

# Third quarter 2016



## Summary

SEK millions	Third quarter				First nine months			
	2016	2015	%	% *	2016	2015	%	% *
Order intake	7,540	8,686	-13	-14	23,351	27,676	-16	-14
Net sales	8,581	9,693	-11	-12	25,730	28,941	-11	-9
Adjusted EBITA **	1,339	1,675	-20		4,065	5,060	-20	
- adjusted EBITA margin (%) **	15.6	17.3			15.8	17.5		
Result after financial items	93	1,336	-93		2,448	4,054	-40	
Net income for the period	-106	988	-111		1,696	2,926	-42	
Earnings per share (SEK)	-0.27	2.34	-112		4.00	6.93	-42	
Cash flow ***	911	1,369	-33		3,054	3,975	-23	
Impact on adjusted EBITA of:								
- foreign exchange effects	107	40			337	370		
Impact on result after financial items of:								
- comparison distortion items	-1,100	-			-1,100	-		

\* Excluding currency effects. \*\* Alternative performance measures, defined on page 22. \*\*\* From operating activities.

## Comment from Tom Erixon, President and CEO

“Order intake for the third quarter was sequentially somewhat weaker. The development originated from a low activity level within the marine sector and generally longer decision processes for larger investment projects among our customers. We estimate that the demand during the fourth quarter will be unchanged to somewhat higher.

The adjusted EBITA margin in the quarter was sequentially unchanged at 15.6 percent. In order to secure the profitability going forward and to strengthen our competitiveness we are today launching a programme. The programme comprises cost savings in sales and admin - generated by the new structure, a reduction of the number of manufacturing entities and that certain entities that have not developed as expected are lifted out of Alfa Laval's new operating structure. The non-recurring cost is estimated to reach SEK 1.5 billion in total, of which SEK 1.1 billion is

charged to the third quarter. Of these some SEK 600 million relate to write-offs for predominately step-up and goodwill and is a non-cash item. The program is expected to generate savings of SEK 300 million in sales and admin. Our on-going work with cost savings in manufacturing, within procurement as well as staffing, aimed at supporting the gross profit during a period of lower capacity utilisation continues in parallel. The work with implementing the new organisation is proceeding according to plan. More information on the organisation as well as the strategic direction will be given in connection with the Capital Markets Day on November 22.

During the quarter the ballast water convention was ratified, which means that parts of the global merchant fleet will install cleaning systems during the next six years. The activity on the market is high, and the effect on order intake is expected in 2017.”

## Outlook for the fourth quarter

“We expect that demand during the fourth quarter 2016 will be in line with or somewhat higher than in the third quarter.”

*Earlier published outlook (July 18, 2016): “We expect that demand during the third quarter 2016 will be in line with or somewhat lower than in the second quarter.”*

The interim report has been reviewed by the company's auditors, see page 23 for the review

report.

This information is information that Alfa Laval AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out below, at CET 7.30 on October 25, 2016.

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# Management's discussion and analysis

## Important events during the third quarter

Group Management has started three initiatives for restructuring and implementation of a new

organisation, see page 6. Large orders for SEK - (280) million were landed.

## Order intake

Orders received has amounted to SEK 7,540 (8,686) million for the third quarter 2016 and to SEK 23,351 (27,676) million for the first nine

months 2016. Compared with earlier periods the development per quarter has been as follows.



The change compared with the corresponding periods last year and the previous quarter can be

split into:

Consolidated

### Order bridge

	Order intake Prior periods SEK millions	Change					Order intake Current periods SEK millions
		Excluding currency effects			After currency effects		
		Structural change <sup>2)</sup> (%)	Organic development <sup>3)</sup> (%)	Total (%)	Currency effects (%)	Total (%)	
Q3 2016/2015	8,686	0.2	-14.1	-13.9	0.7	-13.2	7,540
Q3/Q2 2016	8,101	-	-9.6	-9.6	2.7	-6.9	7,540
YTD 2016/2015	27,676	0.4	-14.5	-14.1	-1.5	-15.6	23,351

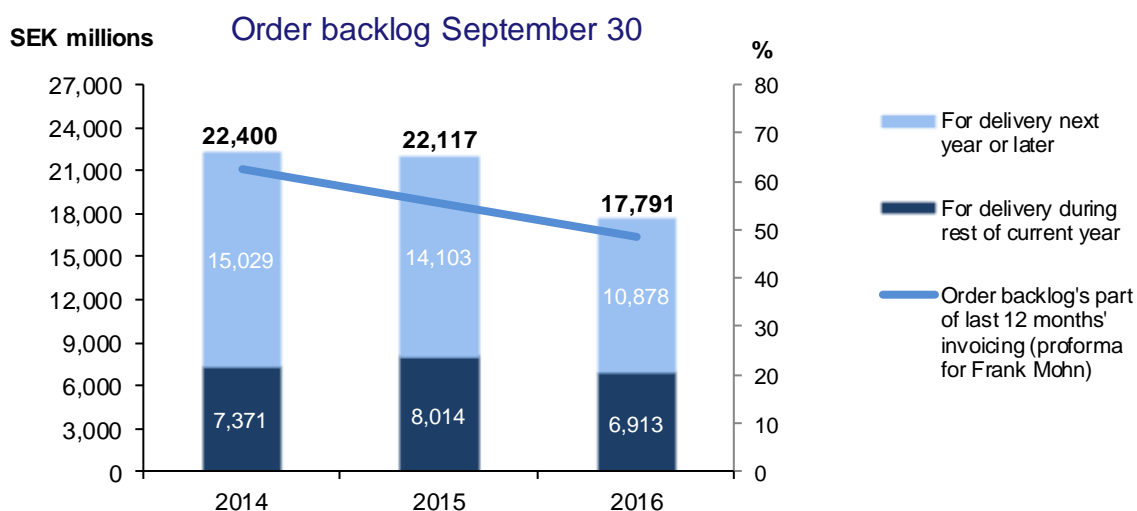
Orders received from the aftermarket Service<sup>4</sup> constituted 34.0 (30.8) percent of the Group's total orders received during the third quarter and 33.5 (28.7) percent during the first nine months 2016.

Excluding currency effects, the order intake for Service decreased by 4.7 percent during the third quarter 2016 compared to the corresponding

quarter last year (the corresponding organic development was a decrease by 5.0 percent) and decreased with 3.7 percent compared to the previous quarter (the corresponding organic development was the same). For the first nine months 2016 the increase was 0.3 percent compared to the corresponding period last year (the corresponding organic development was a decrease by 0.5 percent).

- Orders with a value over EUR 5 million.
- Structural change relates to acquisition of businesses. Acquired businesses are: K-Bar Parts LLC (renamed to Alfa Laval Kathabar Inc) in the U.S. at July 31, 2015 and an aftermarket company specialized in separation technology at July 3, 2015.
- Organic development relates to change excluding acquisition of businesses.
- Parts and service.

## Order backlog



Excluding currency effects and adjusted for acquisition of businesses the order backlog was 17.8 percent smaller than the order backlog at

September 30, 2015 and 12.2 percent smaller than the order backlog at the end of 2015.

## Net sales

Net invoicing was SEK 8,581 (9,693) million for the third quarter and SEK 25,730 (28,941) million for the first nine months 2016. The change

compared with the corresponding periods last year and the previous quarter can be split into:

	Consolidated	Sales bridge					Net sales	
		Change			After currency effects			
		Net sales	Excluding currency effects	Organic development	Currency effects	Total		Net sales
		Prior periods	Structural change	Organic development	Total	Currency effects	Total	Current periods
		SEK millions	(%)	(%)	(%)	(%)	(%)	SEK millions
Q3 2016/2015		9,693	0.2	-12.4	-12.2	0.7	-11.5	8,581
Q3/Q2 2016		8,950	-	-7.0	-7.0	2.9	-4.1	8,581
YTD 2016/2015		28,941	0.4	-9.7	-9.3	-1.8	-11.1	25,730

Net invoicing relating to Service constituted 30.0 (26.1) percent of the Group's total net invoicing in the third quarter and 29.5 (26.5) percent in the first nine months 2016.

Excluding currency effects, the net invoicing for Service increased by 1.2 percent during the third quarter 2016 compared to the corresponding quarter last year (the corresponding organic

development was an increase by 0.8 percent) and decreased with 2.5 percent compared to the previous quarter (the corresponding organic development was the same). For the first nine months 2016 the increase was 0.7 percent compared to the corresponding period last year (the corresponding organic development was an increase by 0.0 percent).

## Income

SEK millions	Third quarter		First nine months		Full year	Last 12
	2016	2015	2016	2015	2015	months
Net sales	8,581	9,693	25,730	28,941	39,746	36,535
Cost of goods sold	-6,336	-6,558	-17,733	-19,330	-26,707	-25,110
<b>Gross profit</b>	<b>2,245</b>	<b>3,135</b>	<b>7,997</b>	<b>9,611</b>	<b>13,039</b>	<b>11,425</b>
Sales costs	-1,138	-1,095	-3,386	-3,282	-4,107	-4,211
Administration costs	-327	-336	-1,056	-1,097	-1,813	-1,772
Research and development costs	-191	-180	-590	-556	-756	-790
Other operating income	67	136	353	318	495	530
Other operating costs	-721	-267	-1,194	-780	-1,149	-1,563
Share of result in joint ventures	33	9	45	20	8	33
<b>Operating income</b>	<b>-32</b>	<b>1,402</b>	<b>2,169</b>	<b>4,234</b>	<b>5,717</b>	<b>3,652</b>
Dividends and changes in fair value	0	0	0	0	33	33
Interest income and financial exchange rate gains	141	27	357	401	404	360
Interest expense and financial exchange rate losses	-16	-93	-78	-581	-710	-207
<b>Result after financial items</b>	<b>93</b>	<b>1,336</b>	<b>2,448</b>	<b>4,054</b>	<b>5,444</b>	<b>3,838</b>
Taxes	-199	-348	-752	-1,128	-1,583	-1,207
<b>Net income for the period</b>	<b>-106</b>	<b>988</b>	<b>1,696</b>	<b>2,926</b>	<b>3,861</b>	<b>2,631</b>
Other comprehensive income: Items that will subsequently be reclassified to net income						
Cash flow hedges	137	-103	280	-351	-195	436
Market valuation of external shares	0	0	0	0	2	2
Translation difference	829	-1,012	1,588	-800	-1,056	1,332
Deferred tax on other comprehensive income	-61	146	-92	94	20	-166
<b>Sum</b>	<b>905</b>	<b>-969</b>	<b>1,776</b>	<b>-1,057</b>	<b>-1,229</b>	<b>1,604</b>
Items that will subsequently not be reclassified to net income						
Revaluations of defined benefit obligations	25	-55	75	-75	332	482
Deferred tax on other comprehensive income	-7	16	-21	26	-47	-94
<b>Sum</b>	<b>18</b>	<b>-39</b>	<b>54</b>	<b>-49</b>	<b>285</b>	<b>388</b>
<b>Comprehensive income for the period</b>	<b>817</b>	<b>-20</b>	<b>3,526</b>	<b>1,820</b>	<b>2,917</b>	<b>4,623</b>
<b>Net income attributable to:</b>						
Owners of the parent	-111	980	1,678	2,906	3,839	2,611
Non-controlling interests	5	8	18	20	22	20
<b>Earnings per share (SEK)</b>	<b>-0.27</b>	<b>2.34</b>	<b>4.00</b>	<b>6.93</b>	<b>9.15</b>	<b>6.22</b>
Average number of shares	419,456,315	419,456,315	419,456,315	419,456,315	419,456,315	419,456,315
<b>Comprehensive income attributable to:</b>						
Owners of the parent	810	-26	3,487	1,807	2,903	4,583
Non-controlling interests	7	6	39	13	14	40

The gross profit has except a lower invoicing volume been negatively affected by price/mix effects within capital sales and a lower outcome for certain factories. The gross profit has been positively affected by a favourable mix between capital sales and service and positive procurement variations and by currency effects, largely related to a strong USD.

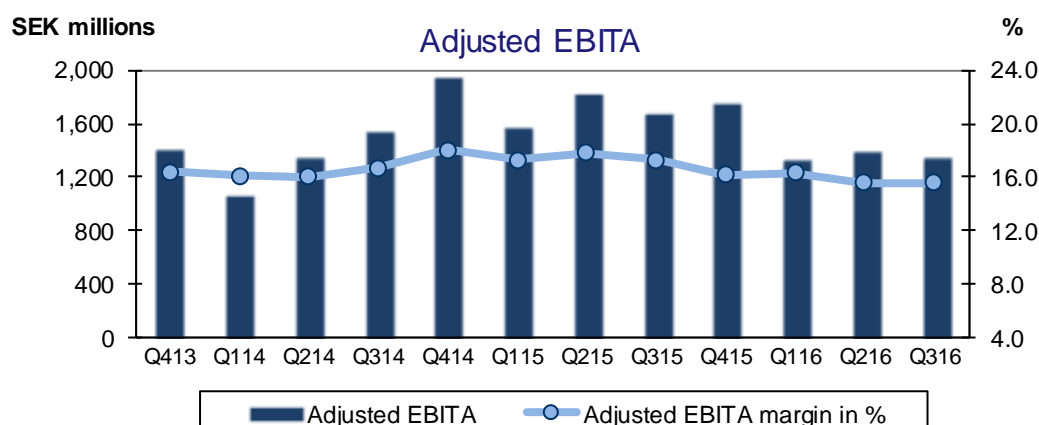
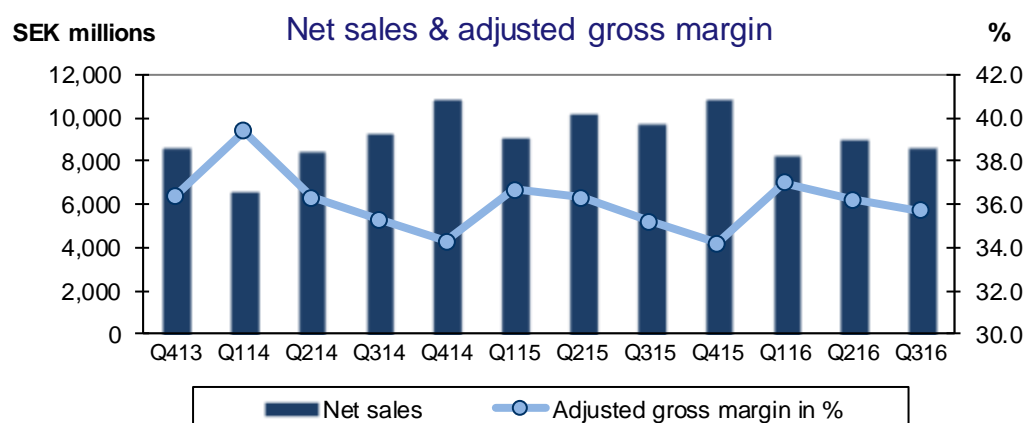
Sales and administration expenses amounted to SEK 1,465 (1,431) million during the third quarter and SEK 4,442 (4,379) million during the first nine months 2016. Excluding currency effects and acquisition of businesses, sales and administration expenses were 1.9 percent and 2.7 percent higher respectively than the corresponding periods last year. The corresponding figure when comparing the third quarter 2016 with the previous quarter is a decrease with 7.5 percent.

The costs for research and development during the first nine months 2016 corresponded to 2.3 (1.9) percent of net sales. Excluding currency effects and acquisition of businesses, the costs for research and development have increased by 5.0 percent during the third quarter and by 6.4

percent during the first nine months 2016 compared to the corresponding periods last year.

Earnings per share, excluding amortisation of step-up values and the corresponding tax\*, was SEK 6.47 (8.34) for the first nine months 2016.

Consolidated SEK millions	Income analysis					
	Third quarter		First nine months		Full year	Last 12 months
	2016	2015	2016	2015	2015	
Net sales	8,581	9,693	25,730	28,941	39,746	36,535
Adjusted gross profit *	3,066	3,408	9,343	10,437	14,133	13,039
- <b>adjusted gross margin (%) *</b>	<b>35.7</b>	<b>35.2</b>	<b>36.3</b>	<b>36.1</b>	<b>35.6</b>	<b>35.7</b>
Expenses **	-1,568	-1,569	-4,800	-4,891	-6,655	-6,564
- in % of net sales	18.3	16.2	18.7	16.9	16.7	18.0
<b>Adjusted EBITDA *</b>	<b>1,498</b>	<b>1,839</b>	<b>4,543</b>	<b>5,546</b>	<b>7,478</b>	<b>6,475</b>
- <b>adjusted EBITDA margin (%) *</b>	<b>17.5</b>	<b>19.0</b>	<b>17.7</b>	<b>19.2</b>	<b>18.8</b>	<b>17.7</b>
Depreciation	-159	-164	-478	-486	-667	-659
<b>Adjusted EBITA *</b>	<b>1,339</b>	<b>1,675</b>	<b>4,065</b>	<b>5,060</b>	<b>6,811</b>	<b>5,816</b>
- <b>adjusted EBITA margin (%) *</b>	<b>15.6</b>	<b>17.3</b>	<b>15.8</b>	<b>17.5</b>	<b>17.1</b>	<b>15.9</b>
Amortisation of step up values	-271	-273	-796	-826	-1,094	-1,064
Comparison distortion items:						
Write down of goodwill and step up values	-550	-	-550	-	-	-550
Restructuring	-550	-	-550	-	-	-550
Operating income	-32	1,402	2,169	4,234	5,717	3,652



\* Alternative performance measures, defined on page 22. \*\* Excluding comparison distortion items.

## Comparison distortion items

Comparison distortion items are reported in the comprehensive income statement on each concerned line.

Group Management has started three initiatives for restructuring and implementation of a new organisation. The three initiatives are estimated to give rise to costs of a non-recurring nature in the magnitude of SEK 1,500 million.

The closing for the third quarter 2016 contains items of a non-recurring nature amounting to totally SEK 1,100 million. The amount contains estimated costs for measures concerning the three initiatives 1-3. The one-time cost contains among others a write down of above all allocated step up values and goodwill with SEK 600 million, which has burdened cost of goods sold. The one-time cost also contains costs of SEK 500 million mainly for lay off of about 700 employees and in addition certain costs for write down of assets and provisions for lease agreements, which has burdened other operating costs. The measures are estimated to give savings related to operating costs, excluding cost of goods sold, of about SEK 300 million. The measures are expected to

be implemented in substance by the end of the second quarter 2017. The different initiatives are described briefly below.

### 1 - Cost adaptations and a new organisation

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

### 2 - Restructuring of the manufacturing structure

This initiative includes a stepwise implementation of measures to achieve an even more competitive manufacturing structure. The initiative comprises re-locations and closures of entities during a period of about three years. The first step of this initiative has been reflected as a part of the one-time cost in the third quarter.

### 3 - "Greenhouse"

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

## Consolidated financial net and taxes

The financial net for the first nine months 2016 has amounted to SEK -94 (-172) million, excluding realised and unrealised exchange rate losses and gains. The main elements of costs were interest on the debt to the banking syndicate of SEK -6 (-13) million, interest on the bilateral term loans of SEK -43 (-61) million, interest on the private placement of SEK -3 (-7) million, interest on the commercial papers of SEK -0 (-1) million, interest on the corporate bonds of SEK -60 (-64) million and a net of dividends and other interest income and interest costs of SEK 18 (-26) million. The net of realised and unrealised exchange rate differences has amounted to SEK 373 (-8) million.

The tax on the result after financial items was SEK -199 (-348) million in the third quarter and SEK -752 (-1,128) million in the first nine months 2016. The tax cost for the first nine months 2016 has been affected by non-recurring items of about SEK 86 million concerning adjustments of deferred taxes relating to step up values, due to reduced company taxes in certain countries and thereby decreased deferred tax liabilities. The tax cost for the third quarter 2016 and thereby also for the first nine months 2016 has been affected by the write down of goodwill, where no corresponding deferred tax has been released.

## Key figures

Consolidated	Key figures		
	September 30		December 31
	2016	2015	2015
Return on capital employed (%) *	17.0	21.8	21.6
Return on equity (%) **	13.9	21.8	21.7
Solidity (%) ***	37.7	31.9	35.5
Net debt to EBITDA, times *	1.90	1.79	1.56
Debt ratio, times *	0.56	0.79	0.63
Number of employees (at the end of the period)	17,192	17,392	17,417

\* Alternative performance measures, defined on page 22.

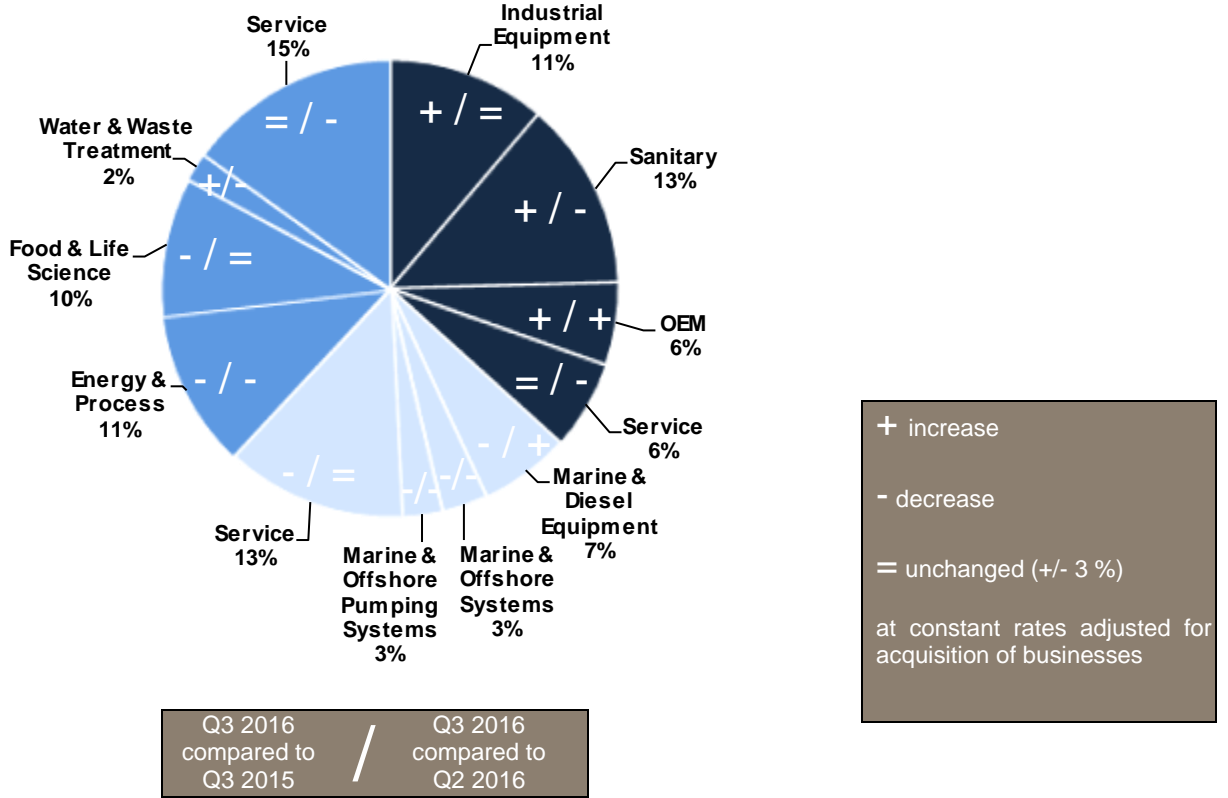
\*\* Net income in relation to average equity, calculated on 12 months' revolving basis, expressed in percent.

\*\*\* Equity in relation to total assets at the end of the period, expressed in percent.

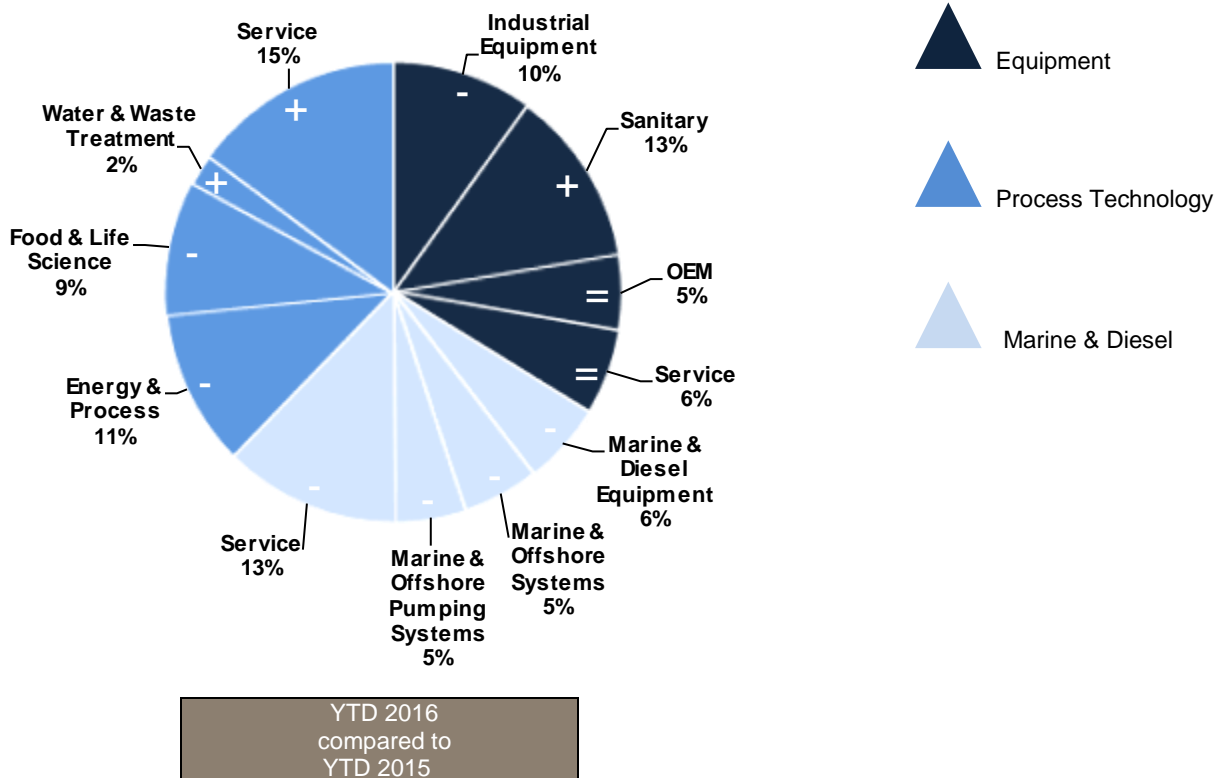
## Business divisions

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

Orders received by customer segment Q3 2016



Orders received by customer segment YTD 2016





## Equipment division

Consolidated SEK millions	Third quarter		First nine months		Full year	Last 12
	2016	2015	2016	2015	2015	months
Orders received	2,765	2,545	7,880	7,946	10,472	10,406
Order backlog*	1,798	1,818	1,798	1,818	1,637	1,798
Net sales	2,737	2,671	7,658	7,806	10,500	10,352
Operating income**	428	365	1,125	996	1,321	1,450
Operating margin***	15.6%	13.7%	14.7%	12.8%	12.6%	14.0%
Depreciation and amortisation	50	52	148	157	218	209
Investments	10	20	31	37	61	55
Assets*	6,066	6,656	6,066	6,656	6,339	6,066
Liabilities*	1,016	932	1,016	932	973	1,016
Number of employees*	2,535	2,537	2,535	2,537	2,552	2,535

\* At the end of the period. \*\* In management accounts. \*\*\* Operating income in relation to net sales.

Consolidated %	Change excluding currency effects					
	Order intake			Net sales		
	Structural change	Organic development	Total	Structural change	Organic development	Total
Q3 2016/2015	-	8.6	8.6	-	2.5	2.5
Q3/Q2 2016	-	-2.1	-2.1	-	5.9	5.9
YTD 2016/2015	-	0.5	0.5	-	-0.5	-0.5

All comments below are excluding currency effects.

### Order intake

Overall order intake was on about the same level in the third quarter as in the second quarter. While the vacation period in Western Europe hampered activity in that region, order intake saw a positive development across major markets in Asia Pacific.

The **Sanitary** segment declined somewhat compared to the previous quarter as the big number of larger orders in the second quarter, mainly to customers in dairy and personal care, where not repeated. Underlying, however, the segment experienced a continued positive trend. In **Industrial Equipment** volumes were flat. Demand for HVAC grew compared to the previous quarter due to a number of larger

orders, while refrigeration declined due to the non-repeat of larger orders in the second quarter. The overall refrigeration market, however, was good with a higher overall activity level than a year ago. The **OEM** segment reported a limited growth, mainly lifted by demand among customers manufacturing engines.

**Service** declined somewhat, negatively influenced by the vacation period in Western Europe.

### Operating income

The increased operating income for Equipment during the third quarter 2016 compared to the corresponding period last year is mainly explained by a positive price/mix effect and higher sales volume, mitigated by somewhat higher operating costs.



## Process Technology division

Consolidated SEK millions	Third quarter		First nine months		Full year	Last 12
	2016	2015	2016	2015	2015	months
Orders received	2,866	3,256	8,779	9,706	12,795	11,868
Order backlog*	6,818	8,285	6,818	8,285	7,226	6,818
Net sales	2,972	3,467	9,028	10,410	14,511	13,129
Operating income**	219	352	826	1,259	1,899	1,466
Operating margin***	7.4%	10.2%	9.1%	12.1%	13.1%	11.2%
Depreciation and amortisation	90	92	264	267	366	363
Investments	20	42	64	96	156	124
Assets*	11,001	11,285	11,001	11,285	10,832	11,001
Liabilities*	4,242	4,507	4,242	4,507	3,812	4,242
Number of employees*	5,158	5,228	5,158	5,228	5,242	5,158

\* At the end of the period. \*\* In management accounts. \*\*\* Operating income in relation to net sales.

Consolidated %	Change excluding currency effects					
	Order intake			Net sales		
	Structural change	Organic development	Total	Structural change	Organic development	Total
Q3 2016/2015	0.5	-12.3	-11.8	0.5	-15.1	-14.6
Q3/Q2 2016	-	-6.3	-6.3	-	-12.3	-12.3
YTD 2016/2015	0.8	-7.9	-7.1	0.7	-11.8	-11.1

All comments below are excluding currency effects.

### Order intake

The division's order intake declined in the third quarter versus the previous quarter. The contraction is partly explained by the non-repeat of large orders in Water & Waste Treatment and Food & Life Science. The base business\* showed a very limited decline.

Order intake in **Energy & Process** declined somewhat from the second quarter. The business exposed to the up- and midstream part of the hydrocarbon chain grew, while the parts tied to downstream activities, such as refineries and petrochemicals, showed a decline. While the oil & gas-related base business showed good growth, capacity investments were still limited in the market, reflecting a hesitancy to invest. Market unit Power did very well in the quarter, whereas market unit Inorganics, Metals & Paper declined. **Food & Life Science** reported an unchanged order level, despite the non-repeat of a large order. Vegetable oil did very well and growth was also recorded in Food Solutions. Order intake in the **Water & Waste Treatment** segment declined compared to the previous quarter. Most of the drop is explained by the non-repeat of a large

U.S. wastewater order. The base business showed strong growth, particularly in Asia.

The **Service** segment showed a decline, partly explained by the non-repeat of a larger service order in the Energy & Process segment in Mexico in the second quarter. Asia and North America were both stable, whereas Eastern as well as Western Europe contracted. The service-related share of the total order intake continued to grow.

### Operating income

The decrease in operating income for Process Technology during the third quarter 2016 compared to the corresponding period last year is above all explained by lower sales volume and lower margin. The lower margin is explained by negative price/mix, a lower outcome for some factories and the engineering operations and a lower outcome for some larger projects and slightly higher operating costs.

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

## Marine & Diesel division

Consolidated SEK millions	Third quarter		First nine months		Full year	Last 12
	2016	2015	2016	2015	2015	months
Orders received	1,909	2,885	6,692	10,024	13,831	10,499
Order backlog*	9,175	12,014	9,175	12,014	11,715	9,175
Net sales	2,872	3,555	9,044	10,725	14,735	13,054
Operating income**	524	721	1,686	2,221	2,999	2,464
Operating margin***	18.2%	20.3%	18.6%	20.7%	20.4%	18.9%
Depreciation and amortisation	188	202	551	615	806	742
Investments	14	49	51	106	131	76
Assets*	23,572	23,409	23,572	23,409	22,905	23,572
Liabilities*	4,965	4,560	4,965	4,560	4,966	4,965
Number of employees*	3,011	3,191	3,011	3,191	3,176	3,011

\* At the end of the period. \*\* In management accounts. \*\*\* Operating income in relation to net sales.

Consolidated %	Change excluding currency effects					
	Order intake			Net sales		
	Structural change	Organic development	Total	Structural change	Organic development	Total
Q3 2016/2015	0.2	-36.0	-35.8	0.1	-20.8	-20.7
Q3/Q2 2016	-	-22.6	-22.6	-	-11.8	-11.8
YTD 2016/2015	0.3	-32.8	-32.5	0.3	-14.3	-14.0

All comments below are excluding currency effects.

### Order intake

Order intake for the Marine & Diesel division was lower in the third quarter compared to the second, mainly as a result of lower ship contracting earlier in the year affecting demand in both the Offshore Systems and Offshore Pumping Systems segments.

The **Marine & Offshore Systems** segment recorded lower order intake for systems for new ships as well for exhaust gas cleaning systems, the latter by nature a lumpy project business. Systems and equipment for offshore applications increased from the second quarter, however from a very low level. The **Marine & Offshore Pumping Systems** segment saw lower demand for marine pumping systems, whereas order intake for offshore applications increased. The

**Marine & Diesel Equipment** segment was the only segment to report growth compared to the previous quarter, thanks to demand for equipment going into cruise ships. While the ballast water convention was ratified late in the quarter, leading to increased activity, this has not yet resulted in orders. Order intake for equipment to diesel power plants grew.

Order intake for **Service** was unchanged from the previous quarter.

### Operating income

The decrease in operating income for Marine & Diesel during the third quarter 2016 compared to the corresponding period last year is mainly explained by a lower sales volume and lower margins from a combination of price/mix, lower utilisation in certain factories and higher operating costs.

## Operations and Other

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

Consolidated						
SEK millions	Third quarter		First nine months		Full year	Last 12
	2016	2015	2016	2015	2015	months
Orders received	0	0	0	0	0	0
Order backlog*	0	0	0	0	0	0
Net sales	0	0	0	0	0	0
Operating income**	-93	-55	-411	-206	-438	-643
Depreciation and amortisation	102	91	311	273	371	409
Investments	90	69	216	157	326	385
Assets*	6,602	6,326	6,602	6,326	5,797	6,602
Liabilities*	2,881	2,707	2,881	2,707	2,359	2,881
Number of employees*	6,488	6,436	6,488	6,436	6,447	6,488

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

The lower operating income in the third quarter compared to the corresponding period last year is mainly explained by costs for group-wide change projects.

## Reconciliation between divisions and Group total

Consolidated						
SEK millions	Third quarter		First nine months		Full year	Last 12
	2016	2015	2016	2015	2015	months
<b>Operating income</b>						
Total for divisions	1,078	1,383	3,226	4,270	5,781	4,737
Comparison distortion items	-1,100	-	-1,100	-	-	-1,100
Consolidation adjustments *	-10	19	43	-36	-64	15
Total operating income	-32	1,402	2,169	4,234	5,717	3,652
Financial net	125	-66	279	-180	-273	186
Result after financial items	93	1,336	2,448	4,054	5,444	3,838
<b>Assets **</b>						
Total for divisions	47,241	47,676	47,241	47,676	45,873	47,241
Corporate ***	6,065	6,578	6,065	6,578	6,024	6,065
Group total	53,306	54,254	53,306	54,254	51,897	53,306
<b>Liabilities **</b>						
Total for divisions	13,104	12,706	13,104	12,706	12,110	13,104
Corporate ***	20,090	24,222	20,090	24,222	21,364	20,090
Group total	33,194	36,928	33,194	36,928	33,474	33,194

\* Difference between management accounts and IFRS. \*\* At the end of the period. \*\*\* Corporate refers to items in the statement on financial position that are interest bearing or are related to taxes.

## Information about products and services

Consolidated SEK millions	Net sales by product/service *					
	Third quarter		First nine months		Full year	Last 12
	2016	2015	2016	2015	2015	months
Own products within:						
Separation	1,571	1,929	4,730	5,680	7,886	6,936
Heat transfer	3,816	4,272	11,364	12,612	17,372	16,124
Fluid handling	2,103	2,487	6,250	7,327	9,866	8,789
Other	272	231	911	818	1,194	1,287
Associated products	404	413	1,244	1,339	1,786	1,691
Services	415	361	1,231	1,165	1,642	1,708
<b>Total</b>	<b>8,581</b>	<b>9,693</b>	<b>25,730</b>	<b>28,941</b>	<b>39,746</b>	<b>36,535</b>

\* 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 complement Alfa Laval's product offering. Services cover all sorts of service, service agreements etc.

### New products during the third quarter

During the third quarter Alfa Laval has introduced among others the following new product:

#### Alfa Laval ALF B



New standardized model of automatic, self-cleaning filter.

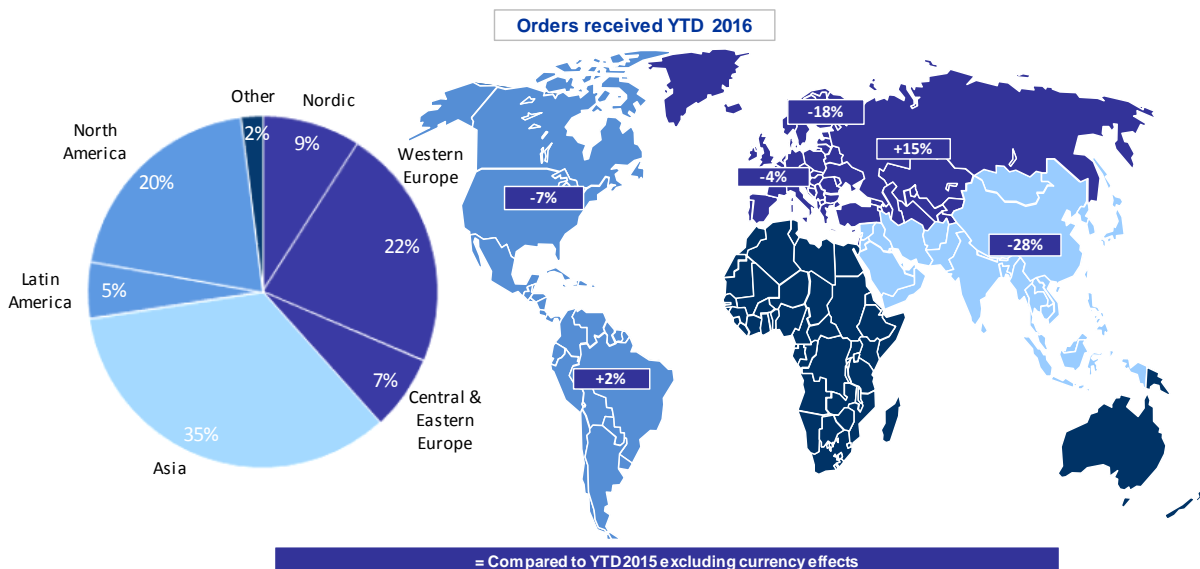
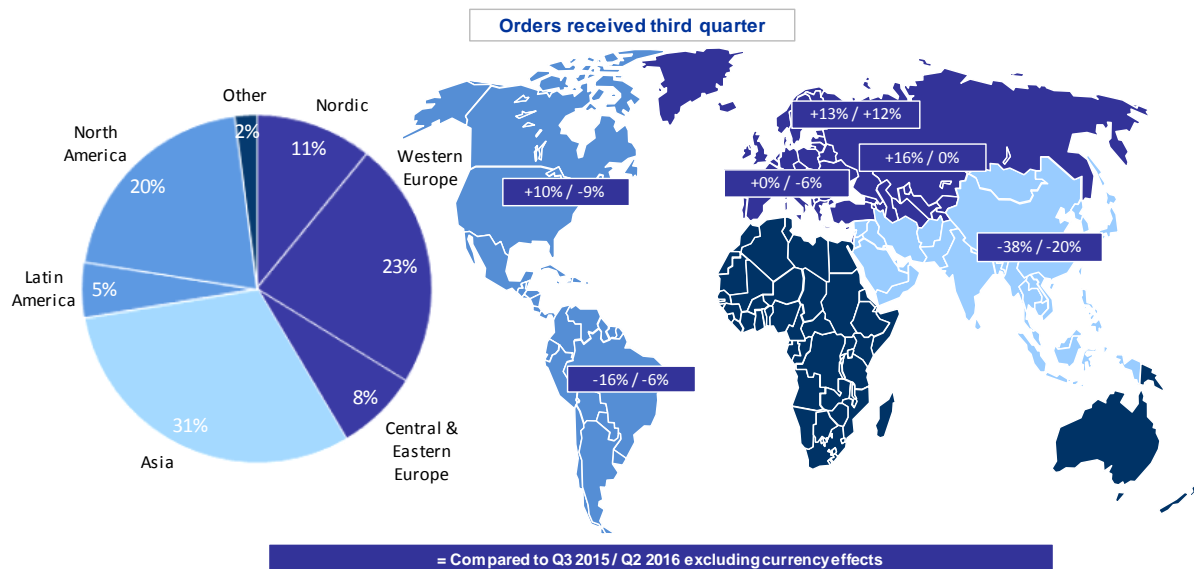
The Alfa Laval Filter (ALF) constitutes a range of automatic, self-cleaning filters. They are mainly used to protect heat exchangers from clogging and fouling in applications such as HVAC, data centres, marine and process industries.

ALF B has been developed as a new model to meet the need of a differentiated product, aiming for the standard and low specification applications in the market, such as HVAC. ALF B builds on the same principles as the other ALF models that have had a proven performance during the last 35 years. The benefits are:

- Continuous automatic operation.
- Improved plate heat exchanger and filter system reliability helps customer avoid production losses.
- Compact design - easy to install and maintain.
- High serviceability - possible to open the filter for inspection and cleaning.
- Part of a large portfolio of automatic self-cleaning filters.

The ALF B makes an excellent extension to Alfa Laval's range of automatically self-cleaning filters.

## Information by region



All comments are excluding currency effects.

### Western Europe including Nordic

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

### Central and Eastern Europe

The region reported an unchanged order intake in the third quarter compared to the second. Poland and Turkey both declined, while Russia and

countries in the Central- and South Eastern Europe regions reported growth. Russia did very well in the quarter, boosted by an improved activity in the Comfort, Power and Refinery market units, as well as continued overall strong performance in Service.

### North America

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

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

## Latin America

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

## Asia

Order intake declined in the third quarter compared to the second, negatively affected by the drop for ship contracting. The effect was particularly pronounced for pumping systems. Process Technology reported a decline driven foremost by the Energy & Process segment,

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

Consolidated SEK millions	Net sales					
	Third quarter		First nine months		Full year	Last 12 months
	2016	2015	2016	2015	2015	
To customers in:						
Sweden	192	217	569	639	864	794
Other EU	2,095	2,249	6,347	6,744	9,490	9,093
Other Europe	552	665	1,774	2,154	2,950	2,570
USA	1,466	1,661	4,301	5,028	6,725	5,998
Other North America	172	186	551	720	1,031	862
Latin America	457	446	1,296	1,377	1,826	1,745
Africa	62	63	223	243	337	317
China	1,232	1,209	3,397	3,422	4,879	4,854
South Korea	807	1,309	2,734	3,911	5,172	3,995
Other Asia	1,427	1,558	4,221	4,366	5,991	5,846
Oceania	119	130	317	337	481	461
<b>Total</b>	<b>8,581</b>	<b>9,693</b>	<b>25,730</b>	<b>28,941</b>	<b>39,746</b>	<b>36,535</b>

Net sales are reported by country on the basis of invoicing address, which is normally the same as

the delivery address.

Consolidated	Non-current assets		
	September 30		December 31
	2016	2015	2015
SEK millions			
Sweden	1,321	1,338	1,337
Denmark	4,580	4,529	4,374
Other EU	3,744	4,094	3,992
Norway	13,975	13,502	12,986
Other Europe	169	178	166
USA	4,156	4,570	4,510
Other North America	131	110	123
Latin America	312	264	271
Africa	7	2	2
Asia	3,013	3,040	2,986
Oceania	93	85	87
Subtotal	31,501	31,712	30,834
Other long-term securities	28	35	28
Pension assets	4	5	4
Deferred tax asset	1,883	2,033	1,765
Total	33,416	33,785	32,631

## 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 3-5 percent of net sales.



## Cash flows

### CONSOLIDATED CASH FLOWS

SEK millions	Third quarter		First nine months		Full year	Last 12 months
	2016	2015	2016	2015	2015	
<b>Operating activities</b>						
Operating income	-32	1,402	2,169	4,234	5,717	3,652
Adjustment for depreciation, amortisation and write down	980	437	1,824	1,312	1,761	2,273
Adjustment for other non-cash items	34	0	28	-231	-231	28
	982	1,839	4,021	5,315	7,247	5,953
Taxes paid	-363	-315	-1,218	-1,146	-1,577	-1,649
	619	1,524	2,803	4,169	5,670	4,304
Changes in working capital:						
Increase(-)/decrease(+) of receivables	-149	139	414	417	426	423
Increase(-)/decrease(+) of inventories	-82	-38	-359	-298	347	286
Increase(+)/decrease(-) of liabilities	-140	-331	-361	-340	-438	-459
Increase(+)/decrease(-) of provisions	663	75	557	27	-155	375
<b>Increase(-)/decrease(+) in working capital</b>	<b>292</b>	<b>-155</b>	<b>251</b>	<b>-194</b>	<b>180</b>	<b>625</b>
	911	1,369	3,054	3,975	5,850	4,929
<b>Investing activities</b>						
Investments in fixed assets (Capex)	-134	-180	-362	-396	-674	-640
Divestment of fixed assets	10	10	48	11	25	62
Acquisition of businesses	-5	-73	-43	-73	-73	-43
Divestment of businesses	12	-	13	-	12	25
	-117	-243	-344	-458	-710	-596
<b>Financing activities</b>						
Received interests and dividends	22	20	89	63	124	150
Paid interests	-96	-111	-203	-248	-316	-271
Realised financial exchange gains	111	-75	179	146	157	190
Realised financial exchange losses	-17	-5	-47	-340	-288	5
Dividends to owners of the parent	-	-	-1,783	-1,678	-1,678	-1,783
Dividends to non-controlling interests	-5	0	-17	-18	-18	-17
Increase(-) of financial assets	0	-83	0	-128	-311	-183
Decrease(+) of financial assets	-36	0	29	0	0	29
Increase of loans	0	400	1,860	2,800	3,400	2,460
Amortisation of loans	-898	-1,165	-3,113	-4,437	-6,299	-4,975
	-919	-1,019	-3,006	-3,840	-5,229	-4,395
<b>Cash flow for the period</b>	<b>-125</b>	<b>107</b>	<b>-296</b>	<b>-323</b>	<b>-89</b>	<b>-62</b>
Cash and cash equivalents at the beginning of the period	1,772	1,620	1,876	2,013	2,013	1,660
Translation difference in cash and cash equivalents	33	-67	100	-30	-48	82
<b>Cash and cash equivalents at the end of the period</b>	<b>1,680</b>	<b>1,660</b>	<b>1,680</b>	<b>1,660</b>	<b>1,876</b>	<b>1,680</b>
Free cash flow per share (SEK) *	1.89	2.68	6.46	8.38	12.25	10.33
Capex in relation to net sales	1.6%	1.9%	1.4%	1.4%	1.7%	1.8%
Average number of shares	419,456,315	419,456,315	419,456,315	419,456,315	419,456,315	419,456,315

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

During the first nine months 2016 cash flows from operating and investing activities amounted to SEK 2,710 (3,517) million. Depreciation, excluding allocated step-up values, was SEK 478 (486) million during the first nine months 2016.

Acquisition of businesses during the first nine months 2016 of SEK -43 million relates to purchase of additional shares in Chang San Engineering Co Ltd in South Korea, adjustment of

preliminary purchase price for one of the acquisitions during 2015 and purchase of the remaining 4.67 percent of the shares in Frank Mohn do Brasil Ltda.

Divestment of businesses of SEK 13 million relates to the sale of Halaas og Mohn AS in Norway with SEK 1 million and LHE (Qingdao) Heat Exchanger Co. Ltd. In China with SEK 12 million.

## Financial position and equity

### CONSOLIDATED FINANCIAL POSITION

SEK millions	September 30 2016	2015	December 31 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	26,612	26,893	26,054
Property, plant and equipment	4,853	4,813	4,773
Other non-current assets	1,951	2,079	1,804
	33,416	33,785	32,631
<b>Current assets</b>			
Inventories	8,127	8,183	7,405
Assets held for sale	4	6	9
Accounts receivable	5,932	6,047	5,796
Other receivables	2,902	3,591	3,001
Derivative assets	234	142	158
Other current deposits	1,011	840	1,021
Cash and cash equivalents *	1,680	1,660	1,876
	19,890	20,469	19,266
<b>TOTAL ASSETS</b>	<b>53,306</b>	<b>54,254</b>	<b>51,897</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Owners of the parent	19,975	17,206	18,302
Non-controlling interests	137	120	121
	20,112	17,326	18,423
<b>Non-current liabilities</b>			
Liabilities to credit institutions etc.	12,157	13,628	12,484
Provisions for pensions and similar commitments	1,814	2,344	1,931
Provision for deferred tax	2,747	2,765	2,925
Other non-current liabilities	612	670	521
	17,330	19,407	17,861
<b>Current liabilities</b>			
Liabilities to credit institutions etc.	1,729	2,511	2,019
Accounts payable	2,541	2,833	2,664
Advances from customers	3,224	3,491	3,136
Other provisions	2,348	1,920	1,798
Other liabilities	5,796	6,067	5,424
Derivative liabilities	226	699	572
	15,864	17,521	15,613
Total liabilities	33,194	36,928	33,474
<b>TOTAL SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>	<b>53,306</b>	<b>54,254</b>	<b>51,897</b>

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

Consolidated	Financial assets and liabilities at fair value			
	Valuation hierarchy level	September 30 2016	September 30 2015	December 31 2015
SEK millions				
<b>Financial assets</b>				
Other long term securities	1 and 2	28	35	28
Bonds and other securities	1	906	741	768
Derivative assets	2	269	148	165
<b>Financial liabilities</b>				
Derivative liabilities	2	301	842	675

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.

Consolidated	Borrowings and net debt		
	September 30 2016	September 30 2015	December 31 2015
SEK millions			
Credit institutions	197	1,201	107
Swedish Export Credit	3,091	3,027	2,970
European Investment Bank	2,355	2,309	2,240
Private placement	-	922	921
Commercial papers	600	1,200	1,000
Corporate bonds	7,643	7,480	7,265
Capitalised financial leases	71	61	82
Interest-bearing pension liabilities	0	0	0
Total debt	13,957	16,200	14,585
Cash and cash equivalents and current deposits	-2,691	-2,500	-2,897
Net debt *	11,266	13,700	11,688

\* Alternative performance measure, defined on page 22.

Alfa Laval has a senior credit facility of EUR 400 million and USD 544 million, corresponding to SEK 8,512 million with a banking syndicate. The facility was not utilised at September 30, 2016. The facility matures in June 2019, with two one-year extension options.

The corporate 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.

The bilateral term loans with Swedish Export Credit consist of 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.

The loans from the European Investment Bank is split on one loan of EUR 130 million that matures in March 2018 and one loan of EUR 115 million that matures in June 2021.

The private placement of USD 110 million matured in April 2016 and was re-paid.

The commercial paper programme is SEK 2,000 million, out of which nominally SEK 600 million with 3-5 months duration was utilised at September 30, 2016.

## CHANGES IN CONSOLIDATED EQUITY

SEK millions	First nine months		Full year
	2016	2015	2015
<b>At the beginning of the period</b>	18,423	17,202	17,202
<b>Changes attributable to:</b>			
<b>Owners of the parent</b>			
<b>Comprehensive income</b>			
Comprehensive income for the period	3,487	1,807	2,903
<b>Transactions with shareholders</b>			
Increase of ownership in subsidiaries with non-controlling interests	-31	-	-
Dividends	-1,783	-1,678	-1,678
	-1,814	-1,678	-1,678
<b>Subtotal</b>	1,673	129	1,225
<b>Non-controlling interests</b>			
<b>Comprehensive income</b>			
Comprehensive income for the period	39	13	14
<b>Transactions with shareholders</b>			
Decrease of non-controlling interests	-6	-	-
Dividends	-17	-18	-18
	-23	-18	-18
<b>Subtotal</b>	16	-5	-4
<b>At the end of the period</b>	20,112	17,326	18,423

## Acquisition and divestments of businesses

On January 12, 2016 Alfa Laval has paid SEK 6 million as an adjustment of the preliminary purchase price for the aftermarket company specialized in separation technology that was acquired in the second half of 2015. The entire amount has increased the goodwill for this acquisition.

On May 21, 2016 Alfa Laval has acquired an additional 8.33 percent of the shares in the subsidiary Chang San Engineering Co Ltd in South Korea, which increases the holding from 75 percent to 83.33 percent. On July 15, 2016 Alfa Laval has acquired the remaining 4.67 percent of the shares in Frank Mohn do Brasil

Ltda, which makes it a 100 percent owned subsidiary. The shareholding in these two companies was part of the acquisition of Frank Mohn AS in 2014.

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

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

## Parent company

The parent company's result after financial items for the first nine months 2016 was SEK 75 (63) million, out of which dividends from subsidiaries SEK 76 (69) million, net interests SEK -0 (0) million, realised and unrealised exchange rate gains and losses SEK 8 (-2) million, costs related

to the listing SEK -4 (-4) million, fees to the Board SEK -4 (-3) million, cost for annual report and annual general meeting SEK -2 (-2) million and other operating income and operating costs the remaining SEK 1 (5) million.

**PARENT COMPANY INCOME \***

SEK millions	Third quarter		First nine months		Full year
	2016	2015	2016	2015	2015
Administration costs	0	0	-10	-9	-13
Other operating income	-1	1	1	5	2
Other operating costs	0	2	0	0	0
<b>Operating income</b>	<b>-1</b>	<b>3</b>	<b>-9</b>	<b>-4</b>	<b>-11</b>
Revenues from interests in group companies	-	69	76	69	1,070
Interest income and similar result items	1	4	9	6	7
Interest expenses and similar result items	0	0	-1	-8	-15
<b>Result after financial items</b>	<b>0</b>	<b>76</b>	<b>75</b>	<b>63</b>	<b>1,051</b>
Change of tax allocation reserve	-	-	-	-	156
Group contributions	-	-	-	-	59
<b>Result before tax</b>	<b>0</b>	<b>76</b>	<b>75</b>	<b>63</b>	<b>1,266</b>
Tax on this year's result	0	-2	0	1	-46
<b>Net income for the period</b>	<b>0</b>	<b>74</b>	<b>75</b>	<b>64</b>	<b>1,220</b>

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

**PARENT COMPANY FINANCIAL POSITION**

SEK millions	September 30		December 31
	2016	2015	2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Shares in group companies	4,669	4,669	4,669
<b>Current assets</b>			
Receivables on group companies	6,424	7,223	9,581
Other receivables	301	211	143
Cash and cash equivalents	-	-	-
	6,725	7,434	9,724
<b>TOTAL ASSETS</b>	<b>11,394</b>	<b>12,103</b>	<b>14,393</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Restricted equity	2,387	2,387	2,387
Unrestricted equity	7,849	8,402	9,557
	10,236	10,789	11,944
<b>Untaxed reserves</b>			
Tax allocation reserves, taxation 2010-2016	1,145	1,301	1,145
<b>Current liabilities</b>			
Liabilities to group companies	12	12	1,304
Accounts payable	1	1	0
Other liabilities	0	0	-
	13	13	1,304
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>11,394</b>	<b>12,103</b>	<b>14,393</b>

## Owners and shares

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### Owners and legal structure

Alfa Laval AB (publ) is the parent company of the Alfa Laval Group. The company had 35,699 (38,483) shareholders on September 30, 2016. The largest owner is Tetra Laval B.V., the Netherlands who owns 29.1 (26.1) percent. Next to the largest owner, there are nine institutional investors with ownership in the range of 7.2 to 0.8 percent. These ten largest shareholders owned 56.6 (55.9) percent of the shares.

### Nomination Committee for the Annual General Meeting 2017

In accordance with a resolution taken at the Annual General Meeting of Alfa Laval AB on April 25, 2016, the Chairman of the Board, Anders Narvinger, has contacted the largest shareholders to constitute the Nomination Committee in preparation of the Annual General Meeting 2017. The following persons have

accepted to be part of the Nomination Committee: Jörn Rausing, Tetra Laval, Jan Andersson, Swedbank Robur Fonder, Ramsay Brufer, Alecta, Lars-Åke Bokenberger, AMF Pension and Magnus Fernström, Foundation Asset Management.

The Annual General Meeting of Alfa Laval AB will be held at Sparbanken Skåne Arena, Klostergårdens idrottsområde, Stattenavägen, Lund, Sweden on Wednesday April 26, 2017, at 16.00 (CET).

Shareholders who wish to submit proposals for the Nomination Committee in preparation of the Annual General Meeting can turn to the Chairman of the Board of Alfa Laval AB, Anders Narvinger or to the other shareholder representatives. Contact can also be made directly via e-mail to [valberedningen@alfalaval.com](mailto:valberedningen@alfalaval.com).

## Risks and other

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### 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. It is the company's opinion that the description of risks made in the Annual Report for 2015 is still correct.

### Asbestos-related lawsuits

The Alfa Laval Group was as of September 30, 2016, named as a co-defendant in a total of 808 asbestos-related lawsuits with a total of approximately 808 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.

### Accounting principles

The interim report for the third quarter 2016 is prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The accounting principles are according to IFRS (International Financial Reporting Standards) as adopted by the European Union.

Alfa Laval follows the Guidelines on Alternative Performance Measures issued by ESMA (European Securities and Markets Authority), see the following section.

"Third quarter" refers to the period July 1 to September 30 and "First nine months" refers to the period January 1 to September 30. "Full year" refers to the period January 1 to December 31. "Last 12 months" refers to the period October 1, 2015 to September 30, 2016. "The corresponding period last year" refers to the third quarter 2015 or the first nine months 2015 depending on the context. "Previous quarter" refers to the second quarter 2016.

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.

### Alternative performance measures

An alternative performance measure is a financial measure of historical financial performance, financial position or cash flows, other than a financial measure defined or specified in the financial reporting framework.

In the report, the following alternative performance measures have been used (all of these alternative performance measures relate to actual historical figures and never to expected performance in future periods):

**Measures to achieve full comparability over time.** All of these concern the comparison distorting impact from above all amortisation of step up values both over time and compared to external companies. For the same reasons adjustments are also made for comparison distortion items. How they are calculated is

exhibited in the Income analysis table on page 6, except for the last one.

- **Adjusted EBITA** or Adjusted Earnings Before Interests, Taxes and Amortisation is defined as operating income before amortisation of step-up values, adjusted for comparison distortion items. This measure of result is fully comparable over time independent of the comparison distortion items, the financing costs and the amortisation of step-up values that from time to time burden the Group.
- **Adjusted EBITA margin (%)** is defined as Adjusted EBITA in relation to net sales and expressed in percent.
- **Adjusted EBITDA** or Adjusted Earnings Before Interest, Taxes, Depreciation and Amortisation is defined as operating income before depreciation and amortisation of step-up values, adjusted for comparison distortion items. This measure of result is fully comparable over time independent of the comparison distortion items, the financing costs, the depreciation and the amortisation of step-up values that from time to time burden the Group.
- **Adjusted EBITDA margin (%)** is defined as Adjusted EBITDA in relation to net sales and expressed in percent.
- **Adjusted gross profit** is defined as gross profit excluding amortisation of step up values. This measure of result is fully comparable over time independent of the amortisation of step-up values that from time to time burden the Group.
- **Adjusted gross margin (%)** is defined as Adjusted gross profit in relation to net sales and expressed in percent.
- **Earnings per share, excluding amortisation of step-up values and the corresponding tax** is defined as net income attributable to the owners of the parent, excluding amortisation of step up values and the corresponding tax divided by the average number of shares. The net income attributable to the owners of the parent is presented in the consolidated comprehensive income statement and the amortisation of step up values is exhibited in the Income analysis table on page 6, while the corresponding tax is SEK 311 (235) million. This key figure is fully comparable over time independent of the amortisation of

step-up values that from time to time burden the Group.

#### Measures to show how the Group is funded and manages its capital:

- **Return on capital employed (%)** is defined as EBITA in relation to average capital employed, calculated on 12 months' revolving basis and expressed in percent. Capital employed is defined as total assets less liquid funds, other long-term securities, accrued interest income, operating liabilities and other non-interest bearing liabilities, including tax and deferred tax, but excluding accrued interest costs. The measure shows how well the capital that is used in the operations is managed.
- **Net debt** is defined as interest-bearing liabilities including interest-bearing pension liabilities and capitalised financial leases less liquid funds. The calculation of net debt is exhibited in the Borrowings and net debt table on page 19. The measure shows the net financial indebtedness.
- **Net debt to EBITDA, times** is defined as Net debt in relation to EBITDA, calculated on 12 months' revolving basis and expressed as a multiple of EBITDA. This is one of the covenants of Alfa Laval's loans and an important key figure when reviewing the proposed dividend. EBITDA or Earnings Before Interest, Taxes, Depreciation and Amortisation is defined as operating income before depreciation and amortisation of step-up values.
- **Debt ratio, times** is defined as Net debt in relation to equity at the end of the period and expressed as a multiple of the equity. This is another measure of how the Group is funded.

#### Date for the next financial report

The fourth quarter and full year 2016 report will be published on January 31, 2017.

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

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

The interim report has been issued at CET 7.30 on October 25, 2016 the President and Chief Executive Officer Tom Erixon by proxy from the Board of Directors.

Lund, October 25, 2016,

Tom Erixon  
President and Chief Executive Officer  
Alfa Laval AB (publ)



## Review report

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### Introduction

We have reviewed the summary interim financial information (the interim report) of Alfa Laval AB (publ) as of September 30, 2016 and the nine months' period then ended. The Board of Directors and the President are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements ISRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing and other generally accepted auditing practices. The procedures

performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report, in all material aspects, is not prepared for the Group in accordance with IAS 34 and the Swedish Annual Accounts Act and for the Parent company in accordance with the Swedish Annual Accounts Act.

Lund, October 25, 2016,

Håkan Olsson Reising  
Authorised Public  
Accountant

Joakim Thilstedt  
Authorised Public  
Accountant