Annual Report 2015

Chili con care

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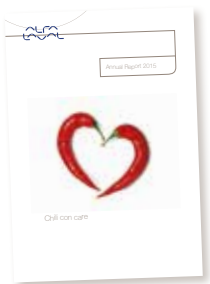


Chili con care
Keeping vegetables and fruit fresh as long as possible after harvest is a key issue for food producers all over the world.
Take, for example, chili production. After drying in the fields, the hot spice has to be carefully kept in cold stores to stay aromatic.
Achieving the right temperature and humidity is critical. As well as minimizing energy consumption.
The obvious solution: technology and equipment from Alfa Laval. Our innovative spirit is leading the way in processing of chili. It's a symbol for our care.

Pure Performance. Food. Energy. Marine. Engineering. Chemicals. Environment. You name the industry. Alfa Laval is helping them to purify and refine their processes and products. Time and time again. Our equipment, systems and service are hard at work in more than 100 countries. Our driving force is to create better, more comfortable living conditions for all mankind. And, whenever possible, adding an extra spice to life.

Alfa Laval is a world-leading supplier of products and solutions in the areas of heat transfer, separation and fluid handling. The company's offering can be utilized in most industries. Alfa Laval's equipment is currently used in everything from food and pharmaceutical manufacturing to power production and wastewater treatment. Its products are also used to heat homes and offices, as well as for fuel handling and generating freshwater aboard vessels – to name a few examples.

Market-leading positions

Heat transfer

More than 30 percent of the world market

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 their environmental impact.

Read more on page 23.

Separation

25–30 percent of the world market

Separators have been a central 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 currently includes decanter centrifuges, filters, strainers and membranes.

Read more on page 24.

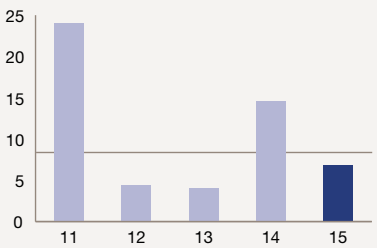
Fluid handling

10–12 percent of the world market

Alfa Laval offers pumps, valves, tank cleaning equipment and installation material for industries with stringent hygiene requirements, such as the food and pharmaceutical industries. Following an acquisition in 2014, the product portfolio also includes pumping systems for the marine industry and offshore market.

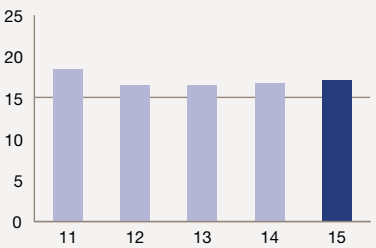
Read more on page 25.

Invoicing growth, %*



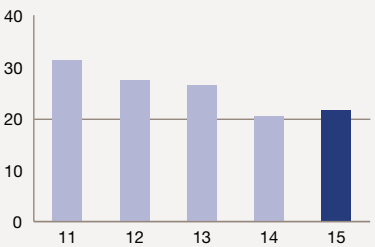
The goal is to grow an average of at least 8 percent annually measured over a business cycle.

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.

* Excluding exchange-rate variations.

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 structure for the three divisions is shared and forms a fourth division: Operations. This division is responsible for manufacturing-related procurement, production and logistics for all key technologies.

Equipment

The Equipment Division conducts a fast-moving business and specializes in component sales to customers with recurring requirements and well-defined needs through various sales channels. For more information on the structure, end markets and performance of the division, refer to pages 30–31.

Process Technology

The Process Technology Division focuses on project-based business, comprising customized solutions and systems sold directly to end customers or through contracting companies. For more information about the division's four segments, end markets and performance, refer to pages 32–33.

Marine & Diesel

Marine & Diesel has a broad offering of components, modules, systems and service for customers in the marine, offshore and diesel power markets. For more information about the division's four segments and performance, refer to pages 34–35.

Operations

Operations is responsible for the entire Group's production-related procurement, manufacturing, distribution and logistics. This centralized, coordinated and global supply chain helps to create the necessary prerequisites to ensure reliable access to the company's products worldwide. Read more on pages 36–37.

We are global

Together with the company's external partners, Alfa Laval's sales and aftermarket organization helps customers in more than 100 countries to optimize their processes. The production structure encompasses 42 major production units, spread across Europe, Asia, the US and Latin America. At year-end 2015, Alfa Laval had approximately 17,400 employees.

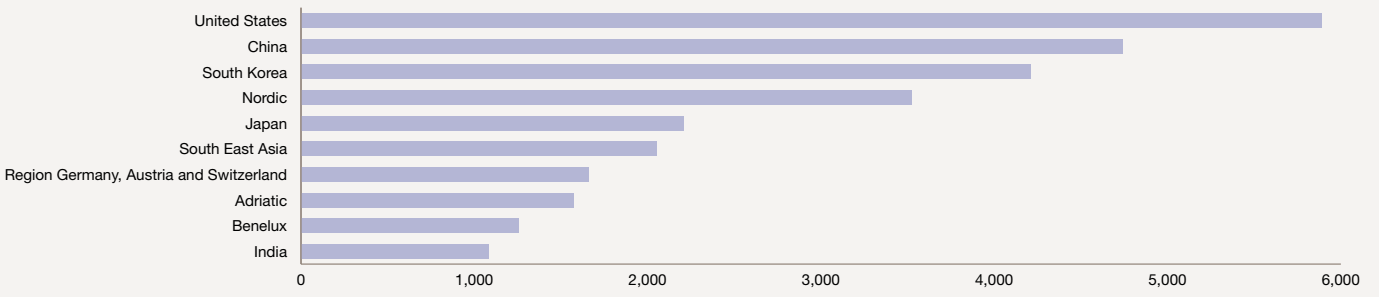
Innovation for profitable growth

The ability to provide the market with new and more efficient products is crucial to achieving profitable growth. Accordingly, Alfa Laval aspires to a benchmark value entailing that the company's annual spend on research and development should correspond to approximately 2 to 2.5 percent of its sales. In 2015, the company invested SEK 756 million, corresponding to 1.9 percent, in developing new products and refining existing ones.

Service – a step ahead

Service, Alfa Laval's aftermarket organization, offers spare parts, upgrades and scheduled maintenance. Given that the company's products are installed in a large number of industries worldwide, it is important that its aftermarket offering is flexible. Alfa Laval therefore customizes its service agreements to meet individual customer needs and wishes. With more than 100 service centers, Alfa Laval is there when its customers need help. In 2015, Service accounted for 28.6 percent of the Group's total order intake.

Ten largest markets (SEK million)



Order intake in Alfa Laval's top ten markets 2015.

2015 in brief

- Order intake amounted to SEK 37.1 billion, compared with SEK 36.7 billion in 2014.
- Sales rose 13 percent to SEK 39.7 billion.
- The adjusted EBITA margin, or operating margin, for 2015 was 17.1 percent, compared with 16.8 percent in 2014.

Amounts in SEK million unless otherwise stated	+/- %[6]	2015	2014	2013*	2012	2011
Order intake	1	37,098	36,660	30,202	30,339	28,671
Net sales	13	39,746	35,067	29,801	29,813	28,652
Adjusted EBITDA [1]	16	7,478	6,456	5,360	5,381	5,736
Adjusted EBITA [2]	16	6,811	5,891	4,914	4,934	5,287
Operating margin (adjusted EBITA [2]), %		17.1	16.8	16.5	16.5	18.5
Profit after financial items	32	5,444	4,117	4,172	4,529	4,676
Return on capital employed, %		21.6	20.5	26.4	27.4	31.3
Return on shareholders' equity, %		21.7	17.6	20.4	22.9	22.9
Earnings per share, SEK	30	9.15	7.02	7.22	7.64	7.68
Dividend per share, SEK	6	4.25 [3]	4.00	3.75	3.50	3.25
Equity per share, SEK	7	43.92	41.01	38.53	34.46	36.10
Free cash flow per share, SEK [4]		12,25	-23:48	7:82	0:78	-4:93
Equity ratio, %		35.5	30.8	46.3	41.3	43.9
Net debt to EBITDA, times		1.56	2.46	0.49	0.80	0.59
Number of employees [5]	-2	17,417	17,753	16,262	16,419	16,064

* Restated to IFRS 11.

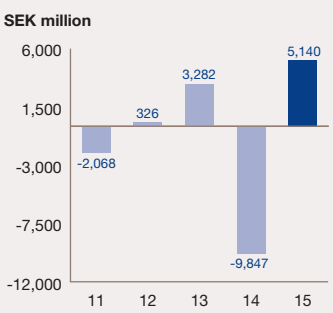
1) Adjusted EBITDA – Operating income before depreciation, amortization of goodwill and amortization of other surplus values, adjusted for items affecting comparability.
2) Adjusted EBITA – Operating income before amortization of goodwill and other surplus values, adjusted for items affecting comparability.
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 2014 and 2015.

Order intake

Order intake amounted to SEK 37,098 million in 2015, up 1 percent. Excluding currency effects, orders declined 5 percent.

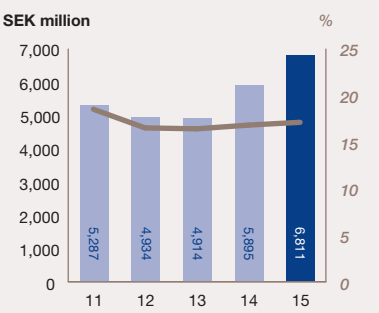
* Restated according to IFRS 11.

Free cash flow



Alfa Laval generated a free cash flow of SEK 5,140 million (-9,847) in 2015.

Adjusted EBITA



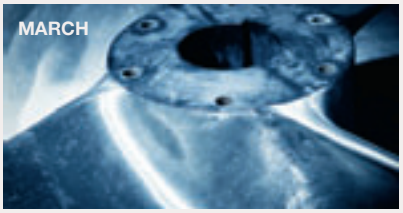
Adjusted EBITA amounted to SEK 6,811 million in 2015, compared with SEK 5,891 million in 2014.

30 years in China!

In 1984, Alfa Laval opened its first office in Beijing, becoming one of the first foreign companies to establish a business in China. Since then, the company has played a leading role in the development of heat transfer, separation and fluid handling in China, and the country has grown to become Alfa Laval's second-largest market. In January, the company's 30th anniversary in the country is celebrated with a dinner in Shanghai for more than 300 employees.

US natural gas order

Alfal Laval secures an order worth SEK 85 million for air-cooler systems to cool the main process streams in a natural gas plant in the US. In the cooling process, natural gas liquids are separated from the gas and then distilled into ethane, propane and butane.



Pumping systems for FPSO projects in Angola

Alfa Laval wins an order worth SEK 260 million, to deliver Framo Pumping systems. The order includes systems for two FPSOs which, once built, will be moored off the Angolan coast.

Expanding LNG offering

Alfa Laval shows its commitment to providing ship owners with solutions that enable them to use cleaner fuels by entering into a license agreement with Daewoo Shipbuilding & Marine Engineering for the use of its patents on high pressure fuel gas supply systems. This came on top of the acquisition in late 2014 of a Korean-based manufacturer of heat exchangers that are ideally suited for, among other things, high-pressure LNG fuel-gas applications.

PureBallast agreement

Alfa Laval is appointed the preferred supplier of ballast water treatment systems by Mediterranean Shipping Company, a world-leading container shipping company. The agreement is expected to generate orders worth approximately SEK 230 million until July 2016.

Inauguration of new sales office in Ghana

To meet the needs of the West African region, Alfa Laval opens a sales office in Accra in the Republic of Ghana. The new office will focus primarily on Nigeria, Ghana, Cameroon, the Ivory Coast and Senegal and industries such as oil, gas, food, marine and diesel.

Alfa Laval expands its aftermarket business

Alfa Laval expands its aftermarket business by acquiring a niche company, specialized in separation technology. The company will remain a separate organization and offer its own parts and services under its own brand name.

Two large orders worth SEK 150 million

Two large orders are booked, with a combined value of some SEK 150 million. One order is for the delivery of a process solution for a brewery in India – the customer being a multinational brewery group. The other is a marine offshore order, including Alfa Laval Aalborg boiler modules for an FPSO vessel to be built in China.

Large orders in food and energy efficiency

Alfa Laval books two large orders: a SEK 75 million food order in China, as well as a SEK 55 million energy-efficiency order in Italy. In addition, Alfa Laval is appointed the preferred supplier of ballast water treatment systems by a major ship owner in Asia under a framework agreement running until March 2016, worth SEK 70 million.

Lars Renström climbs ranking of the world's 100 best-performing CEOs

Yet again, Alfa Laval's CEO has made it into the Harvard Business Review's list of the 100 best-performing CEO's of the world. Having been ranked 91 in 2014, Lars Renström reached number 48 this year. The ranking has previously mainly focused on financial parameters, but this year sustainability factors, such as environmental and social governance, were also included.

Tom Erixon new President and CEO of Alfa Laval

After 12 successful years, Lars Renström announces that he will retire from his position as President and CEO of the Alfa Laval Group. The Board of Directors appoints Tom Erixon, President and CEO of the OVAKO Group, as his successor to take up position on March 1st, 2016.

SEK 815 million in large orders

Eight large orders are booked, with a total value of SEK 815 million. The orders cover a broad range of industries, such as power, brewery, natural gas, offshore and petrochemicals, and are geographically well distributed.

President's comments

Record-breaking year on several fronts

2015 was a strong year for Alfa Laval, with record-breaking invoicing and earnings. Our order intake remained largely unchanged, despite the year being characterized by increased uncertainty surrounding the global economy, the effects of a falling oil price and declining shipbuilding contracting. Among other sources, we received support from Frank Mohn AS, which we acquired in May 2014. The debt that arose after the acquisition was at the same time quickly reduced thanks to Alfa Laval's extremely strong cash flow. We also completed the cost-cutting program initiated in late 2014, which is intended to reduce our costs by SEK 300 million annually from 2016.

Our order intake amounted to SEK 37.1 billion, invoicing rose 13 percent to SEK 39.7 billion and the operating margin was 17.1 percent, an improvement compared with 2014.

Geographically, the US, which is our largest market, was adversely impacted by the falling oil price, while our other businesses in the country were stable. China was affected by a decline in contracting in the shipbuilding industry and a generally cautious attitude toward large-scale projects. South Korea secured a third-place position as a result of the acquisition of Frank Mohn AS, which also boosted Japan. The country advanced to fourth place, with additional support from Japanese industry, whose competitiveness was bolstered during the year.

Performance of the business divisions
Falling oil and gas prices had an adverse impact on Process Technology, which saw its order intake decline compared with 2014. The early stages of the value chain – prospecting and extraction – were hit hardest. Further downstream, customers in refineries and petrochemical companies strengthened their profitability, resulting in favorable demand from the petrochemical sector in the second half of the year. In the long term, we are confident that the oil and gas sector will be an interesting market, since its players require and focus on exactly what we offer: high performance and quality. It is also reasonable to assume that the world's energy needs will grow over time. The downturn in the division was mitigated by stable demand from the food and pharmaceutical industry. Demand for process lines for breweries and vegetable oil in Latin America and Asia was particularly strong. At the same time, the division's aftermarket business remained largely unchanged, which was another stabilizing factor.

The Equipment Division reported a stable order intake and its aftermarket business, like demand from the food and pharmaceutical industry, was unchanged. The same was true for OEM equipment, while demand from general industry and the construction sector declined slightly.

The Marine & Diesel Division reported good growth as a result of the acquisition of Frank Mohn AS and a favorable order intake from the offshore sector. However, general ship contracting declined sharply during the year. For Alfa Laval, the decline in the marine segment was still more limited due to a favorable ship mix, with growth for the types of vessels that typically contain large quantities of Alfa Laval's products. At the same time, demand for environmental solutions for the marine industry remained good, particularly for ballast water treatment systems aboard existing vessels. Frank Mohn continued to exceed the expectations we had at the time of the acquisition with respect to both order intake and earnings, and the integration of the company continued as planned.

Priority: Service
Our Service organization is a prioritized area that will continue to offer significant potential as our installed base grows. Our goal is to sell spare parts and service to a larger portion of this base and thus increase our market shares. At the same time, we are aiming to sell more man-hours and expand our service operations. The goal is to protect our installed base and ensure that it is Alfa Laval that succeeds in capitalizing on these growth opportunities. From a medium and long-term perspective, Service is expected to make a significant contribution to our profitability and growth. During the year, the Service organization's order intake grew 3.8 percent.

Employees – a sound corporate culture can unite a company
With approximately 17,000 employees and 98 different nationalities, our sound corporate culture is the glue that holds the company together. Accordingly, we work continuously to communicate and instill Alfa Laval's core values in all of our employees.

Alfa Laval's goal is to be an attractive employer with motivated and committed employees, thus creating a foundation for our continued success. Opportunities for personal development are a key prerequisite for achieving this goal. This is why Alfa Laval offers a range of training programs for its employees. Some are conducted locally, but many are part of a central training program that is open to all employees via an intranet portal. More than 400 courses were offered in 2015, just over half of which were Internet-based. This high percentage was the result of our rapid expansion of Internet-based training in recent years. During 2015, our employees participated in some 18,000 training sessions, all of which were offered through the portal.

Sustainability – external demands and expectations benefit Alfa Laval's business
Every year, we receive a growing number of questions from customers and investors about the environmental impact of our products and about our work practices, not least our efforts to combat corruption. Our employees are also asking more questions about our work on various sustainability aspects – everything from human rights to environmental impact.

Alfa Laval firmly believes that external demands and expectations with respect to sustainability create opportunities for us to continue to succeed. Our products reduce energy consumption and optimize the use of resources in many industrial processes. We offer products for water treatment processes, as well as products that reduce the marine industry's emissions to air and water. At the same time, we take a highly proactive approach to implementing our four business principles in order to ensure that we are working in a way that meets sustainability requirements – at all stages of the value chain.

For more information about the areas we have chosen to prioritize in our sustainability work, refer to pages 42–45 of the Sustainability Report.

With Alfa Laval since 2004
It has been my privilege to take this fantastic journey together with Alfa Laval. My predecessor and his management team built a solid foundation and implemented an extensive change program that established the conditions for an organization based on customer segments and cost-efficiency.

Since then, our structural growth, pricing, multibrand strategy, product development and focus on the aftermarket have been key contributing factors to our success. Combined with some 40 acquisitions, this has taken Alfa Laval from just over SEK 15 billion to SEK 40 billion in sales and increased the value of the share by 500 percent. Acquisitions have been and remain an important aspect of value creation since they provide an opportunity to quickly capture new positions in the market. The formation of a third division, Marine & Diesel, in 2012 also resulted in a more transparent and focused Alfa Laval – providing even greater resilience in periods of economic decline.

I would like to thank our customers, shareholders and Board of Directors for the confidence you have placed in Alfa Laval's management over the years.

Finally, I would also like to extend my sincere and heartfelt thanks to all of our employees for your ongoing dedication and determination to continue building a successful Alfa Laval.

Lund, February 2016

Lars Renström
President and CEO

Forces driving demand

Long-term demand for Alfa Laval's products and solutions in the areas of heat transfer, separation and fluid handling is driven by overall changes in the world around us. Alfa Laval takes a proactive approach to analyzing and understanding these changes, as well as the underlying dynamics, in order to establish a presence in the right markets and create the right offering. Alfa Laval has identified four overall changes that are expected to impact the company's operations: growing energy needs, increased environmental awareness and regulation, the need for food among the world's growing population and the transport requirements arising due to increased globalization. A general description of these four areas is presented below.

Growing energy needs

The world's energy needs are growing, particularly in emerging economies. The International Energy Agency (IEA) predicts that demand will grow by approximately 30 percent by 2040, compared with the current level. Such a sharp increase will present a challenge for the supply chain since it will require greater oil and gas exploration, as well as an expansion of energy production to include alternative sources, particularly renewable ones. Distribution chains also need to be developed. At the same time, greater focus will need to be devoted to energy recovery – in other words, to the development and use of technologies that enable the energy already being produced to be used more efficiently.

Alfa Laval

Alfa Laval's offering encompasses products and solutions for oil and gas exploration, power production, renewable fuels, refinement, energy recovery and much more. In addition to actively participating in the expansion of the energy sector, Alfa Laval's products are also playing an important role in making the world's industrial processes more energy efficient, with its compact heat exchangers at the heart of its business.

Stricter environmental regulation

Human impact on the environment is coming under greater scrutiny, resulting – not least – in new, stricter laws. These laws encompass a range of areas and include everything from exhaust gas cleaning requirements for trucks and vessels to bans on releasing contaminated water into the world's oceans and lakes. As part of this development, 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. The company's heat exchangers are also highly energy efficient, which in itself is a gain for the environment. Among other benefits, Alfa Laval offers products that can clean crankcase gas from trucks, reduce the sulphur content in ships' exhaust gas, dewater sludge in wastewater treatment plants or clean bilge water aboard vessels.

Higher standard of living

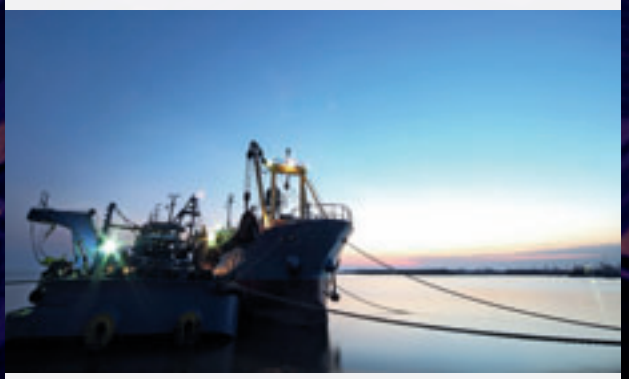
The world's developing countries have experienced strong economic growth over the past decade. Despite a certain slowdown, these parts of the world are expected to grow twice as fast as more established economies over the coming years, according to figures from the International Monetary Fund (IMF) and the World Bank. A stronger economy tends to be accompanied by increased demand for better food. At the same time, urbanization is accelerating, resulting in greater demand for everything from various types of ready-made food to more efficient supply chains and grocery stores.

Alfa Laval

Alfa Laval has its roots in products for the food industry and its offering has continuously been developed since the company was formed in 1883. Today, the company sells heat exchangers, separators, pumps and valves for hygienic applications to the world's food, beverage and pharmaceutical industries. The company also offers heat exchangers used in cooling chains, which enable raw materials and processed foods to be transported and stored without going to waste.

Globalized world creating transport requirements

The world is more connected than ever before. Raw materials in one country, processing in another, and end products that must be transported to customers and consumers spread across the globe. For this cycle to function properly, efficient and economically justifiable transport solutions are needed – this is where shipping becomes important. Approximately 90 percent of international trade is currently shipped by sea. International trade has increased by an average of 5 percent annually over the past 20 years and, as long as this trend continues, the need for marine transport solutions will also grow.



Alfa Laval

Alfa Laval has delivered equipment for the marine industry for decades. The company's products have traditionally been used in engine rooms in the form of separators for cleaning fuel and heat exchangers for cooling the engines. However, the current product portfolio encompasses everything from heat exchangers for freshwater production to pumping systems for efficient loading and unloading of various types of liquid cargo. The portfolio also includes a number of environmental solutions, such as ballast water treatment systems and systems for reducing 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's operations are governed to realize its business concept, while at the same time meeting the financial goals established with regard to growth, profitability and return.

Growth

8% Alfa Laval's sales are to grow an average of at least 8 percent annually measured over a business cycle, with organic growth accounting for 4 to 5 percentage points and acquisitions for 3 to 4 percentage points. This goal was established based on the results achieved over a longer period of time, as well as on the Board's assessment of the company's future prospects.

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 sales growth ambitions into consideration.

Capital utilization

20% The goal is to have a return on capital employed of at least 20 percent, a level that Alfa Laval considers realistic from a medium-term perspective given the major acquisitions carried out in recent years.

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.

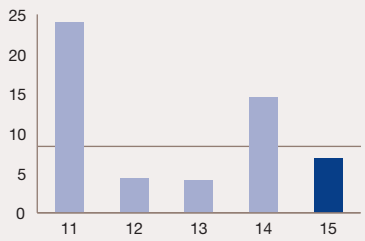
Investments

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

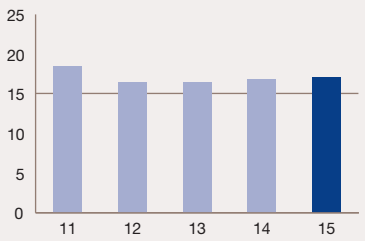
10% Cash flow from operating activities is to amount to 10 percent of sales, including investments in fixed assets. This value is lower than the goal for the operating margin, since organic growth normally requires an increase in working capital. In addition, taxes are paid in an amount corresponding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

Growth, %



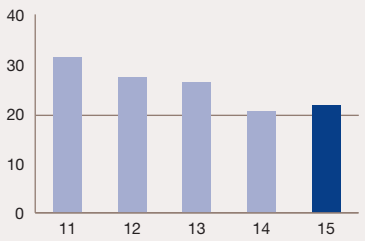
In 2015, invoicing increased 6.9 percent*, with organic growth accounting for -1.2 percent and acquisitions for 8.1 percent.

Profitability, %



The operating margin for 2015 was 17.1 percent, compared with 16.8 percent for full-year 2014.

Return on capital employed, %



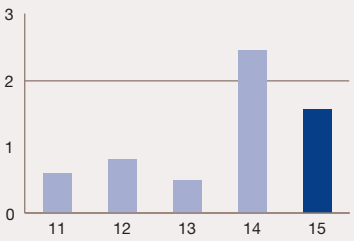
The return on capital employed for 2015 was 21.6 percent.

*Excluding exchange-rate variations

Sustainability goals

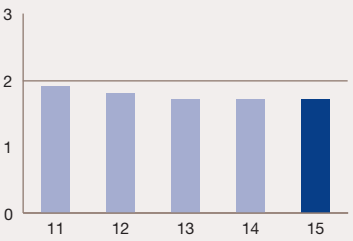
In addition to its financial goals, Alfa Laval also has a number of non-financial target parameters. These reflect the company's ambition of creating a safe workplace and a business that is as clean and energy efficient as possible. Among other areas, these key ratios encompass: a reduction in water 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



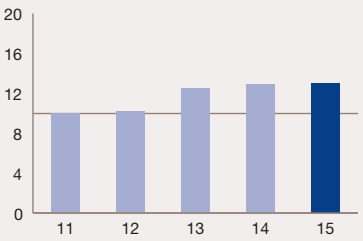
The net debt/EBITDA at year-end 2015 was 1.56.

Investments, %*



Investments in 2015 amounted to 1.7 percent.

Cash flow from operating activities, %*



In 2015, cash flow from operating activities amounted to 13 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 offering in the areas of heat transfer, separation and fluid handling serve as the foundation for achieving the company's goal for profitable growth. The high quality and energy efficiency of the products are considered important for customers who want to improve their competitiveness while also reducing their environmental impact. Every year, the company invests between 2 and 2.5 percent of its sales in research and development in order to ensure that its offering is able to meet future customer needs. This may include not only brand new products, 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 of both supplementary products in the three key areas and products that are new to the company and complement the offering in application areas where Alfa Laval is already represented.

Examples of product strategy:

– Alfa Laval continuously seeks out new, groundbreaking products and solutions. Among other developments, this has resulted in a unique heat exchanger made from tantalum – an exceptionally durable metal that reacts to only a small number of chemical compounds. However, tantalum is also very expensive, so a heat exchanger made entirely from tantalum would not be financially viable. Many customers use heat exchangers made from zirconium or high-grade alloys instead. However, these heat exchangers are less durable and must therefore be replaced regularly, resulting in production stoppages and high costs. Glass is another alternative – but glass is a delicate material with a low heat transfer capacity, which means that a bigger heat exchanger is needed. Accordingly, Alfa Laval has developed a unique solution – a heat exchanger with an extremely thin layer of tantalum, metallurgically bonded to the surfaces that may come into contact with corrosive liquids. The layer of tantalum is thick enough to do the job, but thin enough to offer a cost-efficient solution. The heat exchanger requires minimal cleaning and is extremely durable, yet very cost efficient. For one customer, a tantalum heat exchanger measuring only 30 centimeters tall could replace a three-meter graphite heat exchanger.

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 Group's presence in countries and regions where Alfa Laval is already established. Acquisitions may also be used as a secondary means of expansion – providing an efficient way of quickly strengthening the company's local presence. Another way to expand is to add new sales channels.

Examples of market presence strategy:

– In order to identify and meet various needs and business opportunities in West Africa, Alfa Laval opened a sales office in Accra, Ghana, during the year. The office focuses on the markets in Ghana, Nigeria, Cameroon, the Ivory Coast and Senegal. West Africa has grown at a faster rate than the rest of Africa in recent years. The region also includes a number of markets that are attractive to Alfa Laval, such as oil and gas, food, marine and diesel power.

– The Group's multibrand strategy, which has been established for several years, has resulted in the acquisition of prominent competitors in order to add new channels in specific geographic and industry-based markets. A niche company specializing in separation technology was acquired during the year. The company, which will offer a complementary market channel, will remain independent and offer products under its own brand.

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.

Examples of profitability strategy:

– Alfa Laval's geographic footprint is reviewed continuously, including the distribution of production between the various units. The need for this type of overview has been accentuated by the addition of a number of plants through acquisitions in recent years. As part of a previously announced cost-cutting program, several structural changes were made during the year. Among other changes, LHE, a South Korean company within the group, discontinued its production operations in Qingdao, China, in order to relocate its heat exchanger manufacturing to an existing unit in Busan, South Korea. The Alfa Laval company Tranter also relocated its production of welded heat exchangers from Artern, Germany, to another production unit in Schopfheim. The facility in Artern was closed during the year.

Acquisitions

Between 2011 and 2015, Alfa Laval acquired ten companies with combined sales of SEK 8,540 million, corresponding to average annual growth of SEK 1,708 million.

2011

ACQUISITIONS	REASON	SALES, SEK MILLION*
P&S Multibrand	Channel	100
Aalborg Industries A/S, Denmark	Product	3,300

DIVESTMENTS	REASON	SALES, SEK 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*
–	–	–

* 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.

Rising share price and higher turnover

The price of the Alfa Laval share rose in 2015. The highest quoted price for the share was SEK 176.90 on April 23, corresponding to an increase of 19 percent. The lowest price quoted for the Alfa Laval share during the year was SEK 126.10 on September 24. The share ended the year at SEK 155.60 (148.30), which meant that the share price for the full year rose 5 percent. Including the dividend of SEK 4.00 per share, the total return for the Alfa Laval share in 2015 was 7.5 percent. Alfa Laval's market capitalization at year-end was SEK 65.3 billion (62.2).

OMX Stockholm Industrials, the sector index for industrial shares in which Alfa Laval is listed, rose 10 percent in 2015, while the Stockholm Stock Exchange as a whole rose 7 percent. The Alfa Laval share is listed on Nasdaq OMX 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 804 percent. Measured over the full listing period, the average annual yield amounts to 16.4 percent, compared with an average annual yield of 7.8 percent for the SIX Return Index during the same period.

Share turnover

Alfa Laval's share is not traded exclusively on Nasdaq OMX Stockholm, but also on Chi-X Europe, the London Stock Exchange and Boat, to name a few of the largest alternative marketplaces. In 2015, the Stockholm Stock Exchange accounted for 40 percent (39) of all trade in the share and BATS Chi-X Europe for nearly as much at 39 percent (36). The liquidity of the Alfa Laval share is favorable, and 988 (750) million shares in the company were traded in 2015 at a combined value of SEK 153 billion (122), including all alternative marketplaces. This corresponds to a turnover rate of 2.4 (1.8) times the total number of shares outstanding. During the year, an average of 7,742 (6,273) share transactions were completed in Alfa Laval shares per 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 2015, the Board has proposed that the Annual General Meeting approve a dividend of SEK 4.25 (4.00). The proposed dividend corresponds to 38.6 percent (46.7) of earnings per share, adjusted for surplus value.

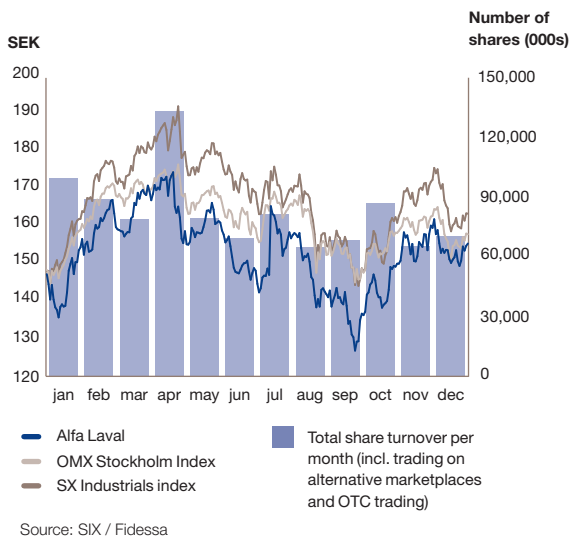
Share capital

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

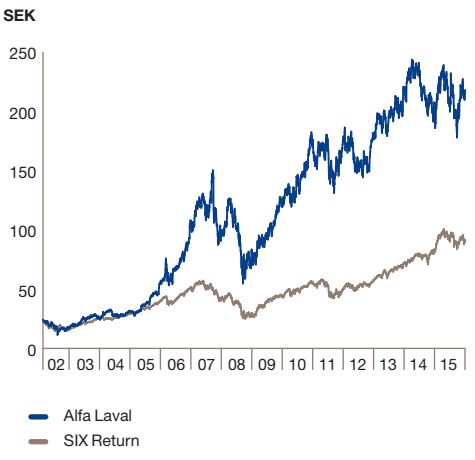
At year-end 2015, Alfa Laval had 37,097 (40,505) shareholders, corresponding to a decrease of 3,408 shareholders (increase: 4,293). The ten largest shareholders controlled 57.4 percent (55.5) of the shares at year-end 2015. The single largest shareholder was Tetra Laval B.V., whose holding remained unchanged at 26.1 percent. The ownership structure remained relatively stable, with Swedbank Robur increasing its holding slightly and becoming the second largest shareholder instead of the fourth largest, as it was at year-end 2014. The First Swedish Pension Insurance Fund and SEB Investment Management also increased their holdings during the year and are now among the ten largest shareholders in the company. Handelsbanken Funds and the Second Swedish Pension Insurance Fund, on the other hand, reduced their holdings and are thus no longer among the ten largest shareholders.

Price trend, January 2 – December 30, 2015



Source: SIX / Fidessa

Total return, May 17, 2002 – December 30, 2015



Source: SIX

Ownership distribution by size at December 30, 2015

	No. of share-holders	No. of share-holders, %	No. of shares	Holding, %
1 – 500	26,035	70.2	4,017,267	1.0
501 – 1,000	4,713	12.7	3,922,734	0.9
1,001 – 5,000	4,574	12.3	10,630,256	2.5
5,001 – 10,000	706	1.9	5,197,057	1.2
10,001 – 20,000	380	1.0	5,653,270	1.3
20,001 – 50,000	282	0.8	8,950,588	2.1
50,001 –	407	1.1	381,085,143	90.9
Total number of shareholders	**37,097**		**419,456,315**	

Source: Euroclear

Ownership categories at December 30, 2015

	No. of shares	Holding, %
Financial companies	117,582,949	28.0
Other financial companies	25,885,368	6.2
Social insurance funds	7,469,137	1.8
Government	1,379,008	0.3
Municipal sector	63,685	0.0
Trade organizations	4,908,575	1.2
Other Swedish legal entities	8,730,360	2.1
Shareholders domiciled abroad (legal entities and individuals)	214,863,952	51.2
Swedish individuals	23,928,746	5.7
Uncategorized legal entities	14,644,535	3.5

Source: Euroclear

Data per share

	2015	2014	2013	2012	2011
Share price at year-end, SEK	155.60	148.30	165.00	135.30	130.30
Highest paid, SEK	176.90	187.00	167.00	146.50	147.70
Lowest paid, SEK	126.10	138.70	133.00	110.40	101.40
Shareholders' equity, SEK	43.92	41.01	38.53	34.46	36.10
Earnings per share	9.15	7.02	7.22	7.64	7.68
Dividend, SEK	4.25[1]	4.00	3.75	3.50	3.25
Free cash flow, SEK [2]	12.25	-23.48	7.82	0.78	-4.93
Price change during the year, %	5	-10	22	4	-8
Dividend as % of EPS, %	46.0	57.0	51.9	45.8	42.3
Direct return, % [3]	2.7	2.7	2.3	2.6	2.5
Share price/shareholders' equity, multiple	3.5	3.6	4.3	3.9	3.6
P/E ratio [4]	17	21	23	18	17
No. of shareholders	37,097	40,505	36,212	34,629	36,567

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.

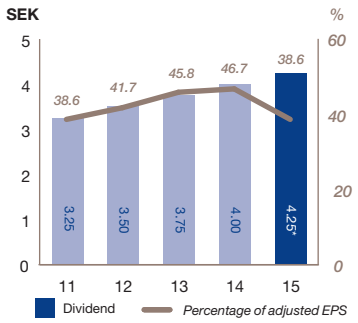
Ten largest shareholders at December 30, 2015*

	No. of shares	Capital/voting rights, %	Change in holding in 2015, percentage points
Tetra Laval BV	109,487,736	26.1%	+/- 0
Swedbank Robur Funds	27,150,724	6.5%	0.6
Alecta	26,459,962	6.3%	-0.2
Foundation Asset Managment	25,100,000	6.0%	+/- 0
AMF Insurance and Funds	21,658,183	5.2%	-0.2
First Swedish National Pension Fund	8,368,923	2.0%	1.4
Nordea Investment Funds	7,792,868	1.9%	0.1
SEB Investment Management	6,382,669	1.5%	1.1
Fourth Swedish Pension Insurance Fund	5,515,601	1.3%	0.1
Folksam	2,822,617	0.7%	-0.1
Total ten largest shareholders	**240,739,283**	**57.4%**	

* The table is adjusted for custodian banks. Were they to be included, they would represent a total holding of 6.33 percent.

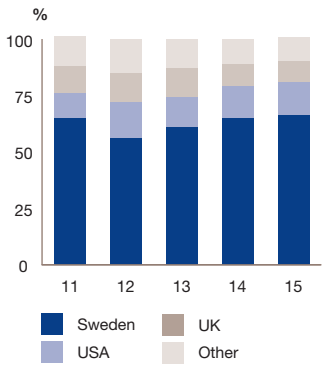
Source: Euroclear

Dividend and percentage of adjusted EPS**



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

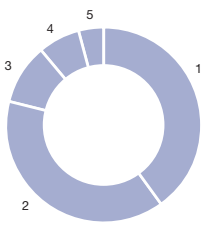
Geographic distribution of the free float, % of capital and voting rights



Excluding Tetra Laval (Netherlands) 26.1%

Source: Euroclear

Share turnover on various marketplaces



1 Nasdaq OMX	40%
2 BATS Chi-X Europe	39%
3 London Stock Exchange	10%
4 BOAT	7%
5 Other	4%

Source: Fidessa

Keeping it cool

Imagine life without the Internet. For a lot of people, especially those growing up during the last decade, the thought is not only scary; it must seem downright absurd. And as we increasingly live our lives online, the requirements for Internet speed and storage space have skyrocketed. Behind the scenes, the data center segment is growing rapidly, and with it, the need to cool the vital equipment that makes it all possible.

Every time you click "like" on Facebook or do a search on Google, a server located among rows and rows of machines in a data center somewhere in the world processes a response. Google has an estimated two million servers worldwide, Amazon about 450,000 and Facebook in excess of 200,000, and this rapidly growing battery of electronic equipment handles huge amounts of data, generating large amounts of heat in the process. As a consequence, they also consume phenomenal amounts of energy for cooling – as much as a couple of percent of the world's electricity, by some estimates. That means massive energy bills – in the US alone, USD 6 billion is spent each year cooling data centers. With the server industry growing by about 12 percent per year, those energy demands will only increase. Mats Carselid is globally responsible for data center cooling solutions within Alfa Laval. When asked how much the data center segment can grow and when the curve will break, Carselid answers: "This is something totally unique," he says. "The curve points right up and the general opinion is that when it breaks we will be in the middle of a complete technology shift – such as when we moved from horses to engine-driven vehicles – where we maybe don't need servers, or we use another kind of server. No one really knows, but it will be a fantastic journey."

Alfa Laval and server room cooling
For Alfa Laval, server-room cooling is an exciting application. Alfa Laval's Arctigo LSV air coolers are heavy-duty industrial air coolers, specifically designed for server-room cooling. Alfa Laval also supplies most of the upstream equipment used for data center cooling systems, regardless of the actual server room solution, including pumps and heat exchangers.

DID YOU KNOW THAT, EACH SECOND, AROUND…

– 3,000 photos are uploaded to Instagram,
– 10,600 tweets are sent,
– 51,500 Google searches are done,
– 112,000 YouTube videos are watched,
– 1.5 billion people are active on Facebook, and
– 2.4 million e-mails are sent?

Source: Internet Live Stats

A new wave of cleaner fuel solutions at sea

First powered by the wind, followed by coal and then heavy fuel oil, the shipping industry is now going back to its roots – looking for solutions that will enable it to meet new environmental demands. Alternative fuels and new technologies are both part of the solution.

The marine industry connects the world. Several billion tons, or about 90 percent of all tonnage shipped in a year, is transported onboard ships. The downside is that large amounts of harmful emissions are involved in the widespread use of heavy fuel oil. This has prompted the International Maritime Organization (IMO) to act and gradually initiate new rules to reduce emissions of sulphur oxide (SO_x), nitrogen oxide (NO_x) and particulate matters that contribute to acid rain and respiratory diseases. Vessels operating in certain geographic areas have to reduce their sulphur emissions to 0.1 percent from January 2015. NO_x emissions will be subject to limits from 2016, while a global cap on SO_x emissions is expected from 2020. The legislation has prompted a spate of activity in the sector as it searches for different ways to comply.

One approach is to turn to alternative fuels such as liquefied natural gas (LNG), which easily meets the standards as it contains virtually no sulphur. It also reduces NO_x emissions by up to 85 percent compared to heavy fuel oil. While LNG, and other alternative energy sources such as methanol, fuel cells and solar panels, can help reduce harmful emissions, the same result can be achieved by other means. A ship owner can decide to continue to use heavy fuel oil and instead invest in equipment that will prevent the emissions from reaching the atmosphere. A so-called scrubber will spray the exhaust gases with water, washing away soot and other particles, enabling the exhaust gases to stay within the required emission levels.

There are several solutions available and every alternative has its pros and cons. Ship owners will choose the solution that fits them the best based on preferences, trading patterns, ship types and operating profiles.

Alfa Laval

Alfa Laval has been a supplier of equipment to the marine industry for nearly 100 years. The portfolio includes separators, heat exchangers, pumping systems, desalination systems and waste heat recovery systems, to name a few examples. Several environmental products are also included in the offering.

No matter whether the ship owner chooses LNG or heavy fuel oil (HFO) – Alfa Laval has something to offer. With the Alfa Laval PureSO_x exhaust gas scrubber, the exhaust gases are sprayed with water that washes away soot and other particles, enabling cleaner exhaust to leave the funnel. This solution enables the ship owner to continue to run on HFO, which is a cheaper fuel.

For shipowners' that opt to use LNG, Alfa Laval can offer cryogenic equipment that can help store the liquefied natural gas at the extreme temperatures required. Through a recent acquisition, Alfa Laval added a heat exchanger, suitable for handling cryogenic temperatures as well as high pressures far in excess of existing solutions.

Research and development

There are many reasons for a company to focus on research and development. Consistently being the first to offer customers the latest innovations allows companies to strengthen their competitiveness, increase their market shares and improve their profitability.

This is true for most companies and industries – and also for Alfa Laval. But there are also differences. Alfa Laval's focus on innovation has been part of the company's DNA since Gustaf de Laval first invented the separator and founded AB Separator, laying the foundation for today's Alfa Laval.

Since 1883, the company's culture has been characterized by a passion for innovation – and the results have been successful. So successful that the market now expects Alfa Laval to continuously launch new, even more efficient products and solutions that can help customers to strengthen their competitiveness and reduce their water and energy consumption.

To meet these expectations, Alfa Laval's innovation efforts must be continuous and proactive, rather than sporadic and reactive. Every year, the company invests the equivalent of 2.0 to 2.5 percent of its sales in various research and development (R&D) initiatives with the aim of remaining a step ahead of the competition and the customer's first choice for new equipment, spare parts and service.

R&D may involve developing new products and technologies or adapting existing products for use in additional applications. It may also involve the development of new production technologies, which in turn creates opportunities to design new types of products. Alfa Laval firmly believes that all products can be further developed and improved, a conviction that characterizes the company's approach to its entire product offering. The key lies in consistently reviewing the offering to determine what can be done differently, better or more efficiently.

R&D in practice

To ensure that all product groups receive the focus they deserve, R&D work is carried out in specific centers, each of which is responsible for a particular product group. Alfa Laval currently has a center for everything from separators, air heat exchangers and boilers to fluid handling products and flue gas systems, as well as welded, brazed and gasketed plate heat exchangers. Alfa Laval employs many engineers and, with a culture focused on innovation, there is never a shortage of new ideas. Accordingly, it is important to be restrictive during the assessment stage and to concentrate on ideas and projects that are expected to have the best potential. Ultimately, this usually results in 35 to 40 new products each year.

Good ideas lay the foundation, but execution is key

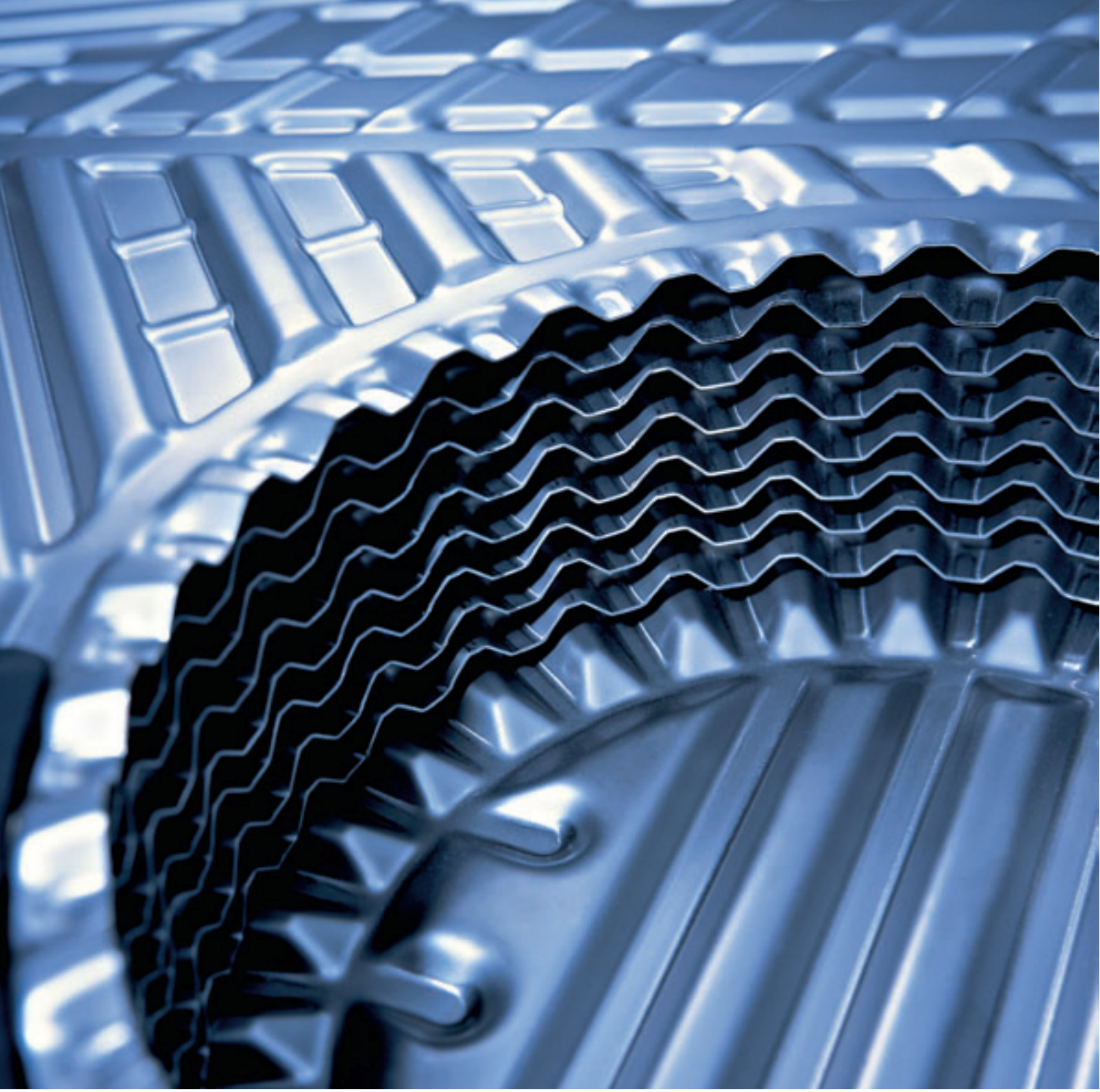
So where do these suggestions and ideas come from? Sometimes they come from new, soon-to-be-introduced legislation or from the opinions and feedback we receive from customers – either through the aftermarket organization or through direct contact with customers looking for a particular solution; other times they come from internal discussions concerning new application areas or contacts with other companies regarding joint projects. Gaining inspiration is not the difficult part. The difficult part is assessing the potential of these new ideas, creating strong products and launching them effectively. This is why the R&D process includes strict, ongoing assessments.

The operations also use various key performance indicators to determine the success of its previous investments. For large projects, Alfa Laval measures such parameters as the time it takes for the product to earn a gross margin of EUR 1 million. For smaller projects, the company measures the time it takes for the product to generate two times the initial investment. Alfa Laval also measures the percentage of total sales generated by products launched in the past five years. All of these indicators are internal and are used to ensure that Alfa Laval never loses momentum in its efforts to achieve its overall goal: profitable growth.

Products launched during the year

Alfa Laval DuroShell
A specially engineered welded plate-and-shell heat exchanger built to withstand high pressure and temperatures in demanding environments, making it ideal for the petrochemical, power production and oil and gas industries – and more. DuroShell is highly compact, exceptionally robust and offers superior thermal performance. It is ideally suited for boosting the capacity of both new installations and refurbishment projects in environments where space is at a premium. DuroShell also has a low installation cost and minimal maintenance requirements.

Alfa Laval Culturefuge 200
Alfa Laval Culturefuge 200 has been added to the company's range of hermetic separators for the bioengineering industry. Specifically designed for the gentle handling of mammalian cell cultures, precipitated proteins and other shear-sensitive particles. The separator is equipped with Alfa Laval's unique hollow spindle design, which ensures gentle acceleration of shear-sensitive particles. When designing the Culturefuge separator, special consideration was given to hygiene and the need to sanitize and clean the separator without disassembling it. The separator also guarantees low product losses thanks to its self-discharging design, with rapid and partial discharge options.



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 2015, heat transfer products accounted for 44 percent of sales, separation products for 20 percent and fluid handling products for 25 percent. Alfa Laval commands a world-leading position in all three areas.

Heat transfer

Various heat transfer solutions are used in most industrial processes for heating, cooling, refrigeration, ventilation, evaporation and condensation. The products are used in many areas of application and the company's customers thus operate in a wide range of industries – including the chemical, food, oil, gas, power, marine and construction industries, to name a few.

More efficient energy use

Heat exchangers transfer heat or cooling, often from one liquid to another. These products are vital to the efficiency of the customer's total manufacturing process. Compact plate heat exchangers – the main products in Alfa Laval's offering – offer extremely efficient energy use, which reduces costs and the impact on the environment. Plate heat exchangers are made up of a series of plates assembled closely to each other. Two channels run between the plates: one containing a cold medium and one containing a hot medium. The two media flow on either side of the plates and in opposite directions to each other, resulting in a transfer of heating and/or cooling.

Offering

There are different types of plate heat exchangers – gasketed, brazed and welded – each designed to withstand different pressure and temperature levels. Alfa Laval offers a broad range of heat transfer products, including air heat exchangers, shell-and-tube heat exchangers, thermal fluid systems and boilers, to name a few. The products are suitable for numerous application areas and markets, since most processes require some sort of heating or cooling solution.

Market segments

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

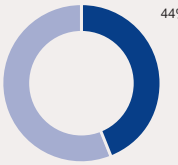
Competitors

- 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

Separators have been a central part of Alfa Laval's operations since the company was founded in 1883. The technology is used to separate liquids from one another and solid particles from liquids. The technology can also be used to separate particles and liquids from gases.

High-speed separators and decanter centrifuges
Alfa Laval's products in this technology are dominated by high-speed separators and decanter centrifuges. Separators have higher rotation speeds, are generally mounted vertically and are used primarily for separating liquids from one another. Decanter centrifuges are normally based on horizontal separation technology, which works at a lower speed. 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.

Crucial to a number of processes
Separators and decanters play a crucial role in a number of 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 for vessels and diesel/gas power plants
– dewatering of sludge in wastewater treatment plants

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

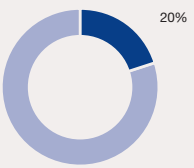
Separators
- GEA (Germany)
- MITSUBISHI KAKOKI KAISHA (Japan)
- PIERALISI (Italy)
- SPX FLOW/Seital (USA)

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

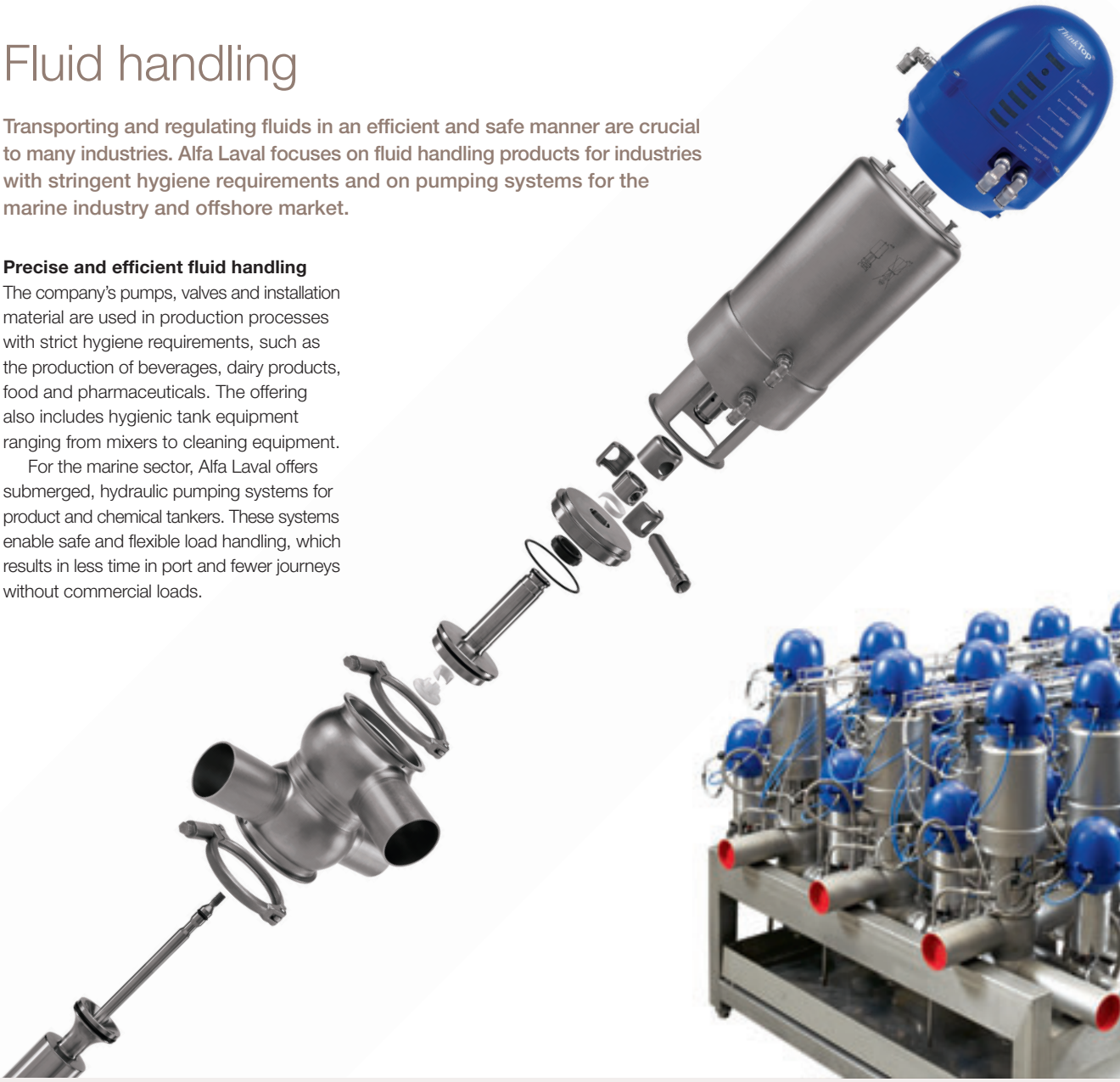
Fluid handling

Transporting and regulating fluids in an efficient and safe manner are crucial to many industries. Alfa Laval focuses on fluid handling products for industries with stringent hygiene requirements and on pumping systems for the marine industry and offshore market.

Precise and efficient fluid handling

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. The offering also includes hygienic tank equipment ranging from mixers to cleaning equipment.

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.



Market segments

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

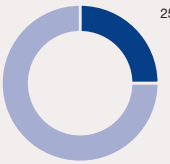
Competitors

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

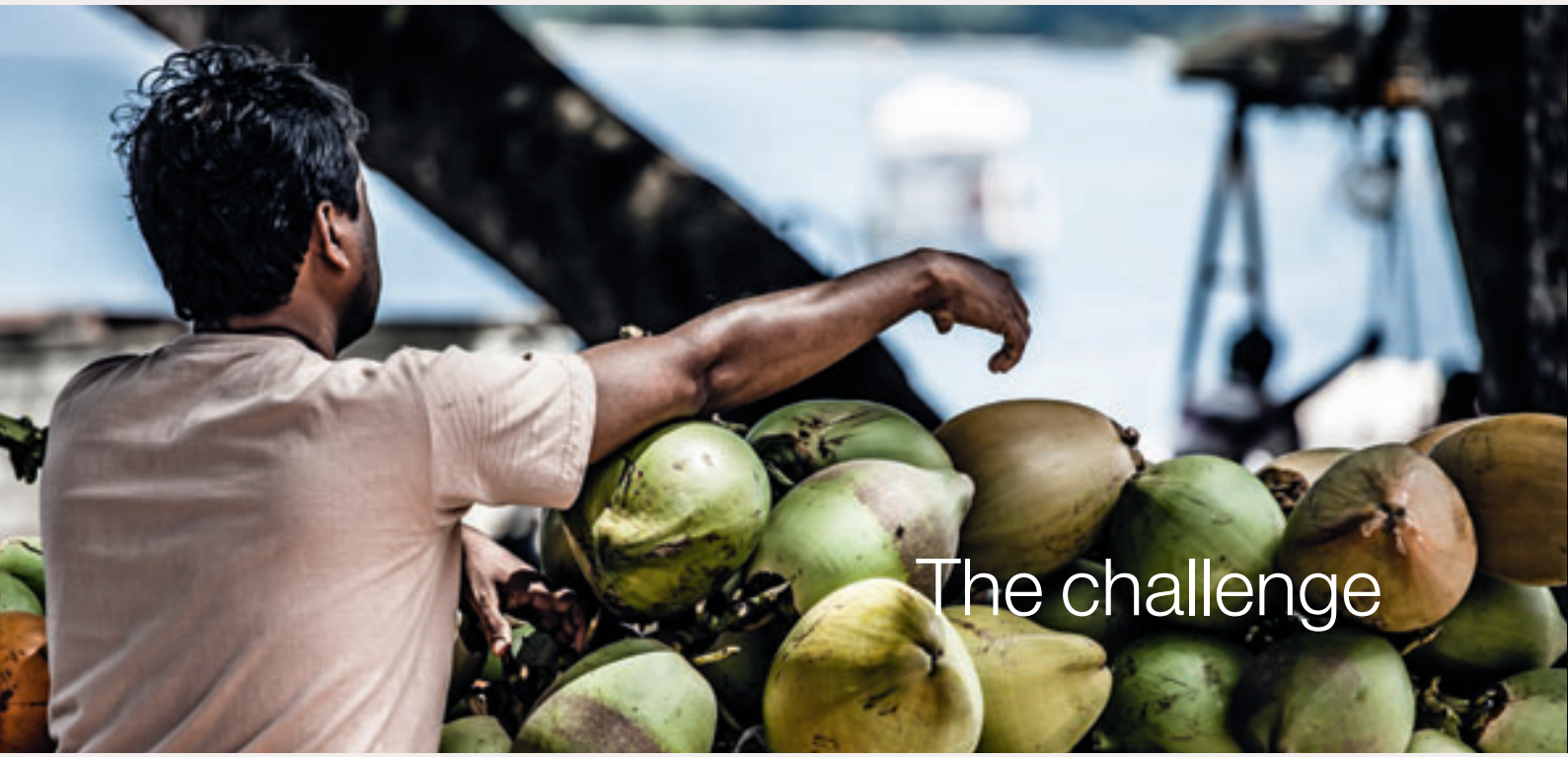
Market position

10 to 12 percent of the world market

Sales



Share of Group sales



The challenge

Never have so many people around the world enjoyed comfortable lifestyles, yet never have so many gone hungry. Making food production safer as well as more efficient and ensuring greater access to nutrition are critical in an era of explosive population growth and rapid urbanization. Feeding all existing mouths — let alone the projected 9.6 billion by 2050 — is a true global test. Technology is part of the solution.

Consider that about one-third of the food produced every year – approximately 1.3 billion tons – is lost or wasted. At the same time, population growth, the entry of women to the workplace, rapid urbanization and other megatrends are transforming food consumption patterns and placing ever-greater demands on the food chain. Rising disposable incomes, increased purchasing power and growing consumer awareness of food quality and safety across the developing world, most notably in countries like China and India, are fueling a sharp increase in demand for processed foods. From improved harvesting and crop management techniques to new food processing know-how and savvier distribution, food production must become more efficient and less wasteful.

Processed food accounts for some 80 percent of food consumed in the developed world, compared to 25 percent in China and some 30 percent in India. So, especially in fast-growing countries – where food processing is still comparatively underdeveloped – huge opportunities exist to develop the food production chain by establishing or improving infrastructure for food storage, transport and packaging.

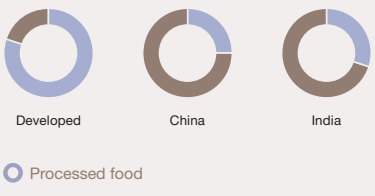
In India, the food processing industry is growing by more than 10 percent per year, albeit from a relatively small base. The Indian government sees growth in food processing as essential and is therefore establishing a nationwide network of mega food parks, to create a "farm to fork" infrastructure that will connect the food processing industry and farmers. Mega food parks are revolutionizing India's food supply chain by integrating different stages of food processing and agriculture in one location. By bringing food producers, buyers, processors and distributors together, mega food parks are also designed to attack wastage – a major problem in a country where up to a quarter of all food is lost or wasted due to inadequate infrastructure.

The issue of feeding the world's growing population is increasingly in the spotlight, as indeed it must be. And, as it has throughout human history – from the plough to fermentation, the water mill to refrigeration – technology will continue to be part of the solution.

Alfa Laval

Alfa Laval combines over a century of food and beverage expertise with the cutting edge of production technology. The offering includes individual components for all food and beverage applications as well as, for selected applications, complete processing lines. Alfa Laval's products and solutions comply in full with the most stringent regulatory standards for hygienic applications, while reducing waste as well as water and energy consumption.
Read more on our website: **www.alfalaval.com/food**

PROCESSED FOOD



Wastewater as a resource

With water scarcity increasing globally, greater efforts are being made to find ways of reusing municipal and industrial wastewater, such as for irrigation and industrial processes. In fact, the technology is already so advanced that it can even make wastewater drinkable.

According to the UN, almost one-fifth of the world's population lives in areas experiencing water scarcity. By 2025, it is estimated that two-thirds will experience water shortages. Yet at the same time, vast amounts of wastewater are generated daily, most of which is dumped into rivers and seas without adequate treatment, creating health and environmental hazards.

Untreated wastewater is a global environmental issue. Urban areas release about 150 to 250 million cubic meters of contaminated water per day into our planet's topsoil, rivers, lakes and oceans, according to a report from the UN. This sewage causes disease, threatens food supplies and creates what are known as "dead zones" in the ocean.

This is why increased focus is being placed not only on water reclamation, but also on efficient wastewater treatment, with ever-stricter regulations.

All human, commercial and industrial activities produce waste products that are harmful to our environment unless treated. The world is therefore constantly on the lookout for ways to reduce pollution, provide clean water, use less energy and recycle energy already used. With growing populations and living standards plus water scarcity in many areas, there is also an increasing need for water reuse.

MANY COUNTRIES ARE WORKING TO IMPROVE LEVELS OF WASTEWATER TREATMENT.

Alfa Laval

On the way to zero discharge, Alfa Laval helps reduce the environmental footprint from water and waste streams, by maximizing reuse of water and by minimizing energy consumption and waste. Alfa Laval offers a variety of products and solutions to enable water and waste treatment as well as water recovery, including decanter centrifuges, filters and strainers, membranes and plate heat exchangers.

An organization that supports the Group's business concept

Alfa Laval's organization is rooted in its business concept: to optimize the performance of customers' processes, time and time again. To achieve this goal, the company's structure is based on an understanding of its customers' needs and processes, which hinges on the specialist expertise of its employees. Combined with insight into how customers conduct procurement and purchasing, this expertise serves as the foundation for Alfa Laval's sales organization with its three divisions: Equipment, Process Technology and Marine & Diesel.

Equipment

Business model
Equipment offers components for 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. The division continuously increases its number of sales channels since availability is a key prerequisite. Availability is ensured through several channels to various geographic markets and industries. Given this business model, it is natural that the division also continuously develops its e-commerce offering.

Segments:
– Sanitary
– Industrial Equipment
– OEM
– Service

Share of Group's order intake 28% | Aftermarket's share of the division 18% | Read more on pages 30–31.

Process Technology

Business model
Process Technology serves 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.

Sales
Sales are mainly conducted through the Group's own sales companies and contractors, 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 35% | Aftermarket's share of the division 35% | Read more on pages 32–33.

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 and offshore markets and land-based diesel power.

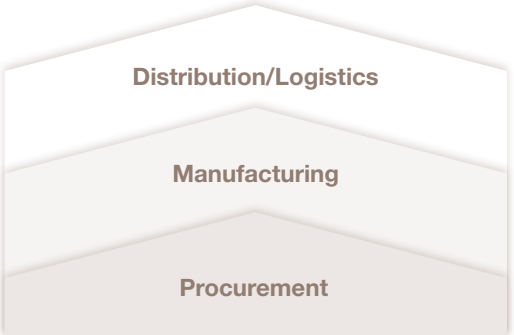
Sales
Sales are conducted through the Group's own sales organization directly to shipowners, shipyards, manufacturers of diesel engines and offshore customers. The offering includes various main product groups comprising components, modules and adapted systems, such as boilers, separators, heat exchangers, 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 37% | Aftermarket's share of the division 30% | Read more on pages 34–35.

Operations

The Group has a shared supply chain that serves all three sales divisions. Known as the Operations Division, this centralized unit is responsible for production-related procurement, manufacturing and distribution. Time, cost, quality and sustainability are guiding concepts for this division, since optimal supply chain performance is one of many critical steps in delivering products that in turn can help optimize the performance of customers' processes, time and time again. Final delivery should include the right product with the right quality and the right documentation at the right time. Combined with the sales divisions, Operations helps Alfa Laval achieve its business concept. Read more on pages 36–37.



Equipment Division

The division's customers are 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-users are limited. The Equipment Division continuously increases its number of sales channels, since it is strategically important that its products are available through many channels worldwide. Given that its business model focuses on availability, it is natural that the division also strives to further develop and strengthen the Group's e-commerce offering.

Susanne Pahlén Åklundh
President, Equipment Division

Significant events in 2015

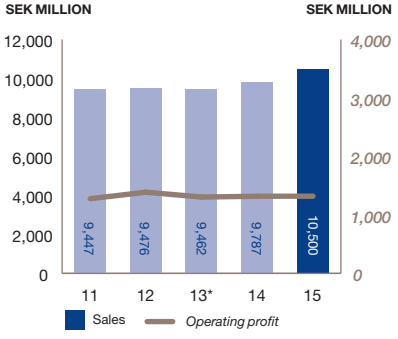
– For the division as a whole, order volumes remained largely unchanged compared with 2014, reflecting the diverse trends noted in the underlying market segments. A number of strategically important areas continued to report stable growth, including the market segments for personal care and dairy products. The Industrial Equipment segment, on the other hand, was hindered by geopolitical developments in Russia and Brazil.

– Our e-commerce platform, which was launched in 2013 and expanded to include customers in the EU and North America in 2014, became available globally – with only a few exceptions. E-commerce grew significantly during the year and now accounts for a substantial portion of our volumes in many of our traditional markets. In 2016, we will focus on continued geographic expansion, and we expect this strong trend to continue – in other words, we anticipate that more of distributors will choose to do business online.

– We received our largest order to date during the year. Valued at SEK 100 million, the order pertained to the delivery of compact heat exchangers to a district heating project in China.

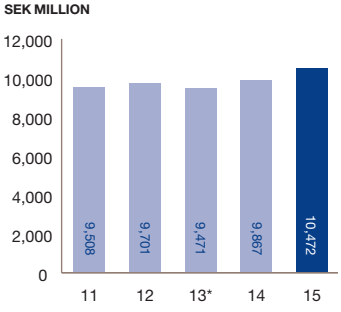
– We saw a generally strong trend with an increased order intake from our key customers in several segments, including OEM. The successful launch of new products contributed to the positive trend in OEM, which in turn resulted in investments in increased capacity for manufacturing brazed heat exchangers.

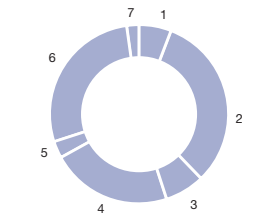
Sales and operating profit



* Restated to IFRS 11.

Order intake





1	Sweden	6%
2	Other EU	32%
3	Other Europe	7%
4	North America	22%
5	Latin America	3%
6	Asia	28%
7	Other	2%

* 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 31% | Change in order intake* 2015 = 2014 = 2013

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, improved standard of living, demographic changes, the need for energy-efficient solutions and expanded food production.

Order intake | Share of division's order intake 35% | Change in order intake* 2015 = 2014 = 2013

OEM

Operations
Customers in this segment include manufacturers of air-conditioning systems, air compressors, heat pumps, air dryers and gas boilers. Among other products, Alfa Laval sells brazed heat exchangers, which are later integrated into customers' end-products.

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* 2015 = 2014 = 2013

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 38–39.

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* 2015 = 2014 + 2013

* 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 and contractors, 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 2015

– The year was marked by a decline in the oil and gas business due to the weak oil price, which resulted in fewer large orders and a reduction in the base business, particularly in North America. However, a positive trend was noted for industrial waste applications as a result of the initiatives and organizational changes initiated in 2014. DuroShell – a robust, welded heat exchanger for demanding applications with high pressure and temperature levels – was launched during the year, targeted at the oil and gas sector, the nuclear power market and other segments. A breakthrough was also made in separators for offshore applications in the oil industry.

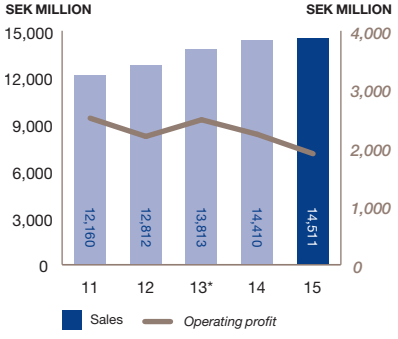
– Energy & Process experienced a weak trend in its operations that are exposed to the hydrocarbon supply chain, with a generally cautious attitude toward investments due to the uncertainty that characterized the market during the year.

– Food & Life Science continued to experience favorable conditions in the brewery sector, particularly for so-called craft breweries. At the same time, we benefited from our position with the major brewery groups, which made several large capacity investments during the year.

– Water & Waste Treatment performed well, with growth in several parts of the world. The area of the business focused on municipal wastewater grew, partly due to an investment in locally produced decanter centrifuges for the Chinese market.

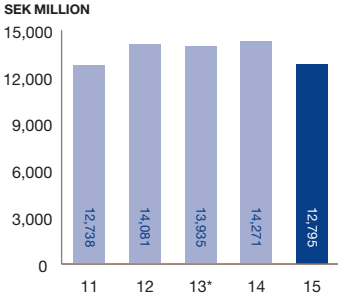
– Service was adversely impacted by the decline in the oil and gas sector, but was able to partly offset these effects through an increase in the food and wastewater segments. Our focus on achieving a higher service rate in the aftermarket business continued to yield results.

Sales and operating profit



* Restated to IFRS 11.

Order intake



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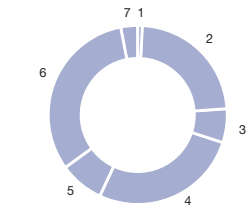


1	Sweden	1%
2	Other EU	23%
3	Other Europe	6%
4	North America	27%
5	Latin America	8%
6	Asia	32%
7	Other	3%

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 sugar, ethanol, corn, oil, 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, national 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	33%	Change in order intake*	2015	2014	2013

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	4%	Change in order intake*	2015	2014	2013

Food & Life Science

Operations
Alfa Laval supplies process solutions for the beverage and food industries, as well as the life science sector. Among other applications, the Group's solutions are 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, increased focus on healthy food, subsidies and raw material price trends.

Order intake	Share of division's order intake	28%	Change in order intake*	2015	2014	2013

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 38–39.

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	35%	Change in order intake*	2015	2014	2013

* 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 sales of 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. In addition, the division has a well-developed aftermarket organization.

Peter Leifland
President, Marine & Diesel Division

Significant events in 2015

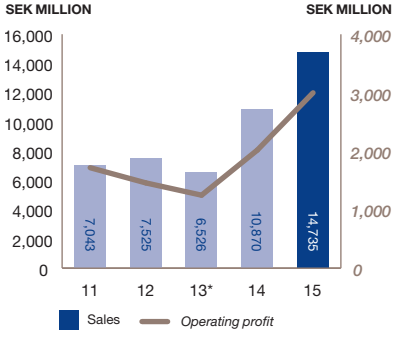
– While ship contracting in general was at a low level, the mix of ship types being ordered was favorable to Alfa Laval. Particularly the increase in demand for tankers and container vessels supported the division's order intake. The Service business was unchanged, despite lower activity in the offshore sector. Meanwhile, a generally low level of activity in the diesel power plant market kept demand at a modest level throughout the year.

– Environmental solutions showed a mixed development. While demand for exhaust gas cleaning declined due to the fuel price development, demand for ballast water treatment systems grew, mainly due to larger retrofit orders.

– The acquired Frank Mohn AS pumping systems business is now operating under the brand name Framo. The integration has been successful and synergies were realized according to plan.

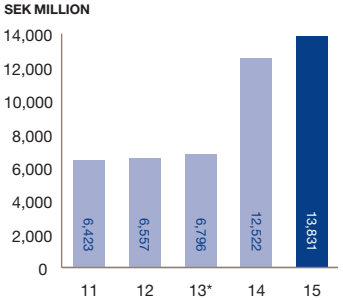
– Alfa Laval will continue to develop equipment and systems to support the increased usage of alternative fuels such as LNG. A decision was therefore made to invest in an expansion of the test facilities in Aalborg, Denmark, to create an advanced test center for environmental and combustion technologies – regardless of fuel type.

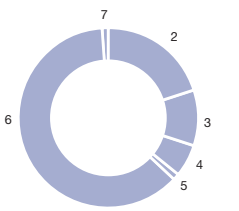
Sales and operating profit



* Restated to IFRS 11.

Order intake





1	Sweden	0%
2	Other EU	20%
3	Other Europe	10%
4	North America	6%
5	Latin America	1%
6	Asia	62%
7	Other	1%

* 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	20%	Change in order intake*	− 2015	+ 2014	= 2013

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	16%	Change in order intake*	− 2015	+ 2014	+ 2013

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	34%	Change in order intake*	* 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 38–39.

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

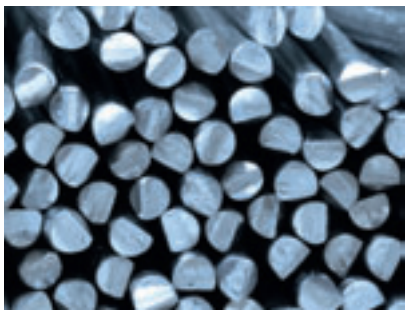
Order intake	Share of division's order intake	30%	Change in order intake*	= 2015	+ 2014	= 2013

* At constant rates

Operations

Operations is responsible for the Group's supply chain, which includes production-related procurement, manufacturing, logistics and distribution. This is an effective structure since it means that the consolidated product needs of the Group's sales divisions are handled in a way that enables economies of scale and a more consistent load in the factories. Operations is responsible for ensuring that the orders received by the three sales divisions – Equipment, Process Technology and Marine & Diesel – are filled with the right products, delivered with short lead times, the right quality, in the right place and with the right documentation. This may sound easy, but getting all parts of the supply chain to work like a well-oiled machine is a complex task.

Procurement → **Manufacturing** → **Distribution/Logistics**



The Operations organization confronts a number of issues every day, including quality, efficiency, cost, capacity utilization, delivery reliability, delivery times, secure access to raw materials and sustainability aspects such as environmental and safety considerations, to name a few. For Alfa Laval, it is not simply a matter of delivering competitive products that reduce customers' energy and water consumption, but also ensuring that the company's own footprint is as clean and energy-efficient as possible. With this many issues to contend with, the Operations division faces continuous change and it is therefore important that the division is able to react quickly and adapt in order to ensure the company's continued success.

A division focused on continuous development

A unit known as Operations Development has been established within the division in order to optimize the processes and systems through a focus on continuous development. The unit assesses, initiates and manages changes throughout the supply chain, from procurement and production to distribution and logistics. It addresses everything from refining procurement processes and new production technologies to optimizing the flow of physical materials and information from the customer, via Alfa Laval and on to the supplier. It is often a case of making minor, rapid adjustments, but major structural changes may also be required, such as relocating production and consolidating production units. The unit is driven by one goal: ensuring that Operations helps to strengthen Alfa Laval's competitiveness.

Production units

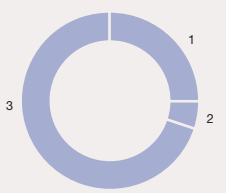
Alfa Laval's production includes 42 major manufacturing units:

- 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 2015



1 Sea	25%
2 Air	5%
3 Road	70%

Procurement
Production-related procurement represents a large item in Alfa Laval's financial statements. In fact, it comprises the single largest item in the cost of goods sold. So all of the work carried out by the procurement organization is extremely important. This work is not simply about negotiating the price of components and raw materials, such as steel, nickel, copper, aluminum and titanium. It is also about improving the entire procurement process, in which price is one of many factors. Other key areas include reasonable lead times and the right quality, as well as the supplier's compliance with Alfa Laval's business principles with respect to safety, health, the environment and ethics. The latter has resulted in the development of a platform for supplier audits according to a global standard, which enables uniform and comparable audits. The focus on increasing the efficiency and performance of both its procurement operations and its suppliers, enables Alfa Laval in turn to live up to its customers' expectations.

Manufacturing
Alfa Laval's manufacturing organization operates at the global level, with units in Europe, Asia, North America and Latin America. The structure is based on manufacturing technology, product group and product size. For example, large separators are manufactured in Eskilstuna in Sweden, while small and medium-sized separators are manufactured in other locations, including Krakow in Poland and Pune in India. This means that the individual production unit meets a consolidated demand from several end markets, rather than just one, which creates the conditions for a more consistent load. The organization's geographic structure also takes various practical and cost-related considerations into account. It makes sense to respond to local demand through local manufacturing and there are also advantages to having production operations located in low-cost regions. To ensure that Alfa Laval is always able to meet its customers' expectations, both the manufacturing processes and the organization's geographic structure are reviewed on a continuous basis. Such reviews may result in the assessment, development and implementation of new production technologies or the relocation of production from one unit to another.

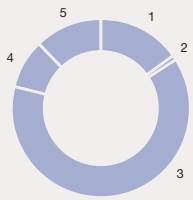
Distribution/Logistics
This Group-wide resource includes everything from order handling and inventory management to stock picking and invoicing. Distribution and logistics activities are based out of the Group's distribution centers located in Sweden, Denmark, China, the US, Singapore, Japan, India, the Netherlands and Norway. These centers are responsible for ensuring the delivery reliability of products, as well as the supply, inventory management and delivery of spare parts. The centers are also responsible for managing the Group's overall transport requirements, which enables the use of efficient, cost-effective and environmentally friendly transport solutions. Among other measures, efforts are continuously made to reduce the Group's CO_2 emissions by transporting as little as possible by air. In 2015, 25 percent (25) of the Group's goods were shipped by sea, 70 percent (69) by road and 5 percent (6) by air.

Significant events in 2015

– The division maintained its focus on the continued optimization of supply flows and processes. This included a restructuring of the supply of air heat exchangers in Europe and the relocation of boiler production from Aalborg in Denmark to China.
– Our procurement organization performed well, achieving good results in its efforts to ensure that materials and components are supplied at the right price, with reasonable lead times and with the right quality.
– The organization's focus on leadership development and expertise resulted in an even higher level of dedication among our managers and employees, according to a survey conducted toward the end of the year.

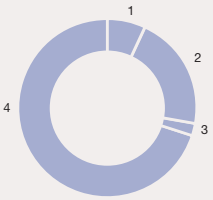
Göran Mathiasson
President, Operations Division

Investments by geographic market, %



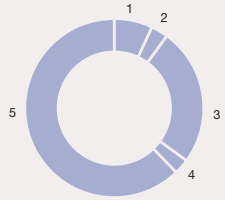
1	North America	15%
2	Latin America	1%
3	Western Europe	63%
4	Central and Eastern Europe	9%
5	Asia	12%

Purchases by geographic market, %



1	North and Latin America	7%
2	Asia	21%
3	Central and Eastern Europe	2%
4	Western Europe	70%

Geographic distribution of direct labor hours in production, %



1	North America	7%
2	Latin America	3%
3	Western Europe	25%
4	Central and Eastern Europe	3%
5	Asia	62%

Taking Service to the next level

Alfa Laval's business concept is "to optimize the performance of our customers' processes, time and time again." The concept permeates all aspects of the company – from the design, quality and capacity of the individual product to the comprehensive service portfolio. The best results are achieved through a combination of the two. Is top performance just as important as minimizing the risk for unplanned stoppages? Choosing equipment from Alfa Laval is an excellent start. Add a service agreement to maximize the return on your investment – and things become even better. Alfa Laval's aftermarket offering comes with an added bonus – peace of mind.

Customized Service

When customers invest in equipment and service from Alfa Laval, they have the opportunity to save time and money. Time to focus on their core operations, rather than worrying about unplanned stoppages, high energy consumption or low performance. And money, since well-planned service and preventive maintenance cost less than sudden stoppages and the subsequent crisis response. The company's offering is broad and can be customized to suit the unique needs of each individual customer. Some customers conduct seasonal operations, such as olive oil production, where machinery is only used for a few months of the year; others operate large-scale processing plants – around the clock, every day of the year. Some have large organizations that include a service unit and the requirement is limited to spare parts. Others run small, family-owned businesses and must outsource all of their service and maintenance needs. Regardless of size, end market or process – Alfa Laval has something for everyone. 50,000 unique spare parts in stock, eight strategically located distribution centers and more than 100 service centers worldwide with local service engineers offering expertise in the customers' processes. Alfa Laval is located close to its customers and is ready to mobilize and offer them what they want, when they want it. Alfa Laval's broad presence is unique and its quick availability – from spare parts to service personnel – makes all the difference.

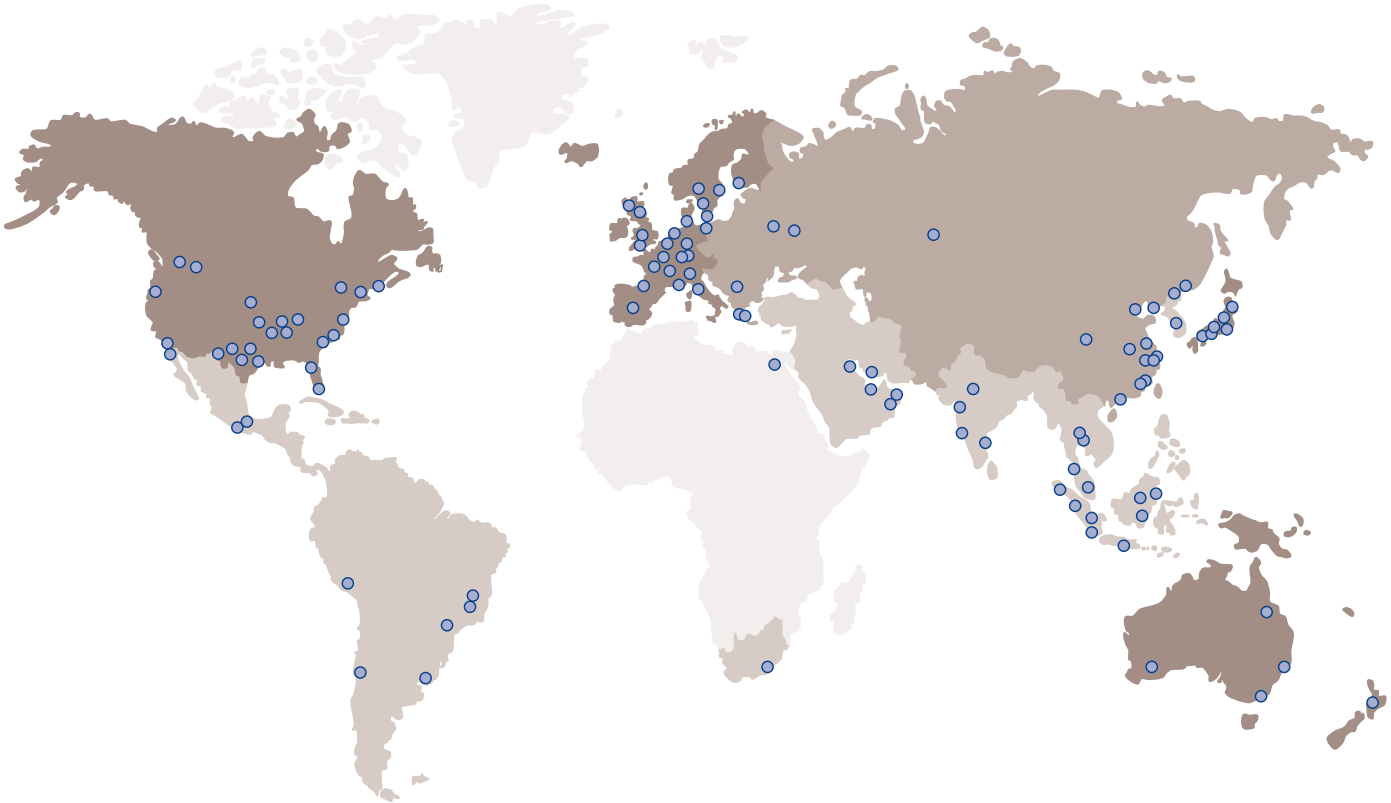
Service from Alfa Laval's perspective

There are clear advantages to be gained by customers caring for their equipment properly. Alfa Laval's aftermarket business also creates distinct advantages for the company itself since it provides an opportunity to capture the potential sources of revenue in the company's large installed base. The aftermarket business can also pick up on signs of new customer trends and communicate these to Alfa Laval's R&D units, which in turn can use this information as a source of ideas for new products or for the refinement of existing ones.

The Service business is profitable and less sensitive to economic trends than other areas of operation, which has a stabilizing effect on invoicing. The organization's ongoing customer contact also helps to drive new sales. Many customers report that a good service offering is such an important factor that it impacts their choice of supplier when making new investments. Accordingly, it is crucial that our field service engineers, who are some of the company's most important brand ambassadors, are up to date on the latest technology and good at communicating with customers. The overall customer experience may be the determining factor in whether or not Alfa Laval is selected for the next investment project.

The name of the organization – Service – encompasses everything from spare parts and upgrades to streamlined service packages and service agreements, to name only a few examples. Historically, spare parts (hardware) have accounted for the majority of the business. However, this is gradually changing. Although the company has a clear goal to increase the Service organization's total sales, it is also aiming to increase the share of man-hours in relation to total sales (software). The organization uses several measurements to achieve these goals. Key performance indicators have been established to measure customer coverage, as well as the share of the installed base covered by the company's aftermarket offering. These indicators are internal and have been established to give the organization a good overview of its performance. The company also uses various tools to help it achieve these goals, including a database containing details on the installed base of products. The path is clearly set: Alfa Laval Service should continuously grow in absolute figures.

For more information about our comprehensive offering, visit **www.alfalaval.com/service-and-support/global-service-network/**



Service centers

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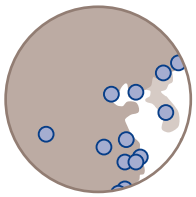
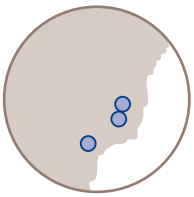
Installed base

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



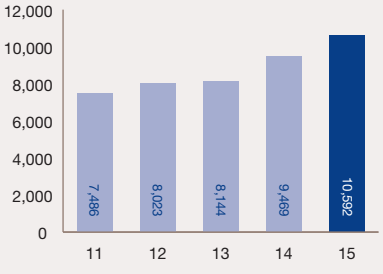
A combination of fast-growing markets and established niche applications.



Installed base that is growing rapidly.

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

Order intake, SEK million



Employees

A company's employees are one of its greatest competitive advantages and also one of the main drivers for growth. Accordingly, the challenge is to create attractive work environments that promote professional development, regardless of the individual's prerequisites, motivations and requirements. Satisfied employees create a positive atmosphere, which has a ripple effect both internally and externally.

This is the challenge facing Alfa Laval's managers, with the support of the HR function. Not only do they need to attract new talent, but also ensure the optimal involvement of the company's existing employees and the employees in newly acquired units. By focusing on initiatives that take the individual to the next level, conditions are created to also advance the business. This requires a focus on leadership. It is crucial that managers develop into good leaders with the ability to encourage, motivate and help to create the right focus. Alfa Laval should also offer favorable working conditions, opportunities for personal development and career paths that are open to all employees. Furthermore, the company's business principles support freedom of association, prohibit discrimination, respect human rights, prohibit child labor and generally stipulate that Alfa Laval is to offer a healthy and safe workplace.

Health and safety

It is fundamental that Alfa Laval's employees do not have to worry about their health or safety. Many health and safety issues are subject to laws and regulations that are supplemented by the company's business principles, which in many cases are more comprehensive than local regulations.

The company has a vision of a workplace that is free from accidents and work-related illnesses. Its ongoing work in the area of health and safety is supported by an occupational health and safety (OHS) program, which aims to incorporate safety issues and a safety-focused mindset, as well as various health considerations, into the company's daily procedures. This program covers not only Alfa Laval's employees, but also visitors, contractors and other individuals visiting the company's facilities.

The OHS program includes a council that is responsible for establishing guidelines, global priority areas and action plans. The council not only determines the direction of this work, but also contributes tools to support the realization of the vision. The council members include Alfa Laval's Senior Vice President of Human Resources, the President of the Operations Division and Senior Vice President of Corporate Social Responsibility. The council's decisions are then implemented in the line organization. Alfa Laval has established several goals pertaining to health and safety. Learn more in the Group's GRI report and the progress report published in the sustainability section on www.alfalaval.com.

Diversity promotes innovation

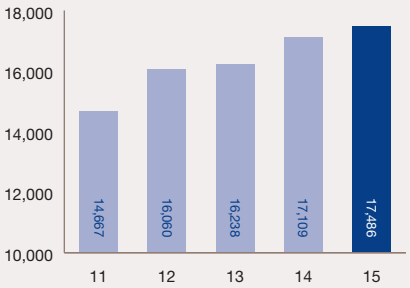
Since it was formed in 1883, Alfa Laval has focused on development and innovation. For this to continue, the company must create an environment that promotes and supports creativity and innovative thinking. The best way to achieve this is to assemble a team of diverse employees who think differently and contribute unique perspectives. People with new ideas and approaches. People of different genders with varying nationalities, ages, experiences and opinions. For this to be possible, we cannot allow obstacles to stand in people's way – all employees must feel that they have career paths open to them. This is why Alfa Laval uses an open internal recruitment process. All available positions are announced internally and all employees are welcome to apply. This approach broadens the base of applicants and promotes mobility, variation and individual development. At year-end 2015, 98 (93) nationalities were represented at Alfa Laval. The proportion of female employees in the company was 19 percent (19) and the proportion of women in the group of managers reporting directly to Group management was 18.2 percent (17.5).

Moving to the next level

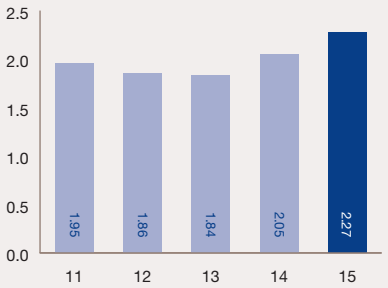
Personal development can take many forms, and courses and training are not the only option. Employees can develop in the course of their work, by changing position or country and learning on the job. However, Alfa Laval naturally also offers a range of training programs for its employees. Some are conducted locally, but many are part of a central training program that is open to all employees via an intranet portal, where information about the various training courses is gathered. More than 400 courses were offered in 2015, more than half of which were Internet-based. These courses were 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 HR organization is responsible for these courses and for ensuring that the offering is updated, improved and expanded based on the needs of the company and its employees. In 2015, more than 6,000 employees participated in the courses offered via the portal. In total, an impressive 18,000 training sessions were held during the year.

Alfa Laval is exposed to many industries and a large number of geographic regions. These are dynamic and constantly changing, which means that Alfa Laval must continuously develop. Accordingly, Alfa Laval focuses on both performance and development – essential factors when it comes to creating a stimulating environment and ultimately generating growth and profitability for the company as a whole.

Average number of employees

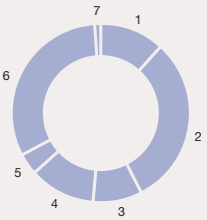


Sales per employee, SEK million



The outcomes for 2009-13 were affected by the strong Swedish krona. The outcome 2011-12 by the acquisition of Aalborg Industries and the Euro crisis. Aalborg Industries has lower sales/employee than Alfa Laval. The outcome 2014 was affected by a weaker Swedish krona and the acquisition of Frank Mohn AS.

Employees per region



1	Sweden	12%
2	Other EU	31%
3	Other Europe	9%
4	North America	11%
5	Latin America	4%
6	Asia	32%
7	Other	1%

External demands and expectations benefit Alfa Laval's business

The UN introduced new sustainable development goals in September 2015 and alternative solutions for reducing climate emissions were discussed at the Paris climate conference. Proposals for new legislation on sustainability reporting, EU legislation on conflict minerals and national action plans on business and human rights were also presented during the year. Every year, we receive a growing number of questions from customers and investors about the environmental impact of our products and about our work practices, particularly our efforts to combat corruption. Our employees are also asking more questions about our work on various sustainability aspects – everything from human rights to environmental impact.

Alfa Laval firmly believes that external demands and expectations with respect to sustainability create opportunities for us to continue to succeed. Our products reduce energy consumption and optimize the use of resources in many industrial processes. We offer products for water treatment processes, as well as products that reduce the marine industry's emissions to air and water. We also offer service solutions that ensure the performance of our products throughout their service life and reconditioning of certain products in order to reuse materials. We are confident that our products and service offering are well positioned to meet future challenges.

We take a highly proactive approach to implementing our four business principles in order to ensure that we are working in a way that meets external sustainability requirements – at all stages of the value chain. It is this combination of what we do and how we do it that will ensure our short and long-term success.

Lars Renström

Sustainability report 2015

Our business principles:

Our 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 dialog builds trust

Our approach: focus, execution and review

Focus on areas where we have an opportunity to make a difference
The Business Principles are very broad and thus enable us to identify many potential risks. However, it would not be realistic for us to tackle them all at the same time. So we set priorities to reach a good balance between the severity of the risk and our ability to influence and create meaningful change.

Execution: a line responsibility
The line organization bears the main responsibility for integrating the business principles into the ongoing work throughout Alfa Laval's value chain.

Management structure
The implementation process is guided by various councils, led by members of Group management and comprising managers from relevant departments.

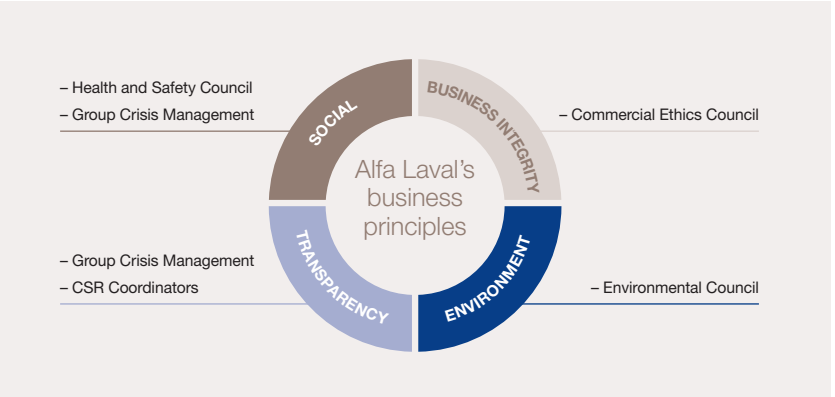
Commercial Ethics Council
The management groups of the sales organizations bear the main responsibility for risk assessments and risk reduction measures with respect to our business contacts. They are supported and guided by the Commercial Ethics Council (CEC), which is led by the CEO and comprises three 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 products. The CEC also handles commercial dilemmas originating from conflicts and human rights violations that do not result in official trade embargoes. The CEC is also 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.

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

Health and Safety Council
The Health and Safety Council sets policies and prioritizes Group-wide initiatives. 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, such as the Operations Division and Service.

Group Crisis Management
Customer safety is a prime concern, which is why any 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. This 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.



Business principles – status

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

Our focus is on:
– Improving the working conditions of high-risk suppliers
– Reducing the frequency of workplace accidents in our workshops and the percentage of serious accidents.

Suppliers and supply chain – status 2015
The procurement departments bear the main responsibility for both risk assessments and risk reduction measures. In 2015, a new process was established to ensure that our suppliers implement continuous improvements in line with our business principles.

This process begins by mapping out our suppliers and their processes. We have found that the main risks arise in countries with ineffective enforcement of national employment legislation and international human rights standards. However, we also focus on suppliers with inherent health, safety or environmental risks due to the nature of their operations (for example, metal polishing and foundry work). We review how well suppliers in high-risk zones comply with our business principles and work together with the suppliers 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.

Education is an important part of the improvement process and all employees in Alfa Laval's procurement organization receive training in the company's business principles. Procurement managers must also undergo mandatory anti-corruption training. Suppliers in countries deemed to be high risk are also offered training in the areas covered by the business principles.

Safe workplace – status 2015
A new safety manual was developed in order to provide better instructions on how Alfa Laval's organization is to tackle safety issues and outline the guidelines and work practices to be followed. In 2015, we also developed various tools to reduce the risks to health and safety in our service centers and among our field engineers working on-site at customer facilities. These tools include risk assessment, prioritization, safety plans and training.

Business integrity:
This principle includes conflicts of interest, political contributions, anti-bribery and anti-corruption (ABAC), fair competition, legislative compliance and corporate governance. 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. Internal audits are conducted regularly and are intended to ensure that appropriate processes are in place and functioning properly.

Anti-corruption processes – status 2015
In 2014, the company rolled out improved ABAC processes, including e-learning modules in multiple languages for its sales personnel. In 2015, we also launched a mandatory training program for employees working with procurement.

Environment:
Our products are our main contribution to sustainability since they play an increasingly important role in minimizing energy consumption and thus greenhouse gas emissions, at the same time as they optimize the use of natural resources, including the recycling of water in industrial processes. In some cases, Alfa Laval's environmental solutions are essential to ensuring that industrial processes comply with emissions legislation.

Our environmental focus is on:
– Ensuring that new products have a lower environmental impact than the ones they replace.
– Minimizing greenhouse gas emissions from manufacturing and goods transportation.
– Ensuring that we have good control over the use of chemicals associated with environmental or health risks.

Environmental impact of new products – status 2015
Alfa Laval's products are, by their nature, designed to reduce the effects on the environment. This means that the positive environmental impact that arises once our products have been installed is significantly larger than the negative impact caused by the company's operations. Alfa Laval aims to consistently improve its products so that all new products are more environmentally friendly than the products they replace. Accordingly, the effective implementation of a life cycle perspective is a key component of our product design process. In 2015, some 145 life cycle assessments were made. The LCAs done on product replacements showed improvements of up to 42 percent.

Greenhouse gas emissions – status 2015
Our goal is to continuously minimize the greenhouse gas emissions from manufacturing and goods transportation. Our focus in 2015 was on the transportation of goods and the projects we conducted have yielded results in the form of a reduction in emissions during the year.

Chemicals – status 2015
All of Alfa Laval's production and service facilities are to have good control over the chemical substances used. They must also make safety data sheets available that clearly indicate whether chemicals on the company's so-called "black and gray list" have been used. This list is updated continuously in line with prevailing chemical legislation. Suppliers are asked to follow this list and phase out chemicals accordingly.

Transparency
Alfa Laval aims to build trust through open dialog. This is particularly true of the dialog the company engages in with various parties concerning its progress and challenges in the area of sustainability.

Our focus in the area of transparency is on:
– Improving our dialog with customers when it comes to our sustainability results.

Greater dialog concerning business principles – status 2015
Over the past few years, the number of questions we receive from customers regarding our work on sustainability has increased.

Based on our goal of being transparent and at the request of our customers, we therefore began reporting in Eco Vadis. Facing greater pressure for public information about our sustainability efforts, we aim to be as transparent as possible when it comes to communicating our guidelines, work practices and the results of our work.

We are also working actively to strengthen our cooperation with our customers in the area of sustainability. For example, Alfa Laval is participating in a collaborative project related to sustainable supply chains in the marine industry.

In 2015, we also worked to increase internal awareness of our business principles, their content and background.

Alfa Laval's work contributes directly to many of the UN's newly launched Sustainable Development goals. The following are some examples:

SUSTAINABLE DEVELOPMENT GOAL		EXAMPLES OF HOW ALFA LAVAL CONTRIBUTES TO THEIR SUCCESS
Goal 2:	End hunger, achieve food security and improved nutrition and promote sustainable agriculture.	Alfa Laval products and solutions improve shelf life, reduce waste and make food production hygienic and safe. The energy use reduction made possible for food and fruit processing plants using pumps from Alfa Laval is about 50 percent. Our pumps, valves, separators and heat exchangers are important components in food production, while our refrigeration solutions help keep food fresh during storage and distribution.
Goal 6:	Ensure availability and sustainable management of water and sanitation for all.	Alfa Laval offers a wide range of technologies to treat wastewater, among them decanter centrifuges which help dewater sludge in municipal wastewater treatment plants, contributing to clean water around the globe.
Goal 7:	Ensure access to affordable, reliable, sustainable and modern energy for all.	The world's growing demand for energy is encouraging the growth of alternative energy sources, such as making biofuel from waste. Alfa Laval products are involved throughout the biofuel production process, from heating and cooling to mixing and separation.
Goal 11:	Make cities and human settlements inclusive, safe, resilient and sustainable.	Alfa Laval provides energy-efficient district heating and cooling – often using waste heat from other processes, as well as thermal storage solutions that save energy and money. The offering also includes products that play an important role in the wastewater cleaning process in municipal wastewater treatment plants in cities all over the world.
Goal 13:	Take urgent action to combat climate change and its impacts.	In our own manufacturing, we work on reducing the CO_2 emissions from production through to transportation. At our customers' plants, our diverse products improve energy efficiency, which lowers the need for fossil fuels and helps to reduce CO_2 emissions. In other areas, our products are efficient in heat recovery, which reduces the amount of energy needed for heating and thus also CO_2 emissions.
Goal 14:	Conserve and sustainably use the oceans, seas and marine resources for sustainable development.	Alfa Laval's Marine & Diesel division offers a whole range of products in the areas of energy and the environment, mainly for customers in the marine industry. The offering includes exhaust gas cleaning systems, heat recovery systems and ballast water treatment systems.

Contents – Corporate Governance Report

Introduction by the Chairman of the Board

Alfa Laval and its corporate governance

Alfa Laval aims to achieve profitable growth and be a world leader in its three key technologies: heat transfer, separation and fluid handling. This is the company's overall goal, one which characterizes all discussions and decisions by the Board, and all work in the organization. Equally important, however, is the conduct of the Board, management and employees as the company strives to achieve this goal. Accordingly, it is crucial that our decision-making processes, division of responsibilities and control activities – both in the Board and in the company's operating activities – comply with all relevant laws and regulations and with the company's business principles. In presenting this report, our aim is to facilitate an external assessment of our corporate governance by describing the actions and interaction of various bodies, our division of responsibilities and the control and follow-up structures that are in place. Hopefully it will also become clear that we always work in the best interests of our shareholders.

The year in brief

The Board's work in 2015 was characterized by a continued focus on strategy in order to ensure that the company is well positioned – in both the short and long term – to respond to the trends in our operating environment. Considerable time was also devoted to Alfa Laval's environmental and sustainability work – including everything from the implementation of new regulations to efforts to increase internal awareness of the company's business principles, not least the sections pertaining to anti-bribery and anti-corruption measures.

We also focused on the ongoing successful integration of Frank Mohn AS, including a visit by the Board to Bergen, Norway, to learn more about the company's operations. The Board also visited Alfa Laval's facilities in Singapore to gain deeper insight into the prevailing market conditions in the marine industry.

Investment requirements and investment plans were reviewed, as were the proposals and opportunities for acquisitions, and a follow-up was conducted of the cost-cutting program initiated in autumn 2014. As part of our normal work, we also focused on the ongoing adaptation of the company's resources to the demand situation, which is done continuously in order to ensure productivity, efficiency and profitability. As a result of this ongoing improvement work, combined with a diversified exposure to various industries and geographic regions, Alfa Laval is well positioned and robust, which is confirmed by the company's stable long-term performance.

Our work during the year also involved a succession procedure, initiated since our current President will reach retirement age in early 2016. A new President, Tom Erixon, was appointed in November and will take over the role on March 1, 2016.

I would like to take this opportunity on behalf of myself and the Board to express our sincere thanks to Lars Renström for the successful and valuable work carried out under his leadership.

Lund, February 2016

Anders Narvinger
Chairman of the Board

Corporate Governance Report 2015

Alfa Laval is to be governed in a manner that is sustainable from a long-term perspective, taking its shareholders, employees, customers, suppliers and other stakeholders into consideration. The company's corporate governance is based on various laws, rules and guidelines, as well as its own business principles with respect to the environment, human rights, ethics and transparency. The Corporate Governance Report for 2015 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.

Introduction to Alfa Laval

Vision

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

Business concept

Based on its three key technologies, Alfa Laval offers products and solutions that "optimize the performance of our customers' processes, time and time again." In reality, this involves helping customers become more productive, energy efficient and competitive.

Financial goals

Alfa Laval is a result-oriented company with clear financial goals. Alfa Laval's operations are governed not only by its business concept, but also by the financial goals established 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 its 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.

Strategy

In order to achieve its vision, fulfill its business concept and attain its financial goals, Alfa Laval has established a number of strategic priorities. These include expanding the Group's product offering and market presence – mainly organically, but also through acquisitions – as well as strategies for increased efficiency.

The path to goal achievement

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. As a public company, Alfa Laval's corporate governance is subject to a number of laws and regulations, the most important of which include the Swedish Companies Act, the Swedish Annual Accounts Act, the rules of the stock exchange and the Swedish Corporate Governance Code (the "Code"). The company also has internal regulations, including governing documents, such as 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 business principles permeate the entire operations. For more information on these principles, visit www.alfalaval.com.

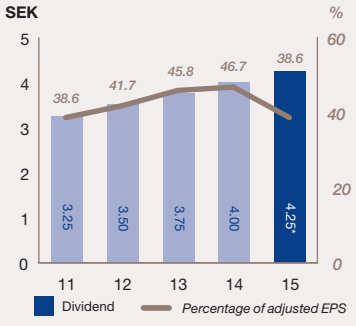
Alfa Laval's 2015 Corporate Governance Report was reviewed by the company's auditor.

Share and ownership structure

At December 31, 2015, Alfa Laval had 419,456,315 shares outstanding, allocated among 37,097 shareholders according to Euroclear Sweden's shareholders' register. Each share corresponds to one vote. Tetra Laval was the largest owner, with 26.1 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 Swedbank Robur Fonder with 6.5 percent, followed by Alecta Pensionsförsäkring with a holding of 6.3 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 94.7 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 and 17.

Dividend and percentage of adjusted EPS**



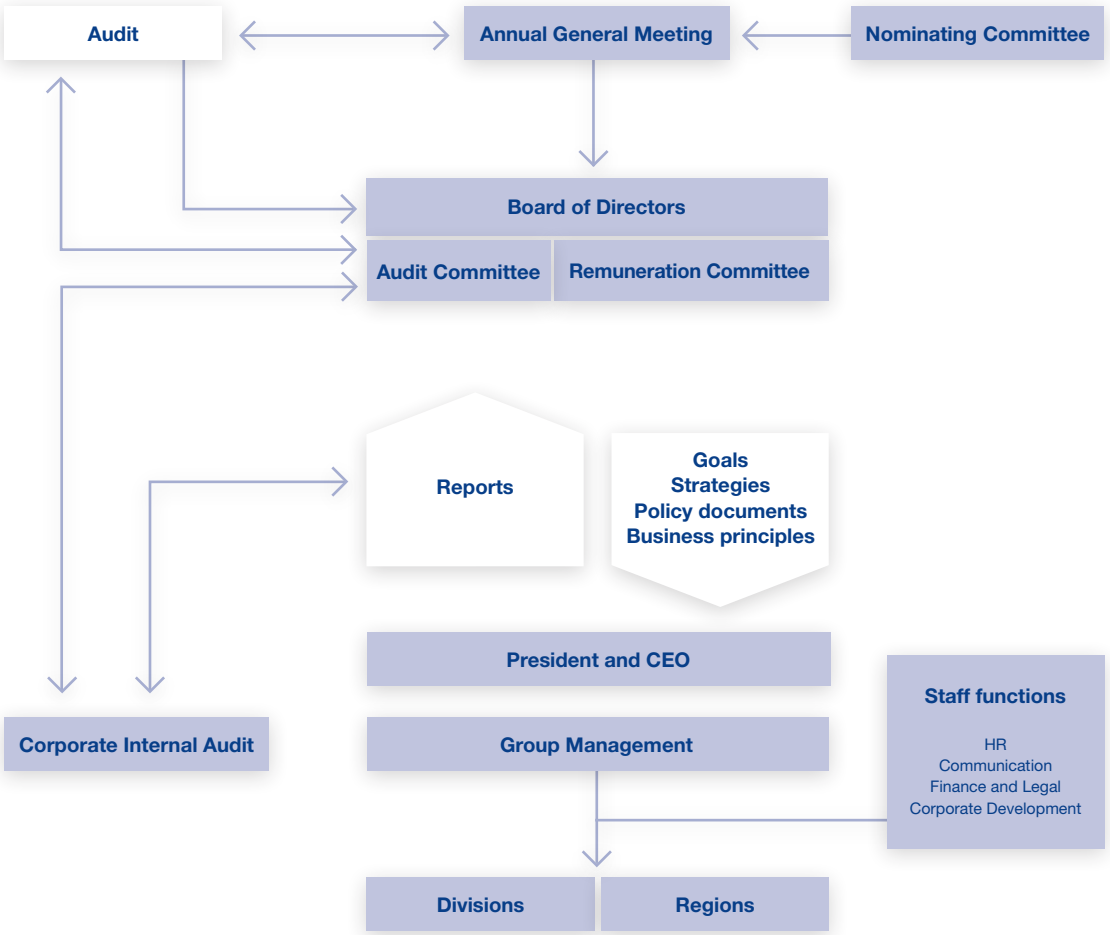
*Board proposal to the Annual General Meeting.
**Adjusted for step up amortization net of taxes.

Ten largest shareholders at December 30, 2015*

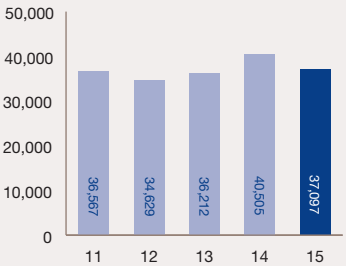
	No. of shares	Capital/voting rights, %	Change in holding in 2015, percentage points
Tetra Laval BV	109,487,736	26.1%	+/- 0
Swedbank Robur Funds	27,150,724	6.5%	0.6
Alecta	26,459,962	6.3%	-0.2
Foundation Asset Managment	25,100,000	6.0%	+/- 0
AMF Insurance and Funds	21,658,183	5.2%	-0.2
First Swedish National Pension Fund	8,368,923	2.0%	1.4
Nordea Investment Funds	7,792,868	1.9%	0.1
SEB Investment Management	6,382,669	1.5%	1.1
Fourth Swedish Pension Insurance Fund	5,515,601	1.3%	0.1
Folksam	2,822,617	0.7%	-0.1
Total ten largest shareholders	**240,739,283**	**57.4%**	

* The table is adjusted for custodian banks. Were they to be included, they would represent a total holding of 6.33%.
Source: Euroclear

Corporate governance



Total number of shareholders



Source: Euroclear

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

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 proposals 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.

Annual General Meeting for the 2014 fiscal year
The Annual General Meeting for the 2014 fiscal year was held at Sparbanken Skåne Arena in Lund on April 23, 2015. The Annual General Meeting was attended by 329 people, including shareholders, proxies, assistants, guests and officials. The total number of votes represented was 59.9 percent. 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. 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 4.00 per share be paid.

– A resolution was passed to re-elect Board members Gunilla Berg, Arne Frank, Anders Narvinger, Finn Rausing, Jörn Rausing, Lars Renström, Ulla Litzén and Ulf Wiinberg. It was resolved that Margareth Øvrum would be elected as a new Board member. In addition, a resolution was passed in favor of the Nominating Committee's proposal for auditors. Authorized public accountants Håkan Olsson Reising and Helene Willberg were elected for the coming year. In addition, auditors David Olow and Duane Swanson were elected as deputy auditors for the company.

– A resolution was passed that fees paid to non-executive directors on the Board would amount to SEK 4,850,000. 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, prepares and submits proposals 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. Its duties also comprise the submission of 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. This means that the Chairman of the Alfa Laval Board contacts representatives of the largest shareholders at the end of the third quarter and requests that they each appoint one member of the Nominating Committee. The Nominating Committee may then decide whether or not to include the Chairman of the Board or other Board members. Once the

Composition of the Nominating Committee for the 2016 Annual General Meeting

Name	Representing	Shareholding in Alfa Laval, %*
Finn Rausing	Tetra Laval	26,1
Claes Dahlbäck	Foundation Asset Management	6,0
Ramsay Brufer	Alecta	5,8
Jan Andersson	Swedbank Robur Funds	5,6
Lars-Åke Bokenberger	AMF Insurance and Funds	5,1

* As of September 30, 2015.

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

composition of the Nominating Committee has been established, an announcement is made in a press release, the third-quarter interim report and on Alfa Laval's website. Ahead of the 2016 Annual General Meeting, the composition of the Nominating Committee was announced on October 12, 2015. It was also included in Alfa Laval's third-quarter interim report, which was published on October 27.

Ahead of the Annual General Meeting for the 2015 fiscal year

The following individuals comprise the Nominating Committee for the Annual General Meeting for the 2015 fiscal year: Finn Rausing (Tetra Laval), Claes Dahlbäck (Foundation Asset Management), Ramsay Brufer (Alecta), Jan Andersson (Swedbank Robur Funds) and Lars-Åke Bokenberger (AMF). The holdings of the Nominating Committee represented 48.6 percent of the number of shares outstanding at September 30, 2015. The Chairman of the Board Anders Narvinger was elected as member and secretary, and Finn Rausing was elected as Chairman of the Nominating Committee. Due to Finn 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 Finn Rausing to be 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 tree meetings ahead of the Annual General Meeting for the 2015 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.

Board of Directors

Work and responsibilities

The Board administers the company on behalf of the shareholders and 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 prepares 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 also establishes the instructions for the President with respect to the Group's daily operations and, through the Audit Committee, procures auditing services and maintains ongoing contact with the company's auditors. In addition, the Board works to ensure that a sound internal control function and formalized procedures are in place. 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 nine members and no deputies. The members are elected annually for the period until the conclusion of the next Annual General Meeting and are obligated 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 and Alfa Laval's Chief Legal Counsel 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, except Lars Renström, who is President and CEO of the company. All members are also considered independent of the company's major shareholders, except Finn Rausing, Jörn Rausing and Lars Renström, who cannot be considered independent due to their relation to Tetra Laval, which, on December 31, 2015, owned 26.1 percent of the shares in the company.

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

Annual General Meeting for the 2015 fiscal year

The Annual General Meeting of Alfa Laval AB (publ) will be held on Monday, April 25, 2016 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.

Board training

Each year, a combined training course and field trip takes place at one of Alfa Laval's facilities. In 2015, the trip had as its destination Alfa Laval's facilities in Singapore.

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 2015

A total of ten Board meetings were held in 2015, nine of which were scheduled meetings. Two meetings were held by phone, while the other meetings were held in Lund, Stockholm and Malmö. The normal agenda items addressed at Board meetings include earnings results, order trends, investments and acquisitions. The company's President prepares an agenda for each meeting in consultation with the Chairman of the Board. Board members who want to discuss a particular matter must inform the Chairman of the Board well in advance, so that the necessary material on which to base decisions can be prepared. Notices of meetings, including the meeting agenda and the requisite information or documentation on which to base decisions, must reach the Board members not later than one week prior to the date of the meeting. Decisions are made based on open discussions led by the Chairman.

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 2015, the destination for the trip was Alfa Laval's unit in Singapore.

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 the Board's work methods and work climate, as well as its access to and 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 by external resources, the evaluation forms part of the supporting documentation for the Nominating Committee when nominating Board members and proposing remuneration levels.

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 dialog 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. In addition to being responsible for evaluating the Board's work, the Chairman 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 also 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 the Remuneration Committee receive supplementary remuneration. No Board member is entitled to pension payments from the company.

Committees

According to Alfa Laval's Articles of Association, 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's tasks include ensuring 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 also 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 59.

Members and meetings in 2015

Members are appointed annually at the Board's statutory meeting. In 2015, the Committee comprised Finn Rausing

Remuneration of Board members and attendance at Board meetings

● Chairman

		Board of Directors	
	Name	Present	Remuneration
Appointed by the Annual General Meeting	Anders Narvinger	● 10	1,350,000
	Gunilla Berg	9	500,000
	Arne Frank	9	500,000
	Björn Hägglund *	2	
	Margareth Øvrum **	7	500,000
	Ulla Litzén	9	500,000
	Finn Rausing	10	500,000
	Jörn Rausing	9	500,000
	Lars Renström	9	
	Ulf Wiinberg	10	500,000
	Total		**4,850,000**
Employee representatives	Jan Nilsson ***	5	
	Susanna Norrby	9	
	Henrik Nielsen ****	5	
	Bror García Lantz	10	
Deputy employee representative	Leif Norkvist	1	
	Number of meetings	**10**	

* Resigned at the AGM. ** Took up position at the AGM. *** Resigned as per June 3rd, 2015. **** Took up position on June 3rd, 2015.

(Chairman), Gunilla Berg and Ulla Litzén. Alfa Laval's Chief Legal Counsel served as the Committee's secretary. Three meetings were held in 2015, 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. During the year, the following items were dealt with at the Committee meetings: review of the procedures for corporate governance, review and follow-up of the results of the current annual feedback from approximately 200 managers regarding controls, updates regarding new IFRS developments, amendments to the Code, a review of Group provisions and allocations, 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 or members of Group management. The Committee's assignment is to prepare the guidelines for remuneration to senior executives to be resolved on by the Annual General Meeting and to submit proposals 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 2015

The Remuneration Committee is appointed annually at the Board's statutory meeting. In 2015, the Committee comprised Anders Narvinger (Chairman), Jörn Rausing and Arne Frank. The Committee held two meetings in 2015. Phone meetings were also held to address ongoing issues. Separate 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. The meetings of the Committee 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 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 result of the audit – the Audit Report – is 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 23, 2015, authorized public accountants Håkan Olsson Reising and Helene Willberg 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 2015, 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
Appointed by the Annual General Meeting	Anders Narvinger	● 2	50,000		
	Gunilla Berg			3	100,000
	Arne Frank	2	50,000		
	Björn Hägglund *				
	Margareth Øvrum **				
	Ulla Litzén			2	100,000
	Finn Rausing			● 3	150,000
	Jörn Rausing	1	50,000		
	Lars Renström				
	Ulf Wiinberg				
	Total		**150,000**		**350,000**
Employee representatives	Jan Nilsson ***				
	Susanna Norrby				
	Henrik Nielsen ****				
	Bror García Lantz				
	Number of meetings	**2**		**3**	

* Resigned at the AGM. ** Took up position at the AGM. *** Resigned as per June 3rd, 2015. **** Took up position on June 3rd, 2015.

Board of Directors and auditors

Appointed by the Annual General Meeting

1 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.
Board member: JM AB.
Independent of the company and major shareholders.
Number of shares in Alfa Laval: 40,000* (40,000**).

2 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: Vattenfall AB.
Independent of the company and major shareholders.
Number of shares in Alfa Laval: 3,400* (3,400**).

3 Björn Hägglund ***

Board member since 2005.

Born: 1945.
Former positions include Deputy CEO of Stora Enso.
Education: PhD (For.)
Chairman of the Board: SweTree Technologies and Wallenberg Wood Science Centre.
Board member: among others, Bergvik Skog AB, the Knut and Alice Wallenberg Foundation and AB Karl Hedin.
Independent of the company and major shareholders.
Number of shares in Alfa Laval: 12,000* (12,000**).

4 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.
Independent of the company and major shareholders.
Number of shares in Alfa Laval: –

5 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, Atlas Copco AB, Boliden AB, Husqvarna AB and NCC AB.
Independent of the company and major shareholders.
Number of shares in Alfa Laval: 29,000* (15,600**).

6 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.

7 Lars Renström

Board member since 2005.

Born: 1951.
President and CEO of Alfa Laval.
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**).

8 Ulf Wiinberg

Board member since 2013.

Born: 1958.
Formerly CEO of H. Lundbeck A/S. Former positions include director of Wyeth Pharmaceuticals, EMEA/Canada & BioPharma, and a number of other senior positions in Wyeth.
Chairman of the Board: Avillion, a pharmaceutical development company.
Board member: Nestlé Health Science.
Independent of the company and major shareholders.
Number of shares in Alfa Laval: 20,000* (20,000**).

9 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: 16,000* (16,000**).

10 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.

Employee representatives

11 Jan Nilsson

Employee representative since 2000.

Born: 1952.
Employed by Alfa Laval since 1974.
Employee representative for the Swedish Metal Workers' Union (IF Metall).
Stepped down June 3, 2015.

12 Henrik Nielsen

Employee representative since 2015.

Born: 1968.
Employed by Alfa Laval since 1994.
Employee representative for the Swedish Metal Workers' Union (IF Metall).
Took up position on June 3, 2015.

13 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**).

14 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).

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.
Elected auditor at 2015 Annual General Meeting.

Helene Willberg

Authorized Public Accountant, KPMG.

Born: 1967.
Elected auditor at 2015 Annual General Meeting.

Deputy auditors

David Olow

Authorized Public Accountant, KPMG.

Born: 1963.
Deputy auditor for Alfa Laval since 2014.

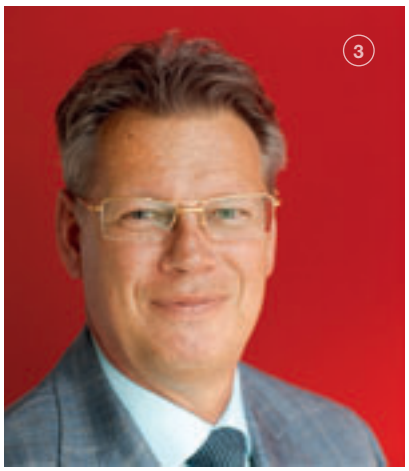
Duane Swanson

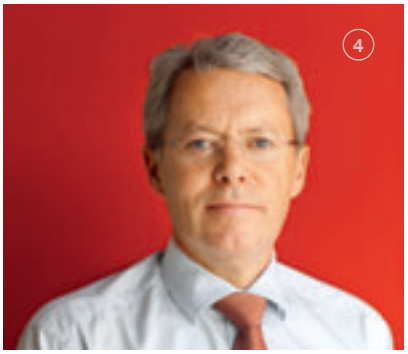
Authorized Public Accountant, KPMG.

Born: 1959.
Deputy auditor for Alfa Laval since 2014.

* Holdings as of December 31, 2015.
** Holdings as of December 31, 2014.
*** Stepped down at the Annual General Meeting.

President and Group management





1 Lars Renström

President and CEO

Born: 1951.
CEO since October 1, 2004.
Former positions include President and CEO of Seco Tools AB, Division Manager at Ericsson AB and Atlas Copco AB.
Chairman of the Board: ASSA ABLOY AB.
Board member: Tetra Laval Group.
Education: Eng., BSc. Econ.
Number of shares: 40,400* (40,400**).

2 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: 6,520* (6,520**).

3 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: 66,000* (66,000**).

4 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.
Education: BSc. Econ., IMD (BPSE).
Number of shares: 130,170* (130,170**).

5 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: Nederman AB.
Education: BSc. Eng.
Number of shares: 8,000* (6,000**).

6 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: 54,588* (54,588**).

7 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: 47,552* (47,552**).

8 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: 6,588* (6,588**).

9 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: 60,344* (60,344**).

10 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: 430,000* (430,000**).

11 Peter Bailliere

Senior Vice President, Human Resources.

Born: 1963.
Employed by Alfa Laval since 2007.
Senior Vice President, Human Resources since July 1, 2007.
Many years of experience at Volvo Cars, most recently as Head of Group Human Resources.
Education: Master of Sociology, Bachelor in Fiscal Law.

* Holdings as of December 31, 2015.
** Holdings as of December 31, 2014.

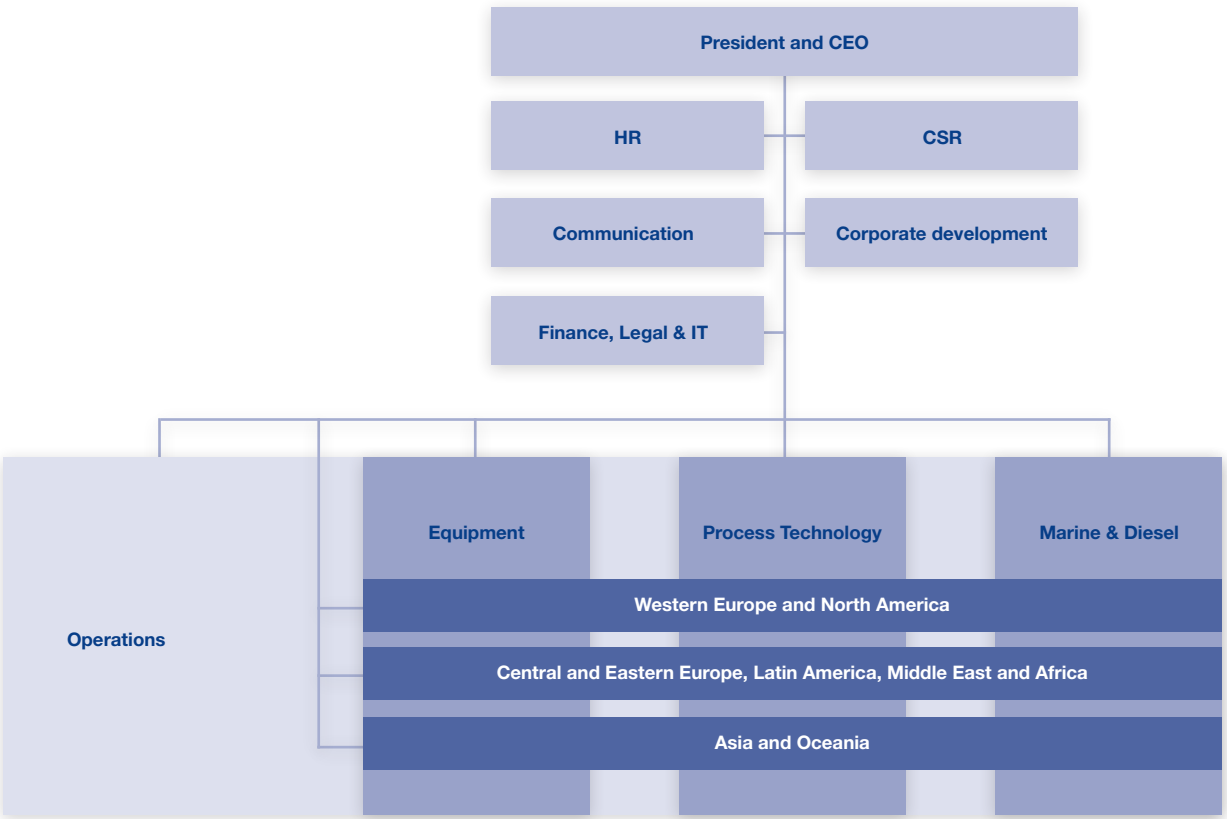
Areas of responsibility
The President directs the daily operations and is responsible for ensuring that the Board has access to the necessary information and supporting documentation for its decision-making purposes. The President is also responsible for ensuring that the company's accounting complies 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 2015
Group management held six meetings in 2015, during which minutes were taken. Quarterly reviews were also performed to discuss the business developments in the divisions and regions. The reviews addressed the business climate, earnings, earnings projections for the next 12 months and specific issues affecting the respective business areas. In addition, separate strategy meetings were held to address, among other areas, management's proposals concerning the future direction with regard to organic growth and growth through acquisition. In 2015, the review concentrated on risks and opportunities in individual segments, application areas and geographic regions, as well as the consequences on the supply chain. A review was also performed of the direction for acquisitions with regard to product, technology, channel and location.

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, see pages 107–108.

Business 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. These 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.

Control structure
The control structure is based on the Board, the Audit Committee and the President, and the division of duties and responsibilities between these parties.

The Board is responsible for ensuring that the company's organization structure is logical and transparent, with clearly defined roles, responsibilities and processes. The work of the Board is also covered by processes and formal work plans, with a clear internal distribution of tasks. 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.

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. The Committee also monitors, evaluates and discusses significant issues in the areas of accounting and financial reporting. It evaluates and manages information pertaining to disputes and potential improprieties, as well as 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 examines the work, qualifications and independence of the external auditors. 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 2015, 36 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 operations, 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 2016
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 2015 on pages 47–60. 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 4, 2016

Håkan Olsson Reising
Authorized Public Accountant

Helene Willberg
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, 2015 to December 31, 2015.

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 31, 2016 at 10.00 CET and by sending the printed annual report to the shareholders in week 14, 2016 starting at April 5, 2016.

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 46.

Ownership and legal structure

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

The company had 37,097 (40,505) shareholders on December 31, 2015. The largest owner is Tetra Laval B.V., the Netherlands who owns 26.1 (26.1) percent. Next to the largest owner there are nine institutional investors with ownership in the range of 6.5 to 0.7 percent. These ten largest shareholders owned 57.4 (55.5) 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 2015.

An aftermarket company specialized in separation technology

Alfa Laval has as from July 3, 2015 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 is 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 adds a complementary aftermarket channel. "With the acquisition we are adding presence in an important niche of the aftermarket," says Lars Renström, President and CEO of the Alfa Laval Group.

K-Bar Parts LLC

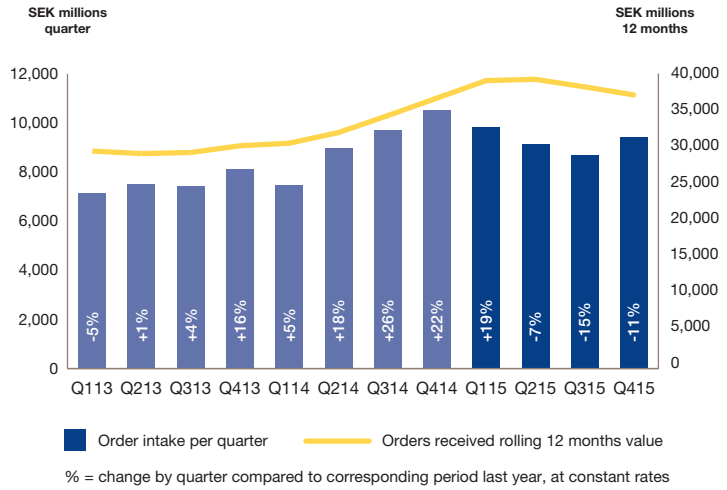
On July 31, 2015 Alfa Laval has acquired 100 percent of K-Bar Parts LLC, which is a small aftermarket company in the U.S. The company has since them been renamed to Alfa Laval Kathabar Inc.

Sale of real estate

During 2015 a few minor properties in different countries have been sold for SEK 9 (4) million with a realised loss of SEK -7 (-12) million, which has been reported in other operating costs.

The empty property in Spijkenisse in the Netherlands is to be sold, but it is not expected to be sold within the next year. A small property in France is empty and has been for sale for several years. It is not expected to be sold within the next year. A property in Lima in Peru is for sale and is expected to be sold within the next year. As a consequence of the cost reduction programme in 2014 some operations have been re-organised and the concerned properties in Houston in the U.S., Qingdao in China, Artern in Germany and Groningen in the Netherlands will be sold. Only the properties in Qingdao and Groningen are expected to be sold within the next year and have therefore together with the property in Peru been re-classified as current assets held for sale with SEK 9 (6) million. The fair value of the properties for sale exceeds the book value by approximately SEK 60 (18) million.

Orders received



Orders received amounted to SEK 37,098 (36,660) million during 2015.

Order bridge

Consolidated

SEK millions, unless otherwise stated	2015	2014
Order intake last year	36,660	30,202
Structural change [1]	6.8%	14.1%
Organic development [2]	-11.6%	4.0%
Currency effects	6.0%	3.3%
Total	1.2%	21.4%
Order intake current year	37,098	36,660

Orders received from the aftermarket Service [3] constituted 28.6 (25.8) percent of the Group's total orders received for 2015. Excluding currency effects, the order intake for Service increased by 3.8 percent during 2015 compared to last year. The corresponding organic development was a decrease by 1.5 percent.

1) Acquired businesses are: K-Bar Parts LLC (renamed to Alfa Laval Kathabar Inc) in the U.S. at July 31, 2015, an aftermarket company specialized in separation technology at July 3, 2015, CorHex Corp at November 4, 2014 and Frank Mohn AS at May 22, 2014.
2) Change excluding acquisition of businesses.
3) Parts & Service.

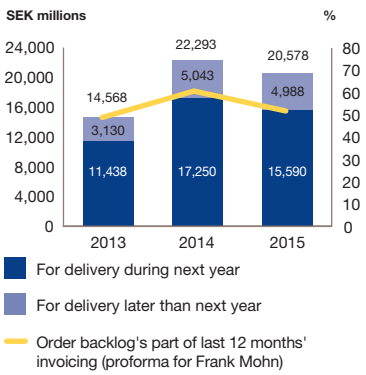
Large orders

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 2015 Alfa Laval has received the following large orders:

Large orders

Division Customer segment Scope of supply	Order received in	Delivery date	Order amount	Total per segment 2015	2014
			SEK millions		
Process Technology					
Energy & Process					
Compact heat exchangers to a refinery in the U.S.	Q1	2016	80		
Air cooler systems to a natural gas plant in the U.S.	Q1	2015	85		
Compact heat exchangers to a power plant in the Middle East.	Q1	2015	55		
Air cooler systems to a natural gas plant in Brazil.	Q1	2015	75		
Air cooler systems to a natural gas plant in the U.S.	Q1	2015/2016	70		
Alfa Laval OLMI heat exchangers to a petrochemical plant in Turkmenistan.	Q1	2016	70		
Air-cooler systems to a power plant in the Middle East.	Q2	2016	110		
Completely new and innovative separation modules for an on-board an FPSO (Floating Production, Storage and Offloading vessel), which will be moored outside the Brazilian coast.	Q2	2015	85		
Various pieces of equipment to a new petrochemical plant in Slovakia.	Q3	2016	55		
Air heat exchangers to a refinery in Spain.	Q4	2016	65		
Air coolers to a power plant in the U.S.	Q4	2016	60		
Compact heat exchangers to a Liquid Natural Gas plant in the U.S.	Q4	2016	60		
Alfa Laval Packinox heat exchangers to a petrochemical plant in South Korea.	Q4	2017	170	1,040	1,675
Food & Life Science					
A process solution for a leading multinational brewery group's plant in India.	Q3	2016	60		
Two process lines for edible oil refining in China.	Q3	2016	75		
A complete process line for a vegetable protein extraction plant in India.	Q4	2016	50		
Various pieces of equipment to a brewery plant in Mexico.	Q4	2016	210	395	125
Marine & Diesel					
Marine & Offshore Systems					
Alfa Laval Aalborg boiler modules for an FPSO vessel to be built in China.	Q3	2016	90	90	>180
Marine & Offshore Pumping Systems					
Framo pumping systems for FPSO projects (Floating Production Storage and Offloading vessel) in Angola.	Q1	2015/2016	260		
Framo pumping systems for a FSO project in Norway.	Q1	2016	115		
Framo pumping systems to several Statoil oil platforms in the North Sea.	Q2	2016	200		
Framo power generator systems to an oil platform located in the Johan Sverdrup field in the North Sea.	Q4	2016	100		
Framo pumping systems to an oil platform in the UK.	Q4	2016	100	775	360
Equipment					
Industrial Equipment					
Alfa Laval compact heat exchangers to a district heating plant in China.	Q2	2015/2016	100	100	–
Total				**2,400**	**>2,340**

Order backlog December 31



The order backlog at December 31, 2015 was SEK 20,578 (22,293) million. Excluding currency effects and adjusted for acquisitions of businesses the order backlog was 11.9 percent smaller than the order backlog at the end of 2014.

Net sales

Net sales amounted to SEK 39,746 (35,067) million during 2015.

Sales bridge

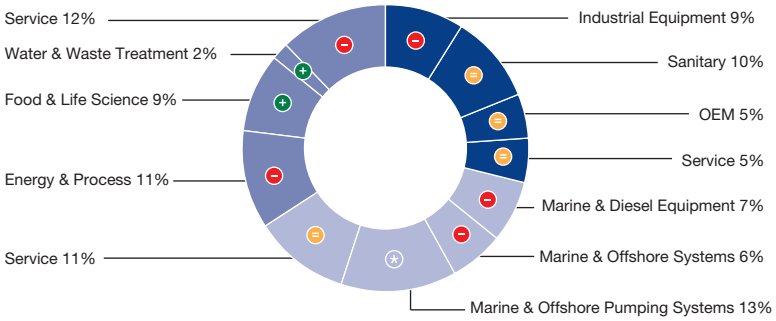
Consolidated SEK millions, unless otherwise stated	2015	2014
Net sales last year	35,067	29,801
Structural change	8.1%	11.8%
Organic development	-1.2%	2.5%
Currency effects	6.4%	3.4%
Total	13.3%	17.7%
Net sales current year	39,746	35,067

Net invoicing relating to Service constituted 26.6 (27.1) percent of the Group's total net invoicing for 2015. Excluding currency effects, the net invoicing for parts and service increased by 3.3 percent during 2015 compared to last year. The corresponding organic development was a decrease by 0.1 percent.

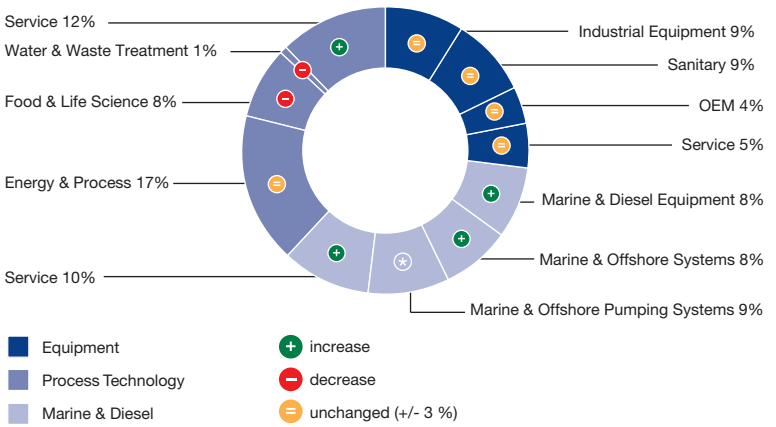
Operating segments
The acquisition of Frank Mohn AS meant the creation of a new capital sales segment in the Marine & Diesel division, Marine & Offshore Pumping Systems, which only contains the new business. For this reason there are no comparison figures.

Orders received by customer segment

Orders received by customer segment 2015



Orders received by customer segment 2014



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 2015 has been as follows:

Order intake for the **first quarter** decreased somewhat compared to the previous quarter. While markets in Western Europe showed overall growth, demand from customers in Asia, the U.S. and Central & Eastern Europe came in lower than in the fourth quarter. The **Sanitary** segment saw overall demand remaining on the previous quarter's level, with a mixed picture in its different end markets. Products for food, beverage and personal care applications saw a good development, while order intake from customers in the dairy sector came in lower due to fewer new projects. Products aimed at applications in the pharmaceutical sector also faced lower demand. **Industrial Equipment** experienced a small drop in order volume in the first quarter compared to the previous quarter, mainly in the HVAC and industrial refrigeration areas. This was partly compensated by increased demand in commercial refrigeration and data-cooling areas. In **OEM**, order intake decreased somewhat in the first quarter compared to the fourth. The main explanatory factor was lower demand from customers manufacturing air-conditioning and heat pump equipment, as a number of large customers in these areas reduced stock. In contrast, the boiler market experienced a positive trend. Demand for **Service** remained on the same high level as in the fourth quarter.

Order intake rose significantly in the **second quarter** compared to the first. While all capital sales segments reported growth, it was particularly evident in Industrial Equipment and OEM due to seasonality. Demand for spare parts and services remained on the same high level as in the previous quarter. Traditional markets such as North America and Europe both reported growth compared to the previous quarter. They were, however, outperformed by China, which did especially well. The **Sanitary** segment grew, bolstered by demand from customers in the dairy, brewery and pharma industries. Meanwhile, demand from customers in the personal care business declined, as larger orders booked in the first quarter were not repeated. **Industrial Equipment** experienced the return of the peak season and had a very good run. The positive development was further supported by demand from refrigeration customers as well as by a large district-heating order in China. The **OEM** segment was also lifted by growing seasonal demand from A/C and heat pump manufacturers. Increased demand from diesel engine and refrigeration equipment manufacturers also contributed to the positive development.

Order intake declined in the **third quarter** compared to the second. While all capital sales segments reported lower order intake, it was particularly evident in Industrial Equipment where a large district heating order taken in the second quarter was not repeated. Demand for spare parts and services remained on the same high level as in the previous quarter. Geographically, most major markets declined. India, however, had good order intake in the quarter, especially in Sanitary. The **Sanitary** segment declined due to lower volumes in food, whereas demand from customers in personal care and pharma was very good. The main explanatory factor for the decline in **Industrial Equipment** was the non-repeat large district heating order in the comfort business. Excluding this order, comfort volumes were only somewhat lower. Air products also declined, partly due to lower demand among customers, partly an effect of the closing of air products manufacturing in the Netherlands and moving it to Italy and Poland. The **OEM**

Equipment division

Consolidated

SEK millions	2015	2014
Orders received	10,472	9,867
Order backlog*	1,637	1,571
Net sales	10,500	9,787
Operating income**	1,321	1,320
Operating margin	12.6%	13.5%
Depreciation and amortisation	218	188
Investments	61	59
Assets*	6,339	6,424
Liabilities*	973	764
Number of employees*	2,552	2,667

* 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
2015/2014	–	-1.8	-1.8	–	-0.6	-0.6
2014/2013	–	0.8	0.8	–	0.1	0.1

segment had a lower demand compared to the second quarter, mainly due to slower activity among customers in A/C, diesel engines and heat pumps, following their stocking up on products already in the second quarter, ahead of the vacation period.

Overall order intake was flat in the **fourth quarter** compared to the third. This reflected good demand in Sanitary, while Industrial Equipment declined somewhat. OEM was unchanged and demand for spare parts and services remained on the same high level as in the previous quarter. Geographically, the development was good in Asia, the U.S., Nordic, France and Adriatic, while China, Central & Eastern Europe and Latin America declined. The **Sanitary** segment had a good quarter with order growth from customers in food applications as well as from customers buying products for pharmaceutical production. The main explanatory factor for the decline in **Industrial Equipment** was the situation in Russia and changes from direct sales to sales via distributors. At the same time the order intake for products within Refrigeration was good and Fluids & Utility also recorded growth. Demand for air products recovered from the third quarter. The **OEM** segment saw a good development across many of its traditional products such as brazed and fusion-bonded heat exchangers. Demand for products for construction equipment declined.

Operating income

(excluding comparison distortion items)

The development of the operating income for 2015 compared to last year is mainly explained by a higher sales volume and lower sales and administration costs as well as positive currency effects, which is almost entirely outweighed by negative price/mix effects among others due to a changed structure within the sales organisation.

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 2015 has been as follows:

The **first quarter** meant a decline compared to the previous quarter for the Process Technology division, mainly due to lower activity in the Energy & Process segment. Both base business* and large orders were affected. **Energy & Process** noted a clear contraction as a majority of its end markets were affected by the low oil price. The power-related business, however, grew thanks to some larger orders. Turning to the oil & gas chain, the businesses exposed up- and midstream showed a decline as capex constraints and project prioritization, i.e. the focus on only critical investments, led to a lower activity level. Refinery and petrochemicals also declined, as players in these industries entered a wait and see mode for new investments, as they continued to monitor and evaluate the current development. A lower order intake was also seen in the **Food & Life Science** segment, due to less of large orders. The base business was however unchanged. The food solutions offering did very well, boosted by strong demand across a majority of regions. **Water & Waste Treatment** showed a slight decline compared to the fourth quarter, but with the important U.S. market growing. In **Service** demand for parts as well as service was unchanged. Food & Life Science as well as oil & gas related applications declined, whereas good demand was recorded in the power industry as well as inorganics, metals and paper.

The Process Technology division showed a decline in the **second quarter** compared to the previous quarter. The decline was entirely related to a lower activity in the oil and gas industry, influencing the Energy & Process segment. For the division as a whole large orders were fewer, whereas the base business delivered growth. Geographically, North and Latin America declined, primarily due to the lower activity in the oil and gas industry, whereas Asia reported strong growth. The decline in **Energy & Process** compared to the previous quarter reflected the sentiment in the oil and gas industry. Capex limitations in primarily the up- and midstream sectors led to a contraction for both drilling and processing in market unit Oil & Gas, especially apparent in North and Latin America. At the same time market unit Petrochemicals was negatively affected as the industry, though still strong and profitable, displayed continued uncertainty as to the potential implications from the oil and gas sector's development. Other market units in the segment; Refinery, Power and Inorganics, Metals & Paper showed strong growth. The base business, with the exception of Oil & Gas, also performed very well. The **Food & Life Science** segment was unchanged from the previous quarter, with stable development for both the base business and large orders. The market units Protein and Food Solutions were both strong, while contractions were noted for Brewery and Life Science & Renewable Resources. Asia and Europe were unchanged, North America reported strong growth, while Latin America declined. **Water & Waste Treatment** reported very strong growth, primarily in Asia and North America. Both base business and large orders devel-

* 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	2015	2014
Orders received	12,795	14,271
Order backlog*	7,226	8,440
Net sales	14,511	14,410
Operating income**	1,899	2,230
Operating margin	13.1%	15.5%
Depreciation and amortisation	366	325
Investments	156	111
Assets*	10,832	11,893
Liabilities*	3,812	4,237
Number of employees*	5,242	5,342

* 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
2015/2014	0.0	-17.2	-17.2	0.1	-6.4	-6.3
2014/2013	3.0	-3.3	-0.3	0.8	0.5	1.3

oped very well. The **Service** segment saw growth in demand compared to the previous quarter. Worth noting was that overall aftermarket demand from the whole oil and gas chain was stable, with particular strength reported up- and midstream.

The order intake in the Process Technology division grew somewhat during the **third quarter** versus the second quarter, driven by the Food & Life Science segment, whereas the Energy & Process segment was unchanged. For the division as a whole orders with a value above SEK 5 million developed strongly, while the base business declined. The very large orders with a value above SEK 50 million were on about the same level as in the second quarter. Geographically, most regions recorded growth – the exception being North America. The unchanged order level in **Energy & Process** reflected a continued low activity level in the oil and gas industry. A contraction upstream was more than compensated by a good development in the midstream business. In a climate with continued limitations on capex spending for pure capacity-related investments, customers prioritize efficiency investments and general upgrades. Downstream, the market unit Petrochemicals saw a strong recovery, driven by Europe and Asia. The market unit Inorganics, Metals & Paper also developed favourably. The market units Refinery and Power, however, were below the second quarter. The base business declined for the segment as a whole, mirroring the prevailing uncertainty in the oil and gas sector as a whole. The **Food & Life Science** segment saw a strong order increase compared to the previous quarter, boosted by large capacity-related brewery and vegetable oil orders from emerging markets. North America and Europe, however, declined. Order intake in the **Water & Waste Treatment** segment declined in the quarter, primarily in North America. The **Service** segment was unchanged. Demand from the whole oil and gas chain was slightly up, driven by activity in the up- and midstream sectors, while Water & Waste Treatment noted a somewhat weaker development.

In the **fourth quarter** the division saw a slight decline in order intake compared to the third quarter. The Energy & Process segment was somewhat weaker. Water & Waste Treatment showed strong growth, while both Food & Life Science and Service were unchanged. Geographically, Europe, Asia as well as Latin America saw a slight contraction, while North America grew thanks to large orders. **Energy & Process** declined amid a continued cautious sentiment in the industries related to the hydrocarbon chain. The segment's base business was unchanged, supported by market unit Inorganics, Metals & Paper. A continued drop in the oil price had a negative impact on the drilling-related activities in the quarter, while the larger midstream part only saw a very small contraction. Refinery declined due to a non-repeat large order, while Petrochemicals remained on the same level as in the third quarter. Meanwhile, market unit Power showed a strong development. There was a mixed picture in the overall unchanged **Food & Life Science** segment. The segment had strong growth in Protein and Brewery, the latter due to a very large order in Latin America, whereas the vegetable oil and food-related businesses declined. The base business development was very favourable, benefitting most market units. Order intake in the **Water & Waste Treatment** segment showed strong growth in the quarter compared to the previous quarter, primarily driven by North America. The **Service** segment was unchanged. Demand from up- and midstream declined, but downstream activity was strong. Water & Waste Treatment also noted a strong development while Food & Life Science was unchanged.

Operating income
(excluding comparison distortion items)
The decrease in operating income during 2015 compared to last year is mainly explained by a negative price/mix variation, partly mitigated by a higher sales volume and lower sales and administration costs as well as positive currency effects.

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 2015 has been as follows:

Order intake for the Marine & Diesel division decreased somewhat in the **first quarter** compared to the fourth quarter 2014, this including considerable revaluations of the order backlog both in the fourth and first quarter. The underlying order intake was somewhat higher due to two large offshore orders, mitigated by lower demand for exhaust gas cleaning systems and marine cargo pumping systems. The **Marine & Diesel Equipment** segment saw a slight increase in order intake from the previous quarter, as increased demand for environmental solutions offset the lower demand from equipment going into new ships. Equipment for diesel power plants remained on about the same level as in the fourth quarter. The **Marine & Offshore Systems** segment saw declining order intake, due to lower demand for exhaust gas cleaning

systems as well as for boilers going into offshore applications. Demand for marine boilers was, however, higher than in the previous quarter. **Marine & Offshore Pumping Systems** saw an unchanged level of order intake in the first quarter compared to the fourth, as fewer new marine orders were offset by two large offshore orders. **Service** had a lower order intake than in the previous quarter due to lower activity for repair and upgrading.

Order intake for the Marine & Diesel division decreased in the **second quarter** compared to the first, mainly as a result of a decline in the Marine & Offshore Pumping Systems segment. The **Marine & Diesel Equipment** segment reported an increase in order intake compared to the previous quarter, lifted by increased demand from the retrofit market for equipment for ballast water treatment. Demand for equipment going into new ships remained at the same level as the previous quarter, whereas equipment for diesel power plants declined somewhat. The **Marine & Offshore Systems** segment saw order intake decline slightly, mainly due to lower demand for exhaust gas cleaning systems as well as inert gas systems. The decline for gas systems was partly offset by higher demand for boilers going into offshore applications while demand for marine boilers remained on the same level as in the previous quarter. **Marine & Offshore Pumping Systems** saw a lower level of demand in the second quarter compared to the first, mainly due to fewer new marine orders being booked in the wake of lower yard contracting earlier this year. In addition, the segment only booked one large offshore order in the quarter compared to two in the previous. Furthermore, the numbers reported in the previous quarter were bolstered by FX revaluation effects. **Service** declined somewhat compared to the previous quarter due to lower activity for parts sales.

Order intake for the Marine & Diesel division decreased in the **third quarter** compared to the second, reflecting lower demand among customers in marine, offshore and diesel power. The order intake for the **Marine & Diesel Equipment** segment declined from the previous quarter, affected by lower ship contracting earlier in the year and also less of demand for diesel power plants. Demand for environmental solutions also declined, as a large frame agreement for PureBallast resulted in several orders in the second quarter that were not repeated in the third. The **Marine & Offshore Systems** segment recorded declining order intake for systems going into new as well as existing ships. The decline was partly offset by a large offshore order for boilers. **Marine & Offshore Pumping Systems** reported an increased order intake, driven by a revaluation of the backlog due to a stronger dollar. Excluding that revaluation, the segment reported a lower order intake as growth in the marine pumping business could not compensate for a non-repeat in the offshore business. **Service** reported an increase in order intake compared to the previous quarter driven by both higher activity for parts as well as an increase in service for pumping systems.

Order intake for the Marine & Diesel division increased in the **fourth quarter** compared to the third, explained by higher demand for both capital sales and service. The **Marine & Diesel Equipment** segment saw a decline in order intake compared to the previous quarter amid lower demand for equipment going into new ships. The drop in marine orders was only partly offset by increased demand for equipment for diesel power plants. The demand for environmental solutions was unchanged. The **Marine & Offshore Systems** segment recorded higher order intake for systems for new ships due to a favourable mix among vessels being ordered. The demand for offshore systems dropped due to a non-repeat of a large order, booked in the previous quarter. **Marine & Offshore Pumping Systems** saw considerably higher demand for marine as well as offshore applications. Higher yard contracting of chemical tankers and product tankers during the latter part of 2015 resulted in increased order intake. The very high order intake for tankers is explained by new requirements on ships as of yearend, which has resulted in advanced orders. In addition, two large offshore orders were booked. **Service** had a higher order intake than the previous quarter due to higher activity for parts sales as well as service for pumping systems.

Operating income
(excluding comparison distortion items)
The increase in operating income during 2015 compared to last year is mainly explained by a higher sales volume mainly due to the acquisition of Frank Mohn, partly mitigated by higher costs for sales and administration and higher amortisations on step-up values related to the acquisition of Frank Mohn.

Marine & Diesel division

Consolidated

SEK millions	2015	2014
Orders received	13,831	12,522
Order backlog*	11,715	12,282
Net sales	14,735	10,870
Operating income**	2,999	2,019
Operating margin	20.4%	18.6%
Depreciation and amortisation	806	591
Investments	131	84
Assets*	22,905	25,299
Liabilities*	4,966	4,132
Number of employees*	3,176	3,127

* 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
2015/2014	20.6	-13.7	6.9	23.6	7.7	31.3
2014/2013	56.6	23.2	79.8	51.8	10.6	62.4

OPERATIONS & OTHER

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

Operations & Other

Consolidated

SEK millions	2015	2014
Orders received	0	0
Order backlog*	0	0
Net sales	0	0
Operating income**	-438	-529
Depreciation and amortisation	371	365
Investments	326	349
Assets*	5,797	5,906
Liabilities*	2,359	3,974
Number of employees*	6,447	6,617

* 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 somewhat in the first quarter compared to the previous quarter as the record-size order, taken in the fourth quarter, was not repeated. The base business* remained unchanged, as did Service. Energy & Process was affected by the non-repeat, but underlying the segment continued to perform well. Both Industrial Equipment and Sanitary saw a good development. From a regional perspective the Nordic, Iberica, Benelux and Mid Europe sales regions all developed positively, while France, UK and Adriatic declined due to fewer large contracts.

Order intake increased somewhat in the second quarter compared to the first, driven by good progress in regions Nordic, France, Adriatic and UK. Both the base business and large projects developed positively. Segments to do well included Industrial Equipment, OEM, Sanitary, Water & Waste Treatment and Marine & Diesel Equipment. Demand for Service was unchanged across the region compared with the previous quarter.

Order intake decreased in the third quarter compared with the second, affected by fewer large contracts and a decline in the base business. Energy & Process, Water & Waste Treatment and Marine & Offshore Systems developed well, while OEM, Sanitary, Industrial Equipment, Marine & Diesel Equipment and Food & Life Science all declined. From a country perspective Germany grew, while the rest declined.

Order intake increased in the fourth quarter compared with the third for large projects and base business alike. Among the segments, Marine & Diesel Equipment and Food & Life Science had a particularly positive development. Demand for Service was also positive across the region. From a regional perspective Nordic, Benelux, France and Iberica developed well while Mid Europe and Adriatic declined.

Central and Eastern Europe

Central & Eastern Europe saw order intake decline in the first quarter compared to the very strong fourth quarter of last year. This was mainly due to a drop in large orders in Russia, but also as a result of a decline in the base business in most parts of the region. The majority of the drop in Russia related to the project business within the Process Technology division, as the customers' difficulties in securing financing dampened the investment climate. On the positive side, South Eastern Europe reported growth compared to the fourth quarter and Turkey had a record quarter, with a strong base business across the divisions as well as two larger orders.

The region reported an increase in order intake in the second quarter compared to the first quarter, mainly driven by a good development for the base business as well as Service in both the Equipment and Process Technology division. Large orders remained on the same level as in the previous quarter. Russia saw a positive order development compared to the previous quarter. The food-related businesses in both Equipment and Process Technology reported strong growth amid increased focus in the country to strive for local food manufacturing. South East Europe also reported a strong second quarter, lifted by orders from Croatian shipyards as well as a strong development for the service business.

The region reported an increase in order intake in the third quarter compared to the second quarter, driven by a positive development in Russia and Turkey. Order intake in Russia grew following a very strong quarter for the service business in Marine & Diesel, as well as Process Technology. At the same time, the Energy & Process segment grew, recovering from the very low levels seen in both the first and second quarter. In Turkey, the positive development was driven by the Equipment division, as well as a strong service business in the Marine & Diesel and Process Technology divisions.

The region reported a decrease in order intake in the fourth quarter compared to the third, due to a low base business and fewer large orders. Service was the exception, reporting a very strong order intake across the three divisions. Within the region, Poland/Baltics and Central Europe reported growth compared to third quarter, while Russia saw a significant decrease amid a general slowdown in the economy.

North America

Order intake declined somewhat in the first quarter compared to the fourth, affected by a decline in OEM and a non-repeated large exhaust gas cleaning order in the U.S. Meanwhile, overall demand in Canada remained on the same level as in the previous quarter, for both the base business and large orders. Industrial Equipment, Energy & Process and Water & Waste Treatment did well in the region as a whole and Service also had a positive development.

Order intake declined in the second quarter compared with the first as there were fewer large projects, especially in the oil and gas related sector. The base business as well as the aftermarket were also affected, showing modest declines. The U.S. reported a good development for Industrial Equipment, OEM, Water & Waste Treatment, Food & Life Science and Marine & Diesel Equipment.

North America reported a decline in order intake in the third quarter compared to the second, due to fewer larger orders and a decline in the base business. All segments came in lower, except Service that reported an unchanged level. From a country perspective Canada reported growth, while the U.S. saw a decline, among other things due to a non-repeated larger order within Water & Waste Treatment.

The region reported order growth in the fourth quarter compared to the previous quarter amid a positive development for both large projects and the base business in the U.S. Industrial Equipment, Sanitary, Food & Life Science and Water & Waste Treatment all did well and Energy & Process saw a generally positive development across oil & gas, refinery and petrochemicals.

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

Latin America
Latin America reported a decrease in order intake in the first quarter compared to the fourth, impacted by Brazil which did not replicate the very high level of large orders seen in the previous quarter. In general, the political situation, combined with the ongoing corruption charges, is permeating the country. This has a dampening effect on the business climate in the country, impacting the three divisions. Still, one large order was booked in oil & gas and the Service business performed well both in the Equipment and Process Technology divisions. Argentina had a strong quarter thanks to a large vegetable oil order and good performance was also reported for region Venezuela, Colombia & Panama.

Latin America reported a decrease in order intake in the second quarter compared to the first, impacted by Argentina and Brazil. In Brazil the political situation and ongoing corruption investigations continue to dampen the business sentiment, which impacted all three divisions. At the same time region Colombia, Venezuela and Panama, did well, lifted by a good marine service business as well as some food projects. Mexico was boosted by a refinery order.

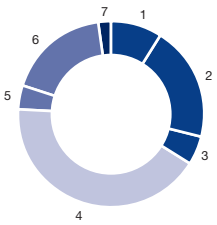
During the third quarter Latin America had a strong development of the order intake and recovered from a very weak second quarter, lifted by a good base business in Process Technology and Equipment, an increase in larger orders and a good service performance in all three divisions. While there was still no improvement of the general business climate in Brazil, the order intake grew. Larger orders in the food and process-related businesses, as well as a positive base business development contributed to the increase.

Order intake dropped in the fourth quarter compared to the third, mainly due to a weak development in Brazil with cancellations within oil & gas. On a positive note, Mexico reported a record strong quarter thanks to a very large brewery order and good order intake for Service in the Process Technology division.

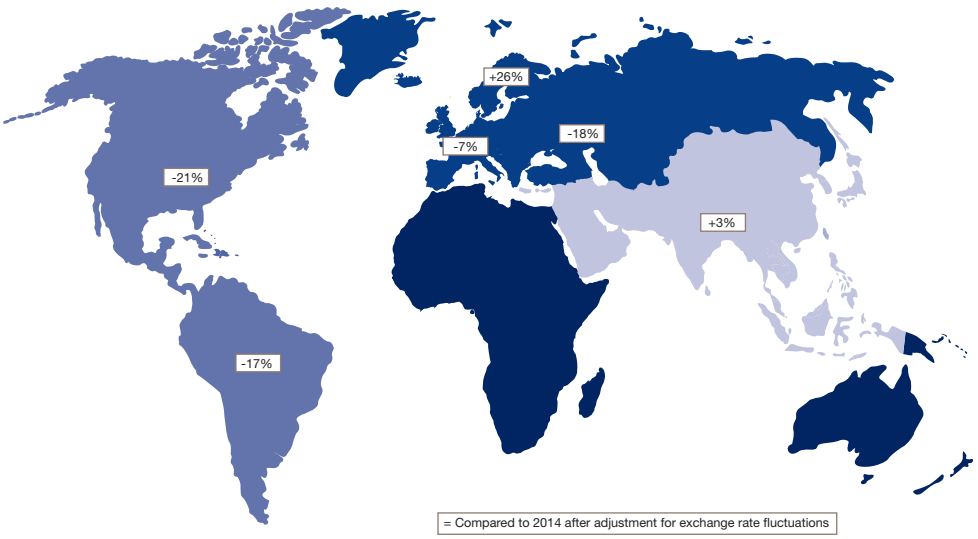
Asia
Order intake showed a weaker development during the first quarter of 2015 compared to the fourth quarter of 2014. The first quarter in Asia is traditionally slower, due to the Lunar New Year holidays. At the same time oil & gas, petrochemicals and refinery were all impacted by lower oil and gas prices. Also, a large refinery order booked in the previous quarter was not repeated. Consequently, the Process Technology division showed a weaker development. Meanwhile, the Marine & Diesel division benefited from new-building contracts for LNG carriers at Korean shipyards. While China was impacted by the New Year holidays as well as a generally slower business climate, leading to a drop in large orders, the

Information about geographical areas

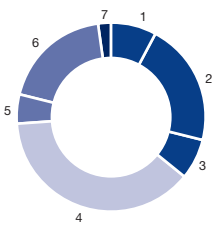
Orders received 2015



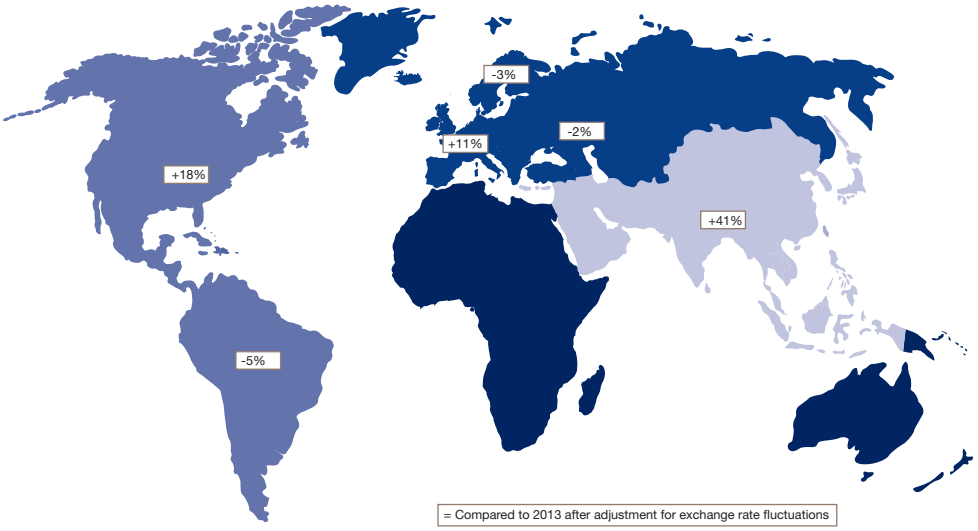
1	Nordic	9%
2	Western Europe	20%
3	Central & Eastern Europe	5%
4	Asia	42%
5	Latin America	4%
6	North America	18%
7	Other	2%



Orders received 2014



1	Nordic	8%
2	Western Europe	21%
3	Central & Eastern Europe	7%
4	Asia	38%
5	Latin America	5%
6	North America	19%
7	Other	2%



base business was unchanged from the previous quarter. South Korea also came in behind the previous quarter, affected by a slower inflow of large orders. Still, the country's Marine & Diesel division was lifted by a good demand for equipment going into new ships such as LNG. Japan showed the best country performance, partly as a result of strong Service growth in the Process Technology and Marine & Diesel divisions, partly due to good demand for equipment going into new ships. The Middle East was affected by lower demand in the Process Technology division at the same time as Service on the other hand was doing very well across the three divisions.

Order intake showed a weaker development during the second quarter compared to the first, mainly as a result of a decline within the Marine & Offshore Pumping Systems segment. Looking at the region and excluding that segment, order intake was up, both for new equipment and service. In part this was a result of a catch-up from the previous quarter. The service business recorded its best quarter ever, with positive contribution from all divisions, after a period when many customers limited service and maintenance. The Equipment and Process Technology divisions both grew, benefiting from good growth in the base as well as the project business. The best performance was seen in Industrial Equipment, which booked a large district heating order in China. The Sanitary and OEM segments also reported a positive development. The oil and gas up- and midstream business in Process Technology declined in the quarter, while the downstream refinery and petrochemical business recorded good growth in both the base and project business. Marine & Diesel declined, affected by Marine & Offshore Pumping Systems. The segment saw a lower level of demand in the quarter compared to the previous, mainly due to lower yard contracting earlier in the year. The best country performances were reported from South East Asia, where the food technology and service business showed a strong development. China saw some pent-up demand materialize in the second quarter, leading to growth across all capital sales segments as well as most service segments. Overall, however, customers still very much remained in a wait-and-see mode. South Korea declined somewhat, impacted by the development for Marine & Offshore Pumping Systems.

Order intake showed a positive development during the third quarter, lifted by growth in China, India, Japan and parts of South East Asia. The best performance was reported in the Process Technology division, with large orders concerning vegetable oil in China as well as brewery in India. The order intake for market units Oil & Gas and Petrochemicals were also up compared to the weak levels seen in the second quarter. The Marine & Diesel division grew somewhat as the marine business in the Marine & Offshore Pumping Systems segment continued to see a positive impact from a beneficial ship contracting mix (high proportion chemical and product tankers) and the revaluation of the order backlog. The Equipment division showed a decline as a large district heating order in the second quarter was not repeated. Meanwhile, the Sanitary and OEM businesses both did well. Sanitary was lifted by improved demand in the food-related businesses in China and South East Asia, while OEM benefitted from an increase in construction-related demand in Japan. China grew somewhat compared to the previous quarter. Partly this was a result of a positive development in the land-based business, where particularly the food-related business did well. Service in China also showed good growth across all three service segments when compared to the previous quarter.

Order intake showed a very positive development during the fourth quarter compared to the third. This was due to a very strong demand for Framo pumping systems in China, South Korea and Japan, following an increase in contracting of product and chemical carriers during the second half of 2015. The capital sales base business in the region had a positive development, whilst Service was on the same level as in the third quarter. Excluding pumping systems, order intake in the region was on the same level as in the previous quarter. Energy & Process had the strongest performance, lifted by a large petrochemical order in South Korea. The segment also benefited from some larger orders in Thailand and China for petrochemical and nuclear applications. The Marine & Offshore Systems segment also performed well in the quarter, with a waste heat recovery system order for eleven mega container ships in South Korea. The segment also saw good demand in Japan, for inert gas systems going into LNG vessels, as well as in China for marine boilers going into product carriers. The best country performance was reported for South Korea and Japan, the latter lifted not only by marine orders but by a broad-based positive development for the Equipment and Process Technology base business. China declined compared to the previous quarter as a large vegetable oil order in the third quarter was not repeated. Overall demand was mixed, with customers still very much in a wait-and-see mode. Nevertheless, Service was flat over the previous quarter, whereas the base business in the Process Technology division showed a strong development.

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 2015 decided to implement step five 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 2015 to implement step six of this cash-based long term incentive programme for the period January 1, 2016 – December 31, 2018. 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 756 (790) million, corresponding to 1.9 (2.3) percent of net sales. Excluding currency effects and acquisition of businesses, the costs for research and development have decreased by 8.2 percent compared to last year. The decrease is explained by the earlier decided efficiency programme.

Personnel

The parent company does not have any employees.

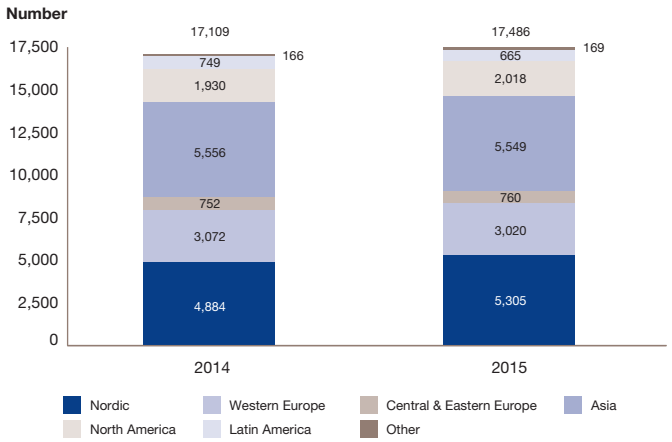
The Group has on average had 17,486 (17,109) employees. At the end of December 2015 the Group had 17,417 (17,753) employees. The employee turnover rate for 2015 is 8.6 (7.5) percent and mainly relates to employees within manufacturing units, service and repair workshops and warehouse and logistical units.

Alfa Laval has the ambition to develop the employees on all levels within the Group. Part of this is made through local training and development efforts in the different factories and sales companies around the world, 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

Employees

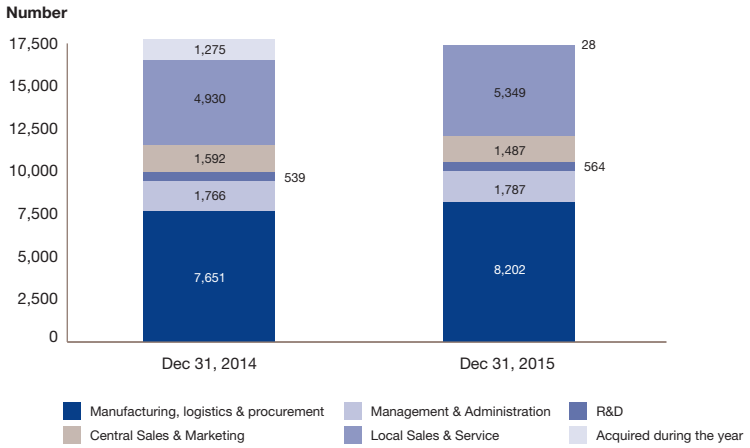
The distribution of the number of employees by region is:

Average number of employees – by region



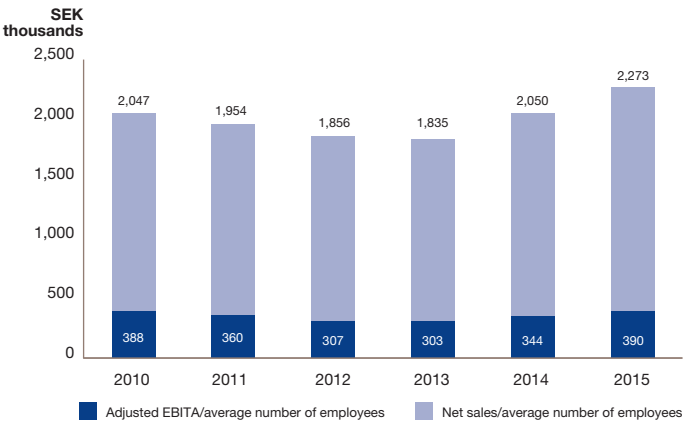
The distribution of the number of employees by personnel category at year end is:

Employees – by category



The productivity by employee has developed as follows:

Employees – Productivity development



The whole period 2010-2013 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 2014 and 2015 has been affected by the weakening of the Swedish krona and the acquisition of Frank Mohn.

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).

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 2015 29 (28) production sites with ISO 14001 certification accounted for about 92 (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, 2015, named as a co-defendant in a total of 769 asbestos-related lawsuits with a total of approximately 770 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 1,051 (1,659) million, out of which dividends from subsidiaries were SEK 1,070 (1,630) million, net interests SEK 0 (33) million, realised and unrealised exchange rate gains and losses SEK -8 (10) 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 2 (-1) million. Change of tax allocation reserve has been made with SEK 156 (-65) million. Group contributions amount to SEK 59 (947) million, Tax on this year's result amount to SEK -46 (-205) million. Net income for the year was SEK 1,220 (2,336) million.

Unrestricted equity for the parent company
The unrestricted equity of Alfa Laval AB (publ) was SEK 9,557 (10,015) million.

Proposed disposition of earnings
The Board of Directors propose a dividend of SEK 4.25 (4.00) per share corresponding to SEK 1,783 (1,678) million and that the remaining income available for distribution in Alfa Laval AB (publ) of SEK 7,774 (8,337) million be carried forward, see page 134.

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.

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 25, 2016.

Outlook for the first quarter
In the fourth quarter and full year 2015 report issued on February 2, 2016 the President and Chief Executive Officer Lars Renström stated:

"We expect that demand during the first quarter 2016 will be somewhat lower than in the fourth quarter, excluding a substantially lower demand for pumping systems."

Earlier published outlook (October 27, 2015): "We expect that demand during the fourth quarter 2015 will be in line with or somewhat higher than in the third quarter."

Date for the next financial reports during 2016
Alfa Laval will publish interim reports during 2016 at the following dates:

Interim report for the first quarter	April 25
Interim report for the second quarter	July 18
Interim report for the third quarter	October 25

Consolidated cash flows

Consolidated cash flows

SEK millions	*Note*	2015	2014
Operating activities			
Operating income		5,717	4,667
Adjustment for depreciation and amortisation		1,761	1,469
Adjustment for other non-cash items		-231	-83
		7,247	6,053
Taxes paid		-1,577	-1,418
		5,670	4,635
Changes in working capital:			
Increase(-)/decrease(+) of receivables		426	-282
Increase(-)/decrease(+) of inventories		347	-99
Increase(+)/decrease(-) of liabilities		-438	596
Increase(+)/decrease(-) of provisions		-155	273
Increase(-)/decrease(+) in working capital		**180**	**488**
		5,850	**5,123**
Investing activities			
Investments in fixed assets (Capex)		-674	-603
Divestment of fixed assets		25	76
Acquisition of businesses	*16*	-73	-14,443
Divestment of businesses	*25*	12	–
		-710	**-14,970**
Financing activities			
Received interests and dividends		124	114
Paid interests		-316	-281
Realised financial exchange gains		157	94
Realised financial exchange losses		-288	-360
Dividends to owners of the parent		-1,678	-1,573
Dividends to non-controlling interests		-18	-5
Increase(-) of financial assets		-311	0
Decrease(+) of financial assets		0	54
Increase of loans		3,400	17,634
Amortisation of loans		-6,299	-5,427
		-5,229	**10,250**
Cash flow for the year		**-89**	**403**
Cash and cash equivalents at the beginning of the year		2,013	1,446
Translation difference in cash and cash equivalents		-48	164
Cash and cash equivalents at the end of the year	*25*	**1,876**	**2,013**
Free cash flow per share (SEK) *		12.25	-23.48
Capex in relation to 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 increase in cash flows from operating activities in 2015 is explained by higher operating income before depreciation and amortisation, mitigated by a smaller increase in working capital and higher 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 5,140 (-9,847) million during 2015. Out of this, acquisitions of businesses were SEK -73 (-14,443) million whereas divestments generated cash of SEK 37 (76) 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 180 (488) million during 2015.

Investments
Investments in property, plant and equipment amounted to SEK 674 (603) million during 2015. 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 gasketted heat exchangers. One larger investment has been made for a new type of welded heat exchangers in Fontanil in France. The restructuring of the manufacturing of air heat exchangers in Europe has been implemented and has meant larger investments in Krakow in Poland.

High speed separators
Investments in machine capacity for separator disks have been finalised during the year in Eskilstuna in Sweden. Modernisation of machining equipment for separators has been made in Krakow in Poland.

Fluid handling products
During 2015 investments in productivity and capacity increasing equipment have been made relating to fluid handling products in Kolding in Denmark as well as in Kunshan in China.

Depreciations
Depreciation, excluding allocated step-up values, amounted to SEK 667 (565) 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 12.25 (-23.48).

Consolidated comprehensive income

Consolidated comprehensive income

SEK millions	*Note*	2015	2014
Net sales	*1, 2, 3, 4*	39,746	35,067
Cost of goods sold	*9*	-26,707	-23,347
Gross profit		13,039	11,720
Sales costs	*5, 6, 9*	-4,107	-3,862
Administration costs	*5, 6, 7, 9*	-1,813	-1,738
Research and development costs	*9*	-756	-790
Other operating income *	*8*	495	554
Other operating costs *	*8, 9*	-1,149	-1,224
Share of result in joint ventures	*33*	8	7
Operating income		5,717	4,667
Dividends and changes in fair value	*10*	33	30
Interest income and financial exchange rate gains	*11*	404	420
Interest expense and financial exchange rate losses	*11*	-710	-1,000
Result after financial items		5,444	4,117
Tax on this year's result	*15*	-1,541	-1,125
Other taxes	*15*	-42	-24
Net income for the year		**3,861**	**2,968**
Other comprehensive income:			
Items that will subsequently be reclassified to net income			
Cash flow hedges		-195	-621
Market valuation of external shares		2	0
Translation difference		-1,056	439
Deferred tax on other comprehensive income	*15*	20	220
Sum		-1,229	38
Items that will subsequently not be reclassified to net income			
Revaluations of defined benefit obligations		332	-476
Deferred tax on other comprehensive income	*15*	-47	71
Sum		285	-405
Comprehensive income for the year		**2,917**	**2,601**
Net income attributable to:			
Owners of the parent		3,839	2,946
Non-controlling interests		22	22
Earnings per share (SEK)		9.15	7.02
Average number of shares		419,456,315	419,456,315
Comprehensive income attributable to:			
Owners of the parent		2,903	2,563
Non-controlling interests		14	38

* The line has been affected by comparison distortion items, see specification in Note 8.

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	2015	2014
Net sales	39,746	35,067
Adjusted gross profit *	14,133	12,624
- in % of net sales	***35.6***	***36.0***
Expenses **	-6,655	-6,168
- in % of net sales	*16.7*	*17.6*
Adjusted EBITDA	***7,478***	***6,456***
- in % of net sales	*18.8*	*18.4*
Depreciation	-667	-565
Adjusted EBITA	**6,811**	**5,891**
- in % of net sales	***17.1***	***16.8***
Amortisation of step up values	-1,094	-904
Comparison distortion items	–	-320
Operating income	5,717	4,667

* Excluding amortisation of step up values. ** Excluding comparison distortion items.

The gross margin has decreased by 0.4 percentage units between 2014 and 2015. The decrease is explained by a negative price/mix effect, which partly has been compensated by positive exchange rate changes.

Sales and administration expenses amounted to SEK 5,920 (5,600) million. Excluding currency effects and acquisition of businesses, sales and administration expenses were 1.1 percent lower than last year.

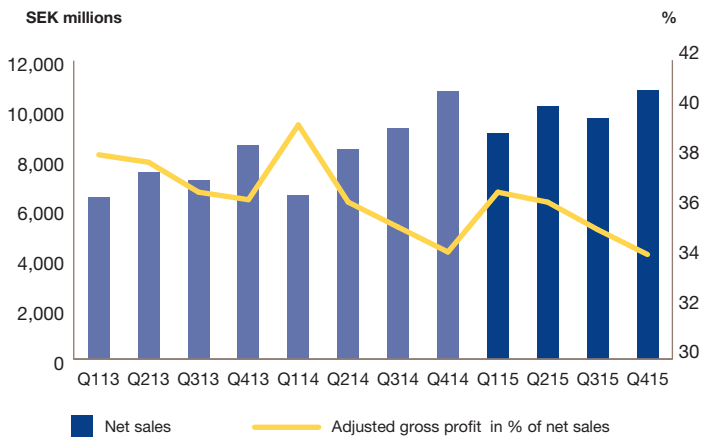
The costs for research and development have amounted to SEK 756 (790) million, corresponding to 1.9 (2.3) percent of net sales. Excluding currency effects and acquisition of businesses, the costs for research and development have decreased by 8.2 percent compared to last year. The decrease is explained by the earlier decided efficiency programme.

The net income attributable to the owners of the parent, excluding depreciation of step-up values and the corresponding tax, is SEK 11.02 (8.56) per share.

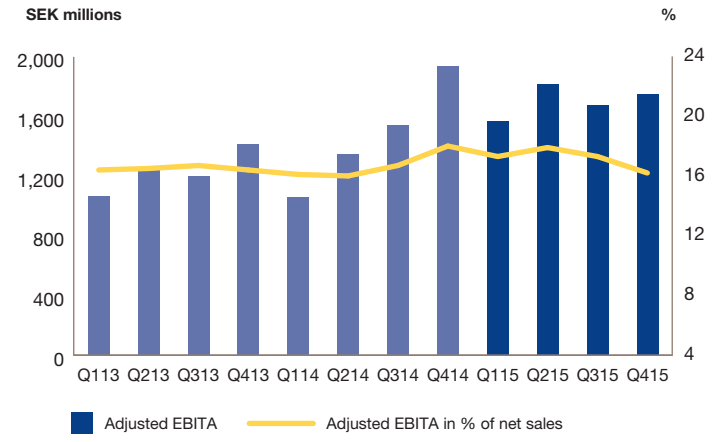
Compared with last year Alfa Laval has been affected during 2015 by exchange rate differences, both through translation differences and through the net exposure when trading in foreign currencies. The effect on adjusted EBITA has been calculated to totally about SEK 450 (70) million for 2015 compared 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 profit margin



Adjusted EBITA



The operating income has been affected by comparison distortion items of SEK - (-320) million, which are specified below. In the consolidated comprehensive income statement these are reported gross as a part of other operating income and other operating costs, see summary in Note 8.

The comparison distortion cost during 2014 consisted of two components. SEK -60 million related to one time acquisition costs in connection with the acquisition of Frank Mohn AS. The remaining SEK -260 million related to a cost reduction and restructuring programme.

The financial net has amounted to SEK -177 (-184) million, excluding realised and unrealised exchange rate losses and gains. The main elements of costs were interest on the debt to the banking syndicate and on the bridge loan of SEK -15 (-56) million, interest on the bilateral term loans of SEK -77 (-79) million, interest on the private placement of SEK -9 (-11) million, interest on the commercial papers of SEK -1 (-5) million, interest on the corporate bonds of SEK -83 (-27) million and a net of dividends and other interest income and interest costs of SEK 8 (-6) million.

The net of realised and unrealised exchange rate differences has amounted to SEK -96 (-366) million, out of which SEK -440 million of the figure for 2014 related to realised and unrealised exchange rate losses in Frank Mohn on currency forward contracts that were not possible to link directly to the operational exposure of the business.

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

Fair value changes in cash flow hedges

Consolidated

SEK millions	2015	2014
Opening balance	-498	123
Booked into other comprehensive income during the year	-23	-617
Reversed from other comprehensive income due to inefficiency:		
booked against cost of goods sold	-15	-2
Reversed from other comprehensive income:		
booked against cost of goods sold	-166	-1
booked against interest income/interest costs	9	-1
Closing balance	**-693**	**-498**
Change reported against other comprehensive income	-195	-621

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 % and the EUR was depreciated by 4.0 %	-1,056	-1,832	301

* 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*	2015	2014
Non-current assets			
Intangible assets	*16, 17*		
Patents and unpatented know-how		2,467	2,932
Trademarks		4,048	4,920
Licenses, renting rights and similar rights		41	46
Goodwill		19,498	20,408
		26,054	28,306
Property, plant and equipment	*16, 18*		
Real estate		2,447	2,602
Machinery and other technical installations		1,578	1,597
Equipment, tools and installations		604	601
Construction in progress and advances to suppliers concerning property, plant and equipment		144	204
		4,773	5,004
Other non-current assets			
Other long-term securities	*13, 14, 19*	28	30
Pension assets	*26*	4	6
Derivative assets	*13, 14*	7	70
Deferred tax assets	*15*	1,765	1,986
		1,804	2,092
Total non-current assets		**32,631**	**35,402**
Current assets			
Inventories	*20*	7,405	7,883
Assets held for sale			
Real estate	*18*	9	6
Current receivables			
Accounts receivable	*13, 21*	5,796	6,684
Current tax assets		1,164	1,357
Other receivables	*13, 22*	1,558	1,393
Prepaid costs and accrued income	*13, 23*	279	245
Derivative assets	*13, 14*	158	106
		8,955	9,785
Current deposits			
Other current deposits	*13, 24*	1,021	697
Cash and cash equivalents	*13, 25*	1,876	2,013
Total current assets		**19,266**	**20,384**
TOTAL ASSETS		**51,897**	**55,786**

Consolidated financial position, continued

EQUITY AND LIABILITIES SEK millions	Note	2015	2014
Equity			
Attributable to owners of the parent			
Share capital		1,117	1,117
Other contributed capital		2,770	2,770
Other reserves		-3,268	-2,332
Retained earnings		17,683	15,522
		18,302	17,077
Attributable to non-controlling interests	*12*	121	125
Total equity		**18,423**	**17,202**
Non-current liabilities			
Liabilities to credit institutions etc	*13, 28*	12,484	16,454
Provisions for pensions and similar commitments	*26*	1,931	2,221
Provision for deferred tax	*15*	2,925	3,074
Other provisions	*27*	418	543
Derivative liabilities	*13, 14*	103	117
Total non-current liabilities		**17,861**	**22,409**
Current liabilities			
Liabilities to credit institutions etc	*13, 28*	2,019	1,251
Advances from customers		3,136	3,796
Accounts payable	*13*	2,492	2,706
Notes payable	*13*	172	198
Current tax liabilities		1,214	1,399
Other liabilities	*13, 29*	1,973	2,003
Other provisions	*27*	1,798	1,862
Accrued costs and prepaid income	*13, 30*	2,237	2,105
Derivative liabilities	*13, 14*	572	855
Total current liabilities		**15,613**	**16,175**
Total liabilities		**33,474**	**38,584**
TOTAL EQUITY AND LIABILITIES		**51,897**	**55,786**
PLEDGED ASSETS AND CONTINGENT LIABILITIES			
Pledged assets	*31*	11	18
Contingent liabilities	*31*	2,490	2,430

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 31,512 (27,259) million during the year.

Return on capital employed
The return on average capital employed including goodwill and step-up values amounted to 21.6 (20.4) 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 1.3 (1.3) times for the year.

Return on equity
Net income in relation to the average equity was 21.7 (17.6) percent during the year.

Solidity
The solidity, that is the equity in relation to total assets, was 35.5 (30.8) percent at the end of the year.

Net debt
The net debt was SEK 11,688 (15,068) million at the end of the year.

Net debt to EBITDA
Net debt in relation to EBITDA was 1.56 (2.46) times at the end of December.

Debt ratio
The debt ratio, that is the net debt in relation to equity, was 0.63 (0.88) 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, 2013	**1,117**	**2,770**	**91**	**0**	**-1,183**	**-857**	**14,149**	**16,087**	**-13**	**88**	**75**	**16,162**
2014												
Comprehensive income												
Net income	–	–	–	–	–	–	2,946	2,946	–	22	22	2,968
Other comprehensive income	–	–	-484	0	506	-405	–	-383	16	–	16	-367
Comprehensive income	–	–	-484	0	506	-405	2,946	2,563	16	22	38	2,601
Transactions with shareholders												
Non-controlling interests in acquired companies	–	–	–	–	–	–	–	–	–	17	17	17
Dividends to owners of the parent	–	–	–	–	–	–	-1,573	-1,573	–	–	–	-1,573
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	-5	-5	-5
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**

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 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, 2015 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 26.1 (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 private placement, 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	2015	2014
Cash flow from operating activities		
Operating income	-11	-14
Taxes paid	-139	-212
	-150	-226
Changes in working capital:		
Increase(-)/decrease(+) of receivables	827	-1,733
Increase(+)/decrease(-) of liabilities	-17	14
Increase(-)/decrease(+) in working capital	**810**	**-1,719**
	660	**-1,945**
Cash flow from investing activities		
Investment in subsidiaries	–	–
	–	**–**
Cash flow from financing activities		
Received interests	1	39
Paid interests	-1	-5
Received dividends from subsidiaries	1,070	1,630
Paid dividends	-1,678	-1,573
Received group contribution	1,061	936
Paid group contribution	-114	-81
Increase of loans	–	2,599
Amortisation of loans	-999	-1,600
	-660	**1,945**
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*	2015	2014
Administration costs		-13	-13
Other operating income		2	3
Other operating costs		0	-4
Operating income		-11	-14
Dividends from subsidiaries		1,070	1,630
Interest income and similar result items	*11*	7	51
Interest expenses and similar result items	*11*	-15	-8
Result after financial items		1,051	1,659
Change of tax allocation reserve		156	-65
Group contributions		59	947
Result before tax		1,266	2,541
Tax on this year's result		-46	-205
Net income for the year		**1,220**	**2,336**

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

Parent company financial position

Parent company financial position

SEK millions	*Note*	2015	2014
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		9,581	10,120
Current tax assets		140	47
Other receivables		3	4
Accrued income and prepaid costs		0	–
		9,724	10,171
Cash and cash equivalents		**–**	**–**
Total current assets		**9,724**	**10,171**
TOTAL ASSETS		**14,393**	**14,840**
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		8,337	7,679
Net income for the year		1,220	2,336
		9,557	10,015
Total equity		**11,944**	**12,402**
Untaxed reserves			
Tax allocation reserve, taxation 2010		–	224
Tax allocation reserve, taxation 2011		313	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	–
		1,145	1,301
Current liabilities			
Commercial papers		–	999
Liabilities to group companies		1,304	138
Accounts payable		0	0
		1,304	1,137
TOTAL EQUITY AND LIABILITIES		**14,393**	**14,840**
MEMORANDUM ITEMS			
Pledged assets and contingent liabilities			
PLEDGED ASSETS		None	None
CONTINGENT LIABILITIES (for subsidiaries):			
Performance guarantees		None	None
Other contingent liabilities		None	None

Changes in parent company equity

Changes in parent company equity

SEK millions	Share capital	Statutory reserve	Unrestricted equity	Total
As of December 31, 2013	**1,117**	**1,270**	**9,253**	**11,640**
2014				
Comprehensive income				
Net income	–	–	2,336	2,336
	–	–	2,336	2,336
Transactions with shareholders				
Dividends	–	–	-1,573	-1,573
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**

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 2015 the amendment to IAS 19 "Employee Benefits" has been implemented. The amendment relates 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 must be applied retroactively in accordance with IAS 8.

During 2014 IFRS 10 "Consolidated financial statements" was implemented. IFRS 10 replaced the part of IAS 27 "Consolidated and separate financial statements" that covered consolidation principles. The consolidation principles were not changed. The change was rather related to how an entity shall proceed to decide if a decisive influence is present and thus if an entity shall be consolidated. Control (decisive influence) is present when the investor 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.

An investor is a party that has a potential influence over an entity. 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 standard was to be applied retroactively in accordance with IAS 8, with certain modifications, that included exceptions from consolidation where this is impracticable.

During 2014 IFRS 11 "Joint arrangements" was implemented. Joint arrangements are defined as a contractual arrangement where two or more parties have a joint decisive influence. IFRS 11 replaced IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Ventures".

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 no longer allowed to be consolidated according to the proportional consolidation method, but instead the equity method must be used. 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.

The application of the equity method means that the net income before tax in the joint ventures will be booked into one line in other operating income and the corresponding tax on the tax line. The counter entry will be an increase or decrease of the value of 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. In the case of Alfa Laval, the operations in these companies are however presently fairly limited, why IFRS 11 at least initially will have limited impact on the financial statements of Alfa Laval and the disclosures in them.

The standard was to be applied retroactively with certain transitional provisions.

During 2014 IFRS 12 "Disclosures of interest in other entities" was implemented. Entities having interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities must disclose information about these in accordance with IFRS 12. 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.

The standard was to be applied retroactively in accordance with IAS 8.

During 2014 the amendments to IAS 32 "Financial Instruments: Presentation" were implemented. The amendment contained clarifications on the legal right to net and

items settled with a net amount. The standard was to be applied retroactively in accordance with IAS 8.

During 2014 IFRIC 21 "Levies" was implemented. IFRIC 21 is an interpretation that clarifies when a liability for levies is to be accounted for. 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. The interpretation 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 19,498 (20,408) 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 2,216 (2,405) million is reported as other provisions. This constitutes 4.3 (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, 2015 of 153 (143) 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 under a separate heading in the Board of Directors' report.

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 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 no longer allowed to be consolidated according to the proportional consolidation method, but instead the equity method must be used. 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.

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. 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 2015 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, 2016. Alfa Laval has chosen not to make any early adoption of any of these pronouncements.

IFRS 9

IFRS 9 "Financial Instruments: Recognition and Measurement" is the first step of a complete revision of the current standard IAS 39. 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. IFRS 9 has not yet been adopted by the European Union.

Alfa Laval's assessment is that IFRS 9 will mean a reallocation of the financial assets on fewer categories, but 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.

If 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 of 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 in 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 not yet been adopted by the European Union. 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 and the disclosures in them, since it does not mean any real change in the revenue recognition but only in how it is arrived at.

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, 2016.

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 2015 the managed capital was SEK 30,111 (32,270) 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

	Goal	Target standard	Target not set	Outcome 2015	Outcome 2014	Average over last 3 years	Average over last 5 years	Average over last 8 years
Invoicing growth per year *	≥8%			13.3%	17.7%	11.1%	12.2%	7.5%
Adjusted EBITA margin *	15%			17.1%	16.8%	16.8%	17.1%	18.0%
Return on capital employed	≥20%			21.6%	20.4%	22.8%	25.4%	31.5%
Net debt to EBITDA		≤2.0		1.56	2.46	1.5	1.2	0.8
Cash flow from operating activities including investments in fixed assets **		10%		13.0%	12.9%	12.8%	11.7%	13.0%
Investments **		2.0%		1.7%	1.7%	1.7%	1.8%	1.9%
Return on equity			X	21.7%	17.6%	19.1%	20.6%	24.3%
Solidity			X	35.5%	30.8%	37.5%	39.6%	41.3%
Debt ratio			X	0.63	0.88	0.56	0.44	0.30
Interest coverage ratio			X	22.3	18.2	20.9	22.9	24.0
Credit rating			X	BBB+	BBB+			

* Average over a business cycle ** in % of sales

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 private placement in the U.S. in 2006.
– 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 2015 Alfa Laval's sales to countries outside Sweden amounted to 97.8 (97.7) percent of total sales.

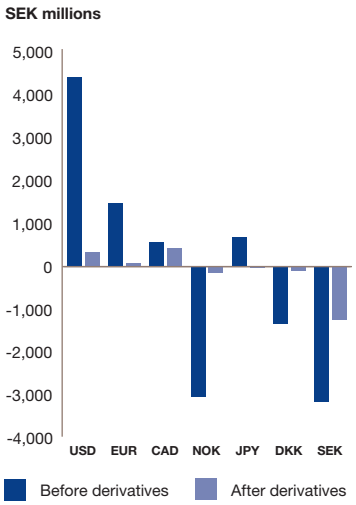
Alfa Laval's local sales companies normally sell in domestic currency to local end customers and have their local cost base in local currency. Exports from production and logistical centres to other Group companies are invoiced in the exporting companies' domestic currencies, except for Sweden, Denmark 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, 2015 in different currencies before and after derivatives for the coming 12 months amounts to:

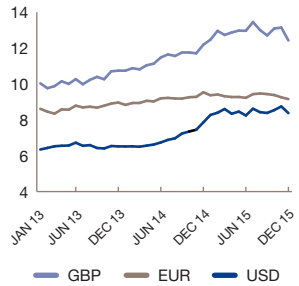
Net transaction exposure per currency at December 31, 2015 for the coming 12 months

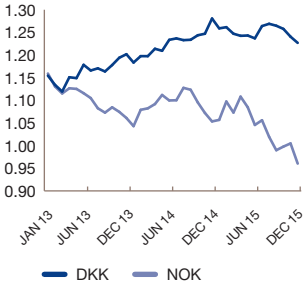


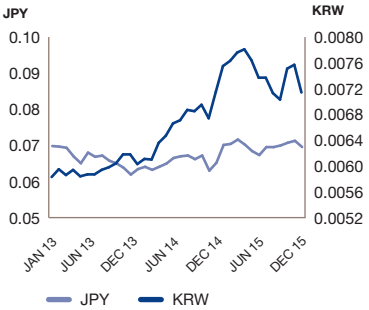
The bars for SEK, DKK and NOK are a reflection of the fact that a substantial part of the production within the Group is located in Sweden, Denmark and Norway with costs denominated in local currencies.

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 fluctuation







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	2015		2014	
Exchange rate change against SEK	+ 10%	- 10%	+ 10%	- 10%
USD	439	-439	468	-468
EUR	147	-147	123	-123
CAD	58	-58	56	-56
NOK	-303	303	-301	301
DKK	-134	134	-120	120
JPY	69	-69	57	-57
Other	61	-61	74	-74
Total	**337**	**-337**	**357**	**-357**

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

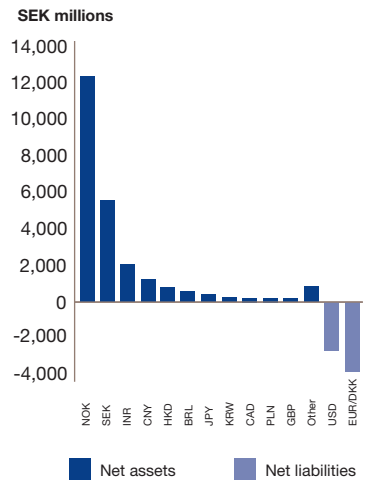
Consolidated

Millions	2015		2014	
	Original currency	SEK	Original currency	SEK
Outflows:				
USD	-451	-3,775	-752	-5,907
EUR	-152	-1,395	-163	-1,551
SEK	-904	-904	–	–
CAD	-7	-40	-49	-331
CHF	–	–	-6	-46
JPY	-15,783	-1,098	-16,978	-1,107
SGD	-16	-98	–	–
RUB	-29	-3	-201	-27
GBP	-1	-12	-3	-42
NZD	-3	-17	-1	-6
Other		-2		-11
Total		**-7,344**		**-9,028**
Inflows:				
SEK	–	–	1,426	1,426
DKK	831	1,020	408	523
NOK	5,911	5,676	6,035	6,357
CNY	160	206	–	–
SGD	–	–	9	52
AUD	22	134	17	109
Other		0		0
Total		**7,036**		**8,467**

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 301 (-1,033) 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.

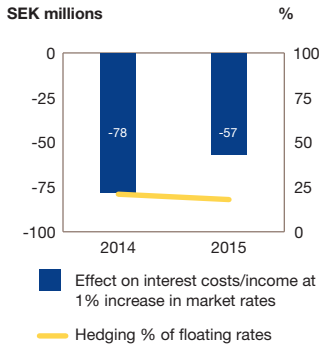
The financial policy states that the interest rate risk and duration are measured by each main currency. The minimum interest duration for the loans should be 10 months and the maximum interest duration should be 24–48 months depending on the currency the loan is raised in according to the policy.

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 18 (21) percent of the loans to fixed interest rate, with a duration of 10.0 (14.5) months.

The average interest and currency duration for all loans including derivatives is 28.4 (28.5) months at the end of 2015.

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 778 (540) 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.

In 2006 Alfa Laval made a private placement in the U.S. The offer was over-subscribed and was closed at USD 110 million, corresponding to SEK 921 million. The loan matures in April 2016.

Alfa Laval has a senior credit facility of EUR 400 million and USD 544 million, corresponding to SEK 8,217 million with a banking syndicate. At December 31, 2015 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 7,259 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.

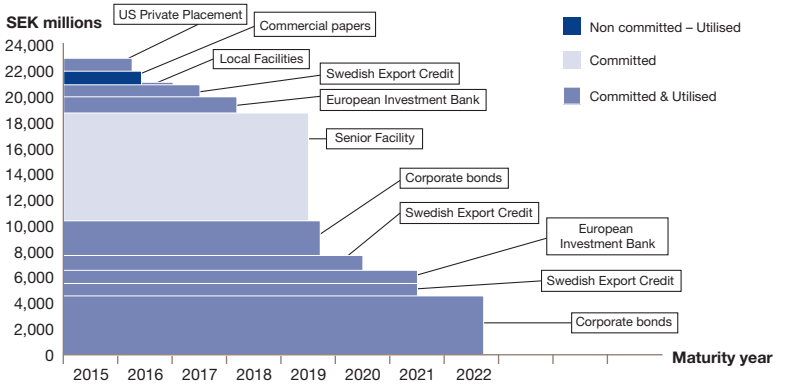
Alfa Laval has a bilateral term loan with Swedish Export Credit that is split on one loan of EUR 100 million that matures in June 2017 and one loan of EUR 100 million that matures in June 2021 as well as a loan of USD 136 million that matures in June 2020, corresponding to SEK 2,970 million in total.

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 2,240 million in total.

Alfa Laval has a commercial paper programme that amounts to SEK 2,000 million, out of which nominally SEK 1,000 million with 3–5 months duration was utilised at December 31, 2015.

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

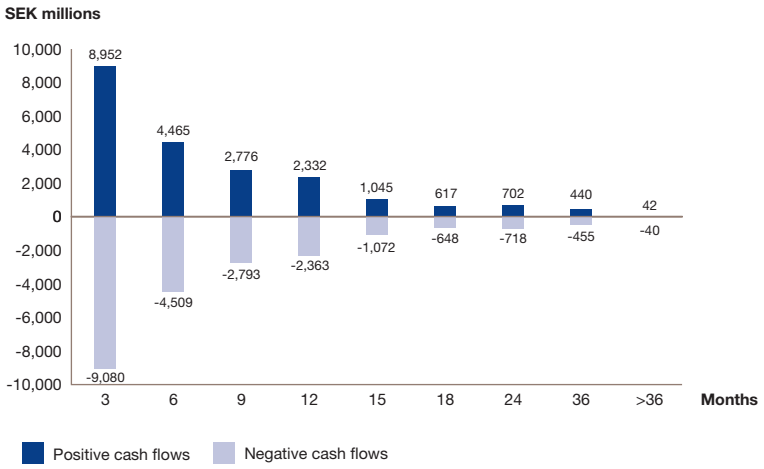
Financial instruments that potentially subject the Group to significant concentrations of credit risk consist principally of cash and cash equivalents, deposits and derivatives.

The Group maintains cash and cash equivalents and short and long-term 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.

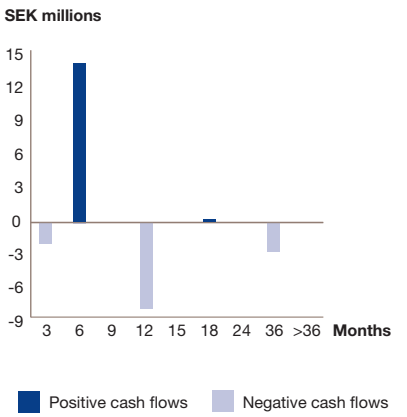
The Group is exposed to credit risk in the event of non-performance by counterparts to derivative instruments. The Group limits this exposure by diversifying among counterparts with high credit ratings and by limiting the volume of transactions with each counter party. Furthermore the Group has entered 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.

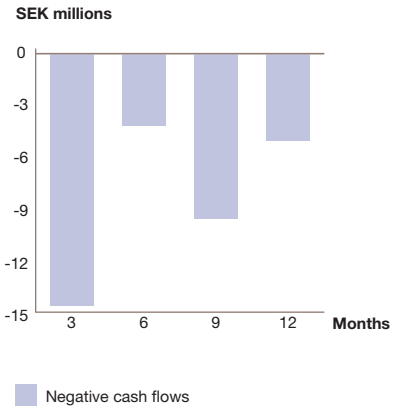
Maturity structure of currency derivatives



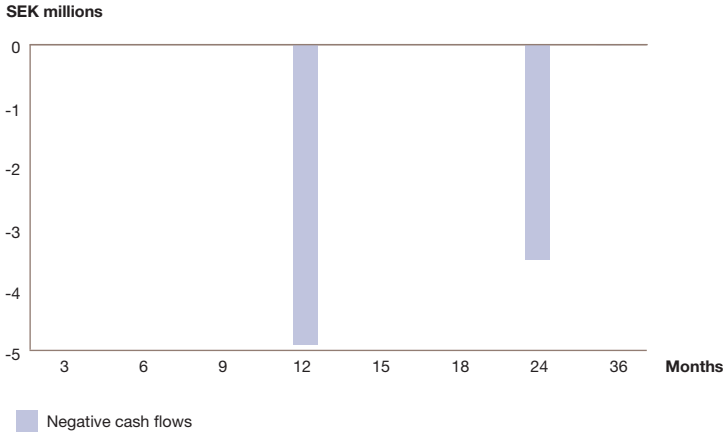
Maturity structure of interest derivatives



Maturity structure of metal derivatives



Maturity structure of electricity futures



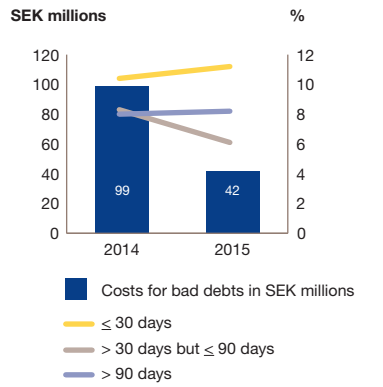
Operational risks

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.

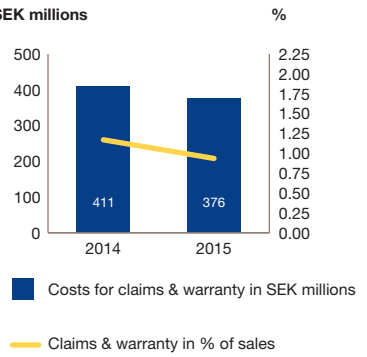
The Group's costs for bad debts and the overdues in percent of accounts receivable are presented in the following graph:

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 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 10 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.

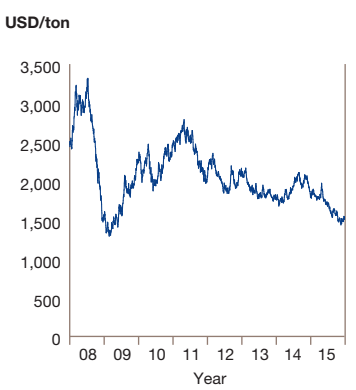
Prices of raw material
The Group depends on deliveries of stainless steel, carbon steel, copper and titanium etc. for the manufacture of products. The prices in some of these markets are volatile and the supply of titanium has occasionally been limited. There are a limited number of possible suppliers 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 has 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

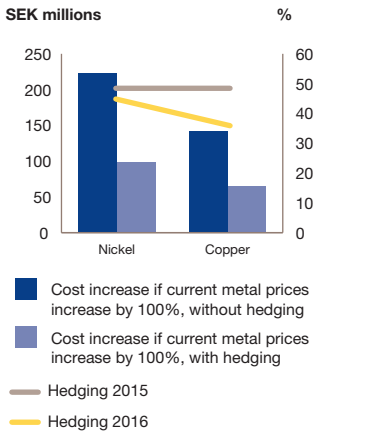
Copper

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 2015 and how much of the expected purchases during 2016 that were hedged at the end of 2015. The Group ceased to hedge the purchases of aluminium during 2014, since the exposure is low. The graph also presents to what extent the Group's costs for these purchases during 2016 would be affected if the prices would double from the current levels.

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 42.

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, 2015, named as a co-defendant in a total of 769 asbestos-related lawsuits with a total of approximately 770 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 Richmond, 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	2015	2014
Equipment	10,472	9,867
Process Technology	12,795	14,271
Marine & Diesel	13,831	12,522
Operations & Other	0	0
Total	**37,098**	**36,660**

Order backlog

Consolidated		
SEK millions	2015	2014
Equipment	1,637	1,571
Process Technology	7,226	8,440
Marine & Diesel	11,715	12,282
Operations & Other	0	0
Total	**20,578**	**22,293**

Net sales

Consolidated		
SEK millions	2015	2014
Equipment	10,500	9,787
Process Technology	14,511	14,410
Marine & Diesel	14,735	10,870
Operations & Other	0	0
Total	**39,746**	**35,067**

Operating income in management accounts

Consolidated		
SEK millions	2015	2014
Equipment	1,321	1,320
Process Technology	1,899	2,230
Marine & Diesel	2,999	2,019
Operations & Other	-438	-529
Total	5,781	5,040
Reconciliation with Group total:		
Comparison distortion items	–	-320
Consolidation adjustments *	-64	-53
Total operating income	5,717	4,667
Financial net	-273	-550
Result after financial items	**5,444**	**4,117**

* 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	2015	2014	2015	2014
Equipment	6,339	6,424	973	764
Process Technology	10,832	11,893	3,812	4,237
Marine & Diesel	22,905	25,299	4,966	4,132
Operations & Other	5,797	5,906	2,359	3,974
Subtotal	45,873	49,522	12,110	13,107
Corporate	6,024	6,264	21,364	25,477
Total	**51,897**	**55,786**	**33,474**	**38,584**

Corporate refers to items in the statement on financial position that are interest bearing or are related to taxes.

Investments

Consolidated		
SEK millions	2015	2014
Equipment	61	59
Process Technology	156	111
Marine & Diesel	131	84
Operations & Other	326	349
Total	**674**	**603**

Depreciation

Consolidated		
SEK millions	2015	2014
Equipment	218	188
Process Technology	366	325
Marine & Diesel	806	591
Operations & Other	371	365
Total	**1,761**	**1,469**

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

	2015 SEK millions	%	2014 SEK millions	%
To customers in:				
Sweden	864	2.2	820	2.3
Other EU	9,490	23.9	9,153	26.2
Other Europe	2,950	7.4	2,575	7.3
USA	6,725	16.9	5,446	15.5
Other North America	1,031	2.6	1,105	3.2
Latin America	1,826	4.6	2,205	6.3
Africa	337	0.8	364	1.0
China	4,879	12.3	3,838	10.9
South Korea	5,172	13.0	3,952	11.3
Other Asia	5,991	15.1	5,122	14.6
Oceania	481	1.2	487	1.4
Total	**39,746**	**100.0**	**35,067**	**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

	2015 SEK millions	%	2014 SEK millions	%
Sweden	1,337	4.1	1,440	4.1
Denmark	4,374	13.4	4,680	13.3
Other EU	3,992	12.2	4,216	11.9
Norway	12,986	39.8	14,747	41.7
Other Europe	166	0.5	194	0.5
USA	4,510	13.8	4,434	12.5
Other North America	123	0.4	122	0.3
Latin America	271	0.8	371	1.0
Africa	2	0.0	1	0.0
Asia	2,986	9.2	3,086	8.7
Oceania	87	0.3	89	0.3
Subtotal	30,834	94.5	33,380	94.3
Other long-term securities	28	0.1	30	0.1
Pension assets	4	0.0	6	0.0
Deferred tax asset	1,765	5.4	1,986	5.6
Total	**32,631**	**100.0**	**35,402**	**100.0**

Investments

Consolidated

	2015 SEK millions	%	2014 SEK millions	%
Sweden	63	9.4	122	20.3
France	99	14.6	58	9.6
Other EU	163	24.2	136	22.7
Norway	81	12.0	32	5.3
Other Europe	5	0.8	7	1.2
USA	101	15.0	66	10.9
Other North America	20	2.9	4	0.6
Latin America	10	1.5	14	2.4
Africa	1	0.1	1	0.1
China	67	10.0	102	16.9
Other Asia	58	8.7	55	9.1
Oceania	6	0.8	6	1.0
Total	**674**	**100.0**	**603**	**100.0**

Note 3. Information about products and services

Net sales by product/service

Consolidated

SEK millions	2015	2014
Own products within:		
Separation	7,886	7,222
Heat transfer	17,372	16,587
Fluid handling	9,866	6,933
Other	1,194	862
Associated products	1,786	1,915
Services	1,642	1,548
Total	**39,746**	**35,067**

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 4.2 (3.7) percent of net sales. See Note 32 for more information.

Note 5. Employees

Average number of employees - total

Consolidated

	Number of female employees		Total number of employees	
	2015	2014	2015	2014
Parent company	–	–	–	–
Subsidiaries in Sweden (8)	496	479	2,125	2,133
Total in Sweden (8)	496	479	2,125	2,133
Total abroad (134)	2,921	2,821	15,361	14,976
Total (142)	**3,417**	**3,300**	**17,486**	**17,109**

The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2015.

Average number of employees – in Sweden by municipality

Consolidated

	2015	2014
Botkyrka	457	448
Eskilstuna	209	213
Lund	1,043	1,045
Ronneby	253	260
Vänersborg	100	113
Other *	63	54
Total	**2,125**	**2,133**

* "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	
	2015	2014	2015	2014
Argentina	11	11	38	38
Australia	19	18	109	106
Belgium	1	2	24	27
Brazil	57	58	496	576
Bulgaria	7	7	20	19
Chile	6	7	28	32
Colombia	10	9	24	23
Denmark	419	415	1,792	1,802
Philippines	4	4	14	13
Finland	43	44	241	250
France	155	157	865	888
United Arab Emirates	23	20	191	191
Greece	8	8	23	21
Hong Kong	5	6	21	22
India	74	80	1,384	1,435
Indonesia	21	21	93	92
Iran	0	0	5	5
Italy	171	165	902	901
Japan	55	57	279	278
Canada	21	21	103	100
China	632	629	2,779	2,768
Korea	58	63	320	316
Latvia	6	5	12	12
Malaysia	40	38	121	121
Mexico	8	10	41	42
Netherlands	77	70	370	363
Norway	202	130	1,147	699
New Zeeland	4	4	16	17
Panama	3	3	12	10
Peru	8	7	24	25
Poland	45	45	254	233
Portugal	4	3	15	9
Qatar	-	-	9	8
Romania	4	3	14	12
Russia	141	126	337	352
Switzerland	5	5	16	18
Singapore	58	54	234	207
Slovakia	1	2	10	11
Spain	25	20	82	81
UK	55	56	340	347
Sweden	496	479	2,125	2,133
South Africa	12	10	44	43
Taiwan	13	13	42	42
Thailand	14	11	55	56
Czech Republic	8	8	40	40
Turkey	9	9	46	45
Germany	77	74	364	394
Ukraine	5	7	14	15
Hungary	3	4	13	13
USA	290	296	1,915	1,830
Venezuela	1	1	2	3
Vietnam	–	–	2	2
Austria	3	5	19	23
Total	**3,417**	**3,300**	**17,486**	**17,109**

Gender distribution among managers

Consolidated

	2015			2014		
	Total number	Male %	Female %	Total number	Male %	Female %
Board members (excluding deputies)	12	66.7	33.3	12	75.0	25.0
President and other executive officers	11	90.9	9.1	11	90.9	9.1
Managers in Sweden	288	77.1	22.9	285	79.3	20.7
Managers outside Sweden	1,969	85.0	15.0	1,836	85.1	14.9
Managers total	2,257	84.0	16.0	2,121	84.3	15.7
Employees in Sweden	2,125	76.7	23.3	2,133	77.5	22.5
Employees outside Sweden	15,361	81.0	19.0	14,976	81.2	18.8
Employees total	17,486	80.5	19.5	17,109	80.7	19.3

Note 6. Salaries and remunerations

Salaries and remunerations – total

Consolidated

SEK millions	2015	2014
Board of Directors, Presidents and Vice Presidents	272	245
– out of which, variable	42	44
Other	7,315	6,426
Total salaries and remunerations	7,587	6,671
Social security costs	1,216	1,100
Pension costs, defined benefit plans	144	110
Pension costs, defined contribution plans	530	480
Total personnel costs	**9,477**	**8,361**

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 45 (43) million and SEK 317 (314) million respectively. SEK 113 (116) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Equity compensation benefits
During the period 2014 to 2015 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 categorises 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 2012 to 2015 decided to implement step two to five 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 2015 step three, four and five 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 variable remuneration per year in percent of base salary	Maximum long term incentive in percent of base salary: Per annum per step	Maximum long term incentive in percent of base salary: 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 2015 (two) or are running (three -five). In the table the EPS outcome for each year is also presented.

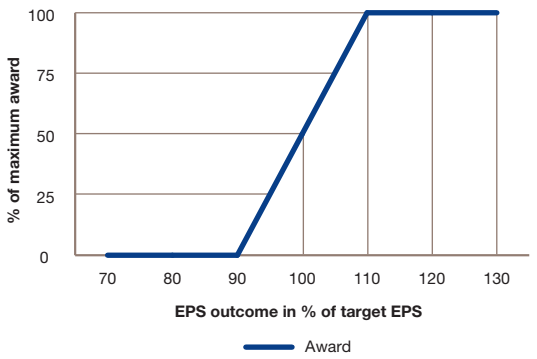
Earnings per share

Consolidated

	Target and outcome			
SEK	2015	2014	2013	2012
Target EPS for step:				
Two	N/A	8.32	7.62	6.93
Three	7.80	7.15	6.50	N/A
Four	7.94	7.22	N/A	N/A
Five	8.45	N/A	N/A	N/A
EPS outcome	**9.15**	**7.39***	**7.22**	**7.61**

* 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 2012 to 2015, 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	Covering period		Payable	Actual outcome in % of maximum outcome					Payable in percent of base salary based on 15% in	Awards	
Step	Meeting	January 1	December 31	in April	2015	2014	2013	2012	To date	variable remuneration	Paid	Estimated
Two	2012	2012	2014	2015	N/A	0.00%	23.57%	99.06%	40.88%	4.91%	12	N/A
Three	2013	2013	2015	2016	100.00%	66.78%	100.00%	N/A	88.93%	10.67%	N/A	28
Four	2014	2014	2016	2017	100.00%	61.77%	N/A	N/A	80.89%	6.47%	N/A	21
Five	2015	2015	2017	2018	91.42%	N/A	N/A	N/A	91.42%	3.66%	N/A	13
Awards per year					36	15	13	10	Totalt		12	62

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 2012 to 2015 decided to implement step two to five 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 2016 to implement step six of the cash-based long term incentive programme for the period January 1, 2016 – December 31, 2018. 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/ Managing Director		Other executive officers	
SEK thousands	2015	2014	2015	2014
Salary and remunerations				
Base salary	10,815	10,300	31,485	28,823
Variable salary [1]	4,020	5,160	7,180	8,639
Cash-based long term incentive programme [1]	1,895	3,253	3,445	5,742
Other benefits [2]	719	898	3,248	3,037
Total salary and remuneration	17,449	19,611	45,358	46,241
Pension costs				
Retirement and survivors' pension	6,689	6,364	19,995	18,284
Life, disability and health care insurance	50	49	239	215
Total pension costs	6,739	6,413	20,234	18,499
Sum including pensions	**24,188**	**26,024**	**65,592**	**64,740**
Number of other executive officers			10	10
Variable salary				
Included	Yes	Yes	Yes	Yes
Un-guaranteed target of base salary	30%	30%	Not set	Not set
Maximum of base salary	60%	60%	40%	40%
Cash-based long term incentive programme				
Included	Yes	Yes	Yes	Yes
Current year award (SEK) [3]	4,866	2,076	9,066	3,827
Vested unpaid awards at December 31 (SEK)	8,605	5,563	16,031	10,166
Commitment for early retirement [4]	No	No	8 of 10	8 of 10
Commitment for severance pay	Yes [5]	Yes	Yes [6]	Yes
Commitment for retirement and survivors' pension	[7]		[8]	

[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 supplied to 1 (1) other executive officer.

[3] Based on estimated base salaries at the future time of payment.

[4] From the age of 62. A defined contribution solution for early retirement with a premium of 15 percent of the pensionable salary.

[5] Twenty four months' remuneration reduced with the number of months that has passed since his 63rd birthday.

[6] Maximum 2 years' salary. The commitments define the conditions that must be fulfilled in order for them to become valid.

[7] The ordinary ITP up to a salary of 30 base amounts is funded in order to achieve full ITP benefits at the age of 65. On top of the ordinary ITP 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.

[8] 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 will replace Lars Renström as President and Chief Executive Officer of Alfa Laval AB (publ) as per March 1, 2016.

Board of Directors
For 2015, the Board of Directors receive a total fixed remuneration of SEK 5,350 (5,075) 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		2015	2014
Fees by function:			
Chairman of the Board		1,350	1,250
Other members of the Board		500	475
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	1,400	1,300
Gunilla Berg	Member	600	575
Arne Frank	Member	550	525
Björn Hägglund	Member	–	475
Ulla Litzén	Member	600	575
Finn Rausing	Member	650	625
Jörn Rausing	Member	550	525
Ulf Wiinberg	Member	500	475
Margareth Øvrum	Member	500	–
Total		**5,350**	**5,075**

* 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:

	2015	2014
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 2015 and 2014 decided to elect KPMG as the Group's auditors for the coming year.

Fees and expense compensation

Consolidated

SEK millions	2015	2014
Audit engagements		
Group auditors	34	29
Other audit firms	1	1
Total	**35**	**30**
Audit related services		
Group auditors	1	1
Other audit firms	1	5
Total	**2**	**6**
Tax services		
Group auditors	4	4
Other audit firms	3	3
Total	**7**	**7**
Other services		
Group auditors	1	1
Other audit firms	4	5
Total	**5**	**6**
Expenses		
Group auditors	1	0
Other audit firms	0	0
Total	**1**	**0**
Total		
Group auditors	41	35
Other audit firms	9	14
Total	**50**	**49**

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.

Note 8. Comparison distortion items

Comparison distortion items are reported gross in the consolidated comprehensive income statement as a part of other operating income and other operating costs.

Comparison distortion items

Consolidated		
SEK millions	2015	2014
Operational		
Other operating income	495	554
Comparison distortion items	–	–
Total other operating income	**495**	**554**
Other operating costs	-1,149	-904
Comparison distortion items	–	-320
Total other operating costs	**-1,149**	**-1,224**

Specification of comparison distortion items

Consolidated		
SEK millions	2015	2014
Cost for:		
Restructuring programme	–	-260
Acquisition costs Frank Mohn	–	-60
Subtotal losses/costs	–	-320
Net total	**–**	**-320**

The comparison distortion cost during 2014 consisted of two components. SEK -60 million related to one time acquisition costs in connection with the acquisition of Frank Mohn AS. The remaining SEK -260 million related to a cost reduction and restructuring programme relating to the supply chain as well as R&D, sales and administration.

Note 9. Depreciation and amortisation

Split by function

Consolidated		
SEK millions	2015	2014
Cost of goods sold	-1,553	-1,293
Sales	-54	-35
Administration	-78	-72
Research and development	-7	-5
Other income and costs	-69	-64
Total	**-1,761**	**-1,469**

Split by type of asset

Consolidated		
SEK millions	2015	2014
Patents and unpatented know-how, trademarks, etc.	-1,079	-858
Machinery and equipment	-482	-459
Financial leasing machinery and equipment	-3	-3
Buildings and ground installations	-190	-143
Financial leasing buildings	-7	-6
Total	**-1,761**	**-1,469**

Note 10. Dividends and changes in fair value of financial instruments

Split by type

Consolidated		
SEK millions	2015	2014
Dividends from other	0	8
Fair value changes in securities	33	22
Total	**33**	**30**

Note 11. Interest income/expense and financial exchange rate gains/losses

Split on type of income/expense or gain/loss

Consolidated

SEK millions	2015	2014
Interest income		
Financial leasing	–	0
Other interest	129	110
Exchange rate gains		
Unrealised	118	216
Realised	157	94
Total	**404**	**420**
Interest expenses		
Financial leasing	-1	0
Other interest	-338	-324
Exchange rate losses		
Unrealised	-84	-247
Realised	-287	-429
Total	**-710**	**-1,000**

Split on type of income/expense or gain/loss

Parent company

SEK millions	2015	2014
Interest income		
External companies	0	1
Subsidiaries	1	38
Exchange rate gains		
Unrealised	6	12
Total	**7**	**51**
Interest costs		
External companies	-1	-5
Exchange rate losses		
Unrealised	-14	-3
Total	**-15**	**-8**

In the Group, reported net exchange differences of SEK 301 (-1,033) 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 235 (-806) 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	2015	2014	2015	2014	2015	2014
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	4.67	0	0	0	1
Liyang Sifang Stainless Steel Products Co., Ltd.	China	35	35	11	9	87	74
Alfa Laval (India) Ltd	India	1.8047	1.8047	4	3	24	20
Kenus LLP	Kazakhstan	10	10	0	0	0	0
Chang San Engineering Co. Ltd. *	Korea	25	25	7	5	7	24
Aalborg Industries Water Treatment Pte. Ltd.,	Singapore	40	40	0	0	0	0
Ziepack SA	France	49	49	0	5	2	5
Fusatun AS **	Norway	0.65	0.65	0	0	–	0
AO Alfa Laval Potok	Russia	0.0007	0.0007	0	0	0	0
Total				**22**	**22**	**121**	**125**

* Acquired on May 21, 2014. ** Sold to an external buyer on September 1, 2015.

Note 13. Classification of financial assets and liabilities

Financial assets

Consolidated

	Valuation hierarchy level	Financial assets at fair value through profit or loss: Designated upon initial recognition		Held for trading		Derivatives used for hedging		Loans and receivables		Available for sale financial assets	
SEK millions		2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Non-current assets											
Other non-current assets											
Other long-term securities	1 and 2	–	–	–	–	–	–	–	–	28	30
Derivative assets	2	–	–	–	63	7	7	–	–	–	–
Current assets											
Current receivables	*										
Accounts receivable	*	–	–	–	–	–	–	5,796	6,684	–	–
Notes receivable	*	–	–	–	–	–	–	461	292	–	–
Other receivables	*	–	–	–	–	–	–	1,060	1,091	–	–
Accrued income	*	–	–	–	–	–	–	107	52	–	–
Derivative assets	2	–	–	51	13	107	93	–	–	–	–
Current deposits											
Deposits with banks	*	–	–	–	–	–	–	244	155	–	–
Bonds and other securities	1	768	532	–	–	–	–	–	–	–	–
Other deposits	*	–	–	–	–	–	–	9	10	–	–
Cash and cash equivalents	*	–	–	–	–	–	–	1,876	2,013	–	–
Total financial assets		**768**	**532**	**51**	**76**	**114**	**100**	**9,553**	**10,297**	**28**	**30**

* 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

	Valuation hierarchy level	Financial liabilities at fair value through profit or loss: Held for trading		Derivatives used for hedging		Loans	
SEK millions		2015	2014	2015	2014	2015	2014
Non-current liabilities							
Liabilities to credit institutions etc	*	–	–	–	–	12,484	16,454
Derivative liabilities	2	4	7	99	110	–	–
Current liabilities							
Liabilities to credit institutions etc	*	–	–	–	–	2,019	1,251
Accounts payable	*	–	–	–	–	2,492	2,706
Notes payable	*	–	–	–	–	172	198
Other liabilities	*	–	–	–	–	1,891	1,930
Accrued costs	*	–	–	–	–	2,229	2,076
Derivative liabilities	2	105	277	467	578	–	–
Total financial liabilities		**109**	**284**	**566**	**688**	**21,287**	**24,615**

* 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 32 (4) million has affected exchange gains in Note 11 with SEK 32 (4) 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 -95 (-215) million has affected cost of goods sold with SEK -12 (-54) million and exchange losses in Note 11 with SEK -83 (-161) million.

The result of the liabilities under loans is presented in Note 11 as other interest costs for the liabilities to credit institutions and the private placement. 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 2 (-0) 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 33 (22) million, see Note 10.

Fair value of derivatives

Consolidated

			Difference between contracted rate and current rate	
SEK millions	Currency pairs		2015	2014
Derivative assets/liabilities				
Foreign exchange forward contracts:	EUR	USD	-28	-99
	EUR	SEK	65	-70
	EUR	AUD	0	0
	EUR	CAD	2	-7
	EUR	DKK	-1	–
	EUR	JPY	-2	3
	USD	CAD	1	6
	USD	DKK	-54	-36
	USD	GBP	–	0
	USD	SEK	9	18
	USD	JPY	0	-3
	USD	KRW	–	–
	USD	SGD	-1	-2
	DKK	SEK	1	-1
	NOK	EUR	7	0
	NOK	SEK	-72	22
	NOK	USD	-309	-564
	CNY	USD	5	–
	AUD	USD	-7	2
	JPY	NOK	-95	-41
	RUB	EUR	1	10
	RUB	USD	–	1
	Other	Other	1	-3
Subtotal			-477	-764
Currency options			6	-12
Interest Rate Swaps			2	15
Metal forward contacts			-33	-31
Electricity futures			-8	-4
Total, corresponding to a net derivative asset (+) or liability (-)			**-510**	**-796**

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	2015	2014
Major components of the Group's tax costs		
Current tax cost	-1,727	-1,320
Adjustment for current taxes on prior periods	74	-27
Deferred tax costs/income on changes in temporary differences	175	205
Deferred tax costs/income on changes in tax rates or new taxes	-4	13
Tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	0	2
Deferred tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	0	0
Deferred tax cost from the write down or reversal of a previous write down of a deferred tax asset	-59	2
Other taxes	-42	-24
Total tax cost	**-1,583**	**-1,149**

Tax on this year's other comprehensive income

Consolidated

SEK millions	2015	2014
Major components		
Deferred tax on:		
Cash flow hedges	43	136
Market valuation of external shares	-1	0
Translation difference	-22	84
Revaluations of defined benefit obligations	-47	71
Total tax cost	**-27**	**291**

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	2015	2014
Result after financial items	5,444	4,117
Tax according to applicable tax rates	-1,539	-1,088
Tax effect of:		
Non-deductible costs	-112	-96
Non-taxable income	101	59
Differences between reported official depreciation and depreciation according to tax rules	-6	-3
Differences between reported other official appropriations and other appropriations according to tax rules	-18	24
Tax losses and tax credits	-41	6
Adjustment for current tax on prior periods	74	-27
Other	-42	-24
Total tax costs	**-1,583**	**-1,149**

Other taxes are mainly referring to wealth tax.

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

	2015		2014	
SEK millions	assets	liabilities	assets	liabilities
Relating to:				
Intangible non-current assets	7	1,666	18	1,986
Tangible non-current assets	41	208	120	240
Inventory	176	35	258	37
Other current assets	4	4	1	3
Financial assets	114	0	56	0
Short term liabilities	1,491	165	1,600	224
Tax losses and tax credits *	39	–	46	2
Other	9	963	34	729
Subtotal	1,881	3,041	2,133	3,221
Possible to net	-116	-116	-147	-147
Total deferred taxes	**1,765**	**2,925**	**1,986**	**3,074**

* The Group has reported a deferred tax asset on unused tax losses and tax grants of SEK 168 (93) 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 934 (637) 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 2014 and 2015.

Tax rates by country

Consolidated

Percent	2015	2014
Chile	23	21
Denmark	24	25
Greece	29	26
India	35	34
Japan	36	38
Malaysia	24	25
Pakistan	32	34
Peru	28	30
Spain	28	30
UK	20	21

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.

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 2015	Adjustment of last year's purchase price allocation	Acquired	Planned depreciation/ amortisation	Translation difference	Closing balance 2015
Buildings	417	–	–	-32	-16	369
Land and land improvements	-47	–	–	–	-12	-59
Patents and unpatented know-how	2,881	–	–	-441	-15	2,425
Trademarks	4,920	–	35	-621	-286	4,048
Subtotal step-up values	8,171	–	35	-1,094	-329	6,783
Goodwill	20,408	1	19	–	-930	19,498
Total	**28,579**	**1**	**54**	**-1,094**	**-1,259**	**26,281**

During 2015 the Group has recorded impairment losses relating to buildings with SEK - (6) million and land and land improvements with SEK - (9) million. Otherwise the Group has not recorded any impairment losses related to neither goodwill nor any 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 1,528 (1,881) 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, 2015 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)	–	–	–	–	19	–	19	19	38
K-Bar Parts LLC	–	–	–	–	16	–	16	–	16
Accumulated during the period									
Realised	-524	122	-435	–	–	-123	-960	–	-960
Write down	-6	-9	–	–	–	–	-15	-48	-63
Planned depreciation/amortisation	-408	–	–	-3,102	-2,268	-993	-6,771	-612	-7,383
Translation difference	-26	48	1	159	-401	4	-215	-1,177	-1,392
Closing balance	**369**	**-59**	**–**	**2,425**	**4,048**	**–**	**6,783**	**19,498**	**26,281**

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 2015

An aftermarket company specialized in separation technology
Alfa Laval has as from July 3, 2015 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 is 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 adds a complementary aftermarket channel. "With the acquisition we are adding presence in an important niche of the aftermarket," says Lars Renström, President and CEO of the Alfa Laval Group. The purchase price is SEK 94 million, out of which SEK 56 million has been paid in cash and SEK 38 million is retained for a period of 2-5 years. The retained part of the purchase price is 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 have amounted to SEK 1 million, which is reported as other operating costs. The impact on the cash flow is thus SEK -57 million. Out of the difference between the purchase price paid and the net assets acquired SEK 19 million is allocated to the trademark, while the residual SEK 19 million is 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. The value of the goodwill is still preliminary since the purchase price allocation is still preliminary. 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 has 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 is SEK 17 million, out of which SEK 15 million has been paid in cash and SEK 2 million is retained for a period of 1-2 years. The retained part of the purchase price is 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 have amounted to SEK 1 million, which is reported as other operating costs. The impact on the cash flow is thus SEK -16 million. Out of the difference between the purchase price paid and the net assets acquired SEK 16 million is allocated to the trademark, while nothing is allocated to goodwill. The purchase price allocation is still preliminary. 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 during 2015 are still preliminary.

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.

During 2014

Frank Mohn AS

In a news release on April 7, 2014 Alfa Laval communicated that the company had signed an agreement to acquire Frank Mohn AS, a leading manufacturer of submerged pumping systems to the marine and offshore markets. After approval from regulatory authorities the acquisition was closed on May 21, 2014. The acquisition, which strengthens Alfa Laval's fluid handling portfolio by adding a unique pumping technology, will further reinforce Alfa Laval's position as a leading supplier to the marine and offshore oil & gas markets. Alfa Laval has acquired 100 percent of Frank Mohn AS ("Frank Mohn"), with the product brand Framo, for a total cash consideration of NOK 13 billion, on cash and debt free basis, from Wimoh AS, a company controlled by the Mohn family. Frank Mohn is headquartered in Bergen, Norway. The operating margin is significantly above the Alfa Laval average. Lars Renström, President and CEO of the Alfa Laval Group, commented on the acquisition: "Frank Mohn is an excellent company that we have been following closely for several years. It has highly skilled employees, high quality products and a market-leading position within segments offering attractive long-term growth prospects. The combination of Frank Mohn and Alfa Laval will provide a very attractive offering of products, systems and services and it will strengthen our leading position as a provider of critical systems for ships and offshore oil & gas production units, with unmatched service capabilities." The acquisition of Frank Mohn was funded by existing credit facilities and a fully committed bridge facility. The bridge loan has been replaced by two tranches of corporate bonds issued by Alfa Laval. The synergies from the acquisition are expected to reach about NOK 120 million annually, gradually realized over a three year period. Alfa Laval has included Frank Mohn and the product brand Framo in the Marine & Diesel division in a new capital sales segment, Marine & Offshore Pumping Systems. The company will be kept together under the same management as today. The activities in the Bergen area in Norway; the head office and sales & service facility at Askøy – as well as production facilities at Fusa, Flatøy and Frekhaug – will become Alfa Laval's operational centre for marine and offshore pumping systems. The purchase price is SEK 14,782 million, out of which everything has been paid in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 51 million, which is reported as other operating costs. Liquid assets of SEK 504 million in the acquired company were taken over. The impact on the cash flow is thus SEK -14,329 million. Out of the difference between the purchase price paid and the net assets acquired SEK 1,160 million is allocated to patents and un-patented know-how, SEK 3,793 million to the product brand Framo and SEK 38 million to accrued profit in inventory, while the residual SEK 9,830 million is 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 2015 the value of the goodwill has been increased with SEK 1 million to SEK 9,831 million. The step up value for patents and un-patented know-how and the step up value for the product brand Framo are both amortised over 10 years. The step up value related to accrued profit in inventory is realised according to the inventory turnover rate. From the date of the acquisition the company has added SEK 3,781 million in orders received, SEK 3,333 million in invoicing and SEK 1,008 million in adjusted EBITA to Alfa Laval. If the company had been acquired at January 1, 2014 the corresponding figures would have been SEK 5,696 million, SEK 5,131 million and SEK 1,087 million respectively. At the end of December 2014 the number of employees was 1,263.

CorHex Corp

On November 4, 2014 Alfa Laval acquired 100 percent of the Korean company CorHex Corp. The company is a small development company within heat transfer technology. The purchase price is SEK 10 million, out of which all has been paid in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 1 million, which is reported as other operating costs. Liquid assets of SEK 0 million in the acquired company were taken over. The impact on the cash flow is thus SEK -11 million. Out of the difference between the purchase price paid and the net assets acquired SEK 15 million is allocated to patents and un-patented know-how, while nothing is allocated to goodwill. In connection with the finalisation of the purchase price allocation in 2015 the value of the goodwill has been finalised to SEK - million. The step up value for patents and un-patented know-how is amortised over 10 years. From the date of the acquisition the company has added SEK 6 million in orders received, SEK 1 million in invoicing and SEK -2 million in adjusted EBITA to Alfa Laval. If the company had been acquired at January 1, 2014 the corresponding figures would have been SEK 13 million, SEK 7 million and SEK -5 million respectively. At the end of December 2014 the number of employees was 12.

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 2014 can be summarized as follows. Please observe that the purchase price allocations for Frank Mohn and CorHex were still preliminary at the end of 2014.

Acquisitions 2014

Consolidated

	Frank Mohn			Others			Total
SEK millions	Book value	Adjustment to fair value	Fair value	Book value	Adjustment to fair value	Fair value	Fair value
Property, plant and equipment	1,100	–	1,100	1	–	1	1,101
Patents and unpatented know-how [1]	0	1,160	1,160	2	15	17	1,177
Trademarks [2]	–	3,793	3,793	–	–	–	3,793
Other non-current assets	95	–	95	–	–	–	95
Inventory	847	38	885	1	–	1	886
Accounts receivable	981	–	981	1	–	1	982
Other receivables	255	–	255	–	–	–	255
Current deposits	51	–	51	1	–	1	52
Liquid assets	504	–	504	0	–	0	504
Provisions for pensions and similar commitments	-47	–	-47	–	–	–	-47
Other provisions	-142	–	-142	–	–	–	-142
Equity attributable to non-controlling interests	-17	–	-17	–	–	–	-17
Loans	–	–	–	-4	–	-4	-4
Accounts payable	-235	–	-235	-1	–	-1	-236
Advance payments	-1,260	–	-1,260	–	–	–	-1,260
Other liabilities	-563	–	-563	-2	–	-2	-565
Tax liabilities	-257	–	-257	–	–	–	-257
Deferred tax	-3	-1,348	-1,351	–	-4	-4	-1,355
Acquired net assets	**1,309**	**3,643**	**4,952**	**-1**	**11**	**10**	**4,962**
Goodwill [3]			9,830			–	9,830
Purchase price			-14,782			-10	-14,792
Costs directly linked to the acquisitions [4]			-51			-1	-52
Liquid assets in the acquired businesses			504			0	504
Payment of amounts retained in prior years			–			-103	-103
Effect on the Group's liquid assets			**-14,329**			**-114**	**-14,443**

[1] The step up value for patents and un-patented know-how is amortised over 10 years.
[2] The step up value for the product brand Framo is amortised over 10 years.
[3] 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.
[4] 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 acquisition.

Impairment testing
An impairment test has been performed at the end of 2015 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 2016 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 2017 and 2018 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 2019 to 2035 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 8.95 (7.88) 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	2015	2014
Equipment	2,703	2,697
Process Technology	3,819	3,753
Marine & Diesel	12,976	13,958
Total	**19,498**	**20,408**

Note 17. Intangible non-current assets

Patents and unpatented know-how

Consolidated		
SEK millions	2015	2014
Accumulated acquisition values		
Opening balance	5,769	4,158
Acquisition of businesses	–	2
Reclassifications	2	-1
Step-up values	–	1,175
Translation difference	-33	435
Closing balance	**5,738**	**5,769**
Accumulated amortisation		
Opening balance	-2,837	-2,231
Reclassifications	0	0
Amortisation of step-up value	-441	-375
Amortisation for the year	-9	-5
Translation difference	16	-226
Closing balance	**-3,271**	**-2,837**
Closing balance, net book value	**2,467**	**2,932**

Trademarks

Consolidated		
SEK millions	2015	2014
Accumulated acquisition values		
Opening balance	6,702	2,793
Step-up values	35	3,793
Translation difference	-345	116
Closing balance	**6,392**	**6,702**
Accumulated amortisation		
Opening balance	-1,782	-1,175
Amortisation of step-up values	-621	-470
Translation difference	59	-137
Closing balance	**-2,344**	**-1,782**
Closing balance, net book value	**4,048**	**4,920**

Licenses, renting rights and similar rights

Consolidated		
SEK millions	2015	2014
Accumulated acquisition values		
Opening balance	220	224
Purchases	6	8
Sales/disposals	-4	-39
Reclassifications	0	0
Translation difference	-5	27
Closing balance	**217**	**220**
Accumulated amortisation		
Opening balance	-174	-187
Sales/disposals	-1	25
Reclassifications	0	-5
Amortisation for the year	-8	-8
Translation difference	7	1
Closing balance	**-176**	**-174**
Closing balance, net book value	**41**	**46**

Alfa Laval does not have any internally generated intangible assets.

Goodwill

Consolidated

SEK millions	2015	2014
Accumulated acquisition values		
Opening balance	20,980	10,583
Goodwill in connection with acquisition of businesses	20	9,797
Translation difference	-933	600
Closing balance	**20,067**	**20,980**
Accumulated amortisation		
Opening balance	-572	-522
Translation difference	3	-50
Closing balance	**-569**	**-572**
Closing balance, net book value	**19,498**	**20,408**

Note 18. Property, plant and equipment

Real estate

Consolidated

SEK millions	2015	2014
Accumulated acquisition values		
Opening balance	4,679	2,853
Purchases	86	101
Acquisition of businesses	–	1 556
Sold businesses	-11	–
Sales/disposal	-23	-32
Write-down	–	-41
Reclassifications	26	20
Reclassification to assets for sale	-56	-19
Write down of step-up values	–	-6
Translation difference	-183	247
Closing balance	**4,518**	**4,679**
Accumulated depreciation		
Opening balance	-2,196	-1,309
Sales/disposals	7	14
Acquisition of businesses	–	-636
Sold businesses	6	–
Reclassifications	19	2
Reclassification to assets for sale	53	13
Depreciation of step-up value	-32	-32
Depreciation for the year	-158	-111
Translation difference	100	-137
Closing balance	**-2,201**	**-2,196**
Closing balance, net book value	**2,317**	**2,483**

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, but it is not expected to be sold within the next year. A small property in France is empty and has been for sale for several years. It is not expected to be sold within the next year. A property in Lima in Peru is for sale and is expected to be sold within the next year. As a consequence of the cost reduction programme in 2014 some operations have been re-organised and the concerned properties in Houston in the U.S., Qingdao in China, Artern in Germany and Groningen in the Netherlands will be sold. Only the properties in Qingdao and Groningen are expected to be sold within the next year and have therefore together with the property in Peru been re-classified as current assets held for sale with SEK 9 (6) million.

Machinery and other technical installations

Consolidated

SEK millions	2015	2014
Accumulated acquisition values		
Opening balance	6,689	4,738
Purchases	281	213
Acquisition of businesses	2	1,371
Sales/disposal	-243	-105
Reclassifications	46	51
Translation difference	-166	421
Closing balance	**6,609**	**6,689**
Accumulated depreciation		
Opening balance	-5,103	-3,315
Sales/disposals	207	92
Acquisition of businesses	-2	-1,294
Reclassifications	64	8
Depreciation for the year	-339	-306
Translation difference	134	-288
Closing balance	**-5,039**	**-5,103**
Closing balance, net book value	**1,570**	**1,586**

Equipment, tools and installations

Consolidated

SEK millions	2015	2014
Accumulated acquisition values		
Opening balance	2,630	2,086
Purchases	158	131
Acquisition of businesses	–	376
Sales/disposal	-140	-103
Reclassifications	16	9
Translation difference	-62	131
Closing balance	**2,602**	**2,630**
Accumulated depreciation		
Opening balance	-2,031	-1,539
Sales/disposals	126	90
Acquisition of businesses	–	-320
Reclassifications	-9	-4
Depreciation of step-up value	–	-27
Depreciation for the year	-143	-126
Translation difference	57	-105
Closing balance	**-2,000**	**-2,031**
Closing balance, net book value	**602**	**599**

Construction in progress and advances to suppliers concerning property, plant and equipment

Consolidated

SEK millions	2015	2014
Accumulated acquisition values		
Opening balance	204	137
Purchases	143	150
Reclassifications	-202	-105
Translation difference	-1	22
Closing balance	**144**	**204**
Closing balance, net book value	**144**	**204**

Leased real estate

Consolidated

SEK millions	2015	2014
Accumulated acquisition values		
Opening balance	157	153
Sales/disposal	-7	-5
Reclassifications	28	–
Translation difference	-6	9
Closing balance	**172**	**157**
Accumulated depreciation		
Opening balance	-38	-33
Sales/disposals	2	3
Depreciation for the year	-7	-6
Translation difference	1	-2
Closing balance	**-42**	**-38**
Closing balance, net book value	**130**	**119**

Leased machinery

Consolidated

SEK millions	2015	2014
Accumulated acquisition values		
Opening balance	37	34
Translation difference	-2	3
Closing balance	**35**	**37**
Accumulated depreciation		
Opening balance	-26	-22
Depreciation for the year	-3	-3
Translation difference	2	-1
Closing balance	**-27**	**-26**
Closing balance, net book value	**8**	**11**

Leased equipment, tools and installations

Consolidated

SEK millions	2015	2014
Accumulated acquisition values		
Opening balance	3	3
Purchases	1	1
Sales/disposal	–	0
Reclassifications	0	0
Translation difference	0	-1
Closing balance	**4**	**3**
Accumulated depreciation		
Opening balance	-1	-1
Sales/disposals	0	–
Reclassifications	0	0
Depreciation for the year	0	–
Translation difference	-1	0
Closing balance	**-2**	**-1**
Closing balance, net book value	**2**	**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	2015	2014	2015	2014
Shares in subsidiaries	–	–	4,669	4,669
Shares in joint ventures	18	22	–	–
Shares in other companies	10	8	–	–
Total	**28**	**30**	**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 10 (11) 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 four 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	99.98	–
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 (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 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	–
LHE (Qingdao) Heat Exchanger Co. Ltd		Jiaozhou City, China		100	–
Kenus LLP		Almaty, Kazakhstan		90	–
Tranter Heat Exchangers Middle East (Cyprus) Ltd		Nicosia, Cyprus	20,000	100	–
MCD SAS		Guny, France	7,130	10	–
Tranter International AB	556559-1764	Vänersborg, Sweden	100,000	100	–
Multbran AB	556662-3988	Lund, Sweden	2,723	100	–
Breezewind AB	556773-6532	Lund, Sweden	1,000	100	–
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	17,832,739	98.2	–
Alfa Laval Support Services Pvt Ltd		Poona, India	10	0	–
Tranter India Pvt Ltd		Poona, India	1	0	–

Specification of shares in subsidiaries, continued

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
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 SAS		Saint-Priest, France	46,700	7.7	–
Alfa Laval Olmi SpA		Suisio, Italy	500,000	100	–
Alfa Laval Italy Srl		Milano, 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	–
Frank Mohn China Ltd.		Hong Kong, China	50,000	100	–
Framo Nippon KK		Tokyo, Japan	600	100	–
Chang San Engineering Co. Ltd.		Busan, South Korea	15,000	75	–
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	556432-2484	Lund, Sweden	50,000	100	–
Alfa Laval Europe AB	556128-7847	Lund, Sweden	500	100	–
Alfa Laval Lund AB	556016-8642	Lund, Sweden	100	100	–
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 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	560,000	92.3	–
Alfa Laval Moatti SAS		Elancourt, France	24,000	100	–
Alfa Laval Spiral SAS		Nevers, France	79,999	100	–
MCD SAS		Guny, France	64,170	90	–
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		Gétigné, France	10,000	100	–
Alfa Laval Holding GmbH		Glinde, Germany	1	100	–
Alfa Laval Mid Europe GmbH		Wiener Neudorf, Austria	1	100	–
Tranter Warmetauscher GmbH		Guntramsdorf, Austria		100	–
Alfa Laval Mid Europe GmbH		Glinde, Germany	1	100	–
Alfa Laval Stormarn GmbH		Glinde, Germany	1	100	–

Specification of shares in subsidiaries, continued

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
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		Milano, 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	–
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 Ashbrook Simon-Hartley Inc		Houston, Texas, USA	1	100	–
Alfa Laval Tank Equipment Inc		Exton, Pennsylvania, USA	1,000	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	0.02	–
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 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	18
Alfa Laval Corporate AB					
AlfaWall AB	556723-6715	Botkyrka, Sweden	500	50	–
Frank Mohn Services AS					
Halaas og Mohn AS		Kristiansund, Norway	800	50	0
Alfa Laval Ltd					
Rolls Laval Heat Exchangers Ltd		Wolverhampton, UK	5,000	50	0
Total					**18**

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		93
Elektrobras	Brazil	7,107		126
Alfa Laval Philippines Inc.				
Philippine Long Distance Telephone	Philippines	820		15
Alfa Laval Nordic OY				
As Oy Koivulantie 7A	Finland	1		284
Helsinki Halli	Finland	4		128
Alfa Laval Vantaa OY				
Länsi-Vantaan Tenniskeskus	Finland	4		0
Mikkelin Puhelin Oyj	Finland	5		18
Alfa Laval Aalborg OY				
Finda OY	Finland	1		55
Alfa Laval HES SA				
Thermothec	France	9,130		0
Alfa Laval Benelux BV				
Bordewes	Netherlands	1		156
Helpman Holding BV				
Helpman Sofia OOD	Bulgaria	500	49	6,125
Alfa Laval NV				
Dalian Haven Automation Co Ltd	China	102	43	814
Frank Mohn Nederland BV				
Triangle Logistics BV	Netherlands	12	33	1,831
Frank Mohn Flatøy AS				
Nordhordaland handverk og industrilag AS	Norway	50	4	24
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
Poljopriveda	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				**9,672**

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	2015	2014
Raw materials and consumables	2,565	2,528
Work in progress	2,180	2,586
Finished goods & goods for resale, new sales	1,616	1,743
Finished goods & goods for resale, spare parts	925	874
Advance payments to suppliers	119	152
Total	**7,405**	**7,883**

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:						
2014	882	57	136	199	-155	1,119
2015	1,119	-14	0	259	-188	1,176

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 2015 amounts to SEK 488 (482) million.

Note 21. Accounts receivable

Accounts receivable with a maturity exceeding one year of SEK 174 (228) 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	Acquired	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
Year:								
2014	354	22	98	162	-68	-63	0	505
2015	505	-17	0	121	-57	-79	0	473

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	2015	%	2014	%
Overdue:				
Maximum 30 days	647	11.2	696	10.4
More than 30 days but maximum 90 days	357	6.1	556	8.3
More than 90 days	475	8.2	534	8.0
Total	**1,479**	**25.5**	**1,786**	**26.7**

Note 22. Other short-term receivables

Split on type and maturity

Consolidated

SEK millions	2015	2014
Notes receivable	461	292
Financial leasing receivables	37	10
Other receivables	1,060	1,091
Total	**1,558**	**1,393**
Of which, not due within one year:		
Notes receivable	12	9
Other receivables	26	32
Total	**38**	**41**

Note 23. Prepaid expenses and accrued income

Split on type

Consolidated

SEK millions	2015	2014
Prepaid expenses	172	193
Accrued income	107	52
Total	**279**	**245**

Note 24. Other current deposits

Split on type and maturity

Consolidated		
SEK millions	2015	2014
Deposits with banks	244	155
Bonds and other securities	768	532
Other deposits	9	10
Total	**1,021**	**697**
Of which, not due within one year:		
Deposits with banks	8	13
Other deposits	0	6
Total	**8**	**19**

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	2015	2014
Present value of defined benefit obligation, unfunded	-1,167	-1,300
Present value of defined benefit obligation, funded	-5,225	-5,496
Present value of defined benefit obligation at year end	-6,392	-6,796
Fair value of plan assets	4,465	4,598
Defined benefit liability	-1,927	-2,198
Less disallowed assets due to asset ceiling	–	-17
(-) liability/(+) asset at December 31	**-1,927**	**-2,215**

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	2015	2014
Net plan cost		
Current service cost	-118	-62
Net interest cost/income	-61	-73
Past service cost/income from plan amendments and curtailments and gains and losses on settlements	-1	16
Net plan (-) cost/(+) income	**-180**	**-119**
Remeasurements		
Actuarial losses/gains arising from changes in demographic assumptions	-2	-61
Actuarial losses/gains arising from changes in financial assumptions	252	-657
Actuarial losses/gains arising from changes in experience	219	-22
Return on plan assets less interest on plan assets	-153	283
Change in disallowed assets due to asset ceiling	16	-17
Other comprehensive income (OCI)	**332**	**-474**
Total plan cost	**152**	**-593**

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	2015	2014
Present value of defined benefit liability at January 1	-6,796	-4,420
Acquired businesses	–	-963
Translation difference	-54	-616
Current service cost	-118	-62
Interest cost	-205	-219
Employee contributions	-5	-11
Actuarial losses/gains arising from changes in demographic assumptions	-2	-61
Actuarial losses/gains arising from changes in financial assumptions	252	-657
Actuarial losses/gains arising from changes in experience	219	-22
Past service cost/income from plan amendments and curtailments and gains and losses on settlements	-1	16
Benefit payments	280	219
Settlement payments	38	0
(-) liability at December 31	**-6,392**	**-6,796**

The liability has the following duration and maturity:

Duration and maturity

Consolidated

	2015	2014
Weighted average duration of the defined benefit obligation (years)	12	13
Maturity analysis of benefit payments (non discounted amounts) SEK millions		
maturity ≤ 1 year	293	303
maturity > 1 ≤ 5 years	1,107	1,091
maturity > 5 ≤ 10 years	1,494	1,455
maturity > 10 ≤ 20 years	3,026	2,813
maturity > 20 years	4,572	4,494

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	2015	2014
Fair value of plan assets at January 1	4,598	2,937
Acquired businesses	–	916
Translation difference	-2	358
Employer contributions	143	125
Employee contributions	5	11
Interest on plan assets	144	146
Return on plan assets less interest on plan assets	-153	283
Benefit payments	-232	-178
Settlement payments	-38	0
(+) asset at December 31	**4,465**	**4,598**

The plan assets are split on the following types of assets:

Split of plan assets

Consolidated

SEK millions	2015	2014
Cash and cash equivalents	794	839
Equity instruments	1,308	1,444
Debt instruments	1,440	1,738
Real estate	254	198
Investment funds	669	379
Fair value at December 31	**4,465**	**4,598**

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	2015	2014
Defined benefit liability/asset at January 1	-2,215	-1,483
Acquired businesses	–	-47
Translation difference	-55	-258
Net plan cost	-180	-119
Employer contributions	143	125
Remeasurements (other comprehensive income)	332	-474
Benefit payments, unfunded plans	48	41
Settlement payments, unfunded plans	0	0
(-) liability/(+) asset at December 31	**-1,927**	**-2,215**

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	2015	2014
Assets		
Fair value of plan assets	4,465	4,598
Less disallowed assets due to asset ceiling	–	-17
	4,465	4,581
Netting	-4,461	-4,575
Assets in statement on financial position	**4**	**6**
Liabilities		
Present value of defined benefit obligation at year end	-6,392	-6,796
Netting	4,461	4,575
Provision in statement on financial position	**-1,931**	**-2,221**

The weighted averages for the more significant actuarial assumptions that have been used at the year-end are:

Actuarial assumptions

Consolidated		
	2015	2014
Discount rate (%)	3.4	3.1
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)	86	85
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 (%)	3	3

Future contributions

Consolidated	
SEK millions	2016
Expected employer contributions to the plan for the next calendar year	-164
Expected employer contributions for the next calendar year to multi-employer plans reported as defined contribution plans	-46

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	-687	–	–	-181	-8	-31	–	-260	**-1,167**
Present value of the defined benefit obligation, funded	-1,014	-2,343	-547	–	-869	–	-88	-364	**-5,225**
Present value of the defined benefit obligation at year end	-1,701	-2,343	-547	-181	-877	-31	-88	-624	**-6,392**
Fair value of plan assets	889	1,887	516	–	781	–	57	335	**4,465**
Defined benefit liability	-812	-456	-31	-181	-96	-31	-31	-289	**-1,927**
Less disallowed assets due to asset ceiling	–	–	–	–	–	–	–	–	**–**
(-) liability/(+) asset	-812	-456	-31	-181	-96	-31	-31	-289	**-1,927**
Net plan cost	**-48**	**-35**	**-34**	**-4**	**-27**	**7**	**-3**	**-36**	**-180**
Remeasurements (OCI)	**228**	**132**	**15**	**5**	**-15**	**–**	**-6**	**-27**	**332**
Sensitivity analysis*									
Discount rate decreased by 1% point	-181	-413	-70	-23	-86	–	-5	-43	**-821**
Life expectancy increased by 1 year	-59	-91	-11	-9	–	–	0	-8	**-178**
Expected average retirement age decreased by 1 year	-16	–	–	0	0	–	-1	-3	**-20**
Claim rates under medical plans increased by 1 % point	-4	–	–	–	–	–	–	–	**-4**
Expected rate of salary increases increased by 1% point	0	-33	-6	–	-43	–	-14	-20	**-116**
Medical costs increased by 1% point	-41	–	–	–	–	–	–	0	**-41**
Index for future compensation increases increased by 1% point	0	-73	-2	-21	-86	–	–	-18	**-200**
Cost for actuarial services	**-2**	**0**	**0**	**0**	**-1**	**0**	**0**	**-1**	**-4**
Number of participants in the plans at December 31									
Current employees (active members)	1,116	119	151	0	320	–	26	2,647	**4,379**
Current employees (only vested value for closed plans)	31	–	–	6	–	240	–	10	**287**
Former employees that are not yet pensioners	128	482	215	13	–	–	46	4	**888**
Pensioners	1,983	614	82	226	269	–	–	121	**3,295**
Total	**3,258**	**1,215**	**448**	**245**	**589**	**240**	**72**	**2,782**	**8,849**
Remaining service period									
Average remaining service period for active members (years)	10	9	11	7	7	–	17	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	Acquired	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	December 31
2014							
Claims & warranty	1,067	55	87	519	-451	-108	1,169
Deferred costs	190	5	–	130	-65	-59	201
Restructuring	107	-1	13	220	-100	-4	235
Onerous contracts	85	3	36	46	-16	-8	146
Litigations	205	0	–	99	-20	0	284
Other	308	25	–	182	-127	-18	370
Total	**1,962**	**87**	**136**	**1,196**	**-779**	**-197**	**2,405**
Of which:							
current	1,539						1,862
non-current	423						543
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

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 190 (575) 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	2015	2014
Credit institutions	107	2,981
Swedish Export Credit	2,970	2,975
European Investment Bank	2,240	2,332
Private placement	921	864
Commercial papers	1,000	999
Corporate bonds	7,265	7,554
Capitalised financial leases	82	73
Interest-bearing pension liabilities	0	0
Total debt	14,585	17,778
Cash and cash equivalents and current deposits	-2,897	-2,710
Net debt	**11,688**	**15,068**

The loans are distributed among currencies as follows

Maturity of loans by currency

Consolidated

	Current		Non-current	
SEK millions	2015	2014	2015	2014
Currency:				
BRL	4	8	–	–
CNY	2	37	–	–
DKK	1	1	3	5
EUR	252	94	11,341	13,108
INR	8	13	–	–
KRW	–	–	1	1
SEK	1,000	1,067	–	–
USD	752	31	1,139	3,340
Other	0	0	–	–
Total	**2,019**	**1,251**	**12,484**	**16,454**
Of which, not due within five years:			6,505	10,596

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 8,217 million with a banking syndicate. At December 31, 2015 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 (50) 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 2,970 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 2,240 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 2,740 million with floating interest rate and a maturity of five years. 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 2015 the loans were accruing interest in the range of 0.41 % – 0.91 % (0.52 % – 1.13 %). The average interest rate at the end of 2015 was 0.93 (1.10) percent. The Group has chosen to hedge 18 (21) percent of the loans to fixed interest rate, with a duration of 10.0 (14.5) months.

Loans with fixed rate

Private placement

In 2006 Alfa Laval made a private placement in the U.S. The offer was oversubscribed and was closed at USD 110 million, corresponding to SEK 921 million. The loan matures in April 2016. The interest was based on U.S. Treasury bills plus a mark-up of 95 basis points, which gave a fixed interest of 5.75 percent. The loan was raised on April 27, 2006.

Corporate bonds and commercial papers

Alfa Laval has issued EUR 500 million of corporate bonds corresponding to SEK 4,525 million, with a fixed interest rate of 1.495 percent and a maturity of eight years.

Alfa Laval has a commercial paper programme that amounts to SEK 2,000 million, out of which nominally SEK 1,000 million with 3–5 months duration was utilised at December 31, 2015. 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 49 (73) million. The current year's cost for the fee amortisation is SEK -14 (-10) million.

Average interest and currency duration

The average interest and currency duration for all loans including derivatives is 28.4 (28.5) months at the end of 2015.

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.

The private placement is linked to two financial covenants that must be fulfilled throughout the life of the loan. These covenants refer to the relationship between net debt and EBITDA and between EBITDA and total interest expense.

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	2015	2014
Financial lessee payable	82	73
VAT liabilities, employee withholding taxes	177	232
Other non-interest bearing liabilities	1,714	1,698
Total	**1,973**	**2,003**

Note 30. Accrued costs and prepaid income

Split by type and maturity

Consolidated		
SEK millions	2015	2014
Accruals for social security	314	316
Reserve for severance pay	168	171
Accrued interest expenses	32	34
Other accrued expenses	1,715	1,555
Prepaid income	8	29
Total	**2,237**	**2,105**
Of which, not due within one year:		
Accruals for social security	31	31
Reserve for severance pay	96	100
Other accrued expenses	102	99
Total	**229**	**230**

Note 31. Pledged assets and contingent liabilities

Split by type

Consolidated		
SEK millions	2015	2014
Pledged assets		
Other pledges and similar commitments	11	18
Total	**11**	**18**
Contingent liabilities		
Discounted bills	44	30
Performance guarantees	1,724	1,885
Other contingent liabilities	722	515
Total	**2,490**	**2,430**

As of December 31, 2015 the Group had sold receivables with recourse totalling SEK 44 (30) 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 4.2 (3.7) 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, 2014. 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 2 (2) million.

The Board of Directors for Alfa Laval AB 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	2015	2014
Receivables:		
Accounts receivable	177	167
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	2015	2014
Net sales	1,664	1,289
Other operating income	2	2

Note 33. Interests in joint ventures

Alfa Laval owns 50 percent in four different joint ventures: Rolls Laval Heat Exchangers Ltd with Rolls Royce as partner, Alfdex AB with Haldex as partner, AlfaWall AB with Wallenius as partner and Halaas og Mohn AS with Halaas Holding AS 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	2015	2014
Current assets	55	65
Non-current assets	10	14
Current liabilities	37	40
Non-current liabilities	11	9
Contingent liabilities	39	38

Revenues/expenses

Joint ventures		
SEK millions	2015	2014
Net sales	193	176
Cost of goods sold	-122	-118
Other operating income	27	26
Other operating costs	-87	-73
Financial net	0	0
Result before tax	11	11
Taxes	-3	-4
Net income	8	7
Other comprehensive income	0	0
Comprehensive income	**8**	**7**

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	2015	2014
Operating income	11	11
Taxes	-3	-4
Net income	8	7
Received dividends	12	12
Shares in joint ventures	18	22

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	2015	2014
Result items		
Amount of recognised project sales revenue	2,402	3,433
Work performed on ongoing projects		
Aggregate amount of costs incurred and recognised profits (less recognised losses)	2,753	3,495
Assets		
Retentions	61	39
Gross amount due from customers for work in progress	249	797
Liabilities		
Advances received	948	1,252
Gross amount due to customers for work in progress	285	209

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 404 (365) million. During the year, the Group has entered into finance leases with a capitalised value of SEK 1 (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	2015	2014
Maturity in year:		
2015	N/A	384
2016	392	345
2017	351	278
2018	295	230
2019	218	167
2020	174	N/A
Later	781	782
Total	**2,211**	**2,186**

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	2015	2014	2015	2014
Maturity in year:				
2015	N/A	16	N/A	16
2016	20	14	20	13
2017	17	12	16	11
2018	16	11	16	10
2019	16	11	15	10
2020	13	N/A	12	N/A
Later	0	9	0	8
Total	**82**	**73**	**79**	**68**

Proposed disposition of earnings

The unrestricted equity in Alfa Laval AB (publ) is SEK:	
Profit brought forward	8,337,475,037
Net income 2015	1,219,593,357
	9,557,068,394

The Board of Directors propose a dividend of SEK 4.25 (4.00) per share corresponding to SEK 1,782,689,339 (1,677,825,260) and that the remaining income of SEK 7,774,379,055 (8,337,475,037) be carried forward.

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, 2016

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*	Lars Renström *Director*

Our Auditors' Report concerning this Annual Report has been issued on March 4, 2016.

Håkan Olsson Reising *Authorised Public Accountant*	Helene Willberg *Authorised Public Accountant*

Auditor's report

To the annual meeting of the shareholders of Alfa Laval AB (publ), corp. id 556587-8054

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Alfa Laval AB (publ) for the year 2015. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 61–135.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director 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.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 2015 and of their financial performance and cash flows 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 2015 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and in accordance with 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 annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the statement of comprehensive income and statement of financial position for the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Alfa Laval AB (publ) for the year 2015.

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, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As 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.

As basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual 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.

Lund 4 March 2016

Håkan Olsson Reising
Authorized Public Accountant
KPMG AB

Helene Willberg
Authorized Public Accountant
KPMG AB

Ten-year overview

Ten-year overview

Consolidated

SEK millions, unless otherwise stated	2015	2014	2013 *	2012 **	2011	2010	2009	2008	2007	2006
Profit and loss										
Net sales	39,746	35,067	29,801	29,813	28,652	24,720	26,039	27,850	24,849	19,802
Comparison distortion items	–	-320	–	-51	-170	90	-225	-168	54	-120
Operating income	5,717	4,667	4,353	4,396	4,691	4,401	4,030	5,736	4,691	2,552
Financial net	-273	-550	-181	133	-15	-37	-270	-395	-134	-177
Result after financial items	5,444	4,117	4,172	4,529	4,676	4,364	3,760	5,341	4,557	2,375
Taxes	-1,583	-1,149	-1,132	-1,306	-1,425	-1,248	-1,023	-1,534	-1,377	-650
Net income for the year	**3,861**	**2,968**	**3,040**	**3,223**	**3,251**	**3,116**	**2,737**	**3,807**	**3,180**	**1,725**
Financial position										
Goodwill	19,498	20,408	10,061	9,792	9,543	5,952	6,143	5,383	4,459	3,706
Other intangible assets	6,556	7,898	3,582	3,807	3,502	2,581	2,490	1,890	1,275	1,191
Property, plant and equipment	4,773	5,004	3,785	3,823	3,936	3,512	3,548	3,546	2,824	2,514
Other non-current assets	1,804	2,092	1,447	1,509	1,664	1,568	1,542	1,376	1,128	784
Inventories	7,405	7,883	6,312	6,176	6,148	4,769	4,485	5,972	5,086	3,793
Current receivables	8,964	9,791	7,671	8,050	7,663	6,884	6,584	9,238	7,420	5,987
Current deposits	1,021	697	605	427	483	575	302	544	190	229
Cash and cash equivalents	1,876	2,013	1,446	1,404	1,564	1,328	1,112	1,083	856	546
TOTAL ASSETS	**51,897**	**55,786**	**34,909**	**34,988**	**34,503**	**27,169**	**26,206**	**29,032**	**23,238**	**18,750**
Equity	18,423	17,202	16,162	14,453	15,144	13,582	12,229	10,493	7,937	6,831
Provisions for pensions etc.	1,931	2,221	1,494	1,727	852	847	920	990	877	941
Provisions for taxes	2,925	3,074	1,758	1,932	1,930	1,617	1,390	1,161	1,090	949
Other non-current liabilities	521	660	423	473	520	632	439	403	409	318
Non-current loans	12,484	16,454	3,529	5,393	5,060	1,041	1,626	3,394	3,068	2,006
Current liabilities	15,613	16,175	11,543	11,010	10,997	9,450	9,602	12,591	9,857	7,705
TOTAL EQUITY & LIABILITIES	**51,897**	**55,786**	**34,909**	**34,988**	**34,503**	**27,169**	**26,206**	**29,032**	**23,238**	**18,750**

* Restated to IFRS 11. ** Restated to the new IAS 19. *** The figures for 2008 until 2006 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	2015	2014	2013 *	2012 **	2011	2010	2009	2008	2007	2006
Key ratios										
Orders received	37,098	36,660	30,202	30,339	28,671	23,869	21,539	27,464	27,553	24,018
Order backlog at year end	20,578	22,293	14,568	14,468	13,736	11,552	11,906	14,310	14,730	12,359
EBITA	6,811	5,571	4,914	4,883	5,117	4,772	4,360	5,992	5,034	2,891
EBITDA	7,478	6,136	5,360	5,330	5,566	5,197	4,751	6,296	5,299	3,153
EBITA-margin %	17.1%	15.9%	16.5%	16.4%	17.9%	19.3%	16.7%	21.5%	20.3%	14.6%
EBITDA-margin %	18.8%	17.5%	18.0%	17.9%	19.4%	21.0%	18.2%	22.6%	21.3%	15.9%
Adjusted EBITA	6,811	5,891	4,914	4,934	5,287	4,682	4,585	6,160	4,980	3,010
Adjusted EBITDA	7,478	6,456	5,360	5,381	5,736	5,107	4,976	6,464	5,245	3,273
Adjusted EBITA-margin %	17.1%	16.8%	16.5%	16.5%	18.5%	18.9%	17.6%	22.1%	20.0%	15.2%
Adjusted EBITDA-margin %	18.8%	18.4%	18.0%	18.0%	20.0%	20.7%	19.1%	23.2%	21.1%	16.5%
Profit margin %	13.7%	11.7%	14.0%	15.2%	16.3%	17.7%	14.4%	19.2%	18.3%	12.0%
Excl. goodwill and step-up values:										
Capital turnover rate, times	10.6	7.9	6.4	6.7	6.3	5.6	5.2	5.6	6.4	6.3
Capital employed	3,734	4,447	4,657	4,430	4,560	4,399	5,052	4,973	3,863	3,137
Return on capital employed %	182.4%	125.3%	105.5%	110.2%	112.2%	108.5%	86.3%	120.5%	130.3%	92.2%
Incl. goodwill and step-up values:										
Capital turnover rate, times	1.3	1.3	1.6	1.7	1.8	1.9	2.0	2.5	2.7	2.5
Capital employed	31,512	27,259	18,598	17,833	16,324	12,752	12,976	11,144	9,289	8,062
Return on capital employed %	21.6%	20.4%	26.4%	27.4%	31.3%	37.4%	33.6%	53.8%	54.2%	35.9%
Return on equity %	21.7%	17.6%	17.9%	22.9%	22.9%	24.4%	24.5%	42.8%	44.1%	25.3%
Solidity %	35.5%	30.8%	46.3%	41.3%	43.9%	50.0%	46.7%	36.1%	34.2%	36.4%
Net debt	11,688	15,068	2,611	4,270	3,264	-551	533	2,074	2,397	1,478
Net debt to EBITDA, times	1.56	2.46	0.49	0.80	0.59	-0.11	0.11	0.33	0.45	0.47
Debt ratio, times	0.63	0.88	0.16	0.30	0.22	-0.04	0.04	0.20	0.30	0.22
Interest coverage ratio, times	22.3	18.2	22.1	23.2	28.6	35.9	15.2	26.2	23.7	14.4
Cash flow from:										
operating activities	5,850	5,123	4,233	3,586	3,429	4,098	5,347	4,062	3,264	2,619
investing activities	-710	-14,970	-951	-3,260	-5,497	-1,417	-2,620	-1,333	-1,676	-1,578
financing activities	-5,229	10,250	-3,191	-407	2,317	-2,431	-2,667	-2,599	-1,291	-935
Investments	674	603	492	531	555	429	451	747	556	373
Average number of employees	17,486	17,109	16,238	16,060	14,667	12,078	11,773	11,821	10,804	9,923
Earnings per share, SEK ***	9.15	7.02	7.22	7.64	7.68	7.34	6.42	8.83	7.12	3.78
Free cash flow per share, SEK ***	12.25	-23.48	7.82	0.78	-4.93	6.38	6.46	6.38	3.60	2.33

* Restated to IFRS 11. ** Restated to the new IAS 19. *** The figures for 2008 until 2006 have been recalculated due to the 4:1 split.

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Website: www.alfalaval.com

Production: Alfa Laval AB / Bysted AB
Prepress and printing: Gigantprint
Translation: The Bugli Company

Definitions

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.

EBITA
"Earnings Before Interest, Taxes and Amortisation" or 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.

EBITDA
"Earnings Before Interest, Taxes, Depreciation and Amortisation" or operating income before depreciation and amortisation of step-up values. This measure of result is fully comparable over time independent of the financing costs and the depreciation and amortisation of step-up values that from time to time burden the Group.

EBITA-margin %
Operating income before amortisation of step-up values (EBITA) in relation to net sales, expressed in percent.

EBITDA-margin %
Operating income before depreciation and amortisation of step-up values (EBITDA) in relation to net sales, expressed in percent.

Adjusted EBITA
Same as EBITA, but adjusted for comparison distortion items.

Adjusted EBITDA
Same as EBITDA, but adjusted for comparison distortion items.

Adjusted EBITA-margin %
Same as EBITA-margin, but adjusted for comparison distortion items.

Adjusted EBITDA-margin %
Same as EBITDA-margin, but adjusted for comparison distortion items.

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 capital employed %
EBITA in relation to average capital employed, expressed in percent. Shown excluding and including goodwill and step-up values and the corresponding deferred tax liability.

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.

Net debt
Interest-bearing liabilities including interest-bearing pension liabilities and capitalised finance leases less liquid funds.

Net debt to EBITDA, times
Net debt in relation to EBITDA is one of the covenants of Alfa Laval's loans and an important key figure when reviewing the proposed dividend.

Debt ratio, times
Net debt in relation to equity, expressed as a multiple of the equity.

Interest coverage ratio, times
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.

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 OMX 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 2016

Alfa Laval will publish quarterly reports on the following dates in 2016:

Year-end report 2015	February 2
First-quarter report	April 25
Second-quarter report	July 18
Third-quarter report	October 25

Shareholder information

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Annual General Meeting 2016

The Annual General Meeting of Alfa Laval AB (publ) will be held on Monday, April 25, 2016, 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 can 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 Tuesday, April 19, 2016, and register their intention to participate, along with any assistants, not later than Tuesday, April 19, 2016, 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 19. 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 Wednesday, April 27, 2016. If the Meeting approves the proposal, the dividend is expected to be distributed on Monday, May 2, 2016. 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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