the Alfa Laval share is favorable and improved during 2016, when the number of shares traded increased to 1,092.9 million (988), corresponding to a combined value of SEK 147 billion (153), including all alternative marketplaces. This corresponds to a share turnover rate of 2.6 (2.4) times the total number of shares outstanding. In 2016, the average of transactions completed in Alfa Laval shares also increased to 8,268 (7,742) per trading day.

Dividend policy

The Board of Directors' goal is to regularly propose a dividend that reflects the Group's performance, financial status, and current and expected capital requirements. Taking into account the Group's cash-generating capacity, the goal is to pay a dividend of between 40 and 50 percent of adjusted earnings per share over a business cycle. For 2016, the Board has proposed that the Annual General Meeting approve a dividend of SEK 4.25 (4.25). The proposed dividend corresponds to 50.1 percent (38.6) of earnings per share, adjusted for surplus value.

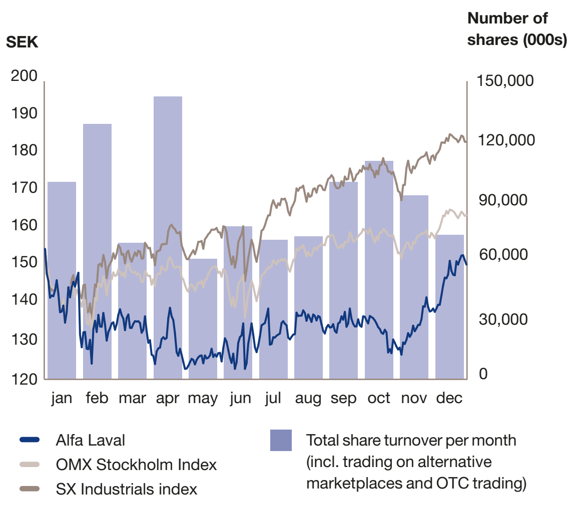
Share capital

The par value at year-end was SEK 2.84 (2.84) per share. All shares carry equal voting rights and equal right to the company's assets. Alfa Laval has no options outstanding that could create a dilution effect for shareholders. The total number of shares during the year was unchanged at 419,456,315.

Shareholders

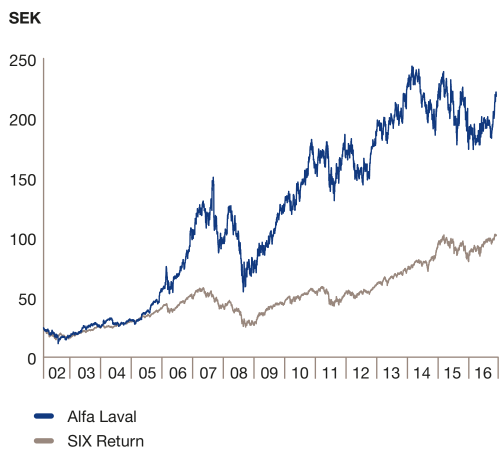
At year-end 2016, Alfa Laval had 35,840 (37,097) shareholders, corresponding to a decrease of 1,257 shareholders (decrease: 3,408). The ten largest shareholders controlled 54.0 percent (57.4) of the shares at year-end 2016. The single largest shareholder was Tetra Laval B.V., which increased its holding to 29.1 percent during the year through a purchase of shares from another major shareholder, FAM AB. Accordingly, FAM AB's holding decreased by an equal proportion, 3 percentage points, to 3.0 percent. In addition, SPP Fonder AB is now included among the ten largest shareholders in the company, while the First Swedish National Pension Fund, whose holding at year-end 2015 amounted to 2.0 percent, is no longer on the list.

Price trend, January 2 – December 30, 2016



Source: SIX / Fidessa

Total return, May 17, 2002 – December 30, 2016



Source: SIX

Ownership distribution by size at December 30, 2016

	No. of share-holders	No. of share-holders, %	No. of shares	Holding, %
1 – 500	24,909	69.5	3,968,781	1.0
501 – 1,000	4,719	13.2	3,912,974	0.9
1,001 – 5,000	4,454	12.4	10,335,018	2.5
5,001 – 10,000	669	1.9	5,001,807	1.2
10,001 – 20,000	375	1.0	5,589,972	1.3
20,001 – 50,000	312	0.9	10,208,699	2.4
50,001 –	402	1.1	380,439,064	90.7
Total number of shareholders	**35,840**		**419,456,315**	

Source: Euroclear

Ownership categories at December 30, 2016

	No. of shares	Holding, %
Financial companies	104 258 015	24.8
Other financial companies	12 957 335	3.1
Social insurance funds	7 992 054	1.9
Government	414 274	0.1
Municipal sector	38 906	0.0
Trade organizations	4 739 921	1.1
Other Swedish legal entities	8 457 626	2.0
Shareholders domiciled abroad (legal entities and individuals)	255 813 626	61
Swedish individuals	22 889 319	5.5
Uncategorized legal entities	1 895 239	0.5

Source: Euroclear

Data per share

	2016	2015	2014	2013	2012
Share price at year-end, SEK	150.80	155.00	148.30	165.00	135.30
Highest paid, SEK	154.40	176.90	187.00	167.00	146.50
Lowest paid, SEK	121.30	126.10	138.70	133.00	110.40
Shareholders' equity, SEK	48.34	43.92	41.01	38.53	34.46
Earnings per share	5.46	9.15	7.02	7.22	7.64
Dividend, SEK	4.25[1]	4.25	4.00	3.75	3.50
Free cash flow, SEK [2]	9.97	12.25	-23.48	7.82	0.78
Price change during the year, %	-3	5	-10	22	4
Dividend as % of EPS, %	77.8	46.0	57.0	51.9	45.8
Direct return, % [3]	2.8	2.7	2.7	2.3	2.6
Share price/shareholders' equity, multiple	3.1	3.5	3.6	4.3	3.9
P/E ratio [4]	28	17	21	23	18
No. of shareholders	35,840	37,097	40,505	36,212	34,629

Source: SIX / Nasdaq Stockholm

[1] Board proposal to the Annual General Meeting.
[2] Free cash flow is the sum of cash flow from operating and investing activities.
[3] Measured as the proposed dividend in relation to closing price on the last trading day.
[4] Closing price on the last trading day in relation to earnings per share.

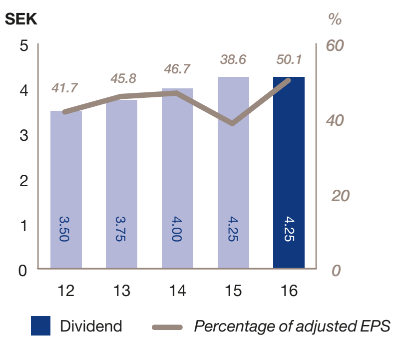
Ten largest shareholders at December 30, 2016*

	No. of shares	Capital/voting rights, %	Change in holding in 2016, percentage points
Tetra Laval BV	122,037,736	29.1%	3.0
Alecta	30,109,962	7.2%	0.9
Swedbank Robur Funds	22,750,646	5.4%	-1.1
AMF Insurance and Funds	21,795,454	5.2%	+/- 0
Foundation Asset Managment	12,550,000	3.0%	-3
Fourth Swedish Pension Insurance Fund	6,551,772	1.6%	0.3
Folksam	3,033,424	0.7%	+/- 0
SEB Investment Management	2,845,295	0.7%	-0.8
SPP Funds	2,629,962	0.6%	+/- 0
Nordea Investment Funds	2,240,493	0.5%	-1.3
Total ten largest shareholders	**226,544,744**	**54.0%**	

* The table is adjusted for custodian banks. Were they to be included, they would represent a total holding of 11.09 percent.

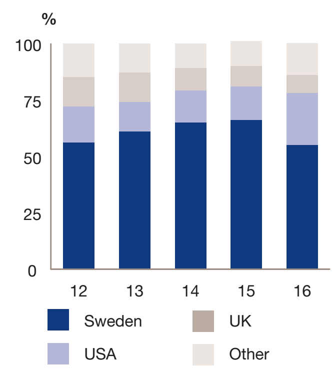
Source: Euroclear

Dividend and percentage of adjusted EPS**



*Board proposal to the Annual General Meeting.
**Adjusted for step up amortization net of taxes.

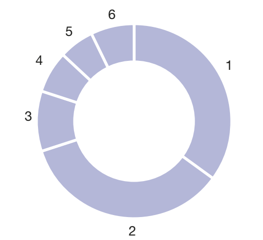
Geographic distribution of the free float, % of capital and voting rights



Excluding Tetra Laval (Netherlands) 29.1%.

Source: Euroclear

Share turnover on various marketplaces



1	Nasdaq OMX	35%
2	BATS	35%
3	Turquoise	10%
4	London Stock Exchange	7%
5	BOAT	6%
6	Other	7%

Source: Fidessa

Research and development

In a competitive world with continuously changing customer preferences, investments in research and development (R&D) are crucial to success. The ability to respond to new demands and changing needs by offering new product designs and an updated offering is what ultimately enables companies to boost their competitiveness, capture market shares and improve their profitability.

Alfa Laval has always been characterized by a focus on continuous development. Since 1883, the company has developed numerous new products and worked steadily to implement these in a growing number of applications and industries. However, Alfa Laval's definition of innovation goes beyond this: "People creating and implementing new ideas that create value."

Inspiration is all around us – customers who express new needs, new legislation, experimenting with new manufacturing materials, other companies, new market trends and new production technologies, to name only a few examples. It does not necessarily need to result in new products or even upgraded versions of existing ones. It can just as well be about finding new ways to do business, new production methods or new features that can change the overall customer experience, such as the addition of service packages. Alfa Laval's fundamental belief is that everything can be developed and improved, and all initiatives are carried out with the aim of staying a step ahead of the competition and remaining the customer's first choice for new equipment, spare parts and service.

Strict requirements in the R&D process

Alfa Laval conducts R&D at some 20 product centers and has more than 500 dedicated employees who help to ensure that the company's offering remains on the cutting edge. Every year, between 2 and 2.5 percent of the company's sales are invested in R&D, resulting in the launch of some 35 to 40 new products. It all starts with an idea – or rather, several ideas contributed not only by the R&D organization itself but also by the sales and aftermarket organizations, whose frequent customer contact provides useful insight into emerging needs and trends. What follows next is a clearly defined process, with ongoing reconciliation and analysis, which explains why only a few of the original ideas make it all the way through to launch. In other words, the difficult part is not finding inspiration, but rather assessing the potential of these new ideas, creating strong products and launching them effectively.

The organization uses various indicators to gauge its results. One such indicator is the percentage of sales attributable to products launched within the past five years; another is the amount of time it takes to recover the total project cost and generate the same amount as a gross margin. R&D is crucial and it is vital that the company take a strict approach and only allow projects with the very best potential to go all the way.

Patents protect the company's business

Investments in R&D are not free, which is why it is important to ensure that the revenue generated by a new invention remains within the company. Alfa Laval's patent department is responsible for protecting and defending the company's technologies and business. Every year, the company adds between 35 and 70 new patent applications, ensuring that the percentage of the company's portfolio that is patent protected increases continuously. At year-end 2016, Alfa Laval had more than 2,500 patents in its portfolio. This is an important part of the company's work to ensure profitable growth.

Products launched during the year

Alfa Laval LKH Prime and Alfa Laval LKH Prime UltraPure

The Alfa Laval LKH Prime Pump sets a new standard in self-priming pump technology. Based on the market-leading Alfa Laval LKH pump range, it is a versatile, efficient self-priming pump that uses a combination of air-screw technology and advanced design to meet the most stringent standards and hygiene requirements in the food, dairy, beverage, hygiene product and home care industries. Its superior efficiency results in reduced energy consumption. Together with the fact that it is based on the market-leading LKH pump range, this delivers a low cost of ownership and increased uptime. The pump is also available in the UltraPure model, which is designed to meet the needs of customers in the pharmaceutical industry.

Three technologies with world-leading positions

Alfa Laval's operations are based on three key technologies – heat transfer, separation and fluid handling – which play a crucial role in a number of industrial processes. In 2016, heat transfer products accounted for 44 percent of sales, separation products for 19 percent and fluid handling products for 24 percent. Alfa Laval commands a world-leading position in all three areas.

Heat transfer

Coolest attraction in Paris

Every year, nearly ten million people visit the Louvre in Paris to marvel at iconic works of art such as the Mona Lisa and Venus de Milo. What they don't see is the elaborate cooling system that ensures these priceless masterpieces can be enjoyed in comfort.

Heat transfer

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. This opens the door to a wide range of industries – from food production and petrochemical operations to creating a comfortable indoor climate, to name only a few examples.

Efficient energy use

Heat exchangers transfer heat or cooling, often from one liquid to another. The main product in Alfa Laval's offering – the compact plate heat exchanger – is more efficient than alternative technologies, allowing it to play a crucial role in boosting the overall efficiency of the customer's manufacturing process. Energy efficiency reduces not only costs but also the impact on the environment. Plate heat exchangers are made up of a series of plates assembled closely to each other. Between these plates run two channels containing media at different temperatures – often liquids. These flow on either side of the thin plates and in opposite directions to each other, resulting in a transfer of heating or cooling.

A broad offering

There are different types of plate heat exchangers – gasketed, brazed and welded – each designed to withstand different pressure and temperature levels. Alfa Laval's offering also includes air heat exchangers, spiral heat exchangers, shell-and-tube heat exchangers, thermal fluid systems and boilers, to name only a few examples. With the industry's broadest product portfolio, Alfa Laval offers efficient, compact products – that are easy to service and maintain – for nearly all industries worldwide.

With one of the world's greatest art collections, the Louvre's air conditioning is far from its main attraction. But this iconic building in the heart of the French capital is cooled by one of the world's largest district cooling systems. In fact, the 52 km underground network, which snakes beneath the city's historic center, serves over 500 buildings. In addition to the Louvre, this also includes other famous landmarks such as the Paris Opera, the Forum de Halles, the Banque de France, the Galleries Lafayette and the Ritz Hotel.

The basic concept behind the district cooling system is that one central source supplies multiple buildings. This offers a number of advantages over individual air conditioning systems, particularly for a city like Paris, where many of the buildings have significant historical and architectural value that prohibits the installation of air-conditioning units. Having one central source also frees up space, which is another significant benefit. Furthermore, the district cooling system reduces energy consumption and environmental impact.

It is estimated that a typical building using the system creates 20 percent lower CO_2 emissions and 30 percent less refrigerant leakage compared with an individual air conditioning system.

Each building is served by a fully automated delivery substation, which is connected to a network of six district cooling plants. All six plants are located underground, and three of them use water taken directly from the River Seine. The other three use a cooling tower for refrigeration and are used only during the summer when demand peaks. It is estimated that using river water saves some 500,000 cubic meters of drinking water every year.

The river water is pumped into the station and filtered to remove foreign objects before passing through a heat exchanger in the cooling liquid circuit. The cooling liquid then passes through a refrigeration unit containing a condenser and evaporator, which chills the water in the air-conditioning circuit. The water is then pumped away to the individual clients.

Initially, Climespace – the company behind the system – used different heat exchangers in each substation, but it was soon realized that it would be more efficient to use one supplier. And so the company signed a three-year contract with Alfa Laval to supply plate heat exchangers for 100 substations. Shortly afterwards, the partnership expanded when Climespace decided to find a supplier that could develop a standardized concept and offer complete substation units rather than just heat exchangers. Together with French system builders BBS, Alfa Laval has been able to offer a total concept from the supply of new equipment to installation and maintenance.

"Over the years, Alfa Laval has become a true partner and has contributed, thanks to its expertise and technology, to the performance of the Climespace energy network, which is the first district cooling system in Europe and one of the biggest in the world," says Jean Levezac, Head of Cluster Connections/Substations at Climespace Engineering.

Paris's district cooling system is one of the largest of its kind in the world and services over 500 buildings including:

Museums:
– The Louvre
– Musée d'Orsay
– Musée du quai Branly
– Musée Grévin
– Salle Pleyel
– Cité de la Musique
– La Philharmonie

Palaces:
– Péninsula
– Le Meurice
– Le Bristol
– Le Ritz
– Plazza Athénée
– Le Georges V

Corporate head offices:
– AXA
– BNP
– Natixis
– Gecina

Shopping centers:
– Beaugrenelle
– Galeries Lafayette

Government buildings:
– Ministry of Defense
– National Assembly

Market segments

- Industrial Equipment
- OEM
- Sanitary
- Marine & Diesel Equipment
- Marine & Offshore Systems
- Marine & Offshore Pumping Systems
- Food & Life Science
- Water & Waste Treatment
- Energy & Process

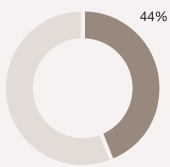
Competitors

- Kelvion (Germany)
- HISAKA (Japan)
- SPX FLOW/APV (USA)
- SWEP (USA)
- KANGRIM (Korea)
- SAACKE (Germany)
- MIURA (Japan)
- HEATMASTER (Netherlands)
- OSAKA (Japan)

Market position

More than 30 percent of the world market

Sales



Share of Group sales

Separation

China's brown gold

Used in Chinese cuisine for more than 2,000 years, soy sauce is still made today according to a time-honored process. But in the space of just four years, many leading soy sauce producers in China have started to scrap traditional methods and switch to modern equipment from Alfa Laval. The result has been more efficient production and improved product quality.

Separation

Separators have been included in the company's offering since the start in 1883 and remain a central part of its operations today. With a high degree of precision and reliability, Alfa Laval's products are used to separate liquids, solid particles and gases from one another in a number of industries.

High-speed separators and decanter centrifuges

Alfa Laval's separation products are dominated by high-speed separators and decanter centrifuges. Separators have high rotation speeds, are generally mounted vertically and can separate small particles from liquids and gases.

Decanter centrifuges are normally mounted horizontally, operate at lower speeds and are used to separate larger particles from liquids. They are used, for example, in the dewatering of sludge in wastewater treatment plants. Other separation products include membrane filters, which are the established solution for separating very small particles, and belt filter presses, which are used for mechanical dewatering, mainly of municipal wastewater.

Key role in a number of processes

Separators and decanter centrifuges play a crucial role in numerous industrial processes, such as:

- food, pharmaceutical, bioengineering, chemical and petrochemical processes
- extraction and production of crude oil, and treatment and recovery of drilling mud
- handling and treatment of fuel and lubricants aboard vessels and at diesel/gas power plants
- dewatering of sludge and treatment of process water in private and municipal facilities

The mild scent of soy sauce hangs in the air outside Guangdong Meiweixian Flavouring Foods' factory in the southern Chinese city of Zhongshan, reminding the visitor that this is the soy sauce capital of the world.

The liquid seasoning is made from a fermented paste of boiled soybeans, wheat, brine and molds. It was originally invented in China sometime around the 5th century BC, and is used in place of salt in East and Southeast Asian cuisines, both for cooking and as a condiment. It is also increasingly seen on dining tables in the Western world.

China is the world's leading soy sauce producing country with an annual production volume of approximately 5 million tons – more than half of the world's total production. While many other industries in China have been modernized through the introduction of advanced equipment, soy sauce production remains very traditional and labor-intensive. For example, after fermentation – which can take up to six months – the sauce needs to be filtered, but the filtration process is still carried out by hand, which can pose food hygiene problems.

A few years ago, Alfa Laval realized that its high-speed separators, sterilizers and evaporators – which are used extensively for wine, tea, coffee, juice and dairy production – could also modernize the soy industry. As with these other foodstuffs, there was potential for soy sauce to be made in a more cost-efficient way, and for product quality to be improved.

A team from Alfa Laval in Shanghai contacted leading soy sauce producers to spread the word about the benefits of introducing high-speed separators to soy sauce production. There was initially some resistance, as the soy sauce industry is highly traditional. Also, the technology had not been tested commercially for soy sauce applications, and Alfa Laval – despite being a world leader in the food and beverage industry – was largely unknown in the Chinese soy sauce business. So field tests were carried out with small separators at a number of potential customers' sites. These tests showed that Alfa Laval separators offer significant savings in manpower. With traditional soy sauce production, between three and five people are needed per machine; with Alfa Laval separators, one worker can supervise up to four machines. The Alfa Laval equipment also takes less space in the factory, reduces the processing time, and is easier to clean than existing equipment. And then there are considerable quality benefits since Alfa Laval's separators meet stringent food hygiene standards, unlike the existing equipment used, which is often not designed specifically for food use.

One early challenge Alfa Laval had to overcome in adapting its technology to soy sauce production was finding the right material for its equipment. Normally, stainless steel is used to manufacture the high-speed separators for wine, tea and juice, but it would not work for soy sauce since the separators and sterilizers would corrode in just a few months.

Soy sauce is a very special product. The low pH value – about 4.5 to 5.5 – combined with high temperatures and a high salt content – 18 to 22 percent – make the working conditions for the machines very tough. So material specialists at an Alfa Laval center in Sweden tested different varieties of soy sauce supplied by Chinese manufacturers with many different materials. Today, the AlfaVap evaporators for soy sauce feature titanium plates, while the separators are made with specially developed anti-corrosion materials.

Meiweixian became an Alfa Laval customer in August 2012, when it took delivery of the first high-speed separator at its factory in Zhongshan, and followed this up a year later with an order for AlfaVap.

"Our products are regarded as high-quality, and that is why we need to have a high standard of equipment in our factory," says the head of production technology at Meiweixian. "We are still testing, but we believe that the separator can substantially improve our products, especially within the filtration area. Traditional filtration with sediment tanks leaves a lot of sludge."

Word has spread quickly about the benefits offered by Alfa Laval equipment. By June 2013, seven of the top ten soy sauce producers in China were using Alfa Laval technology. Besides Meiweixian, current customers include Foshan Haitian, Lee Kum Kee, Yantai Shinho, Nestlé Maggi, Heinz Foodstar, Hengshun, and Pearl River Bridge. In just four years, Alfa Laval's soy sauce equipment business grew substantially.

The experience of the Chinese soy sauce industry and its switch to modern solutions shows that even with processes that have been tweaked and refined for many centuries, there is always room for improvement.

Market segments

- ◉ Industrial Equipment
- ◉ OEM
- ◉ Sanitary
- ◉ Marine & Diesel Equipment
- ○ Marine & Offshore Systems
- ○ Marine & Offshore Pumping Systems
- ◉ Food & Life Science
- ◉ Water & Waste Treatment
- ◉ Energy & Process

Competitors

Separators

- GEA (Germany)
- MITSUBISHI KAKOKI KAISHA (Japan)
- PIERALISI (Italy)
- SPX FLOW/Seital (USA)

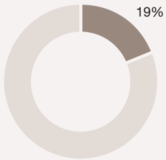
Decanters

- GEA (Germany)
- GUINARD/ANDRITZ (France, Austria)
- Flottweg (Germany)
- PIERALISI (Italy)

Market position

25 to 30 percent of the world market

Sales



Share of Group sales

Fluid handling

Environmental rescue beneath the waves

While sunken shipwrecks might evoke thoughts of gold bullion, drama and mystery, the reality is that what lies on the seabed is more likely to be an environmental threat than a treasure trove.

Fluid handling

The transportation and regulation of fluids in an efficient and safe manner is crucial to many industries. Alfa Laval focuses on fluid handling products, such as pumps and valves, for industries with stringent hygiene requirements and on pumping systems for the marine industry and the offshore market.

Efficient and precise
The company's pumps, valves and installation material are used in production processes with strict hygiene requirements, such as the production of beverages, dairy products, food and pharmaceuticals. Pumps drive the flow of liquids while valves are used to guide the flow by opening and closing. For hygienic applications, Alfa Laval mainly offers centrifugal, liquid ring and rotary lobe pumps. The most common types of valves include control valves, constant-pressure valves, butterfly valves and diaphragm valves. The offering also includes hygienic tank equipment ranging from mixers to cleaning equipment. Mixers can be used to mix both high and low-viscosity fluids, such as milk, wine, juice, yoghurt, desserts and fruit drinks.

For the marine sector, Alfa Laval offers submerged, hydraulic pumping systems for product and chemical tankers. These systems enable safe and flexible load handling, which results in less time in port and fewer journeys without commercial loads. For the offshore industry, the offering includes pumping systems for collecting sea water, water injection in drill holes and fire extinguishing, which contribute to safe and efficient operation.

The fuel oil aboard Second World War wrecks lying off the Norwegian coast poses a major hazard to local marine life, but a specialized pumping system from Framo has been developed to safely and remotely remove these toxic substances.

Norwegian coastal authorities have classified 30 shipwrecks, of German, UK and Norwegian origin that have been buried since 1940–1945, the period of the nation's wartime occupation.

Constructed and operated during an era of coal-based fuel oils, the metal of the vessels' structures may corrode and oil and fuel leak out as the years pass. International coastal agencies, national coastal authorities and marine ecologists have long sought solutions to this growing toxic threat.

There is, however, no simple fix to this widespread problem. Norway's waters are deep – and rugged, and cold. In the past, divers had the painstakingly slow, risky and costly task of offloading these vessels. But today the exposure risk for divers, both to the frigid water and to the leaking toxins near the wreck, is judged to be too high, while regulations anyway limit air dives to 30–50 meters. There is also the threat of undetonated explosives in the vessels' cargo.

Framo's Remote Offloading of Sunken vessels (ROLS) system, which entered development in the 1990s, finally offers a safer and more cost-effective solution, with no need for divers. A slim, maneuverable remote operated vehicle is navigated down to the wreck, where it drills through the side of the vessel and empties the tanks of the hazardous fuel oil and cargo. The waste is then disposed of onshore according to regulations.

The company, with its extensive marine experience, and globally trusted brand of submersible pumps, has successfully carried out 16 operations for the Norwegian Coastal Authority and others. There have been five additional successful operations conducted with the latest generation ROLS XO system, following its debut in 2012.

As a result of a serious incident in 1977, Norway has the world's strictest regulations on oil spill contingency and is considered a world leader in oil spill prevention and response. The Norwegian Oil Spill Control Association (Nosca), of which Framo is a member, brings together the private sector, R&D institutions and government pollution control authorities to develop equipment and contingency planning for oil spill emergencies.

In June 2015, the sunken Second World War vessel Eric Giese was emptied of oil. It was the last of four vessels in the Narvik/Lofoten area to be made safe under Framo's contract with the Norwegian coastal administration.

"Our new ROLS XO has proven to be a unique tool for recovering oil from sunken vessels," says Terje Ljones, Sales Manager, Oil Recovery Systems at Framo. "We can never completely safeguard ourselves from oil spills, but with our innovative solutions and continuous refining of our products, Framo has proven to be prepared for any challenge."

Market segments

- ○ Industrial Equipment
- ○ OEM
- ◉ Sanitary
- ◉ Marine & Diesel Equipment
- ○ Marine & Offshore Systems
- ◉ Marine & Offshore Pumping Systems
- ◉ Food & Life Science
- ○ Water & Waste Treatment
- ○ Energy & Process

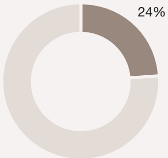
Competitors

- GEA (Germany)
- SPX FLOW/APV/Waukesha Cherry-Burrell (USA)
- Fristam (Germany)
- Hamworthy/WÄRTSILÄ (Finland)
- SULZER (Switzerland)

Market position

10 to 12 percent of the world market

Sales



Share of Group sales

Customer focus

Realizing Alfa Laval's business concept – "to optimize the performance of our customers' processes, time and time again" – requires a structure that provides in-depth understanding and knowledge of customers' purchasing behavior, needs and processes. It was on this foundation that Alfa Laval's three sales divisions – Equipment, Process Technology and Marine & Diesel – were established. The company's sales divisions are supported by the Operations Division, the Group's shared supply chain with responsibility for production-related procurement, manufacturing, logistics and distribution.

Equipment

Business model
Equipment focuses on component sales to customers with a well-defined and regularly recurring need for Alfa Laval's products.

Sales
Sales are primarily conducted through system builders and contracting companies as well as dealers, agents and distributors, a network that is continuously expanded since it is vital to have a local presence close to the customer and be able to quickly offer what they need. This focus on availability through multiple channels – both geographic and industry-specific – is indispensable when it comes to component-based sales. It also explains the company's strategy to gradually expand its e-commerce business.

Segments:
- Sanitary
- Industrial Equipment
- OEM
- Service

Share of Group's order intake 33%

Aftermarket's share of the division 18%

Read more on pages 28–29

Process Technology

Business model
Process Technology's target group includes customers that require customized solutions in the areas of heat transfer, separation or fluid handling in order to enhance the efficiency of their processes and boost their capacity. Since in-depth knowledge about customers' industrial processes is a critical success factor, Alfa Laval focuses on specific industries and application areas.

Sales
Sales are mainly conducted through the Group's own sales organization and external contracting companies and are made directly to customers. The division combines expertise in its key technologies with solid knowledge about customer processes, and offers package solutions that cover everything from individual products to systems, complete solutions and efficient customer service.

Segments:
- Energy & Process
- Water & Waste Treatment
- Food & Life Science
- Service

Share of Group's order intake 39%

Aftermarket's share of the division 38%

Read more on pages 30–31

Marine & Diesel

Business model
The division offers products, solutions and systems in the areas of energy, the environment and safety for customers in the marine industry, the offshore sector and land-based diesel power.

Sales
Sales are conducted by the Group's own sales organization and are made directly to ship owners, shipyards, manufacturers of diesel engines and offshore customers. The offering includes various main product groups comprising components, modules, adapted systems, boilers, separators, heat exchangers, pumping systems, inert gas systems, freshwater generators, exhaust gas cleaning systems, heat recovery systems and ballast water treatment systems.

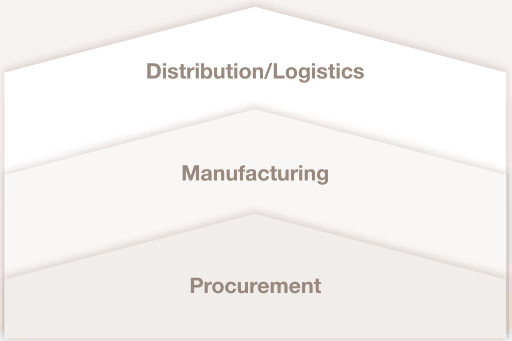
Segments:
- Marine & Diesel Equipment
- Marine & Offshore Systems
- Marine & Offshore Pumping Systems
- Service

Share of Group's order intake 28%

Aftermarket's share of the division 44%

Read more on pages 32–33

Operations



Operations is the Group's shared supply chain and its task is to deliver the orders secured by the three sales divisions. In other words, the division is a centralized unit with responsibility for production-related procurement, manufacturing and distribution. It is crucial that Alfa Laval delivers the right product with the right quality and the right documentation at the right time. This means that Operations plays a pivotal role in ensuring that the Group is able to keep its promise to its customers and fulfil its business concept. Read more on pages 34–35.

Equipment Division

The Equipment Division's business comprises fast-moving, repetitive component sales to customers characterized by a well-defined and regularly recurring need for Alfa Laval's products. In most cases, sales are conducted through system builders and contracting companies as well as dealers, agents and distributors – direct sales to end-customers are limited. The Equipment Division continuously increases its number of sales channels, since it is strategically important that its products are readily available worldwide. Given this focus, it is natural that the division also strives to continuously develop and strengthen its e-commerce offering.

Susanne Pahlén Åklundh
President, Equipment Division

Significant events in 2016

– The Equipment Division experienced continued stable growth in a number of strategically important areas – such as products for food manufacturing and cold chains – although the order volume for the division as a whole remained largely unchanged.

– The Anytime e-commerce platform was gradually made available to a growing number of customers worldwide. Significant growth was noted in Western Europe and the US, where the platform has been established for a number of years, and at year-end, e-commerce accounted for as much as 50 percent of the transactions carried out. At the same time, the platform was also rolled out in a number of countries in Latin America and Central and Eastern Europe. The geographic expansion will continue in 2017.

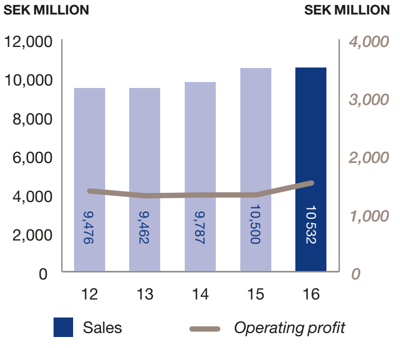
– Investments in logistics for cold chains increased during the year, which had a positive impact on demand for parts of the Industrial Equipment product range. However, investments in data centers – and thus the need for data center cooling – declined compared with earlier years.

– Sanitary continued to deliver favorable results during the year, with a positive performance in the areas of food, dairy products, pharmaceuticals and personal care products.

– OEM experienced favorable demand for brazed heat exchangers from suppliers of air conditioning units, boilers and heat pumps. However, demand for heat exchangers for the cooling of vehicle engines in the mining industry was weaker than in the preceding year.

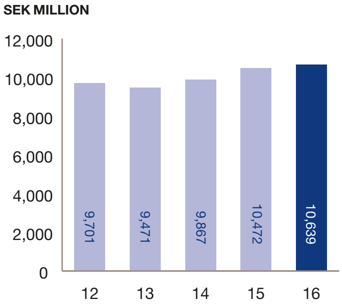
– Service ended the year at an unchanged level, with growth for the aftermarket in the Sanitary segment and slight decline in Industrial Equipment due to weaker demand from customers in the manufacturing industry.

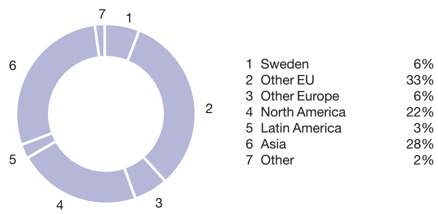
Sales and operating profit



* Restated to IFRS 11.

Order intake





* Restated to IFRS 11.

Industrial Equipment

Operations
Sales comprise heat exchangers for district heating and cooling, air conditioning of plants, offices and shopping malls, and cooling and freezing solutions for the food, beverage and pharmaceutical industries, as well as supermarkets. In addition, the segment's customers are active in the manufacturing industries to which Alfa Laval sells heat exchangers and separators for temperature regulation and/or cleaning of liquids to enable their reuse, thus lowering operating costs and protecting the environment.

Forces driving demand
Activity levels in the construction industry, energy price trends, the need for energy-efficient solutions, the shift toward demand for more environmentally friendly cooling media, environmental legislation, industry capacity utilization, commodity and energy price trends, increased environmental focus and expansion of power supply.

Order intake	Share of division's order intake	29%	Change in order intake*	− 2016	− 2015	= 2014

Sanitary

Operations
Alfa Laval's products are used to produce liquid and viscous foods, pharmaceuticals and hygiene products. Customers are active in the beverage, dairy, food and biotechnology industries, all of which have stringent requirements in terms of hygiene and safety.

Forces driving demand
Changes in consumption habits as a result of urbanization in growing economies, the development of new medicines, a higher standard of living, demographic changes, the need for energy-efficient solutions, expanded food production and a higher percentage of women in the workforce.

Order intake	Share of division's order intake	37%	Change in order intake*	+ 2016	= 2015	= 2014

OEM

Operations
OEM specializes in delivering products, such as brazed heat exchangers, to customers that integrate them into their end products. Customers include manufacturers of air conditioning systems, air compressors, heat pumps, air dryers and gas boilers.

Forces driving demand
Increased focus on the environment, the need for energy-efficient solutions, government subsidies and energy price trends.

Order intake	Share of division's order intake	16%	Change in order intake*	= 2016	= 2015	= 2014

Service

Operations
Customers are active in all of the division's segments, with the exception of OEM. The aftermarket is a priority area and the overall strategy is to further develop and expand the spare parts and service operations. Read more on pages 36–37.

Forces driving demand
The industrial capacity utilization rate and growth in the installed base.

Order intake	Share of division's order intake	18%	Change in order intake*	= 2016	= 2015	= 2014

*At constant rates.

Process Technology Division

This division serves customers that require customized solutions to enhance the efficiency of their processes or boost their capacity. Sales are mainly conducted through the Group's own sales companies as well as contracting companies, and are made directly to customers. Alfa Laval combines expertise in its key technologies with solid knowledge about customer processes, and offers package solutions that cover everything from individual products to systems, complete solutions and efficient customer service.

Svante Karlsson
President, Process Technology Division

Significant events in 2016

The year was characterized by a weak oil and gas sector, where a cautious attitude toward investments resulted in fewer larger projects. However, the area of the business with a downstream focus recovered slightly, which had a positive impact on demand for heat exchangers. The division's initiatives related to industrial waste also generated positive results.

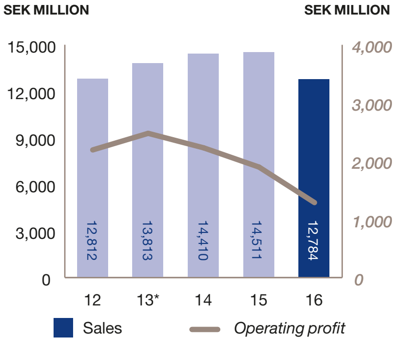
– Energy & Process was impacted by the weak trend in the oil and gas sector. The entire hydrocarbon supply chain was characterized by a wait-and-see approach to capacity investments in the wake of a low oil price. However, demand remained stable in the area of the business focused on inorganic materials, metals and paper, and the order intake from the power sector was also stable.

– Food & Life Science reported a lower order intake compared with the preceding year due to large nonrecurring orders. Life Science saw a marginally positive trend and a favorable activity level was also noted among breweries with respect to both craft breweries and major capacity investments. The order intake for gasketed heat exchangers was successful and industrial solutions for the food industry represented another strong area.

– Water & Waste Treatment reported a positive development, not least in the important US and Asian markets. Alfa Laval's locally produced decanter centrifuges, specially manufactured for the Chinese market, contributed to the positive trend.

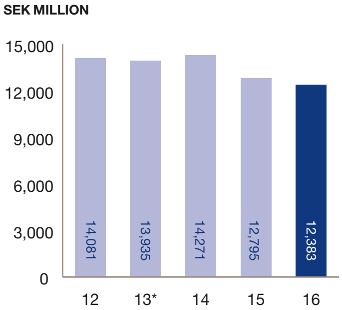
– Despite a decline in areas of the hydrocarbon supply chain, Service grew thanks to a strong performance in Food and Waste Water. Proactive initiatives aimed at increasing the share of service in the aftermarket business continued to yield results. Further support came from the addition of new service centers.

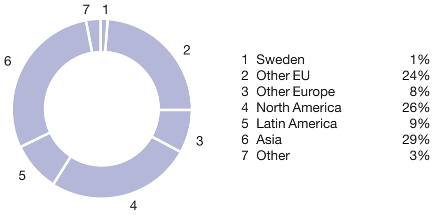
Sales and operating profit



* Restated to IFRS 11.

Order intake





* Restated to IFRS 11.

Energy & Process

Operations
Alfa Laval's products, modules and systems play a major role in oil and gas extraction as well as power production. They can also be used in the manufacturing of petrochemical products, plastics, polymers, metals, minerals, biofuels, pharmaceuticals, starch, paper, sugar and much more.

Forces driving demand
Global market prices for raw materials, such as oil, sugar, ethanol, corn, gas and steel. Energy prices, environmental legislation, the need for energy-efficient solutions, the need for productivity enhancements, demand for fuel and technological shifts. A growing need for energy in developing countries, aspirations of national energy independence and the expansion of energy production to include renewable fuels are some of the factors driving demand.

Order intake | Share of division's order intake 32% | Change in order intake* − 2016 − 2015 = 2014

Water & Waste Treatment

Operations
Alfa Laval offers products that can help customers fulfill increasingly strict legislation and environmental requirements. For example, the company supplies decanter centrifuges for the dewatering of sludge in municipal treatment plants across the world.

Forces driving demand
New rules and regulations, increased need for freshwater due to a growing population and increased urbanization.

Order intake | Share of division's order intake 5% | Change in order intake* + 2016 + 2015 − 2014

Food & Life Science

Operations
Alfa Laval supplies process solutions for the beverage and food industries, as well as the life science sector. The Group's solutions are for example used in the production of beer, wine, juice, fruit concentrates, pharmaceuticals, food ingredients, milk proteins, sugar, semi-processed foods, vegetable/olive oil, and meat and fish proteins.

Forces driving demand
Demographic changes, population growth, higher standard of living, changes in consumption patterns, a growing percentage of women in the workforce, increased focus on healthy food, subsidies and raw material price trends.

Order intake | Share of division's order intake 25% | Change in order intake* − 2016 + 2015 − 2014

Service

Operations
Customers are active in all of the division's segments. The aftermarket is a priority area and the overall strategy is to develop and expand the spare parts and service business, which offers customer value, brings customers closer to Alfa Laval and is less sensitive to variations in the business cycle. By creating continuous customer contacts, the division facilitates new sales. Read more on pages 36–37.

Forces driving demand
The general activity level in various industries, the need to upgrade older equipment, an increased need for efficiency, and the need for service and spare parts to prevent unplanned stoppages and minimize the time necessary for planned stoppages.

Order intake | Share of division's order intake 38% | Change in order intake* + 2016 − 2015 + 2014

*At constant rates.

Marine & Diesel Division

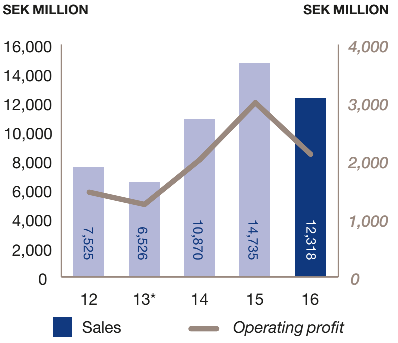
The division has a wide and varied range of products in the areas of energy, the environment and safety for customers in the marine industry, manufacturers of diesel engines and offshore customers. Sales are conducted through the Group's own sales organization directly to customers. The offering includes components, modules and adapted systems, such as boilers, separators, heat exchangers, pumping systems, freshwater generators, exhaust gas cleaning systems, heat recovery systems and ballast water treatment systems. The division also has a well-developed aftermarket organization.

Peter Leifland
President, Marine & Diesel Division

Significant events in 2016

- The general contracting for the new building of ships was at a very low level in 2016, affecting Alfa Laval's order intake throughout the year. The development for tankers and cruise ships, however, gave some support to demand for Alfa Laval's products and systems.
- Despite the generally negative sentiment, there was also positive news as 2016 turned out to be the year of clarity for environmental legislation. The IMO's ratification of the ballast water convention and its decision to fix the 0.5 global cap on sulphur emissions for the year 2020 resulted in increased market activity toward the very end of the year. These are two interesting areas that hold potential for Alfa Laval going forward.
- The offshore market remained at a very low level as the low oil price meant capex investments remained on hold. At the same time, the diesel power market saw a significant pick-up which benefited Alfa Laval.
- Alfa Laval has been a supplier to the marine market for decades and we will continue to develop equipment and systems to support the needs of the shipping industry. In 2017, Alfa Laval will invest in expanding the test facilities for the development of high speed separators – a key product for the marine market.

Sales and operating profit



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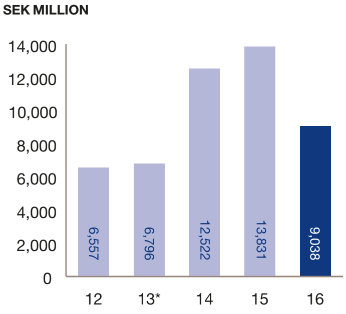
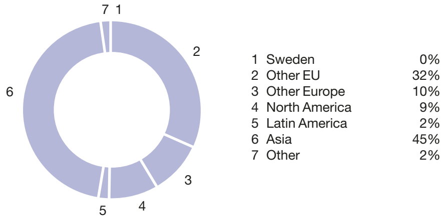
Order intake





* Restated to IFRS 11.

Marine & Diesel Equipment

Operations
The segment supplies shipowners, shipyards and manufacturers of diesel engines with a wide range of products in the areas of energy, the environment and power. The product portfolio includes separators, heat exchangers, freshwater generators, tank cleaning equipment, ballast water treatment systems and much more.

Forces driving demand
Marine: Global transport requirements, consolidation in the shipbuilding industry, government initiatives to support local shipyards, environmental legislation and a focus on energy efficiency.

Diesel: The need for electricity in remote locations, global energy demand and the need for power reserves, for example, for nuclear power plants and wind farms.

Order intake | Share of division's order intake 22% | Change in order intake* − 2016 − 2015 + 2014

Marine & Offshore Systems

Operations
Supplies customers in the marine industry and offshore sector with a number of components, modules and adapted systems aimed at optimizing their processes, saving energy and reducing emissions. The offering includes boilers, inert gas systems, exhaust gas cleaning systems and thermal fluid systems.

Forces driving demand
Global transport requirements, governmental initiatives to support local shipyards, environmental legislation, increased focus on energy efficiency, safety regulations for transporting flammable cargoes, investments in offshore oil and gas exploration, and offshore drilling technology improvements.

Order intake | Share of division's order intake 18% | Change in order intake* − 2016 − 2015 + 2014

Marine & Offshore Pumping Systems

Operations
Supplies customers in the marine industry and offshore sector with pumping systems. For the marine industry, the segment offers submerged pumping systems for optimizing loading and unloading on chemical and product tankers. In offshore oil and gas, it offers pumping systems that contribute to safe and efficient operation. This offering includes pumping systems for fire-extinguishing equipment.

Forces driving demand
Global transportation needs, for example, for refined oil products and chemicals, a growing need among shipowners for solutions that optimize loading and unloading, the expansion of floating production, storage and offloading (FPSO), the trend of refineries located closer to the source, the expansion of shale gas in the US and a general increase in the need for fossil fuels. The need for safety solutions for the offshore market.

Order intake | Share of division's order intake 16% | Change in order intake* − 2016 * 2015 * 2014

* The segment was formed in 2014 and lacks comparable numbers.

Service

Operations
Has a wide offering for the division's customers comprising spare parts, service, repairs, upgrades and replacement products. The network is well developed and ready to help customers whenever and wherever they need assistance. Read more on pages 36–37.

Forces driving demand
Increased trade and capacity utilization in the global shipping fleet.

Order intake | Share of division's order intake 44% | Change in order intake* − 2016 = 2015 + 2014

*At constant rates.

A shared supply chain

Alfa Laval has a Group-wide supply organization known as the Operations Division, which produces and delivers the orders generated by the three sales divisions – Equipment, Process Technology and Marine & Diesel. Operations is responsible for the Group's production-related procurement, manufacturing and distribution and for ensuring that the right product is delivered with the right quality, at the right location, along with the right documentation and with a short lead time. The division is thus an important cog in the Alfa Laval machine and plays a vital role in helping the company meet its commitment to its customers.

With responsibilities ranging from procurement of raw materials to delivery of end products, Operations faces numerous challenges every day. Continuously reviewing the supplier base to ensure that they not only offer favorable prices but also guarantee quality and reliable deliveries as well as meeting sustainability requirements with respect to the environment, health, safety and ethics. Ensuring that Alfa Laval's production operations run smoothly, with a focus on quality, efficiency, cost, capacity utilization and delivery reliability. Continuously working to reduce the company's environmental impact and offer a safe, accident-free workplace. Altogether numerous continuously changing variables, which makes it crucial that the division is able to adapt quickly.

Development a top priority

To ensure an optimized supply chain, a preventive approach is critical. It was for this reason that the division established a unit tasked with handling the various challenges that arise. This unit focuses on three main areas: supply chain, technology and production development. The unit evaluates, initiates and manages changes, from purchasing and production to distribution and logistics. This includes refining procurement processes, developing and testing of new, cost-efficient production technologies and optimizing the flow of materials and information. Numerous projects are carried out over the course of a year, ranging from small minor, rapid adjustments to major structural changes – all to create stable manufacturing processes, which in turn ensure the timely delivery of competitive, high-quality products.

Procurement

Procurement of raw materials involves much more than only price comparisons. It is about continuously improving the entire procurement process, where price is only one of many factors. The goal is to ensure that Alfa Laval gets the absolute best value for every krona it spends on procurement. This is why it is so important that the procurement organization becomes involved early – already during the design and development of new products.

In addition to price, the company must ensure that the freight costs are reasonable, that the supplier is able to guarantee short lead times, that the products delivered are of the right quality and that the supplier complies with Alfa Laval's business principles with respect to the environment, health, safety and ethics. These four factors prompted the development of a platform for supplier audits, based on a global standard that enables uniform and comparable audits.

An efficient, well-conceived procurement process is necessary given that direct materials account for such a large portion of the cost of goods sold – a full 70 percent.

Production units

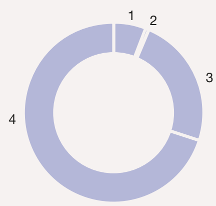
Alfa Laval's production includes 42 major manufacturing units:

- USA (8)
- Brazil (2)
- Sweden (4)
- Norway (3)
- Denmark (3)
- Finland (1)
- Russia (1)
- India (4)
- Korea (2)
- China (3)
- Japan (1)
- UK (1)
- France (5)
- Germany (1)
- Italy (2)
- Poland (1)

Distribution centers

- USA (2)
- Sweden (2)
- Denmark (1)
- China (1)
- Singapore (2)
- Japan (1)
- India (1)
- Netherlands (1)
- Norway (1)

Distribution 2016



1	Air	6%
2	Railway	0.5%
3	Sea	23.5%
4	Road	70%

In other words, it has a major impact on the company's profitability. The direct materials purchased by Alfa Laval include a large portion of metals, such as stainless steel, copper, aluminum and titanium. In addition to metals, the company purchases materials in five other product categories, including cast metal and forged iron, electrical equipment and instruments, gaskets and fasteners.

Manufacturing

Thanks to its Group-wide production, Alfa Laval has created a structure that generates economies of scale and has a stabilizing effect on the company's factory load. The structure is based on technology, product size and production technology. Brazed heat exchangers, for example, are produced in Ronneby (Sweden), Alonte (Italy) and Jiangyin (China), small and medium-sized separators are produced in Krakow (Poland) and Pune (India) and large separators are produced in Eskilstuna (Sweden). This means that all requirements for large separators are handled by the same plant, regardless of whether the separator is intended for a dairy or an application in the processing industry. Since Alfa Laval is exposed to a large number of industries in different phases of the economic cycle, this consolidation enables the individual production unit to meet the total demand from several end markets rather than just one, which creates the conditions for a more consistent load. The structure is also global, with 42 major manufacturing units worldwide. The structure is the result of both practical and cost considerations. There are advantages to having production operations in low-cost regions as well as being able to respond to local demand with local production.

Distribution

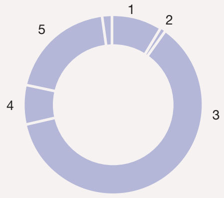
Logistics and distribution include everything from order handling and inventory management to stock picking, delivery and invoicing. These operations are managed at centers located in Sweden, Denmark, Norway, the Netherlands, the US, Singapore, India, Japan and China. The centers process millions of orders every year, comprising several million components and spare parts. They are also responsible for Alfa Laval's overall transport needs, which is an efficient and cost-effective solution. Their work also includes an environmental perspective since the organization looks for environmentally sound transport solutions as part of the Group's sustainability efforts. The Group has made a deliberate choice to transport as little as possible by air in order to reduce its CO_2 emissions from freight. However, it is sometimes difficult for the organization to influence the mode of transport used. The customer may have an urgent need and air transport may be the only possible solution. In 2016, 6 percent of the Group's products were shipped by air, 70 percent by road and 23.5 percent by sea.

Significant events in 2016

- During the year, we continued our efforts to strengthen our competitiveness and delivery capacity in order to better satisfy our customers' needs.
- Our procurement organization continued to perform well, delivering good results when it came to ensuring a reliable supply of materials and components.
- We invested in new capacity and productivity-enhancing equipment for the manufacturing of brazed heat exchangers, boilers, gasketed heat exchangers and valves.
- We continued our ongoing efforts to implement improvements in the areas of health, safety, quality, shorter lead times and lower costs by an improved employee commitment and a focus on Lean Six Sigma and our production systems.

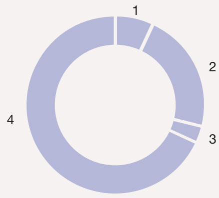
Göran Mathiasson
President, Operations Division

Investments by geographic market, %



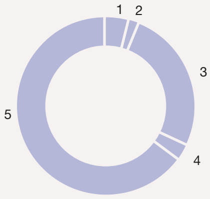
1	North America	9%
2	Latin America	1%
3	Western Europe	63%
4	Central and Eastern Europe	7%
5	Asia	20%

Purchases by geographic market, %



1	North and Latin America	7%
2	Asia	22%
3	Central and Eastern Europe	3%
4	Western Europe	68%

Geographic distribution of direct labor hours in production, %



1	North America	4%
2	Latin America	2%
3	Western Europe	26%
4	Central and Eastern Europe	3%
5	Asia	65%

Alfa Laval throughout the life cycle

Companies aiming to improve their performance and boost their efficiency need to focus on quality, high productivity and strict cost control. Investing in equipment from Alfa Laval is a good start. We are there, ready to help – even after the initial investment – from start-up through operation, offering monitoring, maintenance, reconditioning, spare parts and upgrades. Combining equipment with spare parts and service from Alfa Laval creates a foundation for successful development.

Alfa Laval's service offering is tailored to meet the needs of the individual customer, which vary depending on the industry, application and region in question. The portfolio includes everything from spare parts, basic maintenance and cleaning to upgrades, inspections, online monitoring, round-the-clock technical support, monitoring of spare parts consumption and complete maintenance plans. Signing a service agreement with Alfa Laval allows companies to maximize their operating time and achieve the best possible performance, which helps to keep costs down over time. Adopting a lifelong approach rather than only focusing on the initial investment cost ultimately pays off. And do you know the best part? Alfa Laval takes care of the practical details and lets the customer focus on their core operations.

Assistance close at hand

If an unexpected event still takes place, Alfa Laval is always close at hand – an important criterion for many customers. With service operations in more than 100 countries in the form of service centers, local field service engineers, service partners and/or regional spare parts distribution centers, Alfa Laval offers the best coverage in the sector. Many customers actually consider a company's aftermarket offering to be the most crucial factor when choosing new equipment. Alfa Laval's network grows every year, further strengthening its local support and guaranteeing immediate assistance as well as quick deliveries of spare parts when needed. In 2016, new service centers opened, for example, in Angola, Iran and the US.

A growing installed base

Over the years, Alfa Laval has built up a large installed base of products, generating a growing need for spare parts and service as the products age. A database containing details about the installed base provides a useful tool when it comes to ensuring that sales of spare parts and service are growing in absolute terms. The Group also aims to increase the share of sales attributable to service. To achieve an accurate overview of the Group's performance, internal key performance indicators are used to measure customer coverage as well as the share of the installed base covered by the company's aftermarket offering.

Changed mix in Service

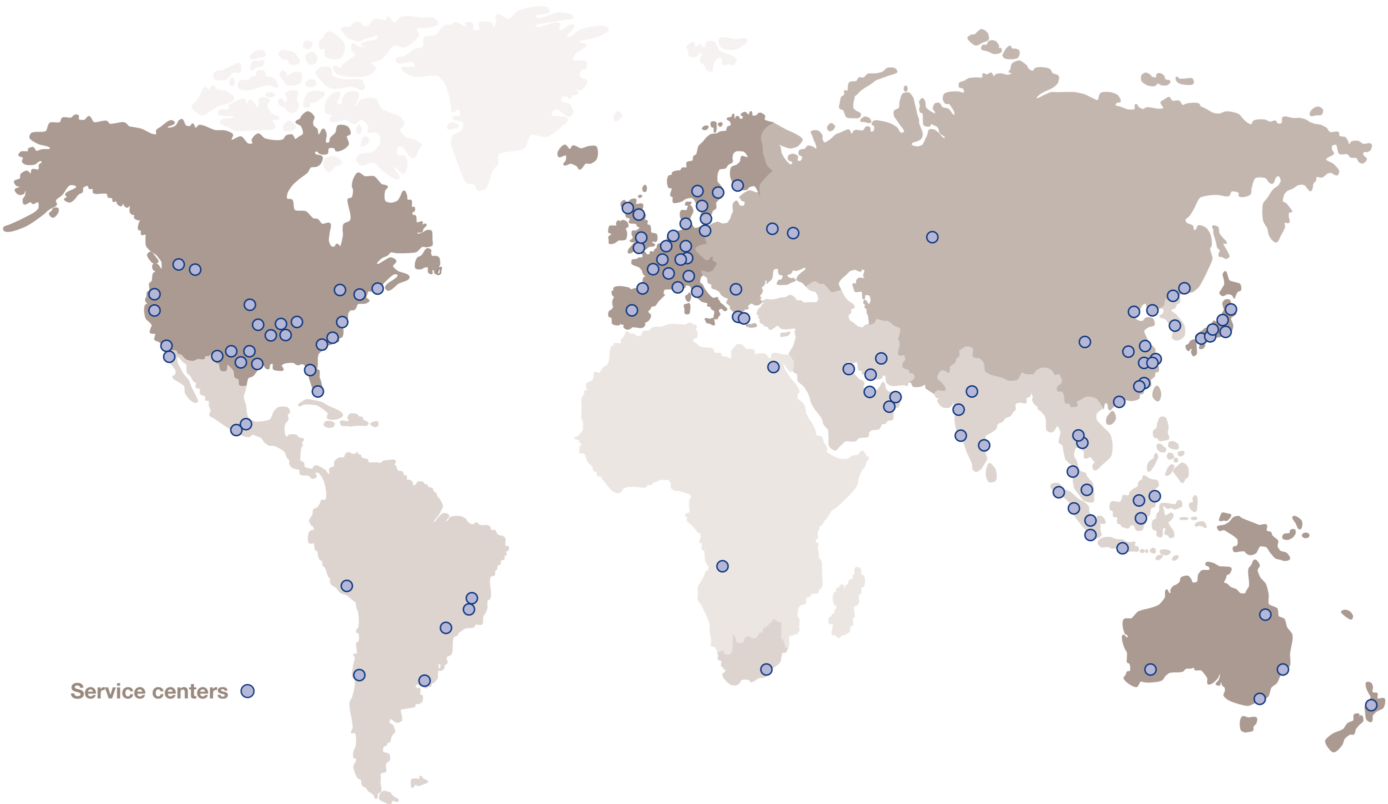
Traditionally, spare parts have accounted for a much larger share of the Group's aftermarket sales than service. However, this has changed somewhat in recent years and service now accounts for a growing share. The explanation is partly structural – a result of the acquisition of Aalborg Industries and Frank Mohn AS, both of which had a larger service share – but it is also the result of activities carried out for the specific purpose of increasing the service share. Today, the distribution for the Group is approximately 70 percent spare parts and 30 percent service.

Service – so much more than the aftermarket

The traditional concept of the aftermarket is simply too narrow to fully reflect the Service segment's activities and offering. Naturally, spare parts and service play a key role, with favorable profitability and limited sensitivity to economic trends, which has a stabilizing effect on invoicing and earnings. But the Service organization is also the area of Alfa Laval with the most frequent customer contact. This means that it can gather information about potential future requirements or signs of new trends, which can be passed on internally to the company's R&D units. Service personnel are also important ambassadors who can help tip the scales when customers are planning their next investment projects after assessing the overall Alfa Laval experience. In other words, the Service organization is there to help keep customers satisfied over the life cycle of the investment.

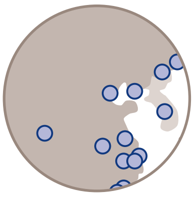
Potential

As previously mentioned, customer demand for spare parts and service varies depending on the type of industry in which the product is used, the type of application, how much and how often the product is used, geographic location and the type of technology involved. Some customers conduct seasonal operations where machinery is only used for a few months of the year; others operate processing plants that run around the clock. Some products are used at the heart of demanding and strenuous industrial processes; others are used in gentler applications where their function is limited to cooling or heating water. There are as many different types of needs as there are customers. This is why Alfa Laval's customized offering is so important since it allows the company to offer customers what they need and want, when they want it – no more and no less.

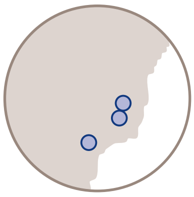


Installed base

Large and mature installed base that needs to be maintained and renewed.

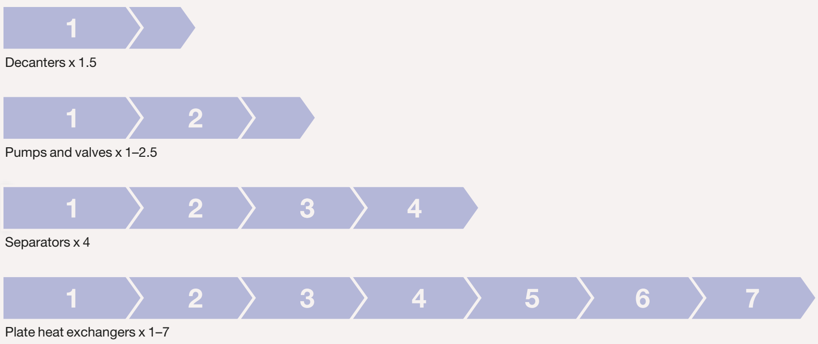


A combination of fast-growing markets and established niche applications.

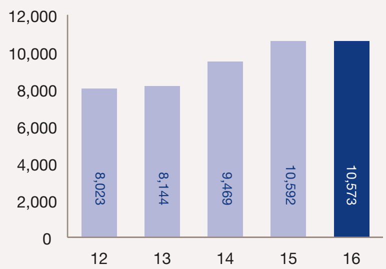


Installed base that is growing rapidly.

Long-term potential – Value of the aftermarket relative to new sales



Order intake, SEK million



Employees

Alfa Laval aims to provide its employees with the right conditions to tackle all of the challenges constantly faced by the Group. A secure and safe workplace is a basic requirement. Ensuring that the workplace is free from discrimination, with career paths open to all employees, is equally important. Finally, the prioritization of professional development is crucial. But it goes even further than this. Alfa Laval is fully dedicated to attracting, developing and retaining the best employees, regardless of gender and nationality, in order to create a dynamic work environment. In a stimulating environment, employees have an opportunity to grow and develop, which in its turn is a prerequisite for Alfa Laval's continued development.

For more information about Alfa Laval's efforts in the area of health and safety, download the company's GRI report from the sustainability section of our website: www.alfalaval.com.

Returning home safely from work – every day

The company has a vision of a workplace that is free from accidents and work-related illnesses. All employees should be able to return home safely from work – every day. Therefore, the work environment must be designed to minimize the risk of accidents and the employees must have the right attitude in order to help prevent as many health and safety challenges as possible.

The company's work in the area of health and safety is carried out on an ongoing basis and supported by an occupational health and safety (OHS) program, developed to incorporate safety issues and considerations into the company's daily procedures. This means that the program covers not only Alfa Laval's employees but also visitors, contractors and suppliers – i.e. people visiting the company's facilities for any reason. The OHS program includes a council that is responsible for establishing guidelines, global priority areas and action plans. This means that the council not only determines the direction of the work, but also provides tools to support the realization of the company's vision. The council is led by Alfa Laval's Senior Vice President of Human Resources and its members include the President of the Operations Division and Senior Vice President of Corporate Social Responsibility. All of Alfa Laval's facilities are expected to comply with local legislation and regulations in the area and to establish an organization with responsibility for ensuring that all mandatory OHS requirements are met.

Training and personal development

Alfa Laval applies the 70-20-10 model when it comes to employee training and development. 10 percent of what an individual learns is to come from formal training programs, either online or in a classroom setting. 20 percent is to come from various types of developmental relationships, meaning what the individual learns from managers, more experienced colleagues or mentors. 70 percent is to come from the challenges faced during the course of the individual's day-to-day work.

The company's formal training program includes a broad range of courses, some of which are offered locally and others as part of a central program. The training portal on Alfa Laval's intranet serves as a hub for this program. In 2016, the program included 700 courses, 450 of which were Internet-based – a figure that indicates a sharp increase in e-learning compared with previous years. These courses can either be held in a real-time group setting or as independent study programs that allow the participants to determine the location and pace of the program. The selection of courses is managed by the HR organization, which ensures that the range is continuously updated based on the needs of both the employees and the company. The program is very popular and some 8,400 employees participated in the courses offered through the portal during the year. In total, approximately 12,500 training sessions were held during the year.

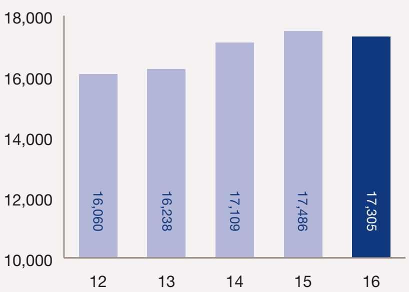
Diversity promotes growth

Alfa Laval is an international company with a global presence. At year-end 2016, 89 (98) nationalities were represented within the Group. The proportion of female employees in the company was 19.3 percent (19.1) and the proportion of women in the group of managers reporting directly to Group management was 16.2 percent (18.2). A total of 26 nationalities were also represented in this management group.

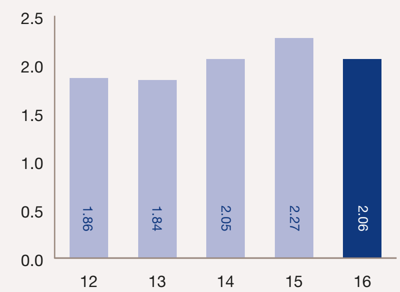
There are several reasons why Alfa Laval strives after diversity. Firstly, it is desirable to achieve a composition of employees that reflects the geographic markets where the company operates. Secondly, diversity tends to promote creativity and innovative thinking. Bringing together individuals who are different – people who think differently and contribute different perspectives and approaches, who are of different genders, nationalities and ages, and who bring different experience – lays the groundwork for a creative and flexible work environment. And this is precisely what a company focusing on innovation needs. For this to be possible, we must treat everyone equally, meaning that all employees must feel that they have career paths open to them. This is why Alfa Laval has used an open internal recruitment process – all available positions are published on the company's intranet and all employees are welcome to apply. This open internal recruitment process and the company's focus on individual performance create an inclusive environment with equal opportunities for professional development. This process is also positive from a personal perspective, since it gives the individual employee significantly more career options than can be offered locally. Open internal recruitment encourages mobility within the Group, allows the company to retain employees who may otherwise look for new challenges outside the Group and is an important incentive when the company hires new employees.

The company also conducts other initiatives to ensure diversity. For example, efforts are being made to expand the recruitment base for female management positions by employing a larger portion of female university students immediately after they finish their studies. Another initiative is focused on increasing the number of Level 4 managers from under-represented countries. For Alfa Laval, an inclusive workplace and stimulating work environment are crucial to the company's ability to achieve its goals and maximize the individual's potential in the organization.

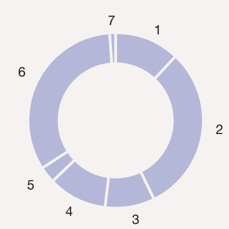
Average number of employees



Sales per employee, SEK million



Employees per region



1	Sweden	12%
2	Other EU	31%
3	Other Europe	9%
4	North America	11%
5	Latin America	3%
6	Asia	33%
7	Other	1%

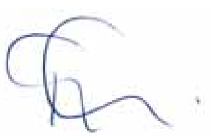
Optimizing our customers' processes – a sustainability matter

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

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

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

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



Tom Erixon
President and CEO

Sustainability report 2016

Our business principles – an important foundation

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

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

SOCIAL
Respect for human rights is fundamental

BUSINESS INTEGRITY
High ethical standards guide our conduct

ENVIRONMENT
Optimizing the use of natural resources is our business

TRANSPARENCY
Our commitment to open dialogue builds trust

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

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

Division of responsibility

Main responsibility rests with the line organization

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

Overall strategies and follow-up take place through management structures

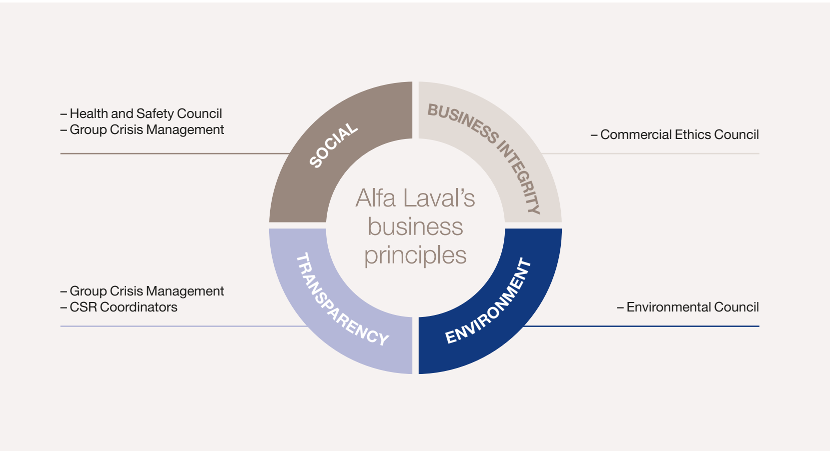
The implementation process is led by various councils, which are responsible for establishing overall strategies and reviewing the work of the line organization. These councils are chaired by representatives of Group management and comprise various managers from the relevant divisions.

Commercial Ethics Council

The management groups of the sales organizations bear the main responsibility for risk assessments and risk reduction measures with respect to our business contacts. They are supported and guided by the Commercial Ethics Council (CEC), which is led by the CEO and includes three additional members of Group management. Since human rights violations are frequently at the root of international trade embargoes, export control is a key focus area. The CEC is responsible for ensuring that all relevant embargoes are respected and implemented throughout the sales channels used for Alfa Laval's products and solutions. The CEC also handles commercial dilemmas originating from conflicts and human rights violations that do not result in official trade embargoes. Other areas related to business integrity, such as anti-corruption, are also addressed by the CEC. Furthermore, the CEC is responsible for implementing risk assessments and risk reduction processes.

Environmental Council

The Environmental Council makes decisions regarding the company's environmental strategy, establishes Group-wide environmental goals and monitors the work to minimize the



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

Health and Safety Council
The Health and Safety Council sets policies and prioritizes Group-wide initiatives with a focus on health and safety. The council is chaired by the Senior Vice President of Human Resources and also includes senior managers from the organizations exposed to the highest risks in terms of health and safety, such as the Operations Division and Service.

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

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

Priorities and results for 2016

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

Our ongoing priorities were as follows:
– Improving the working conditions of high-risk suppliers.
– Reducing the frequency of workplace accidents in our factories and also the percentage of serious accidents.

Suppliers and the supply chain – our work in 2016
For more than a year, we have worked to ensure that our suppliers understand and uphold our business principles. The process begins with a review of our suppliers, their manufacturing processes and geographic location. During the course of this work, we found that the main risks arise in countries with ineffective enforcement of national employment legislation and international human rights standards. Some of our suppliers' manufacturing processes are also inherently associated with health, safety or environmental risks due to the nature of the work itself (for example, metal polishing and foundry work).

We review how well our high-risk suppliers comply with our business principles and work together to prepare an improvement plan, which is then followed up. Suppliers with serious breaches are given between one and six months to implement improvements. If no progress has been achieved by the end of the period, the supplier may be phased out.

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

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

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

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

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

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

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

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

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

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

Alfa Laval's most recent environmental strategy extended until the end of 2015 and we are pleased to report that we achieved our goals with respect to energy, CO_2 emissions and water. As we worked toward these goals, we also encountered new challenges and these formed the basis for the new environmental strategy for 2016 to 2020, with 2015 as the base year. Our new goals are as follows:

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

CO_2:
reduce emissions by 15 percent.
We will focus on minimizing CO_2 emissions from transportation since these account for 40 percent of the company's emissions. This will be achieved by improving planning throughout the supply chain.

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

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

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

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

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

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

Dialogue concerning business principles – status 2016
Over the past few years, we have received a growing number of questions from customers regarding our compliance in various areas. Most of these questions concern our efforts to minimize risks in the supply chain and combat corruption.

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

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

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

Environmental strategy throughout the value chain

R&D ›	Sourcing ›	Sell ›	Make ›	Deliver ›	Service
New products: – New products – lower impact than old – No substances of concern	**Demands on suppliers focusing on:** – Chemicals – EMS – Audits	**Impact of the offering on:** – Energy – CO_2 emissions – Water usage – Resource efficiency	**Focus on improvements related to:** – Energy – CO_2 emissions – Chemicals – Waste – Water – Certification	**Transportation:** – Lowering CO_2 emissions from transportation	**Focus on improvements related to:** – Energy – Chemicals – Water – EMS

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

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

Ballast water and foreign organisms

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

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

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

UN Sustainable Development Goal 14: Life Below Water

Applicable target:

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

Ballast Water Management Convention

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

Alfa Laval PureBallast

Contents – Corporate Governance Report

Introduction by the Chairman of the Board

Alfa Laval and its corporate governance

Alfa Laval is a world leader in heat transfer, separation and fluid handling. With clear growth and profitability goals in place, it is crucial that the company continue to strengthen its leading positions. This can be achieved through the launch of new, even more efficient products, by establishing a strong local presence or through a broad offering of spare parts and service. Our customers associate the Alfa Laval brand with quality. But this attention to quality must be evident not only in the products and solutions we deliver, but also in how we act during our daily operations. The Board of Directors, management and all employees are expected to comply with applicable laws and regulations as well as with the company's business principles related to the environment, ethics, transparency and social responsibility. In this section, we will describe how the company is governed, the distribution of responsibility between the Board, the President and Group management, and the control structures that are in place. By doing so, we want to show that our work and management of the company are based on the best interests of the owners and would stand up to the scrutiny of a review.

The year in brief

In conjunction with the change of CEO in the spring, a review was initiated which marked the start of an extensive strategic overhaul. One of the questions we asked ourselves was whether Alfa Laval was optimally positioned and organized in order to respond to and leverage the developments under way in our operating environment.

The answer came in the form of a number of new initiatives, including a change to the structure that had been in place at Alfa Laval for 15 years. By breaking down and changing the company's segment and divisional structure, we will be able to further enhance the rate and clarity of the company's interactions with customers. And by further concentrating our exposure to markets and applications, we will be able to more efficiently allocate resources to areas with clear growth opportunities.

However, some things have not changed. Separation, heat transfer and fluid handling are the backbone of Alfa Laval's operations and will remain so in the future.

In parallel with our ongoing efforts to adapt our production resources, our strategy work resulted in a restructuring program comprising staff reductions in the sales and administration organizations, a review of the manufacturing structure and the reassignment of certain product groups to a separate non-divisional structure. Some of these initiatives will be fully implemented in the near future; others will take a little more time. But we are convinced that following these changes, Alfa Laval will be well equipped for the future.

Lund, February 2017

Anders Narvinger
Chairman of the Board

Corporate Governance Report 2016

Alfa Laval is a leading, global provider of specialized products and engineered solutions in the areas of heat transfer, separation and fluid handling. Across the globe, there is a significant need for heat transfer and fluid control and Alfa Laval's products can thus be used in numerous industries and applications, ranging from power production and wastewater management to heat recovery and food production. Thanks to this broad exposure, Alfa Laval currently plays a leading role in areas considered to be important to society, such as energy optimization, environmental protection and food production. Alfa Laval's products and solutions are sold in more than 100 countries and its sales amounted to SEK 35.6 billion in 2016.

Alfa Laval is to offer efficient and environmentally responsible products and solutions while working to achieve its established goals with regard to growth, profitability and return. By achieving or even exceeding these goals, Alfa Laval creates the necessary scope for its continued development in line with the company's strategic priorities. A favorable result also generates value for the Group's shareholders in the form of an annual dividend and by boosting the value of the company. For more information about Alfa Laval's financial goals, refer to page 12. Equally as important as achieving goals and fulfilling the Group's business concept are the conduct of the company and its employees along the way. Alfa Laval is to act in a manner that is sustainable from a long-term perspective, taking its shareholders, employees, customers, suppliers and other stakeholders into consideration. The framework for the company's corporate governance is based on various laws and regulations, such as the Swedish Companies Act, the Swedish Annual Accounts Act, the rules of the stock exchange and the Swedish Corporate Governance Code (the "Code"). These laws and regulations are supplemented by the company's business principles regarding the environment, human rights, ethics and transparency. The company also has internal regulations, such as governing documents containing guidelines and instructions as well as procedures for control and risk management. The work of the Board and the President is governed by formal work plans.

Alfa Laval's Corporate Governance Report for 2016 aims to describe these guidelines, the division of responsibility within the company and the interaction between the Annual General Meeting, the Board of Directors and the President. The report has been reviewed by the company's auditors.

Alfa Laval – the company

The registered name of the company is Alfa Laval AB (publ) and the registered office of the Board of Directors shall be in Lund Municipality in Sweden. The company's share capital shall amount to not less than SEK 745,000,000 and not more than SEK 2,980,000,000. The number of shares shall be not less than 298,000,000 and not more than 1,192,000,000. The fiscal year is the calendar year. The objective of the company's operations is to, directly or through subsidiaries and joint venture companies in and outside Sweden, develop, manufacture and sell equipment and installations, primarily in the areas of separation, heat transfer and fluid handling, and to administer fixed and movable property, and other related operations. The Articles of Association do not include any limitations regarding the number of votes a shareholder can cast at a General Meeting. Nor does it include any specific rules regarding the appointment and dismissal of Board members or changes in the Articles of Association. The currently prevailing Articles of Association were adopted at the Annual General Meeting on April 20, 2009 and are available in their entirety on www.alfalaval.com

Share and ownership structure

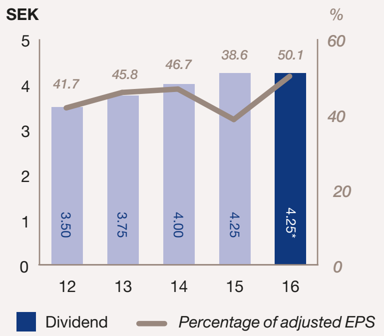
At December 31, 2016, Alfa Laval had 419,456,315 shares outstanding, allocated among 35,840 shareholders according to Euroclear Sweden's shareholders' register. Alfa Laval has only one class of shares and each share corresponds to one vote. Tetra Laval was the largest owner, with 29.1 percent of the shares in Alfa Laval at year-end, and the only owner with a stake larger than 10 percent. The second largest owner was Alecta with 7.2 percent, followed by Swedbank Robur with a holding of 5.4 percent. Legal entities accounted for slightly more than 94 percent of holdings, while individuals accounted for the remainder. From a geographic perspective, the following countries represented a total of 93.6 percent of the shareholdings: Sweden, the Netherlands, the US, the UK and Luxembourg. For more information about Alfa Laval's share, share performance and ownership structure, refer to the Share section on pages 16–17.

Annual General Meeting

The Annual General Meeting is the company's highest decision-making body in which all shareholders are entitled to participate and each share entitles its holder to one vote. The majority of motions addressed at the Annual General Meeting are decided by a simple majority. However, certain points require a qualified majority, for example, amendments to the company's Articles of Association or resolutions to buy back shares. The Annual General Meeting is to be held annually within six months of the close of the fiscal year in either Lund or Stockholm.

Normally, the Annual General Meeting takes place in late April or early May in Lund. The date and location are announced not later than in conjunction with the publication of the interim report for the third quarter. To be entitled to participate and vote in the Annual General Meeting, shareholders must be registered in the shareholders' register maintained by Euroclear Sweden AB. Any shareholder who is unable to attend in person may participate through a proxy with a power of attorney. Shareholders with nominee-registered shares must have the shares temporarily registered under their own name. The Annual General Meeting is held in Swedish and all documentation is available in Swedish and English. Alfa Laval endeavors to ensure that all Board members participate, as well as, in so far as it is possible, all members of Group management. The company's auditors are always present.

Dividend and percentage of adjusted EPS**



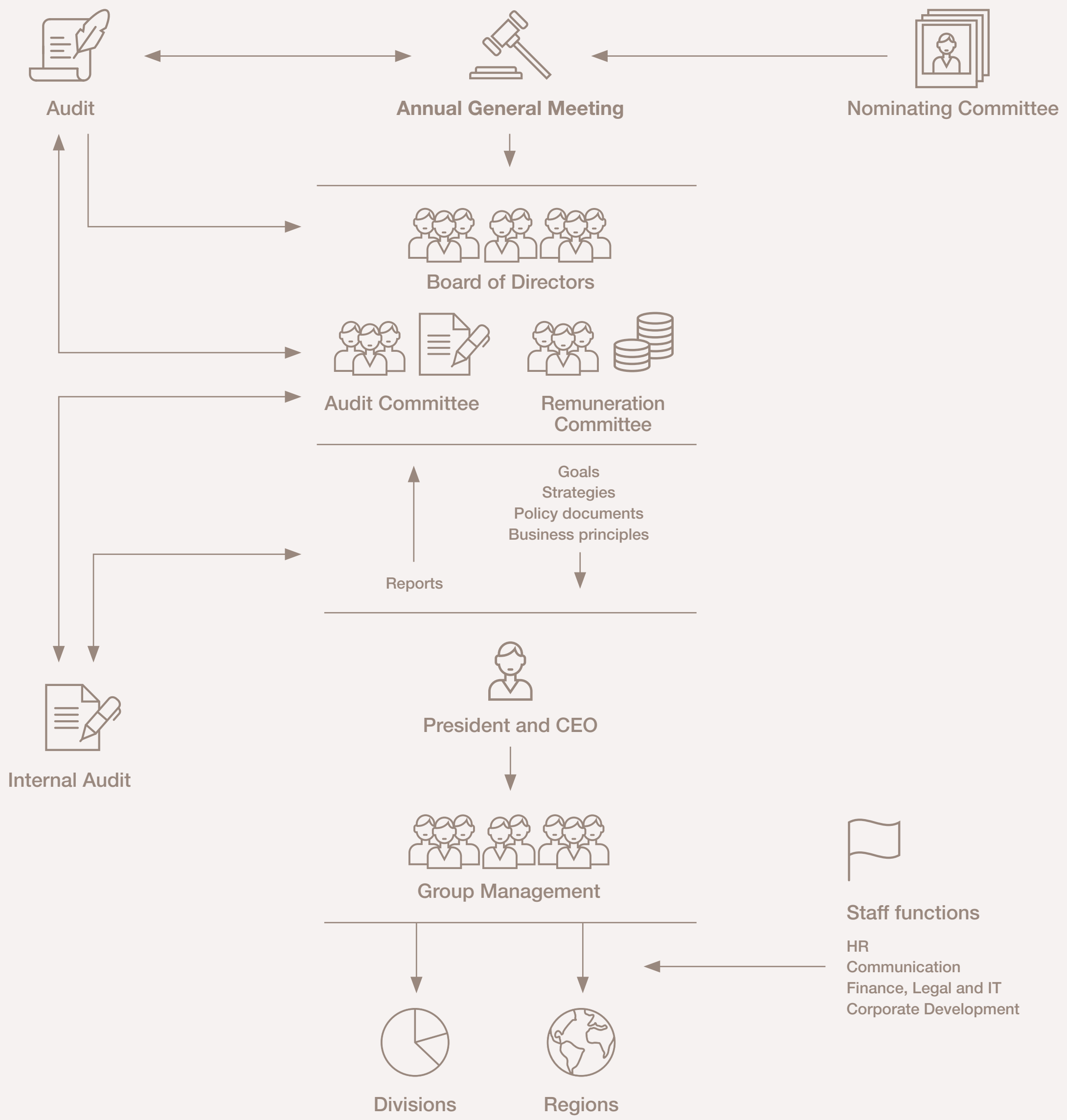
*Board proposal to the Annual General Meeting.
**Adjusted for step up amortization net of taxes.

Ownership categories at December 30, 2016

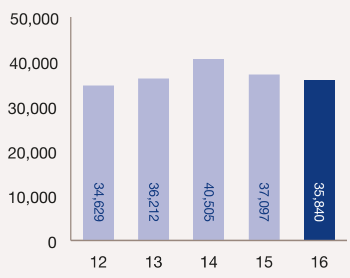
	No. of shares	Holding, %
Financial companies	104 258 015	24.8
Other financial companies	12 957 335	3.1
Social insurance funds	7 992 054	1.9
Government	414 274	0.1
Municipal sector	38 906	0.0
Trade organizations	4 739 921	1.1
Other Swedish legal entities	8 457 626	2.0
Shareholders domiciled abroad (legal entities and individuals)	255 813 626	61
Swedish individuals	22 889 319	5.5
Uncategorized legal entities	1 895 239	0.5

Source: Euroclear

Corporate governance



Total number of shareholders



Source: Euroclear

Ten largest shareholders at December 30, 2016*

	No. of shares	Capital/voting rights, %	Change in holding in 2016, percentage points
Tetra Laval BV	122,037,736	29.1%	3.0
Alecta	30,109,962	7.2%	0.9
Swedbank Robur Funds	22,750,646	5.4%	-1.1
AMF Insurance and Funds	21,795,454	5.2%	+/- 0
Foundation Asset Managment	12,550,000	3.0%	-3
Fourth Swedish Pension Insurance Fund	6,551,772	1.6%	0.3
Folksam	3,033,424	0.7%	+/- 0
SEB Investment Management	2,845,295	0.7%	-0.8
SPP Funds	2,629,962	0.6%	+/- 0
Nordea Investment Funds	2,240,493	0.5%	-1.3
Total ten largest shareholders	**226,544,744**	**54.0%**	

* The table is adjusted for custodian banks. Were they to be included, they would represent a total holding of 11.09 percent.

Annual General Meeting for the 2015 fiscal year

The Annual General Meeting for the 2015 fiscal year was held at Sparbanken Skåne Arena in Lund on April 25, 2016. The Annual General Meeting was attended by 433 people, including shareholders, proxies, assistants, guests and officials. The total number of votes represented corresponded to 66.66 percent of the total number of votes in the company. Chairman of the Board Anders Narvinger was elected as the Meeting Chairman. The minutes from the Annual General Meeting, and all other information related to the Meeting, are available at www.alfalaval.com/investors/corporate-governance/. The resolutions passed at the Meeting included the following:

– A resolution was passed to adopt the income statement and balance sheet and discharge the Board of Directors and President from liability.

– A resolution was passed in accordance with the Board's motion that a dividend of SEK 4.25 per share be paid.

– A resolution was passed that the number of Board members is to amount to eight, with no deputies.

– A resolution was passed to re-elect Board members Gunilla Berg, Arne Frank, Anders Narvinger, Finn Rausing, Jörn Rausing, Ulla Litzén, Ulf Wiinberg and Margareth Øvrum. Lars Renström, who retired from his role as President of the company in March 2016, declined re-election. In addition, a resolution was passed in favor of the Nominating Committee's motion for auditors, resulting in the re-election of Authorized Public Accountant Håkan Olsson Reising and new election of Authorized Public Accountant Joakim Thilstedt. In addition, auditors David Olow and Duane Swanson were re-elected as deputy auditors.

– A resolution was passed that fees paid to non-executive directors on the Board would amount to SEK 5,105,000. In addition, fees are payable for work on the Board's committees.

– A resolution was passed accepting the Board's motion for remuneration principles for senior executives. These principles comprise fixed remuneration and short-term and long-term programs for variable remuneration.

Nominating Committee

Work of the Nominating Committee

The Nominating Committee, which comprises representatives of the largest shareholders, is responsible for preparing and submitting motions regarding candidates for Board members and, if applicable, auditors. The supporting documentation utilized for the Committee's work includes the annual evaluation of the work of the Board, which is initiated by the Chairman of the Board. Other key factors to be considered, against the background of the company's strategy, include the type of competence required. The Nominating Committee can call upon the assistance of external resources in its search for suitable candidates and can also conduct interviews with individual Board members. The Nominating Committee is also responsible for submitting motions in respect of remuneration to members of the Board and its committees.

Composition

The composition of the Nominating Committee is determined in accordance with the process approved by the Annual General Meeting. The Chairman of the Board contacts representatives of the largest shareholders at the end of the third quarter and requests that they each appoint one member. The Nominating Committee may decide whether or not to include the Chairman of the Board or other Board members. The composition is then announced in a press release, in the third-quarter interim report and on Alfa Laval's website. Ahead of the 2017 Annual General Meeting, the composition of the Nominating Committee was announced on October 14, 2016. It was also included in Alfa Laval's third-quarter interim report, which was published on October 25.

Ahead of the Annual General Meeting for the 2016 fiscal year

The Nominating Committee for the Annual General Meeting for the 2016 fiscal year comprised the following individuals: Jörn Rausing (Tetra Laval), Jan Andersson (Swedbank Robur Funds), Ramsay Brufer (Alecta), Lars-Åke Bokenberger (AMF) and Magnus Fernström (Foundation Asset Management). The holdings of the Nominating Committee represented 51.6 percent of the number of shares outstanding at September 30, 2016.

The Chairman of the Board Anders Narvinger was elected as member and secretary, and Jörn Rausing was elected as Chairman. Due to Jörn Rausing's position as a Board member, his role as Chairman is a deviation from the Code. The reason for this deviation is that the Nominating Committee deemed Jörn Rausing to be

Annual General Meeting for the 2016 fiscal year

The Annual General Meeting of Alfa Laval AB (publ) will be held on Wednesday, April 26, 2017 at 4:00 p.m. at Sparbanken Skåne Arena, Klostergården's sports area, Stattenavägen, in Lund. Light refreshments will be served after the Meeting. In accordance with the company's Articles of Association, notice of the Annual General Meeting will be inserted as an announcement in the Swedish Official Gazette and on the company's website not more than six and not less than four weeks prior to the Meeting. An announcement that the notification has been issued will be placed in Dagens Nyheter. As a service to existing shareholders, information about the Annual General Meeting can be sent to them by mail.

Composition of the Nominating Committee for the Annual General Meeting

Name	Representing	Shareholding in Alfa Laval, %*
Jörn Rausing	Tetra Laval	29.09
Jan Andersson	Swedbank Robur Funds	7.23
Ramsay Brufer	Alecta	7.18
Lars-Åke Bokenberger	AMF Insurance and Funds	5.09
Magnus Fernström	Foundation Asset Manegement	2.99

* As of September 30, 2016.

particularly well suited to lead the work of the Committee and obtain the best possible results for the company's owners.

Work of the Nominating Committee ahead of the Annual General Meeting

The Nominating Committee held three meetings ahead of the Annual General Meeting for the 2016 fiscal year and conducted a number of discussions by phone and e-mail. The focus of the Committee's meetings included an assessment of the composition of the Board, based on the evaluation of the work of the Board carried out by the Chairman of the Board, as well as the potential future competence requirements of the Board.

Proposals to the Nominating Committee

Shareholders wishing to submit proposals to the Nominating Committee prior to the Annual General Meeting may contact Alfa Laval's Board Chairman Anders Narvinger, or one of the owner representatives. Contact may also take place directly via e-mail at valberedningen@alfalaval.com.

Board of Directors

Work and responsibilities

The Board administers the company on behalf of the shareholders and thus bears the ultimate responsibility for the organization and administration of the company. The work and responsibilities of the Board are governed by the Swedish Companies Act, the Swedish Board Representation (Private Sector Employees) Act, the Articles of Association, the Board's own formal work plan, Nasdaq's Rule Book for Issuers and the Code. The Board establishes and evaluates Alfa Laval's overall long-term objectives and strategies, which includes establishing business and financial plans, reviewing and approving financial statements, adopting guidelines, making decisions on issues relating to acquisitions and divestments, and deciding on major investments and significant changes to Alfa Laval's organization and operations. The Board is responsible for ensuring that processes are in place for monitoring compliance with relevant laws and rules. The Board also establishes the instructions for the President with respect to the Group's daily operations and approves the President's commitments outside the company. Through the Audit Committee, the Board procures auditing services, maintains ongoing contact with the company's auditors and works to ensure that a sound internal control function and formalized procedures are in place to enable monitoring and assessment of the company's financial situation. The Board also appoints the President and, through the Remuneration Committee, determines salaries and remuneration for the President and senior executives.

Composition

The Board of Directors is to comprise a minimum of four and maximum of ten members, with a maximum of four deputy members. At present, the Board comprises eight members and no deputies. The members are elected annually for the period until the conclusion of the next Annual General Meeting and are to dedicate the requisite time and diligence to the assignment as well as have the necessary knowledge to best look after the interests of the company and its owners. In addition, the trade-union organizations appoint three employee representatives and three deputy employee representatives. Salaried employees in the company are invited to Board meetings as presenters and experts. The company's Chief Financial Officer participates in all meetings, as does its Chief Legal Counsel, who serves as Board Secretary.

Independence of Board members

All members of the Alfa Laval Board elected by the Annual General Meeting are considered independent of the company. All members are also considered independent of the company's major shareholders, except Finn Rausing and Jörn Rausing, who cannot be considered independent due to their relation to Tetra Laval, which owned 29.1 percent of the shares in the company as of December 31, 2016.

The Board's formal work plan

The work of the Board is governed by a formal work plan that is determined annually at the statutory meeting. This formal work plan describes the Board's work assignments and the division of responsibility between the Board, the committees and the President. It also defines the role of the Chairman of the Board and includes separate instructions for the company's President regarding the financial reporting to be submitted to the Board to enable ongoing assessment of the financial position.

Work of the Board in 2016

The Board held nine meetings in 2016, eight of which were scheduled meetings. Three meetings were held by phone, while the other meetings were held in Lund and Stockholm in Sweden and Aalborg in Denmark. The company's President prepares an agenda for each meeting in consultation with the Chairman of the Board. Normal agenda items include earnings results, order trends, investments and acquisitions. In addition, considerable time

Proposals to the Nominating Committee

Shareholders wishing to submit proposals to the Nominating Committee prior to the Annual General Meeting may contact Alfa Laval's Board Chairman Anders Narvinger, or one of the owner representatives. Contact may also be made directly by e-mail at valberedningen@alfalaval.com

Board training

Each year, a combined training course and field trip takes place at one of Alfa Laval's facilities. In 2016, the trip had as its destination Alfa Laval's facilities in Aalborg, Denmark.

was devoted to the strategic review carried out during the year.

Board training

All new Board members receive an extensive introduction program. In addition, each year, a combined training course and field trip takes place at one of Alfa Laval's facilities. In 2016, the destination for the trip was Alfa Laval's unit in Aalborg, Denmark.

Evaluation of the Board's work

The Chairman of the Board ensures that an annual evaluation is conducted of the work of the Board. The evaluation focuses on work methods and work climate as well as access to and the need for particular Board competence in order to lay the foundation for a well-functioning Board. External resources are brought in at regular intervals to evaluate the work of the Board. Regardless of whether it is conducted internally or externally, the evaluation forms a foundation for the Nominating Committee's work related to the nomination of Board members and proposed remuneration levels. In 2016, the evaluation was conducted by the Chairman of Board, who held individual one to two-hour discussions with all Board members. The evaluation followed a clear structure based on standard models. The results were reported to the Board and the Nominating Committee.

Responsibilities of the Chairman of the Board

The Chairman of the Board directs the work of the Board in a manner that ensures it complies with prevailing laws and regulations, the Code and the Board's formal work plan. The Chairman must ensure that the work is well organized and conducted efficiently, and that the Board fulfills its tasks. In dialogue with the company's President, the Chairman monitors operational developments and is responsible for ensuring that the other members continuously receive all information necessary for the work of the Board to be performed in the most effective manner. The Chairman is responsible for ensuring that new Board members receive an introduction to the company and any other training agreed on by the Chairman and the individual member within six months from the member's election. In addition to being responsible for evaluating the Board's work, the Chairman also participates in evaluation and development matters with respect to the Group's senior executives. The Chairman ensures that the Board's decisions are executed and represents the company in ownership issues.

Remuneration of the Board

Remuneration to the Board is determined by the Annual General Meeting based on the motions submitted by the Nominating Committee. The Chairman and members of the Audit Committee and Remuneration Committee receive supplementary remuneration. No Board member is entitled to pension payments from the company.

Committees

Alfa Laval's Articles of Association stipulate that there must be a Remuneration Committee and an Audit Committee that report to the Board. Committee members are appointed from among the Board members for a period of one year.

Audit Committee

Areas of responsibility

The Audit Committee ensures compliance with the principles for financial reporting and internal control. The Committee formulates guidelines for the company's financial reporting and follow-up, and has the right to determine the focus of the internal audit. The Committee examines the procedures for reporting and financial controls, as well as the work, qualifications and independence of the external auditors. For further information regarding the responsibilities of the Audit Committee, refer to "The Board of Directors' report on internal control" on page 58.

Members and meetings in 2016

Members are appointed annually at the Board's statutory meeting. In 2016, the Committee comprised Finn Rausing (Chairman), Gunilla Berg and Ulla Litzén, with the company's Chief Legal Counsel serving as secretary. Four meetings were held during the year, one of which was conducted by phone. The company's Chief Financial Officer, the Head of the Internal Audit Function and the company's auditors were also present at the meetings. The meetings addressed the following items: review of the procedures for corporate governance, review and follow-up of the results of the current annual feedback from approximately 200 managers regarding governance, updates regarding new IFRS developments, amendments to the Code, a review of Group provisions and allocations, a

Remuneration of Board members and attendance at Board meetings

● Chairman

		Board of Directors	
	Name	Present	Remuneration
Appointed by the Annual General Meeting	Anders Narvinger	● 9	1,500,000
	Gunilla Berg	9	515,000
	Arne Frank	8	515,000
	Margareth Øvrum	9	515,000
	Ulla Litzén	9	515,000
	Finn Rausing	9	515,000
	Jörn Rausing	8	515,000
	Lars Renström *	2	
	Ulf Wiinberg	8	515,000
	Total		**5,105,000**
Employee representatives	Henrik Nielsen	9	
	Susanna Norrby **	3	
	Susanne Jonsson ***	2	
	Bror García Lantz	9	
	Leif Norkvist	1	
	Christer Olofsson	3	
	Number of meetings	**9**	

* Resigned in conjunction with the 2016 Annual General Meeting. ** Stepped down in October 2016. *** Took up position in October 2016.

review of Group surplus values, transfer pricing and IT security.

Remuneration Committee

Areas of responsibility

The Remuneration Committee is involved in recruitment, appointments, and matters pertaining to other conditions of employment relating to the President and Group management. The Committee is responsible for preparing the guidelines for remuneration to senior executives to be resolved on by the Annual General Meeting and for submitting motions to the Board of Directors regarding salary and employment terms for the President. In addition, the Committee addresses matters regarding salary and employment terms for senior executives who report directly to the President.

Members and meetings in 2016

The Remuneration Committee is appointed annually at the Board's statutory meeting. In 2016, the Committee comprised Anders Narvinger (Chairman), Jörn Rausing and Arne Frank. The Committee held four meetings during the year. Phone meetings were also held to address ongoing issues. Minutes are taken at all meetings and the contents are distributed to the Board members, except in certain cases when the minutes are noted directly in the corresponding Board minutes. During the year, the Remuneration Committee participated in the assessment of candidates for managerial positions in the new organizational structure. The meetings of the Committee also included a review and follow-up of the guidelines for remuneration to senior executives, other Group guidelines and international issues pertaining to this area as well as personnel issues related to the integration of acquired companies. The Committee also reviewed the Group's management development program and terms of employment for Group management as well as addressing the Group's incentive program.

The company's auditors

The auditors comprise a supervisory body appointed by the Annual General Meeting. The auditors' assignment includes the following: auditing the accounting and financial statements of individual companies, evaluating the accounting policies applied, assessing the administration of company management, reviewing the interim report for the third quarter and evaluating the overall presentation in the Annual Report. The results of the audit – the Audit Report – are communicated to shareholders in the Annual Report and at the Annual General Meeting. In addition, the auditors present a statement regarding the discharge from liability of the Board of Directors, a statement regarding the adoption of the income statement and balance sheet by the Annual General Meeting and a statement regarding the Corporate Governance Report. The Group must have a minimum of one and maximum of two auditors, with not more than two deputy auditors. An authorized public accountant or registered auditing firm is to be appointed as the company's auditor and, where applicable, as deputy auditor. At the Annual General Meeting on April 25, 2016, authorized public accountants Håkan Olsson Reising and Joakim Thilstedt were elected as the company's auditors. David Olow and Duane Swanson were elected as deputy auditors. According to Alfa Laval's assessment, none of these auditors has any relationship to Alfa Laval, or any company related to Alfa Laval, that could affect their independent status. In 2016, the entire Board received reports from the company's external auditors on two occasions. On one occasion, this occurred without the presence of the President or other members of Group management. The Audit Committee received separate reports on four occasions.

Remuneration to auditors

Refer to Note 7 on page 109.

Remuneration and attendance at Committee Meetings

● Chairman

	Remuneration Committee		Audit Committee	
Name	Present	Remuneration	Present	Remuneration
Anders Narvinger	● 4	50,000		
Gunilla Berg			4	100,000
Arne Frank	4	50,000		
Margareth Øvrum				
Ulla Litzén			4	100,000
Finn Rausing			● 4	150,000
Jörn Rausing	4	50,000		
Lars Renström *				
Ulf Wiinberg				
Total		**150,000**		**350,000**
Number of meetings	**4**		**4**	

* Resigned in conjunction with the 2016 Annual General Meeting.

Board of Directors and auditors

Appointed by the Annual General Meeting

Anders Narvinger
Chairman since 2003.

Born: 1948

Formerly President of Teknikföretagen and formerly President and CEO of ABB Sweden.

Education: BSc. Eng. from the Faculty of Engineering at Lund University, BSc. Econ from Uppsala University.

Chairman of the Board: ÅF AB, Coor Service Management AB and Capio AB.

Independent of the company and major shareholders.

Number of shares in Alfa Laval:
40,000* (40,000**)

Gunilla Berg
Board member since 2004.

Born: 1960

CFO of the PostNord Group.

Former positions include Executive Vice President and CFO of the SAS Group and Executive Vice President and CFO of the KF Group.

Education: BSc. Econ from the Stockholm School of Economics.

Board member: Atlas Copco AB.

Independent of the company and major shareholders.

Number of shares in Alfa Laval:
3,400* (3,400**)

Ulf Wiinberg
Board member since 2013.

Born: 1958

Formerly CEO of H. Lundbeck A/S, as well as director of Wyeth Pharmaceuticals, EMEA/Canada & BioPharma, and a number of other senior positions in Wyeth.

Chairman of the Board: Avillion LLP, Hansa Medical AB, Trialbee AB and Sigrid Therapeutics.

Board member: UCB Pharma and Agenus Inc.

Independent of the company and major shareholders.

Number of shares in Alfa Laval:
20,000* (20,000**)

Margareth Øvrum
Board member since 2015.

Born: 1958

Executive Vice President and member of Group management at Statoil ASA. Previously held senior positions in a number of areas in Statoil's Norwegian operations, including technology, projects, production, maintenance, health, safety, environment and purchasing.

Education: Master's degree in Technical Physics from the Norwegian University of Science and Technology in Trondheim.

Board member: Atlas Copco and FMC Corporation.

Independent of the company and major shareholders.

Number of shares in Alfa Laval:
–

Employee representatives

Henrik Nielsen
Employee representative since 2015.

Born: 1968

Employed by Alfa Laval since 1994.

Employee representative for the Swedish Metal Workers' Union (IF Metall).

Number of shares in Alfa Laval:
–

Susanna Norrby
Employee representative since 2003.

Born: 1967

Employed by Alfa Laval since 1992.

Employee representative for the Swedish Confederation of Professional Associations (SACO).

Number of shares in Alfa Laval:
5,000* (5,000**)

Stepped down in October 2016.

Susanne Jonsson
Employee representative since 2016.

Born: 1965

Employed by Alfa Laval since 2008.

Employee representative for the Swedish Confederation of Professional Associations (SACO).

Number of shares in Alfa Laval:
–

Took up position in October 2016.

Bror García Lantz
Employee representative since 2012.

Born: 1965

Employed by Alfa Laval since 1990.

Employee representative for the Swedish Union of Clerical and Technical Employees in Industry (Unionen).

Number of shares in Alfa Laval:
100* (–)**

Ulla Litzén
Board member since 2006.

Born: 1956

Former positions include President of W Capital Management and various senior positions at Investor.

Education: BSc. Econ from the Stockholm School of Economics, MBA from the Massachusetts Institute of Technology.

Board member: among others, Boliden AB, Electrolux AB, Husqvarna AB, NCC AB and Ratos AB.

Independent of the company and major shareholders.

Number of shares in Alfa Laval:
29,000* (29,000**)

Finn Rausing
Board member since 2000.

Born: 1955

Education: B.L., MBA from INSEAD.

Board member: Tetra Laval Group, DeLaval Holding AB, EQT AB and Swede Ship Marine AB.

Independent of the company.

Number of shares in Alfa Laval:
–

Arne Frank
Board member since 2010.

Born: 1958

President and CEO of AAK AB.

Education: BSc. Eng. in industrial economics from Linköping Institute of Technology.

Chairman of the Board: Inwido AB.

Independent of the company and major shareholders.

Number of shares in Alfa Laval:
46,000* (16,000**)

Jörn Rausing
Board member since 2000.

Born: 1960

Head of Mergers and Acquisitions (M&A) in the Tetra Laval Group.

Education: BSc. Econ.

Board member: Tetra Laval Group, Ocado PLC and DeLaval Holding AB.

Independent of the company.

Number of shares in Alfa Laval:
–

Lars Renström
Board member since 2005.

Born: 1951

President and CEO of Alfa Laval from October 1, 2004 until February 29, 2016.

Former positions include President and CEO of Seco Tools AB, Division Manager at Ericsson AB and Atlas Copco AB.

Education: Eng., BSc. Econ.

Chairman of the Board: ASSA ABLOY AB.

Board member: Tetra Laval Group.

Number of shares in Alfa Laval:
40,400* (40,400**).

Resigned in conjunction with the 2016 Annual General Meeting.

Deputy employee representatives

Leif Norkvist
Deputy member since 2009.

Born: 1961
Employed by Alfa Laval since 1993.
Deputy employee representative for the Swedish Metal Workers' Union (IF Metall).

Stefan Sandell
Deputy member since 2005.

Born: 1971
Employed by Alfa Laval since 1989.
Deputy employee representative for the Swedish Organization for Managers (Ledarna).

Christer Olofsson
Deputy member since 2015.

Born: 1972
Employed by Alfa Laval since 1998.
Deputy employee representative for the Swedish Metal Workers' Union (IF Metall).
Took up position on June 3, 2015.

Auditors

Håkan Olsson Reising
Authorized Public Accountant, KPMG.

Born: 1961
Company auditor since 2015.

Joakim Thilstedt
Authorized Public Accountant, KPMG.

Born: 1967
Company auditor since 2016.

Deputy auditors

David Olow
Authorized Public Accountant, KPMG.

Born: 1963
Deputy auditor for Alfa Laval since 2014.

Duane Swanson
Authorized Public Accountant, KPMG.

Born: 1959
Deputy auditor for Alfa Laval since 2014.

* Holdings as of December 31, 2016.
** Holdings as of December 31, 2015.

President and Group management

Tom Erixon
President and CEO.

Born: 1960

CEO since March 1, 2016.

Former positions include President and CEO of OVAKO AB and President of Sandvik Coromant.

Board member: Boliden AB, Chinsay.

Education: MA Law from the University of Lund in Sweden and MBA Business Administration from IESE in Spain.

Number of shares in Alfa Laval: 34,900 + 4,300 through endowment insurance.*

Joakim Vilson
Executive Vice President in charge of the Central and Eastern Europe, Latin America, Middle East and Africa regions.

Born: 1965

Employed by Alfa Laval since 1990.

Regional manager since January 1, 2013. Former positions include head of the Mid Europe Region and the Process Industry segment.

Education: BSc. Eng.

Number of shares in Alfa Laval: 6,520* (6,520**)

Peter Torstensson
Senior Vice President, Corporate Communications.

Born: 1955

Employed by Alfa Laval since 1999.

Senior Vice President, Corporate Communications since 1999. Former positions include President of Borstahusen Informationsdesign.

Number of shares in Alfa Laval: 66,000* (66,000**)

Thomas Thuresson
Chief Financial Officer.

Born: 1957

Employed by Alfa Laval since 1988.

Chief Financial Officer since 1995. Former positions include Controller of the Flow business area and Group Controller of the Alfa Laval Group.

Board member: JM AB.

Education: BSc. Econ., IMD (BPSE).

Number of shares in Alfa Laval: 130,095* (130,170**)

Nish Patel
Executive Vice President in charge of the Western Europe and North America regions.

Born: 1962

Employed by Alfa Laval since 1984.

Regional manager since 2011. Prior to this, he served as head of India and the UK.

Education: BSc. Eng.

Number of shares in Alfa Laval: 47,552* (47,552**)

Svante Karlsson
President, Process Technology Division.

Born:1955

Employed by Alfa Laval since 1984.

Former positions include President of the Equipment Division, head of the Thermal business area and President of Marine & Power.

Education: BSc. Econ.

Number of shares in Alfa Laval: 60,344* (60,344**)

Göran Mathiasson
President, Operations Division.

Born: 1953

Employed by Alfa Laval since 1979.

President of the Operations Division since April 2003. Previously in charge of Alfa Laval Manufacturing and Thermal Technology, including research and development, production development, system development and purchasing.

Board member: Heatex AB.

Education: BSc. Eng.

Number of shares in Alfa Laval: 6,588* (6,588**)

Peter Leifland
President, Marine & Diesel Division.

Born: 1954

Employed by Alfa Laval since 1985.

President of the Marine & Diesel Division since 2011. Former positions include regional manager in charge of the Western Europe and North America Region 2004–2011, the Asia and Latin America Region 2001–2004 and the Eastern Europe and Latin America Region 1999–2001.

Education: B.L., lic.spec. IMD (PED).

Number of shares in Alfa Laval: 430,000* (430,000**)

* Holdings as of December 31, 2016.
** Holdings as of December 31, 2015.

Susanne Pahlén Åklundh
President, Equipment Division.

Born: 1960

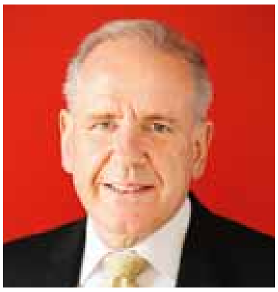
Employed by Alfa Laval since 1983.

President of the Equipment Division since 2009. Previously responsible for the Mid Europe and Nordic regions and the Process Industry segment.

Board member: Trelleborg AB.

Education: BSc. Eng.

Number of shares in Alfa Laval: 10,000* (8,000**)



Ray Field
Executive Vice President in charge of the Asia, India and Oceania regions.

Born: 1954

Employed by Alfa Laval since 1985.

Regional manager since September 1, 2004. Prior to this, he served as President of Alfa Laval China for more than ten years.

Education: BSc. Eng.

Number of shares in Alfa Laval: 54,588* (54,588**)

Retired on June 30. Joakim Vilson held the position for the remainder of the year.

Peter Bailliere
Senior Vice President, Human Resources.

Born: 1963

Employed by Alfa Laval since 2007.

Senior Vice President, Human Resources since July 1, 2007. Previously Head of Group Human Resources at at Volvo Cars.

Education: Master of Sociology, Bachelor in Fiscal Law.

Number of shares in Alfa Laval: –

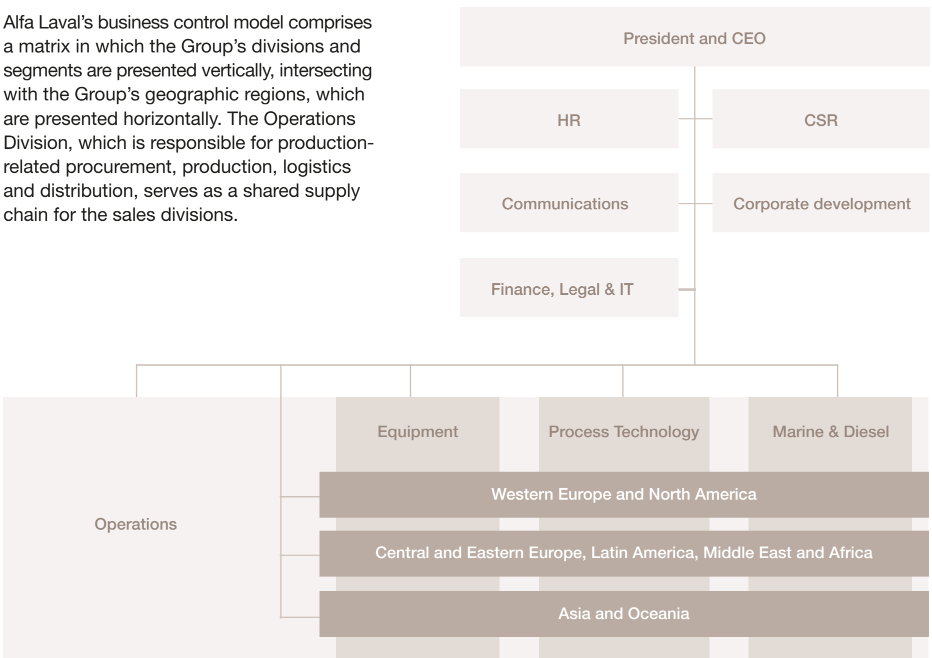
Areas of responsibility
The President directs the daily operations and is responsible for ensuring that the Board has access to the necessary information and supporting documentation for its decision-making purposes. The President is also responsible for ensuring that the company's accounting complies with applicable laws and provisions, and that the ethical guidelines included in Alfa Laval's business principles are reflected in the conduct of the company. The President has the support of the Group management, to which responsibilities and authority are delegated. The members of Group management include three regional managers, four divisional managers and the heads of HR, Communication and Finance/Legal/IT.

Group management meetings in 2016
Group management held six meetings in 2016 during which minutes were taken as well as some 15 Group management meetings focusing exclusively on the strategic review carried out during the year. In addition, quarterly reviews were performed to discuss the business developments in the divisions and regions. These reviews addressed the business climate, earnings, earnings projections for the next 12 months and specific issues affecting the respective business areas. Separate strategy meetings were also held to address, among other areas, management's proposals concerning the future direction with regard to organic growth and growth through acquisitions. In 2016, the review concentrated on risks and opportunities in individual segments, products, application areas and geographic regions as well as the consequences on the supply chain based on the strategic review conducted during the year

Remuneration to senior executives, pensions and severance pay/termination of employment
The remuneration principles for the President and other members of Group management are determined by the Annual General Meeting. For additional information, refer to pages 107–108.

Operational control

Alfa Laval's business control model comprises a matrix in which the Group's divisions and segments are presented vertically, intersecting with the Group's geographic regions, which are presented horizontally. The Operations Division, which is responsible for production-related procurement, production, logistics and distribution, serves as a shared supply chain for the sales divisions.



Board of Directors' report on internal control

The Board is responsible for the internal control of the company, with the aim of safeguarding the company's assets and thus the interests of the shareholders. Through sound internal control, the Board ensures the reliability of Alfa Laval's reporting and its compliance with legislation, regulations, applicable accounting policies and the company's business principles. All communication and financial reporting is to be correct, relevant, objective and transparent.

Control environment

The control environment includes the internal governance instruments adopted by the Board for the company's daily operations. These control instruments comprise policy documents, which are continuously assessed, reviewed and updated. The documents include, for example, the Board's formal work plan, the President's instructions, reporting instructions, the company's finance policy, business principles, investment policy and communication policy.

The Board has overriding responsibility for financial reporting, among other things, and must therefore assess the performance and earnings of the operations through a package of reports including results, forecasts and analyses of key indicators. The Board also reviews the company's interim reports and year-end report and is to meet with the external auditors at least once a year without the presence of the President or other members of Group management.

The Board's Audit Committee is tasked with ensuring compliance with the principles for financial reporting and internal control. It follows up the effectiveness of the internal control system and reviews the financial procedures to ensure that the information can be traced back to underlying financial systems and that it is in line with legislation and relevant standards. It examines procedures for reporting and financial controls as well as addressing the company's financial reports. It also monitors, evaluates and discusses significant issues in the areas of accounting and financial reporting. The Committee evaluates and manages information pertaining to disputes and potential improprieties, and assists management with identifying and evaluating mainly financial and similar risks that are relevant to the operations in order to ensure that the focus is on managing these risks. The Audit Committee has the right to determine the focus of the internal audit and is responsible for ensuring the efficiency of the function by assessing its activities, resources and structure. The Committee is also responsible for reviewing the results and recommendations of the internal audit to ensure that they are handled in an appropriate manner. It is also responsible for reviewing the internal audit plan every six months to ensure that it addresses the relevant risk areas and for ensuring that there is suitable coordination between the internal and external audit. The Audit Committee reviews the work, qualifications and independence of the external auditors, and the results of this review are reported to the Nominating Committee on an annual basis. The Committee supports the Nominating Committee in its work to nominate accountants and conducts an annual review of the proposed scope of the audit.

Reports are provided to the Board regarding internal meetings as well as meetings with the internal auditors, the external auditors and various specialists in Group management and its support functions.

The President is subject to instructions issued by the Board and is responsible for ensuring an effective control environment. The President is also responsible for the ongoing control work and for ensuring that the company's accounting complies with legislation and that the management of assets is adequately performed.

Group management is responsible for managing and maintaining the internal control systems required to manage significant risks in the company's operating activities. Management is also responsible for clearly ensuring that all employees understand the requirements for and the individual's role in maintaining sound internal control.

The internal auditors review and implement improvements to the internal control function, conduct internal audits – which are reported to the Audit Committee – and propose plans for the coming six to eight months. The internal auditors also issue reports from individual audits to the appropriate members of Group management. Procedures are in place for performing regular reviews of the agreed actions to guarantee that specific actions are taken following the internal audit. These are based on an agreed schedule set with the party responsible for the individual activities. The Internal Audit Function comprises two internal auditors, internal specialist resources and external auditors. Internal audits encompass a broad spectrum of functions and issues determined by the Board. The areas audited include: compliance with the systems, guidelines, policies and processes established for the Group's business operations; the existence of systems to ensure that financial transactions are carried out, archived and reported in an accurate and lawful manner; and opportunities to improve management control, the company's profitability and the organization, which may be identified during audits. In 2016, 35 internal audits were performed.

Risk assessment

Within the framework of the company's operating activities and review functions, procedures are in place for risk assessments pertaining to the financial reporting. These procedures aim to identify and evaluate the risks that may affect internal control. The procedures encompass risk assessments in conjunction with strategic planning and acquisition activities as well as processes for identifying amendments to the accounting policies to ensure that they are accurately reflected in the financial reporting.

Control structures

Control structures are in place in all areas of the organization in order to prevent, identify and adjust errors or deviations. They manage the risks that the Board and management consider to be significant to the business, internal control and financial reporting. These structures comprise both an organization with clearly defined roles that enables an effective and – from an internal control perspective – appropriate division of responsibility, and specific control activities that enable the identification and timely prevention of risks becoming a reality. Control activities also include clearly defined decision-making processes and a policy for decision-making with respect to, for example, investments, agreements, acquisitions and divestments, earnings analyses and other forms of analytical reviews, reconciliations, inventory-taking and automatic controls in the IT systems.

Information and communication

The company's regulations, guidelines and manuals are communicated through several internal channels and the efficiency of this communication is monitored on an ongoing basis. There are formal and informal information channels that enable employees to communicate important information to relevant recipients and ultimately, if necessary, to the Board of Directors. Clear guidelines have also been established for external communications, the aim of which is to provide the most accurate overview possible while at the same time ensuring that all obligations with regard to information are met.

Follow-up

The internal control process is mainly followed up by two bodies: the Audit Committee and the Internal Audit Function. The Audit Committee establishes the principles that apply for the company with respect to accounting and financial reporting, and monitors compliance with these regulations. The Committee meets with the external auditors to obtain information about the focus and scope of the audit and to discuss results and coordination of the external and internal audits. In addition, the Committee establishes the direction, scope and time schedules for the work of the internal audit team, whose audits are reported to the Audit Committee and continuously to Group management so that any necessary measures may be taken. The scope of the internal audit includes, among other factors, operational efficiency, compliance with regulations and guidelines, and the quality of financial reporting from the subsidiaries. An annual feedback function is also in place, which is geared toward the company's senior executives. This feedback function is designed to ensure that Alfa Laval's internal instructions and rules are fully implemented. All managers who report directly to a member of Group management are expected to review the guidelines and rules that apply to their respective areas. They must sign and submit documents confirming their understanding of the significance of these guidelines and compliance with these guidelines in their area of responsibility. If there are any deviations compared with the instructions, they must specify what actions they intend to take to ensure compliance. This process also aims to increase transparency and thus facilitate assessments by the external and internal auditors.

Lund, February 2017

Board of Directors

Auditor's statement on the Corporate Governance Report

To the annual meeting of the shareholders of Alfa Laval AB (publ), corporate registration number 556587-8054

Assignment and responsibilities
We have audited the Corporate Governance Report for the year 2016 on pages 46–59. The Board of Directors is responsible for the Corporate Governance Report and for ensuring that it has been prepared in accordance with the Swedish Annual Accounts Act. Our responsibility is to express an opinion on the Corporate Governance Report based on our audit.

Focus and scope of the audit
We conducted our audit in accordance with FAR's auditing standard RevU 16: The Auditor's Examination of the Corporate Governance Report. This standard requires that we have planned and performed the audit to obtain reasonable assurance that the Corporate Governance Report is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the information included in the Corporate Governance Report. We believe that our audit procedures provide a reasonable basis for our opinion set out below.

Opinion
In our opinion, a Corporate Governance Report has been prepared and is consistent with the annual accounts and consolidated financial statements.

Lund, March 3, 2017

Håkan Olsson Reising
Authorized Public Accountant

Joakim Thilstedt
Authorized Public Accountant

Financial statements

Board of Directors' Report

The Board of Directors and the President of Alfa Laval AB (publ) hereby submit their annual report for the year of operation January 1, 2016 to December 31, 2016.

The information in this annual report is such information that Alfa Laval AB (publ) must publish in accordance with the Securities Market Act. The information was made public by publishing the annual report on Alfa Laval's website on March 28, 2017 at 10.00 CET and by sending the printed annual report to the shareholders in week 14, 2017 starting at April 5, 2017.

Alfa Laval AB is a public limited liability company. The seat of the Board is in Lund and the company is registered in Sweden under corporate registration number 556587-8054. The visiting address of the head office is Rudeboksvägen 1 in Lund and the postal address is Box 73, 221 00 Lund, Sweden. Alfa Laval's website is: www.alfalaval.com.

Financial statements

The following parts of the annual report are financial statements: the Board of Directors' Report, the ten-year overview, the consolidated cash flows, the consolidated comprehensive income, the consolidated financial position, the changes in consolidated equity, the parent company cash flows, the parent company income, the parent company financial position, the changes in parent company equity and the notes. All of these have been audited by the auditors.

The Corporate Governance Report, which also has been audited, is to be found on page 45.

Ownership and legal structure

Alfa Laval AB (publ) is the parent company of the Alfa Laval Group.

The company had 35,840 (37,097) shareholders on December 31, 2016. The largest owner is Tetra Laval B.V., the Netherlands who owns 29.1 (26.1) percent. Next to the largest owner there are nine institutional investors with ownership in the range of 7.2 to 0.6 percent. These ten largest shareholders owned 54.7 (57.4) percent of the shares.

Operations

The Alfa Laval Group is engaged in the development, production and sales of products and systems based on three main technologies: separation/filtration, heat transfer and fluid handling.

Alfa Laval's business is divided into three business divisions ”Equipment”, ”Process Technology” and “Marine & Diesel” that sell to external customers and one division “Operations & Other” covering procurement, production and logistics as well as corporate overhead and non-core businesses. These four divisions constitute Alfa Laval's four operating segments.

The three business divisions (operating segments) are in turn split into a number of customer segments. The customers to the Equipment division purchase products whereas the customers to the Process Technology division purchase solutions for processing applications. The customers to the Marine & Diesel division purchase products and solutions for marine and offshore applications and for diesel power plants. The Equipment division consists of four customer segments: Industrial Equipment, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Service. The Process Technology division consists of four customer segments: Energy & Process, Food & Life Science, Water & Waste Treatment and the aftermarket segment Service. The Marine & Diesel division consists of four customer segments: Marine & Diesel Equipment, Marine & Offshore Systems, Marine & Offshore Pumping Systems and the aftermarket segment Service.

Material factors of risk and uncertainty

The main factors of risk and uncertainty facing the Group concern the price development of metals, fluctuations in major currencies and the business cycle. For additional information, see the sections on financial and operational risks and the section on critical accounting principles, the section on key sources of estimation uncertainty and the section on judgements under accounting principles.

Acquisition of businesses

The full information on the acquisitions is found in Note 16. Below follows a shorter summary of each acquisition during 2016.

On May 21, 2016 Alfa Laval has acquired an additional 8.33 percent of the shares in the subsidiary Chang San Engineering Co Ltd in South Korea for SEK 33 million, which has increased the holding from 75 percent to 83.33 percent. On July 15, 2016 Alfa Laval has acquired the remaining 4.67 percent of the shares in Frank Mohn do Brasil Ltda for SEK 4 million, which makes it a 100 percent owned subsidiary. The shareholding in these two companies was part of the acquisition of Frank Mohn AS in 2014.

On October 5, 2016 a selective reduction of the share capital in the Indian subsidiary Alfa Laval (India) Ltd was finalised, upon which the non-controlling interests corresponding to 1.8 percent of the shareholding were bought out for SEK 174 million. Thereafter the company is a fully owned subsidiary.

Divestment of businesses

On June 15, 2016 Alfa Laval has sold all shares in the joint venture Halaas og Mohn AS in Norway for SEK 1 million. The shareholding in the company accompanied the acquisition of Frank Mohn AS in 2014.

On August 24, 2016 Alfa Laval has sold all shares in LHE (Qingdao) Heat Exchanger Co. Ltd. in China for SEK 12 million.

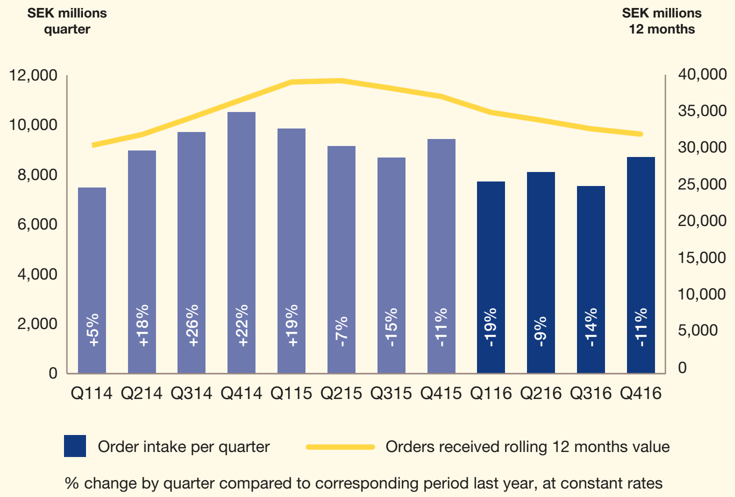
Sale of real estate

During 2016 a few minor properties in different countries have been sold for SEK 33 (9) million with a realised result of SEK 20 (-7) million, which has been reported in other operating income and costs respectively.

The empty property in Spijkenisse in the Netherlands is to be sold and a small property in France is empty and has been for sale for several years. They are not expected to be sold within the next year.

A property in Lima in Peru and the empty property in Groningen in the Netherlands are for sale and are expected to be sold within the next year and are therefore still classified as current assets held for sale with SEK 2 (9) million. The fair value of the properties for sale exceeds the book value by approximately SEK 90 (94) million.

Orders received



Orders received amounted to SEK 32,060 (37,098) million during 2016.

Order bridge

Consolidated

SEK millions, unless otherwise stated	2016	2015
Order intake last year	37,098	36,660
Structural change [1]	0.3%	6.8%
Organic development [2]	-13.7%	-11.6%
Currency effects	-0.2%	6.0%
Total	-13.6%	1.2%
Order intake current year	32,060	37,098

Orders received from the aftermarket Service[3] constituted 33.0 (28.6) percent of the Group's total orders received for 2016. Excluding currency effects, the order intake for Service increased by 0.1 percent during 2016 compared to last year. The corresponding organic development was a decrease by 0.5 percent.

1) Acquired businesses are:
K-Bar Parts LLC (renamed to Alfa Laval Kathabar Inc) in the U.S. at July 31, 2015 and an aftermarket company specialized in separation technology at July 3, 2015.
2) Organic development relates to change excluding acquisition of businesses.
3) Parts & Service.

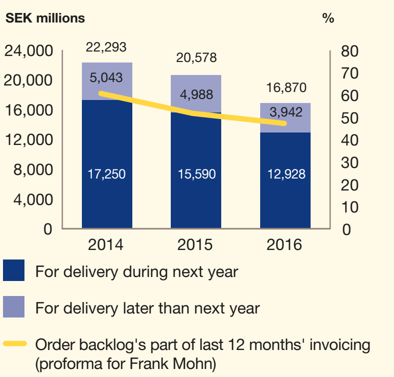
Large orders

Large orders are orders with a value over EUR 5 million. The volume of large orders is an important indicator of the demand situation and is therefore monitored separately within Alfa Laval. A large volume of large orders normally also means a good load in the factories. During 2016 Alfa Laval has received the following large orders:

Large orders

Division / Customer segment / Scope of supply	Order received in	Delivery date	Order amount	Totalt per segment 2016	2015
				SEK millions	
Process Technology					
Energy & Process					
Alfa Laval compact heat exchangers to a refinery in Russia.	Q1	2016/2017	60		
Alfa Laval OLMI heat exchangers to a petrochemical plant in the Middle East.	Q4	2017	125		
Various pieces of equipment to a power plant in the Middle East.	Q4	2017	50		
Alfa Laval OLMI heat exchangers to a power plant in the Middle East.	Q4	2017	100		
Compact heat exchangers to a natural gas plant in the Middle East.	Q4	2017/2018	150	485	1,040
Food Technology & Life Science					
Equipment to a vegetable oil plant in Russia.	Q2	2017	55	55	395
Water & Waste Treatment					
Decanters to a waste water treatment plant in the U.S.	Q2	2017	50	50	–
Service					
Upgrade of compact heat exchangers to a nuclear power plant in France.	Q4	2017	55	55	–
Marine & Diesel					
Marine & Diesel Equipment					
Waste heat recovery systems for diesel power plants that will be built in Asia.	Q4	2017	65	65	–
Marine & Offshore Systems				–	90
Marine & Offshore Pumping Systems				–	775
Equipment					
Industrial Equipment				–	100
Total				**710**	**2,400**

Order Backlog December 31



The order backlog at December 31, 2016 was SEK 16,870 (20,578) million. Excluding currency effects and adjusted for acquisitions of businesses the order backlog was 17.7 percent smaller than the order backlog at the end of 2015.

Net sales

Net sales amounted to SEK 35,634 (39,746) million during 2016.

Sales bridge

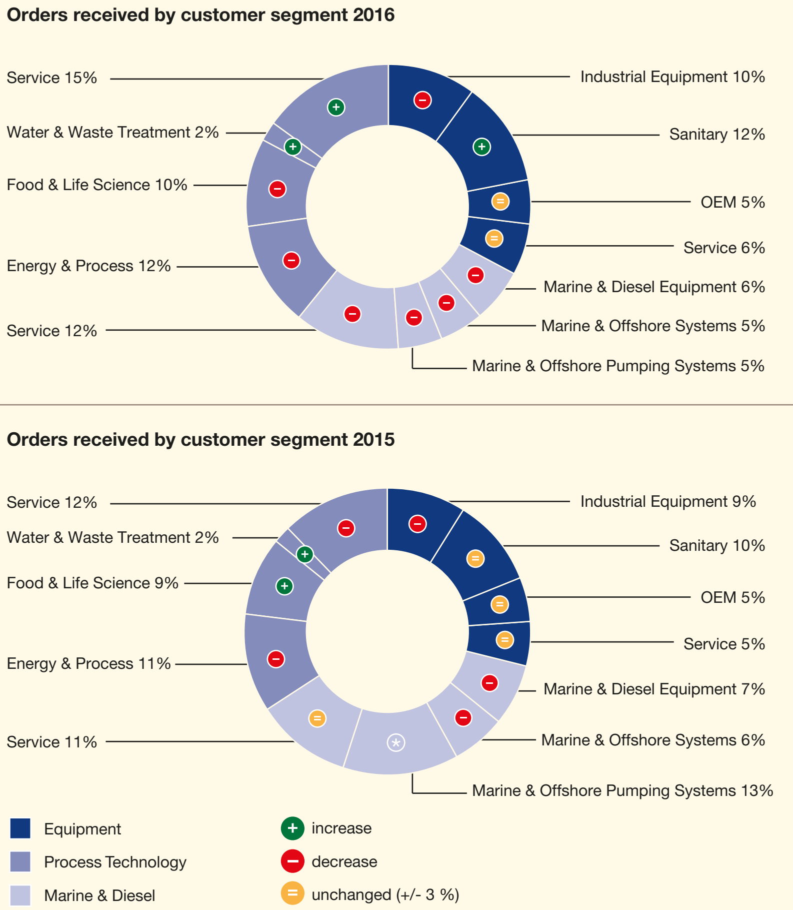
Consolidated		
SEK millions, unless otherwise stated	2016	2015
Net sales last year	39,746	35,067
Structural change	0.3%	8.1%
Organic development	-10.4%	-1.2%
Currency effects	-0.2%	6.4%
Total	-10.3%	13.3%
Net sales current year	35,634	39,746

Net invoicing relating to Service constituted 29.6 (26.6) percent of the Group’s total net invoicing for 2016. Excluding currency effects, the net invoicing for parts and service decreased by 0.1 percent during 2016 compared to last year. The corresponding organic development was a decrease by 0.7 percent.

Operating segments

The development of the order intake for the divisions and their customer segments appears in the following charts.

Orders received by customer segment



Compared to previous year, at constant rates adjusted for acquisition of businesses.

* New customer segment, no comparison figures exist.

EQUIPMENT DIVISION

The Equipment division consists of four customer segments: Industrial Equipment, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Service.

Order intake

(all comments are excluding currency effects)

Taking a quarterly view the development for Equipment division during 2016 has been as follows:

Order intake was down somewhat in the **first quarter** of 2016 compared to the fourth quarter of 2015, as Sanitary was negatively impacted by non-repeats and Industrial Equipment by slow comfort demand in some key markets. OEM and Service were both unchanged. The **Sanitary** segment was slower as larger dairy and personal care orders taken in the U.S. in the fourth quarter were not repeated. The main explanatory factor for the decline in **Industrial Equipment** was the drop in order intake in comfort, due to weak demand in some key markets such as Russia. At the same time order intake for refrigeration products was good, with increased demand for plate heat exchanger products in particular. The **OEM** segment saw an overall almost flat development. Demand for products for engine manufacturers recovered, while order intake from heat pump customers was lower due to seasonality.

Order intake was up in the **second quarter** 2016 compared to the first, reflecting a positive development across all capital sales segments as well as Service. All major markets contributed to the outcome. The **Sanitary** segment had a good development driven by strong demand from customers within all sectors. In **Industrial Equipment** volumes were up as seasonality impacted certain end markets such as the one for comfort heating and cooling. All market units, however, grew. Products aimed at refrigeration and the manufacturing industry had generally a good demand. The **OEM** segment also reported a positive development on the back of seasonality as products aimed at being fitted into HVAC and refrigeration units did well, supported by a positive reception to product launches.

Overall order intake was on about the same level in the **third quarter** as in the second quarter. While the vacation period in Western Europe hampered activity in that region, order intake saw a positive development across major markets in Asia Pacific. The **Sanitary** segment declined somewhat compared to the previous quarter as the big number of larger orders in the second quarter, mainly to customers in dairy and personal care, where not repeated. Underlying, however, the segment experienced a continued positive trend. In **Industrial Equipment** volumes were flat. Demand for HVAC grew compared to the previous quarter due to a number of larger orders, while refrigeration declined due to the non-repeat of larger orders in the second quarter. The overall refrigeration market, however, was good with a higher overall activity level than a year ago. The **OEM** segment reported a limited growth, mainly lifted by demand among customers manufacturing engines. Service declined somewhat, negatively influenced by the vacation period in Western Europe.

Overall order intake was on about the same level in the **fourth quarter** as in the third. While several end markets reported growth, it was offset by seasonality for parts of Industrial Equipment's business. Demand for spare parts and services remained on the same level as in the previous quarter. The **Sanitary** segment was flat compared to the previous quarter. Demand from customers working with prepared food was higher, whereas order intake related to the dairy sector came down from the high levels seen in the previous quarter. In **Industrial**

Equipment division

Consolidated

SEK millions	2016	2015
Orders received	10,639	10,472
Order backlog*	1,695	1,637
Net sales	10,532	10,500
Operating income**	1,527	1,321
Operating margin	14.5%	12.6%
Depreciation and amortisation	179	218
Investments	61	61
Assets*	5,957	6,339
Liabilities*	1,249	973
Number of employees*	2,508	2,552

* At the end of the period. ** In management accounts.

Change excluding currency effects

Consolidated

	Order intake			Net sales		
%	Structural change	Organic development	Total	Structural change	Organic development	Total
2016/2015	–	1.7	1.7	–	0.4	0.4
2015/2014	–	-1.8	-1.8	–	-0.6	-0.6

Equipment volumes were lower compared to the previous quarter, mainly due to seasonality in the Comfort market unit. The overall refrigeration market continues to be good and demand was higher than in the third quarter. The **OEM** segment reported a positive development, mainly lifted by increased demand from customers manufacturing boilers and A/C equipment.

Operating income
(excluding comparison distortion items)
The increase in operating income for 2016 compared to last year is mainly explained by positive price/mix effects and positive currency effects.

PROCESS TECHNOLOGY DIVISION
Process Technology division consists of four customer segments: Energy & Process, Food & Life Science, Water & Waste Treatment and the aftermarket segment Service.

Order intake
(all comments are excluding currency effects)
Taking a quarterly view the development for Process Technology division during 2016 has been as follows:

The division's order intake was unchanged in the **first quarter** compared to the fourth quarter last year. Geographically, Western Europe was unchanged and Asia as well as North America saw a slight contraction, while Central & Eastern Europe delivered strong growth. The previous quarter was affected by oil and gas cancellations in Brazil, which impacts the comparison. Excluding these, overall order intake declined, affected by fewer large orders. The base business* was stable across the capital sales segments and the service business showed significant growth. **Energy & Process**, the segment affected by oil and gas cancellations in the fourth quarter, reported modest growth. Excluding the cancellations the segment reported a decline compared to the previous quarter. The base business was however unchanged. Both drilling and processing continued recent quarters' development, of oscillating around a very low level, amid continued market uncertainty. Refinery, however, had a strong development, with several larger orders booked. Petrochemicals showed a decline compared to the previous quarter, due to a very large non-repeat. **Food & Life Science** had a decline, in its entirety related to a non-repeat of a very large brewery order in the fourth quarter. Brewery was consequently down and so was Protein and Food Solutions, whereas Vegetable Oil and Life Science & Renewable showed strong growth. The base business was unchanged. Order intake in the **Water & Waste Treatment** segment showed a decline compared to the previous quarter, primarily driven by Europe and Asia. The important North American market was however unchanged. The **Service** segment showed significant growth, driven by several larger orders, with a particularly strong development noted up- and mid-stream. Demand in Water & Waste Treatment as well as Food & Life Science was also good.

The division's order intake in the **second quarter** was unchanged versus the previous quarter. Order intake in **Energy & Process** was unchanged from the first quarter. The business exposed to the hydrocarbon chain showed a continued decline – reflected in drilling, processing & transportation and petrochemicals. The market has still not provided the stability needed for larger capacity investments to be decided. However, the base business saw a positive development. The refinery business was unchanged. An overall strong development was noted for market unit Inorganics, Metals and Paper. **Food & Life Science** delivered an unchanged order intake, both in total and for the market units Protein and Food Solutions. Brewery and Vegetable Oil however showed strong growth, partly from capacity investments in China and Russia. In the latter case, a large order for vegetable oil equipment in Russia was announced in June. The order intake for life science and natural resources applications declined. Order intake in the **Water & Waste Treatment** segment showed strong growth compared to the previous quarter, primarily driven by developments in the U.S. and Western Europe. While larger orders had a particularly strong development in these regions, added support came from the large order for a U.S. waste water treatment plant, announced in May. The **Service** segment showed a limited contraction. Energy & Process declined due to the non-repeat of a larger order in the first quarter. Demand in Water & Waste Treatment was strong, while it was unchanged in Food & Life Science.

The division's order intake declined in the **third quarter** versus the previous quarter. The contraction is partly explained by the non-repeat of large orders in Water & Waste Treatment and Food & Life Science. The base business showed a very limited decline. Order intake in **Energy & Process** declined somewhat from the second quarter. The business exposed to the up- and mid-stream part of the hydrocarbon chain grew, while the parts tied to downstream activities, such as refineries and petrochemicals, showed a decline. While the oil & gas-related base business showed good growth, capacity investments were still limited in the market, reflecting a hesitancy to invest. Market unit

* Base business and base orders refer to orders with an order value of less than EUR 0.5 million.

Process Technology division

Consolidated		
SEK millions	2016	2015
Orders received	12,383	12,795
Order backlog*	6,758	7,226
Net sales	12,784	14,511
Operating income**	1,289	1,899
Operating margin	10.1%	13.1%
Depreciation and amortisation	360	366
Investments	108	156
Assets*	10,966	10,832
Liabilities*	4,227	3,812
Number of employees*	5,092	5,242

* At the end of the period. ** In management accounts.

Change excluding currency effects

Consolidated	Order intake			Net sales		
%	Structural change	Organic development	Total	Structural change	Organic development	Total
2016/2015	0.7	-2.9	-2.2	0.7	-11.9	-11.2
2015/2014	-0.0	-17.2	-17.2	0.1	-6.4	-6.3

Power did very well in the quarter, whereas market unit Inorganics, Metals & Paper declined. **Food & Life Science** reported an unchanged order level, despite the non-repeat of a large order. Vegetable oil did very well and growth was also recorded in Food Solutions. Order intake in the **Water & Waste Treatment** segment declined compared to the previous quarter. Most of the drop is explained by the non-repeat of a large U.S. wastewater order. The base business showed strong growth, particularly in Asia. The **Service** segment showed a decline, partly explained by the non-repeat of a larger service order in the Energy & Process segment in Mexico in the second quarter. Asia and North America were both stable, whereas Eastern as well as Western Europe contracted. The service-related share of the total order intake continued to grow.

The division reported very strong growth in the **fourth quarter** compared to the previous quarter, mainly driven by large orders. The development was generally positive among the capital sales segments with Energy & Process contributing the most. Geographically, a positive development was reported by largely all regions. **Energy & Process** reported growth in order intake across all end-market industries. The business exposed to the hydrocarbon chain did very well in all parts of the chain. The positive development was driven by customers carrying out certain capacity and efficiency-related investments. This was reflected in the large orders booked in the quarter, even as the overall market sentiment continued to be cautious. The base business also reported growth. **Food & Life Science** did very well in the quarter, particularly in the market units Brewery, Food Solutions and Life Science. Protein also developed favourably, while Vegetable oil contracted, reflecting fewer capacity related investments in the market. Large projects explained most of the segment's positive development, but the base business also showed a positive trend. Order intake in the **Water & Waste Treatment** segment was unchanged in the fourth quarter compared to the third, as a strong Western European market compensated for a lower activity in the North American market. The base business was stable. The **Service** segment remained on the same level as in the third quarter. Order intake increased in Water & Waste Treatment applications as well as Energy & Process, while a certain contraction was noted in the Food & Life Science area. The service share of total order intake on the aftermarket continued to expand.

Operating income

(excluding comparison distortion items)

The decrease in operating income during 2016 compared to last year is mainly explained by lower sales volume and lower margin. The lower margin is explained by negative price/mix, a weak outcome in a number of projects and under absorption in the project department.

MARINE & DIESEL DIVISION

The Marine & Diesel division consists of four customer segments: Marine & Diesel Equipment, Marine & Offshore Systems, Marine & Offshore Pumping Systems and the aftermarket segment Service.

Order intake

(all comments are excluding currency effects)

Taking a quarterly view the development for Marine & Diesel division during 2016 has been as follows:

Order intake for the Marine & Diesel division decreased in the **first quarter** 2016 compared to the fourth quarter 2015, the main explanatory factor being lower demand for pumping systems. The **Marine & Diesel Equipment** segment also saw lower demand compared to the previous quarter, as both equipment going into new ships and equipment for diesel power plants declined. The demand for environmental solutions also dropped due to lower order intake for PureBallast during the quarter. The **Marine & Offshore Systems** segment recorded higher order intake for systems for new ships due to a favourable vessel mix leading to higher demand for boilers. Orders for exhaust gas systems also increased, whereas the demand for offshore systems declined as investments in the oil and gas sector remained on a low level. **Marine & Offshore Pumping Systems**, which saw a substantial upswing in demand in the previous quarter due to a pre-buying effect, had as expected a considerably lower level of orders for marine pumping systems in the first quarter. In addition, orders for pumping systems for the offshore sector decreased due to non-repeat of two large offshore orders booked in the fourth quarter. Service reported a lower order intake than in the previous quarter due to lower activity for repair sales.

Order intake for the Marine & Diesel division was largely unchanged in the **second quarter** compared to the first quarter. Increased demand for environmental products and marine pumping systems almost fully compensated for the effects from a lower contracting of new vessels at the yards. The **Marine & Diesel Equipment** segment saw lower demand from the previous quarter, as the demand for traditional equipment going into new ships declined. The demand for environmental solutions, however, increased due to higher order intake for PureBallast during the second quarter. Equipment for diesel power plants recorded higher order intake as well. The **Marine & Offshore Systems** segment reported lower order intake for systems for new ships as well for offshore applications. The decline was partly offset by higher demand for exhaust gas cleaning systems. **Marine & Offshore Pumping Systems** saw higher demand for marine as well as offshore applications. The general market for chemical tankers and product tankers remain attractive and resulted in increased order intake for marine pumping systems. **Service** had a lower order intake than in the previous quarter, mainly due to a lower demand for boiler repairs.

Order intake for the Marine & Diesel division was lower in the **third quarter** compared to the second, mainly as a result of lower ship contracting earlier in the year affecting demand in both the Offshore Systems and Offshore Pumping Systems segments. The **Marine & Offshore Systems** segment recorded lower order intake for systems for new ships as well for exhaust gas cleaning systems, the latter by nature a lumpy project business. Systems and equipment for offshore applications increased from the second quarter, however from a very low level. The **Marine & Offshore Pumping Systems** segment saw lower demand for marine pumping systems, whereas order intake for offshore applications increased. The **Marine & Diesel Equipment** segment was the only segment to report growth compared to the previous quarter, thanks to demand for equipment going into cruise ships. While the ballast water convention was ratified late in the quarter, leading to increased activity, this has not yet resulted in orders. Order intake for equipment to diesel power plants grew. Order intake for **Service** was unchanged from the previous quarter.

Order intake increased in the **fourth quarter** compared to the third, as the uptick in cruise ship contracting earlier in the year generated demand for Alfa Laval's traditional offering and as demand for pumping systems grew from the third quarter's very low level. The **Marine & Diesel Equipment** segment benefitted from a positive ship mix as demand increased for equipment going into new cruise ships. Further support came from an increase in demand for equipment going into land-based diesel power plants. The **Marine & Offshore Systems** segment also reported an increase in order intake compared to the third quarter as a decline in demand for systems going into new ships was more than offset by higher demand for exhaust gas cleaning as well as offshore systems. The order intake for **Marine & Offshore Pumping Systems** grew compared to the previous quarter, as demand for marine pumping systems came back after a weak third quarter. Demand for solutions for offshore applications, however, declined. **Service** reported good growth in order intake due to upgrading orders and higher service activity for offshore pumping systems.

Marine & Diesel division

Consolidated

SEK millions	2016	2015
Orders received	9,038	13,831
Order backlog*	8,417	11,715
Net sales	12,318	14,735
Operating income**	2,111	2,999
Operating margin	17.1%	20.4%
Depreciation and amortisation	745	806
Investments	77	131
Assets*	23,166	22,905
Liabilities*	5,179	4,966
Number of employees*	2,962	3,176

* At the end of the period. ** In management accounts.

Change excluding currency effects

Consolidated

	Order intake			Net sales		
%	Structural change	Organic development	Total	Structural change	Organic development	Total
2016/2015	0.3	-35.3	-35.0	0.2	-16.7	-16.5
2015/2014	20.6	-13.7	6.9	23.6	7.7	31.3

Operating income

(excluding comparison distortion items)

The decrease in operating income during 2016 compared to last year is mainly explained by lower sales volume, onetime costs related to a number of specific product deliveries and changes in the supply chain.

OPERATIONS & OTHER

Operations & Other is covering procurement, production and logistics as well as corporate overhead and non-core businesses.

The lower operating income during 2016 compared to last year is mainly explained by higher group-wide and project related costs.

Operations & Other

Consolidated

SEK millions	2016	2015
Orders received	0	0
Order backlog*	0	0
Net sales	0	0
Operating income**	-471	-438
Depreciation and amortisation	423	371
Investments	371	326
Assets*	6,601	5,797
Liabilities*	2,432	2,359
Number of employees*	6,379	6,447

* At the end of the period. ** In management accounts.

Information about geographical areas
All comments are reflecting the quarterly development during the year and are excluding currency effects.

Western Europe including Nordic
Order intake declined in the **first quarter** compared with the fourth, affected by fewer large contracts. Meanwhile, the base business* remained at the level seen in the previous quarter. Sanitary developed well, while Marine & Diesel Equipment, Marine & Offshore Systems and Water & Waste Treatment declined. From a regional perspective Mid Europe developed positively, while regions Nordic and Iberica declined due to fewer large contracts.

Order intake increased in the **second quarter** compared to the first, driven by a good development across most countries and regions. Both the base business and larger projects developed positively. Segments to do particularly well were Industrial Equipment – due to seasonality, Sanitary, Marine & Diesel Equipment, Marine & Offshore Systems, Water & Waste Treatment and Food & Life Science. Demand for Service was on the same level as in the previous quarter.

Order intake decreased in the **third quarter** compared with the second, mainly affected by a decline in the base business in the Equipment division, brought on by the vacation period in parts of Western Europe. Marine & Diesel Equipment and Energy & Process developed well, while the rest of the segments declined. The Service business declined slightly, negatively affected by ship owners extending the intervals between the service occasions. Mid Europe, Iberica and the Adriatic region all declined, while growth was recorded in Nordic, the United Kingdom, Benelux and France.

Order intake increased in the **fourth quarter** compared with the third for large projects as well as the base business. Demand for spare parts and services was also positive across the region. Among the segments, Sanitary, Marine & Diesel Equipment, Marine Offshore Systems, Energy & Process and Water & Waste Treatment had a positive development. All sub-regions reported growth, except Nordic which had a strong third quarter.

Central and Eastern Europe
The region reported order intake growth in the **first quarter** compared to the previous quarter, driven by larger orders for oil and gas in Russia and Croatia and also by all three divisions having a strong development in Turkey. In Russia, the positive development for oil and gas compensated for an otherwise continued low business activity across all three divisions.

The region reported a good **second quarter** with strong growth compared to the previous quarter. Equipment and the Process Technology divisions both did well, supported by most countries in the region. The main driver was Russia, which reported a solid quarter following a strong performance for both the base business and larger orders. The positive development was broad-based, with added support from the large vegetable oil order which was announced in June.

The region reported an unchanged order intake in the **third quarter** compared to the second. Poland and Turkey both declined, while Russia and countries in the Central- and South Eastern Europe regions reported growth. Russia did very well in the quarter, boosted by an improved activity in the Comfort, Power and Refinery market units, as well as continued overall strong performance in Service.

The region reported a growing order intake in the **fourth quarter** compared to the third. The main reason was a sizeable order for waste heat recovery systems in Turkey. The base business had a strong development, mainly driven by Sanitary and Service, which both did well across the region. Russia, which did well throughout the year, saw a decline compared to the previous quarter as there were fewer larger projects booked in the quarter.

North America
Order intake was unchanged in the **first quarter** compared to the fourth, with a positive development for larger orders, whereas the base business declined. Industrial Equipment, OEM and Food & Life Science did particularly well in the quarter, while Sanitary and Energy & Process declined due to non-repeats. Overall Service developed positively.

Order intake increased in the **second quarter** compared with the first, thanks to larger projects while the base business remained unchanged. Growth was recorded in Sanitary, Marine & Diesel Equipment, Marine & Offshore Systems, Energy & Process and Water & Waste Treatment. Demand for Service remained on the same level as in the previous quarter.

North America reported a decline in order intake in the **third quarter** compared to the second, affected by a drop in the U.S., which saw fewer large contracts. The base business, however, continued to grow in the region. Water & Waste declined, as a large order taken in the previous quarter was not repeated. Industrial Equipment and Energy & Process also declined, while OEM, Sanitary, Marine & Diesel Equipment and Food & Life Science all did well. The Service business remained flat.

Order intake in North America was unchanged in the **fourth quarter** compared to the third, for large projects as well as the base business. The Service segment reported growth. Overall, in the region, Industrial Equipment, OEM and Food & Life Science all had a positive development.

Latin America
Order intake increased significantly in the **first quarter** compared to the previous quarter. The main driver was Brazil that reported large cancellations in the previous quarter. There was also a positive impact from the base business, which had a strong development throughout the region. Brazil also had a positive development for Service.

The region reported a drop in order intake in the **second quarter** compared to the previous quarter. This was mainly explained by Brazil, which had a large non-repeat order in the first quarter. Mexico, on the other hand, reported a strong quarter, supported by good growth in the Equipment division and for Service in Process Technology.

The region declined somewhat in the **third quarter**, negatively impacted by continued low demand in Brazil and the non-repeat of a larger service project in Mexico during the second quarter. Other areas in the region grew and especially Argentina, which reported a solid development in all divisions and with a number of larger orders in the food and mining sectors.

Order intake grew in the **fourth quarter** compared to the third, boosted by a very positive development in Mexico, where some larger brewery projects were booked and where the Service business also reported a good development. Argentina and Chile contributed to the region's growth through a good base business development in both the Equipment and Process Technology division. Brazil remained flat compared to the previous quarter, following the gradual recovery seen over the past few quarters.

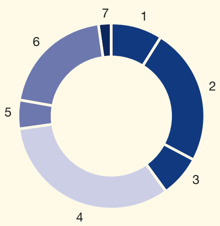
* Base business and base orders refer to orders with an order value of less than EUR 0.5 million.

Asia
Order intake was weaker during the **first quarter** compared to the previous quarter, due to a substantially lower demand for marine pumping systems as well as a generally slower project business in the region. The segments in the Marine & Diesel division showed a mixed performance. The Marine & Offshore Systems segment was unchanged, with a weaker demand in Korea and a very strong demand in China. Marine & Diesel Equipment declined following slower contracting during the second half of last year. The Marine & Offshore Pumping Systems segment declined substantially, as the pre-buying effect noted in the fourth quarter, as expected was not repeated. The Process Technology division declined as a large petrochemical order booked in the fourth quarter was not repeated. The project business climate was in general slower with decisions being deferred by the customers. The exception was Food Technology, which saw strong growth in vegetable oil and life science-related applications. Service had a positive development in the quarter. The Equipment division declined somewhat, reflecting a decline in Industrial Equipment, with the exception of the comfort market, which benefited from stronger demand for data centre cooling. The Sanitary segment, however, enjoyed a positive development, the main driver being the food market, reflecting the increased focus on food across Asia and particularly in China. China in total declined compared to the previous quarter, reflecting lower demand for marine pumping systems. Excluding pumping systems, China reported strong growth.

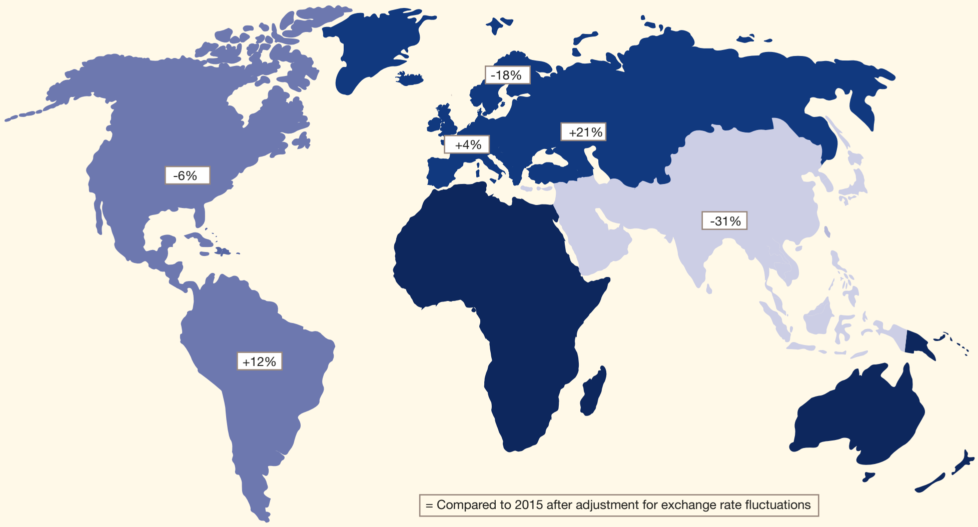
Lower **second quarter** demand from shipbuilding and in the Process Technology business explained a limited decline in order intake for the region as a whole compared to the first quarter. Service grew, lifted by good demand in Process Technology, which

Information about geographical areas

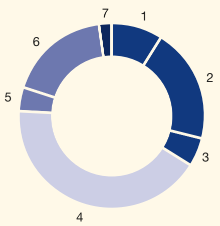
Orders received 2016



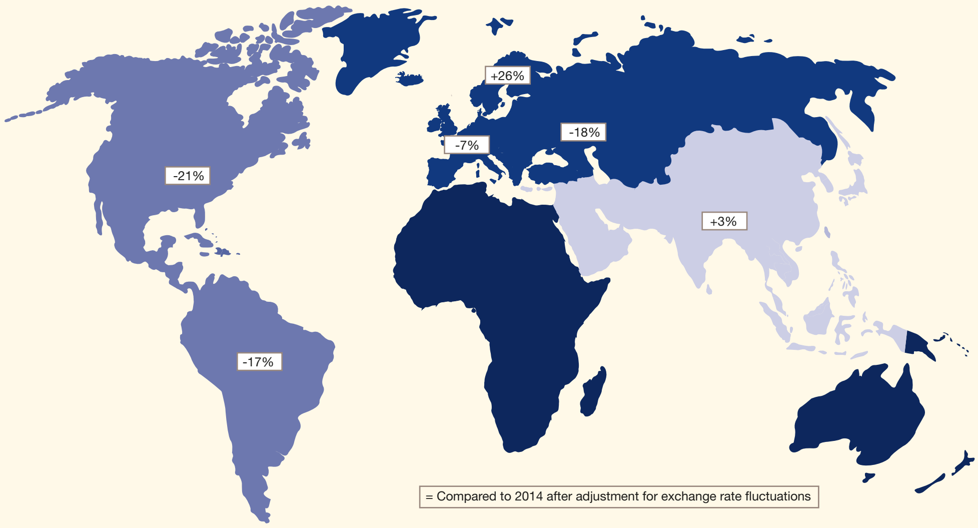
1	Nordic	9%
2	Western Europe	24%
3	Central & Eastern Europe	7%
4	Asia	33%
5	Latin America	5%
6	North America	20%
7	Other	2%



Orders received 2015



1	Nordic	9%
2	Western Europe	20%
3	Central & Eastern Europe	5%
4	Asia	42%
5	Latin America	4%
6	North America	18%
7	Other	2%



benefitted from pent-up demand in the energy area as well as a good development in Food & Life Science. The Marine & Diesel division reported an overall decline, as the downturn in new shipbuilding orders continued to affect the South Korean market. Demand for pumping systems, however, grew. Order intake declined in the Process Technology division, mainly due to non-repeats of larger orders in the Food Technology segment. Energy & Process, however, had a good development with strong growth for market unit Petrochemicals and for inorganic chemicals applications, thanks to a number of larger orders in China, Taiwan, Thailand and India. The best performance in the second quarter was reported by the Equipment division, which benefitted from a strong base business, particularly within the Sanitary segment. The segment was boosted by good demand from the food and pharma industries in China, Korea and South East Asia. Added support came from India, which reported a good development in the personal care business. When explaining the regional decline from a country perspective, the picture was mixed. South Korea declined, affected by the downturn in new shipbuilding orders, while China showed good growth, supported by increased demand for pumping systems for product and chemical tankers.

Order intake declined in the **third quarter** compared to the second, negatively affected by the drop for ship contracting. The effect was particularly pronounced for pumping systems. Process Technology reported a decline driven foremost by the Energy & Process segment, whereas Food Technology and in particular vegetable oil had good order intake in the quarter. The Equipment division had a good quarter thanks to strong demand for products used for comfort applications. OEM also did well, while the Sanitary segment was unchanged compared to the previous quarter. Service showed a minor decline, mainly explained by the marine sector where there was less demand for upgrades. From a country perspective, China reported growth, coming from good demand in both Process Technology and Equipment. South Korea and Japan were both pressured by lower marine demand, whereas countries in Southeast Asia grew, driven by refinery and inorganic application orders. Order intake in India was on the same level as in the second quarter.

Order intake grew in the **fourth quarter** compared to the previous quarter, mainly explained by large orders in the Process Technology division and order growth in the Marine & Diesel division compared to the very low level reported in the previous quarter. The Equipment division showed a decline in order intake in the quarter as the comfort business in Industrial Equipment came down from the strong levels recorded in the third quarter. Service showed a general improvement in the quarter, mainly driven by the marine business. From a country perspective India and South Korea reported the strongest development compared to the third quarter. Japan also did well, with growth across all divisions and particularly so in Marine & Diesel. India benefitted from a number of projects in the food and refinery sectors. The positive development in South Korea was mainly explained by marine pumping systems, which improved from a weak third quarter. China reported a decline in order intake compared to the previous quarter. The Equipment division in China reported a lower order intake, due to a decline in Sanitary. Process Technology also showed a decline in China, explained by a slower base business, while larger orders were unchanged.

Guidelines for remunerations to executive officers

The guidelines for remunerations to executive officers are established by the Annual General Meeting, see further description in Note 6.

The Annual General Meeting 2016 decided to implement step six of a cash based long term incentive programme for maximum 85 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The Board of Directors will propose the Annual General Meeting 2017 to implement step seven of the cash-based long term incentive programme for the period January 1, 2017 – December 31, 2019 for maximum 70 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. No other changes of these guidelines are proposed by the Board of Directors.

Research and development

As the result of an intensive and consistent commitment over many years to research and development, Alfa Laval has achieved a world-leading position within the areas of separation and heat transfer. The product development within fluid handling has resulted in a strong market position for a number of products. In order to strengthen the Group's position and to support the organic growth, by identifying new applications for existing products as well as developing new products, research and development is always an activity of high priority. Research and development is conducted at approximately twenty facilities around the world.

The costs for research and development have amounted to SEK 822 (756) million, corresponding to 2.3 (1.9) percent of net sales. Excluding currency effects and acquisition of businesses, the costs for research and development have increased by 8.3 percent compared to last year. The increase is partly explained by a low level during 2015, but mainly by a deliberate effort to achieve faster development and renewal of the product range.

Personnel

The parent company does not have any employees.

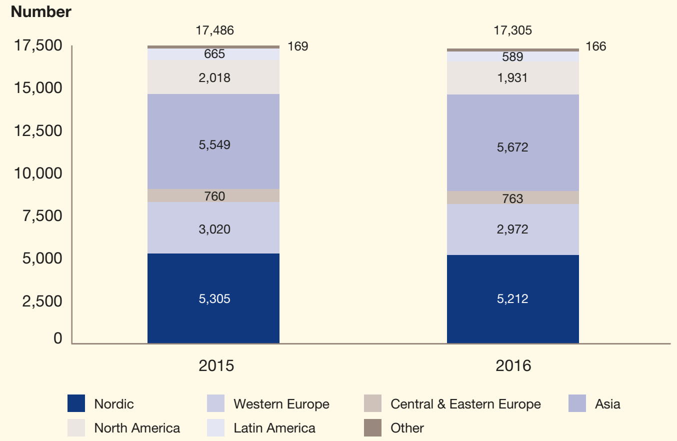
The Group has on average had 17,305 (17,486) employees. At the end of December 2016 the Group had 16,941 (17,417) employees. The employee turnover rate for 2016 is 9.5 (8.6) percent and mainly relates to employees within service and repair workshops, module production units and central management & administration.

Alfa Laval has the ambition to develop the employees on all levels within the Group. The largest part of the competence development takes place in the daily work when our employees continuously get more demanding tasks as well as get the opportunity to participate in different projects together with more experienced colleagues. Local training and development efforts in the different factories and sales companies around the world are equally important, for instance ALPS (Alfa Laval Production System) that is based on the well-known concepts of Lean and Six Sigma, while the more comprehensive group-wide training programmes and development projects are performed within the Alfa Laval Academy framework. Examples of these training programmes are Challenger (for young talents with international leadership potential), Impact (for women in the middle of the career), Project Management, Product trainings, Information Security (mandatory training via E-learning) and Pure Leadership (for middle management). During 2016 we carried through the up till now most extensive leadership development programme, called "Drive", for our 124 top international executives. It consisted of five modules, with both virtual and live seminars. Focus was on development of the personal leadership where the importance of being an "authentic" leader was emphasised as well as an extensive concentration on leading change. The latter is a skill that is high on the agenda considering the large

Employees

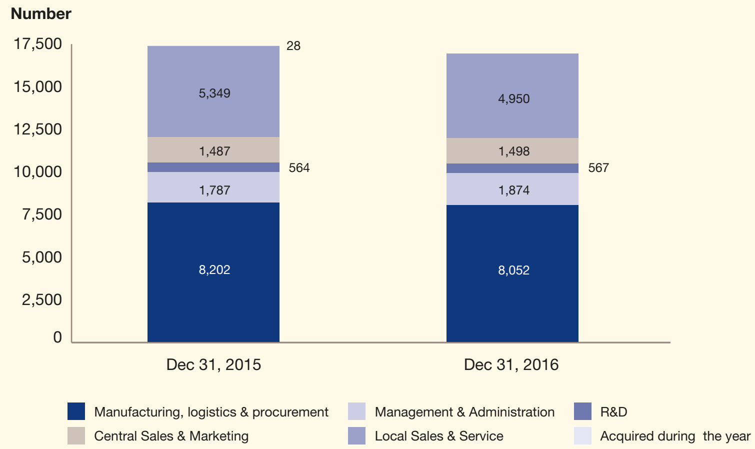
The distribution of the number of employees by region is:

Average number of employees – by region



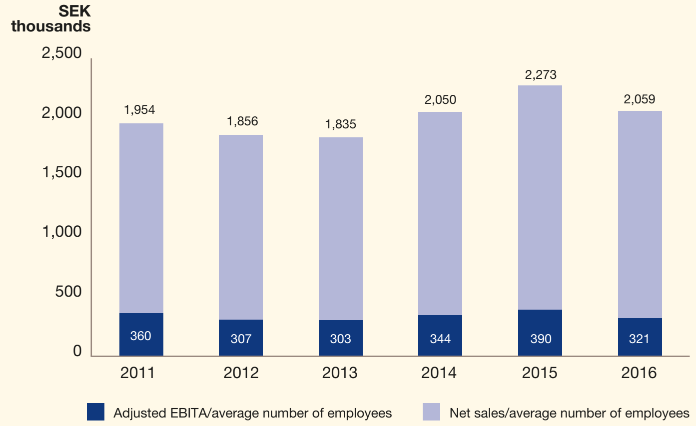
The distribution of the number of employees by personnel category at year end is:

Employees – by category



The productivity by employee has developed as follows:

Employees – Productivity development



The whole period 2011-2013 has been affected by the strengthening of the Swedish krona. The outcome for 2011 and 2012 has been affected by the acquisition of Aalborg Industries and the Euro crisis. Aalborg Industries has a lower turnover per employee than Alfa Laval. The outcome for 2015 has been affected by the weakening of the Swedish krona and the acquisition of Frank Mohn. The outcome for 2016 has been affected by the receding demand, mitigated by the continued weakening of the Swedish krona.

changes that have been or will be implemented in the Group during 2016–2017.

Alfa Laval is working to achieve equal career opportunities independent of for instance gender or ethnic origin. The latter is not the least important in an international company. Likewise the number of female managers shall increase in order to better reflect the females' part of the total number of employees. To facilitate this, a mentor programme has started for women with capacity to become future leaders.

The distribution of employees per country and per municipality in Sweden and between males and females can be found in Note 5 in the notes to the financial statements. The specification of salaries, wages, remunerations, social costs and pension costs are provided in Note 6 in the notes to the financial statements.

Ethics and social responsibility

Two of Alfa Laval's four business principles are: "Respect for human rights is fundamental" and "High ethical standards guide our conduct". This means that Alfa Laval respects human rights and the very different social cultures in which the company works and supplies its products and services and that Alfa Laval conducts its business with honesty, integrity and respect for others.

Globalisation gives Alfa Laval new business opportunities for increased sales as well as lower costs for manufacturing the products. But when part of the supply chain is moved to countries with lower costs the company is often confronted with ethical questions in a more obvious manner. Health, security and working conditions for the employees at the company's suppliers are some of Alfa Laval's main topics. When Alfa Laval procures products from quickly growing economies like China and India it is important for the company to secure that the cost reduction opportunities are not at the expense of those performing the work in each country. Alfa Laval regards it as an obligation to make sure that its suppliers develop quickly if the work, health and security conditions are not acceptable.

Alfa Laval has developed an internal training programme to give sales people and purchase departments knowledge on legal business practice.

Environment

One of Alfa Laval's four business principles is: "Optimizing the use of natural resources in the most efficient manner is our business." The company's products make a significant contribution to reducing the environmental impact of industrial processes and are used to produce renewable energy.

Since 2004 the Group runs a project to improve the internal environmental management systems. Today all sites (except recent acquisitions) have an environmental management system in place. At the end of 2016 29 (29) production sites with ISO 14001 certification accounted for about 94 (92) percent of the delivery value. The goal is to have a certification level of at least 95 percent.

The subsidiary, Alfa Laval Corporate AB, is involved in operational activities that are subject to an obligation to report and compulsory licensing according to Swedish environmental legislation. The permits mainly relate to the manufacturing of heat exchangers in Lund and Ronneby and the manufacturing of separators in Tumba and Eskilstuna. The external environment is affected through limited discharges into the air and water, through waste and noise.

The foreign manufacturing sites within the Alfa Laval Group are engaged in operational activities with a similar effect on the external environment. To what extent this activity is subject to an obligation to report and/or compulsory licensing according to local environmental legislation varies from country to country. Alfa Laval has an overall intention to operate well within the limits that are set by local legislation.

Asbestos-related lawsuits

The Alfa Laval Group was as of December 31, 2016, named as a co-defendant in a total of 824 asbestos-related lawsuits with a total of approximately 824 plaintiffs. Alfa Laval strongly believes the claims against the Group are without merit and intends to vigorously contest each lawsuit.

Based on current information and Alfa Laval's understanding of these lawsuits, Alfa Laval continues to believe that these lawsuits will not have a material adverse effect on the Group's financial condition or results of operation.

Result for the parent company

The parent company's result after financial items was SEK 66 (1,051) million, out of which dividends from subsidiaries were SEK 76 (1,070) million, net interests SEK 1 (0) million, realised and unrealised exchange rate gains and losses SEK 7 (-8) million, costs related to the listing SEK -4 (-4) million, fees to the Board SEK -7 (-7) million, costs for annual report and annual general meeting SEK -2 (-2) million and other operating costs the remaining SEK -5 (2) million. Change of tax allocation reserve has been made with SEK -264 (156) million. Group contributions amount to SEK 2,002 (59) million. Tax on this year's result amount to SEK -381 (-46) million. Net income for the year was SEK 1,423 (1,220) million.

Unrestricted equity for the parent company

The unrestricted equity of Alfa Laval AB (publ) was SEK 9,197 (9,557) million.

Proposed disposition of earnings

The Board of Directors propose a dividend of SEK 4.25 (4.25) per share corresponding to SEK 1,783 (1,783) million and that the remaining income available for distribution in Alfa Laval AB (publ) of SEK 7,414 (7,774) million be carried forward, see Note 37.

The Board of Directors are of the opinion that the proposed dividend is in line with the requirements that the type and size of operations, the associated risks, the capital needs, liquidity and financial position put on the company.

Disclosure on share related information

Paragraph 2a in chapter 6 of the Swedish Annual Accounts Act requires listed companies to disclose certain information relating to the company's shares in the Board of Directors' Report. This information is found in the following paragraphs, in the "Changes in consolidated equity" and in Note 6.

Outlook for the first quarter

In the fourth quarter and full year 2017 report issued on January 31, 2017 the President and Chief Executive Officer Tom Erixon stated:

"We expect that demand during the first quarter 2017 will be somewhat lower than in the fourth quarter."

Earlier published outlook (October 25, 2016): "We expect that demand during the fourth quarter 2016 will be in line with or somewhat higher than in the third quarter."

Date for the next financial reports during 2017

Alfa Laval will publish interim reports during 2017 at the following dates:

Interim report for the first quarter	April 26
Interim report for the second quarter	July 17
Interim report for the third quarter	October 25

Consolidated cash flows

Consolidated cash flows			
SEK millions	*Note*	2016	2015
Operating activities			
Operating income		2,989	5,717
Adjustment for depreciation, amortisation and write down		2,334	1,761
Adjustment for other non-cash items		16	-231
		5,339	7,247
Taxes paid		-1,161	-1,577
		4,178	5,670
Changes in working capital:			
Increase(-)/decrease(+) of receivables		592	426
Increase(-)/decrease(+) of inventories		32	347
Increase(+)/decrease(-) of liabilities		-424	-438
Increase(+)/decrease(-) of provisions		601	-155
Increase(-)/decrease(+) in working capital		**801**	**180**
		4,979	**5,850**
Investing activities			
Investments in fixed assets (Capex)		-617	-674
Divestment of fixed assets		39	25
Acquisition of businesses	*16*	-230	-73
Divestment of businesses		13	12
		-795	**-710**
Financing activities			
Received interests and dividends		163	124
Paid interests		-243	-316
Realised financial exchange gains		316	157
Realised financial exchange losses		-89	-288
Dividends to owners of the parent		-1,783	-1,678
Dividends to non-controlling interests		-17	-18
Increase(-) of financial assets		0	-311
Decrease(+) of financial assets		8	0
Increase of loans		1,860	3,400
Amortisation of loans		-3,781	-6,299
		-3,566	**-5,229**
Cash flow for the year		**618**	**-89**
Cash and cash equivalents at the beginning of the year		1,876	2,013
Translation difference in cash and cash equivalents		125	-48
Cash and cash equivalents at the end of the year	*25*	**2,619**	**1,876**
Free cash flow per share (SEK) *		9.97	12.25
Capex in relation to net sales		1.7%	1.7%
Average number of shares		419,456,315	419,456,315

* Free cash flow is the sum of cash flows from operating and investing activities.

Comments to the consolidated cash-flows

For further comments on certain individual lines in the cash-flow statement, reference is made to Notes 16 and 25.

Cash flows from operating activities
The decrease in cash flows from operating activities in 2016 is explained by lower operating income before depreciation and amortisation, mitigated by a larger decrease in working capital and lower tax payments.

Cash and cash equivalents
The item cash and cash equivalents is mainly relating to bank deposits and liquid deposits.

Cash flow
Cash flow from operating and investing activities amounted to SEK 4,184 (5,140) million during 2016. Out of this, acquisitions of businesses were SEK -230 (-73) million whereas divestments generated cash of SEK 52 (37) million.

Adjustment for other non-cash items
Other non-cash items are mainly referring to realised gains and losses in connection with sale of assets. These have to be eliminated since the cash impact of divestments of fixed assets and businesses are reported separately under cash flow from investing activities.

Working capital
Working capital decreased by SEK 801 (180) million during 2016.

Investments
Investments in property, plant and equipment amounted to SEK 617 (674) million during 2016. The investments made for the individual product groups are as follows:

Heat exchangers
Investments have been made in machines for increased capacity and manufacturing of new products and in productivity enhancing equipment in Alonte in Italy, Ronneby in Sweden and Jiang Yin in China for brazed heat exchangers. Investments have been made in Jiang Yin in China and in Lund in Sweden in equipment to widen the product range and increase the productivity for gasketed heat exchangers. Larger investments have also been made to rationalize the manufacturing of boilers in Qingdao in China.

High speed separators
Continued modernisation of machining equipment for separators has been made in Krakow in Poland. Investments have been made in new test equipment in Jiang Yin in China.

Fluid handling products
During 2016 major investments in productivity and capacity increasing equipment have been made relating to fluid handling products in Kolding in Denmark, in Kunshan in China and in Eastbourne in England.

Depreciations
Depreciation, excluding allocated step-up values, amounted to SEK 643 (667) million during the year.

Acquisitions and disposals
For a further analysis of the impact on the cash flow by acquisitions and disposals, see Note 16.

Free cash flow per share
The free cash flow per share is SEK 9.97 (12.25).

Consolidated comprehensive income

Consolidated comprehensive income

SEK millions	Note	2016	2015
Net sales	*1, 2, 3, 4*	35,634	39,746
Cost of goods sold	*9*	-24,581	-26,707
Gross profit		11,053	13,039
Sales costs	*5, 6, 9*	-4,328	-4,107
Administration costs	*5, 6, 7, 9*	-1,649	-1,813
Research and development costs	*9*	-822	-756
Other operating income	*8*	613	495
Other operating costs	*8, 9*	-1,893	-1,149
Share of result in joint ventures	*33*	15	8
Operating income		2,989	5,717
Dividends and changes in fair value	*10*	47	33
Interest income and financial exchange rate gains	*11*	645	404
Interest expense and financial exchange rate losses	*11*	-356	-710
Result after financial items		3,325	5,444
Tax on this year's result	*15*	-960	-1,541
Other taxes	*15*	-53	-42
Net income for the year		**2,312**	**3,861**
Other comprehensive income:			
Items that will subsequently be reclassified to net income			
Cash flow hedges		245	-195
Market valuation of external shares		0	2
Translation difference		1,882	-1,056
Deferred tax on other comprehensive income	*15*	-143	20
Sum		1,984	-1,229
Items that will subsequently not be reclassified to net income			
Revaluations of defined benefit obligations		-505	332
Deferred tax on other comprehensive income	*15*	67	-47
Sum		-438	285
Comprehensive income for the year		**3,858**	**2,917**
Net income attributable to:			
Owners of the parent		2,289	3,839
Non-controlling interests		23	22
Earnings per share (SEK)		5.46	9.15
Average number of shares		419,456,315	419,456,315
Comprehensive income attributable to:			
Owners of the parent		3,815	2,903
Non-controlling interests		43	14

Comments to the consolidated comprehensive income

For comments on the individual lines in the consolidated comprehensive income statement, reference is made to Notes 1 to 15 and Note 28. For comments on the operating segments, see Note 1.

As a basis for comments on the various main items of the consolidated comprehensive income statement, please find a comparison between the last two years:

Income analysis

Consolidated

SEK millions	2016	2015
Net sales	35,634	39,746
Adjusted gross profit *	12,744	14,133
- adjusted gross margin (%) *	***35.8***	***35.6***
Expenses **	-6,548	-6,655
- in % of net sales	*18.4*	*16.7*
Adjusted EBITDA *	**6,196**	**7,478**
*- adjusted EBITDA margin (%) **	*17.4*	*18.8*
Depreciation	-643	-667
Adjusted EBITA *	**5,553**	**6,811**
- adjusted EBITA margin (%) *	***15.6***	***17.1***
Amortisation of step-up values	-1,064	-1,094
Comparison distortion items:		
Write down of goodwill and step-up values	-627	–
Restructuring	-873	–
Operating income	2,989	5,717

* Alternative performance measures, defined on page 142. ** Excluding comparison distortion items.

The gross margin has increased by 0.2 percentage units between 2015 and 2016. The increase is explained by a favourable mix between capital sales and service, positive procurement variations and by currency effects, largely related to a stronger USD.

Sales and administration expenses amounted to SEK 5,977 (5,920) million. Excluding currency effects and acquisition of businesses, sales and administration expenses were 1.2 percent higher than last year.

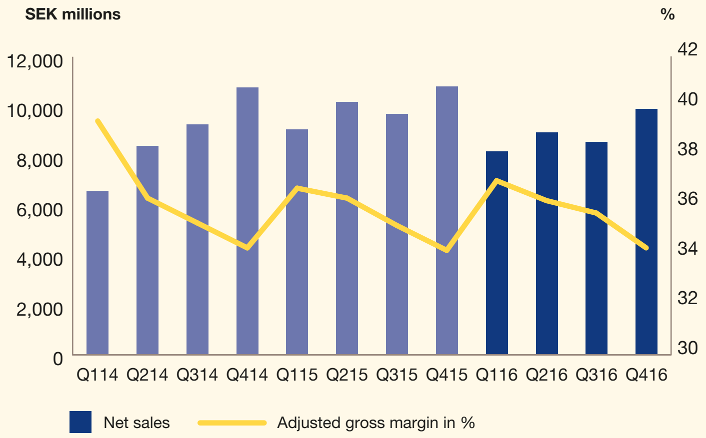
The costs for research and development have amounted to SEK 822 (756) million, corresponding to 2.3 (1.9) percent of net sales. Excluding currency effects and acquisition of businesses, the costs for research and development have increased by 8.3 percent compared to last year. The increase is partly explained by a low level during 2015, but mainly by a deliberate effort to achieve faster development and renewal of the product range.

The net income attributable to the owners of the parent, excluding depreciation of step-up values and the corresponding tax, is SEK 8.48 (11.02) per share.

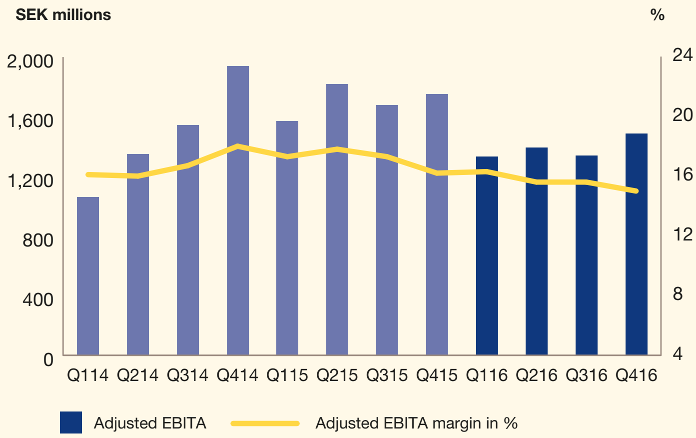
Compared with last year Alfa Laval has been affected during 2016 by exchange rate differences, both through translation differences and through the net exposure when trading in foreign currencies. The effect on adjusted EBITA has been calculated to totally about SEK 478 (450) million for 2016 compared with last year. The effect of the exchange rate variations has been limited through exchange rate hedging and through the distribution of the company's financial debts in relation to its net assets in different currencies.

In order to illustrate the quarterly development, the last 12 quarters are shown below for four of the parameters in the income analysis:

Net sales & adjusted gross margin



Adjusted EBITA



The operating income has been affected by comparison distortion items of SEK -1,500 (-) million, which are specified below. In the consolidated comprehensive income statement these are reported gross as a part of each concerned line.

Group Management has started three initiatives for restructuring and implementation of a new organisation. The three initiatives concern:

1 – Cost adaptations and a new organisation
The initiative includes the consequences of establishing a new more efficient organisational structure at the same time as it contains adaptations to the current demand situation.

2 – Restructuring of the manufacturing structure
This initiative includes a stepwise implementation of measures to achieve an even more competitive manufacturing structure. The initiative comprises re-locations and closures of entities during a period of about three years.

3 – "Greenhouse"
The initiative means that three product groups that have had an unsatisfactory development will be operated separately from the new organisation in order to in an even more focused manner give the best preconditions for a better development.

The costs for the initiatives are of a non-recurring nature and have amounted to SEK 1,500 million for 2016. The cost contains among others a write down of above all allocated step-up values and goodwill with about SEK 700 million, which has burdened cost of goods sold. The remaining part of the cost of SEK 800 million concerns mainly lay off of about 1,000 employees and in addition certain costs for write down of assets and provisions for lease agreements, which has burdened other operating costs.

The measures during 2016 are estimated to give savings related to cost of goods sold of approximately SEK 200 million and to operating costs, excluding cost of goods sold, of about SEK 300 million and are expected to be implemented to approximately 75 percent by the end of 2017 and to be implemented in full by the end of 2018.

Consolidated financial net and taxes
The financial net has amounted to SEK -76 (-177) million, excluding realised and unrealised exchange rate losses and gains. The main elements of costs were interest on the debt to the banking syndicate of SEK -8 (-15) million, interest on the bilateral term loans of SEK -56 (-77) million, interest on the private placement of SEK -3 (-9) million, interest on the commercial papers of SEK -0 (-1) million, interest on the corporate bonds of SEK -80 (-83) million and a net of dividends and other interest income and interest costs of SEK 71 (8) million.

The net of realised and unrealised exchange rate differences has amounted to SEK 412 (-96) million.

The tax on the result after financial items was SEK -1,013 (-1,583) million in 2016. The effective tax has been affected by the write down of goodwill of SEK -533 million, where no corresponding deferred tax has been released. The tax cost for 2016 has been affected by non-recurring items of about SEK 132 million concerning adjustments of deferred taxes relating to step-up values, due to reduced company taxes in certain countries and thereby decreased deferred tax liabilities.

Cash flow hedges in other comprehensive income are explained by the following components:

Fair value changes in cash flow hedges

Consolidated		
SEK millions	2016	2015
Opening balance	-693	-498
Booked into other comprehensive income during the year	263	-23
Reversed from other comprehensive income due to inefficiency:		
booked against cost of goods sold	-5	-15
Reversed from other comprehensive income:		
booked against cost of goods sold	-17	-166
booked against interest income/interest costs	4	9
Closing balance	**-448**	**-693**
Change reported against other comprehensive income	245	-195

The Group has not had any cash flow hedges that have affected the initially recognised carrying amount of non-financial assets.

Accumulated translation differences *

Consolidated

SEK millions

Year	Main explanation to translation differences	Change	Accumulated	Pre-tax effect on change by hedging measures
Formation of the Group				
2000	The EUR was appreciated by 6 %, which affected the EUR based acquisition loans	-94	-94	-312
2001	The USD was appreciated by 10.7 %	97	3	-105
2002	The USD was depreciated by 16.7 %	-190	-187	165
2003	The USD was depreciated by 17.5 %	-38	-225	195
2004	The USD was depreciated by 9.0 %	-103	-328	-19
2005	The USD was appreciated by 20.3 % and the EUR was appreciated by 4.8 %	264	-64	-65
2006	The USD was depreciated by 13.5 % and the EUR was depreciated by 4.0 %	-269	-333	56
2007	The USD was depreciated by 5.7 % whereas the EUR was appreciated by 4.7 %	224	-109	13
2008	The USD was appreciated by 20.5 % and the EUR was appreciated by 16.2 %	850	744	-468
2009	The USD was depreciated by 7.5 % and the EUR was depreciated by 6.0 %	-392	352	220
2010	The USD was depreciated by 5.7 % and the EUR was depreciated by 12.9 %	-554	-202	99
2011	The USD was appreciated by 1.4 % whereas the EUR was depreciated by 0.8 %	-254	-456	34
2012	The USD was depreciated by 5.8 % and the EUR was depreciated by 3.6 %	-798	-1,254	214
2013	The USD was appreciated by 0.3 % and the EUR was appreciated by 4.1 %	39	-1,215	-83
2014	The USD was appreciated by 20.5 % and the EUR was appreciated by 6.3 %	439	-776	-1,033
2015	The USD was appreciated by 6.6 % whereas the EUR was depreciated by 4.0 %	-1,056	-1,832	301
2016	The USD was appreciated by 8.6 % and the EUR was appreciated by 4.6 %	1,882	50	-643

* Reported against other comprehensive income. Prior to 2009 these translation differences were reported against equity.

Consolidated financial position

Consolidated financial position			
ASSETS			
SEK millions	*Note*	2016	2015
Non-current assets			
Intangible assets	*16, 17*		
Patents and unpatented know-how		2,142	2,467
Trademarks		3,766	4,048
Licenses, renting rights and similar rights		38	41
Goodwill		20,436	19,498
		26,382	26,054
Property, plant and equipment	*16, 18*		
Real estate		2,450	2,447
Machinery and other technical installations		1,629	1,578
Equipment, tools and installations		580	604
Construction in progress and advances to suppliers concerning property, plant and equipment		281	144
		4,940	4,773
Other non-current assets			
Other long-term securities	*13, 14, 19*	25	28
Pension assets	*26*	3	4
Derivative assets	*13, 14*	16	7
Deferred tax assets	*15*	2,056	1,765
		2,100	1,804
Total non-current assets		**33,422**	**32,631**
Current assets			
Inventories	*20*	7,831	7,405
Assets held for sale			
Real estate	*18*	2	9
Current receivables			
Accounts receivable	*13, 21*	5,830	5,796
Current tax assets		739	1,164
Other receivables	*13, 22*	1,339	1,558
Prepaid costs and accrued income	*13, 23*	368	279
Derivative assets	*13, 14*	153	158
		8,429	8,955
Current deposits			
Other current deposits	*13, 24*	1,075	1,021
Cash and cash equivalents	*13, 25*	2,619	1,876
Total current assets		**19,956**	**19,266**
TOTAL ASSETS		**53,378**	**51,897**

Consolidated financial position, continued

EQUITY AND LIABILITIES			
SEK millions	*Note*	2016	2015
Equity			
Attributable to owners of the parent			
Share capital		1,117	1,117
Other contributed capital		2,770	2,770
Other reserves		-1,742	-3,268
Retained earnings		18,014	17,683
		20,159	18,302
Attributable to non-controlling interests	*12*	117	121
Total equity		**20,276**	**18,423**
Non-current liabilities			
Liabilities to credit institutions etc	*13, 28*	12,169	12,484
Provisions for pensions and similar commitments	*26*	2,425	1,931
Provision for deferred tax	*15*	2,722	2,925
Other provisions	*27*	599	418
Derivative liabilities	*13, 14*	37	103
Total non-current liabilities		**17,952**	**17,861**
Current liabilities			
Liabilities to credit institutions etc	*13, 28*	1,078	2,019
Advances from customers		2,721	3,136
Accounts payable	*13*	2,490	2,492
Notes payable	*13*	178	172
Current tax liabilities		1,256	1,214
Other liabilities	*13, 29*	2,352	1,973
Other provisions	*27*	2,365	1,798
Accrued costs and prepaid income	*13, 30*	2,433	2,237
Derivative liabilities	*13, 14*	277	572
Total current liabilities		**15,150**	**15,613**
Total liabilities		**33,102**	**33,474**
TOTAL EQUITY AND LIABILITIES		**53,378**	**51,897**

Comments on the consolidated financial position

For comments on the individual lines in the statement on financial position, reference is made to Notes 12 to 34. For comments on the operating segments, see Note 1.

Capital employed
The average capital employed including goodwill and step-up values amounted to SEK 30,663 (31,512) million during the year.

Return on capital employed
The return on average capital employed including goodwill and step-up values amounted to 15.3 (21.6) percent during the year.

Capital turnover rate
The capital turnover rate calculated on the average capital employed including goodwill and step-up values amounted to 1.2 (1.3) times for the year.

Return on equity
Net income in relation to the average equity was 11.8 (21.7) percent during the year.

Solidity
The solidity, that is the equity in relation to total assets, was 38.0 (35.5) percent at the end of the year.

Net debt
The net debt was SEK 9,619 (11,688) million at the end of the year.

Net debt to EBITDA
Net debt in relation to EBITDA was 1.81 (1.56) times at the end of December.

Debt ratio
The debt ratio, that is the net debt in relation to equity, was 0.47 (0.63) times at the end of December.

Changes in consolidated equity

Changes in consolidated equity

Attributable to:	Owners of the parent								Non-controlling interests			Total
			Other reserves									
SEK millions	Share capital	Other contributed capital	Cash flow hedges	Market valuation of external shares	Translation differences	Revaluations	Retained earnings	Subtotal	Translation differences	Retained earnings	Subtotal	
As of December 31, 2014	**1,117**	**2,770**	**-393**	**0**	**-677**	**-1,262**	**15,522**	**17,077**	**3**	**122**	**125**	**17,202**
2015												
Comprehensive income												
Net income	–	–	–	–	–	–	3,839	3,839	–	22	22	3,861
Other comprehensive income	–	–	-152	1	-1,070	285	–	-936	-8	–	-8	-944
Comprehensive income	–	–	-152	1	-1,070	285	3,839	2,903	-8	22	14	2,917
Transactions with shareholders												
Dividends to owners of the parent	–	–	–	–	–	–	-1,678	-1,678	–	–	–	-1,678
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	-18	-18	-18
As of December 31, 2015	**1,117**	**2,770**	**-545**	**1**	**-1,747**	**-977**	**17,683**	**18,302**	**-5**	**126**	**121**	**18,423**
2016												
Comprehensive income												
Net income	–	–	–	–	–	–	2,289	2,289	–	23	23	2,312
Other comprehensive income	–	–	191	0	1,773	-438	–	1,526	20	–	20	1,546
Comprehensive income	–	–	191	0	1,773	-438	2,289	3,815	20	23	43	3,858
Transactions with shareholders												
Decrease of non-controlling interests	–	–	–	–	–	–	-175	-175	–	-30	-30	-205
Dividends to owners of the parent	–	–	–	–	–	–	-1,783	-1,783	–	–	–	-1,783
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	-17	-17	-17
As of December 31, 2016	**1,117**	**2,770**	**-354**	**1**	**26**	**-1,415**	**18,014**	**20,159**	**15**	**102**	**117**	**20,276**

Specification of changes in number of shares and share capital

Year	Event	Date	Change in number of shares	Total number of shares	Change in share capital SEK millions	Total share capital SEK millions
2000	Company formation	March 27, 2000	10,000,000	10,000,000	0.1	0.1
	New issue of shares	August 24, 2000	27,496,325	37,496,325	0.3	0.4
2002	Bonus issue of shares	May 3, 2002	37,496,325	74,992,650	0.4	1
	Bonus issue of shares	May 16, 2002	–	–	749	750
	New issue of shares	May 16, 2002	3,712,310	78,704,960	37	787
	New issue of shares	May 17, 2002	32,967,033	111,671,993	330	1,117
2008	Cancellation of repurchased shares	May 27, 2008	-4,323,639	107,348,354	-43	
	Bonus issue of shares	May 27, 2008	–	107,348,354	43	1,117
	Split 4:1	June 10, 2008	322,045,062	429,393,416	–	1,117
2009	Cancellation of repurchased shares	July 9, 2009	-7,353,950	422,039,466	-19	
	Bonus issue of shares	July 9, 2009	–	422,039,466	19	1,117
2011	Cancellation of repurchased shares	May 16, 2011	-2,583,151	419,456,315	-7	
	Bonus issue of shares	May 16, 2011	–	419,456,315	7	1,117

Comments on changes in consolidated equity

The articles of association of Alfa Laval AB (publ) state that the share capital should be between SEK 745,000,000 and 2,980,000,000 and that the number of shares should be between 298,000,000 and 1,192,000,000.

At January 1, 2016 the share capital of SEK 1,116,719,930 was divided into 419,456,315 shares. Since then no changes have been made.

The company has only issued one type of shares and all these have equal rights. There are no restrictions in law or in the articles of association in the negotiability of the shares.

The only shareholder holding more than 10 percent of the shares is Tetra Laval B.V., the Netherlands who owns 29.1 (26.1) percent. The employees of the company do not own any shares in the company through company pension trusts.

No restrictions exist in how many votes that each shareholder can represent at a general meeting of shareholders. The company has no knowledge of any agreements between shareholders that would limit the negotiability of their shares.

The articles of association stipulate that members of the Board are elected at the Annual General Meeting. Election or discharge of members of the Board is otherwise regulated by the provisions in the Swedish Companies Act and the Swedish Corporate Governance Code. According to the Companies Act changes in the articles of association are decided at general meetings of shareholders.

The senior credit facility with the banking syndicate, the corporate bonds and the bilateral term loans with Swedish Export Credit and the European Investment Bank contain conditions that give the lenders the opportunity to terminate the loans and declare them due and payable if there is a change of control of the company through an acquisition of more than 30 percent of the total number of shares.

The possibilities to distribute unappropriated profits from foreign subsidiaries are limited in certain countries due to currency regulations and other legislation.

Parent company cash flows and income

Parent company cash flows

SEK millions	2016	2015
Cash flow from operating activities		
Operating income	-18	-11
Taxes paid	-61	-139
	-79	-150
Changes in working capital:		
Increase(-)/decrease(+) of receivables	1,717	827
Increase(+)/decrease(-) of liabilities	9	-17
Increase(-)/decrease(+) in working capital	**1,726**	**810**
	1,647	**660**
Cash flow from investing activities		
Investment in subsidiaries	–	–
	–	**–**
Cash flow from financing activities		
Received interests	1	1
Paid interests	–	-1
Received dividends from subsidiaries	76	1,070
Paid dividends	-1,783	-1,678
Received group contribution	1,348	1,061
Paid group contribution	-1,289	-114
Amortisation of loans	–	-999
	-1,647	**-660**
Cash flow for the year	**–**	**–**
Cash and cash equivalents at the beginning of the year	–	–
Cash and cash equivalents at the end of the year	**–**	**–**

Parent company income *

SEK millions	*Note*	2016	2015
Administration costs		-13	-13
Other operating income		0	2
Other operating costs		-5	0
Operating income		-18	-11
Dividends from subsidiaries		76	1,070
Interest income and similar result items	*11*	10	7
Interest expenses and similar result items	*11*	-2	-15
Result after financial items		66	1,051
Change of tax allocation reserve		-264	156
Group contributions		2,002	59
Result before tax		1,804	1,266
Tax on this year's result		-381	-46
Net income for the year		**1,423**	**1,220**

* The parent company income statement also constitutes its comprehensive income statement.

Parent company financial position

Parent company financial position

SEK millions	Note	2016	2015
ASSETS			
Non-current assets			
Financial non-current assets			
Shares in group companies	*19*	4,669	4,669
Current assets			
Current receivables			
Receivables on group companies		8,548	9,581
Current tax assets		–	140
Other receivables		6	3
		8,554	9,724
Cash and cash equivalents		**–**	**–**
Total current assets		**8,554**	**9,724**
TOTAL ASSETS		**13,223**	**14,393**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital		1,117	1,117
Statutory reserve		1,270	1,270
		2,387	2,387
Unrestricted equity			
Profit brought forward		7,774	8,337
Net income for the year		1,423	1,220
		9,197	9,557
Total equity		**11,584**	**11,944**
Untaxed reserves			
Tax allocation reserve, taxation 2011		–	313
Tax allocation reserve, taxation 2012		140	140
Tax allocation reserve, taxation 2014		320	320
Tax allocation reserve, taxation 2015		304	304
Tax allocation reserve, taxation 2016		68	68
Tax allocation reserve, taxation 2017		577	–
		1,409	1,145
Current liabilities			
Liabilities to group companies		50	1,304
Accounts payable		0	0
Current tax liabilities		180	–
		230	1,304
TOTAL EQUITY AND LIABILITIES		**13,223**	**14,393**

Changes in parent company equity

Changes in parent company equity

SEK millions	Share capital	Statutory reserve	Unrestricted equity	Total
As of December 31, 2014	**1,117**	**1,270**	**10,015**	**12,402**
2015				
Comprehensive income				
Net income	–	–	1,220	1,220
	–	–	1,220	1,220
Transactions with shareholders				
Dividends	–	–	-1,678	-1,678
As of December 31, 2015	**1,117**	**1,270**	**9,557**	**11,944**
2016				
Comprehensive income				
Net income	–	–	1,423	1,423
	–	–	1,423	1,423
Transactions with shareholders				
Dividends	–	–	-1,783	-1,783
As of December 31, 2016	**1,117**	**1,270**	**9,197**	**11,584**

The share capital of SEK 1,116,719,930 (1,116,719,930) is divided among 419,456,315 (419,456,315) shares.

Notes to the financial statements

Accounting principles

The accounting principles mentioned below are only the ones that are relevant for the parent company and the consolidated group.

Basis of preparation
The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments including derivatives that are valued at fair value. The statements are presented in SEK millions, unless otherwise stated.

Statement of compliance
As from January 1, 2005 Alfa Laval applies International Financial Reporting Standards (IFRS) as adopted by the European Union. Furthermore recommendation RFR 1 “Supplementary accounting principles for consolidated groups” from the Council for Financial Reporting in Sweden is applied.

The accounting and valuation principles of the parent company comply with the Swedish Annual Accounts Act and the recommendation RFR 2 “Accounting for legal entities” issued by the Council for Financial Reporting in Sweden.

Changed/implemented accounting principles
The company has chosen to only comment the changed accounting principles that are relevant for the company’s financial reporting.

During 2016 the Guidelines on Alternative Performance Measures issued by ESMA (European Securities and Markets Authority) has been implemented.

During 2016 also the changes in the Swedish Annual Accounts Act have been implemented. These mean that:

- contingent liabilities are no longer reported both as memorandum items and in the notes but only in the notes,
- events after the closing date are no longer presented in the Board of Directors’ Report but instead in the notes and
- the proposed disposition of earnings is presented both in the Board of Directors’ Report and in the notes.

During 2015 the amendment to IAS 19 “Employee Benefits” was implemented. The amendment related to how employee contributions to defined benefit plans shall be reported. The reporting depends on if the size of the employee contribution is independent of the service period or not. The standard was to be applied retroactively in accordance with IAS 8.

Critical accounting principles
IFRS 3 “Business Combinations” means that goodwill and intangible assets with indefinite useful life are not amortised. They are instead tested for impairment both annually and when there is an indication. The effect of IFRS 3 can be considerable for the Group if the profitability within the Group or parts of the Group goes down in the future, since this could trigger a substantial impairment write down of the goodwill according to IAS 36 Impairment of Assets. Such a write down will affect net income and thereby the financial position of the Group. The reported goodwill is SEK 20,436 (19,498) million at the end of the year. No intangible assets with indefinite useful life other than goodwill exist.

The Group has defined benefit plans, which are reported according to IAS 19 “Employee Benefits”. This means that the plan assets are valued at fair value and that the present value of the benefit obligations in the defined benefit plans is decided through yearly actuarial calculations made by independent actuaries. If the value of the plan assets start to decrease at the same time as the actuarial assumptions increase the benefit obligations the combined effect could result in a substantial deficit. The monetary magnitude comes from the fact that the deficit is the difference between two large numbers. The risk for this happening has increased due to the implementation of the new IAS 19. The effect on profit and loss however only affects other comprehensive income and not net income. The risk has been limited since many of these defined benefit schemes are closed for new participants and replaced by defined contribution schemes.

The Group’s reporting of provisions according to IAS 37 means that SEK 2,964 (2,216) million is reported as other provisions. This constitutes 5.6 (4.3) percent of the Group’s assets and is important for the assessment of the Group’s financial position, not the least since provisions normally are based on judgements of probability and estimates of costs and risks. If the accounting principles for provision would be changed sometime in the future, this could have a substantial impact on the Group’s financial position.

IAS 39 “Financial Instruments: Recognition and Measurement” has a considerable effect on the Groups comprehensive income and equity and may have a substantial effect on net income if the used derivatives turns out not to be effective.

Key sources of estimation uncertainty
The key source of estimation uncertainty is related to the impairment test of goodwill, since the testing is based on certain assumptions concerning future cash-flows. See the section on critical accounting principles above for further details.

Judgements
In applying the accounting policies Management has made various judgements, apart from those involving estimations, that can significantly affect the amounts recognised in the financial statements. These judgements mainly relate to:

- classification of financial instruments;
- probability in connection with business risks;
- determination of percentage of completion in work in progress;
- recoverability of accounts receivable;
- obsolescence in inventory; and
- whether a lease entered into with an external lessor is a financial lease or an operational lease.

Associates
The Group does not own shares in any material companies that fulfil the definition of an associate in IAS 28 ”Investments in Associates”, that is where the ownership is between 20 and 50 percent.

Borrowing costs
Borrowing costs are accounted for according to IAS 23 “Borrowing Costs”, which means that the borrowing costs are charged to the profit and loss in the period to which they relate.

Transaction costs that arise in connection with raising a loan are capitalised and amortised over the maturity of the loan according to IAS 39 “Financial Instruments: Recognition and Measurement”. The capitalised amount is reported net against the raised loan.

Business combinations - consolidation principles
The consolidated financial statements have been prepared according to IFRS 3 “Business Combinations” and IFRS 10 “Consolidated financial statements”.

An entity shall be consolidated if a decisive influence is present. Control (decisive influence) is present when Alfa Laval has:

– power over the investee, which is described as having rights to direct the activities that significantly affect the investee's returns;
– exposure or rights to variable returns from the involvement in the investee; and
– the ability to use its power over the investee to affect the amount of the investor's returns.

A decisive influence does not need to arise purely through ownership of shares (voting rights). An investor can have a decisive influence over another entity without holding the majority of the shares. An entity must be consolidated until the day the control ceases, even if the control is present only during a limited period.

The consolidated financial statements include the parent company Alfa Laval AB (publ) and the subsidiaries in which it has a decisive influence.

The statement on consolidated financial position has been prepared in accordance with the purchase method, which means that the book value of shares in the subsidiaries is eliminated from the reported equity in the subsidiaries at the time of their acquisition. This means that the equity in the subsidiaries at the time of acquisition is not included in the consolidated equity.

The difference between the purchase price paid and the net assets of the acquired companies is allocated to the step-up values related to each type of asset, with any remainder accounted for as goodwill.

During the first 12 months after the acquisition the value of the goodwill is often preliminary. The reason to this is that experience has shown that there is some uncertainty linked to the different components of the purchase price allocation concerning:
– primarily the calculation of the allocation to different intangible step-up values, that are dependent on different judgemental questions and estimations;
– the calculation of tangible step-up values, that are dependent on external market valuations, which can extend in time before they can be finalised;
– adjustments of the purchase price contingent on contractual terms, that are dependent on the final size of the operating capital at the acquisition date, once this has been audited and the outcome has been approved by the parties; and
– the final value of the acquired equity, which is also dependent on the audit of the acquired closing balance sheet.

Since the goodwill is a residual that emerges once all other parameters in the purchase price allocation have been established, it will be preliminary and open for changes until all other values are final.

At acquisitions where there is a goodwill it should be stated what the goodwill is relating to. Since goodwill by definition is a residual this is not always that easy. Generally speaking the goodwill is usually relating to estimated synergies in procurement, logistics and corporate overheads. It can also be claimed that the goodwill is relating to the acquired entity's ability to over time recreate its intangible assets. Since the value of the intangible assets at the time of acquisition only can be calculated on the assets that exist then, no value can be attached to the patents etc. that the operations manage to create in the future partially as a replacement for the current ones and these are therefore referred to goodwill.

Goodwill and intangible assets with indefinite useful life are not amortised. These assets are instead tested for impairment both annually and when there is an indication. The impairment test is made according to IAS 36 Impairment on assets.

Transaction costs are reported in net income. If the value of an additional purchase price is changed the change is reported in net income. In business combinations achieved in stages the goodwill is calculated and valued when the acquirer obtains control over a business. If the acquirer previously has reported an equity interest in the company the accumulated change in value of the holding is recognised in net income at the acquisition date. Changes in holdings in subsidiaries, where the majority owner does not lose its decisive influence, are reported in equity. This means that these transactions no longer will generate goodwill or lead to any gains or losses. In addition the transaction will result in a transfer between owners of the parent and non-controlling interests in equity. If the non-controlling interest's share of reported losses is higher than its reported share of the equity, a negative non-controlling interest is reported.

Comparison distortion items

Items that do not have any link to the normal operations of the Group or that are of a non-recurring nature are classified as comparison distortion items. In the consolidated comprehensive income statement these are reported gross as a part of the most concerned lines, but are specified separately in Note 8. To report these together with other items in the consolidated comprehensive income statement without this separate reporting in a note would have given a comparison distortion effect that would have made it difficult to judge the development of the ordinary operations from an outside viewer. Comparison distortion items affecting operating income are reported as a part of operating income, while comparison distortion items affecting the result after financial items are reported as a part of the financial net.

Comprehensive income

Alfa Laval has chosen to report the items in other comprehensive income as a part of one statement over comprehensive income instead of reporting the result down to net income for the year in one statement and the result below this down to comprehensive income in a separate statement.

Other comprehensive income is referring to items that are not transactions with shareholders and relates to for instance cash flow hedges, market valuation of external shares, translation differences and revaluations and deferred tax related to these.

Disclosures of interest in other entities

Information about interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities must be disclosed in accordance with IFRS 12 "Disclosures of interest in other entities". The purpose with these disclosures is to enable the users of the financial reports to understand:
– the composition of the group;
– the effect of the interests on the financial statements; and
– any risks with the current interests.

Substantial qualitative and quantitative disclosures must be made of each interest. The disclosure requirements include the following:
– Financial information regarding subsidiaries with a considerable part of non-controlling interests.
– Disclosures on the judgments and estimation that have been made in judging whether an entity shall be consolidated or not and if an associate shall be accounted for or whether a joint arrangement is considered to be joint operation or a joint venture.
– Financial disclosures on interests in material associates and joint arrangements.
– Disclosures on the risks and rewards that are associated with unconsolidated structured entities and what the effect would be if the risks changed.

Disclosures relating to the company's shares

Paragraph 2a in chapter 6 of the Swedish Annual Accounts Act requires listed companies to disclose certain information relating to the company's shares in the Board of Directors' Report. This information is found at the end of the Board of Directors' Report, in the "Changes in consolidated equity" and in Note 6.

Employee benefits

Employee benefits are reported according to IAS 19 "Employee Benefits".

The present value of the benefit obligations in the defined benefit plans is decided through yearly actuarial calculations made by independent actuaries. The plan assets are valued at fair value. The net plan asset or liability is arrived at in the following way.

+	the present value of the defined benefit obligation at December 31
-	the fair value of the plan assets at December 31
=	a net liability if positive / a net asset if negative

If the calculation per plan gives a negative amount, thus resulting in an asset, the amount to be recognised as an asset for this particular plan is the lower of the two following figures:

- The above net negative amount.
- The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. This is referred to as the asset ceiling.

The items that relate to the vesting of defined benefit pensions and gains and losses that arise when settling a pension liability and the financial net concerning the defined benefit plan are reported in the income statement above net income. Past service costs are recognised in the income statement already when the plan is amended or curtailed.

Actuarial gains and losses are accounted for currently in other comprehensive income. Changes in the obligations that relate to changes in actuarial assumptions are accounted for in other comprehensive income. None of these actuarial items will ever be reported in operating income, but will instead remain in other comprehensive income.

The return on plan assets is calculated with the same interest rate as the discount rate. The difference between the actual return on plan assets and the interest income in the previous sentence is reported in other comprehensive income.

The plan assets are specified on different types of assets.

Sensitivity analysis must be made concerning reasonable changes in all assumptions made when calculating the pension liability.

The difference between short and long term remunerations focuses on when the commitment is expected to be settled rather than the link to the employee's vesting of the commitment.

Termination benefits are accounted for at the earliest of the following – the time when the benefit offer cannot be withdrawn, alternatively in accordance with IAS 37 as a part of for instance restructuring the operations.

For Swedish entities the actuarial calculations also include future payments of special salary tax. The Swedish tax on returns from pension funds is reported currently as a cost in the profit and loss and are not included in the actuarial calculation for defined benefit pension plans.

The discount rate used to calculate the obligations is determined based on the market yields in each country at the closing date on high quality corporate bonds with a term that is consistent with the estimated term of the obligations. In countries that lack a deep market in such bonds the country's government bonds are used instead.

The costs for defined contribution plans are reported in Note 6.

The Swedish ITP plan is a multi-employer plan insured by Alecta. It is a defined benefit plan, but since the plan assets and liabilities cannot be allocated on each employer it is reported as a defined contribution plan according to item 30 in IAS 19. The construction of the plan does not enable Alecta to provide each employer with its share of the assets and liabilities or the information to be disclosed. The cost for the plan is reported together with the costs for other defined contribution plans in Note 6. Alecta reported a collective consolidation level at December 31, 2016 of 149 (153) percent. The collective consolidation level is defined as the fair value of Alecta's plan assets in percent of the insured pension commitments calculated according to Alecta's actuarial assumptions, which are not in accordance with IAS 19. Such a surplus can be distributed among the employers or the beneficiaries, but there is no agreement concerning this that enables the company to report a receivable on Alecta.

Events after the closing date

Events after the closing date are reported according to IAS 10 and the Swedish Annual Accounts Act in the notes.

Fair value measurement

IFRS 13 "Fair Value Measurement" describes how a fair value is established when such value is to be or may be used in accordance with each IFRS standard. In accordance with IFRS a fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

The standard presents elucidations on the fair value concept including the following areas:

- Concepts such as "highest and best use" and "valuation premise" are described. These are only applicable on non-financial assets.
- Market participants are assumed to act in a way that maximizes the value for all involved parties in situations where there is no guidance concerning the calculation of fair value in individual IFRS standards.
- The effect of so called block discounts (large position in relation to the market) may never be included in the calculation of fair value.
- Deciding fair value when the market activity is falling.

Disclosures must be made to explain what valuation models that are used and what information that is used in these models and which effects the valuation has caused in the result.

Financial instruments

The reporting of financial instruments is governed by the following four accounting and financial reporting standards:

- IAS 39 Financial Instruments: Recognition and Measurement;
- IAS 32 Financial Instruments: Presentation;
- IFRS 7 Financial Instruments: Disclosures; and
- IFRS 13 Fair Value Measurement.

IAS 39 means that financial derivatives, holdings of bonds and external shares are adjusted to fair value. IFRS 7 contains expanded disclosure requirements related to the significance of financial instruments for the company's financial position and performance and the nature and extent of risks arising from financial instruments.

IFRS 13 describes how a fair value is established when such value is to be or may be used in accordance with each IFRS standard. Disclosures must be made to explain what valuation models that are used and what information that is used in these models and which effects the valuation has caused in the result.

Both IAS 39 and IFRS 7 formally contain a considerable amount of information that should be presented. According to IFRS 7.B3 the company however should decide how much detail it provides in order not to overburden the financial statements with excessive details.

Financial assets are classified into four different portfolios:

- Financial assets at fair value through profit or loss;
- Held to maturity investments;
- Loans and receivables; and
- Available for sale financial assets.

The Financial assets at fair value through profit or loss are split on:

- Designated upon initial recognition;
- Held for trading; and
- Derivatives used for hedging.

Financial liabilities are classified into two portfolios:

- Financial liabilities at fair value through profit or loss; and
- Loans.

The Financial liabilities at fair value through profit or loss are split on:

- Designated upon initial recognition;
- Held for trading; and
- Derivatives used for hedging.

The classification into different portfolios has a direct impact on the valuation of the instruments, i.e. if the instrument is valued at fair value or amortised cost. "Loans and receivables", "Held to maturity investments" and "Loans" are valued at amortised cost, whereas "Financial assets and Financial liabilities at fair value through profit or loss" and "Available for sale financial assets" are valued at fair value. Derivatives are always classified in the portfolios "Financial assets and Financial liabilities at fair value through profit or loss".

The amortised cost is normally equal to the amount recognised upon initial recognition, less any principal repayments and plus or minus any effective interest adjustments.

Prepaid costs, prepaid income and advances from customers are not defined as financial instruments since they will not result in future cash flows.

Disclosures must be made on the methods and, when a valuation technique is used, the assumptions applied in determining the fair value of each class of financial assets and liabilities. The methods are to be classified in a hierarchy of three levels:

1. Quoted prices in active markets;
2. Other inputs than quoted prices that are directly observable (prices) or indirectly observable (derived from prices); and
3. Unobservable market data.

The fair values of holdings of bonds are arrived at using market prices according to level 1. The effect of the measurement at fair value is reported in net income. The fair value adjustment of these instruments is reflected directly on the item bonds in the statement of financial position.

The fair values of shares in external companies are arrived at using market prices according to level 1 or other inputs according to level 2. The effect of the measurement at fair value is reported in other comprehensive income. The fair value adjustment of these instruments is reflected directly on the item other long-term securities in the statement of financial position.

The fair values of the Group's currency forward contracts, currency options, interest-rate swaps, metal forward contracts and electricity futures are arrived at using market prices according to level 1. The fair value changes are arrived at by comparing the conditions of the derivative entered into with the market price for the same instrument at the closing date and with the same maturity date. The effect of the measurement at fair value is reported in other comprehensive income if the derivative constitutes an effective cash flow hedge and otherwise on the concerned line above net income. The fair value adjustment of these instruments is reported as derivative assets or derivative liabilities in the statement of financial position.

For each class of financial instruments disclosures shall be made on credit risk and an analysis of financial assets that are past due or impaired. Within Alfa Laval credit risk is in reality only related to accounts receivable. The disclosures just mentioned are therefore to be found in Note 21. The factors to be taken into account when providing for bad debts are:

- If the customer despite reminders does not pay, in spite of the fact that the customer has not raised any objections against the invoice or part of the invoice;
- For how long the invoice has been past due;
- If the customer has cancelled their payments;
- If the customer has asked for composition; and
- If the customer has filed for bankruptcy.

Based on this the best estimate based on past experience is made on which amount that is probable to be received and the difference is provided for as unsecure.

Only at a final loss the receivable is written off.

Group contributions to and from the parent company

The parent company is accounting for group contributions according to the alternative rule in RFR 2 issued by the Council for Financial Reporting in Sweden. This means that both received and given group contributions are reported as appropriations in the income statement.

Hedge accounting

Alfa Laval only applies two types of hedge accounting: cash flow hedges and hedges of net investments in foreign operations.

Cash flow hedges

Alfa Laval has implemented documentation requirements to qualify for hedge accounting on derivative financial instruments.

The effect of the fair value adjustment of derivatives is reported as a part of other comprehensive income for the derivatives where hedge accounting is made (according to the cash flow hedging method) and above net income only when the underlying transaction has been realised. Hedge accounting requires the derivative to be effective within an 80 – 125 percent range. For the part of an effective derivative that exceeds 100 percent effectiveness the fair value adjustment is reported above net income. For the derivatives where hedge accounting is not made the fair value valuation is reported above net income. The fair value adjustment of derivatives is reported separately from the underlying instrument as a separate item called derivative assets/derivative liabilities in the statement of financial position.

Hedges of net investments in foreign operations
In order to finance acquisitions of foreign operations loans are raised, if possible, in the same currency as the net investment. The loans thereby constitute a hedge of the net investment in each currency. Exchange rate differences relating to these loans are therefore booked to other comprehensive income.

Income Taxes
Income taxes are reported in accordance with IAS 12 "Income Taxes".

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. Current tax liabilities (receivables) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the closing date. In essence, this means that current tax is calculated according to the rules that apply in the countries where the profit was generated.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax liabilities are recognised for all taxable temporary differences, except for goodwill.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of: (a) deductible temporary differences; (b) the carry-forward of unused tax losses; and (c) the carry-forward of unused tax credits. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable (>50 percent) that taxable profit will be available against which the deductible temporary difference can be utilised. Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable (>50 percent) that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the closing date.

If it is not any longer probable that sufficient taxable profits will be available against which a deferred tax asset can be utilised, then the deferred tax asset is reduced accordingly.

Inventories
The Group's inventory has been accounted for after elimination of inter-company gains. The inventory has been valued according to the "First-In-First-Out" (FIFO) method at the lowest of cost or net realisable value, taking into account obsolescence.

This means that raw material and purchased components normally are valued at the acquisition cost, unless the market price has fallen. Work in progress is valued at the sum of direct material and direct labour costs with a mark-up for the product's share in capital costs in the manufacturing and other indirect manufacturing costs based on a forecasted assumption on the capacity utilisation in the factory. Finished goods are normally valued at the delivery value (i.e. at cost) from the factory if the delivery is forthcoming. Spare parts that can be in the inventory during longer periods of time are normally valued at net realisable value.

Joint ventures
Joint ventures are consolidated according to IFRS 11 "Joint arrangements". Joint arrangements are defined as a contractual arrangement where two or more parties have a joint decisive influence.

It is crucial to be able to judge whether a party has control over another party, that is decisive influence or if it rather is a substantial or common influence. If it is the latter, then it is a so called joint arrangement, which could be either:

– a joint operation; or

– a joint venture.

Jointly owned assets and joint activities are called joint operations. Each owner or party accounts for his share of assets, liabilities, revenues and costs.

Joint ventures are consolidated according to the equity method. This means that the interest is accounted for on one line in the consolidated statement of financial position and that the share of the result is accounted for on one line in the consolidated statement of comprehensive income. It is the net income in the joint ventures that is booked into one line in the operating income. The counter entry is an increase or decrease of the value of shares in joint ventures. Received dividends reduce the value of the shares in joint ventures. The sales volume and other result items and the balance items in the joint ventures will no longer be reported in the statements over consolidated comprehensive income and consolidated financial position in any of the two owner companies.

Leasing
Leasing is accounted for in accordance with IAS 17 "Leases".

When Alfa Laval is the lessor, leased assets that are classified as financial leases are accounted for as a financial receivable from the lessee in the statement on financial position. The leasing fee received from the lessee is accounted for as financial income calculated as interest on the outstanding receivable and as amortisation of the receivable.

When Alfa Laval is the lessee, leased assets that are classified as financial leases are accounted for as capitalised assets and a corresponding financial payable to the lessor in the statement on financial position. The leasing fee to the lessor is accounted for as financial cost calculated as interest on the outstanding payable and as amortisation of the payable. Depreciation according to plan is done in the same manner as purchased assets.

Leased assets classified as operational leases are not capitalised. The leasing fees are expensed as incurred.

Levies
Levies relate to levies/taxes that governmental or corresponding bodies are charging companies in accordance with laws or regulations with exception of income taxes, penalties and fines. IFRIC 21 "Levies" is an interpretation that clarifies when a liability for levies is to be accounted for. The obligating event that gives rise to the reporting of a liability is the activity that triggers the payment of the levy. IFRIC 21 only treats the accounting for the liability side and not whether the debit side is a cost or an asset. One example of a levy is the Swedish real estate tax, which is levied on the owner of a property at January 1. At inception of the year the liability is booked and a corresponding prepaid cost, which is then phased as a cost over the year.

Long-term construction projects
Revenue for projects is recognised using the percentage of completion method in IAS 11 "Construction Contracts". This means that when the outcome of a construction project can be calculated reliably, the revenue and the costs related to the project are recognised in relation of the percentage of completion at the closing date. An estimated loss is recognised immediately. The percentage of completion for a construction project is

normally established through the relationship between incurred project costs for work performed at the closing date and the estimated total project costs.

Disclosures shall be made for:

- the amount of recognised project sales revenue;
- the aggregated amount of costs incurred and recognised profits less recognised losses;
- retentions;
- the gross amount due from customers for work in progress;
- advances; and
- the gross amount due to customers for work in progress.

The amount of recognised project sales revenue is the amount recognised in consolidated comprehensive income as a reflection of the percentage of completion of the projects. It has nothing to do with the volume of progress billing in the period. This figure shows how much of the net invoicing of the Group that originates from project sales.

The aggregated amount of costs incurred and recognised profits less recognised losses shows the total volume of work performed on ongoing projects at the closing date. It has nothing to do with the recognised costs in the consolidated comprehensive income statement.

Retentions are amounts of progress billing that are not paid according to the contract until conditions specified in the contract have been satisfied or until defects have been rectified. This has a negative effect on the profitability of the project. Progress billing is amounts billed for work performed on a project whether or not they have been paid by the customer.

The gross amount due from customers for work in progress on plant projects is the net amount of:

1. + costs incurred
2. + recognised profits
3. - recognised losses
4. - progress billing

for each project in progress where the net of the first three items is higher than item 4. The figure shows how much progress billing is lacking behind the work performed.

Advances are amounts received from the customer before the related work is performed and are usually very important for the overall profitability of the project.

The gross amount due to customers for work in progress on plant projects is the net amount of:

1. + costs incurred
2. + recognised profits
3. - recognised losses
4. - progress billing

for each project in progress where the net of the first three items is smaller than item 4. The figure shows how much progress billing is ahead of the work performed.

Non-current assets (tangible and intangible)

Assets have been accounted for at cost, net after deduction of accumulated depreciation according to plan. Depreciation according to plan is based on the assets' acquisition values and is calculated according to the estimated useful life of the assets.

The following useful lives have been used:

Tangible:	
Computer programs, computers	3.3 years
Office equipment	4 years
Vehicles	5 years
Machinery and equipment	7–14 years
Land improvements	20 years
Buildings	25–33 years
Intangible:	
Patents and unpatented know-how	10–20 years
Trademarks	10–20 years
Licenses, renting rights and similar rights	10–20 years

The depreciation is made according to the straight-line method.

Any additions to the purchase price in connection with investments in non-current assets or acquisitions of businesses are amortised over the same period as the original purchase price. This means that the time when the asset is fully depreciated is identical regardless of when payments are made. This is a reflection of the fact that the estimated useful life of the asset is the same.

Upon sale or scrapping of assets, the results are calculated in relation to the net book value after depreciation according to plan. The result on sales is included in operating income.

Impairment of assets

When there are indications that the value of a tangible asset or an intangible asset with a definite useful life has decreased, there is a valuation made if it must be written down according to IAS 36 “Impairment of Assets”. If the reported value is higher than the recoverable amount, a write down is made that burdens net income. When assets are up for sale, for instance items of real estate, a clear indication of the recoverable amount is received that can trigger a write down.

Goodwill and intangible assets with indefinite useful life are not amortised. These assets are instead tested for impairment both annually and when there is an indication. The impairment test is made according to IAS 36 “Impairment on assets”.

The recoverable amount for goodwill and intangible assets with indefinite useful life is determined from the value in use based on discounted future cash flows. For other assets the recoverable amount is normally determined from the fair value less costs to sell based on an observable market price.

For the impairment testing of goodwill, three of Alfa Laval's operating segments, the divisions “Equipment”, “Process Technology” and “Marine & Diesel” have been identified as the cash-generating units within Alfa Laval. Technically a recently acquired business activity could be followed independently during an initial period, but acquired businesses tend to be integrated into the divisions at a fast rate. This means that the independent traceability is lost fairly soon and then any independent measurement and testing becomes impracticable. The net present value is based on the projected EBITDA figures for the next twenty years, less projected investments and changes in operating capital during the same period. The used discount rate is the pre-tax weighted average cost of capital (WACC). The growth rate for the divisions during the period is the perceived expected average industry growth rate. No terminal value has been calculated since this would render a very large and uncertain value, which could give an erroneous impression that no impairment exists.

Non-current Assets Held for Sale and Discontinued Operations

The Group is applying IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”. IFRS 5 specifies the accounting for assets held for sale and the disclosures to be made for discontinued operations.

Assets held for sale are to be measured at the lower of the carrying amount and fair value, less sales costs. No depreciation of such assets is made. An asset held for sale is an asset whose carrying amount will be recovered basically through a sale rather than through continuing use. It must be available for immediate sale in its current condition. The sale must be highly probable, that is a decision must have been made and an active sales effort must have been initiated. The sale must be expected to be finalised within one year. Non-current assets are reclassified to current assets and presented separately in the statement on financial position.

Objectives, policies and processes for managing capital

IAS 1 "Presentation of Financial Statements" paragraphs 134 and 135 contain disclosure requirements on the company's objectives, policies and processes for managing capital. This information is disclosed in a separate section after the description of the accounting principles.

Other operating income and other operating costs

Other operating income relates to for instance commission, royalty and license income. Other operating costs refer mainly to restructuring costs and to royalty costs.

Comparison distortion items that affect the operating income are reported in other operating income and other operating costs.

Provisions

The Group is applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" for the reporting of provisions, contingent liabilities and contingent assets.

A provision is recognised when and only when:

– there is a present legal or constructive obligation as a result of past events;

– it is probable that a cost will be incurred in settling the obligation; and

– a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the cost required to settle the present obligation at the closing date.

In measuring the provision:

– risks and uncertainties are taken into account;

– the provisions are discounted, where the effect of the time value of money is material. When discounting is used, the increase of the provision over time is recognised as an interest cost;

– future events, such as changes in law and technology, are taken into account where there is sufficient objective evidence that they will occur; and

– gains from the expected disposal of assets are not taken into account, even if the expected disposal is closely linked to the event giving rise to the provision.

If a reimbursement of some or all of the costs to settle a provision is expected (e.g. through insurance contracts, indemnity clauses or supplier's warranties), the reimbursement is recognised:

– when and only when, it is virtually certain that the reimbursement will be received if the obligation is settled. The amount recognised for the reimbursement must not exceed the amount of the provision; and

– as a separate asset (gross). In the consolidated comprehensive income statement, however, the income related to the reimbursement is netted against the cost for the provision.

Provisions are reviewed at each closing date and adjusted to reflect the current best estimate. If it is no longer probable that a payment to settle the obligation will be incurred, the provision is reversed.

A provision must only be used for the purpose it was originally recognised for. Provisions are not recognised for future operating losses. An expectation of future operating losses is though an indication that certain assets of the operation may be impaired. If a contract is onerous, the present obligation under the contract is recognised and measured as a provision, once the assets used in order to finalize the contract have been tested for impairment.

A provision for restructuring costs is recognised only when the general recognition criteria are met. A constructive obligation to restructure arises only when there is:

– a detailed formal plan for the restructuring, identifying at least:

a) the business or part of a business concerned;

b) the principal locations affected;

c) the location, function and approximate number of employees who will be compensated for terminating their services;

d) the costs that will be undertaken; and

e) when the plan will be implemented; and

– a valid expectation in those affected that the restructuring will be carried out.

A management or board decision to restructure does not give rise to a constructive obligation at the closing date unless the company has, before the closing date:

– started to implement the restructuring plan; or

– communicated the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the restructuring will happen.

When a restructuring involves the sale of an operation, no obligation arises for the sale until the company is committed to the sale, i.e. through a binding sales agreement.

A restructuring provision only includes the direct costs arising from the restructuring, which are those that are both:

– necessarily entailed by the restructuring; and

– not associated with the ongoing activities of the company.

Research and development

Research costs are charged to the result in the year in which they are incurred. Development costs are charged to the result in the year in which they are incurred provided that they do not fulfil the conditions for instead being capitalised according to IAS 38 "Intangible Assets".

Revenue recognition

Revenue recognition is made according to IAS 18 "Revenue" and IAS 11 "Construction Contracts".

Revenues from sale of goods, services and projects are reported as "Net sales" in the statement of consolidated comprehensive income.

Sale of goods

Revenue from sale of goods is recognised when all of the following conditions have been fulfilled:

– the seller has transferred the significant risks and rewards of ownership of the goods to the buyer;

– the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the seller will get paid; and

– the costs incurred or to be incurred related to the transaction can be measured reliably.

The revenue recognition is usually governed by the delivery terms used in the sale. Net sales are referring to sales value less sales taxes, cancellations and discounts.

Sale of services
To the extent that Alfa Laval also delivers services the three last conditions above apply together with:

– the stage of completion at the closing date can be measured reliably.

Project sales
Revenue for projects is recognised using the percentage of completion method in IAS 11 "Construction Contracts", see above under "Long-term construction projects".

Operating segments
IFRS 8 means that the reporting of operating segments must be made according to how the chief operating decision maker monitors the operations, which may deviate from IFRS. Furthermore information according to IFRS for the company as a whole must be given about products and services as well as geographical areas and information about major customers.

The difference between the operating income for the operating segments and the operating income according to IFRS for the company as a whole is explained by two reconciliation items.

Alfa Laval's operating segments are the divisions. The chief operating decision maker within Alfa Laval is its Board of Directors.

Transactions in foreign currencies
Receivables and liabilities denominated in foreign currencies have been valued at year-end rates of exchange.

Within the Group, exchange gains and losses on loans denominated in foreign currencies that finance acquisitions of foreign subsidiaries are transferred to other comprehensive income as foreign currency translation adjustments if the loans act as a hedge to the acquired net assets. There they offset the translation adjustments resulting from the consolidation of the foreign subsidiaries. In the parent company, these exchange differences are reported above net income.

IAS 21 "The Effects of Changes in Foreign Exchange Rates" covers among other things the existence of functional currencies. Almost all of Alfa Laval's subsidiaries are affected by changes in foreign exchange rates for their procurement within the Group. They do however usually sell in their local currency and they have more or less all of their non-product related costs and their personnel related costs in their local currency. This means that none of Alfa Laval's subsidiaries qualify for the use of another functional currency than the local currency, with the following exception. Subsidiaries in highly inflationary countries report their closings in the functional hard currency that is valid in each country, which in all cases is USD. During 2016 Venezuela is regarded as a highly inflationary country.

In the consolidation, the foreign subsidiaries have been translated using the current method. This means that assets and liabilities are translated at closing exchange rates and income and expenses are translated at the year's average exchange rate. The translation difference that arises is a result of the fact that net assets in foreign companies are translated at one rate at the beginning of the year and another at year-end and that the result is translated at average rate. The translation differences are part of other comprehensive income.

Recently issued accounting pronouncements
International Accounting Standards Board (IASB) has issued the following new or revised accounting pronouncements, which may be applicable on Alfa Laval and are effective for fiscal years beginning on or after January 1, 2017. Alfa Laval has chosen not to make any early adoption of any of these pronouncements.

IFRS 9
IFRS 9 "Financial Instruments" replaces the current standard IAS 39 "Financial Instruments: Recognition and Measurement". The changes mainly relate to three areas: classification and measurement, impairments and hedge accounting.

The standard means that the company's business model and the characteristics of the asset influence the classification and measurement of financial assets. The standard means a reduction of the number of valuation categories for financial assets and contains the main categories reported at cost (amortised cost) and fair value through profit or loss.

IAS 39 only considered incurred losses, while IFRS 9 instead has a model for expected credit losses.

The requirement that the efficiency should be between 80-125 percent has been removed in the standard. The possibilities to hedge different types of risk for raw materials have also increased.

IFRS 9 has been adopted by the European Union and becomes effective for financial years beginning on or after January 1, 2018. Early application is allowed.

Alfa Laval's assessment is that IFRS 9 will mean:

– a reallocation of the financial assets on fewer categories than today,
– that the possibilities for hedge accounting and to achieve efficiency will increase and
– that the efficiency test in itself will become easier, but
– that the standard otherwise will have limited impact on the financial statements of Alfa Laval and the disclosures in them.

IFRS 15
IFRS 15 "Revenue from Contracts with Customers" covers how revenue recognition on contracts with customers shall be made. IFRS 15 supersedes mainly IAS 11 "Construction Contracts" and IAS 18 "Revenue". Revenue recognition is based on five steps:

1. Identify the contract with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognise revenue when the entity satisfies a performance obligation.

Two or more contracts entered into at or near the same time with the same customer are accounted for as a single contract if:

– the contracts are negotiated as a package; and/or
– the amount of consideration to be paid in the contracts are linked to each other; and/or
– the goods or services in the contracts are a single performance obligation.

A contract modification is treated as a separate contract if added products or services:
– are distinct; and
– have a stand-alone selling price.

An entity shall recognise the revenue when it has satisfied the performance obligation by transferring control over a promised good or service to the customer.

Performance obligations can be satisfied either over time or at a point in time.

An entity transfers control of a good or service over time and therefore satisfies a performance obligation over time and recognises revenue over time if:

- the customer simultaneously receives and consumes the benefits at the same time as the entity performs; or
- the customer controls the asset while the entity creates or enhances the asset; or
- the entity's performance does not create an asset with an alternative use for the entity and there is an enforceable right to payment for the performance completed.

In order to establish the performance over time the entity can use a method based on output (survey/investigation, achieved milestones or delivered units) or a method based on input (incurred costs, worked hours or machine hours).

If a performance obligation is not satisfied over time it is satisfied at a point in time. To establish the point in time when the customer obtains control of a promised asset and the entity satisfies a performance obligation the following control criteria must be considered:

- The entity has a present right to payment for the asset.
- The customer has legal title to the asset.
- The customer has physical possession of the asset.
- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.

IFRS 15 has been adopted by the European Union and becomes effective for financial years beginning on or after January 1, 2018. There are three alternatives for the transition with varying degrees of retroactivity. Early application is allowed.

Alfa Laval's assessment is that IFRS 15 will have limited impact on the financial statements of Alfa Laval, since it does not mean any real change in the revenue recognition but only in how it is arrived at. The amount of disclosures will however increase.

IAS 12

IAS 12 "Income Taxes" has been amended. The amendments mean a clarification of the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.

The amendments to IAS 12 have not yet been adopted by the European Union.

Alfa Laval's assessment is that the amendments to IAS 12 will have limited impact on the financial statements of Alfa Laval and the disclosures in them, since Alfa Laval currently does not have any debt instruments measured at fair value.

IFRS 16

IFRS 16 "Leases" covers the recognition, measurement, presentation and disclosure of leases by both lessors and lessees. IFRS 16 replaces IAS 17 "Leases".

For lessees the current classification in operational and financial leases disappears and is replaced by a model where assets and liabilities for all leasing contracts must be recognised in the balance sheet. For leasing contracts where the contract period is maximum 12 months or the leased asset is of low value (USD 5 thousand), there is an option to apply a practical expedient.

For lessors the rules in IAS 17 are basically kept why a classification into operational and financial leases like the current should be done also going forward.

Current operational lease contracts can include both a leasing part and a service part. According to IFRS 16, the company in these cases can choose to separate them from each other and thus only recognise the leasing part in the balance sheet or capitalise the entire contract. The choice impacts by which amount the balance sheet will increase in the end.

IFRS 16 has not yet been adopted by the European Union. For lessees the transition to IFRS 16 can be reported either retrospectively according to IAS 8 or the effect of the transition is reported in equity at the date of the transition to IFRS 16. In connection with the transition a practical expedient can be applied that means that the new leasing definition is only applied on new lease contracts instead of on all leasing contracts. Early application is allowed if also IFRS 15 is applied.

Alfa Laval's assessment is that IFRS 16 will mean that mainly the operational leases concerning properties that Alfa Laval has as lessee will end up in the balance sheet, why the balance sheet total will increase and that the disclosure requirements concerning leases will become more burdening.

International Accounting Standards Board (IASB) has not issued any financial reporting interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC), which may be applicable on Alfa Laval and are effective for fiscal years beginning on or after January 1, 2017.

Otherwise Alfa Laval will further evaluate the effects of the application of the new or revised accounting standards or interpretations before each time of application.

Objectives, policies and processes for managing capital

Alfa Laval defines its managed capital as the sum of consolidated net debt and equity including the part that is attributable to non-controlling interests. At the end of 2016 the managed capital was SEK 23,028 (30,111) million.

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern and provide an adequate return for shareholders and benefits for other stakeholders.

When managing the capital the Group monitors several measures including:

Measure				Outcome		Average over last		
	Goal	Target standard	Target not set	2016	2015	3 years	5 years	8 years
Invoicing growth per year	≥5% *			-10.3%	13.3%	6.5%	4.9%	3.5%
Adjusted EBITA margin **	15% *			15.6%	17.1%	16.5%	16.5%	17.2%
Return on capital employed **	≥20%			15.3%	21.6%	19.1%	22.2%	26.7%
Net debt to EBITDA **		≤2.0		1.81	1.56	1.94	1.42	0.96
Cash flow from operating activities including investments in fixed assets ***		10%		12.2%	13.0%	12.7%	12.2%	13.1%
Investments ***		2.0%		1.7%	1.7%	1.7%	1.7%	1.7%
Return on equity			X	11.8%	21.7%	17.0%	18.4%	20.5%
Solidity			X	38.0%	35.5%	34.8%	38.4%	41.6%
Debt ratio **			X	0.47	0.63	0.66	0.49	0.33
Interest coverage ratio **			X	24.5	22.3	21.7	22.1	23.8
Credit rating			X	BBB+	BBB+			

* Average over a business cycle. ** Alternative performance measures, defined on page 142. *** in % of sales.

During 2016 the goal for the average invoicing growth per year over a business cycle has been reduced from at least 8 percent to at least 5 percent. The President and Chief Executive Officer Tom Erixon commented upon the change: "In today's business climate it is more reasonable to aim towards a 5 percent growth target, especially given what Alfa Laval has managed to achieve over the past years".

These measures are connected to each other as communicating vessels. This means that if actions are taken that primarily aim at a certain measure they will also have an impact on other measures to a varying degree. It is therefore important to consider the whole picture.

In order to maintain a good capital structure the Group may for instance raise new loans or amortise on existing loans, adjust the amount of dividends paid to shareholders, return capital to shareholders, repurchase own shares, issue new shares or sell assets.

As examples on the Group's active work with managing its capital the following can be mentioned:

- Two tranches of corporate bonds totalling EUR 800 million were issued in September 2014.
- A commercial paper programme of nominally SEK 2,000 million with a duration of 3–5 months was started in the spring 2014.
- The bilateral term loans with Swedish Export Credit from June 2011 and June 2014.
- The senior credit facility with a new banking syndicate from June 2014.
- The finance contracts with the European Investment Bank from September 2009 and December 2013, where bilateral term loans were called for in March 2011 and in June 2014 respectively.
- The repurchases of shares made during 2007, 2008 and 2010.

The repurchases of shares should be viewed in light of that the consolidated cash flows from operations are large enough to finance the build-up of working capital and the mid-size acquisitions of businesses that have been made as well as the dividend to the shareholders.

Financial risks

Financial risks are referring to financial instruments.

Financial instruments
Alfa Laval has the following instruments: cash and cash equivalents, deposits, trade receivables, bank loans, trade payables and a limited number of derivative instruments to hedge primarily currency rates or interests, but also the price of metals and electricity. These include currency forward contracts, currency options, interest-rate swaps, metal forward contracts and electricity futures. See Notes 13 and 14 for more information on these financial instruments.

Financial policy
In order to control and limit the financial risks, the Board of the Group has established a financial policy. The Group has an aversive attitude toward financial risks. This is expressed in the policy. It establishes the distribution of responsibility between the local companies and the central finance function in Alfa Laval Treasury International, what financial risks the Group can accept and how the risks should be limited.

Price risk
There are three different types of price risks: currency risk, interest risk and market risk. See below.

Currency risk
Due to the Alfa Laval Group's international business activities and geographical spread the Group is exposed to currency risks. The exchange rate movements in the major currencies for the Group during the last years are presented below (SEK/foreign currency):

Currency risk is divided into transaction exposure that relates to exchange rate fluctuations that affects the currency flows that arise due to the business activities and translation exposure that relates to the translation of the subsidiaries' statements on financial position from local currency to SEK.

Transaction exposure
During 2016 Alfa Laval's sales to countries outside Sweden amounted to 97.8 (97.8) percent of total sales.

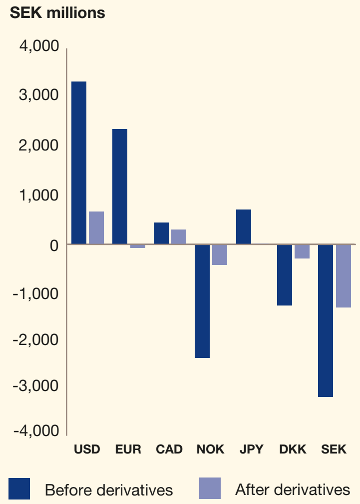
Alfa Laval's local sales companies normally sell in domestic currency to local end customers and have their local cost base in local currency. Exports from production and logistical centres to other Group companies are invoiced in the exporting companies' domestic currencies, except for Sweden, Denmark and UK where the exports are denominated in EUR.

The Group is principally exposed to currency risk from potential changes in contracted and projected flows of payments and receipts. The objective of foreign exchange risk management is to reduce the impact of foreign exchange movements on the Group's income and financial position.

The Group normally has natural risk coverage through sales as well as costs in local currencies. The financial policy states that the local companies are responsible for identifying and hedging exchange rate exposures on all commercial flows via Alfa Laval Treasury International. Contract based exposures must be fully hedged. In addition, the balance of projected flows the next 12 months must be hedged to at least 50 percent. The remaining part of the projected flows can be partially hedged after conferring with the Group's central finance function. Alfa Laval Treasury International can add to or reduce the total hedging initiated by the local companies in the currencies that Alfa Laval has commercial exposure up to but not exceeding 100 percent of one year's commercial exposure for each currency.

The Group's net transaction exposure at December 31, 2016 in different currencies before and after derivatives for the coming 12 months amounts to:

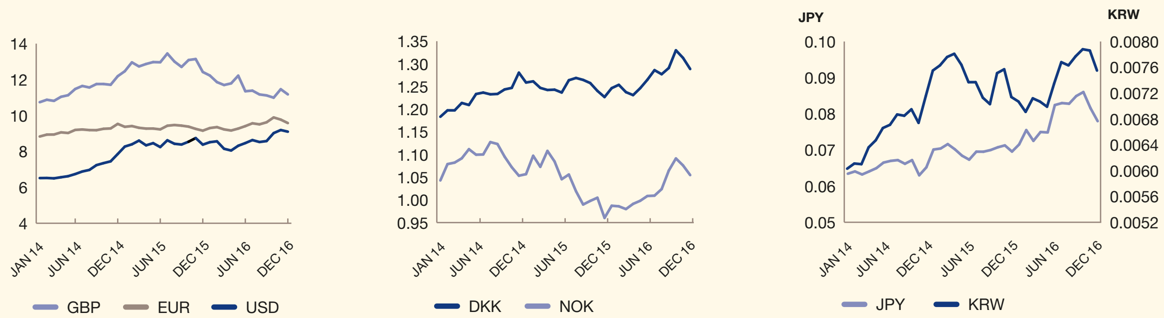
Net transaction exposure per currency at December 31, 2016 for the coming 12 months



The bars for SEK, DKK and NOK are a reflection of the fact that a substantial part of the production within the Group is located in Sweden, Denmark and Norway with costs denominated in local currencies.

Currency contracts for projected flows are entered into continuously during the year with 12 months maximum duration. For contract based exposures the derivatives follow the duration of the underlying contract. This means that the company experiences the effects from the market currency rate movements with a varying degree of delay.

Exchange rate fluctuations



If the currency rates between SEK and the most important foreign currencies are changed by +/- 10 % it has the following effect on operating income, if no hedging measures are taken:

Effect on operating income by exchange rate fluctuations excluding hedging measures

Consolidated				
SEK millions	2016		2015	
Exchange rate change against SEK	+ 10%	- 10%	+ 10%	- 10%
USD	336	-336	439	-439
EUR	238	-238	147	-147
CAD	45	-45	58	-58
NOK	-235	235	-303	303
DKK	-126	126	-134	134
JPY	72	-72	69	-69
Other	59	-59	61	-61
Total	**389**	**-389**	**337**	**-337**

Outstanding currency forward contracts and currency options for the Group amounted to the following at the end of the year:

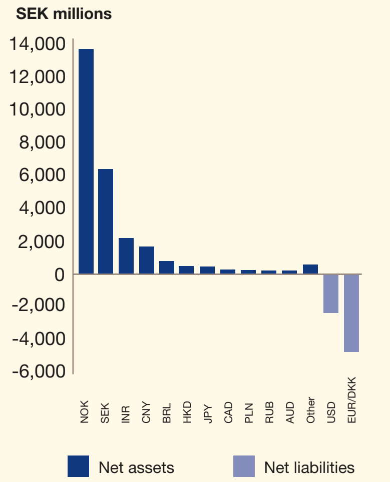
Outstanding currency forward contracts and currency options

Consolidated				
Millions	2016		2015	
	Original currency	SEK	Original currency	SEK
Outflows:				
USD	-258	-2,343	-451	-3,775
EUR	-250	-2,391	-152	-1,395
SEK	-81	-81	-904	-904
CAD	-13	-90	-7	-40
CZK	-6	-2	–	–
JPY	-11,990	-935	-15,783	-1,098
SGD	-1	-8	-16	-98
RUB	-26	-4	-29	-3
GBP	–	–	-1	-12
NZD	-2	-10	-3	-17
Other		-4		-2
Total		**-5,868**		**-7,344**
Inflows:				
DKK	18	24	831	1,020
NOK	5,120	5,400	5,911	5,676
CNY	386	505	160	206
GBP	2	20	–	–
KRW	1,049	8	–	–
AUD	15	99	22	134
Other		0		0
Total		**6,056**		**7,036**

Translation exposure

When the subsidiaries' statements of financial position in local currency are translated into SEK a translation difference arises that is due to the current year being translated at a different closing rate than last year and that the comprehensive income statement is translated at the average rate during the year whereas the statement of financial position is translated at the closing rate at December 31. The translation differences are reported against other comprehensive income. The translation exposure consists of the risk that the translation difference represents in terms of impact on comprehensive income. The risk is largest for the currencies where the Group has the largest net assets and where the exchange rate movements against SEK are largest. The Group's net assets or liabilities for the major currencies are distributed as follows:

Net assets and liabilities by currency



The assets and liabilities in EUR and DKK are seen together since the rate for DKK is fixed against the EUR.

The translation differences are a central responsibility and are managed by distributing the loans on different currencies based on the net assets in each currency and through cross currency swaps. Loans taken in the same currency as there are net assets in the Group, decrease these net assets and thereby decrease the translation exposure.

These hedges of net investments in foreign operations work in the following way. Exchange gains and losses on loans denominated in foreign currencies that finance acquisitions of foreign subsidiaries are reported as a part of other comprehensive income if the loans act as a hedge to the acquired net assets. In other comprehensive income they offset the translation adjustments resulting from the consolidation of the foreign subsidiaries. In the Group, net exchange differences of SEK -643 (301) million relating to debts in foreign currencies have been charged to other comprehensive income as hedges of net investments in foreign operations. The loans that hedge net investments in foreign operations are denominated in EUR and USD since these foreign currencies have the largest impact on the statement of financial position. Since the Group uses part of its cash flows to amortise the loans in order to improve the financial net, the extent of this hedge tends to decrease over time. A change in the net assets of the foreign subsidiary over time can have the same effect.

Interest risk

By interest risk is meant how changes in the interest level affect the financial net of the Group and how the value of financial instruments vary due to changes in market interest rates. The Group attempts to manage interest rate risk by matching fixed interest periods of financial assets and liabilities and through the use of derivative financial instruments such as interest rate swaps.

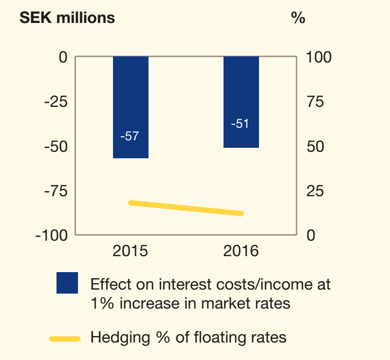
The financial policy states that the interest rate risk and duration are measured by each main currency. The minimum interest duration for the loans should be 10 months and the maximum interest duration should be 24-48 months depending on the currency the loan is raised in according to the policy.

The senior credit facility, the bilateral term loans, the commercial papers and the EUR 300 million tranche of the corporate bonds accrue interest at floating rate. The Group has chosen to hedge 12 (18) percent of the loans to fixed interest rate, with a duration of 13.8 (10.0) months.

The average interest and currency duration for all loans including derivatives is 27.8 (28.4) months at the end of 2016.

Calculated on an overall increase of market rates by 100 basis points (1 percentage unit), the interest net of the Group would change according to the bar chart below.

Interest sensitivity analysis versus hedging % of floating rates



Market risk

Market risk is defined as the risk for changes in the value of a financial instrument due to changed market prices. This applies only to financial instruments that are listed or otherwise traded, which for Alfa Laval concern bonds and other securities and other long-term securities totalling SEK 960 (778) million. The market risk for these is perceived as low. For other financial instruments, the price risk only consists of currency risk and interest risk.

Liquidity risk and refinancing risk

Liquidity risk is defined as the risk that the Group would incur increased costs due to lack of liquid funds.

Refinancing risk is defined as the risk that the refinancing of maturing loans becomes difficult or costly. The loans of the Group are mainly long term and only mature when the agreed loan period expires. Since the maturity of the loans is distributed over time the refinancing risk is reduced.

The private placement from 2006 of USD 110 million matured in April 2016 and was re-paid.

Alfa Laval has a senior credit facility of EUR 400 million and USD 544 million, corresponding to SEK 8,779 million with a banking syndicate. At December 31, 2016 the facility was not utilised. The facility matures in June 2019, with two one year extension options.

During 2014 Alfa Laval issued EUR 800 million of corporate bonds, corresponding to SEK 7,612 million. The bonds are listed on the Irish stock exchange and consist of one tranche of EUR 300 million that matures in September 2019 and one tranche of EUR 500 million that matures in September 2022.

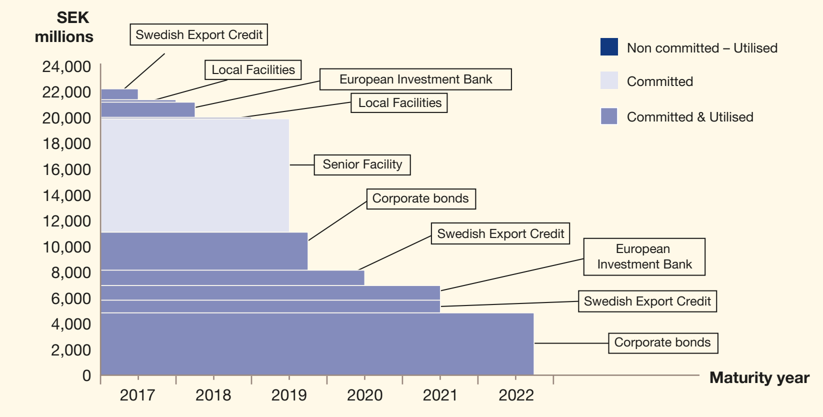
Alfa Laval has a bilateral term loan with Swedish Export Credit that is split on one loan of EUR 100 million that matures in June 2017 and one loan of EUR 100 million that matures in June 2021 as well as a loan of USD 136 million that matures in June 2020, corresponding to SEK 3,153 million in total.

Alfa Laval also has a bilateral term loan from the European Investment Bank split on one loan of EUR 130 million that matures in March 2018 and an additional loan of EUR 115 million that matures in June 2021, corresponding to SEK 2,345 million in total.

The commercial paper programme of SEK 2,000 million was not utilised at December 31, 2016.

In summary the maturity structure of the loans and the loan facilities is as follows:

Maturity structure of Group funding



Cash flow risk

Cash flow risk is defined as the risk that the size of future cash flows linked to financial instruments is fluctuating. This risk is mostly linked to changed interest and currency rates. To the extent that this is perceived as a problem, different derivative instruments are used to fix rates. See description of exposure and hedging measures under interest risk. See the maturity structure of currency derivatives, interest derivatives, metal futures and electricity futures below.

Counterpart risks

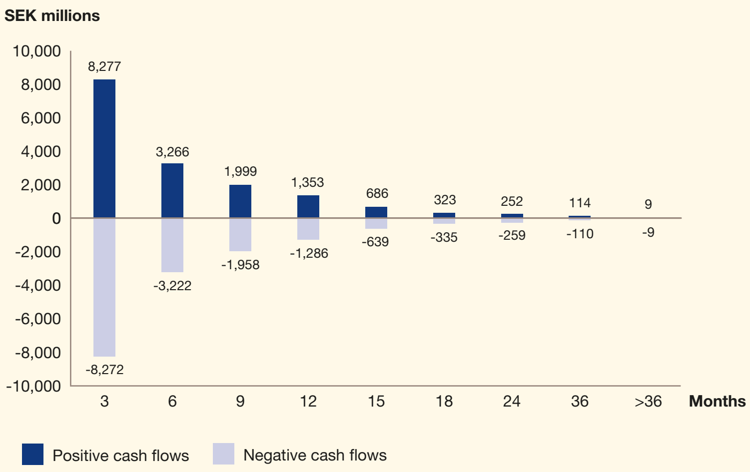
Financial instruments that potentially subject the Group to significant concentrations of credit risk consist principally of cash and cash equivalents, deposits and derivatives.

The Group maintains cash and cash equivalents and current and non-current investments with various financial institutions approved by the Group. These financial institutions are located in major countries throughout the world and the Group's policy is designed to limit exposures to any one institution. The risk for a counterpart not fulfilling its commitments is limited through the selection of financially solid counterparts and by limiting the engagement per counterpart. The Group performs periodic evaluations of the relative credit standing of those financial institutions that are considered in its investment strategy. The Group does not require collateral on these financial instruments.

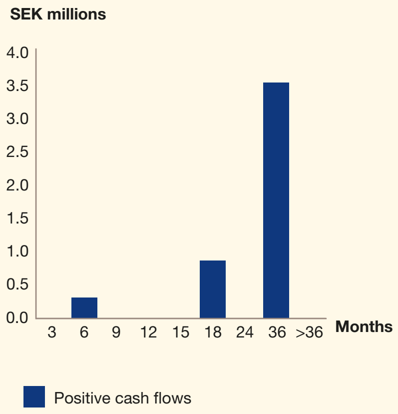
The Group is exposed to credit risk in the event of non-performance by counterparts to derivative instruments. The Group limits this exposure by diversifying among counterparts with high credit ratings and by limiting the volume of transactions with each counter party. Furthermore the Group has entered into ISDA agreements (International Swaps and Derivatives Association) with the counter parts in order to be able to offset assets and liabilities in case of a counter party default. Alfa Laval has never encountered a counter party default, which means that such an offset never have been made.

In total it is the Group's opinion that the counterpart risks are limited and that there is no concentration of risk in these financial instruments.

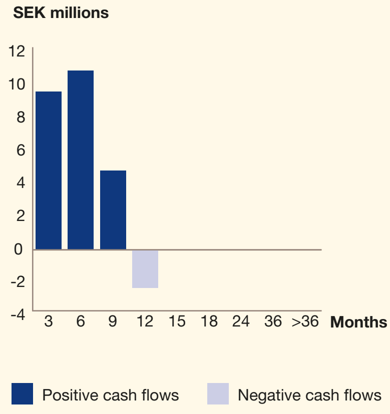
Maturity structure of currency derivatives



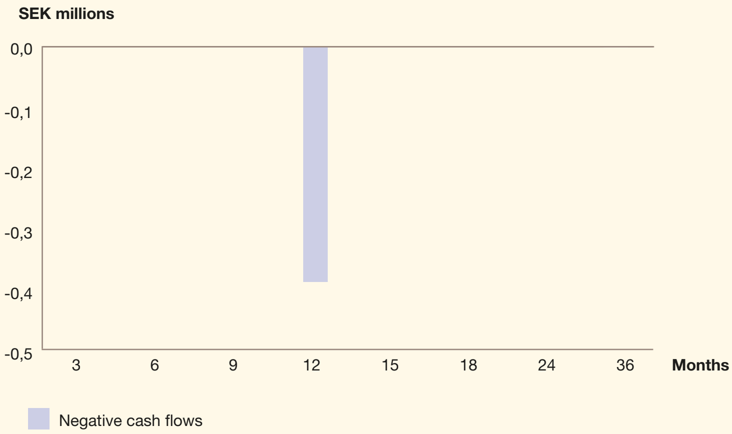
Maturity structure of interest derivatives



Maturity structure of metal derivatives



Maturity structure of electricity futures



Operational risks

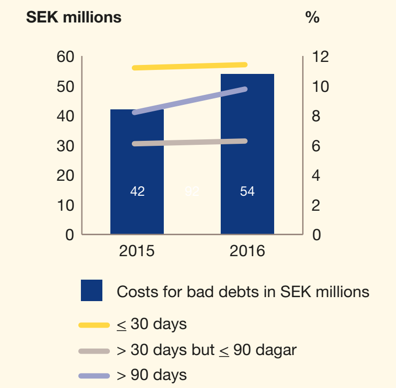
Risk for bad debts

The risk for bad debts is referring to the risk that the customer cannot pay for delivered goods due to financial difficulties. The Group sells to a large number of customers in countries all over the world. That some of these customers from time to time face payment problems or go bankrupt is unfortunately part of reality in an operation of Alfa Laval's magnitude. All customers except Tetra Laval represent less than 1 percent of net sales and thereby represent a limited risk. Alfa Laval regularly collects credit information on new customers and, if needed, on old customers. Earlier payment habits have an impact on the acceptance of new orders. On markets with political or financial risks, the Group strives to attain credit insurance solutions. Accounts receivable constitutes the single largest financial asset according to Note 13. With reference to the above description it is management's opinion that there is no material concentration of risk in this financial asset.

The amount of accounts receivable being overdue is an indication of the risk the company runs for ending up in a bad debt situation.

The Group's costs for bad debts and the overdues in percent of accounts receivable are presented in the following graph:

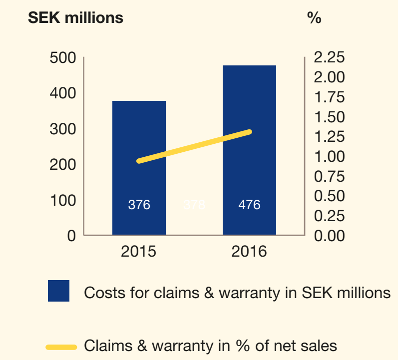
Costs for bad debts / overdues in % of accounts receivable



Risk for claims

The risk for claims refers to the costs Alfa Laval would incur to rectify faults in products or systems and possible costs for penalties. Alfa Laval strives to minimize these costs through an ISO certified quality assurance. The major risks for claim costs appear in connection with new technical solutions and new applications. The risks are limited through extensive tests at the manufacturing site and at the customer site. The Group's net claim costs and their relation to net sales are found in the following graph:

Claim costs in SEK millions and in % of net sales



Risk connected to technical development

This risk refers to the risk that some competitor develops a new technical solution that makes Alfa Laval's products technically obsolete and therefore difficult to sell. Alfa Laval addresses this risk by a deliberate investment in research and development aiming at being in the absolute frontline of technical development.

Economic risk

Competition

The Group operates in competitive markets. In order to address this competition the Group has for instance:

– organized the operations into divisions based on customer segments in order to get a customer focused market penetration;

– a strategy for acquisition of businesses in order to for instance reinforce the presence on certain markets or widen the Group's product offering;

– worked with creating a competitive cost level based on its international presence; and

– worked with securing the availability of strategic metals and components in order to maintain the ability to deliver.

Business climate

In an overall economic downturn the Group tends to be affected with a delay of six to twelve months depending on customer segment. The same applies with an economic upturn. The fact that the Group is operating on a large number of geographical markets and within a wide range of customer segments means a diversification that limits the effects of fluctuations in the business climate. Historically, fluctuations in the business climate have not generated decreases in orders received by more than approximately 10–15 percent. The downturn in the business climate in 2009 and 2010 however meant a considerably larger decline in order intake. This was partly due to the fact that the decline happened abruptly from a very high level of demand that was the culmination of a long-lasting boom and that the price level in connection with this peak was inflated by substantial increases in raw material prices.

Prices of raw material

The Group depends on deliveries of stainless steel, carbon steel, copper and titanium etc. for the manufacture of products. The prices in some of these markets are volatile and the supply of titanium has occasionally been limited. There are a limited number of possible suppliers of titanium. The risk for severely increased prices or limited supply constitutes serious risks for the operations. The possibilities to pass on higher input prices to an end customer vary from time to time and between different markets depending on the competition. The Group is addressing this risk by securing long-term supply commitments and through fixed prices from the suppliers during six to twelve months. During periods of large price increases the customer price on titanium products has been linked to Alfa Laval's procurement costs for titanium. Primarily in the period 2007 to 2011 the Group experienced large price fluctuations for many raw materials, but in particular for stainless steel, carbon steel, copper and titanium.

The price volatility for the most important metals is presented below:

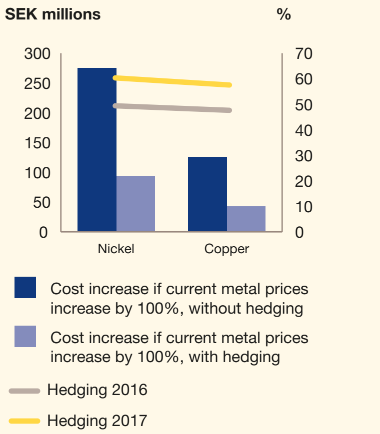
Nickel

Copper

Aluminium

The Group uses metal futures to secure the price on strategic metals. The graph below shows how much of the purchases of nickel and copper that have been hedged during 2016 and how much of the expected purchases during 2017 that were hedged at the end of 2016. The graph also presents to what extent the Group's costs for these purchases during 2017 would be affected if the prices would double from the level at December 31, 2016.

Sensitivity analysis and metal price hedging



Environmental risks

This risk relates to the costs that the Group may incur to reduce emissions according to new or stricter environmental legislation, to restore land at previously or currently owned industrial sites, to arrange more effective waste disposal, to obtain prolonged or new concessions etc. The Group has an ambition to be well within the boundaries that local legislation sets, which should reduce the risks. The operations of the Group are not considered to have a significant environmental impact. For more information on Alfa Laval's environmental impact, see the section on "Sustainability" on page 40.

Political risk

Political risk is the risk that the authorities, in the countries where the Group is operating, by political decisions or administration make continued operations difficult, expensive or impossible for the Group. The Group is mainly operating in countries where the political risk is considered to be negligible or minor. The operations that are performed in countries where the political risk is deemed to be higher are not material.

Risk for and in connection with litigations

This risk pertains to the costs the Group may incur in managing litigations, costs in connection with settlements and costs for imposed penalties. The Group is involved in a few litigations, mainly with customers. Any estimated loss risks are provided for.

Asbestos-related lawsuits

The Alfa Laval Group was as of December 31, 2016, named as a co-defendant in a total of 824 asbestos-related lawsuits with a total of approximately 824 plaintiffs. Alfa Laval strongly believes the claims against the Group are without merit and intends to vigorously contest each lawsuit.

Based on current information and Alfa Laval's understanding of these lawsuits, Alfa Laval continues to believe that these lawsuits will not have a material adverse effect on the Group's financial condition or results of operation.

Risk for technically related damages

This risk refers to the costs Alfa Laval may incur in connection with a product delivered by the Group breaking down and causing damages to life and property. The main risk in this context concerns high-speed separators, due to the large forces that are involved when the bowl in the separator spins with a very high number of revolutions. In a breakdown the damages can be extensive. Alfa Laval addresses these risks through extensive testing and an ISO certified quality assurance. The Group has product liability insurance. The number of damages is low and few damages have occurred historically.

Business interruption risks

These risks refer to the risk that single units or functions within the Group can be hit by business interruption due to:

– strikes and other labour market conflicts;

– fires, natural catastrophes etc.;

– computer access violations, lack of backups etc.; and

– corresponding problems at major sub-suppliers.

Alfa Laval has a well-developed dialog with the local unions, which reduces the risk for conflicts and strikes where Alfa Laval is directly involved. It is however more difficult to protect the company against conflicts in other parts of the labour market, for instance within transportation.

Alfa Laval is minimizing the following two risks through an active preventive work at each site in line with the developed global policies in each area under supervision of manufacturing management, the Group's Risk Management function, Real Estate Management, IT and HR.

Problems at major sub-suppliers are minimized by Alfa Laval trying to use several suppliers of input goods that when needed can cover up for a drop in production somewhere else. The wish for long term and competitive delivery agreements however puts restrictions on the level of flexibility that can be achieved. When there is a shortage the total supply may be too limited to allow exchangeability.

HPR stands for "Highly Protected Risk" and is the insurance industry's highest rating for risk quality. This rating is reserved for those commercial properties where the exposure for physical damages is reduced to a minimum considering building construction, operations and local conditions. HPR means that all physical risks in and around the facility are documented and that these are kept within certain limits. Alfa Laval's production facility in Lund in Sweden, which is the Group's largest and most important facility is HPR classified, as well as the production facilities in Lykens, Chesapeake, Sarasota and Newburyport in the U.S. A number of other key production facilities are being evaluated and may eventually become HPR classified.

A HPR classification means that the facility has state of the art fire and machinery protection systems and that the responsible personnel has adequate security routines to make sure that these protection systems are maintained and in function. In addition, known possible sources of ignition are under strict control to prevent a fire from starting. For an HPR facility the risk for a physical damage is brought to a minimum, which minimises the risk for business interruption that could have extensive consequences for Alfa Laval and its customers. For other production facilities, not HPR-classified, the aim is also to reduce the risk for damage and business interruption to a minimum by keeping, among other things, ignition sources under strict control. Loss prevention visits are conducted according to a schedule based on size and importance for Alfa Laval.

Insurance risks

These risks refer to the costs that Alfa Laval may incur due to an inadequate insurance coverage for property, business interruption, liability, transport, life and pensions. The Group strives to maintain an insurance coverage that keeps the risk level at an acceptable level for a Group of Alfa Laval's size and is still cost efficient. As a part in this Alfa Laval has an own captive. At the same time a continuous work is going on to minimise the risks in the operations through proactive measures.

Risks connected to credit terms

This risk is referring to the limited freedom of action that can be imposed on the Group through restrictions connected to credit terms in loan agreements.

Notes

Note 1. Operating segments

Alfa Laval's business is divided into three business divisions "Equipment", "Process Technology" and "Marine & Diesel" that sell to external customers and one division "Operations & Other" covering procurement, production and logistics as well as corporate overhead and non-core businesses. These four divisions constitute Alfa Laval's four operating segments.

The three business divisions (operating segments) are in turn split into a number of customer segments. The customers to the Equipment division purchase products whereas the customers to the Process Technology division purchase solutions for processing applications. The customers to the Marine & Diesel division purchase products and solutions for marine and offshore applications and for diesel power plants. The Equipment division consists of four customer segments: Industrial Equipment, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Service. The Process Technology division consists of four customer segments: Energy & Process, Food & Life Science, Water & Waste Treatment and the aftermarket segment Service. The Marine & Diesel division consists of four customer segments: Marine & Diesel Equipment, Marine & Offshore Systems, Marine & Offshore Pumping Systems and the aftermarket segment Service.

The operating segments are only responsible for the result down to and including operating income excluding comparison distortion items and for the operating capital they are managing. This means that financial assets and liabilities, pension assets, provisions for pensions and similar commitments and current and deferred tax assets and liabilities are a Corporate responsibility and not an operating segment responsibility. This also means that the financial net and income taxes are a Corporate responsibility and not an operating segment responsibility.

The operating segments are only measured based on their transactions with external parties.

Orders received

Consolidated		
SEK millions	2016	2015
Equipment	10,639	10,472
Process Technology	12,383	12,795
Marine & Diesel	9,038	13,831
Operations & Other	0	0
Total	**32,060**	**37,098**

Order backlog

Consolidated		
SEK millions	2016	2015
Equipment	1,695	1,637
Process Technology	6,758	7,226
Marine & Diesel	8,417	11,715
Operations & Other	0	0
Total	**16,870**	**20,578**

Net sales

Consolidated		
SEK millions	2016	2015
Equipment	10,532	10,500
Process Technology	12,784	14,511
Marine & Diesel	12,318	14,735
Operations & Other	0	0
Total	**35,634**	**39,746**

Operating income in management accounts

Consolidated		
SEK millions	2016	2015
Equipment	1,527	1,321
Process Technology	1,289	1,899
Marine & Diesel	2,111	2,999
Operations & Other	-471	-438
Total	4,456	5,781
Reconciliation with Group total:		
Comparison distortion items	-1,500	–
Consolidation adjustments *	33	-64
Total operating income	2,989	5,717
Financial net	336	-273
Result after financial items	**3,325**	**5,444**

* Difference between management accounts and IFRS.

Operating income in management accounts is very close to operating income under IFRS. There are only two differences. Operating income in management accounts does not include comparison distortion items nor all the consolidation adjustments that are made in the official accounts.

Assets / Liabilities

Consolidated	Assets		Liabilities	
SEK millions	2016	2015	2016	2015
Equipment	5,957	6,339	1,249	973
Process Technology	10,966	10,832	4,227	3,812
Marine & Diesel	23,166	22,905	5,179	4,966
Operations & Other	6,601	5,797	2,432	2,359
Subtotal	46,690	45,873	13,087	12,110
Corporate	6,688	6,024	20,015	21,364
Total	**53,378**	**51,897**	**33,102**	**33,474**

Corporate refers to items in the statement on financial position that are interest bearing or are related to taxes.

Investments

Consolidated		
SEK millions	2016	2015
Equipment	61	61
Process Technology	108	156
Marine & Diesel	77	131
Operations & Other	371	326
Total	**617**	**674**

Depreciation

Consolidated		
SEK millions	2016	2015
Equipment	179	218
Process Technology	360	366
Marine & Diesel	745	806
Operations & Other	423	371
Total	**1,707**	**1,761**

Note 2. Information about geographical areas

Countries with more than 10 percent of either of net sales, non-current assets or investments are reported separately.

Net sales

Consolidated

	2016 SEK millions	%	2015 SEK millions	%
To customers in:				
Sweden	784	2.2	864	2.2
Other EU	8,959	25.1	9,490	23.9
Other Europe	2,597	7.3	2,950	7.4
USA	6,013	16.9	6,725	16.9
Other North America	716	2.0	1,031	2.6
Latin America	1,788	5.0	1,826	4.6
Africa	307	0.9	337	0.8
China	4,705	13.2	4,879	12.3
South Korea	3,594	10.1	5,172	13.0
Other Asia	5,731	16.1	5,991	15.1
Oceania	440	1.2	481	1.2
Total	**35,634**	**100.0**	**39,746**	**100.0**

Net sales are reported by country on the basis of invoicing address, which is normally the same as the delivery address.

Non-current assets

Consolidated

	2016 SEK millions	%	2015 SEK millions	%
Sweden	1,321	4.0	1,337	4.1
Denmark	4,572	13.7	4,374	13.4
Other EU	3,639	10.9	3,992	12.2
Norway	13,717	41.0	12,986	39.8
Other Europe	169	0.5	166	0.5
USA	4,359	13.0	4,510	13.8
Other North America	136	0.4	123	0.4
Latin America	329	1.0	271	0.8
Africa	9	0.0	2	0.0
Asia	2,993	9.0	2,986	9.2
Oceania	94	0.3	87	0.3
Subtotal	31,338	93.8	30,834	94.5
Other long-term securities	25	0.1	28	0.1
Pension assets	3	0.0	4	0.0
Deferred tax asset	2,056	6.1	1,765	5.4
Total	**33,422**	**100.0**	**32,631**	**100.0**

Investments

Consolidated

	2016 SEK millions	%	2015 SEK millions	%
Sweden	65	10.4	63	9.4
Denmark	161	26.0	48	7.1
France	38	6.1	99	14.6
Other EU	91	14.8	115	17.1
Norway	28	4.5	81	12.0
Other Europe	5	0.8	5	0.8
USA	82	13.3	101	15.0
Other North America	4	0.7	20	2.9
Latin America	10	1.7	10	1.5
Africa	0	0.1	1	0.1
China	90	14.7	67	10.0
Other Asia	39	6.3	58	8.7
Oceania	4	0.6	6	0.8
Total	**617**	**100.0**	**674**	**100.0**

Note 3. Information about products and services

Net sales by product/service

Consolidated

SEK millions	2016	2015
Own products within:		
Separation	6,670	7,886
Heat transfer	15,765	17,372
Fluid handling	8,544	9,866
Other	1,160	1,194
Associated products	1,732	1,786
Services	1,763	1,642
Total	**35,634**	**39,746**

The split of own products within separation, heat transfer and fluid handling is a reflection of the current three main technologies. Other is own products outside these main technologies. Associated products are mainly purchased products that compliment Alfa Laval's product offering. Services cover all sorts of service, service agreements etc.

Note 4. Information about major customers

Alfa Laval does not have any customer that accounts for 10 percent or more of net sales. Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with a volume representing 5.0 (4.2) percent of net sales. See Note 32 for more information.

Note 5. Employees

Average number of employees – total

Consolidated

	Number of female employees 2016	Number of female employees 2015	Total number of employees 2016	Total number of employees 2015
Parent company	–	–	–	–
Subsidiaries in Sweden (8)	503	496	2,138	2,125
Total in Sweden (8)	503	496	2,138	2,125
Total abroad (134)	2,949	2,921	15,167	15,361
Total (142)	**3,452**	**3,417**	**17,305**	**17,486**

The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2016.

Average number of employees – in Sweden by municipality

Consolidated

	2016	2015
Botkyrka	470	457
Eskilstuna	204	209
Lund	1,049	1,043
Ronneby	246	253
Vänersborg	110	100
Other *	59	63
Total	**2,138**	**2,125**

* "Other" refers to municipalities with less than 10 employees and also includes employees at branch offices abroad.

Average number of employees – by country

Consolidated

	Number of female employees		Total number of employees	
	2016	2015	2016	2015
Argentina	10	11	35	38
Australia	20	19	103	109
Belgium	2	1	24	24
Brazil	56	57	411	496
Bulgaria	7	7	22	20
Chile	6	6	29	28
Colombia	9	10	25	24
Denmark	435	419	1,758	1,792
Philippines	4	4	14	14
Finland	39	43	224	241
France	156	155	848	865
United Arab Emirates	25	23	147	191
Greece	8	8	23	23
Hong Kong	5	5	19	21
India	69	74	1,416	1,384
Indonesia	22	21	93	93
Iran	2	0	8	5
Italy	174	171	917	902
Japan	57	55	263	279
Canada	22	21	96	103
China	636	632	2,892	2,779
Korea	57	58	318	320
Latvia	5	6	11	12
Malaysia	41	40	124	121
Mexico	8	8	48	41
Netherlands	76	77	349	370
Norway	211	202	1,092	1,147
New Zeeland	3	4	18	16
Panama	5	3	16	12
Peru	8	8	24	24
Poland	45	45	270	254
Portugal	6	4	28	15
Qatar	-	-	8	9
Romania	2	4	10	14
Russia	138	141	325	337
Saudi Arabia	-	-	36	-
Switzerland	5	5	14	16
Singapore	59	58	237	234
Slovakia	2	1	10	10
Spain	24	25	92	82
UK	53	55	330	340
Sweden	503	496	2,138	2,125
South Africa	12	12	45	44
Taiwan	9	13	40	42
Thailand	15	14	55	55
Czech Republic	8	8	40	40
Turkey	8	9	48	46
Germany	73	77	328	364
Ukraine	4	5	13	14
Hungary	4	3	14	13
USA	301	290	1,835	1,915
Venezuela	0	1	1	2
Vietnam	-	-	2	2
Austria	3	3	19	19
Total	**3,452**	**3,417**	**17,305**	**17,486**

Gender distribution among managers

Consolidated

	2016			2015		
	Total number	Male %	Female %	Total number	Male %	Female %
Board members (excluding deputies)	12	66.7	33.3	12	66.7	33.3
President and other executive officers	10	90.0	10.0	11	90.9	9.1
Managers in Sweden	291	79.0	21.0	288	77.1	22.9
Managers outside Sweden	1,996	83.2	16.8	1,969	85.0	15.0
Managers total	2,287	82.7	17.3	2,257	84.0	16.0
Employees in Sweden	2,138	76.5	23.5	2,125	76.7	23.3
Employees outside Sweden	15,167	80.6	19.4	15,361	81.0	19.0
Employees total	17,305	80.1	19.9	17,486	80.5	19.5

Note 6. Salaries and remunerations

Salaries and remunerations – total

Consolidated

SEK millions	2016	2015
Board of Directors, Presidents and Vice Presidents	260	272
- out of which, variable	39	42
Other	7,337	7,315
Total salaries and remunerations	7,597	7,587
Social security costs	1,237	1,208
Pension costs, defined benefit plans	142	139
Pension costs, defined contribution plans	586	547
Total personnel costs	**9,562**	**9,481**

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 62 (45) million and SEK 315 (310) million respectively. SEK 114 (113) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Equity compensation benefits
During the period 2015 to 2016 no equity related benefits existed within Alfa Laval.

Variable remunerations
All employees have either a fixed salary or a fixed base salary. For certain personnel categories the remuneration package also includes a variable element. This relates to personnel categories where it is customary or part of a market offer to pay a variable part. Variable remunerations are most common in sales related jobs and on higher managerial positions. Normally the variable part constitutes a minor part of the total remuneration package.

Cash-based long term incentive programme
The Annual General Meetings 2013 to 2016 decided to implement step three to six of a cash-based long term incentive programme. The long term incentive programme is targeting maximum 85 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers.

Each of the steps runs over three years and with an individual award for each year. The award for each year is set independently from the other two years. Since each step runs over three years, three steps of the programme will always run in parallel. In 2016 step four, five and six of the programme were running in parallel.

The final award for each step is calculated on the employee's yearly base salary at the end of the three year period. The maximum award is linked to the employee's annual maximum variable remuneration and is set to a percentage of the base salary according to the following:

Maximum long term incentive

	Maximum long term incentive in percent of base salary	
Maximum variable remuneration per year in percent of base salary	Per annum per step	In total per step over the three year period
60%	15%	45%
40%	10%	30%
30%	8.3%	25%
25%	6.7%	20%
15%	4%	12%

The column "Per annum per step" shows the maximum award per step and year. Since three steps are running in parallel during each year the maximum award in percent during a certain year can be as large as the maximum award in percent for a certain step during the whole three year period.

The outcome of the programme is linked to the development of earnings per share (EPS) for Alfa Laval. The EPS targets for the individual years within each step are set by the Board of Directors at the inception of the three year period and are presented in the below table for the steps that were paid out during 2016 (three) or are running (four-six). In the table the EPS outcome for each year is also presented.

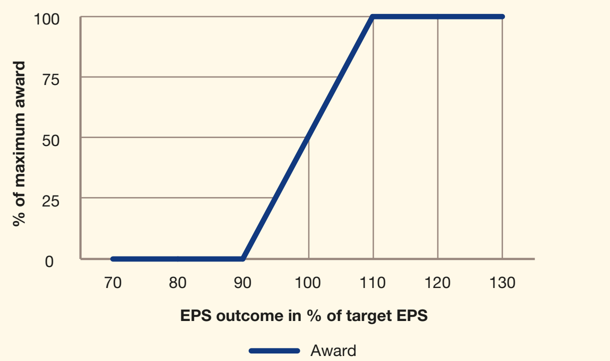
Earnings per share

Consolidated

	Target and outcome			
SEK	2016	2015	2014	2013
Target EPS for step:				
Three	N/A	7.80	7.15	6.50
Four	8.66	7.94	7.22	N/A
Five	9.30	8.45	N/A	N/A
Six	7.85	N/A	N/A	N/A
EPS outcome	**8.43***	**9.15**	**7.39****	**7.22**

* Adjusted for comparison distortion items of SEK -1,500 million. ** Adjusted for Frank Mohn acquisition.

The award is calculated in the following way. When the EPS outcome is within the range of 90 percent to 110 percent of the target EPS, the employee gets the share of the maximum award that is shown in the below graph. An EPS outcome of 90 percent or less of the EPS target gives no award and an EPS outcome of 110 or more gives the maximum award.



To be eligible for payout the employees must be in service on the award date and the vesting date (except in case of termination of employment due to retirement, death or disability). If the employee resigns or is dismissed before the end of the three year period, the awards will lapse and the employee will not be entitled to any payout. If the employee moves to a position that is not eligible for this programme the tranches that already have been earned are paid out upon the change of position. Paid remunerations from the long term incentive programme do not affect the pensionable income or the holiday pay.

Based on the reported EPS during the period 2013 to 2016, the different steps have resulted in the following awards:

Cash-based long term incentive plan

Consolidated

SEK millions, unless otherwise stated

					Per year					Accumulated		
	Decided by Annual General Meeting	Covering period		Payable in April	Actual outcome in % of maximum outcome					Payable in percent of base salary based on 15% in variable remuneration	Awards	
Step		January 1	December 31		2016	2015	2014	2013	To date		Paid	Estimated
Three	2013	2013	2015	2016	N/A	100.00%	66.78%	100.00%	88.93%	10.67%	28	N/A
Four	2014	2014	2016	2017	36.72%	100.00%	61.77%	N/A	66.16%	7.94%	N/A	22
Five	2015	2015	2017	2018	3.23%	91.42%	N/A	N/A	47.33%	3.79%	N/A	12
Six	2016	2016	2018	2019	86.94%	N/A	N/A	N/A	86.94%	3.48%	N/A	11
Awards per year					15	33	14	11	Total		28	45

The costs for the awards per step and per year are based on estimated base salaries at the future time of payment.

Guidelines for remunerations to executive officers
The remunerations to the Chief Executive Officer/Managing Director are decided by the Board of Directors based on proposals from the Remuneration Committee according to the guidelines established by the Annual General Meeting. The remunerations to the other members of Group Management are decided by the Remuneration Committee according to the same guidelines. The principle used when deciding the remunerations to executive officers is to offer a competitive remuneration where the remuneration package is mainly based on a fixed monthly salary, with an option for a company car and in addition to that a variable remuneration of up to 40 percent of the salary (managing director up to 60 percent of the salary). The size of the variable remuneration depends on the outcome of a number of financial measurements and the result of special projects, all compared with the objectives that have been established for the year. The guidelines for pension, termination and severance pay differ between the Chief Executive Officer/Managing Director and the other executive officers, see the below table.

The Annual General Meetings 2013 to 2016 decided to implement step three to six of a cash-based long term incentive programme for maximum 85 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The Board of Directors will propose the Annual General Meeting 2017 to implement step seven of the cash-based long term incentive programme for the period January 1, 2017 – December 31, 2019 for maximum 70 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. No other changes of these guidelines are proposed by the Board of Directors.

Salaries and remunerations to Group Management

Consolidated	Group Management				
	Chief Executive Officer/President			Other executive officers	
	Current: Tom Erixon	Former: Lars Renström			
SEK thousands	2016	2016	2015	2016	2015
Salary and remunerations					
Base salary	8,250	4,506	10,815	31,175	31,485
Variable salary [1]	–	6,911	4,020	8,866	7,180
Cash-based long term incentive programme [1]	–	8,436	1,895	8,033	3,445
Other benefits [2]	84	4,560	719	4,448	2,365
Total salary and remuneration	8,334	24,413	17,449	52,522	44,475
Pension costs					
Retirement and survivors' pension	4,147	3,129	6,689	22,694	20,878
Life, disability and health care insurance	64	6	50	308	239
Total pension costs	4,211	3,135	6,739	23,002	21,117
Sum including pensions	**12,545**	**27,548**	**24,188**	**75,524**	**65,592**
Number of other executive officers at year end				9	10
Variable salary					
Included	Yes [3]	Yes	Yes	Yes	Yes
Un-guaranteed target of base salary	30%	30%	30%	Not set	Not set
Maximum of base salary	60%	60%	60%	40%	40%
Cash-based long term incentive programme					
Included	Yes [4]	Yes	Yes	Yes	Yes
Current year award (SEK thousands) [5]	1,785	270	4,866	3,799	9,066
Vested unpaid awards at December 31 (SEK thousands)	5,241	270	8,605	11,903	16,031
Commitment for early retirement [6]	No	No	No	Yes	8 of 10
Commitment for severance pay	Yes [7]	Yes [8]	Yes	Yes [9]	Yes
Commitment for retirement and survivors' pension	[10]	[11]		[12]	

1) Refers to what was paid during the year.

2) Value of company car, taxable daily allowances, holiday pay, payment for vacation taken in cash and house/flat during 6 (12) months supplied to 1 (1) other executive officer.

3) For 2016 he has a transitional provision that means that he is guaranteed at least 30 percent variable salary.

4) He also participates retroactively in the plans that started in 2014 and 2015, where he is guaranteed an outcome of at least 7.5 percent per annum.

5) Based on estimated base salaries at the future time of payment.

6) From the age of 62. A defined contribution solution for early retirement with a premium of 15 percent of the pensionable salary.

7) If Alfa Laval terminates his employment before the age of 61 he will receive 24 months' remuneration, between 61 and 62 he will receive 12 months' remuneration and from 62 he will receive 6 months' remuneration.

8) 24 months' remuneration reduced with the number of months that has passed since his 63rd birthday.

9) Maximum 2 years' salary. The commitments define the conditions that must be fulfilled in order for them to become valid.

10) Is not included in the ITP plan. He has a defined contribution benefit comprising 50 percent of the base salary. In addition, he may exchange salary and variable remunerations for a temporary old age and family pension.

11) The ordinary ITP up to a salary of 30 base amounts was funded in order to achieve full ITP benefits at the age of 65. On top of the ordinary ITP he had a defined contribution benefit comprising 50 percent of the base salary. In addition, he could exchange salary and variable remunerations for a temporary old age and family pension.

12) For salaries above 30 base amounts there is a defined contribution pension solution with a premium of 30 percent of the pensionable salary above 30 base amounts. Until May 1, 2012 the executive officers also had a special family pension that represented a supplement between the old age pension and the family pension according to ITP. For the persons that were executive officers on May 1, 2012 the special family pension has been converted to a premium based supplementary retirement pension based on the premium level in December 2011. In addition, they may exchange salary and variable remunerations for a temporary old age and family pension.

Tom Erixon replaced Lars Renström as President and Chief Executive Officer of Alfa Laval AB (publ) as per March 1, 2016. The remunerations during 2016 is relating to eleven months for Tom Erixon and five months for Lars Renström.

In connection with Lars Renström leaving his employment, the tranches of the cash-based long term incentive programme that already were vested per December 31, 2015 were paid out, which constitute SEK 4,277 thousand of the reported amount under salaries and remunerations for 2016. The current year award of SEK 270 thousand will be paid in May 2017. The variable salary for the first five months 2016 amounted to SEK 1,352 thousand and was paid already in 2016. The amount under other benefits 2016 is to SEK 4,506 thousand relating to paid available vacation days.

One of the other executive officers in Group Management Ray Field retired as per July 1, 2016. His cost for the first six months 2016 are included in the above table. The vested unpaid awards at December 31, 2016 for him in the cash-based long term incentive programme constitute SEK 950 thousand of the reported amount for 2016 and will be paid in May 2017.

Board of Directors

For 2016, the Board of Directors receive a total fixed remuneration of SEK 5,605 (5,350) thousand, which is distributed among the members elected at the Annual General Meeting that are not employed by the company. These Directors do not receive any variable remuneration.

Remunerations to Board members *

Consolidated

SEK thousands		2016	2015
Fees by function:			
Chairman of the Board		1,500	1,350
Other members of the Board		515	500
Supplement to:			
Chairman of the Audit Committee		150	150
Other members of the Audit Committee		100	100
Chairman of the remuneration committee		50	50
Other members of the remuneration committee		50	50
Fees by name:			
Anders Narvinger	Chairman	1,550	1,400
Gunilla Berg	Member	615	600
Arne Frank	Member	565	550
Ulla Litzén	Member	615	600
Finn Rausing	Member	665	650
Jörn Rausing	Member	565	550
Ulf Wiinberg	Member	515	500
Margareth Øvrum	Member	515	500
Total		**5,605**	**5,350**

* Elected at the Annual General Meeting and not employed by the company

The reported remunerations refer to the period between two Annual General Meetings.

The Chairman of the Board does not have any agreement on future retirement or severance pay with Alfa Laval.

The audit committee and the remuneration committee have had the following members during the last two years:

	2016	2015
Audit Committee:		
Chairman	Finn Rausing	Finn Rausing
Other member	Gunilla Berg	Gunilla Berg
Other member	Ulla Litzén	Ulla Litzén
Remuneration committee:		
Chairman	Anders Narvinger	Anders Narvinger
Other member	Arne Frank	Arne Frank
Other member	Jörn Rausing	Jörn Rausing

The members of the committees are appointed at the constituent meeting of the Board of Directors directly after the Annual General Meeting.

Note 7. Information on auditors and auditors' fee

The line "Group auditors" in the below table is referring to the auditors elected at Annual General Meeting of Alfa Laval AB (publ). The Annual General Meeting 2016 and 2015 decided to elect KPMG as the Group's auditors for the coming year.

Fees and expense compensation

Consolidated

SEK millions	2016	2015
Audit engagements		
Group auditors	34	34
Other audit firms	1	1
Total	**35**	**35**
Audit related services		
Group auditors	3	1
Other audit firms	1	1
Total	**4**	**2**
Tax services		
Group auditors	7	5
Other audit firms	7	3
Total	**14**	**8**
Other services		
Group auditors	1	1
Other audit firms	3	4
Total	**4**	**5**
Expenses		
Group auditors	0	1
Other audit firms	0	0
Total	**0**	**1**
Total		
Group auditors	45	42
Other audit firms	12	9
Total	**57**	**51**

An audit engagement includes examining the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an examination in order to give an opinion on the Board's discharge from liability. Audit related services are audit services that are outside the audit engagement. Tax services refer to advices given in connection with various tax matters. All other assignments are defined as other services. Expenses refer to reimbursements of travel costs, secretarial services etc.

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Note 8. Comparison distortion items

The operating income has been affected by comparison distortion items of SEK -1,500 (-) million, which are specified below. In the consolidated comprehensive income statement these are reported gross as a part of each concerned line.

Group Management has started three initiatives for restructuring and implementation of a new organisation. The three initiatives concern:

1 – Cost adaptations and a new organisation

The initiative includes the consequences of establishing a new more efficient organisational structure at the same time as it contains adaptations to the current demand situation.

2 – Restructuring of the manufacturing structure

This initiative includes a stepwise implementation of measures to achieve an even more competitive manufacturing structure. The initiative comprises re-locations and closures of entities during a period of about three years.

3 – "Greenhouse"

The initiative means that three product groups that have had an unsatisfactory development will be operated separately from the new organisation in order to in an even more focused manner give the best preconditions for a better development.

The costs for the initiatives are of a non-recurring nature and have amounted to SEK -1,500 million for 2016. The cost contains among others a write down of above all allocated step-up values and goodwill with about SEK -700 million, which has burdened cost of goods sold. The remaining part of the cost of SEK -800 million concerns mainly lay off of about 1,000 employees and in addition certain costs for write down of assets and provisions for lease agreements, which has burdened other operating costs.

The measures during 2016 are estimated to give savings related to cost of goods sold of approximately SEK 200 million and to operating costs, excluding cost of goods sold, of about SEK 300 million and are expected to be implemented to approximately 75 percent by the end of 2017 and to be implemented in full by the end of 2018.

Note 9. Depreciation and amortisation

Split by function

Consolidated

SEK millions	2016	2015
Cost of goods sold	-1,466	-1,553
Sales	-41	-54
Administration	-81	-78
Research and development	-6	-7
Other income and costs	-113	-69
Total	**-1,707**	**-1,761**

Split by type of asset

Consolidated

SEK millions	2016	2015
Patents and unpatented know-how, trademarks, etc.	-1,045	-1,079
Machinery and equipment	-471	-482
Financial leasing machinery and equipment	-4	-3
Buildings and ground installations	-180	-190
Financial leasing buildings	-7	-7
Total	**-1,707**	**-1,761**

Note 10. Dividends and changes in fair value of financial instruments

Split by type

Consolidated

SEK millions	2016	2015
Dividends from other	0	0
Fair value changes in securities	47	33
Total	**47**	**33**

Note 11. Interest income/expense and financial exchange rate gains/losses

Split on type of income/expense or gain/loss

Consolidated		
SEK millions	2016	2015
Interest income		
Financial leasing	0	–
Other interest	118	129
Exchange rate gains		
Unrealised	211	118
Realised	316	157
Total	**645**	**404**
Interest expenses		
Financial leasing	-1	-1
Other interest	-240	-338
Exchange rate losses		
Unrealised	-27	-84
Realised	-88	-287
Total	**-356**	**-710**

Split on type of income/expense or gain/loss

Parent company		
SEK millions	2016	2015
Interest income		
External companies	1	0
Subsidiaries	0	1
Exchange rate gains		
Unrealised	9	6
Total	**10**	**7**
Interest costs		
External companies	–	-1
Exchange rate losses		
Unrealised	-2	-14
Total	**-2**	**-15**

In the Group, reported net exchange differences of SEK -643 (301) million relating to debts in foreign currencies have been charged to other comprehensive income. These debts finance the acquisition of shares in foreign subsidiaries and act as a hedge to the acquired net assets. The amount is charged with tax resulting in a net after tax impact on other comprehensive income of SEK -502 (235) million.

Note 12. Non-controlling interests

Alfa Laval has the following subsidiaries with non-controlling interests. None of these non-controlling interests are material.

Specification of subsidiaries with non-controlling interests

SEK millions, unless otherwise stated		Non-controlling interest %		Attributable to non-controlling interest			
				Net income		Equity	
Company name	Country of domicile	2016	2015	2016	2015	2016	2015
Frank Mohn Mexico Sa de CV	Mexico	0.01	0.01	0	0	0	0
Alfa Laval Aalborg Indústria e Comércio Ltda	Brazil	0.5	0.5	0	0	1	1
Frank Mohn do Brasil Ltda. *	Brazil	–	4.67	0	0	–	0
Liyang Sifang Stainless Steel Products Co., Ltd.	China	35	35	12	11	97	87
Alfa Laval (India) Ltd **	India	–	1.8047	4	4	–	24
Kenus LLP ***	Kazakhstan	–	10	–	0	–	0
Chang San Engineering Co. Ltd. *	Korea	16.7	25.0	8	7	14	7
Aalborg Industries Water Treatment Pte. Ltd.,	Singapore	40	40	0	0	0	0
Ziepack SA	France	49	49	-1	0	5	2
Fusatun AS ****	Norway	–	0.65	–	0	–	–
AO Alfa Laval Potok	Russia	0.0007	0.0007	0	0	0	0
Total				**23**	**22**	**117**	**121**

* The whole or part of the non-controlling interest has been acquired.
** The non-controlling interest has been eliminated through a selective share capital reduction.
*** The company has been liquidated in August 2016.
**** Sold to an external buyer on September 1, 2015.

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Note 13. Classification of financial assets and liabilities

Financial assets

Consolidated

		Financial assets at fair value through profit or loss:						Loans and receivables		Available for sale financial assets	
	Valuation hierarchy level	Designated upon initial recognition		Held for trading		Derivatives used for hedging					
SEK millions		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Non-current assets											
Other non-current assets											
Other long-term securities	1 and 2	–	–	–	–	–	–	–	–	25	28
Derivative assets	2	–	–	1	–	15	7	–	–	–	–
Current assets											
Current receivables	*										
Accounts receivable	*	–	–	–	–	–	–	5,830	5,796	–	–
Notes receivable	*	–	–	–	–	–	–	347	461	–	–
Other receivables	*	–	–	–	–	–	–	984	1,060	–	–
Accrued income	*	–	–	–	–	–	–	102	107	–	–
Derivative assets	2	–	–	79	51	74	107	–	–	–	–
Current deposits											
Deposits with banks	*	–	–	–	–	–	–	109	244	–	–
Bonds and other securities	1	956	768	–	–	–	–	–	–	–	–
Other deposits	*	–	–	–	–	–	–	10	9	–	–
Cash and cash equivalents	*	–	–	–	–	–	–	2,619	1,876	–	–
Total financial assets		**956**	**768**	**80**	**51**	**89**	**114**	**10,001**	**9,553**	**25**	**28**

* Valued at amortised cost. The book value is the same as the fair value.
Valuation hierarchy level 1 is according to quoted prices in active markets for identical assets and liabilities.
Valuation hierarchy level 2 is out of directly or indirectly observable market data outside level 1.

The Group does not have any financial assets that represent held-to-maturity investments.

Financial liabilities

Consolidated

		Financial liabilities at fair value through profit or loss:				Loans	
	Valuation hierarchy level	Held for trading		Derivatives used for hedging			
SEK millions		2016	2015	2016	2015	2016	2015
Non-current liabilities							
Liabilities to credit institutions etc	*	–	–	–	–	12,169	12,484
Derivative liabilities	2	1	4	36	99	–	–
Current liabilities							
Liabilities to credit institutions etc	*	–	–	–	–	1,078	2,019
Accounts payable	*	–	–	–	–	2,490	2,492
Notes payable	*	–	–	–	–	178	172
Other liabilities	*	–	–	–	–	2,286	1,891
Accrued costs	*	–	–	–	–	2,407	2,229
Derivative liabilities	2	50	105	227	467	–	–
Total financial liabilities		**51**	**109**	**263**	**566**	**20,608**	**21,287**

* Valued at amortised cost. The book value is the same as the fair value.
Valuation hierarchy level 1 is according to quoted prices in active markets for identical assets and liabilities.
Valuation hierarchy level 2 is out of directly or indirectly observable market data outside level 1.

The Group does not have any financial liabilities at fair value through profit and loss designated upon initial recognition.

Derivatives used for hedging in all cases only relate to cash flow hedges.

All of the financial instruments above sum up either to the corresponding item in the statement on financial position or to the item specified in the notes referred to in the statement on financial position. The risks linked to these financial instruments including any concentrations of risk are presented in the sections on risks on pages 97–103.

Result of financial instruments

The result of the financial assets designated upon recognition is found in Note 10 as fair value changes in securities.

The result of the financial assets held for trading of SEK 31 (32) million has affected exchange gains in Note 11 with SEK 31 (32) million.

The result of the assets under loans and receivables is presented in Note 11 as other interest income for deposits with banks, other deposits and cash and cash equivalents. The other assets under loans and receivables do not generate a result but only a cash-in of the principal amount.

The result of the available for sale financial assets is reported as part of other comprehensive income in the consolidated comprehensive income statement.

The result of the financial liabilities held for trading of SEK -2 (-95) million has affected cost of goods sold with SEK -2 (-12) million and exchange losses in Note 11 with SEK - (-83) million.

The result of the liabilities under loans is presented in Note 11 as other interest costs for the liabilities to credit institutions etc. The other liabilities under loans do not generate a result but only a cash-out of the principal amount.

The result of the derivative assets and liabilities used for hedging is reported as part of other comprehensive income in the consolidated comprehensive income statement.

Note 14. Fair value of financial instruments

The fair value changes in shares in external companies are made under other comprehensive income and amounts to SEK 0 (2) million, see the consolidated comprehensive income statement.

The fair value changes in marketable securities are made on the line dividends and changes in fair value in the consolidated comprehensive income statement and amounts to SEK 47 (33) million, see Note 10.

Fair value of derivatives

Consolidated

SEK millions	Currency pairs		Difference between contracted rate and current rate 2016	2015
Derivative assets/liabilities				
Foreign exchange forward contracts:	EUR	USD	-45	-28
	EUR	SEK	-17	65
	EUR	AUD	-1	0
	EUR	CAD	0	2
	EUR	CNY	14	–
	EUR	DKK	0	-1
	EUR	JPY	1	-2
	USD	CAD	2	1
	USD	DKK	-32	-54
	USD	GBP	0	–
	USD	SEK	5	9
	USD	JPY	-3	0
	USD	SGD	-1	-1
	DKK	SEK	-1	1
	NOK	EUR	-5	7
	NOK	SEK	22	-72
	NOK	USD	-54	-309
	CNY	SEK	10	–
	CNY	USD	-3	5
	AUD	USD	-5	-7
	JPY	NOK	-48	-95
	JPY	SEK	-3	0
	RUB	EUR	-1	1
	Other	Other	-7	1
Subtotal			-172	-477
Currency options			0	6
Interest Rate Swaps			5	2
Metal forward contacts			23	-33
Electricity futures			-1	-8
Total, corresponding to a net derivative asset (+) or liability (-)			**-145**	**-510**

For currency options and electricity futures hedge accounting has not been applied. For foreign exchange forward contracts, interest rate swaps and metal forward contracts hedge accounting has been applied when the conditions for hedge accounting have been fulfilled.

The fair value adjustment of derivatives is made through other comprehensive income if hedge accounting can be applied and the derivatives are effective. In all other cases the fair value adjustment is made above net income. The corresponding entries are made on derivative assets and liabilities and not on the underlying financial instruments in the statement on financial position.

Note 15. Current and deferred taxes

Tax on this year's net income and other taxes

Consolidated

SEK millions	2016	2015
Major components of the Group's tax costs		
Current tax cost	-1,317	-1,727
Adjustment for current taxes on prior periods	-4	74
Deferred tax costs/income on changes in temporary differences	235	175
Deferred tax costs/income on changes in tax rates or new taxes	128	-4
Previously unrecognised tax assets related to tax losses and tax credits	0	0
Previously unrecognised deferred tax assets related to tax losses, tax credits and temporary differences	0	0
Deferred tax cost from the write down or reversal of a previous write down of a deferred tax asset	-2	-59
Other taxes	-53	-42
Total tax cost	**-1,013**	**-1,583**

Tax on this year's other comprehensive income

Consolidated

SEK millions	2016	2015
Major components		
Deferred tax on:		
Cash flow hedges	-54	43
Market valuation of external shares	0	-1
Translation difference	-89	-22
Revaluations of defined benefit obligations	67	-47
Total tax cost	**-76**	**-27**

The difference between the tax costs of the group and the tax cost based upon applicable tax rates can be explained as follows:

Tax cost reconciliation

Consolidated

SEK millions	2016	2015
Result after financial items	3,325	5,444
Tax according to applicable tax rates	-860	-1,539
Tax effect of:		
Non-deductible costs	-178	-112
Non-taxable income	87	101
Differences between reported official depreciation and depreciation according to tax rules	0	-6
Differences between reported other official appropriations and other appropriations according to tax rules	-14	-18
Tax losses and tax credits	9	-41
Adjustment for current tax on prior periods	-4	74
Other	-53	-42
Total tax costs	**-1,013**	**-1,583**

Other taxes are mainly referring to wealth tax.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37

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Temporary differences exist when there is a difference between the book value and the tax base of assets and liabilities. The Group's temporary differences have resulted in a deferred tax asset or a deferred tax liability relating to the following assets and liabilities:

Deferred tax assets and liabilities

Consolidated

	2016		2015	
SEK millions	assets	liabilities	assets	liabilities
Relating to:				
Intangible non-current assets	3	1,469	7	1,666
Tangible non-current assets	52	212	41	208
Inventory	193	45	176	35
Other current assets	11	4	4	4
Financial assets	27	0	114	0
Short term liabilities	1,824	81	1,491	165
Tax losses and tax credits *	56	–	39	–
Other	0	1,021	9	963
Subtotal	2,166	2,832	1,881	3,041
Possible to net	-110	-110	-116	-116
Total deferred taxes	**2,056**	**2,722**	**1,765**	**2,925**

* The Group has reported a deferred tax asset on unused tax losses and tax grants of SEK 130 (168) million. These unused tax losses and tax grants are essentially not restricted in time.

In the Group there are temporary differences and unused tax losses and tax credits of SEK 1,115 (934) million that have not resulted in corresponding deferred tax assets, since these are not likely to be used. The temporary differences are mainly relating to pensions, where the date of payment is so far into the future that considering discounting and uncertainty concerning future profit levels no asset is deemed to exist. The unused tax losses and tax grants are essentially not restricted in time, but the tax losses that can be utilised per year can be restricted to a certain proportion of the taxable result.

The nominal tax rate has changed in the following countries between 2015 and 2016.

Tax rates by country

Consolidated

Percent	2016	2015
Chile	24	23
Denmark	22	24
Japan	31	36
Canada	27	26
Norway	25	27
Peru	29	28
Singapore	18	17
Spain	25	28
Germany	30	28
Hungary	10	19

The Group's normal effective tax rate is approximately 28 (28) percent based on taxable result, and it is calculated as a weighted average based on each subsidiary's part of the result before tax.

Tax cost per country

Consolidated

	2016			2015		
SEK millions (unless otherwise stated)	Earnings before tax and received dividends	Tax cost	Tax percentage (%)	Earnings before tax and received dividends	Tax cost	Tax percentage (%)
Top ten countries						
Norway	1,498	-388	25.9%	1,075	-203	18.9%
Sweden	1,756	-383	21.8%	634	-156	24.6%
China	893	-185	20.7%	687	-173	25.2%
India	347	-126	36.3%	333	-113	33.9%
Denmark	136	-100	73.7%	343	-74	21.6%
USA	297	-93	31.1%	661	-267	40.4%
France	242	-64	26.6%	344	-113	32.9%
Japan	161	-60	37.0%	126	-52	40.9%
Netherlands	100	-30	30.5%	169	-56	33.1%
Brazil	142	-29	20.5%	126	-43	34.1%
Total top ten countries	**5,572**	**-1,458**	**26.2%**	**4,498**	**-1,250**	**27.8%**
Other countries						
With a positive result	466	-129	27.7%	907	-316	34.9%
With losses	-423	-43	10.1%	-134	5	-3.7%
Total all countries	**5,615**	**-1,630**	**29.0%**	**5,271**	**-1,561**	**29.6%**
Consolidation entries						
Elimination of appropriations	271	-58	21.4%	1,081	-237	21.9%
Amortisation of step-up values	-1,064	281	26.4%	-1,094	312	28.5%
Write down of step-up values	-94	9	9.6%	–	–	–
Adjustment of deferred taxes relating to step-up values due to reduced company taxes	–	132	N/A	–	–	–
Write down of goodwill	-533	–	N/A	–	–	–
Exchange differences relating to debts in foreign currencies charged to other comprehensive income	-643	141	21.9%	301	-66	21.9%
Central provisions and consolidation adjustments	-227	112	49.3%	-115	-31	-27.0%
Total tax cost	**3,325**	**-1,013**	**30.5%**	**5,444**	**-1,583**	**29.1%**

The above table presents the earnings before tax and received dividends, the tax cost and the tax percentage per country for the top ten countries separately and the others grouped under profit generating and loss-making respectively and the consolidation entries in order to arrive at the total. The local results include appropriations. The reason why the result is before received dividends is that these mostly are non-taxable. The top ten countries are defined as the ten countries with the highest tax cost in 2016. The comparison figures 2015 are for these ten countries, although they might not have been among the ten countries with highest tax cost also in 2015.

Observe that individual companies in the top ten countries and in the group with a positive result can report losses. The group with losses can contain individual companies with profits. Also observe that the presented result is without correction for any non-deductible costs and non-taxable revenues outside received tax free dividends. The tax percentage for Denmark in 2016 has been affected by one-time items in connection with tax disputes with another country.

Companies with losses in countries without tax pooling might have unused tax losses that have not resulted in a corresponding deferred tax asset, since these are not likely to be used. The lack of such a deferred tax income in these cases has an impact on the tax percentage in the concerned countries.

Note 16. Goodwill and step-up values – acquisition of businesses

The allocation of step-up values to tangible and intangible assets and the residual goodwill in effect means that all acquisitions are valued at market. In order to separate out this valuation effect Alfa Laval focuses on EBITA, where any amortisation of step-up values is excluded. The development of these step-up values and any goodwill is shown in the table below.

Movement schedule

Consolidated

SEK millions	Opening balance 2016	Adjustment of last year's purchase price allocation	Sold	Write down	Planned depreciation/ amortisation	Translation difference	Closing balance 2016
Buildings	369	–	-18	–	-31	20	340
Land and land improvements	-59	–	–	–	–	-4	-63
Patents and unpatented know-how	2,425	–	–	-89	-414	179	2,101
Trademarks	4,048	13	–	-5	-619	329	3,766
Subtotal step-up values	6,783	13	-18	-94	-1,064	524	6,144
Goodwill	19,498	5	–	-533	–	1,466	20,436
Total	**26,281**	**18**	**-18**	**-627**	**-1,064**	**1,990**	**26,580**

During 2016 the Group has recorded impairment losses relating to patents and unpatented know-how with SEK -89 (-) million, trademarks with SEK -5 (-) million and goodwill with SEK -533 (-) million. Otherwise the Group has not recorded any impairment losses related to other step-up values.

There is no deferred tax liability calculated on the goodwill. The deferred tax liability on the other step-up values is SEK 1,294 (1,528) million.

For assets sold, net gains or losses are recognised on the costs basis including any related step-up value.

The next table shows each acquisition separately. Any later adjustments to the allocations are referred to the original year of the acquisition. The figures for the allocations are based on the prevailing rates at the time the transactions took place and any change in exchange rates until December 31, 2016 is shown as a translation difference. The corresponding presentation by asset type is found in Notes 17 and 18.

Acquisition of businesses since 2000

Consolidated

SEK millions Year/Businesses	Buildings	Land and land improve-ments	Inventory	Patents and unpatented know-how	Trademarks	Other	Total step-up values	Goodwill	Total
2000									
Alfa Laval Holding	1,058	-228	340	1,280	461	1,112	4,023	3,683	7,706
2002									
Danish Separation Systems	–	–	–	–	–	–	–	118	118
2003									
Toftejorg	1	–	–	–	–	–	1	35	36
2005									
Packinox	–	–	6	99	183	–	288	253	541
2006									
Tranter	17	–	6	180	265	–	468	530	998
2007									
AGC Engineering	–	–	–	–	12	–	12	20	32
Helpman	9	8	–	36	–	–	53	4	57
Public offer Alfa Laval (India)	–	–	–	–	–	–	–	441	441
DSO Fluid Handling	–	–	–	–	39	–	39	42	81
Fincoil	–	–	–	233	–	–	233	241	474
2008									
Høyer Promix A/S	–	–	–	–	–	–	–	16	16
Nitrile India Pvt Ltd	–	–	–	–	–	–	–	6	6
Standard Refrigeration	–	–	5	166	–	–	171	152	323
Pressko AG	–	–	1	–	–	–	1	69	70
Hutchison Hayes Separation	–	–	1	95	49	–	145	46	191
P&D's Plattvärmeväxlarservice	–	–	–	–	–	–	–	10	10
Ageratec	–	–	–	–	–	–	–	44	44
2009									
Two providers of parts & service	–	–	–	–	291	–	291	210	501
Onnuri Industrial Machinery	–	–	–	40	39	–	79	48	127
HES Heat Exchanger Systems	–	–	–	83	–	–	83	59	142
Public offer Alfa Laval (India)	–	–	–	–	–	–	–	311	311
Termatrans	–	–	–	–	7	–	7	6	13
Tranter acquisitions in Latin America	–	–	–	–	20	–	20	16	36
ISO Mix	–	–	–	22	–	–	22	–	22
LHE	–	–	–	298	297	–	595	344	939
2010									
Champ Products	–	–	–	15	14	–	29	2	31
A leading U.S. service provider	–	–	–	–	134	–	134	82	216
G.S Anderson	–	–	–	35	–	–	35	23	58
Astepo	–	–	–	24	15	–	39	8	47
Si Fang Stainless Steel Products	–	–	–	27	16	–	43	42	85
Definox	–	–	–	4	5	–	9	2	11
Olmi	–	–	37	58	32	–	127	–	127
2011									
Service company in the U.S.	–	–	–	–	150	–	150	126	276
Aalborg Industries	248	–	–	430	860	–	1,538	3,630	5,168
2012									
Vortex Systems	–	–	–	148	–	–	148	225	373
Ashbrook Simon-Hartley	–	–	–	86	–	–	86	55	141
Gamajet Cleaning Systems	–	–	–	47	–	–	47	37	84
Air Cooled Exchangers (ACE)	–	–	–	585	–	–	585	346	931
2013									
Niagara Blower Company	–	–	–	202	–	–	202	203	405
2014									
Frank Mohn AS	–	–	38	1,160	3,793	–	4,991	9,831	14,822
CorHex Corp	–	–	–	15	–	–	15	–	15
2015									
Aftermarket company (separation)	–	–	–	–	32	–	32	24	56
K-Bar Parts LLC	–	–	–	–	16	–	16	–	16
Accumulated during the period									
Realised	-542	122	-435	–	–	-123	-978	–	-978
Write down	-6	-9	–	-89	-5	–	-109	-581	-690
Planned depreciation/amortisation	-439	–	–	-3,516	-2,887	-993	-7,835	-612	-8,447
Translation difference	-6	44	1	338	-72	4	309	289	598
Closing balance	**340**	**-63**	**–**	**2,101**	**3,766**	**–**	**6,144**	**20,436**	**26,580**

The acquisition of the Alfa Laval Holding AB group in connection with the acquisition by Industri Kapital of the Alfa Laval Group from Tetra Laval on August 24, 2000 is shown on the first row.

"Other" relates to step-up values from 2000 for "Machinery" of SEK 548 million and "Equipment" of SEK 452 million that have been fully depreciated or realised, for "Research and development" of SEK 54 million and "Capital gain (Industrial Flow)" of SEK 42 million that have been fully realised and for "Construction in process" of SEK 16 million that has been transferred to "Machinery".

Acquisition of businesses
During 2016

On May 21, 2016 Alfa Laval has acquired an additional 8.33 percent of the shares in the subsidiary Chang San Engineering Co Ltd in South Korea for SEK 33 million, which has increased the holding from 75 percent to 83.33 percent. On July 15, 2016 Alfa Laval has acquired the remaining 4.67 percent of the shares in Frank Mohn do Brasil Ltda for SEK 4 million, which makes it a 100 percent owned subsidiary. The shareholding in these two companies was part of the acquisition of Frank Mohn AS in 2014.

On October 5, 2016 a selective reduction of the share capital in the Indian subsidiary Alfa Laval (India) Ltd was finalised, upon which the non-controlling interests corresponding to 1.8 percent of the shareholding were bought out for SEK 174 million. Thereafter the company is a fully owned subsidiary.

The remaining SEK 19 million relates to adjustment of preliminary purchase price for the acquisition of an aftermarket company specialized in separation technology during 2015 and payment of withheld additional purchase price concerning the acquisition of Olmi SpA in Italy.

During 2015

An aftermarket company specialized in separation technology
As from July 3, 2015 Alfa Laval acquired 100 percent of an aftermarket company specialized in separation technology. The company will remain a separate organisation and offer its own parts and services under its own brand name. The acquisition was in line with the strategy of the Alfa Laval Group of acquiring companies that complement the existing business in terms of products, geography or in the form of new sales channels. In this case the Alfa Laval Group added a complementary aftermarket channel. “With the acquisition we are adding presence in an important niche of the aftermarket,” said Lars Renström, former President and CEO of the Alfa Laval Group. The purchase price was SEK 94 million, out of which SEK 56 million was paid in cash and SEK 38 million is retained for a period of 2-5 years. The retained part of the purchase price was contingent on certain warranties in the contract not being triggered. The outcome can be anything between SEK 0 million and SEK 38 million, but the probable outcome is SEK 38 million, which is also the fair value since the contingent consideration is to be paid in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and amounted to SEK 1 million, which was reported as other operating costs. The impact on the cash flow was thus SEK -57 million. Out of the difference between the purchase price paid and the net assets acquired SEK 19 million was allocated to the trademark, while the residual SEK 19 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and the company’s ability to over time recreate its intangible assets. In connection with the finalisation of the purchase price allocation in 2016 the value of the trademark has been increased with SEK 13 million to SEK 32 million and the value of the goodwill has been increased with SEK 5 million to SEK 24 million. The step-up value for trademark is amortised over 10 years. From the date of the acquisition the company has added SEK 30 million in orders received, SEK 31 million in invoicing and SEK 6 million in adjusted EBITA to Alfa Laval. If the company had been acquired at January 1, 2015 the corresponding figures would have been SEK 64 million, SEK 65 million and SEK 4 million respectively. At the end of December 2015 the number of employees was 15.

K-Bar Parts LLC
On July 31, 2015 Alfa Laval acquired 100 percent of K-Bar Parts LLC, which is a small aftermarket company in the U.S. The company has since then been renamed to Alfa Laval Kathabar Inc. The purchase price was SEK 17 million, out of which SEK 15 million was paid in cash and SEK 2 million is retained for a period of 1–2 years. The retained part of the purchase price was contingent on certain warranties in the contract not being triggered. The outcome can be anything between SEK 0 million and SEK 2 million, but the probable outcome is SEK 2 million, which is also the fair value since the contingent consideration is to be paid in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and amounted to SEK 1 million, which was reported as other operating costs. The impact on the cash flow was thus SEK -16 million. Out of the difference between the purchase price paid and the net assets acquired SEK 16 million was allocated to the trademark, while nothing was allocated to goodwill. In connection with the finalisation of the purchase price allocation in 2016 the value of the goodwill has been finalised to SEK - million. The step-up value for trademark is amortised over 10 years. From the date of the acquisition the company has added SEK 4 million in orders received, SEK 4 million in invoicing and SEK 1 million in adjusted EBITA to Alfa Laval. If the company had been acquired at January 1, 2015 the corresponding figures would have been SEK 10 million, SEK 10 million and SEK 2 million respectively. At the end of December 2015 the number of employees was 13.

Payment of retained parts of the purchase price from previous acquisitions constitutes the remaining part of the cash flow related to acquisition of businesses.

The acquisitions during 2015 can be summarized as follows. Please observe that the purchase price allocations for the two acquisitions were still preliminary at the end of 2015.

Acquisitions 2015

Consolidated

	Total		
SEK millions	Book value	Adjustment to fair value	Fair value
Trademarks [1]	–	35	35
Inventory	50	–	50
Accounts receivable	2	–	2
Other receivables	12	–	12
Accounts payable	-1	–	-1
Other liabilities	-40	–	-40
Deferred tax	–	-6	-6
Acquired net assets	**23**	**29**	**52**
Goodwill [2]			19
Purchase price			-71
Costs directly linked to the acquisitions [3]			-2
Payment of amounts retained in prior years			0
Effect on the Group's liquid assets			**-73**

[1] The step-up value for trademarks is amortised over 10 years.
[2] The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and the companies' ability to over time recreate its intangible assets. The value of the goodwill is still preliminary.
[3] Refers to fees to lawyers, due diligence and assisting counsel. Has been expensed as other operating costs.

All acquired assets and liabilities were reported according to IFRS at the time of the acquisitions.

The two small acquisitions during 2015 are not reported per acquisition since such a reporting would have been too fragmented and rather would have burdened the presentation than increased clarity. Instead they are reported together.

Impairment testing

An impairment test has been performed at the end of 2016 indicating that there is not any need to write down the goodwill.

Three of Alfa Laval's operating segments, the three divisions "Equipment", "Process Technology" and "Marine & Diesel" have been identified as the cash-generating units within Alfa Laval. Technically a recently acquired business activity could be followed independently during an initial period, but acquired businesses are normally integrated into the divisions at a fast rate. This means that the independent traceability is lost fairly soon and then any independent measurement and testing becomes impracticable.

The recoverable amount of the cash-generating units is based on their value in use, which is established by calculating the net present value of future cash flows. The net present value is based on the projected EBITDA figures for the next twenty years, less projected investments and changes in operating capital during the same period. This projection for the coming 20 years is based on the following components:

– The projection for 2017 is based on the Groups normal 12 month revolving "Forecast" reporting. This is based on a very large number of rather detailed assumptions throughout the organisation concerning the business cycle, volume growth, market initiatives, product mix, currency rates, cost development, cost structure, R&D etc.

– The projection for the years 2018 and 2019 is based on Management's general assumptions concerning the business cycle, volume growth, market initiatives, product mix, currency rates, cost development, cost structure, R&D etc.

– The projection for the years 2020 to 2036 is based on the perceived expected average industry growth rate.

The reason why a longer period than 5 years has been used for the calculation of the net present value is that Management considers 5 years to be a too short period for an operation where applying the going concern concept can be justified.

The assumptions used for the projections reflect past experiences or information from external sources.

The used discount rate is the pre-tax weighted average cost of capital (WACC) of 8.32 (8.95) percent.

There exists no reasonably possible change in a key assumption in the impairment test that would cause the carrying amount to exceed the recoverable amount. The reason is that the recoverable amounts with a very good margin exceed the carrying amounts. Due to this a sensitivity analysis is not presented.

Alfa Laval does not have any intangible assets with indefinite useful lives other than goodwill.

The three cash-generating units have been allocated the following amounts of goodwill:

Goodwill

Consolidated

SEK millions	2016	2015
Equipment	2,337	2,703
Process Technology	4,049	3,819
Marine & Diesel	14,050	12,976
Total	**20,436**	**19,498**

Note 17. Intangible non-current assets

Patents and unpatented know-how

Consolidated

SEK millions	2016	2015
Accumulated acquisition values		
Opening balance	5,738	5,769
Purchases	2	–
Sales/disposals	-11	–
Reclassifications	1	2
Translation difference	369	-33
Closing balance	**6,099**	**5,738**
Accumulated amortisation		
Opening balance	-3,271	-2,837
Reclassifications	0	0
Amortisation of step-up value	-414	-441
Amortisation for the year	-6	-9
Write down	-89	–
Translation difference	-177	16
Closing balance	**-3,957**	**-3,271**
Closing balance, net book value	**2,142**	**2,467**

Trademarks

Consolidated

SEK millions	2016	2015
Accumulated acquisition values		
Opening balance	6,392	6,702
Step-up values	13	35
Translation difference	510	-345
Closing balance	**6,915**	**6,392**
Accumulated amortisation		
Opening balance	-2,344	-1,782
Amortisation of step-up values	-619	-621
Write down	-5	–
Translation difference	-181	59
Closing balance	**-3,149**	**-2,344**
Closing balance, net book value	**3,766**	**4,048**

Licenses, renting rights and similar rights

Consolidated

SEK millions	2016	2015
Accumulated acquisition values		
Opening balance	217	220
Purchases	3	6
Sales/disposals	-13	-4
Reclassifications	-10	0
Translation difference	20	-5
Closing balance	**217**	**217**
Accumulated amortisation		
Opening balance	-176	-174
Sales/disposals	12	-1
Reclassifications	10	0
Amortisation for the year	-6	-8
Translation difference	-19	7
Closing balance	**-179**	**-176**
Closing balance, net book value	**38**	**41**

Alfa Laval does not have any internally generated intangible assets.

Goodwill

Consolidated		
SEK millions	2016	2015
Accumulated acquisition values		
Opening balance	20,067	20,980
Goodwill in connection with acquisition of businesses	5	20
Translation difference	1,514	-933
Closing balance	**21,586**	**20,067**
Accumulated amortisation		
Opening balance	-569	-572
Write down of goodwill	-533	–
Translation difference	-48	3
Closing balance	**-1,150**	**-569**
Closing balance, net book value	**20,436**	**19,498**

Note 18. Property, plant and equipment

Real estate

Consolidated		
SEK millions	2016	2015
Accumulated acquisition values		
Opening balance	4,518	4,679
Purchases	44	86
Sold businesses	–	-11
Sales/disposal	-85	-23
Reclassifications	30	26
Reclassification to assets for sale	17	-56
Translation difference	240	-183
Closing balance	**4,764**	**4,518**
Accumulated amortisation		
Opening balance	-2,201	-2,196
Sales/disposals	53	7
Sold businesses	–	6
Reclassifications	-13	19
Reclassification to assets for sale	-10	53
Depreciation of step-up value	-31	-32
Depreciation for the year	-149	-158
Translation difference	-93	100
Closing balance	**-2,444**	**-2,201**
Closing balance, net book value	**2,320**	**2,317**

Non-current assets held for sale
Within Alfa Laval these assets are normally relating to real estate.

The empty property in Spijkenisse in the Netherlands is to be sold and a small property in France is empty and has been for sale for several years. They are not expected to be sold within the next year.

A property in Lima in Peru and the empty property in Groningen in the Netherlands are for sale and are expected to be sold within the next year and are therefore still classified as current assets held for sale with SEK 2 (9) million.

Machinery and other technical installations

Consolidated		
SEK millions	2016	2015
Accumulated acquisition values		
Opening balance	6,609	6,689
Purchases	214	281
Acquisition of businesses	–	2
Sales/disposal	-152	-243
Reclassifications	122	46
Translation difference	320	-166
Closing balance	**7,113**	**6,609**
Accumulated amortisation		
Opening balance	-5,039	-5,103
Sales/disposals	135	207
Acquisition of businesses	–	-2
Reclassifications	-6	64
Depreciation for the year	-319	-339
Translation difference	-261	134
Closing balance	**-5,490**	**-5,039**
Closing balance, net book value	**1,623**	**1,570**

Equipment, tools and installations

Consolidated		
SEK millions	2016	2015
Accumulated acquisition values		
Opening balance	2,602	2,630
Purchases	103	158
Sales/disposal	-103	-140
Reclassifications	3	16
Translation difference	117	-62
Closing balance	**2,722**	**2,602**
Accumulated amortisation		
Opening balance	-2,000	-2,031
Sales/disposals	98	126
Reclassifications	2	-9
Depreciation for the year	-152	-143
Translation difference	-91	57
Closing balance	**-2,143**	**-2,000**
Closing balance, net book value	**579**	**602**

Construction in progress and advances to suppliers concerning property, plant and equipment

Consolidated		
SEK millions	2016	2015
Accumulated acquisition values		
Opening balance	144	204
Purchases	251	143
Reclassifications	-128	-202
Translation difference	14	-1
Closing balance	**281**	**144**
Closing balance, net book value	**281**	**144**

Leased real estate

Consolidated		
SEK millions	2016	2015
Accumulated acquisition values		
Opening balance	172	157
Purchases	0	–
Sales/disposal	0	-7
Reclassifications	–	28
Translation difference	8	-6
Closing balance	**180**	**172**
Accumulated depreciation		
Opening balance	-42	-38
Sales/disposals	–	2
Depreciation for the year	-7	-7
Translation difference	-1	1
Closing balance	**-50**	**-42**
Closing balance, net book value	**130**	**130**

Leased machinery

Consolidated		
SEK millions	2016	2015
Accumulated acquisition values		
Opening balance	35	37
Translation difference	2	-2
Closing balance	**37**	**35**
Accumulated depreciation		
Opening balance	-27	-26
Depreciation for the year	-3	-3
Translation difference	-1	2
Closing balance	**-31**	**-27**
Closing balance, net book value	**6**	**8**

Leased equipment, tools and installations

Consolidated		
SEK millions	2016	2015
Accumulated acquisition values		
Opening balance	4	3
Purchases	0	1
Sales/disposal	0	–
Reclassifications	0	0
Translation difference	0	0
Closing balance	**4**	**4**
Accumulated depreciation		
Opening balance	-2	-1
Sales/disposals	0	0
Reclassifications	0	0
Depreciation for the year	-1	0
Translation difference	0	-1
Closing balance	**-3**	**-2**
Closing balance, net book value	**1**	**2**

Leased real estate, machinery and equipment relate to fixed assets which are leased and where the leasing agreement has been considered to be a financial lease. These financial leases are capitalised in the statement on financial position.

Note 19. Other non-current assets

Shares in subsidiaries, joint ventures and other companies

	Consolidated		Parent company	
SEK millions	2016	2015	2016	2015
Shares in subsidiaries	–	–	4,669	4,669
Shares in joint ventures	21	18	–	–
Shares in other companies	4	10	–	–
Total	**25**	**28**	**4,669**	**4,669**

Alfa Laval does not hold any shares in unconsolidated structured entities.

The consolidated financial statements include the parent company Alfa Laval AB (publ) and the subsidiaries in which it has a decisive influence, which in all cases refer to companies where the parent company directly or indirectly had an ownership of more than 50 percent during the period. These are consolidated according to the purchase method and are referred to as subsidiaries. Most of the subsidiaries are owned to 100 percent and only 7 (10) companies have non-controlling interests, see note 12. The subsidiaries are displayed in the first table below. Since all consolidated companies are owned to more than 50 percent there is no risk that judgements if a decisive influence exists or not at ownerships below 50 percent means that companies from time to time are included or not included in the consolidation.

Alfa Laval also has interests in 3 (4) small joint ventures that are consolidated according to the equity method since no decisive influence exists. These are displayed in a separate table below. The risks associated with joint ventures are basically business oriented and are not materially different than the risks linked to subsidiaries, with one exception. The exception relates to the risk of disagreeing with the other joint venture partner concerning for instance larger investments, financing and future direction for market penetration and product development, which could result in a sub-optimal development of the operations. Since Alfa Laval's joint ventures are of marginal significance for the Group as a total this risk is judged to be small.

The share of capital in the below tables is in all cases the same as the share of voting rights.

The below specification of shares contains some simplifications, for instance in connection with ownership in multiple layers or when the ownership is split on several owners or at cross-holdings. This is in order not to unnecessarily burden the presentation. A complete specification of shares can be ordered by contacting Alfa Laval's head office in Lund or via the Swedish Companies Registration Office (Bolagsverket).

Specification of shares in subsidiaries

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Alfa Laval Holding AB	556587-8062	Lund, Sweden	8,191,000	100	4,461
Alfa Laval NV		Maarssen, Netherlands	887,753	100	–
Alfa Laval Inc.		Newmarket, Canada	1,000,000	67	–
Alfa Laval S.A. DE C.V.		Tlalnepantla, Mexico	45,057,057	100	–
Alfa Laval S.A.		San Isidro, Argentina	1,223,967	95	–
Alfa Laval Ltda		Sao Paulo, Brazil	21,129,066	100	–
Frank Mohn do Brasil Ltda.		Rio de Janeiro, Brazil	14,850	4.67	–
Alfa Laval SpA		Santiago, Chile	2,735	100	–
Ashbrook Chile S.A.		Santiago, Chile	579,999	100	–
Alfa Laval S.A.		Bogota, Colombia	12,195	100	–
Alfa Laval S.A.		Lima, Peru	4,346,832	100	–
Inmobililaria Tanguis S.A.C.		Lima, Peru	1,499	100	–
Alfa Laval Venezolana S.A.		Caracas, Venezuela	10,000	100	–
Alfa Laval Oilfield C.A.		Caracas, Venezuela	203	81	–
Alfa Laval Taiwan Ltd		Taipei, Taiwan	1,499,994	100	–
Alfa Laval (China) Ltd		Hong Kong, China	79,999	100	–
Alfa Laval (Jiangyin) Manufacturing Co Ltd		Jiang Yin, China		100	–
Alfa Laval Flow Equipment (Kunshan) Co Ltd		Jiangsu, China		75	–
Alfa Laval Flow Equipment (Kunshan) Co Ltd		Jiangsu, China		25	–
Alfa Laval (Shanghai) Technologies Co Ltd		Shanghai, China		100	–
Wuxi MCD Gasket Co Ltd		Jiang Yin, China		100	–
Tranter Heat Exchangers (Beijing) Co Ltd		Beijing, China		100	–
Liyang Sifang Stainless Steel Products Co., Ltd		Liyang City, China		65	–
Alfa Laval Iran Ltd		Teheran, Iran	32,983	100	–
Alfa Laval Industry (PVT) Ltd		Lahore, Pakistan	119,110	100	–
Alfa Laval Philippines Inc.		Makati, Philippines	72,000	100	–
Alfa Laval Singapore Pte Ltd		Singapore	5,000,000	100	–
Alfa Laval India Services LLP		Poona, India		100	–
Alfa Laval (Thailand) Ltd		Bangkok, Thailand	1,199,999	100	–
Alfa Laval Middle East Ltd		Nicosia, Cyprus	40,000	100	–
Alfa Laval Service Operations Qatar LLC		Doha, Qatar	9,800	49	–
Alfa Laval Benelux NV/SA		Brussels, Belgium	98,284	100	–
Alfa Laval EOOD		Sofia, Bulgaria	100	100	–
Alfa Laval Slovakia S.R.O.		Bratislava, Slovakia		1	–
Alfa Laval Spol S.R.O.		Prague, Czech Republic		20	–
Alfa Laval Nordic OY		Espoo, Finland	20,000	100	–
Alfa Laval Vantaa OY		Vantaa, Finland	7,000	100	–
Alfa Laval Nederland BV		Maarssen, Netherlands	10,000	100	–
Alfa Laval Benelux BV		Maarssen, Netherlands	20,000	100	–
Helpman Capital BV		Breda, Netherlands	35,578	100	–
Helpman Holding BV		Naarden, Netherlands	80	100	–
Alfa Laval Groningen BV		Groningen, Netherlands	15,885	100	–
PHE Holding AB	556306-2404	Lund, Sweden	2,500	100	–
Tranter Heat Exchangers Canada Inc.		Edmonton, Canada	100	100	–
Tranter Latin America S.A. de C.V.		Queretaro, Mexico	49,999	100	–
Tranter Indùstria e Comércio de Equipamentos Ltda		Sao Paulo, Brazil	2,018,370	100	–
MCD Nitrile India Pvt Ltd		Falta, India	2,432	9	–
Tranter India Pvt Ltd		Poona, India	3,009,999	100	–
Alfa Laval (India) Ltd		Poona, India	1	0	–
Alfa Laval Korea Ltd		Seoul, South Korea	36,400	10	–
Alfa Laval Korea Holding Company Ltd		Chungnam, South Korea	13,318,600	100	–
Alfa Laval Korea Ltd		Seoul, South Korea	327,600	90	–
Alfa Laval Corhex Ltd		Daejeon, South Korea	50,000	100	–
LHE Co. Ltd		Gim Hae, South Korea	4,560,000	100	–
Tranter Heat Exchangers Middle East (Cyprus) Ltd		Nicosia, Cyprus	20,000	100	–
Tranter International AB	556559-1764	Vänersborg, Sweden	100,000	100	–
Multbran AB	556662-3988	Lund, Sweden	2,723	100	–
Alfa Laval (India) Ltd		Poona, India	1	0	–
Breezewind AB	556773-6532	Lund, Sweden	1,000	100	–
Alfa Laval (India) Ltd		Poona, India	1	0	–
OOO Tranter CIS		Moscow, Russia		100	–
Alfa Laval Nordic AB	556243-2061	Tumba, Sweden	1,000	100	–
Alfa Laval Corporate AB	556007-7785	Lund, Sweden	13,920,000	100	–
Alfa Laval S.A.		San Isidro, Argentina	64,419	5	–
Tranter Latin America S.A. de C.V.		Queretaro, Mexico	1	0	–
Definox (Beijing) Stainless Steel Equipment Ltd		Beijing, China		100	–
Alfa Laval (Kunshan) Manufacturing Co Ltd		Kunshan, China		100	–
Alfa Laval (India) Ltd		Poona, India	17,832,712	100	–

Specification of shares in subsidiaries, continued

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Alfa Laval Support Services Pvt Ltd		Poona, India	10	0	–
Tranter India Pvt Ltd		Poona, India	1	0	–
PT Alfa Laval Indonesia		Jakarta, Indonesia	1,249	100	–
Alfa Laval Malaysia Sdn Bhd		Shah Alam, Malaysia	10,000	100	–
Alfa Laval Kolding A/S		Kolding, Denmark	40	100	–
Alfa Laval Nordic A/S		Rödovre, Denmark	1	100	–
Alfa Laval Copenhagen A/S		Söborg, Denmark	1	100	–
Alfa Laval Nakskov A/S		Nakskov, Denmark	242,713	100	–
Alfa Laval Aalborg A/S		Aalborg, Denmark	2,560,972	100	–
Alfa Laval Aalborg Indústria e Comércio Ltda		Petrópolis, Brazil	5,969,400	99.5	–
Aalborg Industries Ltda		Itu, Brazil	4,644,373	100	–
Alfa Laval Aalborg Ltd		Shanghai, China		100	–
Alfa Laval Qingdao Ltd		Jiaozhou City, China		100	–
Alfa Laval Aalborg Ltd		Hong Kong, China	99	100	–
Aalborg Industries Engineering Bhd		Kuala Lumpur, Malaysia		100	–
Aalborg Industries Water Treatment Pte Ltd		Singapore	4,800,000	60	–
Alfa Laval HaiPhong Co. Ltd		HaiPhong, Vietnam		100	–
Alfa Laval Aalborg Oy		Rauma, Finland	3,000	100	–
Alfa Laval Nijmegen BV		Nijmegen, Netherlands	182	100	–
Alfa Laval Aalborg Holding Pty Ltd		North Wyong, Australia	11,500,000	100	–
Alfa Laval Aalborg Pty Ltd		North Wyong, Australia	225,000	100	–
Alfa Laval Olmi SpA		Suisio, Italy	500,000	100	–
Alfa Laval Italy Srl		Milan, Italy		33.3	–
Alfa Laval Nordic A/S		Oslo, Norway	100	100	–
Framo AS		Nesttun, Norway	95,347,695	100	–
Framo Bombas Mexico SA de CV		Mexico City, Mexico	49,999	99.99	–
Frank Mohn do Brasil Ltda.		Rio de Janeiro, Brazil	303,002	95.33	–
Framo Shanghai Ltd.		Shanghai, China	0	100	–
Framo Nippon KK		Tokyo, Japan	600	100	–
Chang San Engineering Co. Ltd.		Busan, South Korea	15,000	83.3	–
Framo Singapore PTE Ltd.		Singapore	1,000,000	100	–
Framo Nederland BV		Spijkenisse, Netherlands	500	100	–
Framo Fusa AS		Fusa, Norway	86,236	100	–
Framo Holsnøy AS		Frekhaug, Norway	25,000	100	–
Framo Flatøy AS		Frekhaug, Norway	45,330	100	–
Framo Services AS		Nesttun, Norway	10,000	100	–
PHE Holding AS		Nesttun, Norway	45,000	100	–
Alfa Laval Oilfield C.A.		Caracas, Venezuela	47	19	–
Alfa Laval Treasury International AB (publ)	556432-2484	Lund, Sweden	50,000	100	–
Alfa Laval (India) Ltd		Poona, India	1	0	–
Alfa Laval Europe AB	556128-7847	Lund, Sweden	500	100	–
Alfa Laval Lund AB	556016-8642	Lund, Sweden	100	100	–
Alfa Laval (India) Ltd		Poona, India	1	0	–
Alfa Laval International Engineering AB	556039-8934	Lund, Sweden	4,500	100	–
Alfa Laval Tumba AB	556021-3893	Tumba, Sweden	1,000	100	–
Alfa Laval Makine Sanayii ve Ticaret Ltd Sti		Istanbul, Turkey	27,001,755	99	–
Alfa Laval SIA		Riga, Latvia	125	100	–
Alfa Laval Australia Pty Ltd		Homebush, Australia	2,088,076	100	–
Tranter Heat Exchanger Pty Ltd		Sydney, Australia	600,000	100	–
Alfa Laval New Zeeland Pty Ltd		Hamilton, New Zeeland	1,000	100	–
Alfa Laval Holding BV		Maarssen, Netherlands	60,035,631	100	–
Alfa Laval (Pty) Ltd		Isando, South Africa	2,000	100	–
Alfa Laval SA (Pty) Ltd		Isando, South Africa	100	100	–
Alfa Laval Slovakia S.R.O.		Bratislava, Slovakia		99	–
Alfa Laval Spol S.R.O.		Prague, Czech Republic		80	–
Alfa Laval France SAS		Saint-Priest, France	2,000,000	100	–
Alfa Laval SAS		Saint-Priest, France	606,700	100	–
Alfa Laval Moatti SAS		Elancourt, France	24,000	100	–
Alfa Laval Spiral SAS		Nevers, France	79,999	100	–
MCD SAS		Guny, France	71,300	100	–
Alfa Laval Vicarb SAS		Grenoble, France	200,000	100	–
Canada Inc.		Newmarket, Canada	480,000	100	–
Alfa Laval Inc.		Newmarket, Canada	481,600	33	–
SCI du Companil		Grenoble, France	32,165	100	–
Alfa Laval HES SAS		Pontcharra sur Turdine, France	150,000	100	–
Alfa Laval Packinox SAS		Paris, France	348,115	100	–
Ziepack SA		Paris, France	37,701	51	–
Tranter SAS		Nanterre, France		100	–
Definox SAS		Clisson, France	10,000	100	–
Alfa Laval Holding GmbH		Glinde, Germany	1	100	–
Alfa Laval Mid Europe GmbH		Wiener Neudorf, Austria	1	100	–

Specification of shares in subsidiaries, continued

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Tranter Warmetauscher GmbH		Guntramsdorf, Austria		100	–
Alfa Laval Mid Europe GmbH		Glinde, Germany	1	100	–
Alfa Laval Stormarn GmbH		Glinde, Germany	1	100	–
Tranter GmbH		Artern, Germany	1	100	–
Tranter Solarice GmbH		Artern, Germany		100	–
Alfa Laval Mid Europe AG		Dietlikon, Switzerland	647	100	–
Alfa Laval AEBE		Holargos, Greece	807,000	100	–
Alfa Laval Kft		Budapest, Hungary	1	100	–
Alfa Laval SpA		Monza, Italy	1,992,276	99	–
Alfa Laval Italy Srl		Milan, Italy		66.7	–
Alfa Laval Polska Sp.z.o.o.		Warsaw, Poland	7,600	100	–
Alfa Laval Kraków Sp.z.o.o.		Krakow, Poland	80,080	100	–
Alfa Laval (Portugal) Ltd		Linda-A-Velha, Portugal		1	–
Alfa Laval SRL		Bucharest, Romania	38,566	100	–
Alfa Laval Iberia SA		Madrid, Spain	99,999	99.999	–
Alfa Laval (Portugal) Ltd		Linda-A-Velha, Portugal	1	99	–
Alfa Laval Holdings Ltd		Camberley, UK	14,053,262	100	–
Alfa Laval Ltd		Camberley, UK	11,700,000	100	–
Tranter Ltd		Doncaster, UK	10,000	100	–
Alfa Laval Eastbourne Ltd		Eastbourne, UK	10,000	100	–
Ashbrook Simon-Hartley Ltd		Newcastle-under-Lyme, UK	2	100	–
Alfa Laval Makine Sanayii ve Ticaret Ltd Sti		Istanbul, Turkey	1	1	–
Alfa Laval USA Inc.		Richmond, Virginia, USA	1,000	100	–
Alfa Laval US Holding Inc.		Richmond, Virginia, USA	180	100	–
Alfa Laval Inc.		Richmond, Virginia, USA	44,000	100	–
Champ Products LLC		Richmond, Virginia, USA		100	–
Standard Refrigeration LLC		Richmond, Virginia, USA		100	–
Niagara Blower Company Inc		Buffalo, New York, USA	4,000,200	100	–
Framo Houston Inc.		La Porte, Texas, USA	5,000	100	–
Alfa Laval US Treasury Inc.		Richmond, Virginia, USA	1,000	100	–
DSO Fluid Handling Inc.		Irvington, New Jersey, USA	100	100	–
AGC Heat Transfer Inc.		Bristow, Virginia, USA	1,000	100	–
Tranter Inc.		Wichita Falls, Texas, USA	1,000	100	–
MCD Gaskets Inc.		Richmond, Virginia, USA	1,000	100	–
Hutchison Hayes Separation Inc.		Houston, Texas, USA	1,000	100	–
Definox Inc.		New Berlin, Wisconsin, USA	1,000	100	–
Alfa Laval Aalborg Inc.		Miramar, Florida, USA	200	100	–
Alfa Laval Kathabar Inc.		Elizabethtown, North Carolina, USA	1,000	100	–
AO Alfa Laval Potok		Koroljov, Russia	31,077,504	100	–
Alfa Laval Försäkrings AB	516406-0682	Lund, Sweden	50,000	100	–
Alfa Laval Ltda		Sao Paulo, Brazil	2	0	–
Tranter Indùstria e Comércio de Equipamentos Ltda		Sao Paulo, Brazil	1	0	–
Alfa Laval Support Services Pvt Ltd		Poona, India	99,990	100	–
MCD Nitrile India Pvt Ltd		Falta, India	24,593	91	–
Alfa Laval Benelux NV/SA		Brussels, Belgium	2	0	–
Alfa Laval SpA		Monza, Italy	20,124	1	–
Alfa Laval Iberia SA		Madrid, Spain	1	0.001	–
Alfa Laval Ukraine		Kiev, Ukraine		100	–
Alfa Laval (India) Ltd		Poona, India	1	0	–
Alfa Laval KK		Tokyo, Japan	1,200,000	100	208
Total					**4,669**

Specification of shares in joint ventures

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Alfa Laval Holding AB					
Alfdex AB	556647-7278	Botkyrka, Sweden	1,000	50	20
Alfa Laval Corporate AB					
AlfaWall AB	556723-6715	Botkyrka, Sweden	500	50	1
Alfa Laval Ltd					
Rolls Laval Heat Exchangers Ltd		Wolverhampton, UK	5,000	50	0
Total					**21**

Specification of shares in other companies

Company name	Domicile	Number of shares	Share of capital %	Book value SEK thousands
Alfa Laval Aalborg Ltda				
Tractebel	Brazil	1,268		120
Elektrobras	Brazil	7,107		162
Alfa Laval Philippines Inc.				
Philippine Long Distance Telephone	Philippines	820		15
Alfa Laval Nordic OY				
As Oy Koivulantie 7A	Finland	1		297
Helsinki Halli	Finland	4		134
Alfa Laval Vantaa OY				
Länsi-Vantaan Tenniskeskus	Finland	4		0
Mikkelin Puhelin Oyj	Finland	5		19
Alfa Laval HES SA				
Thermothec	France	9,130		0
Alfa Laval Benelux BV				
CV Scheepvaartonderneming Finterbaltica	Netherlands	1		163
Helpman Holding BV				
Helpman Sofia OOD	Bulgaria	500	49	0
Alfa Laval NV				
Dalian Haven Automation Co Ltd	China	102	43	853
Frank Mohn Nederland BV				
Triangle (Air) Freight Forwarders BV	Netherlands	12	33	1,916
Frank Mohn Flatøy AS				
Nordhordaland handverk og industrilag AS	Norway	50	4	26
Meland arbeids- og kompetansesenter	Norway	3	3	3
Alfa Laval Tumba AB				
Smedhälsan Ekonomisk Förening	Sweden			0
Alfa Laval Corporate AB				
European Development Capital Corporation (EDCC) NV	Curacao	36,129		0
Multiprogress	Hungary	100	3	0
Kurose Chemical Equipment Ltd	Japan	180,000	11	0
Poljoprivreda	former Yugoslavia			0
Tecnica Argo-Industrial S.A.	Mexico	490	49	0
Adela Investment Co S.A. (preference)	Luxembourg	1,911	0	0
Adela Investment Co S.A.	Luxembourg	1,911	0	0
Mas Dairies Ltd	Pakistan	125,000	5	0
Total				**3,708**

None of these other companies with a share of capital of 20 percent or more are accounted for as associates since they are dormant and Alfa Laval does not have a significant influence according to IAS 28 item 6.

Note 20. Inventories

Type of inventory

Consolidated

SEK millions	2016	2015
Raw materials and consumables	2,849	2,565
Work in progress	2,087	2,180
Finished goods & goods for resale, new sales	1,720	1,616
Finished goods & goods for resale, spare parts	1,039	925
Advance payments to suppliers	136	119
Total	**7,831**	**7,405**

A considerable part of the inventory for spare parts is carried at net realisable value.

Obsolescence related to inventories amounts to and has changed as follows:

Obsolescence

Consolidated

SEK millions	January 1	Translation difference	Acquired	Write-down	Reversal of previous write-down	December 31
Year:						
2015	1,119	-14	0	259	-188	1,176
2016	1,176	61	-	318	-292	1,263

The Group's inventories have been accounted for after deduction for inter-company gains in inventory due to internal sales within the Group. The inter-company profit reserve at the end of 2016 amounts to SEK 499 (488) million.

Note 21. Accounts receivable

Accounts receivable with a maturity exceeding one year of SEK 152 (174) million have not been accounted for as non-current assets as they are not intended for permanent use.

Accounts receivable are reported net of provisions for bad debts. The provision for bad debts amounts to and has changed as follows:

Bad Debts

Consolidated

SEK millions	January 1	Translation difference	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
Year:							
2015	505	-17	121	-57	-79	0	473
2016	473	26	111	-88	-57	0	465

The amount of accounts receivable being overdue is an indication of the risk the company runs for ending up in bad debts. The percentage is in relation to the total amount of accounts receivable.

Accounts receivable – overdue

Consolidated

SEK millions	2016	%	2015	%
Overdue:				
Maximum 30 days	672	11.5	647	11.2
More than 30 days but maximum 90 days	373	6.4	357	6.1
More than 90 days	557	9.6	475	8.2
Total	**1,602**	**27.5**	**1,479**	**25.5**

Note 22. Other short-term receivables

Split on type and maturity

Consolidated

SEK millions	2016	2015
Notes receivable	347	461
Financial leasing receivables	8	37
Other receivables	984	1,060
Total	**1,339**	**1,558**
Of which, not due within one year:		
Notes receivable	10	12
Other receivables	26	26
Total	**36**	**38**

Note 23. Prepaid expenses and accrued income

Split on type

Consolidated

SEK millions	2016	2015
Prepaid expenses	266	172
Accrued income	102	107
Total	**368**	**279**

Note 24. Other current deposits

Split on type and maturity

Consolidated		
SEK millions	2016	2015
Deposits with banks	109	244
Bonds and other securities	956	768
Other deposits	10	9
Total	**1,075**	**1,021**
Of which, not due within one year:		
Deposits with banks	1	8
Other deposits	0	0
Total	**1**	**8**

Note 25. Cash and cash equivalents

The item cash and cash equivalents in the statement on financial position and in the cash-flow statement is mainly relating to bank deposits and liquid deposits.

Note 26. Defined benefit obligations

The Group has defined benefit commitments to employees and former employees and their survivors. The benefits are referring to old age pension, survivor's pension, disability pension, health care and severance pay.

The defined benefit plans are in place in Austria, Belgium, Canada, France, Germany, India, Indonesia, Italy, Japan, Mexico, the Netherlands, Norway, Philippines, South Africa, Sweden, Switzerland, Taiwan, the United Kingdom and the United States. Most plans have been closed for new participants and replaced by defined contribution plans for new employees.

Risks

The cost for defined benefit obligations are impacted by several factors that are outside the control of the company, such as the discount rate, the return on plan assets, future salary increases, the development of the average length of life and the claim rates under medical plans. The size of and the development of these costs are therefore difficult to predict. According to the new IAS 19 all of these remeasurements are reported in other comprehensive income and not in net income.

The following table presents how the net defined benefit liability is arrived at out of the present values of the different defined benefit plans, less the fair value of the plan assets.

Net defined benefit liability

Consolidated		
SEK millions	2016	2015
Present value of defined benefit obligation, unfunded	-1,264	-1,167
Present value of defined benefit obligation, funded	-5,664	-5,225
Present value of defined benefit obligation at year end	-6,928	-6,392
Fair value of plan assets	4,506	4,465
Defined benefit liability	-2,422	-1,927
Less disallowed assets due to asset ceiling	–	–
(-) liability/(+) asset at December 31	**-2,422**	**-1,927**

The net plan cost for the defined benefit plans describes the different cost elements of the plans. The net plan cost is reported in the consolidated comprehensive income statement on the lines where personnel costs are reported. The interest cost/income is not part of the financial net, but instead just a way to categorize the components of the net plan cost. All remeasurements are reported in other comprehensive income and will never be reclassified to net income.

Total plan cost

Consolidated		
SEK millions	2016	2015
Net plan cost		
Current service cost	-102	-118
Net interest cost/income	-66	-61
Past service cost/income from plan amendments and curtailments and gains and losses on settlements	-6	-1
Net plan (-) cost/(+) income	**-174**	**-180**
Remeasurements		
Actuarial losses/gains arising from changes in demographic assumptions	-41	-2
Actuarial losses/gains arising from changes in financial assumptions	-692	252
Actuarial losses/gains arising from changes in experience	108	219
Return on plan assets less interest on plan assets	120	-153
Change in disallowed assets due to asset ceiling	–	16
Other comprehensive income (OCI)	**-505**	**332**
Total plan cost	**-679**	**152**

The following table presents how the present value of the defined benefit liability has changed during the year and lists the different components of the change.

Present value of defined benefit liability

Consolidated

SEK millions	2016	2015
Present value of defined benefit liability at January 1	-6,392	-6,796
Translation difference	-22	-54
Current service cost	-102	-118
Interest cost	-199	-205
Employee contributions	-5	-5
Actuarial losses/gains arising from changes in demographic assumptions	-41	-2
Actuarial losses/gains arising from changes in financial assumptions	-692	252
Actuarial losses/gains arising from changes in experience	108	219
Past service cost/income from plan amendments and curtailments and gains and losses on settlements	-6	-1
Benefit payments	268	280
Settlement payments	155	38
(-) liability at December 31	**-6,928**	**-6,392**

The liability has the following duration and maturity:

Duration and maturity

Consolidated

	2016	2015
Weighted average duration of the defined benefit obligation (years)	12	12
Maturity analysis of benefit payments (non discounted amounts) SEK millions		
maturity ≤ 1 year	276	293
maturity > 1 ≤ 5 years	1,138	1,107
maturity > 5 ≤ 10 years	1,559	1,494
maturity > 10 ≤ 20 years	3,016	3,026
maturity > 20 years	4,510	4,572

The following table presents how the fair value of the plan assets has developed during the year and lists the components of the change.

Fair value of plan assets

Consolidated

SEK millions	2016	2015
Fair value of plan assets at January 1	4,465	4,598
Translation difference	-13	-2
Employer contributions	175	143
Employee contributions	5	5
Interest on plan assets	133	144
Return on plan assets less interest on plan assets	120	-153
Benefit payments	-224	-232
Settlement payments	-155	-38
(+) asset at December 31	**4,506**	**4,465**

The plan assets are split on the following types of assets:

Split of plan assets

Consolidated

SEK millions	2016	2015
Cash and cash equivalents	786	794
Equity instruments	1,148	1,308
Debt instruments	1,551	1,440
Real estate	254	254
Investment funds	767	669
Fair value at December 31	**4,506**	**4,465**

The plan assets are in all essentials valued at quoted market prices in active markets.

The table below presents how the net defined benefit liability has changed and the factors affecting the change.

Net defined benefit liability/asset

Consolidated

SEK millions	2016	2015
Defined benefit liability/asset at January 1	-1,927	-2,215
Translation difference	-35	-55
Net plan cost	-174	-180
Employer contributions	175	143
Remeasurements (other comprehensive income)	-505	332
Benefit payments, unfunded plans	44	48
Settlement payments, unfunded plans	0	0
(-) liability/(+) asset at December 31	**-2,422**	**-1,927**

The gross plan assets and gross defined benefit liabilities of each plan are to be reported as a net amount. The following table shows how the net asset and the net liability are calculated.

Gross defined benefit liability/asset

Consolidated

SEK millions	2016	2015
Assets		
Fair value of plan assets	4,506	4,465
Less disallowed assets due to asset ceiling	–	–
	4,506	4,465
Netting	-4,503	-4,461
Assets in statement on financial position	**3**	**4**
Liabilities		
Present value of defined benefit obligation at year end	-6,928	-6,392
Netting	4,503	4,461
Provision in statement on financial position	**-2,425**	**-1,931**

The weighted averages for the more significant actuarial assumptions that have been used at the year-end are:

Actuarial assumptions

Consolidated

	2016	2015
Discount rate (%)	2.8	3.4
Expected average retirement age (years)	63	63
Life expectancy for a 45 year old male (years)	82	82
Life expectancy for a 45 year old female (years)	85	86
Claim rates under medical plans (%)	5	5
Expected rate of salary/wage increase (%)	3	3
Change in health care costs (%)	5	5
Index for future compensation increases (%)	2	3

Future contributions

Consolidated

SEK millions	2017
Expected employer contributions to the plan for the next calendar year	-175
Expected employer contributions for the next calendar year to multi-employer plans reported as defined contribution plans	-59

The following table presents how the defined benefit pension schemes are distributed on different countries.

Regional split

Consolidated

SEK millions, unless otherwise stated	United States	United Kingdom	Nether-lands	Germany	Norway	Italy	Belgium	Other	Total
Net defined benefit liability									
Present value of the defined benefit obligation, unfunded	-745	–	–	-187	-9	-33	–	-290	**-1,264**
Present value of the defined benefit obligation, funded	-913	-2,705	-596	–	-978	–	-100	-372	**-5,664**
Present value of the defined benefit obligation at year end	-1,658	-2,705	-596	-187	-987	-33	-100	-662	**-6,928**
Fair value of plan assets	785	1,904	550	–	860	–	69	338	**4,506**
Defined benefit liability	-873	-801	-46	-187	-127	-33	-31	-324	**-2,422**
Less disallowed assets due to asset ceiling	–	–	–	–	–	–	–	–	**–**
(-) liability/(+) asset	-873	-801	-46	-187	-127	-33	-31	-324	**-2,422**
Net plan cost	**-55**	**-28**	**-20**	**-4**	**-30**	**0**	**-3**	**-34**	**-174**
Remeasurements (OCI)	**1**	**-445**	**-9**	**-6**	**-40**	**–**	**-5**	**-1**	**-505**
Sensitivity analysis*									
Discount rate decreased by 1% point	-176	-530	-124	-24	-127	–	-5	-40	**-1,026**
Life expectancy increased by 1 year	-56	-112	-19	-10	-16	–	0	-7	**-220**
Expected average retirement age decreased by 1 year	-17	–	–	0	0	–	1	-4	**-20**
Claim rates under medical plans increased by 1 % point	-4	–	–	–	–	–	–	–	**-4**
Expected rate of salary increases increased by 1% point	0	-53	-23	–	-46	–	-13	-23	**-158**
Medical costs increased by 1% point	-39	–	–	–	–	–	–	0	**-39**
Index for future compensation increases increased by 1% point	0	-103	-49	–	-78	–	–	-18	**-248**
Cost for actuarial services	**-4**	**-1**	**-1**	**0**	**0**	**0**	**0**	**0**	**-6**
Number of participants in the plans at December 31									
Current employees (active members)	1,121	106	156	5	284	–	24	2,670	**4,366**
Current employees (only vested value for closed plans)	27	–	–	9	–	275	–	10	**321**
Former employees that are not yet pensioners	109	450	213	–	–	–	47	4	**823**
Pensioners	1,438	648	84	224	304	–	–	113	**2,811**
Total	**2,695**	**1,204**	**453**	**238**	**588**	**275**	**71**	**2,797**	**8,321**
Remaining service period									
Average remaining service period for active members (years)	10	9	12	7	6	–	11	8	**9**

* How much would the present value of the defined benefit obligation at December 31 increase if the (all other things being equal):

Note 27. Other provisions

Movement schedule

Consolidated

SEK millions	January 1	Translation difference	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	December 31
2015						
Claims & warranty	1,169	-24	495	-396	-119	1,125
Deferred costs	201	-7	118	-72	-22	218
Restructuring	235	0	71	-151	-15	140
Onerous contracts	146	-3	40	-59	-4	120
Litigations	284	-5	87	-108	-4	254
Other	370	26	213	-235	-15	359
Total	**2,405**	**-13**	**1,024**	**-1,021**	**-179**	**2,216**
Of which:						
current	1,862					1,798
non-current	543					418
2016						
Claims & warranty	1,125	32	596	-416	-120	1,217
Deferred costs	218	9	75	-104	-46	152
Restructuring	140	-1	679	-43	-5	770
Onerous contracts	120	5	80	-67	-9	129
Litigations	254	4	91	-27	-2	320
Other	359	19	189	-163	-28	376
Total	**2,216**	**68**	**1,710**	**-820**	**-210**	**2,964**
Of which:						
current	1,798					2,365
non-current	418					599

Unused amounts reversed refer to, among other items, changed classifications and reversals of provisions made in prior years that have not been used.

Each type of provision entails everything from a few up to a large number of different items. It is therefore not practicable or particularly meaningful to specify the provisions item by item. As indicated above a clear majority of the provisions will result in disbursements within the next year.

Claims & warranty refers to claims from customers according to the conditions in issued warranties. The claims concern technical problems with the delivered goods or that promised performance has not been achieved.

Deferred costs are partly costs that are known but not yet debited at the time of invoicing, partly costs that are unknown but expected at the time of invoicing. The provision for deferred costs is charged to costs of goods sold in order to get a correct phasing of the gross margin.

Provisions for restructuring are usually relating to closure of plants or closure or move of production lines, businesses, functions etc. or reduction of the number of employees in connection with a downturn in the business climate. The provisions for restructuring are affecting approximately 1,040 (190) employees.

The provision for onerous contracts is relating to orders where a negative gross margin is expected. Provisions are made as soon as a final loss on the order can be expected. This can in exceptional cases happen already at the time when the order is taken. Normally this provision is relating to larger and complex orders where the final margin is more uncertain.

The provision for litigations refers to ongoing or expected legal disputes. The provision covers expected legal costs and expected amounts for damages or settlements.

Other refers to miscellaneous provisions that do not fall within any of the above categories.

Note 28. Borrowings and net debt

Net debt

Consolidated

SEK millions	2016	2015
Credit institutions	137	107
Swedish Export Credit	3,153	2,970
European Investment Bank	2,345	2,240
Private placement	0	921
Commercial papers	0	1,000
Corporate bonds	7,612	7,265
Capitalised financial leases	66	82
Interest-bearing pension liabilities	0	0
Total debt	13,313	14,585
Cash and cash equivalents and current deposits	-3,694	-2,897
Net debt *	**9,619**	**11,688**

* Alternative performance measures, defined on page 142.

The loans are distributed among currencies as follows:

Maturity of loans by currency

Consolidated

	Current		Non-current	
SEK millions	2016	2015	2016	2015
Currency:				
BRL	–	4	–	–
CNY	–	2	–	–
DKK	–	1	3	3
EUR	1,025	252	10,929	11,341
INR	17	8	–	–
KRW	–	–	–	1
SEK	–	1,000	–	–
USD	36	752	1,237	1,139
Other	0	0	–	–
Total	**1,078**	**2,019**	**12,169**	**12,484**
Of which, not due within five years:			4,746	6,505

The maturity structure of the loans is presented in the bar chart in the section "Liquidity risk and refinancing risk" under Financial risks.

Loans with floating interest rate

Loan from credit institutions

Alfa Laval has a senior credit facility of EUR 400 million and USD 544 million, corresponding to SEK 8,779 million with a banking syndicate. At December 31, 2016 the facility was not utilised. The facility matures in June 2019, with two one year extension options.

The interest is based on applicable IBOR plus a mark-up based on the relation between net debt and EBITDA and how much of the facility that is utilised.

At year end the mark up is 40 (40) basis points.

Bilateral term loans with other lenders

Alfa Laval has a bilateral term loan with Swedish Export Credit that is split on one loan of EUR 100 million that matures in June 2017 and one loan of EUR 100 million that matures in June 2021 as well as a loan of USD 136 million that matures in June 2020, corresponding to SEK 3,153 million in total. The loans accrue interest at floating rate based on applicable IBOR plus a mark-up of 45, 95 and 80 basis points respectively.

Alfa Laval also has a bilateral term loan from the European Investment Bank split on one loan of EUR 130 million that matures in March 2018 and an additional loan of EUR 115 million that matures in June 2021, corresponding to SEK 2,345 million in total. The loans accrue interest at floating rate based on EURIBOR plus a mark-up of 70 and 45 basis points respectively.

Corporate bonds

Alfa Laval has issued EUR 300 million of corporate bonds corresponding to SEK 2,871 million, with floating interest rate and that matures in September 2019. The floating interest rate is based on EURIBOR plus a mark-up of 55 basis points.

Interest level of loans with floating interest rate

The senior credit facility, the bilateral term loans and the EUR 300 million tranche of the corporate bonds accrue interest at floating rate. At the end of 2016 the loans were accruing interest in the range of 0.23 % - 1.80 % (0.41 % - 1.39 %). The average interest rate at the end of 2016 was 0.59 (0.93) percent. The Group has chosen to hedge 12 (18) percent of the loans to fixed interest rate, with a duration of 13.8 (10.0) months.

Loans with fixed rate

Private placement

The private placement from 2006 of USD 110 million matured in April 2016 and was re-paid.

Corporate bonds and commercial papers

Alfa Laval has issued EUR 500 million of corporate bonds corresponding to SEK 4,741 million, with a fixed interest rate of 1.495 percent and that matures in September 2022.

The commercial paper programme of SEK 2,000 million was not utilised at December 31, 2016. When utilised, the interest is fixed at inception and is based on STIBOR flat.

Transaction costs

The transaction costs in connection with raising the loans or issuing the bonds have been capitalised and are being amortised over the maturity of the loans. At the end of the year the capitalised amount was SEK 35 (49) million. The current year's cost for the fee amortisation is SEK -14 (-14) million.

Average interest and currency duration

The average interest and currency duration for all loans including derivatives is 27.8 (28.4) months at the end of 2016.

Financial covenants

The syndicated loan and the bilateral term loans with Swedish Export Credit and the European Investment Bank are linked to one financial covenant that must be fulfilled throughout the life of the loans. The covenant refers to the relationship between net debt and EBITDA in combination with the current official Alfa Laval rating.

If the covenants are not fulfilled, the lenders are entitled to demand immediate repayment of the loans, provided that the breach is not temporary. Alfa Laval has fulfilled the covenants with a good margin ever since the loans were raised.

Note 29. Other current liabilities

Split by type

Consolidated

SEK millions	2016	2015
Financial lessee payable	66	82
VAT liabilities, employee withholding taxes	173	177
Other non-interest bearing liabilities	2,113	1,714
Total	**2,352**	**1,973**

Note 30. Accrued costs and prepaid income

Split by type and maturity

Consolidated

SEK millions	2016	2015
Accruals for social security	296	314
Reserve for severance pay	188	168
Accrued interest expenses	23	32
Other accrued expenses	1,900	1,715
Prepaid income	26	8
Total	**2,433**	**2,237**
Of which, not due within one year:		
Accruals for social security	32	31
Reserve for severance pay	101	96
Other accrued expenses	116	102
Total	**249**	**229**

Note 31. Pledged assets and contingent liabilities

Split by type

Consolidated

SEK millions	2016	2015
Pledged assets		
Other pledges and similar commitments	14	11
Total	**14**	**11**
Contingent liabilities		
Discounted bills	31	44
Performance guarantees	1,530	1,724
Other contingent liabilities	673	722
Total	**2,234**	**2,490**

As of December 31, 2016 the Group had sold receivables with recourse totalling SEK 31 (44) million. These are disclosed as discounted bills above.

Other contingent liabilities are among other items referring to bid guarantees, payment guarantees to suppliers and retention money guarantees.

Note 32. Transactions with related party

Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with 5.0 (4.2) percent of net sales. In June 1999, Tetra Pak entered into a purchasing agreement with Alfa Laval that governs the distribution, research and development, market and sales information, use of trademarks and intellectual property. The following areas shall be agreed upon from time to time between representatives of the parties: products that are subject to the agreement, prices and discounts of such products, geographical markets and product areas where Tetra Pak is Alfa Laval's preferred distributor, the right of Tetra Pak to affix its trademarks to Alfa Laval products, sales goals for Tetra Pak in defined geographical markets, products and technologies that are the focus of joint research and development and the ownership rights of the research and development result and use of market and sales information. The agreement aims at the applications within liquid food where Tetra Pak has a natural market presence through the deliveries of packaging equipment and packaging material.

The agreement was prolonged by two years from December 31, 2016. It has a 12 month period of notice. The prices Tetra Pak receives are not lower than the prices Alfa Laval would obtain when selling to a comparable third party. The prices are fixed on a calendar year basis.

Alfa Laval rents premises to DeLaval in Russia. The total rent income for this amounts to SEK 1 (2) million.

The Board of Directors for Alfa Laval AB (publ) has two representatives from Tetra Laval – Jörn Rausing and Finn Rausing.

At year-end, Alfa Laval has the following balance items against companies within the Tetra Laval group (Tetra Pak and DeLaval).

Receivables on/payables to related parties

Consolidated

SEK millions	2016	2015
Receivables:		
Accounts receivable	144	177
Other receivables	0	0
Liabilities:		
Accounts payable	0	0

Alfa Laval has had the following transactions with companies within the Tetra Laval group (Tetra Pak and DeLaval).

Revenues/expenses from related parties

Consolidated

SEK millions	2016	2015
Net sales	1,769	1,664
Other operating income	1	2

Note 33. Interests in joint ventures

Alfa Laval owns 50 percent in three different joint ventures: Rolls Laval Heat Exchangers Ltd with Rolls Royce as partner, Alfdex AB with Haldex as partner and AlfaWall AB with Wallenius as partner. None of these joint ventures are of material importance and for that reason no disclosures are made of each individual joint venture. Instead disclosures in aggregate are made on the carrying amount of Alfa Laval's interests in these individually immaterial joint ventures. See the below tables.

Since joint ventures as from 2014 are consolidated according to the equity method in IFRS 11 "Joint arrangements", all amounts in the following two tables have disappeared out of Alfa Laval's statements over consolidated comprehensive income and consolidated financial position.

Assets/liabilities

Joint ventures

SEK millions	2016	2015
Current assets	58	55
Non-current assets	6	10
Current liabilities	32	37
Non-current liabilities	12	11
Contingent liabilities	35	39

Revenues/expenses

Joint ventures

SEK millions	2016	2015
Net sales	183	193
Cost of goods sold	-110	-122
Other operating income	38	27
Other operating costs	-93	-87
Financial net	0	0
Result before tax	18	11
Taxes	-3	-3
Net income	15	8
Other comprehensive income	0	0
Comprehensive income	**15**	**8**

Instead the application of the equity method means that the net income in the joint ventures is booked into one line in the operating income. The counter entry is an increase or decrease of the value of shares in joint ventures. Received dividends reduce the value of the shares in joint ventures.

Interests in joint ventures

Consolidated

SEK millions	2016	2015
Operating income	18	11
Taxes	-3	-3
Net income	15	8
Received dividends	12	12
Shares in joint ventures	21	18

The effect on comprehensive income is the same as the net income.

Note 34. Work in progress on plant projects

Impact of percentage of completion method

Consolidated

SEK millions	2016	2015
Result items		
Amount of recognised project sales revenue	2,404	2,402
Work performed on ongoing projects		
Aggregate amount of costs incurred and recognised profits (less recognised losses)	3,137	2,753
Assets		
Retentions	58	61
Gross amount due from customers for work in progress	618	249
Liabilities		
Advances received	903	948
Gross amount due to customers for work in progress	263	285

Note 35. Leasing

Alfa Laval has entered into non-cancellable operating leases mainly relating to premises and finance lease agreements regarding machinery and equipment with leasing periods of 1-20 years. The leasing fees for non-cancellable operating leases for premises were SEK 462 (429) million. During the year, the Group has entered into finance leases with a capitalised value of SEK 0 (1) million. See Note 18 for information on the capitalised value of finance leases.

The future minimum leasing fees concerning non-cancellable operating leases, distributed on maturity dates, amount to:

Future minimum leasing fees for operating leases

Consolidated

SEK millions	2016	2015
Maturity in year:		
2016	N/A	390
2017	427	353
2018	379	299
2019	315	221
2020	235	176
2021	183	N/A
Later	764	799
Total	**2,303**	**2,238**

The future minimum leasing fees concerning financial leasing agreements and their net present value, distributed on maturity dates, amount to:

Financial leases

Consolidated

	Future minimum leasing fees for financial leases		Present value of financial leases	
SEK millions	2016	2015	2016	2015
Maturity in year:				
2016	N/A	20	N/A	20
2017	18	17	18	16
2018	17	16	17	16
2019	17	16	16	15
2020	14	13	13	12
2021	0	N/A	0	N/A
Later	0	0	0	0
Total	**66**	**82**	**64**	**79**

Note 36. Events after the closing date

The statements on financial position and the comprehensive income statements will be adopted at the Annual General Meeting of shareholders on April 26, 2017.

Note 37. Proposed disposition of earnings

The unrestricted equity in Alfa Laval AB (publ) is SEK:	
Profit brought forward	7,774,379,055
Net income 2016	1,422,735,554
	9,197,114,609

The Board of Directors propose a dividend of SEK 4.25 (4.25) per share corresponding to SEK 1,782,689,339 (1,782,689,339) and that the remaining income of SEK 7,414,425,270 (7,774,379,055) be carried forward.

The Board of Directors are of the opinion that the proposed dividend is in line with the requirements that the type and size of operations, the associated risks, the capital needs, liquidity and financial position put on the company.

True and fair view

The undersigned certify that the annual report for the Group and the Parent company has been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union, and generally accepted accounting principles respectively, and gives a true and fair view of the financial positions and results of the Group and the Parent company, and that the Board of Directors' report gives a fair review of the development of the operations, financial positions and results of the Group and the Parent company and describes substantial risks and uncertainties that the Group companies face.

Lund, March 1, 2017

Anders Narvinger
Chairman

Gunilla Berg
Director

Arne Frank
Director

Bror García Lantz
Employee representative

Ulla Litzén
Director

Henrik Nielsen
Employee representative

Susanna Holmqvist Norrby
Employee representative

Finn Rausing
Director

Jörn Rausing
Director

Ulf Wiinberg
Director

Margareth Øvrum
Director

Tom Erixon
President and CEO

Our Auditors' Report concerning this Annual Report has been issued on March 3, 2017.

Håkan Olsson Reising
Authorized Public Accountant

Joakim Thilstedt
Authorized Public Accountant

Auditor's report

To the general meeting of the shareholders of Alfa Laval AB (publ.), corp. id 556587-8054

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Alfa Laval AB (publ.) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 61–142 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the statement of comprehensive income and statement of financial position for the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. These matters refer to consolidated accounts unless otherwise stated.

Valuation of intangible assets and the parent company's shares in group companies

See Notes 16, 17 och 19 and accounting principles on page 92 in the annual accounts and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The carrying value of intangible assets, mainly goodwill, patents and unpatented know-how amounts to SEK 26,382 million as at 31 December 2016, which represents approximately 49% of total assets. Annually, or if certain indicators of impairment exist, goodwill is subject to an impairment test which is complex and contains significant elements of judgment.

The impairment test as required by IFRS is to be performed taking into account both forecasted internal and external assumptions and plans. Examples of such judgments are future cash flows and the discount rate to be used considering that estimated future payments are subject to risk.

In connection with the Group's strategy review during the year impairment tests have resulted in recognized impairments in total amounting to SEK 627 million related to goodwill and other intangible assets.

The parent company holds shares in group companies of SEK 4,669 million as at 31 December 2016. If the book value of the shares exceeds the equity in a given group company, a similar type of impairment test is performed using the same methodology and assumptions as is done in respect of goodwill in the Group.

How the matter was addressed during the audit

We have obtained and assessed the Group's impairment tests to ascertain whether they are carried out in accordance with the techniques prescribed by IFRS.

In addition, we have assessed the reasonableness of future cash flows and discount rate by obtaining and evaluating the Group's written documentation and plans. We have also had discussions with group management and performed retrospective review over prior period estimates.

We have involved our internal valuation specialists in the audit team to ensure that appropriate experience and expertise have been applied in the assessment of methodology and discount rates used. An important part of our work has been to obtain and assess the Group's sensitivity analysis to evaluate how changes in assumptions may affect the valuation.

We have reviewed the Annual Report disclosures for completeness, assessed whether the disclosures are in line with the assumptions used by management in their valuation and that they are, in all material respects, in accordance with disclosures required by IFRS.

Provisions for pensions

See Note 26 and accounting principles on page 89 in the annual accounts and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The Group has pension obligations that mainly relate to the United Kingdom, the United States, Norway and the Netherlands. Before reduction by the fair value of plan assets, the pension obligations are valued at SEK 6,928 million as at 31 December 2016.

Estimation of the value of the pension obigations relies upon a number of assumptions, including life expectancy, inflation, and discount rates that are applied to estimate the present value of future pension payments. The Group engages external actuaries to perform these complex calculations.

Changes to the assumptions which the calculations are based upon could have a significant impact on total comprehensive income as well as on the recorded value of the pension obligations.

How the matter was addressed during the audit

We have examined the external actuarial report that is used by the Group for valuation of its pension obligations. We have, with input from our internal specialists', critically assessed the key assumptions used for inflation and discount rates.

We have also reviewed the Annual Report disclosures for completeness and assessed whether they are in line with the assumptions and sensitivity analysis used.

Other provisions

See Note 27 and accounting principles on page 93 in the annual accounts and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The carrying value of the Group's provisions amounts to SEK 2,964 million per 31 December 2016. These relate among others to claims & warranty, litigations, restructuring and onerous contracts.

Included in the provisions is SEK 770 million for restructuring, mainly related to the restructuring programme that was launched during the autumn 2016 as a result of the strategy review.

Provisions involve significant judgment regarding uncertain future outcomes, in particular relating to the amount and timing of the final assessments. Changes to the underlying assumptions used to make these provisions could significantly affect the reported result.

How the matter was addressed during the audit

We have examined the Group's documentation of its provisions. We have assessed the estimates made and have held discussions with Group management regarding their assumptions in each area to ensure that the provisions are in line with the Group's accounting principles.

Other information than the annual accounts and consolidated accounts
This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–44. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility
Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director. Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern.
- If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Alfa Laval AB (publ.) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

– has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
– in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Stockholm, March 3, 2017

Håkan Olsson Reising
Authorized Public Accountant

Joakim Thilstedt
Authorized Public Accountant

Ten-year overview

Ten-year overview

Consolidated SEK millions, unless otherwise stated	2016	2015	2014	2013 *	2012 **	2011	2010	2009	2008	2007
Profit and loss										
Net sales	35,634	39,746	35,067	29,801	29,813	28,652	24,720	26,039	27,850	24,849
Comparison distortion items	-1,500	–	-320	–	-51	-170	90	-225	-168	54
Operating income	2,989	5,717	4,667	4,353	4,396	4,691	4,401	4,030	5,736	4,691
Financial net	336	-273	-550	-181	133	-15	-37	-270	-395	-134
Result after financial items	3,325	5,444	4,117	4,172	4,529	4,676	4,364	3,760	5,341	4,557
Taxes	-1,013	-1,583	-1,149	-1,132	-1,306	-1,425	-1,248	-1,023	-1,534	-1,377
Net income for the year	**2,312**	**3,861**	**2,968**	**3,040**	**3,223**	**3,251**	**3,116**	**2,737**	**3,807**	**3,180**
Financial position										
Goodwill	20,436	19,498	20,408	10,061	9,792	9,543	5,952	6,143	5,383	4,459
Other intangible assets	5,946	6,556	7,898	3,582	3,807	3,502	2,581	2,490	1,890	1,275
Property, plant and equipment	4,940	4,773	5,004	3,785	3,823	3,936	3,512	3,548	3,546	2,824
Other non-current assets	2,100	1,804	2,092	1,447	1,509	1,664	1,568	1,542	1,376	1,128
Inventories	7,831	7,405	7,883	6,312	6,176	6,148	4,769	4,485	5,972	5,086
Current receivables	8,431	8,964	9,791	7,671	8,050	7,663	6,884	6,584	9,238	7,420
Current deposits	1,075	1,021	697	605	427	483	575	302	544	190
Cash and cash equivalents	2,619	1,876	2,013	1,446	1,404	1,564	1,328	1,112	1,083	856
TOTAL ASSETS	**53,378**	**51,897**	**55,786**	**34,909**	**34,988**	**34,503**	**27,169**	**26,206**	**29,032**	**23,238**
Equity	20,276	18,423	17,202	16,162	14,453	15,144	13,582	12,229	10,493	7,937
Provisions for pensions etc.	2,425	1,931	2,221	1,494	1,727	852	847	920	990	877
Provisions for taxes	2,722	2,925	3,074	1,758	1,932	1,930	1,617	1,390	1,161	1,090
Other non-current liabilities	636	521	660	423	473	520	632	439	403	409
Non-current loans	12,169	12,484	16,454	3,529	5,393	5,060	1,041	1,626	3,394	3,068
Current liabilities	15,150	15,613	16,175	11,543	11,010	10,997	9,450	9,602	12,591	9,857
TOTAL EQUITY & LIABILITIES	**53,378**	**51,897**	**55,786**	**34,909**	**34,988**	**34,503**	**27,169**	**26,206**	**29,032**	**23,238**

* Restated to IFRS 11. ** Restated to the new IAS 19. *** The figures for 2008 until 2007 have been recalculated due to the 4:1 split.

Changes in accounting standards

A reader of the ten-year overview should observe that accounting standards have changed repeatedly over this period of time. The major changes are the following.

In 2014 IFRS 11 “Joint arrangements” has been implemented as per January 1, 2013, which has meant a restatement of the comparison figures for 2013.

In 2013 the revised IAS 19 “Employee Benefits” has been implemented as per January 1, 2012, which has meant a restatement of the comparison figures for 2012.

Ten-year overview

Consolidated

SEK millions, unless otherwise stated	2016	2015	2014	2013 *	2012 **	2011	2010	2009	2008	2007
Key ratios										
Orders received	32,060	37,098	36,660	30,202	30,339	28,671	23,869	21,539	27,464	27,553
Order backlog at year end	16,870	20,578	22,293	14,568	14,468	13,736	11,552	11,906	14,310	14,730
EBITA	4,680	6,811	5,571	4,914	4,883	5,117	4,772	4,360	5,992	5,034
EBITDA	5,323	7,478	6,136	5,360	5,330	5,566	5,197	4,751	6,296	5,299
EBITA-margin %	13.1%	17.1%	15.9%	16.5%	16.4%	17.9%	19.3%	16.7%	21.5%	20.3%
EBITDA-margin %	14.9%	18.8%	17.5%	18.0%	17.9%	19.4%	21.0%	18.2%	22.6%	21.3%
Adjusted EBITA	5,553	6,811	5,891	4,914	4,934	5,287	4,682	4,585	6,160	4,980
Adjusted EBITDA	6,196	7,478	6,456	5,360	5,381	5,736	5,107	4,976	6,464	5,245
Adjusted EBITA-margin %	15.6%	17.1%	16.8%	16.5%	16.5%	18.5%	18.9%	17.6%	22.1%	20.0%
Adjusted EBITDA-margin %	17.4%	18.8%	18.4%	18.0%	18.0%	20.0%	20.7%	19.1%	23.2%	21.1%
Profit margin %	9.3%	13.7%	11.7%	14.0%	15.2%	16.3%	17.7%	14.4%	19.2%	18.3%
Excl. goodwill and step-up values:										
Capital turnover rate, times	8.6	10.6	7.9	6.4	6.7	6.3	5.6	5.2	5.6	6.4
Capital employed	4,146	3,734	4,447	4,657	4,430	4,560	4,399	5,052	4,973	3,863
Return on capital employed %	112.9%	182.4%	125.3%	105.5%	110.2%	112.2%	108.5%	86.3%	120.5%	130.3%
Incl. goodwill and step-up values:										
Capital turnover rate, times	1.2	1.3	1.3	1.6	1.7	1.8	1.9	2.0	2.5	2.7
Capital employed	30,663	31,512	27,259	18,598	17,833	16,324	12,752	12,976	11,144	9,289
Return on capital employed %	15.3%	21.6%	20.4%	26.4%	27.4%	31.3%	37.4%	33.6%	53.8%	54.2%
Return on equity %	11.8%	21.7%	17.6%	17.9%	22.9%	22.9%	24.4%	24.5%	42.8%	44.1%
Solidity %	38.0%	35.5%	30.8%	46.3%	41.3%	43.9%	50.0%	46.7%	36.1%	34.2%
Net debt	9,619	11,688	15,068	2,611	4,270	3,264	-551	533	2,074	2,397
Net debt to EBITDA, times	1.81	1.56	2.46	0.49	0.80	0.59	-0.11	0.11	0.33	0.45
Debt ratio, times	0.47	0.63	0.88	0.16	0.30	0.22	-0.04	0.04	0.20	0.30
Interest coverage ratio, times	24.5	22.3	18.2	22.1	23.2	28.6	35.9	15.2	26.2	23.7
Cash flow from:										
operating activities	4,979	5,850	5,123	4,233	3,586	3,429	4,098	5,347	4,062	3,264
investing activities	-795	-710	-14,970	-951	-3,260	-5,497	-1,417	-2,620	-1,333	-1,676
financing activities	-3,566	-5,229	10,250	-3,191	-407	2,317	-2,431	-2,667	-2,599	-1,291
Investments	617	674	603	492	531	555	429	451	747	556
Average number of employees	17,305	17,486	17,109	16,238	16,060	14,667	12,078	11,773	11,821	10,804
Earnings per share, SEK ***	5.46	9.15	7.02	7.22	7.64	7.68	7.34	6.42	8.83	7.12
Free cash flow per share, SEK ***	9.97	12.25	-23.48	7.82	0.78	-4.93	6.38	6.46	6.38	3.60

* Restated to IFRS 11. ** Restated to the new IAS 19. *** The figures for 2008 until 2007 have been recalculated due to the 4:1 split.

Observe that certain financial measures above constitute alternative performance measures according to the definition on page 142.

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Alternative performance measures and definitions

Alternative performance measures

An alternative performance measure is a financial measure of historical financial performance, financial position or cash flows, other than a financial measure defined or specified in the financial reporting framework.

In the annual report, the following alternative performance measures have been used (all of these alternative performance measures relate to actual historical figures and never to expected performance in future periods):

Measures to achieve full comparability over time.

All of these concern the comparison distorting impact from above all amortisation of step-up values both over time and compared to external companies. For the same reasons adjustments are also made for comparison distortion items. How they are calculated is exhibited in the Income analysis table on page 77, except for the last one.

– **EBITA** or Earnings Before Interests, Taxes and Amortisation is defined as operating income before amortisation of step-up values. This measure of result is fully comparable over time independent of the financing costs and the amortisation of step-up values that from time to time burden the Group.

– **EBITA margin (%)** is defined as EBITA in relation to net sales and expressed in percent.

– **EBITDA** or Earnings Before Interest, Taxes, Depreciation and Amortisation is defined as operating income before depreciation and amortisation of step-up values. This measure of result is fully comparable over time independent of the financing costs, the depreciation and the amortisation of step-up values that from time to time burden the Group.

– **EBITDA margin (%)** is defined as EBITDA in relation to net sales and expressed in percent.

– **Adjusted EBITA** or Adjusted Earnings Before Interests, Taxes and Amortisation is defined as operating income before amortisation of step-up values, adjusted for comparison distortion items. This measure of result is fully comparable over time independent of the comparison distortion items, the financing costs and the amortisation of step-up values that from time to time burden the Group.

– **Adjusted EBITA margin (%)** is defined as Adjusted EBITA in relation to net sales and expressed in percent.

– **Adjusted EBITDA** or Adjusted Earnings Before Interest, Taxes, Depreciation and Amortisation is defined as operating income before depreciation and amortisation of step-up values, adjusted for comparison distortion items. This measure of result is fully comparable over time independent of the comparison distortion items, the financing costs, the depreciation and the amortisation of step-up values that from time to time burden the Group.

– **Adjusted EBITDA margin (%)** is defined as Adjusted EBITDA in relation to net sales and expressed in percent.

– **Adjusted gross profit** is defined as gross profit excluding amortisation of step-up values. This measure of result is fully comparable over time independent of the amortisation of step-up values that from time to time burden the Group.

– **Adjusted gross margin (%)** is defined as Adjusted gross profit in relation to net sales and expressed in percent.

– **Earnings per share, excluding amortisation of step-up values and the corresponding tax** is defined as net income attributable to the owners of the parent, excluding amortisation of step-up values and the corresponding tax divided by the average number of shares. The net income attributable to the owners of the parent is presented in the consolidated comprehensive income statement and the amortisation of step-up values is exhibited in the Income analysis table on page 77, while the corresponding tax is SEK 311 (235) million. This key figure is fully comparable over time independent of the amortisation of step-up values that from time to time burden the Group.

Measures to show how the Group is funded and manages its capital:

– **Return on capital employed** (%) is defined as EBITA in relation to average capital employed, calculated on 12 months' revolving basis and expressed in percent. Capital employed is defined as total assets less liquid funds, other long-term securities, accrued interest income, operating liabilities and other non-interest bearing liabilities, including tax and deferred tax, but excluding accrued interest costs. The measure shows how well the capital that is used in the operations is managed.

– **Net debt** is defined as interest-bearing liabilities including interest-bearing pension liabilities and capitalised financial leases less liquid funds. The calculation of net debt is exhibited in the Net debt table in Note 28. The measure shows the net financial indebtedness.

– **Net debt to EBITDA, times** is defined as Net debt in relation to EBITDA, calculated on 12 months' revolving basis and expressed as a multiple of EBITDA. This is one of the covenants of Alfa Laval's loans and an important key figure when reviewing the proposed dividend. EBITDA or Earnings Before Interest, Taxes, Depreciation and Amortisation is defined as operating income before depreciation and amortisation of step-up values.

– **Debt ratio, times** is defined as Net debt in relation to equity at the end of the period and expressed as a multiple of the equity. This is another measure of how the Group is funded.

– **Interest coverage ratio, times** is defined as EBITDA plus financial net increased by interest costs in relation to interest costs. Expressed as a multiple of interest costs. Gives an expression for the Group's ability to pay interest. The reason EBITDA is used as the starting point is that this forms the starting point for a cash flow perspective on the ability to pay interest. Financial items classified as comparison distorting are excluded from the calculation.

Definitions of other performance measures

Net sales
Revenues from goods sold and services performed that are part of the ordinary operations of the Group, after deduction for given discounts, value added tax and other tax directly linked to the sales.

Comparison distortion items
Items that do not have any link to the normal operations of the Group or that are of a non-recurring nature, where a reporting together with other items in the consolidated comprehensive income statement would have given a comparison distortion effect that would have made it difficult to judge the development of the ordinary operations for an outside viewer.

Orders received
Incoming orders during the year, calculated in the same way as net sales. The orders received give an indication of the current demand for the Group's products and services, that with a varying delay appear in net sales.

Order backlog at year-end
Incoming orders that not yet have been invoiced. The order backlog at the end of the year is equal to the sum of the order backlog at the beginning of the year plus the orders received during the year less the net sales for the year. It gives an indication of how the net sales can be expected to develop in the future.

Profit margin %
Result after financial items in relation to net sales, expressed in percent.

Capital turnover rate, times
Net sales in relation to average capital employed, expressed as a multiple of capital employed. Shown excluding and including goodwill, step-up values and the corresponding deferred tax liability.

Capital employed
Average total assets less liquid funds, other long-term securities, accrued interest income, operating liabilities and other non-interest bearing liabilities, including tax and deferred tax, but excluding accrued interest costs. Shown excluding and including goodwill and step-up values and the corresponding deferred tax liability. Shows the capital that is used in the operations. The capital employed for the Group differs from the net capital for the segments concerning taxes, deferred taxes and pensions.

Return on equity %
Net income for the year in relation to average equity, expressed in percent.

Solidity %
Equity in relation to total assets, expressed in percent.

Cash flow from operating activities
Shows the Group's cash flow from operating activities, that is the cash flow generated in the daily operational activities.

Cash flow from investing activities
Shows the Group's cash flow from investing activities, i.e. the cash flow generated by mainly the Group's divestments and acquisitions of businesses and divestments of real estate.

Cash flow from financing activities
Shows the Group's cash flow from financing activities, that is mainly the cash flow impact of the Group's loans in terms of interest payments and amortisation.

Investments
Investments represent an important component in the cash flow for the Group. The level of investments during a couple of years gives a picture of the capacity build up in the Group.

Average number of employees
The costs that are related to the number of employees represent a large part of the total costs for the Group. The development of the average number of employees over time in relation to the development of the net sales therefore gives an indication of the cost rationalisation that is taking place.

Earnings per share
Net income for the year attributable to the equity holders of the parent divided by the average number of shares.

Free cash flow per share
The sum of cash flows from operating and investing activities for the year divided by the average number of shares. This represents the cash flow available for interest payments, amortisation and dividends to investors.

Financial information

Alfa Laval uses a number of channels to provide information about the company's operations and financial development. The website – www.alfalaval.com/investors – is updated continuously with annual reports, quarterly reports, press releases and presentations. Annual reports are also sent to those shareholders who have notified the company that they wish to receive a copy.

Conference calls with analysts, investors and the media are arranged by Alfa Laval in conjunction with the publication of the company's quarterly reports. A capital markets day is organized each year, during which representatives from the financial market are offered more in-depth information regarding the company's operations. In addition, representatives of Group management meet with analysts, investors and journalists on an ongoing basis to ensure that they have correct and current information. Pursuant to the company's agreement with Nasdaq Stockholm, information that could have an effect on the share price and that is not yet publicly known is never disclosed in conjunction with these types of meetings or contacts. Alfa Laval employs a so-called silent period of three weeks prior to the publication of a quarterly report. The President and Chief Financial Officer do not meet or speak to representatives from the financial market during this period.

Financial information during 2017

Alfa Laval will publish quarterly reports on the following dates in 2017:

Year-end report 2016	January 31
First-quarter report	April 26
Second-quarter report	July 17
Third-quarter report	October 25

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Annual General Meeting 2017

The Annual General Meeting of Alfa Laval AB (publ) will be held on Wednesday, April 26, 2017, at 4:00 p.m. at Sparbanken Skåne Arena, Klostergården's sports area, Stattenavägen, in Lund. Light refreshments will be served after the Meeting. In accordance with the company's Articles of Association, notice of the Annual General Meeting will be inserted as an announcement in the Swedish Official Gazette and on the company's website not more than six and not less than four weeks prior to the Meeting. An announcement that notification has been issued will be placed in Dagens Nyheter. As a service to existing shareholders, information about the Annual General Meeting will be sent to them by mail. The following information concerning the Meeting does not constitute legal notice.

Notification of participation

Shareholders who wish to participate in the Meeting and be entitled to vote must be entered in the share register maintained by Euroclear AB not later than Thursday, April 20, 2017, and register their intention to participate, along with any assistants, not later than Thursday, April 20, preferably before 12:00 noon. Shareholders whose shares are held in trust must temporarily re-register their shares in their own names not later than April 20. Shareholders must request such registration from the trustee a few working days prior to the deadline.

Notification of participation shall be made to:

– Alfa Laval AB, Group Staff Legal, Box 73, SE-221 00 Lund, Sweden
– E-mail: arsstamma.lund@alfalaval.com
– Website: www.alfalaval.com
– Tel: +46 46 36 74 00 or +46 46 36 65 00.

Shareholders must state their name, personal identity number and telephone number on the notice of participation. If participation is by proxy, a power of attorney or authorization must be submitted to the company prior to the Meeting.

Meeting program

1:30 p.m.	Bus departs from Sparbanken Skåne Arena for Alfa Laval's production unit for heat exchangers in Lund
3:30 p.m.	Registration starts
4:00 p.m.	Start of Meeting

Tour of production facility in Lund

Prior to the Annual General Meeting, participants will have an opportunity to view the production of plate heat exchangers at the plant in Lund. The tour will begin with assembly at Sparbanken Skåne Arena, Klostergården's sports area, Stattenavägen in Lund not later than 1:30 p.m. Buses will be provided for transportation to the plant and back to the Meeting venue. Registration for the tour must be made in conjunction with registration for participation in the Annual General Meeting. Please note that the number of participants is limited.

Dividend

The Board of Directors and the President propose to the Annual General Meeting that a dividend of SEK 4.25 per share be paid. The proposed record date for this dividend is Friday, April 28, 2017. If the Meeting approves the motion, the dividend is expected to be distributed on Thursday, May 4, 2017. However, the record date and dividend payment date may be postponed due to the technical procedures required for executing the payment.

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 and www.alfalaval.com/investors

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