

Second quarter 2016



Summary

SEK millions	Second quarter				First six months			
	2016	2015	%	% *	2016	2015	%	% *
Order intake	8,101	9,146	-11	-9	15,811	18,990	-17	-14
Net sales	8,950	10,177	-12	-9	17,149	19,248	-11	-8
Adjusted EBITA **	1,393	1,816	-23		2,726	3,385	-19	
- adjusted EBITA margin (%) **	15.6	17.8			15.9	17.6		
Result after financial items	1,265	1,455	-13		2,355	2,718	-13	
Net income for the period	931	1,075	-13		1,802	1,938	-7	
Earnings per share (SEK)	2.21	2.54	-13		4.27	4.59	-7	
Cash flow ***	1,233	1,505	-18		2,143	2,606	-18	
Impact on adjusted EBITA of:								
- foreign exchange effects	137	182			230	330		

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

Comment from Tom Erixon, President and CEO

“Order intake was marginally better than in the first quarter and in line with our expectations. The large projects in the market were still very few at the same time as demand was slow within the oil & gas and marine sectors. During the quarter external prognoses for the 2016 ship contracting were reduced to the range 650-850 from about 900. This is a low figure and in line with how we perceive the market.

The order intake in the quarter was supported by a number of sectors, such as food. Geographically, the growth continued in Eastern Europe, including Russia. Excluding the Marine business, Asia also continued to grow with China as the main engine. Sequentially, the U.S. showed good growth, but compared to the same quarter last year the order intake is negatively impacted by the downturn within the oil & gas sector.

The outcome per division was mixed. The operating margin in Process Technology continued to be burdened by a negative mix, which is expected to remain during the rest of the year. The Marine & Diesel division showed a flat order intake in the quarter, with a downturn in two segments at the same time as the demand within Pumping Systems grew. The profitability continued to be good. The Equipment division had a good quarter with good growth, especially in the food sector and in addition a stable operating margin.

The strategic review that was announced in the previous quarter is continuing according to plan. The result of this review will be presented before the end of the year.”

Outlook for the third quarter

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

Earlier published outlook (April 25, 2016): “We expect that demand during the second quarter 2016 will be on about the same level as in the first quarter.”

The interim report has not been subject to review by the company's auditors.

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Management's discussion and analysis

Important events during the second quarter

Large orders ¹⁾ in the second quarter

Division	Customer segment	Delivery date	Order amount	Total per segment	
			SEK millions		
Scope of supply			Q2 2016	Q2 2015	
Process Technology	Energy & Process		-	195	
	Food Technology & Life Science				
	Equipment to a vegetable oil plant in Russia.	2017	55	55	-
	Water & Waste Treatment				
	Decanters to a waste water treatment plant in the U.S.	2017	50	50	-
Marine & Diesel	Marine & Offshore Pumping Systems		-	200	
Equipment	Industrial Equipment		-	100	
Total				105	495

Order intake

Orders received has amounted to SEK 8,101 (9,146) million for the second quarter 2016 and to SEK 15,811 (18,990) million for the first six

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



1. Orders with a value over EUR 5 million.

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

split into:

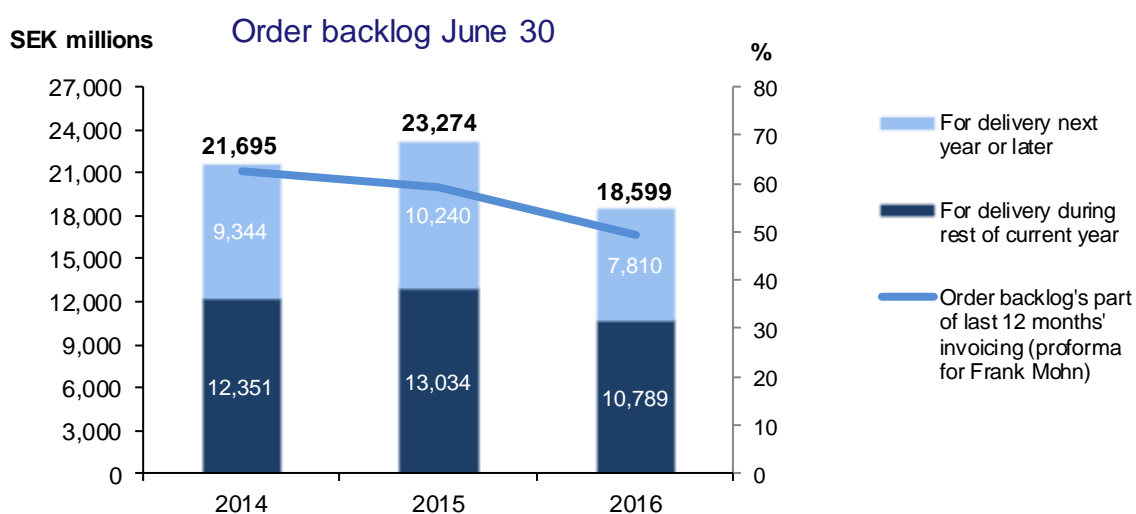
	Consolidated	Order bridge					Order intake Current periods SEK millions	
		Order intake Prior periods SEK millions	Change			After currency effects Currency effects (%)		Total (%)
			Excluding currency effects Structural change ²⁾ (%)	Organic development ³⁾ (%)	Total (%)			
Q2 2016/2015	9,146	0.3	-9.2	-8.9	-2.5	-11.4	8,101	
Q2 2016/Q1 2016	7,710	-	4.9	4.9	0.2	5.1	8,101	
YTD 2016/2015	18,990	0.5	-14.7	-14.2	-2.5	-16.7	15,811	

Orders received from the aftermarket Service⁴ constituted 32.0 (28.8) percent of the Group's total orders received during the second quarter and 33.2 (27.7) percent during the first six months 2016.

Excluding currency effects, the order intake for Service increased by 0.9 percent during the second quarter 2016 compared to the

corresponding quarter last year (the corresponding organic development was a decrease by 0.0 percent) and decreased with 3.7 percent compared to the previous quarter (the corresponding organic development was the same). For the first six months 2016 the increase was 2.9 percent compared to the corresponding period last year (the corresponding organic development was an increase by 1.9 percent).

Order backlog



Excluding currency effects and adjusted for acquisition of businesses the order backlog was 17.0 percent smaller than the order backlog at

June 30, 2015 and 7.1 percent smaller than the order backlog at the end of 2015.

- 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.

Net sales

Net invoicing was SEK 8,950 (10,177) million for the second quarter and SEK 17,149 (19,248) million for the first six months 2016. The change

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

	Consolidated	Sales bridge					Net sales
		Net sales	Change			Net sales	
			Prior periods	Excluding currency effects	After currency effects		
SEK millions	SEK millions	Structural change (%)	Organic development (%)	Total (%)	Currency effects (%)	Total (%)	SEK millions
Q2 2016/2015	10,177	0.5	-9.7	-9.2	-2.9	-12.1	8,950
Q2 2016/Q1 2016	8,199	-	8.9	8.9	0.3	9.2	8,950
YTD 2016/2015	19,248	0.4	-8.3	-7.9	-3.0	-10.9	17,149

Net invoicing relating to Service constituted 28.7 (25.8) percent of the Group's total net invoicing in the second quarter and 29.2 (26.7) percent in the first six months 2016.

Excluding currency effects, the net invoicing for Service increased by 0.5 percent during the second quarter 2016 compared to the corresponding quarter last year (the corresponding

organic development was a decrease by 0.4 percent) and increased with 5.2 percent compared to the previous quarter (the corresponding organic development was the same). For the first six months 2016 the increase was 0.5 percent compared to the corresponding period last year (the corresponding organic development was a decrease by 0.4 percent).

Income

SEK millions	Second quarter		First six months		Full year	Last 12
	2016	2015	2016	2015	2015	months
Net sales	8,950	10,177	17,149	19,248	39,746	37,647
Cost of goods sold	-5,968	-6,757	-11,397	-12,772	-26,707	-25,332
Gross profit	2,982	3,420	5,752	6,476	13,039	12,315
Sales costs	-1,159	-1,110	-2,248	-2,187	-4,107	-4,168
Administration costs	-390	-394	-729	-761	-1,813	-1,781
Research and development costs	-213	-186	-399	-376	-756	-779
Other operating income	175	79	286	182	495	599
Other operating costs	-272	-274	-473	-513	-1,149	-1,109
Share of result in joint ventures	8	4	12	11	8	9
Operating income	1,131	1,539	2,201	2,832	5,717	5,086
Dividends and changes in fair value	0	0	0	0	33	33
Interest income and financial exchange rate gains	30	-118	216	374	404	246
Interest expense and financial exchange rate losses	104	34	-62	-488	-710	-284
Result after financial items	1,265	1,455	2,355	2,718	5,444	5,081
Taxes	-334	-380	-553	-780	-1,583	-1,356
Net income for the period	931	1,075	1,802	1,938	3,861	3,725
Other comprehensive income: Items that will subsequently be reclassified to net income						
Cash flow hedges	-132	304	143	-248	-195	196
Market valuation of external shares	0	0	0	0	2	2
Translation difference	708	-790	759	212	-1,056	-509
Deferred tax on other comprehensive income	7	-14	-31	-52	20	41
Sum	583	-500	871	-88	-1,229	-270
Items that will subsequently not be reclassified to net income						
Revaluations of defined benefit obligations	26	-10	50	-20	332	402
Deferred tax on other comprehensive income	-7	7	-14	10	-47	-71
Sum	19	-3	36	-10	285	331
Comprehensive income for the period	1,533	572	2,709	1,840	2,917	3,786
Net income attributable to:						
Owners of the parent	923	1,068	1,789	1,926	3,839	3,702
Non-controlling interests	8	7	13	12	22	23
Earnings per share (SEK)	2.21	2.54	4.27	4.59	9.15	8.83
Average number of shares	419,456,315	419,456,315	419,456,315	419,456,315	419,456,315	419,456,315
Comprehensive income attributable to:						
Owners of the parent	1,521	585	2,677	1,833	2,903	3,747
Non-controlling interests	12	-13	32	7	14	39

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, but above all by currency effects, largely related to USD.

Sales and administration expenses amounted to SEK 1,549 (1,504) million during the second quarter and SEK 2,977 (2,948) million during the first six months 2016. Excluding currency effects and acquisition of businesses, sales and administration expenses were 5.0 percent and 3.2 percent higher respectively than the corresponding periods last year. The corresponding figure when comparing the second quarter 2016 with

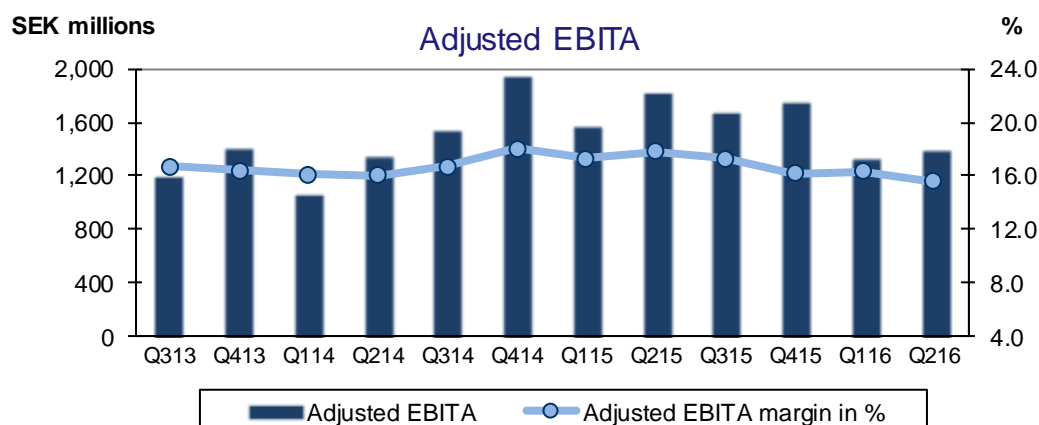
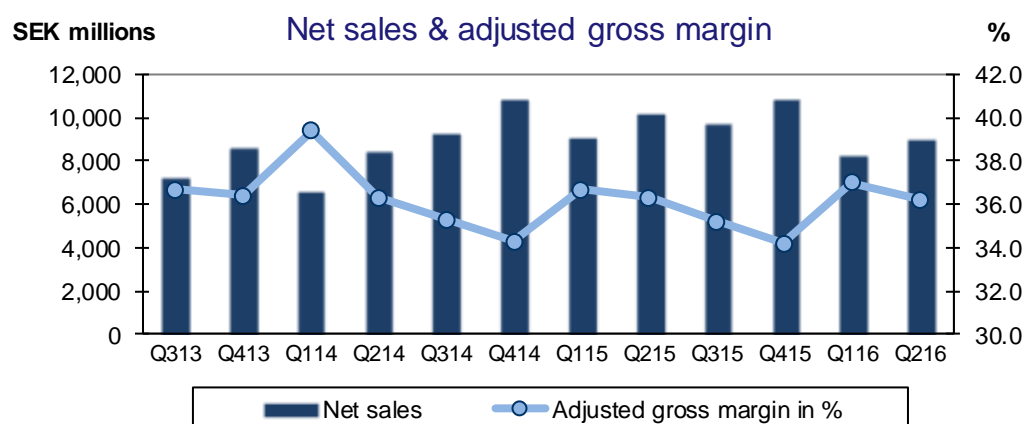
the previous quarter is an increase with 8.0 percent.

The costs for research and development during the first six months 2016 corresponded to 2.3 (2.0) percent of net sales. Excluding currency effects and acquisition of businesses, the costs for research and development have increased by

15.5 percent during the second quarter and by 7.1 percent during the first six months 2016 compared to the corresponding periods last year.

Earnings per share, excluding amortisation of step-up values and the corresponding tax*, was SEK 4.97 (5.53) for the first six months 2016.

Consolidated SEK millions	Income analysis					
	Second quarter		First six months		Full year	Last 12
	2016	2015	2016	2015	2015	months
Net sales	8,950	10,177	17,149	19,248	39,746	37,647
Adjusted gross profit *	3,244	3,697	6,277	7,029	14,133	13,381
- adjusted gross margin (%) *	36.2	36.3	36.6	36.5	35.6	35.5
Expenses **	-1,691	-1,721	-3,232	-3,322	-6,655	-6,565
- in % of net sales	18.9	16.9	18.8	17.3	16.7	17.4
Adjusted EBITDA *	1,553	1,976	3,045	3,707	7,478	6,816
- adjusted EBITDA margin (%) *	17.4	19.4	17.8	19.3	18.8	18.1
Depreciation	-160	-160	-319	-322	-667	-664
Adjusted EBITA *	1,393	1,816	2,726	3,385	6,811	6,152
- adjusted EBITA margin (%) *	15.6	17.8	15.9	17.6	17.1	16.3
Amortisation of step up values	-262	-277	-525	-553	-1,094	-1,066
Comparison distortion items	-	-	-	-	-	-
Operating income	1,131	1,539	2,201	2,832	5,717	5,086



* Alternative performance measures, defined on page 22.

** Excluding comparison distortion items.

Consolidated financial net and taxes

The financial net for the first six months 2016 has amounted to SEK -65 (-120) 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 -4 (-10) million, interest on the bilateral term loans of SEK -29 (-41) million, interest on the private placement of SEK -3 (-5) million, interest on the commercial papers of SEK -0 (-1) million, interest on the corporate bonds of SEK -40 (-42) million and a net of dividends and other interest income and interest costs of SEK 11 (-21) million. The

net of realised and unrealised exchange rate differences has amounted to SEK 219 (6) million.

The tax on the result after financial items was SEK -334 (-380) million in the second quarter and SEK -553 (-780) million in the first six months 2016. The tax cost for the first quarter 2016 and thereby also for the first six 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.

Key figures

Consolidated	Key figures		
	June 30 2016	June 30 2015	December 31 2015
Return on capital employed (%) *	19.9	20.3	21.6
Return on equity (%) **	20.2	20.4	21.7
Solidity (%) ***	37.1	31.5	35.5
Net debt to EBITDA, times *	1.74	1.97	1.56
Debt ratio, times *	0.61	0.82	0.63
Number of employees (at the end of the period)	17,309	17,414	17,417

* Alternative performance measures, defined on page 23.

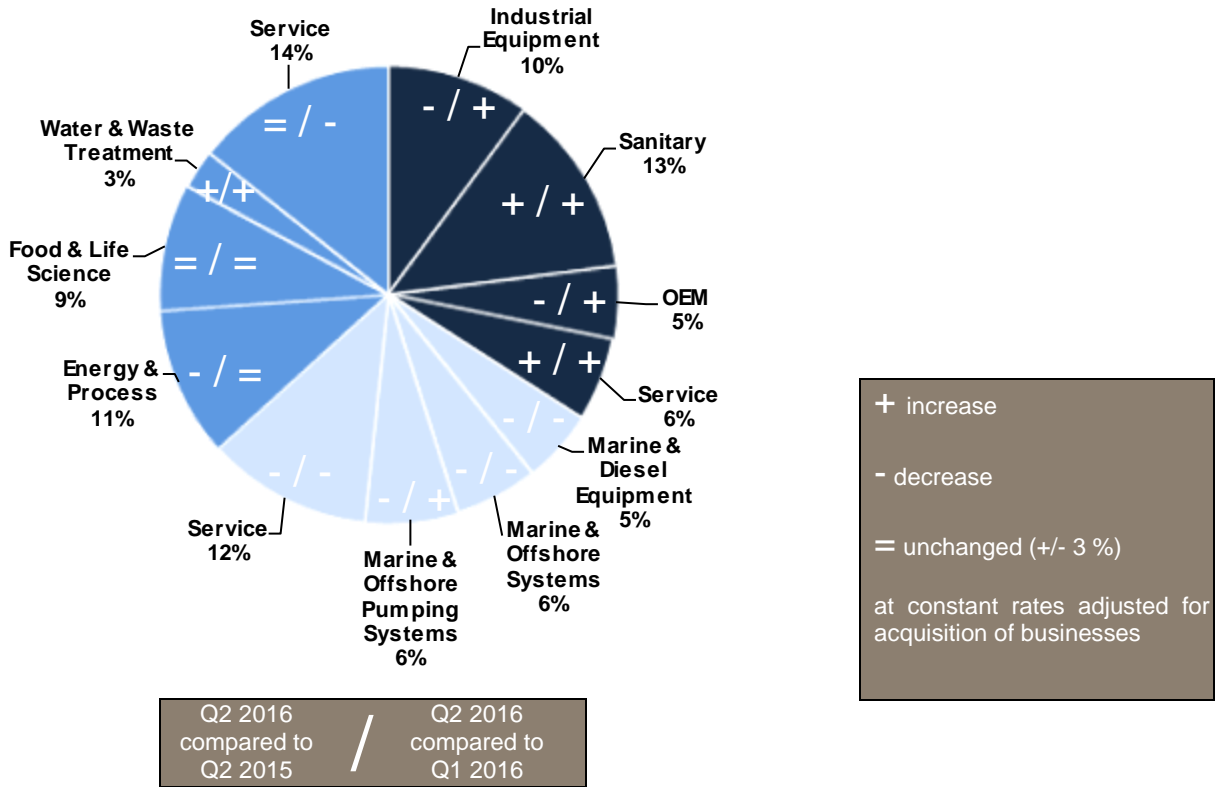
** Net income in relation to average equity, calculated on 12 months' revolving basis, expressed in percent.

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

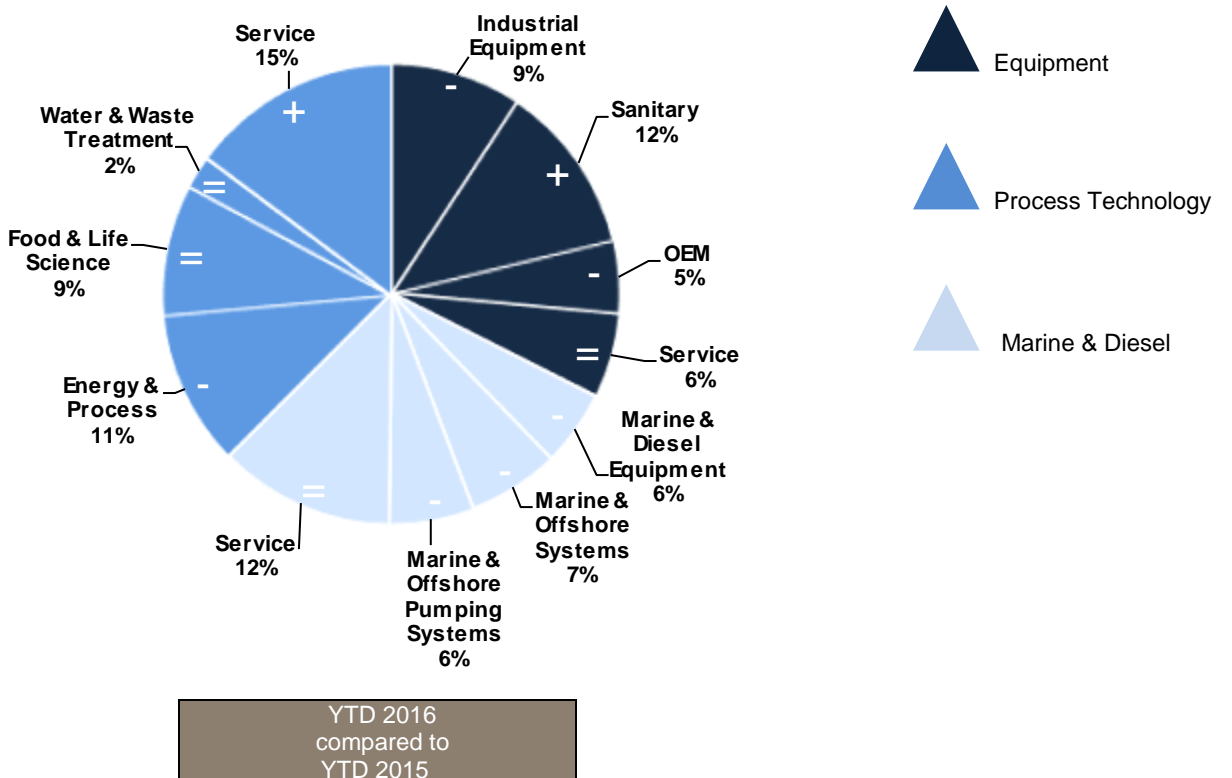
Business divisions

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

Orders received by customer segment Q2 2016



Orders received by customer segment YTD 2016



Equipment division

Consolidated SEK millions	Second quarter		First six months		Full year	Last 12
	2016	2015	2016	2015	2015	months
Orders received	2,758	2,850	5,115	5,401	10,472	10,186
Order backlog*	1,767	1,957	1,767	1,957	1,637	1,767
Net sales	2,529	2,680	4,921	5,135	10,500	10,286
Operating income**	346	347	697	631	1,321	1,387
Operating margin***	13.7%	12.9%	14.2%	12.3%	12.6%	13.5%
Depreciation and amortisation	48	52	98	105	218	211
Investments	9	8	21	17	61	65
Assets*	6,386	6,562	6,386	6,562	6,339	6,386
Liabilities*	906	851	906	851	973	906
Number of employees*	2,512	2,599	2,512	2,599	2,552	2,512

* 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
Q2 2016/2015	-	-1.0	-1.0	-	-3.5	-3.5
Q2 2016/Q1 2016	-	17.3	17.3	-	5.8	5.8
YTD 2016/2015	-	-3.3	-3.3	-	-2.1	-2.1

All comments below are excluding currency effects.

Order intake

Order intake was up in the second quarter 2016 compared to the first, reflecting a positive development across all capital sales segments as well as Service. All major markets contributed to the outcome.

The **Sanitary** segment had a good development driven by strong demand from customers within all sectors. In **Industrial Equipment** volumes were up as seasonality impacted certain end markets such as the one for comfort heating and cooling. All market units, however, grew. Prod-

ucts aimed at refrigeration and the manufacturing industry had generally a good demand. The **OEM** segment also reported a positive development on the back of seasonality as products aimed at being fitted into HVAC and refrigeration units did well, supported by a positive reception to product launches.

Operating income

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

Process Technology division

Consolidated SEK millions	Second quarter		First six months		Full year	Last 12
	2016	2015	2016	2015	2015	months
Orders received	2,972	3,165	5,913	6,450	12,795	12,258
Order backlog*	6,851	8,543	6,851	8,543	7,226	6,851
Net sales	3,285	3,822	6,056	6,943	14,511	13,624
Operating income**	333	497	607	907	1,899	1,599
Operating margin***	10.1%	13.0%	10.0%	13.1%	13.1%	11.7%
Depreciation and amortisation	87	87	174	175	366	365
Investments	23	32	44	54	156	146
Assets*	10,754	11,334	10,754	11,334	10,832	10,754
Liabilities*	4,017	4,139	4,017	4,139	3,812	4,017
Number of employees*	5,183	5,238	5,183	5,238	5,242	5,183

* 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
Q2 2016/2015	0.4	-2.9	-2.5	0.9	-11.6	-10.7
Q2 2016/Q1 2016	-	0.7	0.7	-	18.6	18.6
YTD 2016/2015	0.9	-5.4	-4.5	0.8	-10.1	-9.3

All comments below are excluding currency effects.

Order intake

The division's order intake in the second quarter was unchanged versus the previous quarter.

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

support came from the large order for a U.S. waste water treatment plant, announced in May.

The **Service** segment showed a limited contraction. Energy & Process declined due to the non-repeat of a larger order in the first quarter. Demand in Water & Waste Treatment was strong, while it was unchanged in Food & Life Science.

Operating income

The decrease in operating income for Process Technology during the second quarter 2016 compared to the corresponding period last year is above all explained by lower sales volume and lower margins. The lower margins are explained by negative price/mix, a lower outcome for some factories and the engineering operations.

* 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	Second quarter		First six months		Full year	Last 12
	2016	2015	2016	2015	2015	months
Orders received	2,371	3,131	4,783	7,139	13,831	11,475
Order backlog*	9,981	12,774	9,981	12,774	11,715	9,981
Net sales	3,136	3,675	6,172	7,170	14,735	13,737
Operating income**	592	798	1,162	1,500	2,999	2,661
Operating margin***	18.9%	21.7%	18.8%	20.9%	20.4%	19.4%
Depreciation and amortisation	178	207	363	413	806	756
Investments	22	43	37	57	131	111
Assets*	22,836	24,740	22,836	24,740	22,905	22,836
Liabilities*	4,794	4,472	4,794	4,472	4,966	4,794
Number of employees*	3,077	3,138	3,077	3,138	3,176	3,077

* 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
Q2 2016/2015	0.5	-22.9	-22.4	0.4	-12.1	-11.7
Q2 2016/Q1 2016	-	-2.0	-2.0	-	2.6	2.6
YTD 2016/2015	0.4	-31.7	-31.3	0.4	-11.1	-10.7

All comments below are excluding currency effects.

Order intake

Order intake for the Marine & Diesel division was largely unchanged in the second quarter compared to the first quarter. Increased demand for environmental products and marine pumping systems almost fully compensated for the effects from a lower contracting of new vessels at the yards.

The **Marine & Diesel Equipment** segment saw lower demand from the previous quarter, as the demand for traditional equipment going into new ships declined. The demand for environmental solutions, however, increased due to higher order intake for PureBallast during the second quarter. Equipment for diesel power plants recorded higher order intake as well. The **Marine & Offshore Systems** segment reported lower order

intake for systems for new ships as well for offshore applications. The decline was partly offset by higher demand for exhaust gas cleaning systems. **Marine & Offshore Pumping Systems** saw higher demand for marine as well as offshore applications. The general market for chemical tankers and product tankers remain attractive and resulted in increased order intake for marine pumping systems.

Service had a lower order intake than in the previous quarter, mainly due to a lower demand for boiler repairs.

Operating income

The decrease in operating income for Marine & Diesel during the second 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 and lower utilisation in certain factories.

Operations and Other

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

Consolidated						
SEK millions	Second quarter		First six 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**	-181	-92	-318	-151	-438	-605
Depreciation and amortisation	109	91	209	182	371	398
Investments	81	52	126	88	326	364
Assets*	6,512	6,151	6,512	6,151	5,797	6,512
Liabilities*	2,625	3,712	2,625	3,712	2,359	2,625
Number of employees*	6,537	6,439	6,537	6,439	6,447	6,537

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

The worsened operating income in the second quarter is mainly explained by costs for group-

wide change projects and increased pension costs in the U.S. and England.

Reconciliation between divisions and Group total

Consolidated						
SEK millions	Second quarter		First six months		Full year	Last 12
	2016	2015	2016	2015	2015	months
Operating income						
Total for divisions	1,090	1,550	2,148	2,887	5,781	5,042
Comparison distortion items	-	-	-	-	-	-
Consolidation adjustments *	41	-11	53	-55	-64	44
Total operating income	1,131	1,539	2,201	2,832	5,717	5,086
Financial net	134	-84	154	-114	-273	-5
Result after financial items	1,265	1,455	2,355	2,718	5,444	5,081
Assets **						
Total for divisions	46,488	48,787	46,488	48,787	45,873	46,488
Corporate ***	5,602	6,266	5,602	6,266	6,024	5,602
Group total	52,090	55,053	52,090	55,053	51,897	52,090
Liabilities **						
Total for divisions	12,343	13,174	12,343	13,174	12,110	12,343
Corporate ***	20,443	24,533	20,443	24,533	21,364	20,443
Group total	32,786	37,707	32,786	37,707	33,474	32,786

* 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.

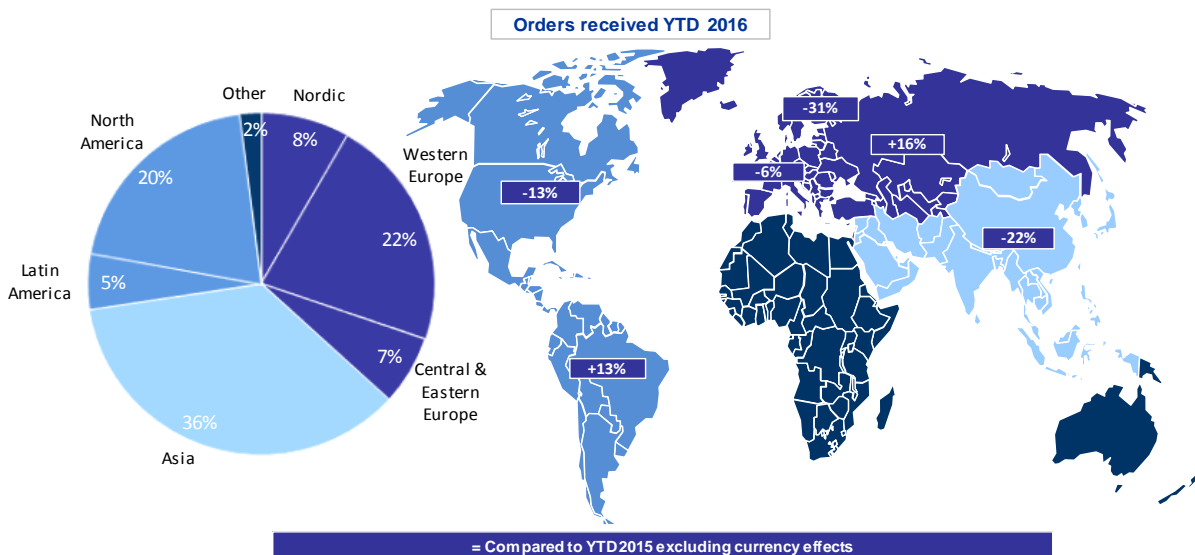
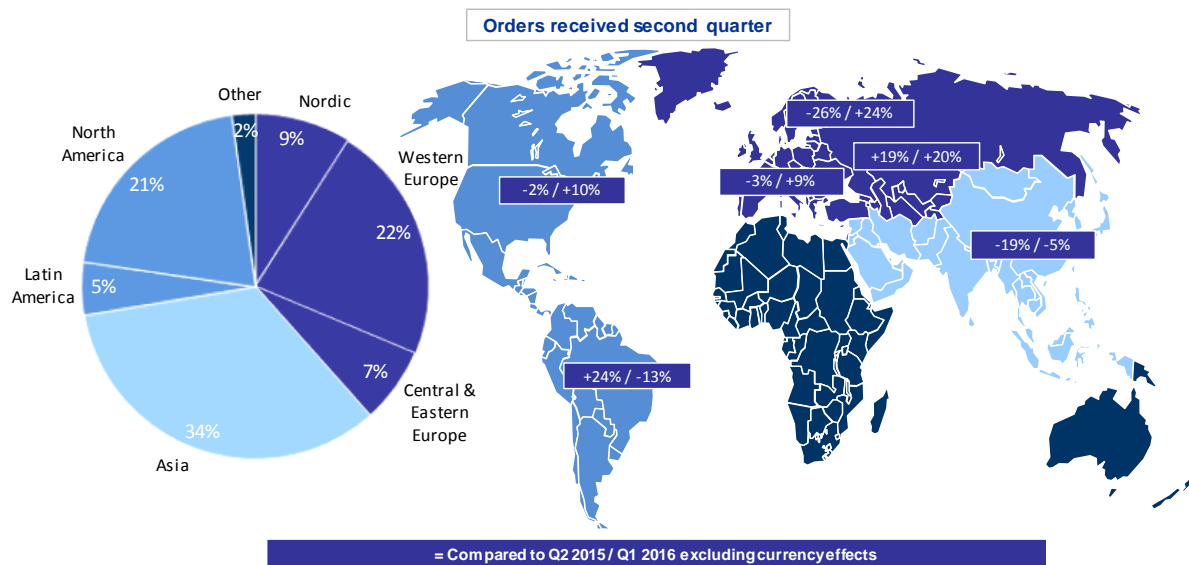
Information about products and services

Consolidated SEK millions	Net sales by product/service *					
	Second quarter		First six months		Full year	Last 12
	2016	2015	2016	2015	2015	months
Own products within:						
Separation	1,684	2,061	3,159	3,751	7,886	7,294
Heat transfer	3,936	4,397	7,548	8,340	17,372	16,580
Fluid handling	2,112	2,468	4,147	4,840	9,866	9,173
Other	331	293	639	587	1,194	1,246
Associated products	441	527	840	926	1,786	1,700
Services	446	431	816	804	1,642	1,654
Total	8,950	10,177	17,149	19,248	39,746	37,647

* 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.

Information by region



All comments are excluding currency effects.

Western Europe including Nordic

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

Central and Eastern Europe

The region reported a good second quarter with strong growth compared to the previous quarter. Equipment and the Process Technology divisions both did well, supported by most countries in the region. The main driver was Russia, which reported a solid quarter following a strong

performance for both the base business and larger orders. The positive development was broad-based, with added support from the large vegetable oil order which was announced in June.

North America

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

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

Latin America

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

Asia

Lower second quarter demand from shipbuilding and in the Process Technology business explained a limited decline in order intake for the region as a whole compared to the first quarter. Service grew, lifted by good demand in Process Technology, which benefitted from pent-up demand in the energy area as well as a good development in Food & Life Science. The Marine & Diesel division reported an overall decline, as the downturn in new shipbuilding orders continued to affect the South Korean market. Demand for pumping systems, however, grew. Order intake declined in the Process Technology

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

Consolidated SEK millions	Net sales					
	Second quarter		First six months		Full year	Last 12
	2016	2015	2016	2015	2015	months
To customers in:						
Sweden	195	228	377	422	864	819
Other EU	2,224	2,320	4,252	4,495	9,490	9,247
Other Europe	604	934	1,222	1,489	2,950	2,683
USA	1,425	1,835	2,835	3,367	6,725	6,193
Other North America	247	327	379	534	1,031	876
Latin America	440	432	839	931	1,826	1,734
Africa	92	67	161	180	337	318
China	1,122	1,173	2,165	2,213	4,879	4,831
South Korea	1,023	1,292	1,927	2,602	5,172	4,497
Other Asia	1,468	1,450	2,794	2,808	5,991	5,977
Oceania	110	119	198	207	481	472
Total	8,950	10,177	17,149	19,248	39,746	37,647

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		
	June 30		December 31
	2016	2015	2015
SEK millions			
Sweden	1,314	1,367	1,337
Denmark	4,483	4,444	4,374
Other EU	3,980	3,985	3,992
Norway	13,375	14,372	12,986
Other Europe	169	188	166
USA	4,436	4,528	4,510
Other North America	130	117	123
Latin America	314	335	271
Africa	6	1	2
Asia	2,973	3,144	2,986
Oceania	90	88	87
Subtotal	31,270	32,569	30,834
Other long-term securities	24	26	28
Pension assets	4	5	4
Deferred tax asset	1,721	2,048	1,765
Total	33,019	34,648	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	Second quarter		First six months		Full year	Last 12
	2016	2015	2016	2015	2015	months
Operating activities						
Operating income	1,131	1,539	2,201	2,832	5,717	5,086
Adjustment for depreciation and amortisation	422	437	844	875	1,761	1,730
Adjustment for other non-cash items	-15	-98	-6	-231	-231	-6
	1,538	1,878	3,039	3,476	7,247	6,810
Taxes paid	-389	-547	-855	-831	-1,577	-1,601
	1,149	1,331	2,184	2,645	5,670	5,209
Changes in working capital:						
Increase(-)/decrease(+) of receivables	68	187	563	278	426	711
Increase(-)/decrease(+) of inventories	-39	-6	-277	-260	347	330
Increase(+)/decrease(-) of liabilities	65	-49	-221	-9	-438	-650
Increase(+)/decrease(-) of provisions	-10	42	-106	-48	-155	-213
Increase(-)/decrease(+) in working capital	84	174	-41	-39	180	178
	1,233	1,505	2,143	2,606	5,850	5,387
Investing activities						
Investments in fixed assets (Capex)	-135	-135	-228	-216	-674	-686
Divestment of fixed assets	38	0	38	1	25	62
Acquisition of businesses	-32	0	-38	0	-73	-111
Divestment of businesses	1	-	1	-	12	13
	-128	-135	-227	-215	-710	-722
Financing activities						
Received interests and dividends	25	26	67	43	124	148
Paid interests	-50	-85	-107	-137	-316	-286
Realised financial exchange gains	44	101	68	221	157	4
Realised financial exchange losses	2	-124	-30	-335	-288	17
Dividends to owners of the parent	-1,783	-1,678	-1,783	-1,678	-1,678	-1,783
Dividends to non-controlling interests	-12	-18	-12	-18	-18	-12
Increase(-) of financial assets	0	-45	0	-45	-311	-266
Decrease(+) of financial assets	-113	-52	65	0	0	65
Increase of loans	1,777	2,000	1,860	2,400	3,400	2,860
Amortisation of loans	-1,215	-1,678	-2,215	-3,272	-6,299	-5,242
	-1,325	-1,553	-2,087	-2,821	-5,229	-4,495
Cash flow for the period	-220	-183	-171	-430	-89	170
Cash and cash equivalents at the beginning of the period	1,925	1,877	1,876	2,013	2,013	1,620
Translation difference in cash and cash equivalents	67	-74	67	37	-48	-18
Cash and cash equivalents at the end of the period	1,772	1,620	1,772	1,620	1,876	1,772
Free cash flow per share (SEK) *	2.63	3.27	4.57	5.70	12.25	11.12
Capex in relation to net sales	1.5%	1.3%	1.3%	1.1%	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 six months 2016 cash flows from operating and investing activities amounted to SEK 1,916 (2,391) million. Depreciation, excluding allocated step-up values, was SEK 319 (322) million during the first six months 2016.

Acquisition of businesses during the first six months 2016 of SEK -38 million relates to

purchase of additional shares in Chang San Engineering Co Ltd in South Korea and adjustment of preliminary purchase price for one of the acquisitions during 2015.

Divestment of businesses of SEK 1 million relates to the sale of Halaas og Mohn AS in Norway.

Financial position and equity

CONSOLIDATED FINANCIAL POSITION

SEK millions	June 30 2016	2015	December 31 2015
ASSETS			
Non-current assets			
Intangible assets	26,467	27,701	26,054
Property, plant and equipment	4,788	4,860	4,773
Other non-current assets	1,764	2,087	1,804
	33,019	34,648	32,631
Current assets			
Inventories	7,891	8,171	7,405
Assets held for sale	9	7	9
Accounts receivable	5,756	6,361	5,796
Other receivables	2,558	3,324	3,001
Derivative assets	127	144	158
Other current deposits	958	778	1,021
Cash and cash equivalents *	1,772	1,620	1,876
	19,071	20,405	19,266
TOTAL ASSETS	52,090	55,053	51,897
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity			
Owners of the parent	19,169	17,232	18,302
Non-controlling interests	135	114	121
	19,304	17,346	18,423
Non-current liabilities			
Liabilities to credit institutions etc.	12,819	13,421	12,484
Provisions for pensions and similar commitments	1,829	2,277	1,931
Provision for deferred tax	2,743	2,897	2,925
Other non-current liabilities	555	610	521
	17,946	19,205	17,861
Current liabilities			
Liabilities to credit institutions etc.	1,679	3,172	2,019
Accounts payable	2,670	2,976	2,664
Advances from customers	3,068	3,772	3,136
Other provisions	1,752	1,871	1,798
Other liabilities	5,379	6,005	5,424
Derivative liabilities	292	706	572
	14,840	18,502	15,613
Total liabilities	32,786	37,707	33,474
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES	52,090	55,053	51,897

* 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	June 30 2016	June 30 2015	December 31 2015
SEK millions				
Financial assets				
Other long term securities	1 and 2	24	26	28
Bonds and other securities	1	863	650	768
Derivative assets	2	141	153	165
Financial liabilities				
Derivative liabilities	2	411	802	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		
	June 30 2016	June 30 2015	December 31 2015
SEK millions			
Credit institutions	191	1,151	107
Swedish Export Credit	3,033	2,966	2,970
European Investment Bank	2,303	2,257	2,240
Private placement	-	906	921
Commercial papers	1,500	2,000	1,000
Corporate bonds	7,471	7,313	7,265
Capitalised financial leases	74	62	82
Interest-bearing pension liabilities	0	0	0
Total debt	14,572	16,655	14,585
Cash and cash equivalents and current deposits	-2,730	-2,398	-2,897
Net debt *	11,842	14,257	11,688

* Alternative performance measure, defined on page 23.

Alfa Laval has a senior credit facility of EUR 400 million and USD 544 million, corresponding to SEK 8,366 million with a banking syndicate. At June 30, 2016 the facility was not utilised. 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 1,500 million with 3-5 months duration was utilised at June 30, 2016.

CHANGES IN CONSOLIDATED EQUITY

SEK millions	First six months		Full year
	2016	2015	2015
At the beginning of the period	18,423	17,202	17,202
Changes attributable to:			
Owners of the parent			
Comprehensive income			
Comprehensive income for the period	2,677	1,833	2,903
Transactions with shareholders			
Increase of ownership in subsidiaries with non-controlling interests	-27	-	-
Dividends	-1,783	-1,678	-1,678
	-1,810	-1,678	-1,678
Subtotal	867	155	1,225
Non-controlling interests			
Comprehensive income			
Comprehensive income for the period	32	7	14
Transactions with shareholders			
Decrease of non-controlling interests	-6	-	-
Dividends	-12	-18	-18
	-18	-18	-18
Subtotal	14	-11	-4
At the end of the period	19,304	17,346	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 preliminary goodwill for this acquisition.

Please observe that the purchase price allocations for the two acquisitions during 2015 are still preliminary at the balance sheet date.

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. The shareholding in the company 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.

Parent company

The parent company's result after financial items for the first six months 2016 was SEK 75 (-13) million, out of which dividends from subsidiaries SEK 76 (-) million, net interests SEK -0 (-) million, realised and unrealised exchange rate gains and losses SEK 7 (-6) 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 2 (2) million.

PARENT COMPANY INCOME *

SEK millions	Second quarter		First six months		Full year
	2016	2015	2016	2015	2015
Administration costs	-2	-4	-10	-9	-13
Other operating income	-2	-3	2	4	2
Other operating costs	0	-2	0	-2	0
Operating income	-4	-9	-8	-7	-11
Revenues from interests in group companies	76	-	76	-	1,070
Interest income and similar result items	1	0	8	2	7
Interest expenses and similar result items	-1	-2	-1	-8	-15
Result after financial items	72	-11	75	-13	1,051
Change of tax allocation reserve	-	-	-	-	156
Group contributions	-	-	-	-	59
Result before tax	72	-11	75	-13	1,266
Tax on this year's result	1	3	0	3	-46
Net income for the period	73	-8	75	-10	1,220

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

PARENT COMPANY FINANCIAL POSITION

SEK millions	June 30 2016	2015	December 31 2015
ASSETS			
Non-current assets			
Shares in group companies	4,669	4,669	4,669
Current assets			
Receivables on group companies	6,478	7,202	9,581
Other receivables	249	162	143
Cash and cash equivalents	-	-	-
	6,727	7,364	9,724
TOTAL ASSETS	11,396	12,033	14,393
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity			
Restricted equity	2,387	2,387	2,387
Unrestricted equity	7,849	8,327	9,557
	10,236	10,714	11,944
Untaxed reserves			
Tax allocation reserves, taxation 2010-2016	1,145	1,301	1,145
Current liabilities			
Liabilities to group companies	15	16	1,304
Accounts payable	0	1	0
Other liabilities	-	1	-
	15	18	1,304
TOTAL EQUITY AND LIABILITIES	11,396	12,033	14,393

Owners and shares

Owners and legal structure

Alfa Laval AB (publ) is the parent company of the Alfa Laval Group. The company had 36,239 (39,327) shareholders on June 30, 2016. 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 7.2 to 0.7 percent. These ten largest shareholders owned 56.4 (55.9) percent of the shares.

Risks and other

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 June 30, 2016, named as a co-defendant in a total of 793 asbestos-related lawsuits with a total of approximately 793 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 second 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.

"Second quarter" refers to the period April 1 to June 30 and "First six months" refers to the period January 1 to June 30. "Full year" refers to the period January 1 to December 31. "Last 12 months" refers to the period July 1, 2015 to June 30, 2016. "The corresponding period last year" refers to the second quarter 2015 or the first six months 2015 depending on the context. "Previous quarter" refers to the first 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 231 (158) 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

Alfa Laval will publish the next interim report for 2016 at the following date:

Interim report for the third quarter October 25

The interim report has been issued at CET 11.45 on July 18, 2016 by the Board of Directors and the President and CEO.

The Board of Directors and the President and CEO assure that the report for the first six

months gives a true and fair view of the operations, financial position and results for the company and the consolidated Group and describes material factors of risk and uncertainty facing the company and the companies that are part of the Group.

Lund, July 18, 2016

Anders Narvinger Chairman	Gunilla Berg	Arne Frank
Bror García Lantz	Ulla Litzén	Henrik Nielsen
Susanna Holmqvist Norrby	Finn Rausing	Jörn Rausing
Ulf Wiinberg	Margareth Øvrum	Tom Erixon President and CEO