

Vision, business concept and goals

Vision and drivers

To “help create better everyday conditions for people” by offering efficient and environmentally responsible products and solutions in the areas of heat transfer, separation and fluid handling.

Business concept

The vision is at the core of the company’s efforts to realize its business concept: “To optimize the performance of our customers’ processes, time and time again.” This is achieved by helping customers to become more productive and competitive through the delivery of high-quality products and solutions in the three key technologies.

Financial goals

Alfa Laval is governed with the aim of realizing its business concept, while at the same time meeting the financial goals established with regard to growth, profitability and return. By achieving or exceeding these goals, Alfa Laval creates the necessary scope for its continued development as well as generating increased value for its shareholders in the form of an annual dividend and by boosting the value of the company.

Growth

5% Alfa Laval’s goal is to achieve average annual sales growth of at least 5 percent measured over a business cycle. This target is regarded as realistic, viewed in light of the prevailing business scenario and against the backdrop of Alfa Laval’s achievements in recent years.

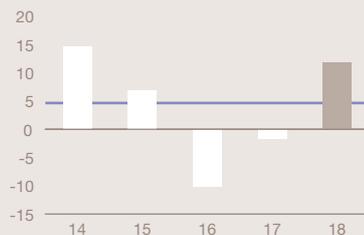
Profitability

15% Alfa Laval is to achieve an operating margin – adjusted EBITA – of 15 percent measured over a business cycle. This goal was established based on historical margins, while also taking the company’s growth ambitions into consideration.

Capital utilization

20% The goal is to have a return on capital employed of at least 20 percent, a realistic ambition based on a combination of organic and acquired growth.

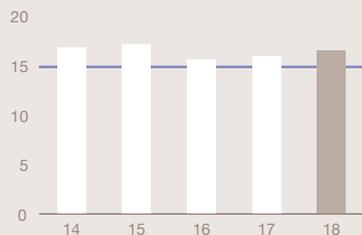
Outcome



Invoicing rose 11.8 percent* in 2018.

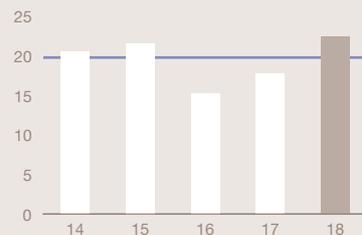
* Excluding exchange rate variations

Outcome



The adjusted operating margin for 2018 was 16.5 percent, compared with 15.9 percent for full-year 2017.

Outcome



The return on capital employed for 2018 was 22.4 percent.



Sustainability goals

In addition to its financial goals, Alfa Laval also has a number of sustainability goals. These reflect the company’s ambitions with respect to the environment, health and safety. Among other areas, these targets encompass: a reduction in the number of workplace accidents, increased energy efficiency, a reduction in water consumption and a reduction in greenhouse gas emissions. For more information about these goals and Alfa Laval’s sustainability work, refer to the Sustainability Report available at: www.alfalaval.com

Financial benchmark values

In addition to the Group’s financial goals, the Board has established benchmark values for three key financial ratios, which further specify the framework and goals for the operation of the company.

Net debt in relation to EBITDA

2x In the long term, net debt in relation to EBITDA, meaning operating profit before depreciation and amortization of step-up values, is not to be more than 2. Although the ratio may exceed the goal in connection with major acquisitions, this should be viewed as a temporary situation, since the company’s cash flow is expected to offset this effect.

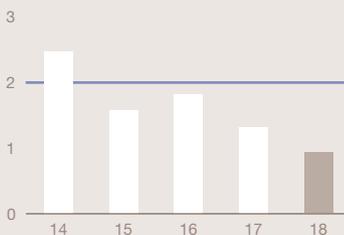
Investments

2% The long-term benchmark value has been, and will continue to be, for 2 percent of sales to go to investments. In 2018 and 2019, however, the limit is temporarily lifted to enable the investments that the company considers necessary for expanding and changing the production structure. Thereafter, investments are expected to move back towards the benchmark value – a level that creates the necessary scope for replacement investments as well as certain capacity expansions in order to match the organic growth of the Group’s key products.

Cash flow from operating activities

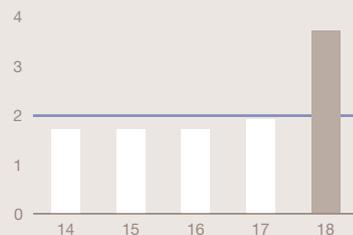
10% Cash flow from operating activities is to amount to 10 percent of sales, including investments in fixed assets. This value is lower than the goal for the operating margin, since organic growth normally requires an increase in working capital. In addition, taxes are paid in an amount corresponding to approximately 26 percent of earnings before tax.

Outcome



Net debt/EBITDA at year-end 2018 was 0.93.

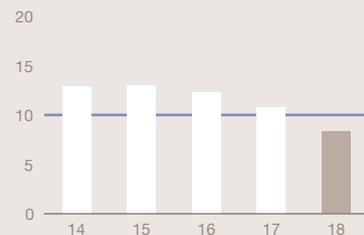
Outcome*



Investments in 2018 amounted to 3.7 percent.

* As a percentage of sales

Outcome*



In 2018, cash flow from operating activities totaled 8.3 percent**.

* As a percentage of sales

** Including investments in fixed assets