ALFA LAVAL

Report for Q3 2016

- Key figures
- Orders received and margins
- Development per segment
- Geographical development
- Financials
- Outlook

Mr. Tom Erixon
President and CEO
Alfa Laval Group

Key figures

July – September 2016

- Orders received declined 13% to SEK 7,540 million.
- Net sales dropped 11% to SEK 8,581 million.
- Adjusted EBITA* declined 20% to SEK 1,339 million.
- Adjusted EBITA margin at 15.6% vs 17.3%
- Non-recurring charge of SEK 1,100 million.

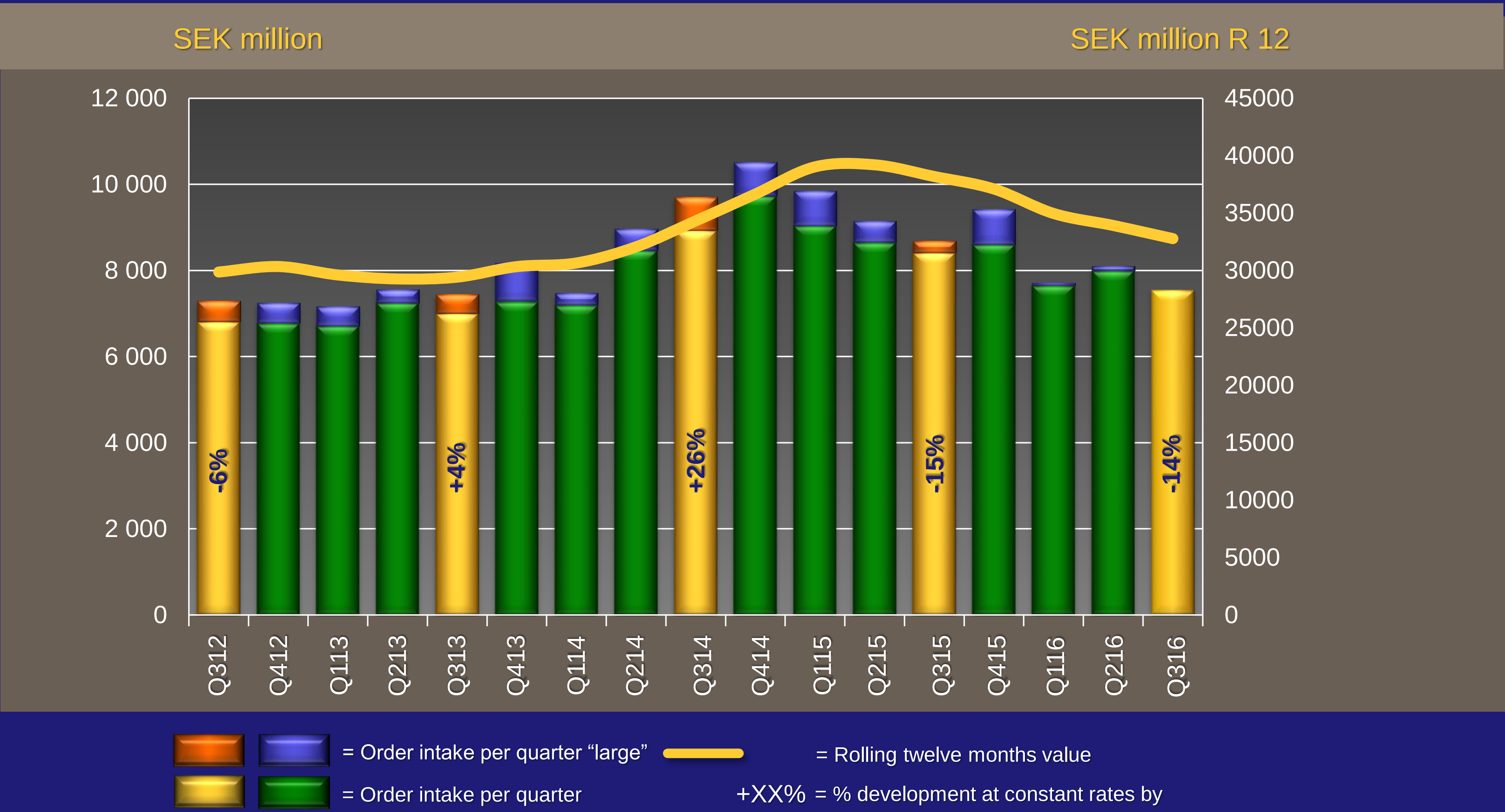
**Positive currency effect SEK 107 million.*

January – September 2016

- Orders received declined 16% to SEK 23,351 million.
- Net sales dropped 11% to SEK 25,730 million.
- Adjusted EBITA* declined 20% to SEK 4,065 million.
- Adjusted EBITA margin at 15.8% vs 17.5%
- Non-recurring charge of SEK 1,100 million.

**Positive currency effect SEK 337 million.*

Orders received



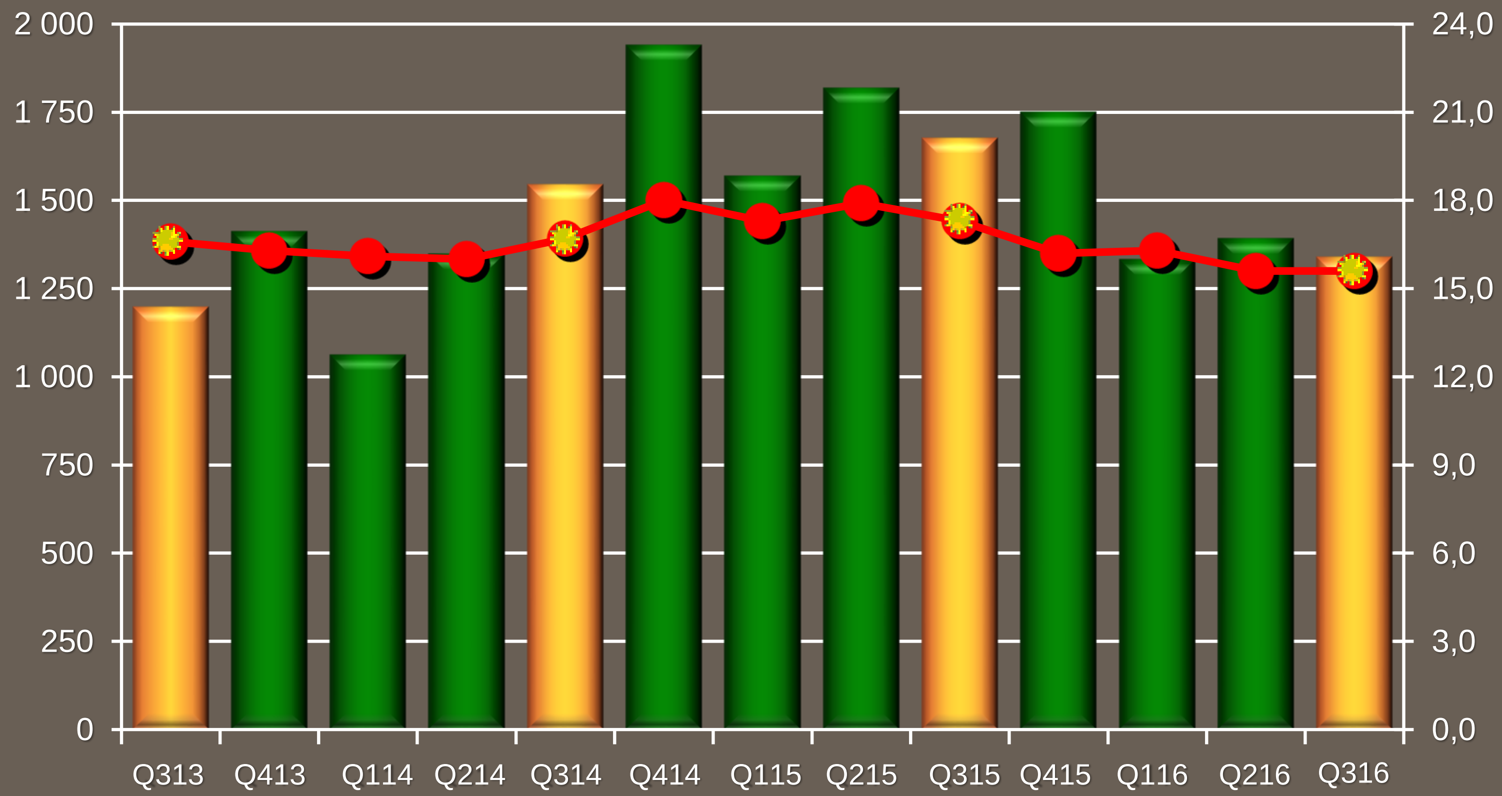
Order analysis

Q3 2016 versus Q3 2015 and versus Q2 2016 (MSEK)

Q3 2015	8,686	Q2 2016	8,101
Structural change, %	+ 0.2		-
Organic development, %	- 14.1		- 9.6
Total	- 13.9		- 9.6
Currency effects,%	+ 0.7		+ 2.7
Total, %	- 13.2		- 6.9
Q3 2016	7,540	Q3 2016	7,540

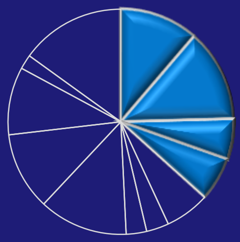
Adjusted EBITA / margin*

SEK millions and in percent of sales



* Adjusted EBITA – ”Earnings before interests, taxes, amortization of goodwill and step up values and comparison distortion items.”

Equipment division



Highlights and sequential comments

- Industrial Equipment saw growth in HVAC while refrigeration declined on the back of non-repeats.
- Sanitary declined due to non-repeats in dairy and personal care. Underlying demand, however, showed a continued positive trend.
- OEM lifted by demand from engine manufacturers.
- Service slightly down due to vacation period in Western Europe.

	Order	Sales	Backlog
Q3 2016	2,765	2,737	1,798
Q3 2015	2,545	2,671	1,818

Industrial Equipment 11%*

Sanitary 13%

OEM 6%

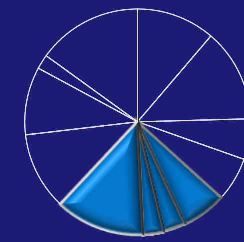
Service 6%

*Share of Group total

Year-on-year comparison

Sequential comparison

Marine & Diesel division



Highlights and sequential comments

- M&D Equipment grew on the back of demand for equipment going into cruise ships. Diesel demand grew.
- Marine & Offshore Systems affected by lower ship contracting. Demand for offshore applications grew from very low level.
- M&O Pumping declined due to lower ship contracting.
- Ballast water convention ratified in the quarter.

	Order	Sales	Backlog
Q3 2016	1,909	2,872	9,175
Q3 2015	2,885	3,555	12,014

Marine & Diesel Equipment 7%*

Marine & Offshore Systems 3%*

Marine & Offshore Pumping Systems 3%*

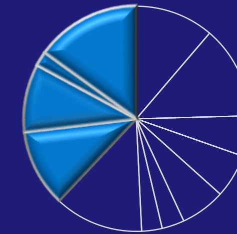
Service 13%*

*Share of Group total

Year-on-year comparison

Sequential comparison

Process Technology division



Highlights and sequential comments

- In Energy & Process, the upstream business grew while downstream declined. Power did very well whereas Inorganics, Metals and Paper dropped.
- Food & LS was flat, despite non-repeat of a large order. Vegetable oil and Food Solutions did well.
- Water & Waste down due to non-repeat. Base business showed strong growth .
- Service affected by non-repeat of larger order in previous quarter.

	Order	Sales	Backlog
Q3 2016	2,866	2,972	6,818
Q3 2015	3,256	3,467	8,285

Energy & Process 11%*

– –

Food & Life Science 10%*

– =

Water & Waste Treatment 2%*

+ –

Service 15%*

= –

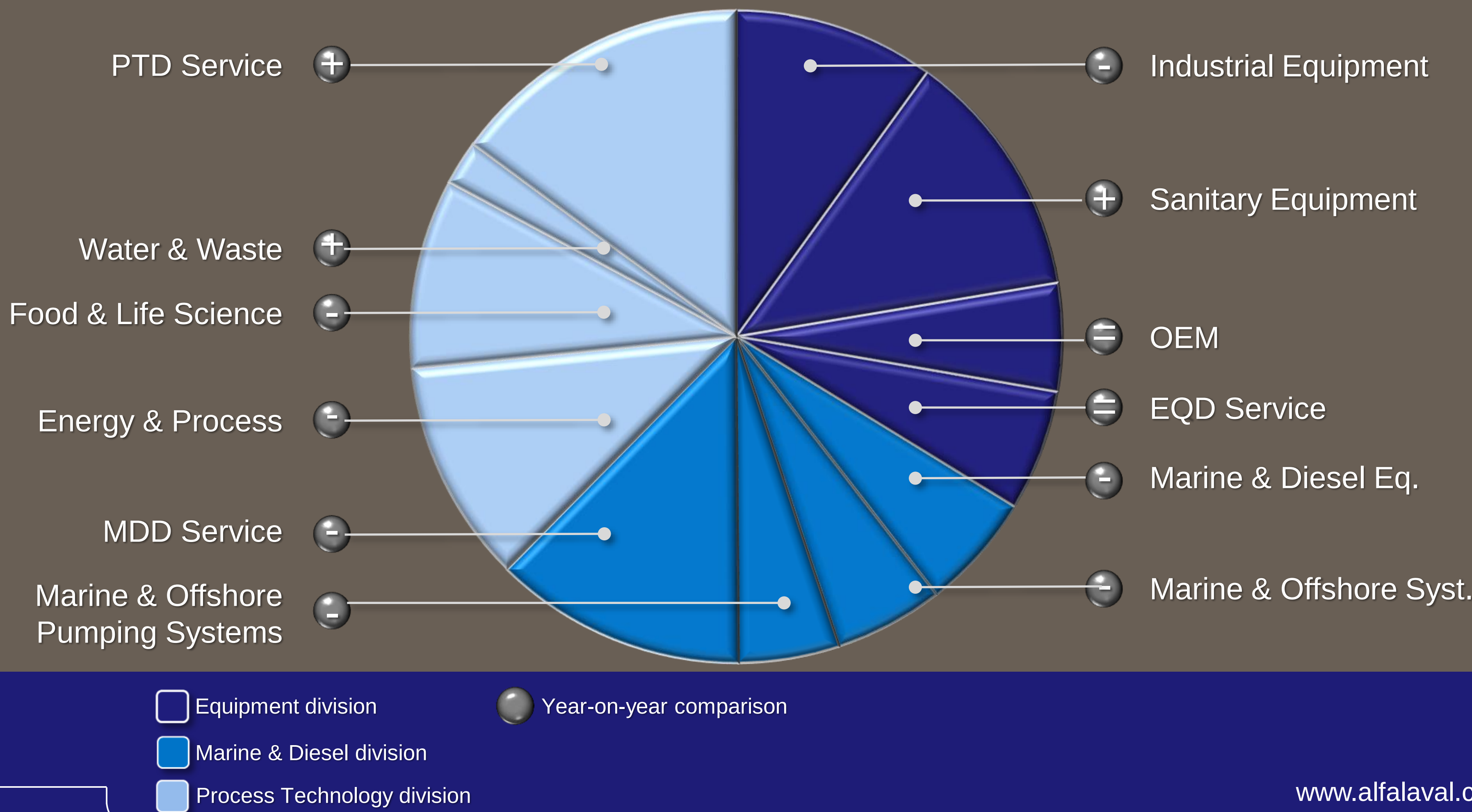
*Share of Group total

Year-on-year comparison

Sequential comparison

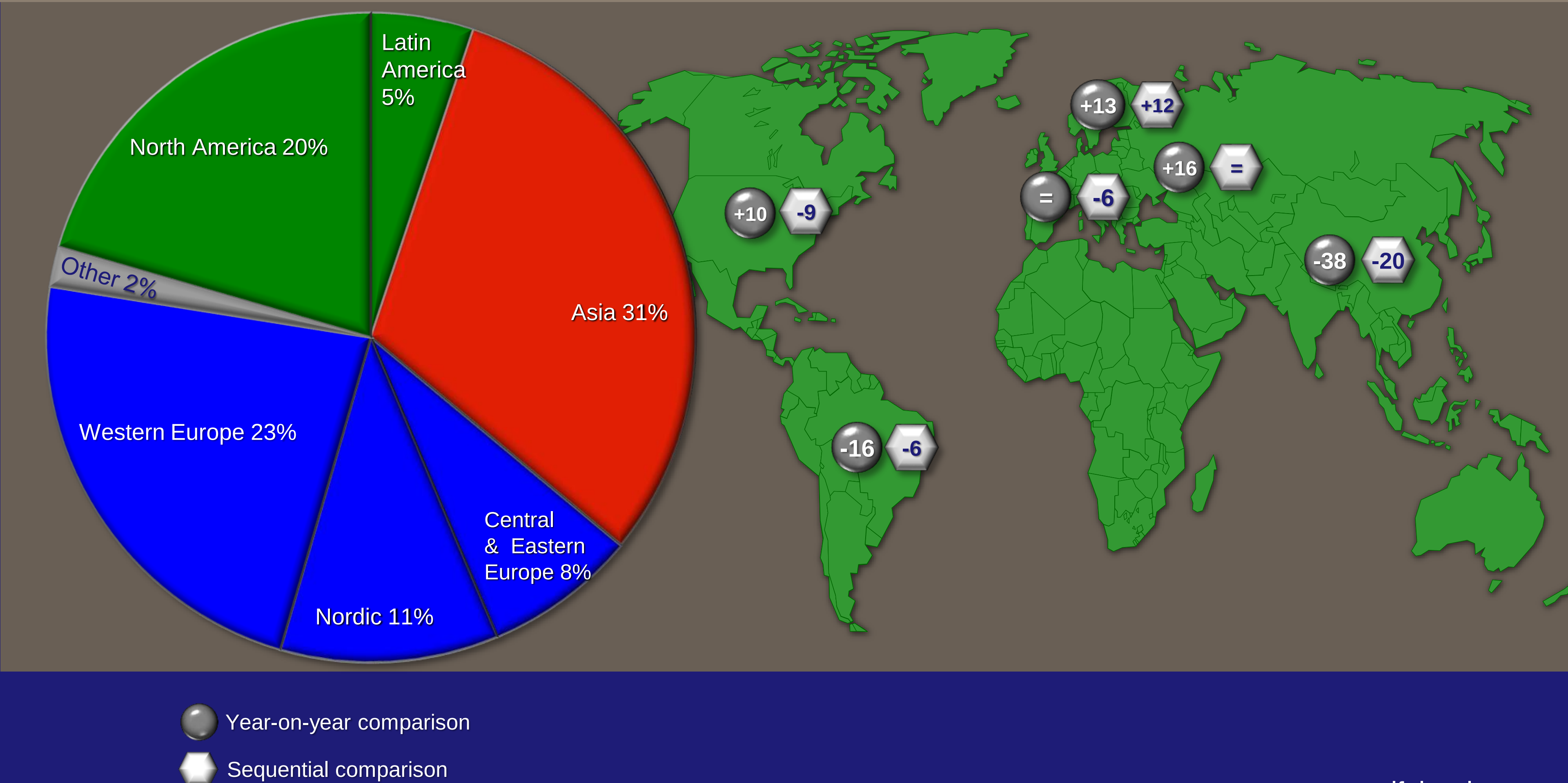
Orders received by customer segment

January – September 2016, at constant rates and like for like



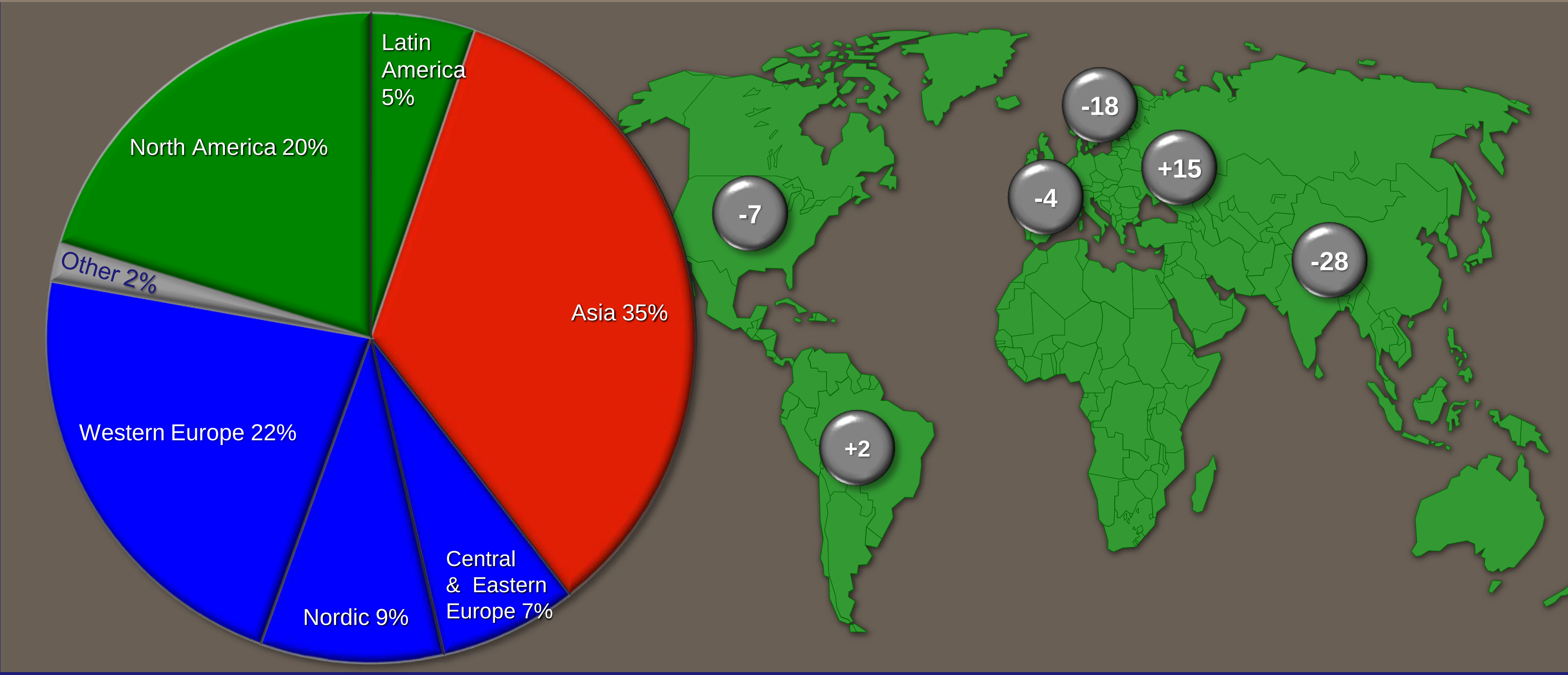
Orders received by Region

July – September 2016, development at constant rates



Orders received by Region

January – September 2016, development at constant rates



Year-on-year comparison

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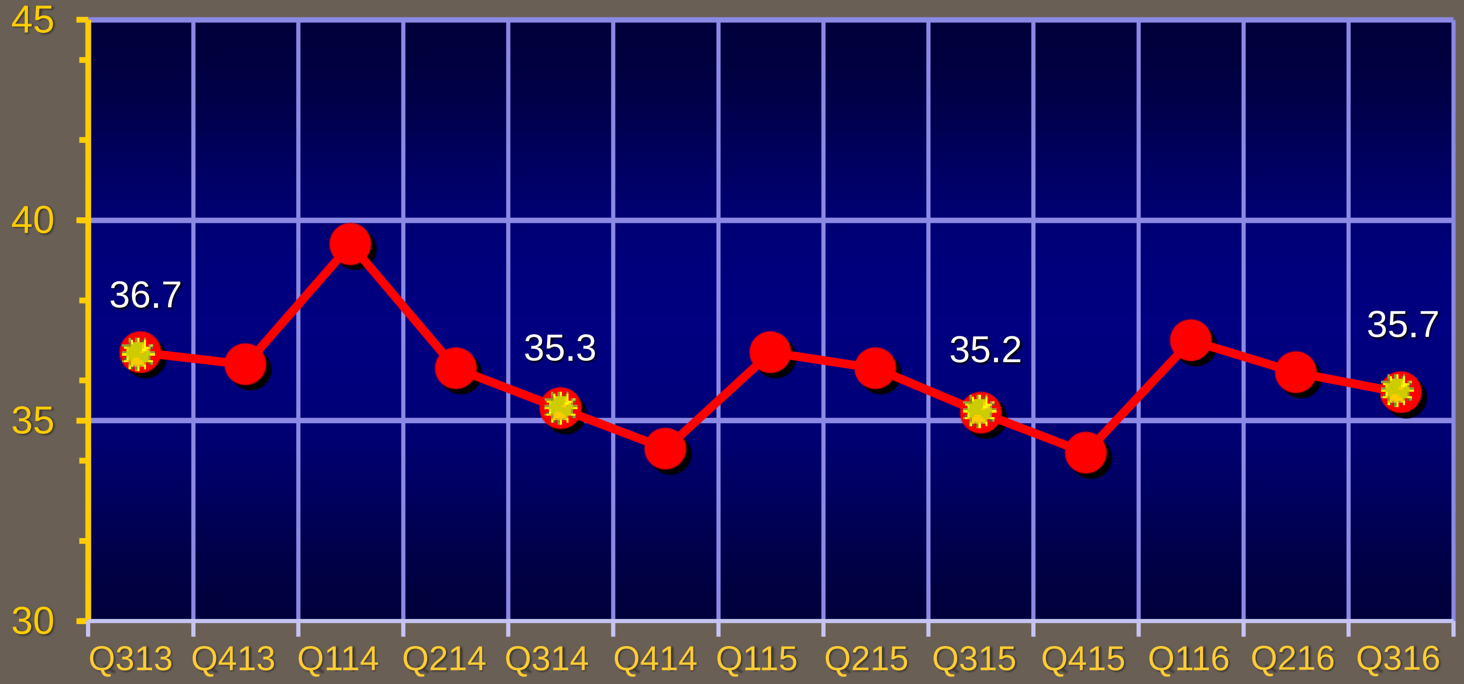
Mr. Thomas Thuresson
CFO
Alfa Laval Group

Highlights

SEK millions	July – September, 2016
Order intake	7,540
Net sales	8,581

Gross profit margin

In percent of sales



Gross profit margin

Q3 2016 versus Q3 2015 and versus Q2 2016

Q3 2015	35.2	Q2 2016	36.2
Mix/price	--		+
Load/volume	--		---
PPV	++		=
FX	+++		+
Structure	=		=
Q3 2016	35.7	Q3 2016	35.7

Comparison distortion items

- Reorganization and cost adjustment initiatives

A program for reorganization and improved competitiveness with three individual initiatives:

- Reorganization and adjustment of resources to demand
- Manufacturing footprint adjustment
- “Greenhouse” - a focused improvement project for three product groups

Total non-recurring charges estimated to be SEK 1.5 billion

Q3 2016 costs and the expected effects:

- **Non-recurring charges** **SEK 1,100 million**
  - SEK 600 million refers mainly to write-off of goodwill and step-up*, a non-cash item
  - SEK 500 million refers mainly to staff reductions of some 700 employees
- **Estimated savings** **SEK 300 million**
  - refers to overhead costs
  - expected to be largely implemented by end of Q2 2017

* Refers to Greenhouse project

Highlights

SEK millions	July – September, 2016
Order intake	7,540
Net sales	8,581
Adjusted EBITA	1,339
Adjusted EBITA-margin	15.6%
Non-recurring charge	-1,100
Profit before tax	93
Earnings per share	-0.27
Earnings per share, excl step-up	1.50
ROCE	17.0%
ROE	13.9%

Divisional performance

	Equipment		Process Technology		Marine & Diesel	
Q3	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Orders	2,765	2,545	2,866	3,256	1,909	2,885
Backlog	1,798	1,818	6,818	8,285	9,175	12,014
Sales	2,737	2,671	2,972	3,467	2,872	3,555
Op. profit	428	365	219	352	524	721
Op margin (%)	15.6	13.7	7.4	10.2	18.2	20.3

Comments on operating profit:

Equipment:
- *Price/mix (pos)*
- *Volume (pos)*
- *Cost (neg)*

Process Technology:
- *Price/mix (neg)*
- *Volume (neg)*
- *E&S (neg)*
- *Load (neg)*
- *Cost (neg)*

Marine & Diesel:
- *Volume (neg)*
- *Price/mix (neg)*
- *Cost (neg)*

Cash-flow statement

SEK millions	Q3 2016	Q3 2015	9M 2016	9M 2015
Cash flow from				
- operating activities	911	1,369	3,054	3,975
- investing activities	-117	- 243	- 344	- 458
Financial net paid	20	- 171	18	- 379
Total	814	955	2,728	3,138
Pro Forma Free cash-flow*	797	1,018	2,710	3,200

**Incl. operating activities, capital expenditure and financial net paid.*

Foreign exchange

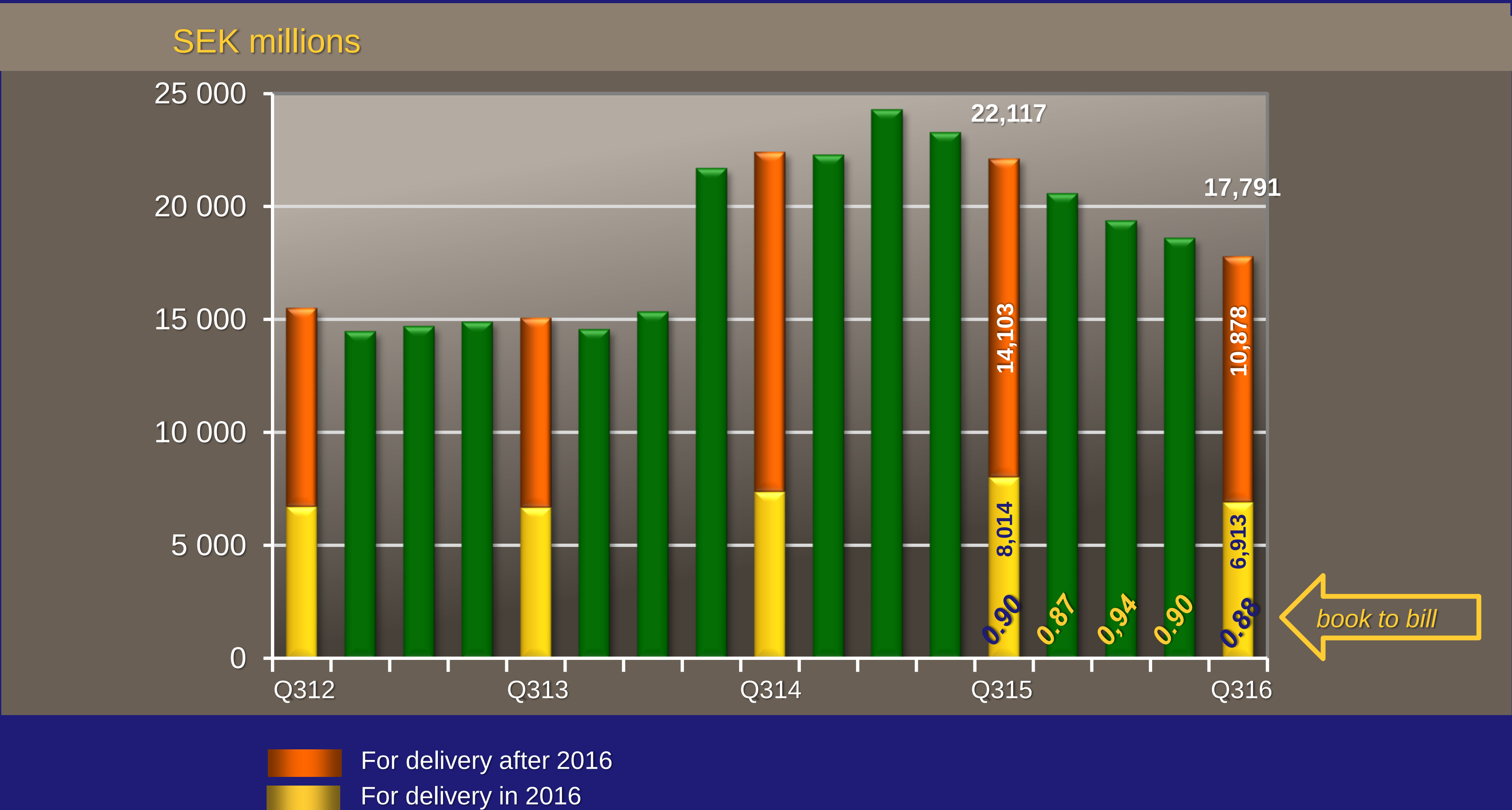
Estimated impact on adjusted EBITA from FX fluctuations

SEK million	Q3 16	9M 16	FY 16	FY 17*
Translation effect	2	-85	-40	-
Transaction effect	105	422	550	100
Total	107	337	510	100

**Based on EUR/USD 1.12 and EUR/SEK 9.62*

Projected FX-effect for 2016 as communicated in Q2 report:
SEK 475 million

Order backlog as per Sept. 30



Sales

Full year 2016

		SEK (bln)
YTD 2016		25.7
Backlog, current year	+	6.9
Orders "in-for-out" last year Q4	+	2.8
Subtotal		35.4
Change in "in-for-out"		+/- ?
Price		+/- ?
Full year 2016		

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Outlook for the fourth quarter

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

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Activity split O&G, total

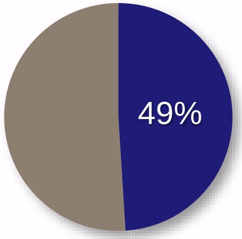
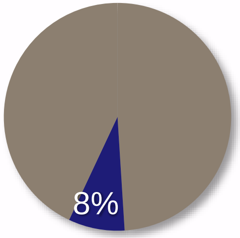
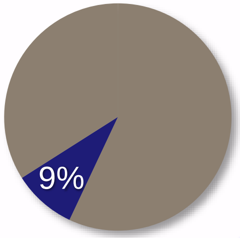
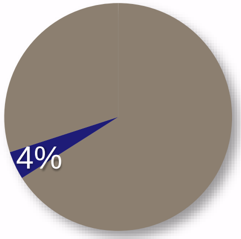
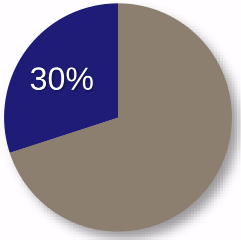
- Distribution of orders Q3 (MSEK) vs Q2 2016

	Drilling	Processing & Transportation	Refinery	Petrochemicals	Grand total
Process Technology	25	263	172	252	712 (-4%)
Marine & Diesel	124	97	0	0	221 (+80%)
Alfa Laval	= 149	= 360	= 172	= 252	= 933* (+8%)
Share of total Alfa Laval	2%	4.8%	2.3%	3.3%	= 12.4%

*) including Service

Marine & Diesel industry split

- Distribution of sales LTM, September 2016

	Marine	Offshore oil and gas	Environment & Energy, Marine	Diesel power	Parts & Service
					
Driver	World trade & fleet capacity	Oil & gas demand and prices	Legislation and fuel cost	Electrical power needs	World trade
Share					

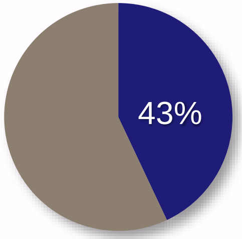
Marine & Diesel industry split

- Distribution of orders LTM, September 2016

Marine

Driver: World trade & fleet capacity

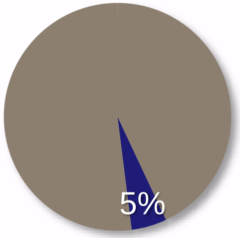
Share:



Offshore oil and gas

Driver: Oil & gas demand and prices

Share:



Environment & Energy, Marine

Driver: Legislation and fuel cost

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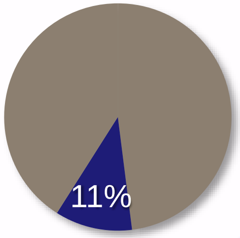

Diesel power

Driver: Electrical power needs

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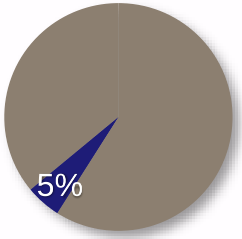

Parts & Service

Driver: World trade

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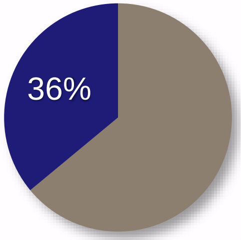
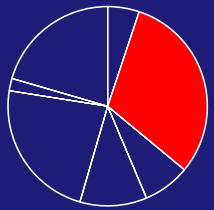


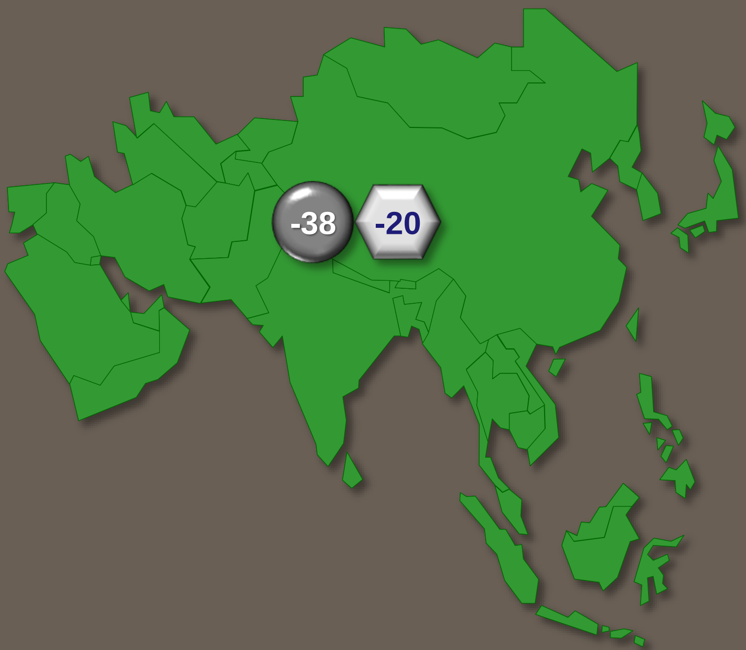
Highlights Asia



July – September 2016, at constant rates, sequential comments

Asia:

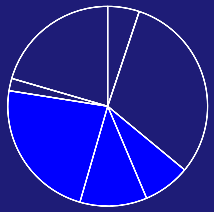
- Region negatively impacted by drop in marine contracting. Service showed minor decline, explained by fewer upgrades.
- EQD grew, lifted by seasonal demand for Comfort applications. PTD saw overall decline, mainly driven by Energy & Process while Food Technology had a good quarter.
- South Korea and Japan declined due to slowdown in ship contracting. China grew, supported by the development in EQD and PTD.



Year-on-year comparison

Sequential comparison

Highlights Europe



July – September 2016, at constant rates, sequential comments

Western Europe incl. Nordic:

- Down as vacation period affected EQD base business. M&D Equipment, Energy & Process developed well, while rest of segments declined.
- While Nordic, UK, Benelux and France grew, remaining regions declined.

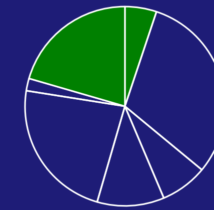
Central and Eastern Europe:

- Poland, Turkey declined - Russia grew.
- Russia did very well in the quarter, boosted by improved activity in Comfort, Power and Refinery. Service also did well.

Year-on-year comparison

Sequential comparison

Highlights Americas



July – September 2016, at constant rates, sequential comments

North America:

- Decline due to fewer large projects than in the previous quarter. Base business continued to grow. Service was flat.
- Water & Waste down, due to the non repeat. Energy & Process, Industrial Equipment also declined. Rest of segments did well.

Latin America:

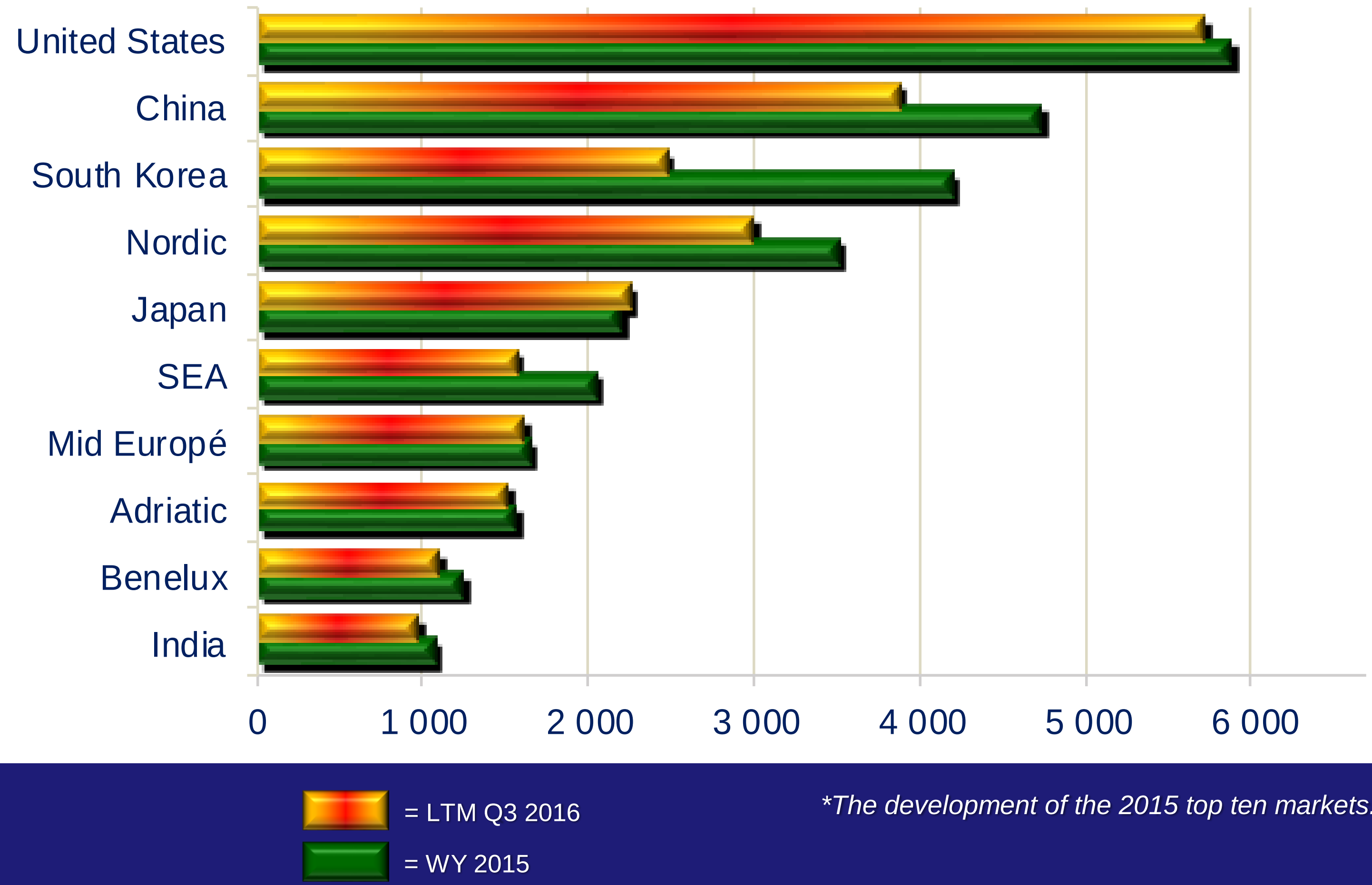
- Down due to continued low demand in Brazil, as well as a non repeat of larger service project in Mexico.
- Argentina had a good quarter across all divisions and with a number of larger orders in food and mining.

Year-on-year comparison

Sequential comparison

Top 10 markets*

SEK million at prevailing rates



The development of the 2015 top ten markets.

Cautionary statement

This presentation contains forward-looking statements that are based on the current expectations of the management of Alfa Laval Group.

Although management believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those implied in the forward-looking statements as a result of, among other factors, changes in economic, market and competitive conditions, changes in the regulatory environment, other government actions and fluctuations in exchange rates. Alfa Laval undertakes no obligation to publicly update or revise these forward-looking statements, other than as required by law or other regulations.