Advancing better

- From a financial point of view
### Performance 2019
- Key figures, SEK millions

<table>
<thead>
<tr>
<th></th>
<th>YTD 2019</th>
<th>YTD 2018</th>
<th>%-change</th>
<th>%-▲,org</th>
</tr>
</thead>
<tbody>
<tr>
<td>Order intake</td>
<td>32,966</td>
<td>33,444</td>
<td>-1</td>
<td>-3</td>
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<tr>
<td>Net sales</td>
<td>33,553</td>
<td>29,457</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Adjusted EBITA</td>
<td>5,739</td>
<td>4,931</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Adjusted EBITA-margin (%)</td>
<td>17.1</td>
<td>16.7</td>
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Growth
- SEK millions (rolling 12 months)

Orders received

Sales

• **Order growth** driven by strong global economy, partial recovery in Energy and Marine markets and structural growth in Marine Environmental products
• **Service growth** improving in 2019
• **Sales growth** driven by successful execution of large order backlog

*) Measured over a business cycle
**Profitability**

- SEK millions (rolling 12 months)

### Adj. EBITA & Margin (%)

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<tbody>
<tr>
<td>Adjusted EBITA</td>
<td>8,4</td>
<td>9,1</td>
<td>9,2</td>
<td>8,8</td>
<td>6,2</td>
<td>5,5</td>
<td>5,2</td>
<td>4,2</td>
<td>7,1</td>
<td>7,7</td>
<td>9,3</td>
<td>10,2</td>
<td>11,2</td>
<td>11,9</td>
<td>12,8</td>
<td>10,8</td>
<td>11,9</td>
<td>12,8</td>
</tr>
<tr>
<td>Adjusted EBITA-margin</td>
<td>7,7</td>
<td>9,1</td>
<td>9,2</td>
<td>8,8</td>
<td>6,2</td>
<td>5,5</td>
<td>5,2</td>
<td>4,2</td>
<td>7,1</td>
<td>7,7</td>
<td>9,3</td>
<td>10,2</td>
<td>11,2</td>
<td>11,9</td>
<td>12,8</td>
<td>10,8</td>
<td>11,9</td>
<td>12,8</td>
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### Net Income & EPS

- **Net income for the period**
- **Earnings per share**

#### Adj. EBITA & Margin (%)

- Positive impact from higher volumes, productivity improvements and FX impacts
- Margin negatively impacted by reduced service share and investments in R&D, footprint costs, etc.

#### Net Income & EPS

- EPS growth driven by higher operating earnings and reduced tax rate
- Tax rate expected at 26% of PBT

*) Measured over a business cycle
Capital utilization
- SEK millions (rolling 12 months)

**ROCE (RoC)**

- 20%

**Net Debt**

- Decreasing over time
- Excluding lease liabilities (SEK 2.8 bn) now at SEK 7.0 bn
- Net Debt / EBITDA ratio below 1.0*

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**Return on capital employed *:**
- Steady increase from 2015 Q1 to 2019 Q3

**Net debt (excl. IFRS16):**
- Decreasing over time

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**ROCE (%)**

- IFRS 16 capitalization of leased assets, impact of SEK 2.8 bn in 2019
- Step-up values will be reduced from SEK 3.3 bn in 2019 to SEK 2.4 bn in 2020

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*) Excluding lease liabilities from IFRS16 implementation
Key drivers of financial goals

- Stepped-up product innovation with improved competitiveness
- Service strategy taking effect
- Connectivity solutions
- Sustainability providing new business opportunities
- Strong balance sheet enabling inorganic growth

*) Measured over a business cycle

- Pricing power with strengthened product & service offering
- New product platforms with increased efficiency
- Drive service growth
- Optimized manufacturing footprint and supply chain
- Strong cost control

- Strengthen focus on Working Capital and ROCE with new internal financial reporting structure
- Capex level to be reduced after completion of footprint program
Example; Gasketed Plate Heat Exchanger (GPHE)

Growth
- New platform with increased efficiency, reliability and serviceability
- Industrial range completed by end of 2021
- Service = large untapped installed base
- Strong on-line presence and connectivity solutions being piloted

Profitability
- New platform with improved competitiveness
- Improved global supply structure
- Target service growth of >5% p.a.
Example; High Speed Separators (HSS)

**Growth**
- Unique customers values; improved separation performance at lower cost of ownership and increased reliability
- Contributes to our customers sustainability targets; substantially reduced energy and water consumption
- Connected solutions; increased uptime and longer service intervals through condition based maintenance contracts

**Profitability**
- Modularization and development of common product family platforms
- Increased coverage of the installed base with multi year service contracts
- Target service growth of >5% p.a.
Example: Marine Service

**Growth**
- Upgrading opportunities for the fuel line and boilers.
- International Marine Service (IMS) is a differentiator; improve the customer experience and market position.
- Alfa Laval PureBallast and PureSox installed base – represents a service growth opportunity.

**Profitability**
- Environmental compliance systems is expected to have a higher share of service agreements and customer loyalty due to criticality of the systems.
- Target service growth of >5% p.a.
R&D spend
- SEK millions (rolling 12 months) and in percent of sales

R&D development

R&D spend by category (% of total 2017-2019)

R&D development
- R&D increased by 14% in 2018 and 14% in 2019 (YTD), excluding currency effects, to develop new product platforms.
- R&D expenses expected to remain at 2.5% of sales

R&D spend by category
- Majority of R&D spend related to development of new products or improving existing products including driving new product features, cost and/or quality improvements

- Technology development
- New product development
- Improved products
- Product maintenance
- R&D support costs
- Product maintenance
- Technology development
Capital expenditure
- SEK millions (rolling 12 months) and in percent of sales

Capex development
- Increased investments driven by manufacturing footprint optimization and capacity expansions (+1.5 bn in 2 years)
- Capex expected at ~2.5% of sales in 2020, and then reduce to ~2.0% of sales in 2021

Capex by category
- Majority of investments related to key product technologies, approx. 1/3 related to improving our real estate assets
Capital expenditure

Footprint Wave 1 during 2017-2019
- Projects to be completed by end of 2019
- Capex of SEK ~ 1.1 bn, whereof ~ 45% in real estate assets
- OpeX/footprint costs of SEK 450 million
- Payback 5 years (excl. real estate)

Capacity Expansion during 2018-2019
- Expansion of Brazed Heat Exchanger, High Speed Separation and Scrubber production
- Capex of SEK of SEK 400 million

Footprint Wave 2 during 2020-2021
- Include Brazed Heat Exchanger supply chain, Kolding Hygienic Fluid Handling Centre and consolidation India
- Capex of SEK ~ 0.7 bn, whereof ~ 45% in real estate assets
- OpeX/footprint costs of SEK 200 - 250 million
- Payback 5 years (excl. real estate)
Order backlog
- SEK (million), September 30

Order backlog periodization

Order backlog for "next year" per division (% of total)

- Order backlog for delivery next year: SEK 13.9 (13.7) Bn, increase of SEK +0.2 bn
- Less favorable product mix in order backlog for delivery next year
# Sales

- Full-year 2020, SEK (bn)

<table>
<thead>
<tr>
<th>Description</th>
<th>Approx.</th>
<th>Change</th>
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<tbody>
<tr>
<td>Full year 2019*</td>
<td>45.6</td>
<td></td>
</tr>
<tr>
<td>Change in OBL y-o-y</td>
<td></td>
<td>+ 0.2</td>
</tr>
<tr>
<td>Acquisitions/divestments during 2019</td>
<td></td>
<td>- 0.3</td>
</tr>
<tr>
<td>Subtotal</td>
<td>45.5</td>
<td></td>
</tr>
<tr>
<td>Change “In-for-out”, FX translation, price, acquisitions/divestments during 2020</td>
<td>+/-</td>
<td>?</td>
</tr>
<tr>
<td>Full year 2020</td>
<td>?</td>
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*) SME Direkt, consensus estimate as per November 11 2019
Readiness

**Market outlook**

- Most end-customer industries in Energy and F&W divisions expected to show stable activity levels in 2019, but readiness for a potential slow-down in 2020

- New ship-contracting levels in Marine market expected to return towards historical levels in 2020-2021, demand for environmental products to stabilize in 2020

- New product platforms with improved competitiveness and service strategy taking effect

- Sustainability trend creating new opportunities.

**Mitigations**

- Strong OBL for execution in 2020, however product mix less favorable

- Strict cost control of S&A and footprint costs in 2020/2021

- ~15% of employees in Operations are temps/contract employees providing flexibility

- Ambition is to drive service growth through business cycle

- Optimized manufacturing footprint and supply chain
**Guidance**

- Capital Expenditure in relation to total revenues, ~ 2.5% in 2020 and ~ 2.0% in 2021
- Step-up amortization of SEK ~ 900 million in 2020, SEK ~ 770 million in 2021
- FX impact on EBITA estimated to SEK 495 million in 2019, SEK 420 million in 2020*
- R&D spend in relation to total revenues, 2.5%
- Taxes in the P&L, 26.0% of PBT
- Dividend pay-out ratio, 40 - 50% of adjusted EPS

*) 2019 = total of transaction and translation FX impact. 2020 = transaction FX impact only, based on EUR/USD 1.115 and EUR/SEK 10.5