

A full-page background image showing a worker in a hard hat and high-visibility vest standing on a rooftop, looking at a device. The scene is set at sunset or sunrise, with a large industrial building on the left and a clear sky with a gradient from orange to blue. The worker is silhouetted against the bright sky. The rooftop surface is dark and reflective, showing the worker's reflection. In the background, there are some industrial structures and a clear horizon line.

2021

Annual & Sustainability Report

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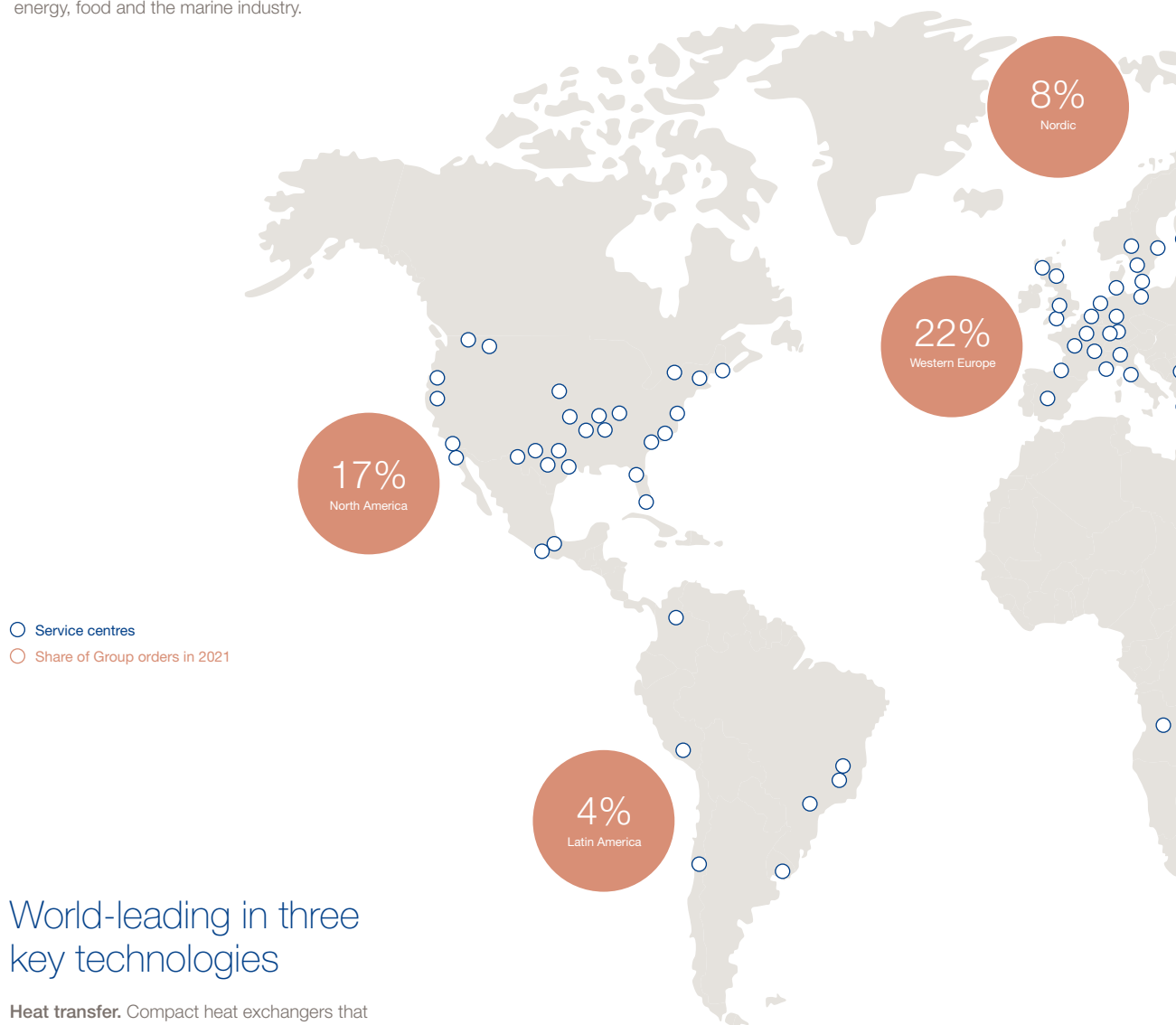
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Alfa Laval is a world-leading, global provider of first-rate products in the areas of heat transfer, separation and fluid handling. With these as its base, Alfa Laval aims to help enhance the productivity and competitiveness of its customers in various industries throughout the world. We define their challenges and deliver sustainable products and solutions that meet their requirements – mainly in energy, food and the marine industry.



World-leading in three key technologies

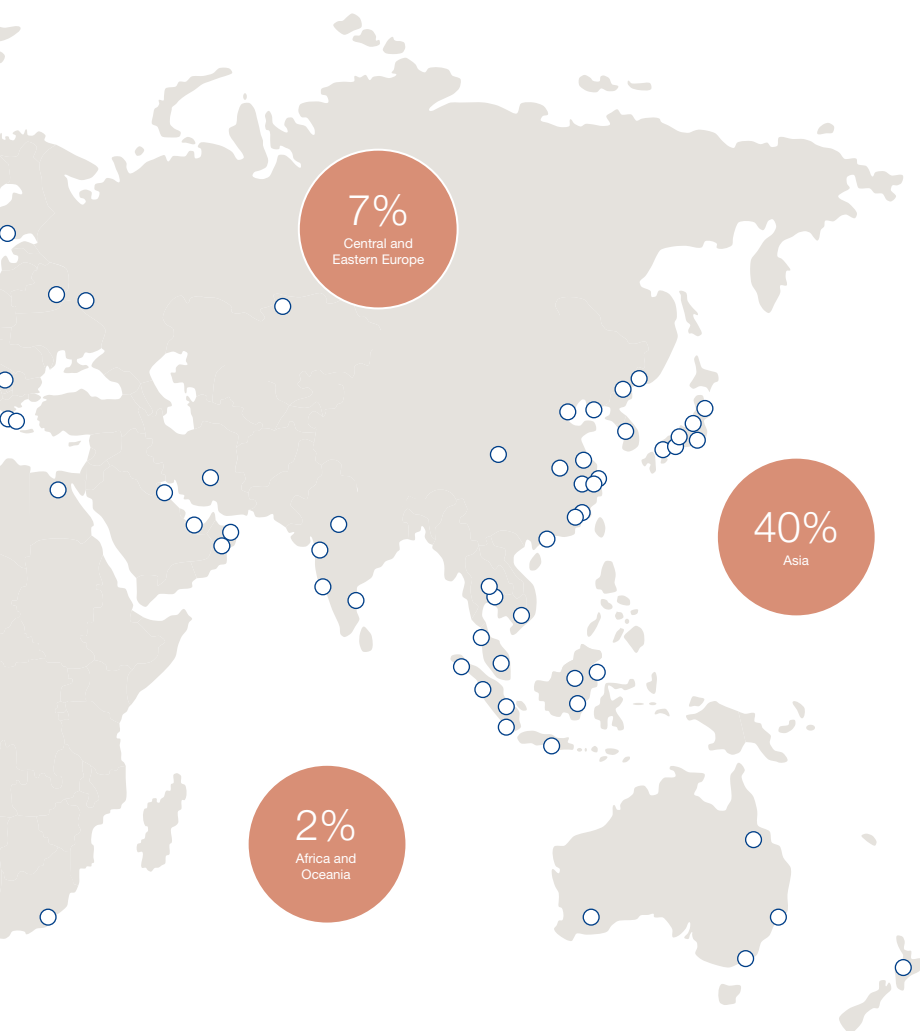
Heat transfer. Compact heat exchangers that recycle heat, optimize customers' energy consumption, cut costs and reduce negative environmental impact.

Separation. Separators, decanter centrifuges, filters, strainers and membranes that separate liquids from other liquids and solid particles from liquids or gases.

Fluid handling. Pumps, valves, tank cleaning equipment and installation material for industries with stringent hygiene requirements as well as pumping systems specifically for the marine industry and the offshore market.

Three business divisions with customer needs front and centre

The need to heat, cool, transport and separate arises in many industries: food, energy, pharmaceuticals, refineries or petrochemicals – Alfa Laval can help in the majority of them. End customers are reached through the **Energy, Food & Water** and **Marine divisions**.



17,883

Alfa Laval's employees are the company's most important resource. Creating a secure, inspiring work environment is therefore a top priority, as is forming a culture that can both attract and retain talent and allow people to thrive.

>100

Alfa Laval's products, systems and services are sold in more than 100 countries. This means that Alfa Laval is close to its customers, ready to help at a moment's notice when the need arises.

A global supply chain with strong regional presence

Operations handles production-related procurement, distribution and logistics on a global basis and ensures that anything sold by the three divisions is produced and delivered in line with the promise made to the customer.

Optimizing today – innovating for the future

With one foot planted in the traditional industrial economy and one foot exploring the new digital and sustainable landscape, Alfa Laval is positioned to play an essential role in transforming the fossil economy into a sustainable, decarbonized, open and inclusive world. This journey is ongoing, and we are constantly optimizing and refining our existing ways of working while pioneering and developing new technologies to meet tomorrow's demands.



Sustainable partnerships

At Alfa Laval, we understand the challenges our customers are facing, because their business is our business. Their curiosity is our curiosity. And their passion is our passion. We believe that collaboration and strong, lasting partnerships are the key to accelerating tomorrow's sustainable solutions for reshaping our economy and the world we share.

That is why Alfa Laval works closely with customers, technology leaders, universities and other partners to find new answers to the most challenging questions of our time. For more than a century, that shared curiosity and passion has fuelled our relentless innovation. Today it drives developments in energy efficiency, clean energy and the circular economy and in 2021 alone, 10 new partnerships have been initiated. Ready to accelerate the journey to a more sustainable world together?



CEO Comments

2021 was another strong year for Alfa Laval and underlying sustainability trends drove demand for many of our core technologies to new record levels. In addition, the more cyclical areas of the business returned to growth as ship contracting improved significantly after many years of low demand and investments increased in the Oil&Gas sector supported by high prices for both oil and natural gas. The total order intake amounted to almost 46 SEK billion, a new record for the group.

The growth of 15 percent compared to 2020 was mainly driven by a strong global economic recovery after the pandemic. In fact, all regions and almost all end-user markets showed good growth during the year. At the same time, Alfa Laval has made substantial investments in product development, supply chains and the global sales organization during the last five years. The result from these efforts was evident in 2021, with improved market positions in most of our businesses, and clearly contributed to the growth.

From a profitability perspective 2021 was a challenging year. While building a strong order book was a priority, invoicing was flat compared to 2020, as expected. At the same time, the cost increases were substantial during the year for two reasons. First, the activity level after the pandemic started to return to a more normal level with increased Sales and Administration costs as a result. Second, the cost inflation in logistics and sourcing was substantial. A good productivity development and operational performance supported the operating margin, which remained unchanged at 17.4 percent compared to the previous year. It was a satisfactory result given the circumstances.

The most important event during the year was the new Strategic Plan of Alfa Laval, preparing the group for long-term growth in several new sustainability areas as well as accelerating the digital capabilities. The technology platforms and partnerships have already been in preparation for a few years, but in 2021 it was the first time the scope of the program was communicated externally.

In the Energy division, the focus historically has been on energy efficiency in both HVAC and process industry applications. This focus remains, but longer-term growth will be supported by other initiatives. The project to develop

a thermal energy storage solution in the size range of 100 MW together with partners in Malta, a start-up company in the US, has progressed well. A pilot plant is expected to be completed in the 2023-24 timeframe. Thermal energy storage could be an important solution to secure the stability of the grid as the volatility of renewable energy sources will increase. New applications related to fuel cells operating in high temperatures are also in development. Alfa Laval's technology platforms may prove useful also in applications outside the current heat transfer applications. Finally, the preparations for the fast-developing market for hydrogen is progressing rapidly. All gases, like hydrogen and natural gas, must be efficiently managed from an energy perspective. Alfa Laval's technology plays a role in making production, distribution, and combustion economically viable.

In the Marine division a key objective is to provide ship-owners with a concrete toolbox of solutions to reduce the carbon footprint with at least 50 percent. Our belief is that there is no single technology that will decarbonize the global merchant fleet in the short-term. Therefore, Alfa Laval is investing in a wide range of technologies that combined could have a significant impact. In 2021 a partnership was signed to develop an air-lubrication system to reduce the hull friction in water. A joint venture called Oceanbird was formed with Swedish shipping group Wallenius with the objective to develop a wind propulsion system based on wings on top of the hull. A new product, PureCool, was launched to reduce the amount of methane slip in large low-pressure marine engines in partnership with WIN GD. Finally, Alfa Laval completed the acquisition of StormGeo. The company has many weather-related services, but in this context the route advisory service to ship operators to reduce

the fuel consumption by taking winds and currents into account when plotting the route is of key importance. With these and many other initiatives the Marine division is well positioned to meet the decarbonization challenges together with our customers.

The Food & Water division is also preparing for a changing consumer behaviour and changing end-markets. The capabilities in biofuels have been improved, in a market that started to take-off already in 2021. Based on our knowledge in vegetable oils and our experience with the refinery sector, Alfa Laval has a unique competence to support customers in the transition from fossil to biobased fuels. New sources of protein are also adding new technologies and customers to the division. Both own product development and new partnerships are established to secure a strong position. Finally, a technology to reduce the water content in beer was acquired in 2021. Alfa Laval's position in the brewery sector is already significant. Together with recent product launches to reduce and recycle the water use in a brewery, working with beer concentrates may prove to become an important tool for brewers to reduce their carbon footprint.

The emerging business portfolio will take some years to develop and find the right commercial applications. In the short-term, we will continue to grow in existing businesses. An investment program amounting 7–8 SEK billion over the next 3–4 years was announced in 2021 to ensure both production capacity in the existing product areas as well as the first important steps to support the new businesses. In all, it is an unusually dynamic period for Alfa Laval and the role we can play in the energy transition and decarbonization efforts of our customers.

Being a leader in providing sustainable solutions to customers also put pressure on ourselves in developing our own supply chains in a good way. For us, that means being carbon neutral by 2030. Specifically, we

plan to be at zero carbon emissions for scope 1 and 2 and to reduce the emissions from scope 3 with 50 percent compared to 2020. It is a big undertaking for the group, but progress in 2021 was substantial. First, the emissions of scope 1 & 2 were reduced by 33% compared to 2020 despite increased volumes in production. The actions taken during the last few years are having a clear effect. Second, we now for the first time have a clear plan for how to reach our objectives by 2030. At Alfa Laval, sustainability is an integral part of the long-term strategy and we continue to support the UN Global Compact.

Operating a global industrial group during the pandemic, with the added complexity of geopolitical tensions and escalating inflation, has been a challenging undertaking. I would like to take this moment to thank our team of talented employees for serving our customers well during unusual times.

Finally, the devastating war in Ukraine is a human tragedy and our deepest empathy and concerns are with the millions of people impacted. The priority for Alfa Laval at this point is to ensure the safety and well-being of our employees and their families and provide our full support to the victims in the affected region - in the short and the long term. The situation is critical and changing rapidly, and we are dedicated to navigate in this reality with the best interest of people as the most important aspect.

Lund, February 2022

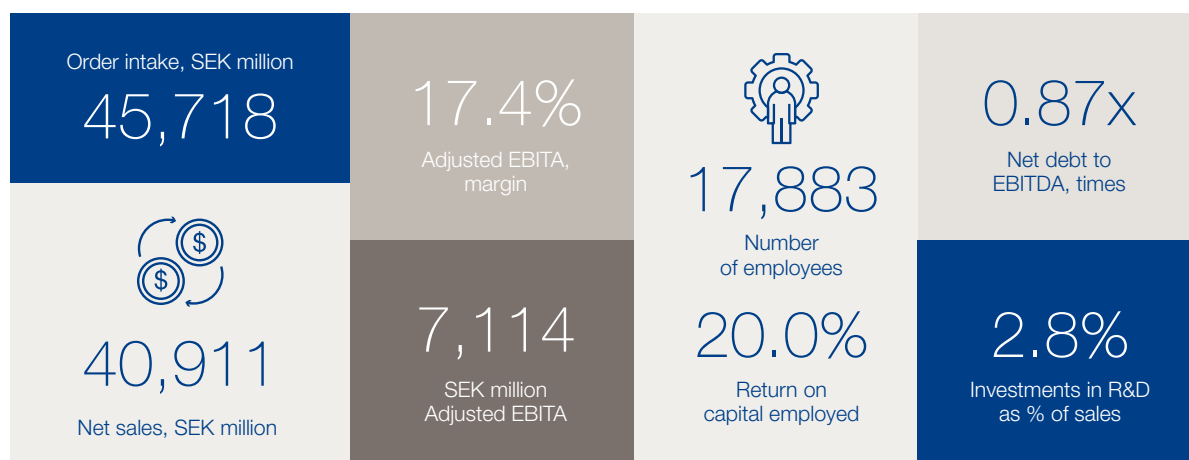


Tom Erixon
President & CEO

“2021 was another strong year for Alfa Laval and underlying sustainability trends drove demand for many of our core technologies to new record levels.”



2021 in brief



| Amounts in SEK million unless otherwise stated | +/- % ^{a)} | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|---------------------|--------------------|--------|--------|--------|--------|
| Order intake | 15% | 45,718 | 39,833 | 44,119 | 45,005 | 36,628 |
| Net sales | -1% | 40,911 | 41,468 | 46,517 | 40,666 | 35,314 |
| Adjusted EBITDA ¹⁾ | -1% | 8,305 | 8,365 | 9,062 | 7,344 | 6,239 |
| Adjusted EBITA ²⁾ | -2% | 7,114 | 7,231 | 7,989 | 6,718 | 5,610 |
| Adjusted EBITA ²⁾ , % | | 17.4 | 17.4 | 17.2 | 16.5 | 15.9 |
| Result after financial items | 23% | 6,142 | 4,977 | 7,221 | 5,896 | 4,371 |
| Return on capital employed, % | | 20.0 | 19.1 | 23.0 | 22.4 | 17.7 |
| Return on shareholders' equity, % | | 15.8 | 12.7 | 21.3 | 20.3 | 13.9 |
| Earnings per share, SEK | 34% | 11.38 | 8.47 | 13.08 | 10.77 | 7.09 |
| Dividend per share, SEK | | 6.00 ³⁾ | 5.50 | 0 | 5.00 | 4.25 |
| Free cash flow per share, SEK ⁴⁾ | | 0.57 | 15.89 | 10.00 | 8.56 | 8.92 |
| Solidity, % | | 50.3 | 47.8 | 43.1 | 40.6 | 39.0 |
| Net debt to EBITDA, times | | 0.87 | 0.48 | 0.88 | 0.93 | 1.31 |
| Number of employees ⁵⁾ | 6% | 17,883 | 16,882 | 17,497 | 17,228 | 16,367 |

¹⁾ Adjusted EBITDA – Operating income before depreciation and amortization of step-up values, adjusted for items affecting comparability.

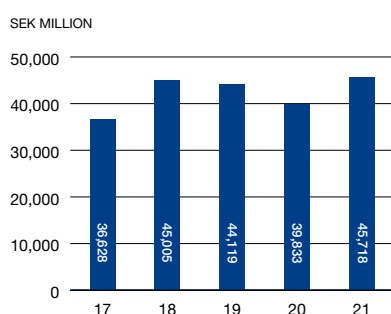
²⁾ Adjusted EBITA – Operating income before amortization of step-up values, adjusted for items affecting comparability.

³⁾ Board proposal to the Annual General Meeting.

⁴⁾ Free cash flow is the sum of cash flow from operating and investing activities.

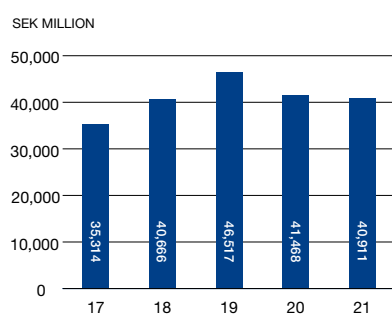
⁵⁾ Number of employees at year-end.

^{a)} Percentage change between 2020 and 2021.



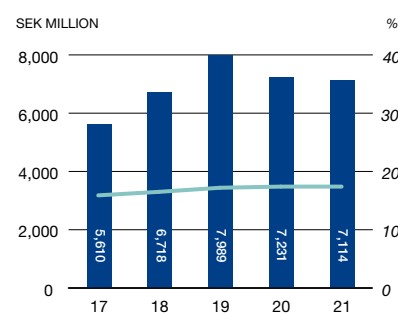
Order intake

Order intake amounted to SEK 45,718 million in 2021, a growth of 15 percent compared to 2020. Excluding exchange rate variations, order intake grew 20 percent.



Sales

Net sales amounted to SEK 40,911 million in 2021, a decline of -1 percent compared to 2020. Excluding exchange rate variations, net sales grew 3 percent.



Adjusted EBITA

Adjusted EBITA amounted to SEK 7,114 million. The adjusted EBITA margin was 17.4 percent.

Q1

10,204

Order intake, SEK million

8,969

Net sales, SEK million

1,530

Adjusted EBITA, SEK million

17.1%

Adjusted EBITA margin



Alfa Laval is part of the next phase of development for a sustainable energy storage solution

[Read more](#)

Q2

12,183

Order intake, SEK million

9,975

Net sales, SEK million

1,738

Adjusted EBITA, SEK million

17.4%

Adjusted EBITA margin



Alfa Laval and Wallenius join forces to supply wind propulsion solutions for sustainable shipping

[Read more](#)

Q3

11,680

Order intake, SEK million

10,275

Net sales, SEK million

1,854

Adjusted EBITA, SEK million

18.0%

Adjusted EBITA margin



Alfa Laval partners with Wayout to develop micro-factories for sustainable water and beverage supply

[Read more](#)

Q4

11,651

Order intake, SEK million

11,692

Net sales, SEK million

1,992

Adjusted EBITA, SEK million

17.0%

Adjusted EBITA margin



Alfa Laval collaborates with Microsoft to develop innovative, sustainable and digital service tools

[Read more](#)

Goals and outcomes

Financial targets

Alfa Laval aims of realizing its business purpose, while at the same time meeting the financial targets established with regard to growth, profitability and capital utilization. By achieving or exceeding these targets, Alfa Laval creates the necessary scope for its continued favourable 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.

5%

Growth

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.

15%

Profitability

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.

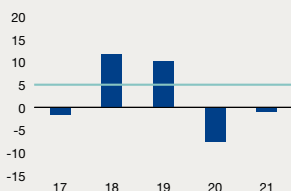
20%

Capital utilization

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.

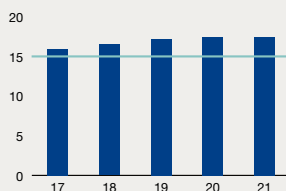
Outcome 2021

-1%



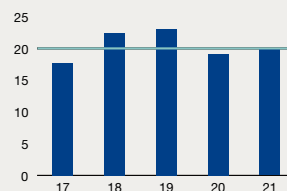
Outcome 2021

17.4%



Outcome 2021

20.0%












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Financial benchmarks

In addition to its financial targets, Alfa Laval also has a number of financial benchmarks reflecting the company's ambitions with respect to the net debt / EBITA ratio and cashflow from operating activities. Further information on the financial benchmarks can be found on page 141.

Sustainability targets

Alfa Laval's environmental and social targets aim to drive efficiency and behavioural change to achieve better results in the long term. The below table contains a selection of the company's sustainability targets. More details and information about the progress are presented on pages 54–84.

| Environmental targets | Targets | Target year | Trend to achieve target based on 2021 results |
|--|--|-----------------------|---|
|  CO ₂ Carbon emissions | 50% reduction scope 1 & 2 emissions | 2023 (base year 2020) | ● |
| | Net zero scope 1 & 2 emissions 50% reduction scope 3 emissions | 2030 (base year 2020) | ● |
|  Energy efficiency | 5% improvement in energy efficiency (MWh/k direct hours) | 2023 (base year 2020) | ● |
|  Water consumption | 5% reduction of water consumption in sites located in water scarce areas | 2023 (base year 2020) | ● |
| | 100% recirculation of water in sites located in water scarce areas | 2030 | ● |
|  Waste | 85% recycling of waste | Recurring | ● |
| | Zero waste to landfill | 2030 | ● |
|  Chemicals | No hazardous chemicals used | Recurring | ● |
|  Materials | 30% of products from recycled materials | 2030 | ● |
| Social targets | Targets | Target year | Trend to achieve target based on 2021 results |
|  Inclusion & Diversity | 35% female employees | 2025 | ● |
| | 25% female managers | 2025 | ● |
| | <70% homogeneity (gender and nationality) in highest management groups | 2025 | ● |
|  Safety | 30% Lost Time Injury Rate (LTIR) | 2023 (base year 2020) | ● |
| Integrity targets | Targets | Target year | Trend to achieve target based on 2021 results |
|  Ethics | 100% of employees trained every two years in Business Principles, Anti-Bribery, Anti-Corruption and whistleblowing | Recurring | ● |

● Well aligned with target ● Progress made towards target ● Not aligned with target

Drivers for growth

In a changing world we face new challenges, but also opportunities. Global trends in food, transportation and energy are fuelling growth in areas that are new for us. Climate change is one such example. The quest for greener and more sustainable energy sources is also creating new needs and with it interesting business opportunities. The same is true of changes in the food market, where the need for clean water must be secured and the search for new raw materials intensifies as consumers demand products with a lower carbon footprint.

| Drivers | Opportunities |
|--|---|
| <h3>Climate</h3> <p>There is a growing realization among communities, businesses and citizens that the world needs to make major changes in order to manage climate change. This transition will increasingly take place in collaborative partnerships between organizations – via new technology, guidelines and decisions – to ensure that solutions and measures are both long term and effective.</p> | <p>We offer technical solutions that optimize customers' processes and use of resources, which is crucial to reducing companies' carbon footprint. Helping our customers become more energy and resource efficient – and thus reduce their carbon footprint – is one of the driving forces for Alfa Laval.</p> |
| <h3>Energy</h3> <p>Global energy needs are on the rise. At the same time, emissions must be reduced to meet agreed climate targets aimed at mitigating global warming. This challenge can be tackled in two ways: by focusing on efficient usage and increasing recycling of the energy currently generated, and by replacing current sources of energy with new sources that have a significantly lower carbon footprint.</p> | <p>Our solutions for power generation, oil and gas extraction, renewable fuel production, refineries, transportation and other industries play an important role in the transition to more energy-efficient processes in industry, both now and in the development of new forms of energy in the longer term.</p> |
| <h3>Water</h3> <p>Water is an increasingly scarce natural resource in many parts of the world. Rising demand for fresh water and the challenges posed by climate change are having a major impact on both the Earth's population and ecosystems.</p> | <p>Alfa Laval's solutions and technologies help reduce water consumption in industrial processes and improve water quality. These technologies can also significantly increase the amount of recycled water.</p> |
| <h3>Food</h3> <p>A growing middle class and increasing urbanization continue to be strong global trends. As a result, demand for ready-made food and resource-efficient supply chains is increasing. At the same time, more and more consumers want the products they eat and drink to have minimal environmental impact.</p> | <p>Today's hygienic applications for the food industry include separators, heat exchangers, pumps and valves. These products meet stringent hygiene requirements, help optimize the use of raw materials and create sustainable alternatives as the world's population expands.</p> |
| <h3>Environmental legislation</h3> <p>Human impact on the environment is resulting in increasingly stringent legislation. Meanwhile, companies are being encouraged to make voluntary efforts to improve their sustainability performance.</p> | <p>Alfa Laval offers products and solutions to help customers monitor and manage the implementation of new regulations and guidelines relating to areas such as energy needs and emissions from shipping.</p> |
| <h3>Global trade</h3> <p>International trade connects a world where raw materials are extracted in one country and processed in another, and where the finished products are transported to customers all over the world.</p> | <p>Increasing international trade brings growing demands for efficient global value chains. For more than a century, Alfa Laval has been supplying products and systems to the marine industry, including separators for cleaning fuel in engine rooms, heat exchangers that generate fresh water, pumping systems to clean ballast water and technology to reduce the sulphur content of ships' exhaust gases.</p> |

Our purpose and how we create value

The resources we employ...

BUSINESS

1,159

R&D investments, SEKm

1,229

Capex investments, SEKm

37

Manufacturing sites

>4,000

Patents

>600

Distributors

HUMAN

>100

Present in number of countries

17,883

Employees

NATURAL

321,690

Energy consumption, MWh

~13,000

In direct material purchases, SEKm

665,420

Water consumption, m³

How we apply them...



STRATEGIC PRIORITIES

Sustainability and digitization boost our three key areas

- Customers
- Products
- Services



TECHNOLOGY LEADERSHIP

Growing number of applications based on our three core technologies

- Separation
- Heat transfer
- Fluid handling



THREE DIVISIONS – GLOBAL PRESENCE

Three industry based divisions served by a common manufacturing and supply chain

- Energy
- Food & Water
- Marine

We apply our resources to develop and broaden application of our three leadership technologies heat transfer, fluid handling and separation and take them to market through our three industry based divisions Food & Water, Energy and Marine and a large network of distributors.

Our operational focus addresses macro trends while leveraging our technology leadership and global market presence through the prioritized areas of products, services, customers, sustainability and digitization.

Based on our Business Principles...

Alfa Laval's four Business Principles describe the way we must act within society whilst achieving our business goals.

CARING

We care about every individual's rights and opportunities including their safety and wellbeing.

COMMITTED

We are committed to ethical conduct within our organization and in all external business relationships. Honesty, integrity and respect for others are values that we live and work by.

TRANSPARENCY

We engage in open dialogue with all our stakeholders to develop business relationships built on trust.

PLANET

We are in a unique position as our products make a significant contribution to reducing the environmental impact of industrial processes. We also have a responsibility to continuously reduce the environmental impact in all areas of our value chain.

To create stakeholder value.

CUSTOMERS

- Energy savings.
- Lower total cost of ownership.
- Increased productivity.
- High level of innovation.

INVESTORS

- Dividend policy of 40–50% of net profit.
- Average annual effective return of 18% over the full listing period.
- Adjusted EBITA margin of 17.4%.
- 20% return on capital employed.

EMPLOYEES

- Opportunities to learn and develop in the Alfa Laval Group.
- An organization that promotes respect, diversity and is free from discrimination.
- Alfa Laval strives to be a workplace that is free from accidents and work-related illness.

SUPPLIERS & PARTNERS

- A reliable partner.
- On-time deliveries.
- Broad market access.
- A global supply chain with strong local presence.

SOCIETY

- Alfa Laval has a target to be carbon neutral by 2030.
- Recycling of 100% of the water used in sites located in water-scarce regions by 2030.
- In 2020 alone, Alfa Laval heat exchangers reduced energy use in industrial processes by around 50 GW while reducing 25 million tonnes of CO₂ emissions.



Strategic priorities

To achieve its vision, implement its business purpose and attain its growth, profitability and capital utilization goals, Alfa Laval has established various strategic priorities that encompass customer collaboration, a focus on products and working to further strengthen the aftermarket offering.





Customers

At Alfa Laval, we strive to always meet our customers' high expectations when it comes to quality, service, interaction and sustainability.



Products

Alfa Laval is, and has always been, a product-driven company. A strong focus on research and development (R&D) will remain the single most important factor for market leadership and organic growth.



Service

Alfa Laval continuously develop its service business in order to fully leverage its large installed base, fuel growth and improve the customer experience.

Focusing on long-term relationships

Customers should feel that Alfa Laval offers the best possible overall experience, from initial contact to subsequent service needs once the products are in operation. That's how we build long-term relationships and seize new business opportunities.

Doing business with Alfa Laval should be easy, because of how we are organized and also because of our approach to service, expertise and customer care. We aim to respond quickly and professionally to customer requirements, offering appropriate solutions. This is true irrespective of whether the solution is a standardized component or a more advanced system for customers with specific needs.

Digital purchasing behaviour

As in so many other areas, digital tools are playing an increasingly important role in sales and service. We aim to identify customers' needs early on in the process and make it easy for them to find what they are looking for. The next step involves extending the digital offering, which so far has been directed at providing information and other support prior to a purchase. The focus moving forward is on improving the online customer buying experience and expanding our digital service offering, creating opportunities for new business models.

One clear trend emerging in sales is the change in purchasing behaviour. Interaction becomes more complex as a customer is able

to use both Alfa Laval's sales personnel as well as our distributors and online services in the same purchasing situation. Digitalization is a major contributor to this change, and the pandemic has accelerated developments. Digital sales meetings, webinars and other types of remote communication have become commonplace. The transition has been about managing technology in digital meetings, but even more so about being able to maintain and develop a customer relationship remotely – an experience that has now become an integral part of day-to-day contact with customers.

Sustainable business development – new customers

Alongside digitalization, sustainability issues are also influencing customer behaviour. As a result, new markets and business opportunities are emerging. One clear example is the energy market, where fossil fuels are being phased out in favour of new energy solutions to which marketing efforts must also be adapted. This allows the company to further develop in-house skills and build relationships with customer groups that Alfa Laval has not previously worked with.

+40%

Connected assets increase in 2021.

1,187

AI troubleshooting sessions in 2021.



~10,000

Hours, remote service in 2021.

2.5%

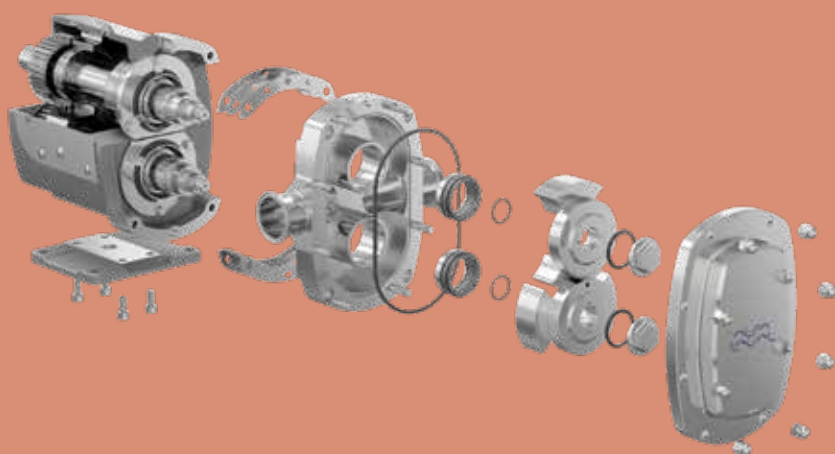
Investments in R&D are to correspond to 2.5 percent of sales per year.

~50

Every year, the patent department handles a large number of internal reports on new inventions, of which approximately 50 lead to new patent applications.

100

Approximately 100 new products are launched every year.



Uncompromising pump technology

With Alfa Laval DuraCirc® customers don't have to choose, making it an uncompromising technology. The pump boasts robust construction, is easy to service and has a hygienic design.

Improved performance and reduced environmental impact

Product development secures our position as a leader within the Group's three key technologies. New or upgraded products allow us to respond to changing customer needs and offer solutions with improved performance and less of an environmental impact.

Customer needs are at the heart of our work on developing new products. These needs are often about optimizing some form of industrial process in which our technology makes a difference. The pace of our development efforts is gradually increasing, and covers not only new products but also product improvements and upgrades to existing technology. There have been substantial investments in research and development; 2.5 percent of the Group's annual sales is invested in new products and solutions. Alfa Laval launches around 100 new products in an average year, which is the equivalent of two products a week.

Efficiency and environmental considerations

We strive to deliver cost-effective, innovative solutions that offer improvements for the customer. These improvements and upgrades can involve linking the product to more digital services, which may enable remote monitoring or even maintenance. We also want new products to be an improvement on their predecessors in terms of environmental performance, particularly when it

comes to lower energy consumption. To achieve this we carry out life cycle analyses, which also examine sustainability factors in development and design work on a new technology.

Combined expertise

The products are manufactured at 37 production locations around the world. Much of the development work is carried out at the global expertise and test centres established in various key areas. Tumba in Sweden is home to a centre for high-speed separators, while the next generation of decanters and digital solutions is being developed at Søborg in Denmark. Denmark also has centres for marine solutions, membrane filtration and hygienic fluid handling. Furthermore, Alfa Laval has a number of product-based business centres across the world. They each focus on a specific product portfolio, for example compact heat exchangers, and are responsible for research and development of new innovations in their respective areas, but also for further refinement of existing product platforms.

Close customer contact for sales and service at all times

Our global presence ensures that we are always available for our customers and are able to offer sales and service in all markets across the world.

The global sales and service organization is Alfa Laval's most important customer channel. This comprehensive network of people and skills is responsible for direct-to-customer sales, which account for the majority of the Group's sales volumes. It also manages contact with our partner network, which focuses on indirect sales via distributors, agents and retailers.

Strategically located service centres and partners ensure that local expertise and equipment are close to customers to provide installation services, support, spare parts and maintenance services. Our broad presence means customers are offered preventive maintenance and innovative service solutions that improve their processes, minimize unplanned downtime and improve the operating economy of their equipment.

Efficient, sustainable maintenance services

Growth in the service business is fuelled by new product launches, with demand for new and more climate-friendly technologies driving the adaptation of services to new needs. During the year, four new service centres were opened in Europe. Centres such as

these provide a hub for cleaning, maintaining and upgrading customers' equipment. The fact that this service is carried out at Alfa Laval and not at the customer means we can handle equipment more efficiently and in a more climate-friendly way. Our service centres engage in well-developed sustainability work, where the focus is on low water consumption, treatment of process water and the safe disposal of chemicals and cleaning fluids.

Digitalization drives remote service

More and more digital tools are being introduced in the service business, enabling service engineers to connect to customer equipment, identify needs and provide preventive maintenance. The introduction of more digital services also helps boost the productivity of the service organization, as more routine matters are handled remotely and the time spent on site at the customer can be focused on developing the relationship. The digital services also help make service more stimulating, which is important both for retaining existing talent and attracting new employees.

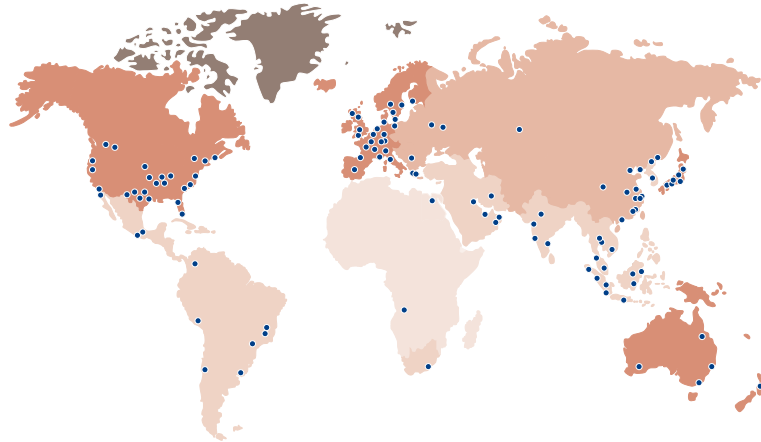


Service centres

>100

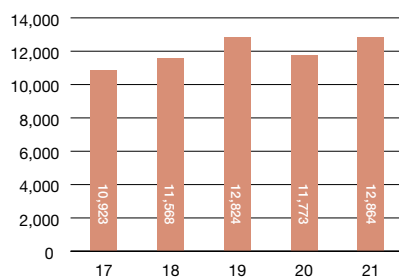
More than 100 service centres with the capacity to deliver services in over 160 countries.

- Service centres.
- Large and mature installed base that needs to be maintained and renewed.
- A combination of fast-growing markets and established niche applications.
- Installed base that is growing rapidly.

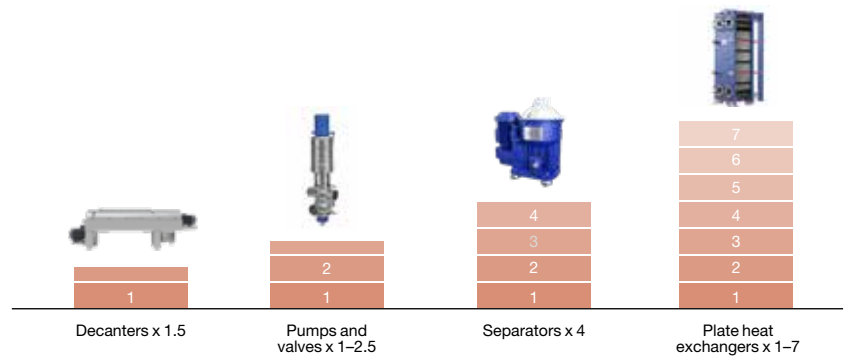


Service Order intake, SEK million

SEK MILLION



Long-term potential – Value of the aftermarket relative to new sales



>760

Service technicians in total.

~10%

E-commerce of total sales.



World-leading in three key technologies

Alfa Laval's operations are based on three key technologies – heat transfer, separation and fluid handling. These technologies play a key role in a number of industrial processes and Alfa Laval commands a world-leading position in all three areas.





Heat transfer

Optimal control of heating and cooling

Heat transfer solutions contribute to energy-efficient heating, cooling and ventilation in domestic and industrial applications. Alfa Laval heat exchangers are used in many areas and can play a crucial role in the overall efficiency of a customer's processes, from data centres and heat pumps to food production and new energy solutions such as hydrogen, fuel cells and energy storage.



Separation

The art of separating, sorting and refining

Separation is an ingenious technology that allows liquids, gases or solids to be separated and sorted in industrial processes. Separation makes it possible to produce cleaner substances, make use of valuable by-products and sort waste in a more sustainable way.



Fluid handling

Effective, safe control of liquids

Alfa Laval's pumps, valves, tube and tank equipment create effective flow systems. This facilitates stable, more resource-efficient operations in the customer's business through sustainable processes that produce better results and cut costs.

Heat transfer

Optimal control of heating and cooling

Energy-efficient technology

Heat exchangers transfer heat or cold – often from one fluid to another – safely and efficiently, in businesses and homes around the world. Alfa Laval's main product is the compact plate heat exchanger, which does this in a more energy-efficient way than alternative solutions. This reduces costs and lessens the impact on the environment. The technology allows heat to be recovered, helps reduce carbon emissions and is customized to satisfy the stringent hygiene and safety requirements in many industries.

Sustainability as a driver

Energy efficiency is one of the most important measures for reducing global climate impact. This can be achieved through innovative technologies that reduce energy consumption and by using more efficient heat transfer solutions in existing processes, such as solutions that capture and reuse waste heat for other purposes. Alfa Laval has solutions in both of these areas, in which industry and society must now work together to accelerate developments to save energy and reduce carbon emissions.

Business units with heat transfer products in their range

ENERGY DIVISION

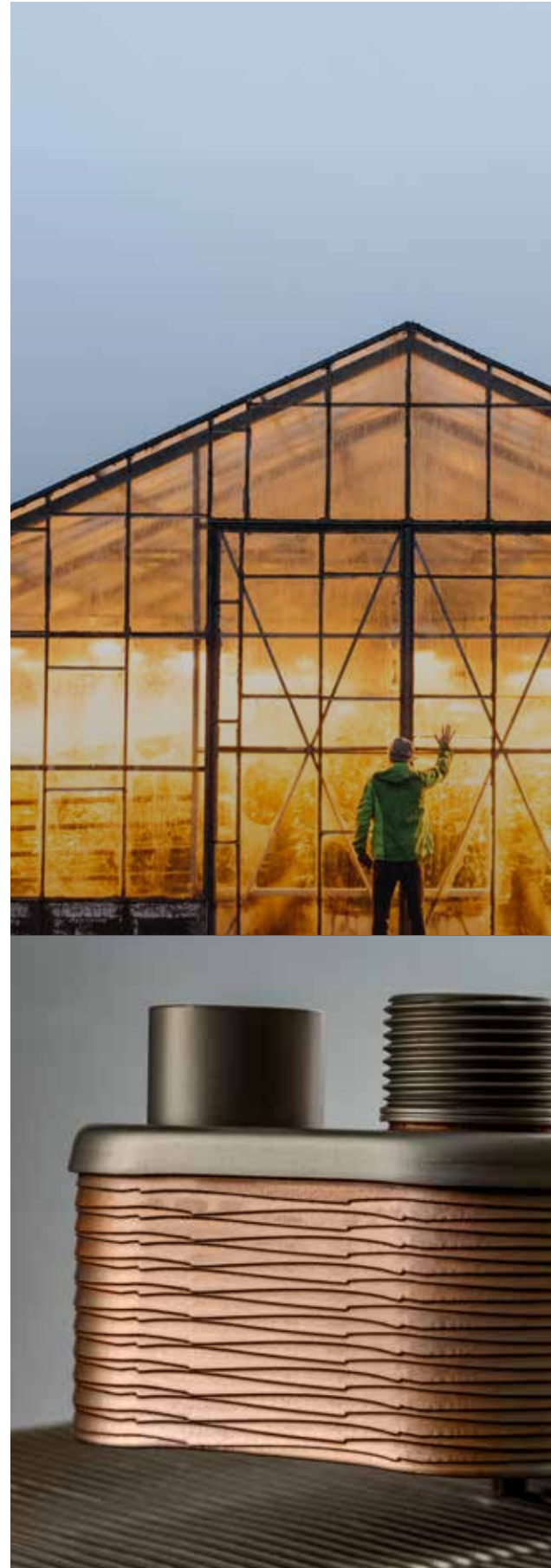
- Brazed & Fusion Bonded Heat Exchangers
- Gasketed Plate Heat Exchangers
- Welded Heat Exchangers

FOOD & WATER DIVISION

- Food Heat Transfer
- Food Systems

MARINE DIVISION

- Marine Separation & Heat Transfer Equipment
- Boilers
- Environmental products



Energy from the Earth's sub-surface

The Netherlands is a major food producer and its many greenhouses consume a lot of energy. So the country is now investing in geothermal energy, which involves hot water being pumped up from beneath the surface of the Earth to heat greenhouses. Alfa Laval's heat exchangers play a key role in this process. The technology provides efficient heat transfer between the hot water coming up from the ground and the cooled water that has been used to heat the greenhouses. This enables food producers to cut both energy consumption and emissions.



Competitors

| | |
|--|---|
|  Danfoss A/S (Denmark) |  MIURA (Japan) |
|  HEATMASTER (Netherlands) |  OSAKA (Japan) |
|  HISAKA (Japan) |  SAACKE (Germany) |
|  Kelvion (Germany) |  SPX FLOW/APV (US) |
|  KANGRIM (Korea) |  SWEP (US) |

Market position

1

30–35 percent of the global market.

Sales

40%

Share of Group sales.



Did you know...

...according to the International Energy Agency (IEA), improved energy efficiency can cut greenhouse gas emissions by more than 40 percent over the next 20 years.

...our heat exchangers are 20 to 50 percent more efficient than traditional technology.

...the installation of our heat exchangers in energy efficiency applications reduces capacity requirements by 50 GW per year. That is the equivalent of the energy required to heat 10 million homes in Europe, or the energy produced by 10,000 wind turbines. And the energy savings will reduce carbon dioxide emissions by 25 million tonnes a year, which is more than emissions from the city of Paris.

...almost 40 percent of household energy consumption in Europe is used to heat domestic hot water, and Alfa Laval technology is helping to make this heating energy efficient.

Separation

The art of separating, sorting and refining

The benefits of separation

Separation is now a key technology in many industries, such as food, dairy, beverages and pharmaceuticals, as well as in shipyards, shipping, energy and water treatment facilities. There are numerous benefits, including improvements in product quality and guaranteeing the performance of industrial processes, or satisfying hygiene and safety requirements. And just as important; the separation process helps boost efficiency, which cuts costs and reduces environmental impact.

Constant innovation

The needs of our customers' businesses are the driving force behind our innovative solutions, which are robust and help increase productivity, sustainability and digitalization. A recent example is Culture One. The technology is used to separate biological materials in the biopharmaceutical industry, where production batches are small and products are expensive to manufacture. Culture One is tailored to single use and provides a simpler, more efficient process while increasing patient safety.

Business units with separation products in their range

ENERGY DIVISION

- Energy Separation

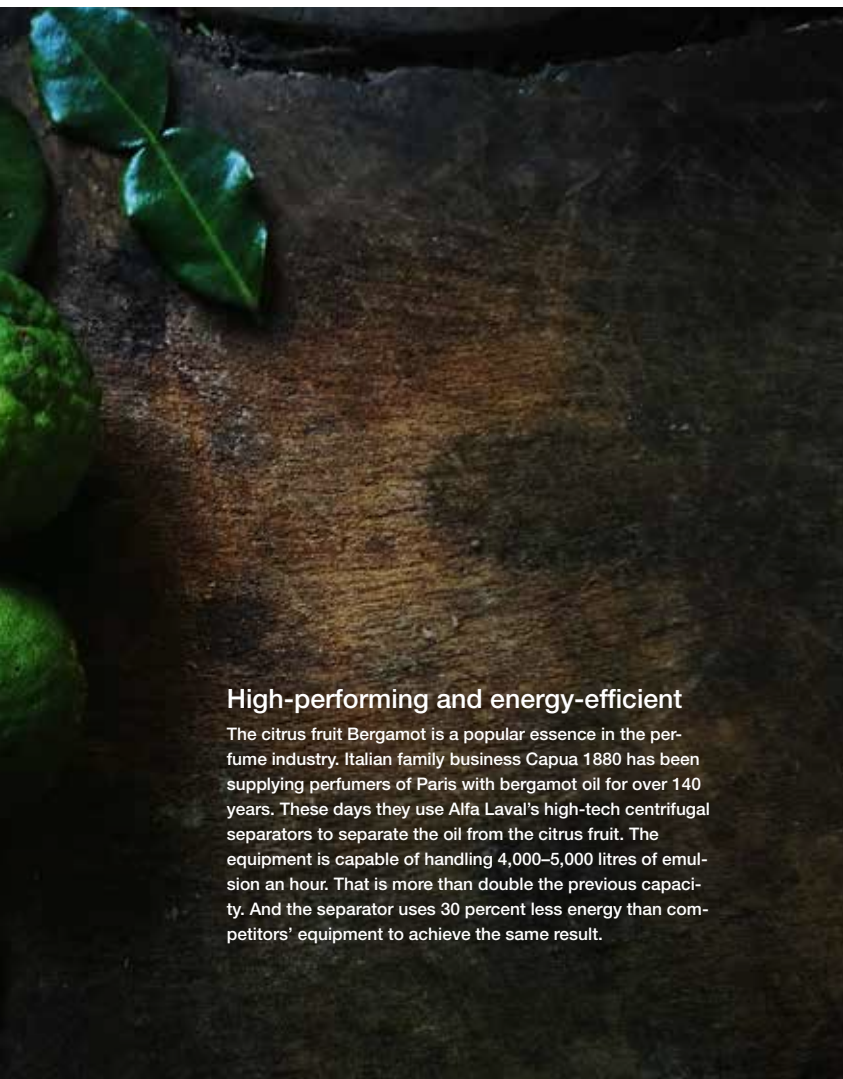
FOOD & WATER DIVISION

- High Speed Separators
- Decanters
- Food Systems

MARINE DIVISION

- Marine Separation & Heat Transfer Equipment





High-performing and energy-efficient

The citrus fruit Bergamot is a popular essence in the perfume industry. Italian family business Capua 1880 has been supplying perfumers of Paris with bergamot oil for over 140 years. These days they use Alfa Laval's high-tech centrifugal separators to separate the oil from the citrus fruit. The equipment is capable of handling 4,000–5,000 litres of emulsion an hour. That is more than double the previous capacity. And the separator uses 30 percent less energy than competitors' equipment to achieve the same result.

Competitors

Separators

-  GEA (Germany)
-  MITSUBISHI KAKOKI KAISHA (Japan)
-  PIERALISI (Italy)
-  SPX FLOW/Seital (US)

Decanters

-  Flottweg (Germany)
-  GEA (Germany)
-   GUINARD/ANDRITZ (France, Austria)
-  PIERALISI (Italy)

Market position

1

25–30 percent of the global market.

Sales

17%

Share of Group sales.



Did you know...

...in shipping, separation is used for fuel handling and oil cleaning to remove impurities in the fuel oil, protecting the ship's engines and enabling more efficient and eco-friendly operation.

...the energy industry uses separation to extract biodiesel and biofuels from renewable, plant-based sources.

...separation is a key method for treating wastewater, as well as for desalinating seawater to make it drinkable.

...centrifugal separation technology is used in diesel engines to reduce harmful emissions from heavy goods vehicles.

...separators are a key component in the refining of vegetable oils such as rapeseed and olive oil, enhancing the quality and flavour of the end product.

Fluid handling

Effective, safe control of liquids

Smart control

Fluid handling is about transporting, controlling and regulating fluids and other product flows. Pumps transport the fluids, while valves control the flow by opening, closing and redirecting. Optimized fluid handling increases the yield of a manufacturing or processing operation, satisfies hygiene requirements, improves energy efficiency and reduces the amount of waste. The technology is used, for example, in industries producing or processing food, beverages and pharmaceuticals, as well as in shipping and the offshore industry.

Comprehensive flow systems

In addition to pumps and valves, our products and solutions also include tube and tank equipment, mixers and cleaning technologies, allowing Alfa Laval to offer customers effective and comprehensive flow systems. As well as increasing productivity and ensuring quality in a flow process, these systems facilitate filling and sampling, and simplify cleaning and monitoring. As a result, our process solutions help to both maximize plant uptime and minimize costs in a customer's business.

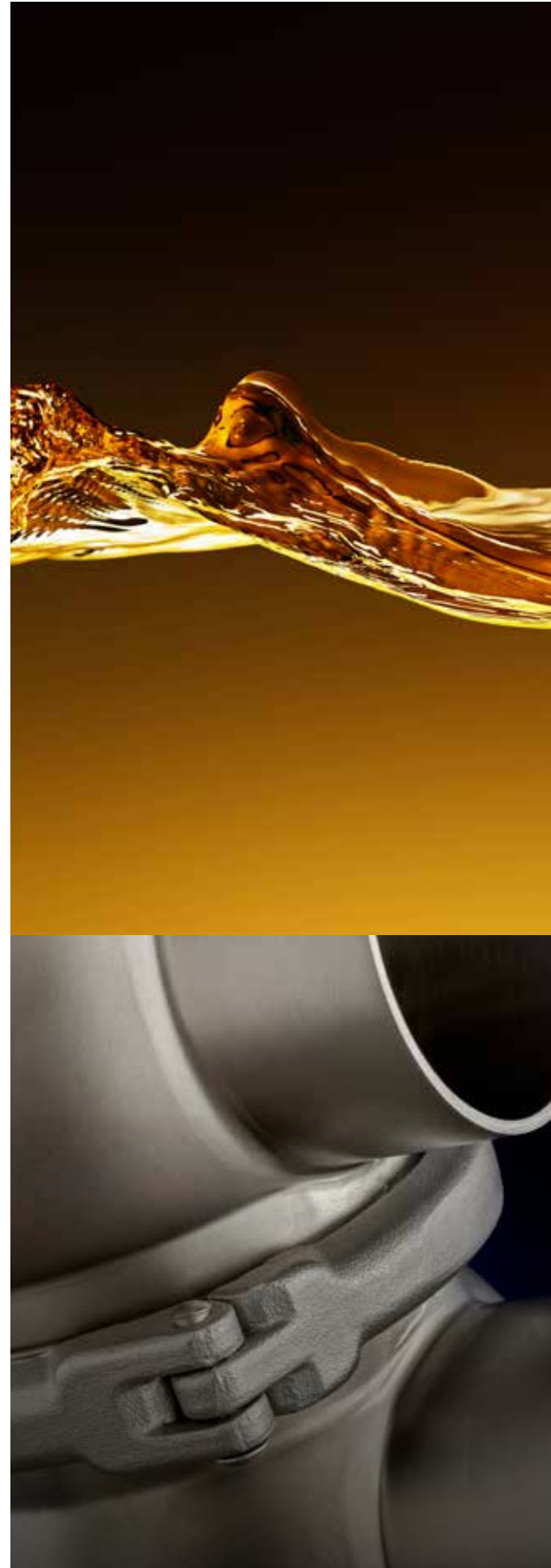
Business units with fluid handling products in their range

FOOD & WATER DIVISION

- Food Systems
- Hygienic Fluid Handling

MARINE DIVISION

- Pumping Systems



Uncompromising pump technology

Our hygienic equipment combines high performance with meticulous handling to protect sensitive ingredients. The Alfa Laval DuraCirc® circumferential piston pump is an excellent example of this. In the past, producers in the dairy, food and beverage industries had to choose between pumps that were efficient or pumps that were easy to maintain. With Alfa Laval DuraCirc® customers don't have to choose, making it an uncompromising technology. The pump boasts robust construction, is easy to service and has a hygienic design.



Did you know...









...Alfa Laval has valves that are capable of handling the simultaneous flow of two fluids while keeping them both separate. This creates flow systems in which cleaning and production take place alongside each other.

...the ThinkTop control unit cuts valve cleaning time from five seconds to half a second, while reducing water consumption by up to 90 percent. ThinkTop is also equipped with smart self-diagnostics to facilitate control.

...one in every six beers drunk in the world comes from a tank that uses Alfa Laval equipment.

...when designing pumps, we use the Computational Fluid Dynamics method, which accurately predicts flow patterns to ensure high and efficient fluid transfer in the customer's process.

Competitors

| | |
|--|---|
|  Bardiani Valves (Italy) |  Kieselmann GmbH (Germany) |
|  Dockweiler Edelstahl (Germany) |  MARFLEX (Netherlands) |
|  Fristam (Germany) |  SPX FLOW/APV (US) |
|  GEA (Germany) |  SULZER (Switzerland) |

Market position

1

10–15 percent of the global market.

Sales

23%

Share of Group sales.



Three business divisions with customer needs front and centre

Alfa Laval's business concept is to persistently optimize performance in customers processes. To achieve this, the Group has a solid product offering, a high level of technical expertise and an agile structure that ensures a sound understanding of customer needs, buying behaviour and processes.





Food & Water

The Food & Water Division works with products and systems for food and water applications, for example in industries such as food, pharmaceuticals, biotech, brewing, dairy and water treatment.



Share of Group
order intake



Aftermarket's share
of the division

18.0%

Operating margin



Energy

The Energy Division focuses on solutions to promote greater energy efficiency, in both financial and environmental terms. Customers include companies operating in data centres, renewable energy, heating, ventilation and refrigeration, oil and gas extraction, refining, petrochemicals and power generation.



Share of Group
order intake



Aftermarket's share
of the division

15.3%

Operating margin



Marine

The Marine Division specializes in solutions for shipping customers, including shipping companies, shipyards, engine manufacturers and companies involved in offshore oil and gas exploration.



Share of Group
order intake



Aftermarket's share
of the division

15.9%

Operating margin

Food & Water 2021

Strong growth in all major markets

Growth was strong in all business units and geographic markets, fuelled by continued healthy structural demand along with a recovery in capacity investments in areas where demand weakened during the pandemic. Additionally, the focus in recent years on innovation and strengthened relationships with channel partners remains an important factor in our endeavour to capture the strong demand and increased need for smarter and more efficient solutions.



Nish Patel
President, Food & Water Division

From an end-market perspective, demand remained strong in Biotech and Pharmaceuticals, Edible Oils and Brewing, where shifting consumer behaviour, investment in processing equipment and an accelerating move towards new biofuels drove growth. Demand also increased in protein processing. This is linked to changing consumer behaviour in the food market, with heightened interest in new plant-based proteins. Significant investment, primarily in technical infrastructure, is also happening within water treatment in many markets, which boosts demand for processing equipment. During the year there was also a strong increase in growth in the after sales market.

Sustainable product range

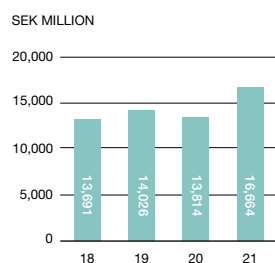
This year's strong performance is also the result of investments in technological innovation and the development of a sustainable and competitive product range. This means that new technology is more energy efficient and also has a higher performance. There is a significant difference in energy consumption, which means, for example, that new separators consume half as much

energy as older models. Another priority area is water and waste treatment, where improved products are helping to reduce customers' water consumption or making water treatment processes more efficient. Waste management purifies and reuses residual products. This saves resources and encourages greater circularity, as raw materials and products can be used in new ways.

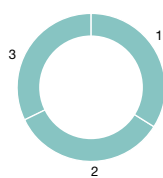
Digital sales and services

Work is also underway to boost sales via Alfa Laval's partner network of distributors and distributors, ensuring that the company's offering in Food & Water is marketed to customers through more channels. Meanwhile, sales work is undergoing a digital transition involving the expansion of our e-commerce platform, which will enable more business to be fully conducted online. Digitalization is also having an impact on service and maintenance work. More and more products are connected and monitored via sensors and camera technology. This kind of remote support saves time, facilitates problem solving, simplifies preventive service and ultimately gives the customer more reliable uptime.

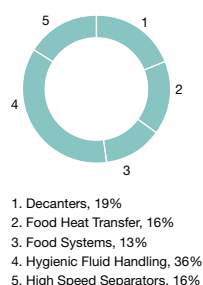
Order intake



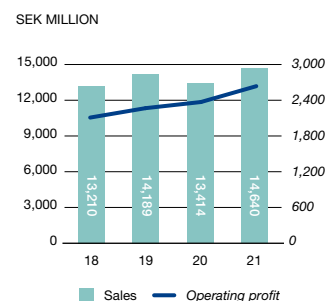
ORDER INTAKE, GEOGRAPHIC



ORDER INTAKE, BUSINESS UNITS



Sales and operating profit



Food & Water's business



Selected industries

Food & Water targets customers in industries such as food, pharmaceuticals, biotech, vegetable oils, brewing, dairy and personal care products. The division also works with public and industrial water treatment, as well as water and waste treatment.



Offering

Our offering extends across all three key technologies. This includes various types of heat transfer and separation products, along with fluid handling products such as pumps and valves.



Routes to market

The division offers sales of components, configured products and projects. As a result, the division works directly with customers and reaches end customers via system builders, contractors, agents and distributors.

Structural drivers



Food – the hunt for new proteins

In the food market, there is growing interest in new proteins that are both nutritious and that pave the way for products with a lower environmental impact. These include plant-based proteins used, for example, in the production of various types of vegetable beverages. There is also growing interest in insect protein, which is currently mainly used in the production of animal feed, but which in the longer term is also expected to become a raw ingredient for food for human consumption.

Alfa Laval's origins date back to 1883, with the invention of a centrifugal separator to separate cream from milk. Since then, the company's offering for hygienic applications in the food industry has been extended to include heat exchangers, pumps and valves. Products such as separators and decanter centrifuges meet the most stringent hygiene requirements, while helping customers get more out of their raw materials. Alfa Laval can also help reduce waste by offering refrigeration solutions for transportation and storage.










Environment – more renewable energy

The energy market is undergoing significant changes. Fossil fuels are gradually being phased out and replaced by various types of renewable energy. Industrial residues are also playing a key role in this transformation. For example, vegetable oil from the food industry can be purified, refined and reused as aviation fuel. Similarly, starch and sugar are being extracted from various natural products to serve as raw material in ethanol production.

Alfa Laval has a wide range of products for managing various environmental problems. In Food & Water, we offer decanter centrifuges that can dewater digested sludge in public wastewater treatment plants and are also used in the management of industrial wastewater and industrial waste. In the food industry, Alfa Laval processes and solutions help reduce waste by increasing the volume extracted from raw materials.

Significant end markets

| | | |
|---|---|---|
|  | <p>Dairy</p> <p>Hygienic products for dairy processes – from whey, milk and cream processing to the production of ice cream, cheese, soured cream or yoghurt. Products include separators, heat exchangers, tank cleaning equipment, membranes, pumps and valves.</p> | <p>24%</p> <p>Proportion of the division's order intake</p> |
|  | <p>Water and waste treatment</p> <p>Products and solutions for municipal wastewater treatment and for industrial water and waste treatment. The range includes everything from decanter centrifuges and belt presses, to spiral and tubular heat exchangers and membrane bioreactors.</p> | <p>9%</p> <p>Proportion of the division's order intake</p> |
|  | <p>Ethanol, starch and sugar</p> <p>Separators, decanter centrifuges, heat exchangers and evaporation systems are used in the production of starch and sugar, which in turn are raw materials in the production of ethanol.</p> | <p>10%</p> <p>Proportion of the division's order intake</p> |
|  | <p>Protein</p> <p>Products for the recovery of protein, fats and oils from vegetable and animal residues for the production of everything from gelatine, fish oil and fishmeal to bone meal, surimi and animal feed. The product portfolio includes separators, decanter centrifuges, evaporation systems, membranes, heat exchangers and steam boilers.</p> | <p>5%</p> <p>Proportion of the division's order intake</p> |
|  | <p>Brewery</p> <p>Products for all aspects of the brewing process, from mash and wort production and fermentation, to filtration and pasteurization. The range includes, for example, separators, membranes, decanter centrifuges, mixing equipment, plate heat exchangers, pumps, valves, run-off water systems and pasteurization modules.</p> | <p>7%</p> <p>Proportion of the division's order intake</p> |
|  | <p>Pharma & Biotech</p> <p>Pumps, valves, separators, membranes, decanter centrifuges, tank cleaning equipment and heat exchangers for processes with stringent cleanliness requirements, such as the production of liquid or solid pharmaceuticals, vaccines, creams and ointments.</p> | <p>10%</p> <p>Proportion of the division's order intake</p> |
|  | <p>Edible oil</p> <p>Products such as separators, decanter centrifuges, heat exchangers and pumps are used to produce oils from rapeseed, olives, soybeans or fish, for example. These oils are processed to meet customers' requirements in terms of colour, taste and nutritional value.</p> | <p>13%</p> <p>Proportion of the division's order intake</p> |
|  | <p>Prepared food & beverage</p> <p>Changing lifestyles also brings new ways of how consumers are preparing and consuming food. Alfa Laval's technologies allow hygienic and efficient preparation and manufacturing of prepared food.</p> | <p>20%</p> <p>Proportion of the division's order intake</p> |

Other: 2%



Life essentials

Access to clean drinking water and sustainable production of food and beverages remain among the world's biggest challenges. The Food & Water Division is playing its part in developing solutions – but now in collaboration with others.

Around the world, water scarcity is a growing problem. Estimates show that one in three people do not have access to safe drinking water and two out of five do not have a basic hand-washing facility. Purifying and reusing water will be increasingly important to ensure a more sustainable way of living.

Alfa Laval can contribute to solving the water issue. Its innovative products can be used in wastewater treatment – in both industrial and municipal applications – so water can be reused as process water or irrigation, for instance.

One example is in the US. Alfa Laval will supply decanters to a wastewater treatment plant in San Diego, California. The project is part of the city's Recycle Water program which will provide more than 40 percent of the city's water supply locally by the end of 2035.

During the year, Alfa Laval also signed a partner agreement with Wayout International, a company that develops micro-factories (the size of a standard shipping container) that can treat all types of water to produce high-quality drinking water. These micro-factories are well suited for remote areas where one micro-factory can produce 70,000 litres of drinking water each month, preventing up to 200,000 plastic bottles and eight tonnes of carbon dioxide from

entering the eco-system. Starting in 2022, Alfa Laval will be the technology provider and handle the production in 100 micro factories.

"Access to safe drinking water is an important issue globally and we are very pleased that our technology is part of Wayout International's solution, as well as contributing to San Diego's ambitious plans," says Nish Patel, President of the Food & Water Division. "Alfa Laval's products within water treatment enable zero liquid discharge – well in line with the view of circular economy."

In the beverage area, Alfa Laval acquired Sandymount, a US-based beverage technology company with a unique and patented membrane technology called Revos™. In combination with Alfa Laval's extensive product range for beer production, the technology will enable beer producers to deliver high quality beer in concentrated form. The solution addresses the transportation inefficiencies in beer supply where beer remains one of the few water-laden products distributed as 'mostly water' from producer to consumer.

In the years ahead, Alfa Laval will continue to develop new innovative solutions and work together with other companies and organizations to find ways of easing the water scarcity crisis – and ensure a more responsible food and beverage supply.



Energy 2021

Growth in an evolving energy market

Demand increased significantly compared with the previous year, both for products and solutions as well as for our service and maintenance offering. A strong driver behind this development is companies' desire for greater energy efficiency to cut both carbon footprint and costs.



Thomas Møller
President, Energy Division

Sales of products and solutions related to energy efficiency, which today account for about 75 percent of the division's business, are primarily fuelled by the new generation of heat exchangers. In 2021, heightened demand was particularly evident in end-user segments such as data centres, heat pumps and air conditioning.

Interest in energy efficiency is also boosting demand for service, which helps ensure the smooth running of customers' existing equipment. At the same time, service is an area where there is considerable potential for growth, and we are now in the process of expanding our offering. This also involves developing new service models, for example where the sale of a product is linked to long-term maintenance agreements that help retain performance and deliver energy savings in the customer's processing equipment.

During the year, the launch of the new gasketed heat exchanger product platform was completed. This technology, which features improved performance and uses less energy, means Alfa Laval is able to offer the most comprehensive range of heat exchangers in the company's history. Furthermore, 2021 saw the commissioning of the new production plant in Italy. This resulted in a significant increase in production capacity, which was important in a year of high demand.

Lean energy and circularity

Alfa Laval's know-how and technologies are crucial in an energy

market exposed to constant shifts in trends. The development of biodiesel and other non-fossil fuels creates demand for pre-treatment and refining processes for the extraction and purification of raw materials. At the same time, significant investments are being made in new types of energy, such as solar and wind power and the development of hydrogen as an energy source. Heat transfer expertise is key to all types of energy. This means Alfa Laval is well positioned to harness the business opportunities that are now emerging.

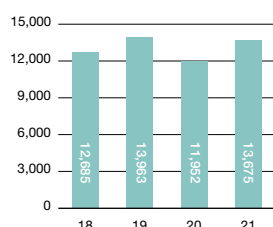
Industrial processes generate waste and wastewater. Water management strategies such as zero liquid discharge can minimize freshwater intake, reduce costs and enhance the sustainability of overall plant operations. Alfa Laval's systems are more compact than comparable systems with equivalent capacities, which means a lower overall installation cost for the customer.

Smart digital services

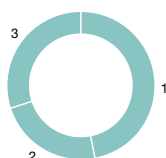
In Energy, e-commerce is growing at a faster rate than sales via the traditional channels. Further investments are being made to the e-commerce platforms to further boost their appeal and add more user benefits. Service is also becoming more digitalized through sensor technology, remote monitoring and, in the long term, innovative image recognition technology, which helps identify maintenance needs. Overall, it's about new, smart services that save time, reduce risk and improve overall cost efficiency for the customer.

Order intake

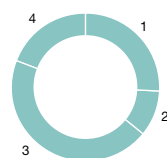
SEK MILLION



ORDER INTAKE, GEOGRAPHIC

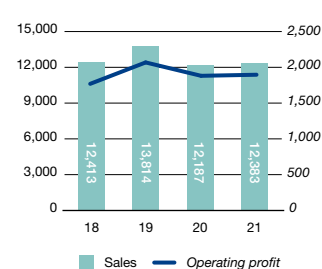


ORDER INTAKE, BUSINESS UNITS



Sales and operating profit

SEK MILLION



Energy's business



Selected industries

The division serves customers in heating, ventilation, air conditioning and refrigeration markets as well as process industries such as chemicals, petrochemical industry and the oil & gas industry. The division also serves customers operating in the mining and manufacturing industries. Focus is on increased energy efficiency, waste heat recovery and sustainable solutions.



Offering

Heat transfer is the division's main technology, ranging from brazed and fusion bonded heat exchangers and gasketed plate heat exchangers for less demanding applications, and welded heat exchangers for use in more challenging processes. Separation; both thermal and mechanical, is the second technology, which includes high-speed separators, decanter centrifuges, freshwater generators, evaporation systems and filters in the offering.



Routes to market

Sales include components, configured products and projects. The division has its own, direct customer management and service organization, but also reaches customers via system builders, contractors, retailers, agents and distributors.

Structural drivers



Energy – focus on efficiency

Global energy needs are continuing to grow, and there are two ways of addressing the situation: boosting overall energy production, and increasing the use of technologies that facilitate more efficient consumption or recycling of the energy that is generated.

Alfa Laval's products play a key role in efforts to streamline industrial processes to make them more energy efficient. Our compact heat exchangers constitute a highly significant technology as part of this work. The offering includes products and solutions for, heating, ventilation, air conditioning and refrigeration. It also includes offerings for electricity generation, renewable fuels, refining and oil and gas extraction. Heat transfer expertise and innovation also creates business opportunities as new fuels and energy sources are developed.








Environment – reducing emissions

Today, there is a strong focus on human impact on the environment, and on the climate. Many companies are engaged in sustainability work to reduce their own environmental impact and contribute to improvements in other businesses.

Alfa Laval has a wide range of products for managing environmental problems. The division's efficient heat exchangers and energy recovery solutions offer energy savings, which reduces carbon emissions from the customer's operations. The division is also providing circular solutions to the end users where waste reduction and water re-use are in focus.

Significant end markets

| | | |
|---|--|--|
|  | <p>HVAC & Refrigeration</p> <p>Alfa Laval heat exchangers help create a comfortable indoor climate in homes and public buildings around the world. The technology is also used for everything from deep freezing and cold storage in facilities such as industrial premises to ice rinks.</p> | <p>38%</p> <p>Proportion of the division's order intake</p> |
|  | <p>Process industries</p> <p>The range includes plate and tubular heat exchangers for the production of organic and inorganic base chemicals, polymers, fibres, pulp & paper and metals.</p> | <p>22%</p> <p>Proportion of the division's order intake</p> |
|  | <p>Oil & Gas</p> <p>Includes oil and gas drilling, processing, production and transportation. In drilling, Alfa Laval offers heat exchangers and decanter centrifuges for mixing, cooling and purifying drilling mud. In oil and gas processing, production and transportation, the products are used in a wide range of applications as well as in waste management.</p> | <p>11%</p> <p>Proportion of the division's order intake</p> |
|  | <p>Refinery</p> <p>Heat Exchangers are used to handle high pressure and temperatures in various processes in a refinery. These processes break down crude oil to components that are refined to products like fuel oil, aviation fuel and diesel.</p> | <p>8%</p> <p>Proportion of the division's order intake</p> |
|  | <p>Power</p> <p>Heat exchangers, separators, filters and steam boilers are used to generate and store energy in various processes in the power sector irrespective of energy source. The products are also used for carbon capture.</p> | <p>10%</p> <p>Proportion of the division's order intake</p> |

Other: 11%



The fast track to clean energy

Reducing the carbon emissions from fossil fuels while continuing to meet the world's energy demand is a global challenge. The Energy Division is contributing to the solution through innovative technologies and new partnerships.

Reaching the Paris Agreement and meeting the target of maximum 1.5°C temperature rise by 2050 will require a faster, broader and global implementation of energy efficiency solutions.

Energy efficiency can deliver more than 40 percent of the greenhouse gas emissions savings over the next 20 years according to IEA (International Energy Agency), whereof 50 percent of the energy efficiency saving come from the industry sector.

There is no doubt that Alfa Laval has the technology and competence to make a valuable contribution to decarbonizing the energy industry. Its compact plate heat exchanger technology, for example, is 20-50 percent more energy efficient than conventional technology. Partnering with other companies and organizations and their customers is an important way of disseminating these benefits.

"Our innovative and proven solutions make a big difference," says Thomas Møller, President of the Energy Division at Alfa Laval. "The challenge is to change the norms and drive the implementation of the technology on a wider and broader scale together with partners."

During COP26, Alfa Laval joined two important initiatives: ABB's new energy efficiency movement and the Long Duration

Energy Storage (LDES) Council. ABB's #energyefficiency-movement is a multi-stakeholder initiative to raise awareness of the benefits of energy efficiency solutions to accelerate the transition towards decarbonization. The LDES Council was established by 25 founder members including Alfa Laval, BP, and Siemens Energy, and aims to achieve grid net-zero by 2040.

Alfa Laval also became a partner in Liquid Wind, a power-to-fuel company that develops and finances commercial-scale eMethanol facilities. Alfa Laval will contribute its heat transfer expertise to improve Liquid Wind's process efficiency and the overall heat and energy integration of its facilities.

And finally, Alfa Laval signed a global collaboration agreement with Microsoft to develop a suite of digital tools for facilitating service and maintenance of its plate heat exchangers. By combining Alfa Laval's extensive service know-how with Microsoft's software, data and AI expertise, the new tools will enable customers to make self-assessments to determine if and what services are needed. It is estimated that up to 2.5 percent of the world's CO₂ emissions could be prevented if the heat exchangers currently installed in industrial processes were simply cleaned and maintained properly. In all, these partnerships will drive the change to a more responsible energy supply in the future.



Marine 2021

Greater focus on carbon neutrality

The year was characterized by increased demand and a recovery in global ship contracting, due in part to a stronger performance in the global container and gas market. At the same time, there was increased interest in alternative fuel solutions, which enable ships to use different fuels to reduce their environmental impact. Demand for products in Alfa Laval's environmental offering also grew during the year, and the market for service strengthened. This is due to the fact that repairs and maintenance could again be carried out on the vessels as the restrictions from the pandemic eased.



Sameer Kalra
President, Marine Division

Carbon-neutral transportation

Like many other industries, shipping is aiming to become carbon neutral. This development is linked to stricter requirements from the IMO and local regulatory authorities, but also increasingly from consumers and end customers. New fuels and energy efficiency measures need to be introduced in order to satisfy these requirements. Several options are currently being evaluated, such as ammonia, methanol and various types of multi-fuel solutions, and the decision to develop solutions around wind propulsion to comply with IMO 2023. Regardless of which fuels ultimately dominate the market, the focus on energy efficiency and reducing carbon emissions is expected to be a strong driver in shipping over the coming years.

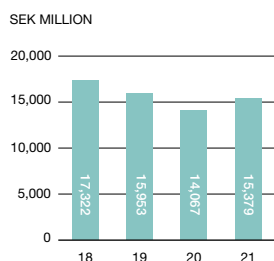
Marine is helping to facilitate this transition through the products and technical solutions it offers, partly via our own product development operation. One recent example is the launch of Alfa Laval E-PowerPack. This product harnesses waste heat and other surplus energy on ships and then converts it into electricity.

Digital solutions for the marine industry

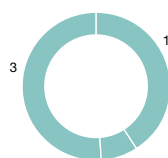
Acquisitions and new partnerships are also helping advance Marine's position, both in the field of sustainability and in digitalized services. During the year, the company acquired StormGeo, which specializes in advanced data analytics to support decision making around weather sensitive operations. The company's services enable ships' routes to be optimized in a way that minimizes fuel consumption. Furthermore, StormGeo's services can be linked up to Alfa Laval's onboard equipment. The data collected and analysed is then used to adapt product performance to the specific needs of each customer.

In 2021, Marine also launched a new portal that customers can log into and use to monitor Alfa Laval's pumping equipment in real time. As with other digital services, the portal helps optimize use, simplify maintenance and in the longer term, improve overall operating efficiency for the customer.

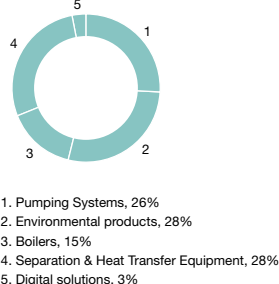
Order intake



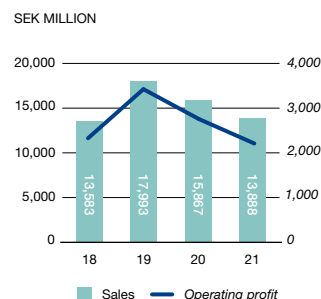
ORDER INTAKE, GEOGRAPHIC



ORDER INTAKE, BUSINESS UNITS



Sales and operating profit



Marine's business



Selected industries

The division's customers are mainly ship-owners, shipyards, diesel and gas engine manufacturers and companies involved in offshore oil and gas exploration.



Offering

The offering includes heat transfer equipment, high-speed separators and pumping systems, as well as various environmental products and systems for cleaning ballast water and exhaust gases.



Routes to market

The division sells its products and solutions directly to end customers. These are clearly defined and limited in number, allowing the division to canvass customers using a small sales force.

Structural drivers



Sustainability – carbon-free shipping

Shipping currently accounts for around 3 percent of total global greenhouse gas emissions. The industry's goal is to achieve carbon neutrality by 2050. This will be achieved in a number of ways, including by ensuring the energy efficiency of the technology used on board, through the development of new and less polluting ship fuels, and by investing in wind energy and other new sources of power in global shipping.

The division has a range of solutions that can help reduce the environmental impact of shipping, including products to boost energy efficiency, ballast water treatment systems, technology to reduce sulphur levels in ships' exhaust gases or to clean onboard bilge water.



Global trade – increased shipbuilding

Shipping is an integral part of the supply chain for most industries, making it a backbone of global trade. Shipping's ability to offer economic and efficient long-distance transport puts it at the centre of the world economy. Today, it is estimated that an overwhelming majority of goods, around 80 percent, are transported by ships. Alfa Laval's long-term relationships with shipowners, shipbuilders and operators creates opportunities as shipping, like most industries, is continuously adapting to a growing population, new demands and more sustainable ways of operating.

Alfa Laval has been supplying the marine industry with equipment for over a century. It started with the supply of separators for purifying lubricating oils, but has since evolved to include heat exchangers for freshwater production, pumping systems for efficient loading and unloading and a wide range of other products.

Significant end markets



Shipbuilding and shipping

There is a wide range of products and systems available for installation on board ships. These include fuel purification and treatment systems, loading and unloading pumping systems, steam boilers, freshwater generators, inert gas systems, lubricating oil treatment and tank cleaning systems.

79%

Proportion of the division's order intake



Offshore

Technology and solutions for oil and gas platforms, including inert gas systems and emergency power generators, as well as pumping systems used for firefighting or to pump seawater for onboard applications.

12%

Proportion of the division's order intake



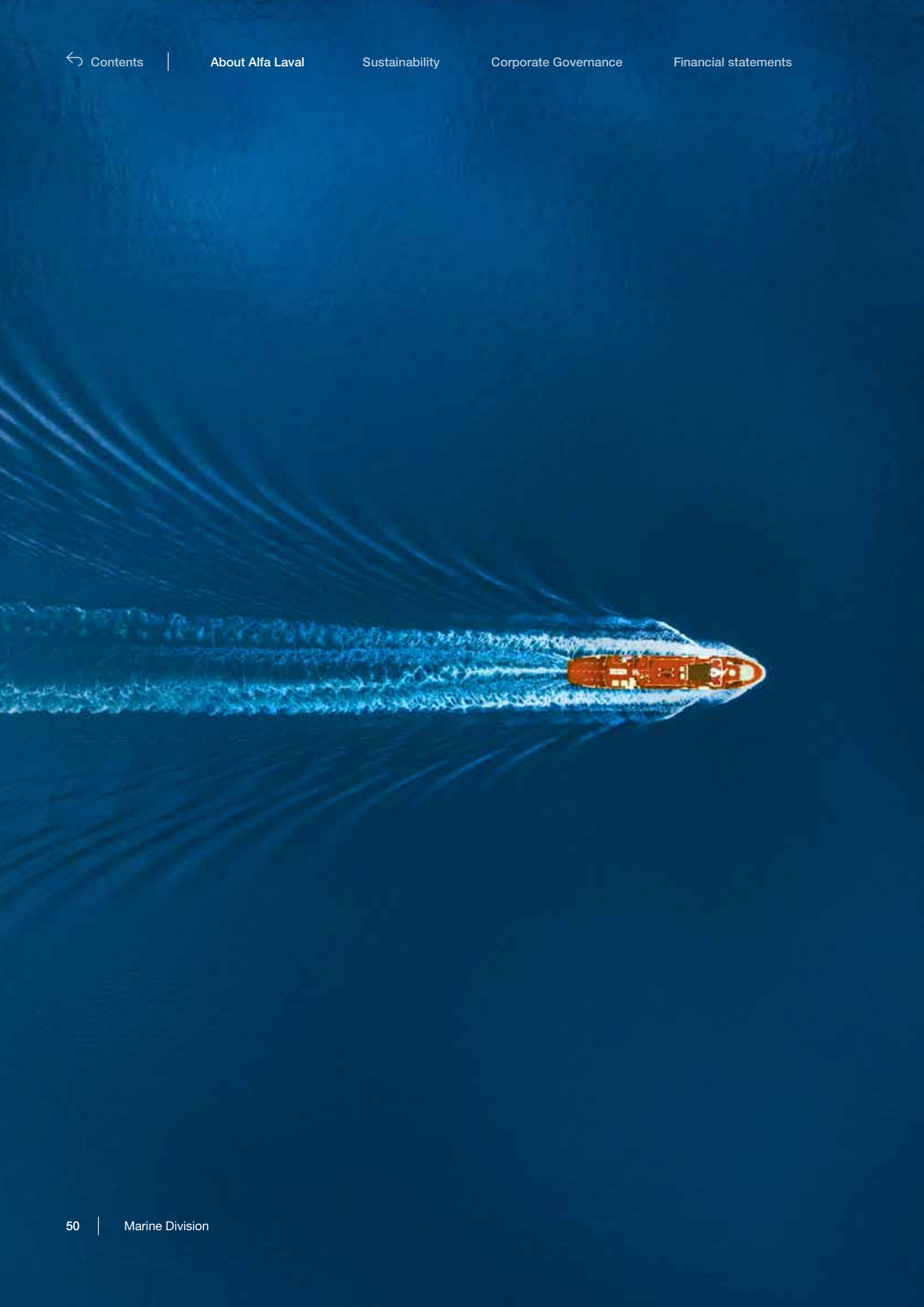
Engine power

Engine-generated power is used in off-grid locations, as back-up power during power outages, to handle peaks in demand when the grid is insufficient or as a complement to solar or wind power. Alfa Laval offers several products, including modules for fuel treatment, separators for cleaning crankcase gases and heat exchangers for various cooling applications.

6%

Proportion of the division's order intake

Other: 3%





Making shipping more sustainable

Working with others has helped Alfa Laval to expand its range of innovations and sustainable solutions. The Marine Division, for example, has made significant steps forward through collaborations and partnerships.

Because shipping is responsible for 2-3 percent of global greenhouse gas emissions there is growing pressure on the industry to decarbonize. The International Maritime Organization has set a target of a 50 percent reduction in vessel-related emissions by 2050 but many countries and companies are aiming higher. Alfa Laval has declared its ambition to make shipping truly sustainable and Sameer Kalra, President of the Marine Division, sees great opportunities ahead: "We have been working with a number of external players to deliver new technology platforms built around new fuels, more efficient power sources, and increased overall operational energy efficiency on boats and ships."

A new 50/50 joint venture between Alfa Laval and Wallenius will see the creation of innovative wind propulsion systems. The aim is to have the first AlfaWall Oceanbird system afloat within five years. While the technology is initially being developed for cargo ships – the first installation will be on a transatlantic car carrier with a capacity of 7,000 vehicles – the ambition is to expand it to cruise liners and other vessels. It is expected to cut emissions by up to 90 percent compared to today's most energy-efficient vessels.

As the industry moves away from fossil fuels, and the focus increases on energy efficient solutions,

information about weather conditions will be increasingly valuable. That's why, in 2021, Alfa Laval acquired StormGeo, a global leader in weather intelligence. StormGeo helps customers lessen risk, improve safety and make sustainable choices on routes and operations. Acquiring the company was part of Alfa Laval's strategy of supporting the marine industry's efforts to make operations more efficient. It also enhances Alfa Laval's knowledge within digital services.

Alfa Laval also joined the Mærsk Mc-Kinney Møller Center for Zero Carbon Shipping, whose partners include BP, MAN Energy Solutions, Mitsubishi Heavy Industries and Siemens Energy, among others. This collaboration is all about accelerating the development of low- and zero-carbon technologies. One example is the recently announced SOFC4Maritime, a project to accelerate the development of green fuels for marine vessels.

New fuels are also in focus at the Alfa Laval Test & Training Centre in Aalborg, Denmark. The 2800 m² modern testing space has been readied for testing two new types of fuel: biofuels (made from waste) and methanol. This is enabling Alfa Laval to team-up with customers, and together develop innovative and sustainable solutions to meet their climate goals.

Ready to respond to increased growth

Operations is a Group-wide supply organization. Purchasing, manufacturing, distribution and logistics are managed in collaboration with the industrial divisions. This is done to ensure optimal manufacturing capacity, broad geographic coverage and strong sourcing and logistics chains.



Mikael Tydén
President, Operations

Alfa Laval's operations are geographically dispersed and its product range diversified. This increases the need for coordination between the three industrial divisions. Operations is the focal point of this work and secures cohesion and professional management in the following areas:

- Coordinated manufacturing and assembly of components and products developed from the Group's three main technologies. Manufacturing is linked to 37 sizeable units, designed to provide optimum geographical coverage, but also with a view to ensuring that capacity is allocated as evenly as possible across the units. The products manufactured are sold in all divisions.

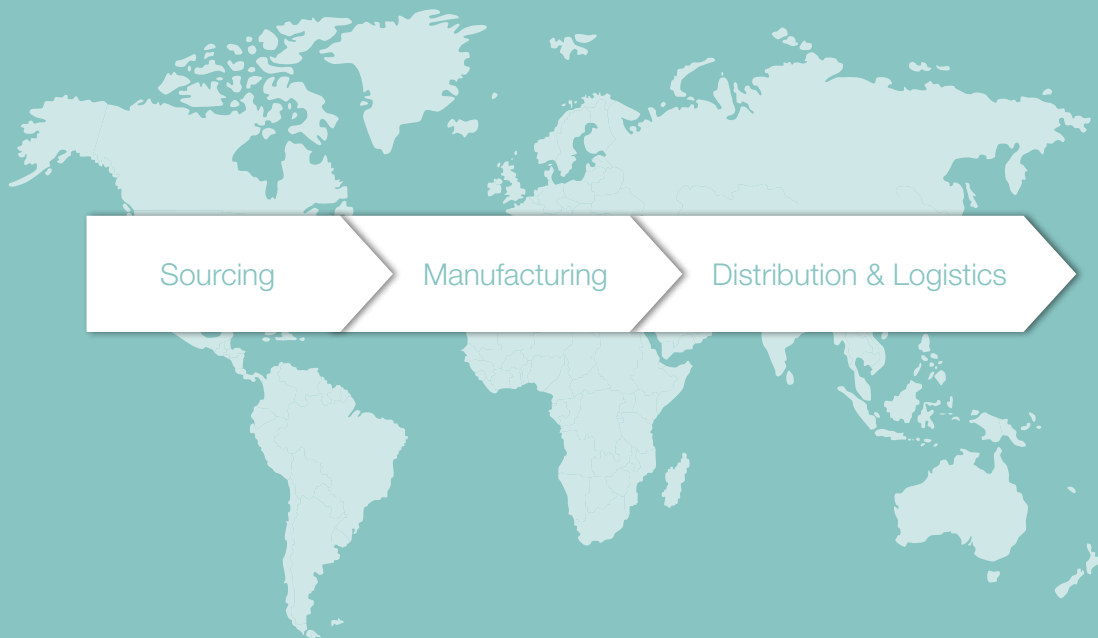
- Purchasing which is managed in an organization with responsibility for both direct and indirect materials for manufacturing facilities and distribution centres. It also handles all indirect procurement, including services.

- Distribution and logistics focus on components and spare parts. Alfa Laval has a global coverage with 8 distribution centres, spread over Europe, Asia and North America. Distribution and Logistics is also responsible for Alfa Laval's overall transportation needs.



Operations

A global supply chain with strong regional presence



Priorities



Sustainability



Quality



Delivery



Cost

Stable foundation for growth

Manufacturing, purchasing and distribution are the platforms that Operations works with and that have been further developed in recent years to meet anticipated future growth. The aim of this work has been to optimize the factory structure, refine production systems and streamline purchasing and logistics in a way that delivers both quality and productivity. This has equipped the Group for the next stage, focusing on new investments in production facilities and distribution centres in response to an anticipated increase in demand.

Continuous, sustainable technology development

One natural aspect of this development is work on new, innovative production systems. Some of this work is conducted in the context of continuous improvement programmes, while the more comprehensive changes are linked to what is known as Industry 4.0. The emphasis here is on increased automation and digital production development, developed in a way that makes these investments cost effective. Greater automation is important at Alfa Laval, which has a diverse product range and where more efficient production systems can therefore make a difference.

Similarly, technologies such as additive manufacturing/3D printing are creating new opportunities in a group that may have extended service commitments for components, and where volumes over time are relatively small. Additive manufacturing enables to design components in a way that would not have been possible using traditional methods. The technology is both cost-effective and more sustainable, because it requires fewer inputs in the manufacturing process. In addition, the development of manufacturing technologies and production systems is expected to play an increasingly significant role in new growth areas such as fuel cells, hydrogen production and energy storage. Alongside products and solutions, cost-effective production processes will be part of the offering that makes Alfa Laval a competitive supplier in these growth areas.

Strengthened skills

Operations' strengthened manufacturing, sourcing and distribution platforms also help the company retain and recruit professionals. The fact that strategically important issues are handled at Group-wide skills centres is a strength. Products and processes are increasingly digitalized at these centres, which also makes day-to-day work stimulating and thus more appealing.

Optimizing today – innovating for the future

The past few years have taught us many things, but perhaps the most important learning is that change is the only constant in our world. With one foot planted in the traditional industrial economy and one foot exploring the new digital and sustainable landscape, Alfa Laval is positioned to play an essential role in transforming the fossil economy into a sustainable, decarbonized, open and inclusive world. This journey is ongoing, and we are constantly optimizing and refining our existing ways of working while pioneering and developing new technologies to meet tomorrow's demands.

Accelerating change

While Alfa Laval is working to become carbon neutral across our value chain by 2030, and to become a circular business, our major potential impact lies in the difference our products make in our customers' operations. Each of our divisions has exciting possibilities ahead, with opportunities to change the ways their customers do business and support them in the transformation ahead.

The energy division meets the unprecedented demand for energy efficiency with the new generation of products such as heat exchangers and services. Alfa Laval also helps drive the shift towards cleaner energy, thanks to our leading range of products for the production of biofuels, wind, solar, and hydrogen to name a few.

Maritime transport is currently responsible for approximately 2.5 percent of the global greenhouse gas emissions. Our Marine Division sees significant opportunities in the upcoming switch to carbon-neutral shipping. Alfa Laval makes this change possible by developing products for new and more sustainable fuel types. We are even helping develop a ground-breaking wind-driven maritime vessel together with Wallenius in the Oceanbird project. This vessel can potentially reduce maritime shipping-related carbon emissions by 90 percent.

The Food & Water Division sees a great demand for more energy-efficient products where, for example, our E-motion separators are 70 percent more energy efficient than traditional technologies. Within water and waste treatment, new and improved products help reduce our customers' water consumption and make water treatment processes more efficient.

Alfa Laval is far from alone in driving this change. We seek out strong partnerships with suppliers to optimize our supply chain from a sustainability perspective. We are also looking into innovative collaborations such as the 'Re-Made to Matter' initiative with Stena Recycling, making it possible to upgrade to a more energy-efficient heat exchanger and get a refund on the old one, which will then be recycled.

Equally important is the shift to a more sustainable and inclusive workplace, where everyone feels welcome and equally treated regardless of gender, age, origin, and role in the company. Our business depends on attracting, stimulating and retaining the best people, and being a fair, open and inclusive workplace is key to that goal.



“The transformation from the fossil economy to a decarbonized world is accelerating. We believe that the next 20 years will be about optimizing today and innovating for the future, as the world transitions between traditional and new energy sources,”

Tom Erixon, President and CEO, Alfa Laval



A strategic approach to our journey ahead

A new sustainability strategy was launched and approved by top management and the Board in 2021. The strategy includes the most salient areas the company is to focus on towards 2030. The areas have been identified through stakeholder assessments and dialogue, through internal prioritization and analysis of which areas are going to be important to the continued competitiveness of the company.

The purpose of the sustainability strategy is to focus on those areas where we want to show leadership as a company. The strategy is divided into four main areas – caring, committed, circularity and climate. These areas reflect the environment, social and governance (ESG) issues which are most salient and where we can contribute most by improvement. Each area includes a vision that sets out our ambition.

For the different areas the company has also set long and short term targets which will be followed up through KPIs to ensure continuous progress and to meet potential challenges through action. Where applicable, we will encompass the whole value chain in our ambitions including how the products and technologies we put on the market contribute to progress. The sustainability section of the annual report 2021 is divided into the four topics of the sustainability strategy. Each section describes how we have worked to set baselines, KPIs, processes, governance and how we follow-up on progress.



Climate

Carbon neutral

We strive towards becoming carbon neutral across the value chain

In focus

- Scope 1 emissions
- Scope 2 emissions
- Scope 3 emissions



Circularity

Circular business

We are dedicated to safeguarding the value of natural resources throughout our value chain

In focus

- Efficient manufacturing
- Extending product life span
- Reuse/recycle



Caring

Safe inclusive culture

We promote a safe, inclusive culture both within our company and in our relationships with external partners

In focus

- Health & Safety
- Inclusion and Diversity
- Human rights



Committed

Ethical business

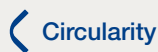
We are committed to honest, respectful and ethical conduct within our organization, as well as in all external business relationships

In focus

- Business Principles
- Anti-Bribery Anti-Corruption
- Whistleblowing

Targets and target achievements

Alfa Laval's sustainability and social targets aim to drive efficiency and behavioural change to achieve better results in the long term. The table below shows the company's sustainability targets. Progress on the targets is presented in more detail within each section of the report as well as in the sustainability notes available on alfalaval.com.



| | Area | Targets | Target Year | Trend to achieving target based on results 2021 | Read more |
|--|------------------|--|-----------------------|---|-----------|
| | Carbon emissions | 50% reduction scope 1 & 2 emissions | 2023 (base year 2020) | | p. 60-65 |
| | Carbon emissions | Net zero scope 1 & 2 emissions 50% reduction scope 3 emissions | 2030 (base year 2020) | | p. 60-65 |
| | Energy | 5% improvement in energy efficiency (MWh/k direct hours) | 2023 (base year 2020) | | p. 64 |
| | Water | 5% reduction of water consumption in sites located in water scarce areas | 2023 (base year 2020) | | p. 67-68 |
| | Water | 100% recirculation of water in sites located in water scarce areas | 2030 | | p. 67-68 |
| | Waste | 85% recycling of waste | Recurring | | p. 67-68 |
| | Waste | Zero waste to landfill | 2030 | | p. 67-68 |
| | Chemicals | No hazardous chemicals used | Recurring | | p. 67 |
| | Materials | 30% of products from recycled materials | 2030 | | p. 69 |
| | Diversity | 35% female employees | 2025 | | p. 73-75 |
| | Diversity | 25% female managers | 2025 | | p. 73-75 |
| | Diversity | <70% homogeneity (gender and nationality) in highest management groups | 2025 | | p. 73-75 |
| | Health & Safety | 30% Lost Time Injury Rate (LTIR) | 2023 (base year 2020) | | p. 70-72 |
| | Ethics | 100% of employees trained every two years in Business Principles, Anti-Bribery, Anti-Corruption and whistleblowing | Recurring | | p. 76-79 |

Well aligned with target
 Progress made towards target
 Not aligned with target

Engaging with stakeholders is an essential process in our work with sustainability

Alfa Laval has identified our customers, shareholders and investors, employees and future employees, business partners (including suppliers, authorities, media and the communities around us) as priority groups for engagement on sustainability issues.

We have regular contact with our customers, and we conduct different customer surveys which provide us with an in-depth understanding of how our customers perceive our company.

Our shareholders participate in Annual General Meetings and investors are invited to our annual capital markets days. Alfa Laval's potential to effectively respond to future sustainability challenges is one of the topics discussed at these meetings.

Employees are encouraged to give feedback directly to their managers and through employee surveys. Our suppliers are important partners for our business success. Regular interaction with them results in mutual development. In addition, we regularly invite them to conferences and workshops. We have an open dialogue with the communities in which we operate, including collaboration with universities and local governments.

Materiality assessment

Alfa Laval's carries out a materiality assessment regularly to review the sustainability topics with greatest relevance. This assessment together with the stakeholder interaction described above helps us identify material aspects. These are analysed from a risk, opportunity and business impact perspective and are validated by company management. The topics that are most material both internally and externally are health and

safety, legal compliance, energy use, climate impact, supplier business ethics as well as anti-corruption. Moreover, Alfa Laval's products and services play a key role in enabling our customers to achieve their energy efficiency, climate, circularity and water goals. This is ranked as important, both internally and externally – internally because of the business opportunities created for the company, and externally because our products and solutions can help customers reduce their environmental impacts. Our assessment also shows that stakeholder perceptions of Alfa Laval's performance in the prioritized areas is in line with their expectations.

Stakeholder engagement

To support our progress towards our business and sustainability goals it is of importance to listen to, and engage with our different stakeholders.

Our stakeholder engagement builds on both formal and informal dialogue. During 2021, the trend where stakeholders are more active in asking questions and opening up for dialogue around sustainability has continued to grow. Two stakeholder groups stand out in this perspective – customers and shareholders/investors.

The main areas that have been addressed by investors and customers during 2021 are:

- Climate change and the responsibility the company takes to respond to this challenge (p. 60-65)
- The transition to a circular economy and resource efficiency (p. 67-69)
- The company's role in reaching the UN Sustainable Development Goals (p. 82-83)
- The company's work with diversity and inclusion (p. 73-75)

There has also been greater interest in:

- how the company plans for sustainability risks (p. 149-150)
- how sustainability related products contribute to value generation (p. 34-59)

During 2021 we also did an anonymous in-depth employee questionnaire on sustainability. The results show that our employees rank the following sustainability areas as most important:

- Health and Safety
- Human Rights
- Water
- Anti-discrimination
- Work-life balance

> Climate

Mapping the road to carbon neutrality

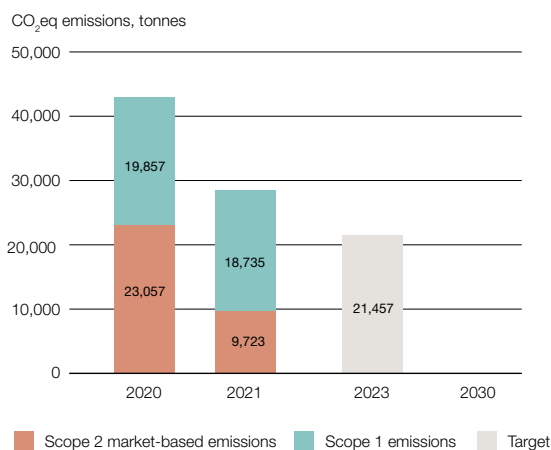
Alfa Laval has long had a clear focus on reducing our carbon footprint, and it is now a cornerstone of our sustainability strategy. We work actively to reduce our own carbon footprint across the value chain and at the same time introduce technologies that ensure customers' processes become as energy efficient as possible and enable the transition to clean energy sources.

In 2021, Alfa Laval focused on mapping and determining the carbon footprint of our entire value chain. Alfa Laval is convinced that we will be carbon neutral by 2030, as many of our products reduce carbon emissions from industrial processes significantly. In our carbon reduction program, we use the strict definition by the Greenhouse Gas Protocol. Our targets, based on this definition, are that by 2030 we will reach net-zero scope 1 & 2 emissions and reduce scope 3 emissions with 50 percent compared with 2020. The reduction of scope 3 emissions will depend on the rate of transition to renewable energy sources. The short-term target is to reduce scope 1 & 2 emissions with 50 percent by 2023 (baseline 2020). We have chosen 2020 as the baseline, well aware that it will mean a very ambitious start due to the Covid-19 pandemic slowdown and partial production shutdowns. Therefore, we project our footprint to increase initially in relation to the baseline, but our ambitious goals towards 2023 and 2030 remain.

Greenhouse (GHG) Gas Protocol

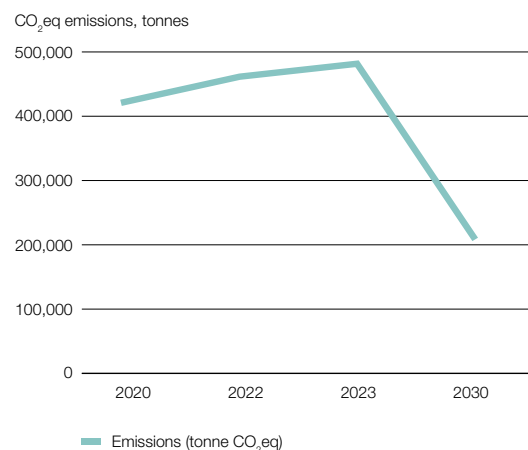
The GHG Protocol Corporate Accounting and Reporting Standard provides requirements and guidance for companies preparing a GHG emissions inventory. The Scope 3 standard is the only internationally accepted method for companies to account for external value chain emissions, both upstream and downstream of their operations. In addition, if a company reports positive impacts, it should also report a complete inventory of scope 1, 2, and 3 emissions and set reduction targets for these emissions.

Scope 1 & 2



Our target is to reduce Scope 1 & 2 emissions by 50% by 2023 with baseline 2020 and to have net-zero emissions of scope 1 & 2 by 2030.

Scope 3 upstream & goods transport roadmap projection



Our targets are to reduce scope 3 emissions by 50% by 2030 (baseline 2020: 420,000 tonnes CO₂eq).

The mapping process

Alfa Laval has for many years reported on the energy consumption, energy sources and energy mix from all our production sites. Our carbon footprint was previously only calculated for our production (scope 1 & 2) and goods transport (scope 3). In 2021 we decided to include the emissions from the whole value chain, including scope 3 both up- and downstream. During the year we invested a lot of time and effort to establish a point of departure (baseline 2020) for our carbon neutrality journey across the whole value chain.



Scope 1 covers direct emissions from energy used in our premises or company vehicles.

Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by Alfa Laval.

Scope 3 includes all other indirect emissions in Alfa Laval's value chain, both upstream and downstream, including goods transportation.

Scope 3 is the key

Our mapping process shows that our external footprint (Scope 3) accounts for about 98 percent of our total impact. Both for Alfa Laval as a whole and our individual business units, it is essential to distinguish between Scope 3 upstream and downstream as the impact from the different products varies significantly; a heat exchanger has its largest footprint upstream whilst rotating equipment has the most significant impact downstream.

Scope 3 upstream

The mapping of our upstream activities has addressed our largest supplier categories. More than 1,000 suppliers distributed over 158 supply categories were mapped and contacted during the year. In total, the project addressed more than 80% of our total spend. Our analysis has shown that our carbon footprint from purchasing (Scope 3 upstream) is almost eight times larger than our internal footprint (Scope 1 & 2).

Scope 3 downstream

Our use phase (downstream) is more difficult to calculate due to its complexity. This part of the value chain also clearly stands

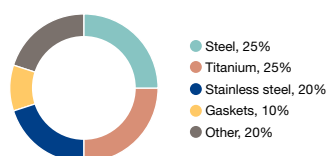
out as it represents the largest portion of our carbon footprint. Alfa Laval rotating equipment such as separators, decanters, pumps and valves are very high quality and typically operate with our customers for up to 25 years. The efficiency, longevity and uptime of our products is positive from cost and circularity perspectives, however, low energy use over a long time means that our use phase makes up more than 95% of our total footprint.

Scope 3 goods transport

The emissions from transportation of goods (43,000 tonnes CO₂) is equal to our total internal footprint. These figures are the baseline which was set as 2020. This was also an atypical year for goods transport, mainly due to the need to transport components from factories outside the standard supply chain, as our own factories and suppliers had to shut down production for some periods. As can be seen by the graph (below), most of the goods transport emissions stems from air transport.

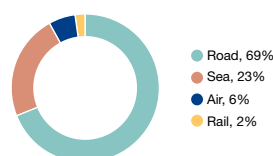
Scope 3 upstream

Purchasing stands for 350 000 tonnes CO₂ year 2020

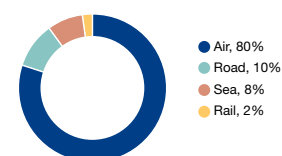


Scope 3 goods transport

Percentage of goods transported by road/sea/air/rail











Percentage of emission road/sea/air/rail



Our roadmap

Our mapping work in 2021 has given us the knowledge and focus needed to prioritize our work towards our climate goals. Below, we have outlined what we are focusing on, in general terms, to reduce the emissions in each scope.

| Scope 1 | |
|---|--|
|  | – Replacing natural gas as heating source in applicable production facilities |
| | – Improving energy efficiency in our different sites including buildings and equipment |
| | – Further reducing emissions from company cars by shifting to hybrid and electric cars |
| Scope 2 | |
|  | – Shifting to renewable sources of electricity in all facilities |
| | – Investing in waste heat recovery, which is used for heating at our facilities |
| | – Installation of solar panels at production facilities and distribution centres |
| Scope 3 | |
|  | – Source from suppliers that offer materials and other inputs with a lower carbon footprint |
|  | – Improve material efficiency in manufacturing, including reduction of waste |
|  | – Continuous optimization of Alfa Laval products, which reduces energy consumption while products are in use |
|  | – Promote transition to renewable sources of energy upstream and downstream |
|  | – Reduce the proportion of freight transport by air |
|  | – Partnerships to ensure reuse and recycling of materials at the end of life of products |

Putting the roadmap into action

The target for 2023 is to reduce scope 1 & 2 with 50 percent compared to 2020. In 2021 we reduced scope 1 & 2 emissions by 33 percent. Below is a description of the actions taken to reduce emissions across the value chain during the past year.

Scope 1:

Energy efficiency at our sites

In 2021, projects to improve energy efficiency started in nine of our sites. These projects range from switching to led-lighting to changing compressors and optimizing the brazing processes in our sites. In total, these activities are projected to save around 1800 MWh of energy.

Scope 2:

Switching to renewable sources of electricity

During 2021, emissions from scope 2 were reduced by 58 percent (vs baseline 2020). The decrease is attributable to changing electricity agreements, from fossil-based to renewable sources in eleven sites. In 2021, 91 percent of the electricity came from renewable sources compared with 80 percent in 2020. Three of our sites located in Italy and China use photovoltaic energy generated from solar panels on site.

Scope 3:

Downstream emissions

There is a clear correlation between the rate at which renewables and other clean energy sources are introduced to the market and our ability to achieve our scope 3 downstream targets especially with regards to our rotating equipment. We cannot fully influence the rate at which this

transition happens, but we can control the rate at which more energy-efficient products are in the market. Energy efficiency will be paramount for our customers to reach their carbon emission targets, and for the achievement of the Paris agreement. By way of example, in 2020 our heat exchangers reduced energy use in industrial processes by around 50 GW and at the same time reducing 25 million tonnes of CO₂.

Lowering the negative impact of goods transport

As our ability to influence the decarbonization of the transport industry is relatively low, we are working to reduce the impact by choosing transport modes with lower carbon emissions. In practice, we are shifting away from air transport to other modes and changing our internal logistics to ensure minimum emissions from goods transport.

Partnerships enable better reuse of materials

Carbon emissions at the end of life of our products are mainly a result of waste disposal or energy intensive recirculation processes. In an effort to better understand how the materials from our products can be reused once they reach their end of life, Alfa Laval initiated a partnership with Stena Metall during 2021 to ensure reuse of materials from our products in Scandinavia. More information about the partnership called 'Remade to Matter' on p. 69.



-70%

One example of how we make our rotating products more energy efficient is the eMotion™ separator technology. By reducing the friction in the bowl of a disc stack separator and adding a vacuum pump to reduce the air pressure in the space between the separator bowl and the frame, a separator with eMotion™ can reduce up to 70 percent of the energy needed, compared to traditional separation technologies. Ensuring the products we put on the market are more energy efficient than those they replace is a very important step in reaching our scope 3 downstream emissions.

Carbon emissions reduction critical to biological diversity

During 2021, a first analysis of the groups' impact on biodiversity was made using the ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) biodiversity database and the guidance made by SBTi for nature. The biodiversity analysis shows that Alfa Laval's current environmental targets and focus areas; greenhouse gas emissions, water use, waste management and reduction of hazardous chemicals, are also essential to reduce the company's impact on nature and biodiversity. Meeting the targets we have set in our sustainability strategy for climate and circularity will, in other words, also reduce the negative effects the company has on biodiversity in the short- to mid-term. In the long term, Alfa Laval will continue developing our efforts to reduce the negative impact on biodiversity including our value chain. The complete analysis of the company's impact on biodiversity made during 2021 is available at www.alfalaval.com/sustainability.

CDP Climate reporting and meeting TCFD recommendations



Alfa Laval has participated in the CDP's (formerly referred to as the Carbon Disclosure Project) voluntary reporting of greenhouse gas emissions since 2016 (except 2017). The reporting involves relevant key figures and data, measures to prevent negative climate impacts, and products, solutions and initiatives which reduce emissions. In the Annual CDP Report for 2020 on climate issues, Alfa Laval received a score of B.



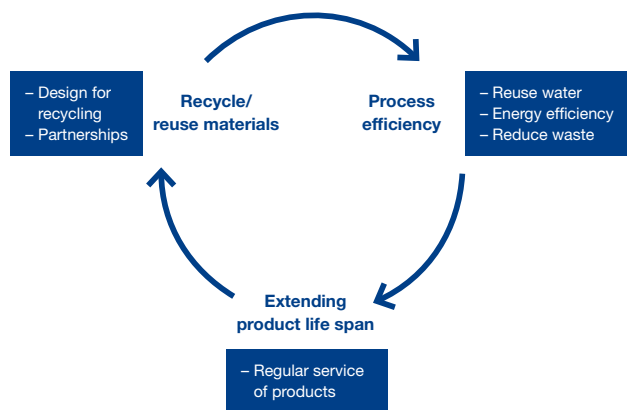
The Task Force on Climate-related Financial Disclosures (TCFD) is a call for climate action from the financial markets. It describes how companies should handle their climate-related information, including risks and opportunities. Alfa Laval aims to meet the recommendations from TCFD for how climate work is organized, how our products and services help reduce carbon emissions, risks/opportunities and goals and metrics. Information about these aspects can be found on p. 60-65, 149-150 and sustainability notes on alfalaval.com.

Circularity

Dedicated to safeguarding the value of natural resources

The circular economy is an alternative solution for the current linear economy based on a 'take, make, consume and dispose of' model. Circularity entails gradually decoupling economic activity from consuming finite resources and designing waste and pollution out of the system.

Alfa Laval is dedicated to safeguarding the value of natural resources throughout our value chain. Natural resources, means all materials and input that we purchase and use in our production, transportation, and service. These materials are mainly metals, rubber, plastics, paper and water. Our value chain entails the whole chain from the materials and products we buy from our suppliers to the production, use and end of life of our products of our products and the transports included in this chain.



Circularity plays an important role in Alfa Laval's current business model. For this reason, we work to improve our understanding of the opportunities of a circular approach in the different parts of our value chain. This includes optimizing the use of resources, extending the life span of our products, ensuring that we recycle and reuse materials and exploring new business models and new ways of working with our supply chain and in other partnerships.

For the time being, Alfa Laval has chosen to focus on three main areas to promote circularity. The first area is achieving process efficiency, particularly reducing waste and water consumption and improving energy efficiency. The second area is increasing the life span of our products and the third is to increase the amount of recycled/reused materials in our products.

Improving process efficiency

To improve the efficiency of our processes, we have prioritized water, energy and waste. Our targets are

Water:

- 2023: Reducing water consumption by 5% (baseline 2020) in those sites located in water-scarce locations, specifically in China, India, the US, the Middle East and Brazil.

Status 2021: 14% reduction of water used in sites located in water scarce areas.

- 2030: 100% water recirculation in sites located in water-scarce areas.

Energy efficiency

- 2023: Improve energy efficiency (MWh/k direct hours) by 5%.

Status 2021: 3.6% increase in energy consumed relative to direct hours worked.

- 2030: Continuously improve energy efficiency in production services and products.

Waste

- 2030: Maintain 85% recycling of waste.

Status 2021: 81% Recycling.

- 2030: Ensure no waste goes to landfill.



Water

Alfa Laval operates worldwide, and 40 percent of the water consumed in 2020 came from sites located in water-scarce areas. For this reason, we have set a long-term target of recycling 100 percent of the water used in sites located in water-scarce areas by 2030. In the short term, our target is to reduce water consumption in water scarce areas with 5 percent by 2023 (baseline 2020). During 2021 water consumption in water scarce areas decreased with 14 percent. This is a result of both implementation of water saving projects and lower activity in one of our largest sites in China.



Alfa Laval equipment reduces water use and improves effluent quality in Pune, India.

Saving precious water in water scarce areas

Improving effluent quality with Alfa Laval decanters

During 2021 the production site in Pune, India has installed Alfa Laval decanters ALDEC 10 and Alfa Laval membrane (MBR) equipment. This technology makes it possible to reuse the water for toilet flushing and gardening. In addition to reusing the water, the quality of the effluent has improved significantly.

Reducing water consumed by 50% in Thane, India

Water consumption in our service centre located in Thane, India was mapped during 2021. This gave a better understanding of where water is used, and we could then identify improvement areas. The improvements resulted in a 50 percent reduction of water use compared to 2020.

Saudi Arabia

Alfa Laval Service Operations in Saudi Arabia will save more than 1,000 m³ of water annually following the installation of water recirculation systems at the Jubail and Yanbu service centres. The water is used in the hydrostatic pressure testing of gasketed plate heat exchangers, primarily from oil & gas applications in the energy industry. By recycling the water through a rigorous treatment process including filtration and UV to remove contaminants, 90 percent of the water can be stored and re-used multiple times.

Qatar

Fresh water in Qatar comes from groundwater aquifers and seawater desalination, and the country experiences high levels of water stress due to the scarcity of this vital resource. Alfa Laval has a service centre outside Doha where maintenance work on heat exchangers takes place. A solution to collect and store the wastewater in a holding tank for repeated use has recently been improved with filtration and ultraviolet treatment, which eliminates pathogens and particle pollutants.



Waste

Circularity is about efficiently using resources and materials and reducing the material used in production of every product. At Alfa Laval, we aim to achieve this by reducing scrap and waste materials, and continuously placing only high-quality products on the market, reducing claims and the need for reproduction.

Materials and products that we cannot use ourselves and that we intend, or are required to discard are, per definition, waste. This can be scrap and waste from our operations and service centres as well as incoming packaging materials and other products ending up as waste at our sites. Circularity is about reducing this type of waste to a minimum.

The waste that is generated must be managed in the best possible way from an environmental and sustainability point of view. Our waste management approach is based on the waste hierarchy, supporting circularity by favouring reuse and recycling, before other waste management methods such as incineration and landfill, where both materials and energy are lost. Our waste targets; reducing total waste amounts; keeping a high recycling rate and reducing waste to landfill support our ambitions on circularity. During 2021 our focus has been on improving the understanding of the types of waste we generate and ensuring classification of waste focusing on the ten sites producing around 80 percent of the waste.

Reducing waste, plastics and emissions from packaging

Packaging is a source of misused material and waste in our different sites. To reduce plastics and waste in packaging, a project was initiated already in 2019 with the ambition to reduce misuse of material, waste, costs and, by consequence, also carbon emissions. The pilot project was carried out in one of our distribution centres in Sweden and gave three main results. First, heavy wooden packaging was replaced with cardboard, reducing both weight and material, and as a result carbon emissions from freight. The second was increased recycling of packaging materials and thirdly plastics used to fill space in packaging was replaced. In total, the project resulted in savings of 345,000 EUR, reduction of 160 km² of plastic film, increased recycling rate to 86% and saved around 250 tonnes of CO₂. This project has during 2021 been implemented in several other sites across the Alfa Laval organization, resulting in a reduction of 200 km² of plastic, 300,000 EUR in costs and around 300 tonnes of CO₂.





Extending product life span

Many Alfa Laval products have a life span of over 20 years. Therefore, it's essential to ensure that they work optimally and are easy to maintain and repair. By designing products that are easy to repair, maintain, upgrade, refurbish and remanufacture, we extend the life span of the product to save materials and other resources.

Actions for increasing life span of products and materials

- Designing products that last longer and that are easy to refurbish
- Ensure that products are serviced, repaired and remanufactured to ensure a long life span.

Subscription service to improve product life span and efficiency

The Business Unit High-Speed Separators has released a new subscription service to secure the ongoing optimization of water and power use in centrifugal separators.

The Alfa Laval Sustainability Agreement for brewery separators is offered in a first push globally to medium and large breweries for separator models Brew 450, Brew 750 and Brew 750e. Under the agreement, Alfa Laval will commit to delivering on agreed targets for power and water savings, based on a no-gain-no-pay principle. By signing up for an agreement, a customer pays an annual fee with no surcharge for the hardware or software required to reach the target.



Recycle and reuse of material

To ensure that we move towards a circular economy, it is crucial to find effective ways to reuse and recycle our products at the end of their life span. To achieve this, we will have to work both on improving the design of our products, so they are easier to dismantle and recycle, and ensure that the materials used are compliant with relevant legislation. In addition we work to increase the use of recycled materials in our own products both to reduce our carbon footprint and use of raw materials. In addition, working with other organizations to enable reuse and recycling will be paramount to success.



A ground-breaking new exchange programme

This year Alfa Laval and Stena Recycling launched a reuse program with heat exchangers called Re-Made to Matter. The core of this partnership is a ground-breaking business model for heat exchangers that have reached the end of their lifecycle or are no longer efficient. Regardless of the brand and model they currently use, our customers and prospective customers will be able to order a new, state-of-the-art Alfa Laval plate heat exchanger and receive a refund corresponding to the value of their existing equipment. The old unit will then be sent to our partners at Stena Recycling, who will recycle it to recover up to 100 percent of the valuable metals inside.

Metals, such as copper and steel used in our heat exchangers, can be recycled endlessly. The materials that Stena Recycling recovers from our customers' heat exchangers will be sold back to Alfa Laval for use in our production, effectively closing the loop in our supply chain. Therefore, this partnership is a giant leap forward in circularity for the HVAC industry, with the potential for old heat exchangers to be recycled into new heat exchangers – rather than ending up in a landfill.

At the same time, the refund motivates our customers to switch from their outdated, inefficient units to more modern designs that feature innovations for significantly improving efficiency. This will make it possible for them to dramatically reduce energy consumption in their thermal processes, which – in addition to having a positive impact on their OPEX – will help to reduce global CO₂ emissions. The exchange programme will debut in the Nordic countries. Sweden, home to both Alfa Laval and Stena Recycling, will be the first out, with other countries soon to follow. We aim to roll out this unique model to other markets worldwide as soon as possible.



Building a safe, inclusive culture

'We return home safely. Every day!' is Alfa Laval's safety vision. Our ambition is to have a workplace free from accidents and work-related illnesses.

We strive to continuously improve our health and safety (H&S) performance according to our global H&S Policy. Unfortunately, after several years with a steady decline in work-related accidents, we have now seen an increase in the number of incidents, both lost-time injuries (LTIs) and minor incidents. We have worked intensively on analysing, understanding, and taking action to reverse the trend during the year.

Targets and progress

Alfa Laval's key target in the H&S area is to reduce lost-time injury rate (LTIR) by 30 percent by 2023 compared to 2020. In 2020, we managed to reduce LTIs by 51 percent compared with the base year 2017, which was better than the previous target. Unfortunately, in 2021, the total number of LTIs increased to 113 (82). The total number of lost working days was 2,800 (1,993). This means we have work to do to reach our LTI goals to 2023, but we have an ambitious plan of action to achieve the goal.

Health and Safety priorities

Given the increased number of incidents during the year, Alfa Laval has had an even sharper focus on the three main areas of safety: safe culture, safe technology and safe systems. We have also done a deeper analysis on the types of incidents that have had a negative trend during the year. Our most important priority was to understand the nature of, and the reasons behind, the increase in incidents, to be able to prioritize the right actions. The analysis of the incidents and injuries shows that at least part of the increase in incidents stems back to Covid restrictions. During this time, only the necessary staff were present on sites, managers were working partly remotely and a minimum of physical meetings were held, to minimize risk of virus transmission. Our data also show that new employees were overrepresented in the incidents, which could mean that safety introduction programs were less effective during this time.

Good health and well-being

The pandemic has put an additional focus on health and well-being. Alfa Laval has taken several actions to minimize the spread of the virus among our employees, ensure their well-being and safeguard the business. We believe that promoting good health is about concern for the individual as well as enabling Alfa Laval's continued business success. Many employees have worked from home during the pandemic, making it necessary to put additional focus on health and well-being.



Prioritizing safety on all levels – Broken Arrow, USA

Successful safety work requires that everyone in the organization participates actively and communicates openly. This insight is a big part of the safety program in Alfa Laval's facility in Broken Arrow, Oklahoma, USA. The site has implemented steps 1 and 2 of the Alfa Laval safety program "I Care" throughout the whole organization, from sales to the factory and through service. The program was adapted for each part of the organization, which was vital for taking personal responsibility and keeping safety top of mind. Another crucial success factor was the activity to find safer ways to get the job done while keeping the same pace of work. Finally special incentives were introduced based on achieving hazard and near-miss reporting targets.

To reduce the risk of ergonomic problems, employees can borrow office equipment and use it in their home office environments. Certain countries have also provided employees with temporary tables that enable employees to have a standing desk, thus reducing strains on the body from sitting down for long periods. The pandemic has also impacted the possibility of having an active lifestyle, and therefore the company has run information campaigns to support physical activity and healthier diets.

Alfa Laval continues to focus on enhancing safety performance in three main areas.

Safe culture

Promoting behavioural change is necessary to create a culture focused on safety in the workplace, which concerns all employees. Our managers have a particularly important role in leading the development towards a better safety culture, and act as safety role models. During the year, we have worked with monthly reports based on the 'Safety Pyramid'. This is a model that categorises accidents in groups from Hazards/risk observations, near misses, minor injuries, lost time injuries, and fatalities.

Alfa Laval now has a firm focus on the incidents in the lower part of the pyramid to build a safe culture by understanding near misses and prevent them from becoming accidents. We also continue to work with "Stop-Think-Act" and 3PR (three prioritized risks) as essential tools to improve the safety culture in the company.

The company-wide initiative 'I care' builds on four crucial steps: Awareness, Interest, Engagement, and Sustain & Improve. We're currently in the second step, where the primary tool is the so-called 'dilemma talks'. Dilemma talks help managers facilitate discussions of everyday situations where employees' health or safety can be compromised. Different 'Dilemma Cards' help employees to choose a safer alternative when facing a dilemma in daily work situations. One example could be: "You have four external visitors in the workshop, and there are only three safety vests. How do you act and why?" The method increases risk awareness to establish a

culture where identifying and preventing unsafe behaviours are second nature. The next step of 'I care' has already begun, with a pilot session designed to further improve safety leadership.

Safe technology and equipment

An important part of Alfa Laval's safety work is to ensure safe machines and equipment. Risk assessments are therefore carried out regularly to identify hazards. Risks related to machine safety often result in an investment request that will eliminate or reduce the risk when implemented. For example, our site in Fontanil, France, made a substantial investment this year in order to decrease the risk of working beneath suspended loads. Investments in safety like this are prioritized by Alfa Laval.

Safety systems: Developing a new global Health & Safety manual

During the year, Alfa Laval developed a new company-wide Health & Safety manual, together with existing policy documents and directives, it will support our organization to establish appropriate controls for all processes that can pose a risk for health and safety. The work was concluded by the end of 2021, and the new Health and Safety manual is scheduled to be launched and rolled out to the whole company in early 2022. We have also developed a standardized template for incident alerts, with the aim to improve sharing and learning from incidents between different sites.

| FY 2020 | | FY 2021 |
|---------|-----------------------------|---------|
| 0 | Fatality | 0 |
| 82 | Lost Time Injury | 113 |
| 599 | Minor injuries | 1,294 |
| 12,379* | Near misses | 5,294 |
| NA | Hazards / risk observations | 13,568 |

*Near Misses and Hazards were reported together 2020

Number of Days Lost due to accident in 2021: 2,800



Inclusion and diversity

Alfa Laval strives to be a truly inclusive and diverse workplace based on care and empowerment. We want to create an open, supportive and international environment where our employees can develop and excel, attracting dedicated people with a curious mind. We believe that inclusiveness through diversity maximizes the potential of both individuals and the organization. When everyone is encouraged to 'be themselves' and bring the different aspects of diversity to the work environment, it will greatly impact our innovation capacity and business results.

Targets and progress

Alfa Laval's goals for 2025 are 35 percent females in our total workforce, 25 percent female leaders and less than 70 percent homogeneity (gender & nationalities) in our senior management teams.

Our ambition is to recognize women with executive potential at an early stage. In 2021, the proportion of female employees in the company was 21 percent (20.9 percent), the proportion of female managers was 21 percent (18.8 percent) and the proportion of female managers in top management was 25 percent (33 percent). During 2021 we had 16 percent females as new hires (white-collar positions) and we will continue to work with, amongst other, recruitment processes to achieve our goals.

Building awareness on inclusion and diversity

During 2021 Alfa Laval has performed more than 60 Inclusion and Diversity workshops with the senior management teams across our global organization, including Group Management. The theme of the workshops is to create and promote an inclusive workplace by improving leadership skills and awareness on the subject. In total, more than 500 managers have participated in these workshops, facilitated by 18 trained employees from different parts of the organization.

One of the most important aspects of the workshops is learning to become aware of the unconscious bias that we all have. Unconscious bias is one contributor to a homogenous work environment and sameness thinking, hindering innovation and disables diversity. By becoming

aware of unconscious bias and using tools to minimize them, we can reduce their negative effects and enhance our decision-making processes substantially. It enables us to take complete control of business decisions, harness the potential of diversity and create innovative teams. The workshops resulted in action plans for management teams on how to work with inclusion and diversity in 2022.

In addition to the management workshops, several courses are available on the Alfa Laval Intranet, for example, 'Inclusive Leaders' aimed at managers on all levels throughout the company, and the 'Global Inclusive Course' which all employees are encouraged to take. We have also developed a workshop for our employee groups without access to our Intranet on the importance of inclusion and diversity and how to bring this culture to life in every day working situations.

New Inclusion and Diversity Policy

We have developed a new Global Inclusion and Diversity Policy during the year, scheduled to be launched early in 2022. The policy's purpose is to provide guidance and clarify our commitment to offer a workplace with a

welcoming, inclusive environment based on diversity – and a sense of belonging. It covers the following topics:

- Creating a sense of belonging
- Equal opportunities
- Anti-discrimination
- Non-harassment
- Bullying in the workplace

The policy is based on the following guiding principles for Alfa Laval as a company:

- We attract, develop, and retain the most talented people with an inclusive mindset who enable us to accelerate success for our customers, people and planet.
- We promote inclusion and diversity at all levels to give all employees fair and equal opportunities.
- We treat one another with respect, dignity and common courtesy and we do not tolerate any form of discrimination or harassment.



ALWIN – a thriving gender-neutral network in India

There are several networks within Alfa Laval for women and young employees. ALWIN 2.0 (Alfa Laval Women India Network) which was launched in June 2021 has been a big success under the flagship of Supriya Bansal, Controller at Alfa Laval India.

Her vision is to create a culture of engagement to empower women and drive Inclusion and diversity. Generally, women networks are driven by women, but the unique proposition of ALWIN is that both men and women work together to achieve the goals. This makes it even more inclusive and diverse and would provide a right ecosystem for the women to develop, as diversity alone is not enough sensitising men is equally important!

The network has three main objectives:

- Develop, retain, and attract female talent
- Make Alfa Laval the preferred choice for diversity candidates
- Have men as diversity partners.

Speed coaching, self-introspection, sessions on wellness, leaders speaking and social branding are all planned for under this initiative.

Supriya tells us about the results: "We are seeing the improvement in our hiring of female candidates and recruitment of women in unconventional roles. For every event we plan, we see an overwhelming response from our employees, with more volunteers who want to sign up and contribute to the cause."



Making sure all voices are heard

We believe high engagement among employees helps us attract, retain and develop people with curious minds. Engaged employees improve customer satisfaction, increase profitability & sales and boost productivity while reducing employee turnover. There is a strong correlation between high employee engagement and good business results.

In 2021 Alfa Laval launched the new engagement survey: VOICE. It's a digital, anonymous tool to make it easy for all employees to make themselves heard and together influence and create an inclusive and attractive workplace.

The survey was performed during three weeks in September and October 2021 and had a high response rate. In total, 81 percent completed the survey, and there were almost

10,000 written comments, giving valuable depth and food for thought. The engagement rate is 76 percent, which is higher than the benchmark.

Alfa Laval employees are keen to share their views and feel encouraged to drive improvements and find new ways of doing things. The work environment is also described as free from harassment and discrimination to a very high degree. There were also valuable comments regarding communication, which can be improved within the organization. Communication regarding career paths and development opportunities could also be improved.

The results from VOICE are analyzed within working teams, and action points are decided, these will be visible to all employees to promote transparency and action.

Highlights from VOICE

Alfa Laval employees are engaged and keen to share their views ...

... but seek more clarity on career and development opportunities.

Employees feel encouraged to drive improvements and find new ways of doing things ...

... but believe the customer experience can be enhanced through better ways of working.

Employees have a trusting, open working relationship with managers ...

... but believe that senior leaders can do more to listen to and value different perspectives.

A woman with dark hair, wearing a bright yellow sweater, is seated at a light-colored wooden desk in a modern office. She is looking down and writing in a notebook. The office has large windows with sheer curtains, and the lighting is soft and natural. The background is slightly blurred, focusing attention on the woman.

We are committed to honest, respectful and ethical conduct

Being a large, global company, Alfa Laval's ethical and transparent way of doing business is vital to our success. Alfa Laval's four Business Principles — Caring, Committed, Transparency and Planet — describe how we must act within society while achieving our business goals.

The Business Principles apply to all companies in the Alfa Laval Group and apply to all employees, including temporary employees and consultants. They also guide our relationships with business partners such as suppliers and customers.

In 2021 we launched the revised and updated set of Business Principles, including a new set of guidelines with concrete examples for how they should be implemented in everyday work life for everyone at Alfa Laval.

Alfa Laval's Business Principles incorporate the 'Protect, Respect and Remedy' concept of the United Nations Guiding Principles on Business and Human Rights, the OECD Guidelines for multi-national enterprises and the concepts in the UK Modern Slavery Act. The Business Principles are approved by the Alfa Laval Board.

The updated Business Principles

Caring

We care about every individual's rights and opportunities including their safety and wellbeing. We are a global company, and we firmly believe that diversity maximizes the potential of every employee and we care about every individual's rights and opportunities.

The Business Principle covers:

- Human rights
- Inclusion and diversity
- Health and safety
- Freedom of association
- Child and forced labour
- Working conditions

Committed

We are committed to ethical conduct within our organization and in all external business relationships. High ethical standards guide our behaviour, and honesty, integrity and respect for others are values that we live and work by.

The Business Principle covers:

- Anti-bribery and anti-corruption
- Non-complicity
- Conflict of interest
- Fair competition
- Export control and trade sanctions
- Political contributions

Transparency

We engage in open dialogue with all our stakeholders to develop business relationships built on trust. Trust also requires that we are careful not to reveal or communicate confidential information.

The Business Principle covers:

- Protection of personal data
- Confidential information
- Accounting and verification
- Company assets

Planet

We are in a unique position because our products make a significant contribution to reducing the environmental impact of industrial processes. We also have a responsibility to continuously reduce our environmental impact in all areas of our value chain.

The Business Principle covers:

- Environmental impact
- Continuous improvement
- Precautionary principle

Compliance with laws, regulations and Alfa Laval Business Principles

It is important for Alfa Laval to conduct its business with honesty, integrity and respect for others. This means that we not just follow the Business Principles of Alfa Laval and applicable laws and regulations in the countries where we operate but are also determined to follow the highest ethical standards of business conduct. We carefully monitor the development of international legislation, social standards and voluntary initiatives, including anti-bribery, anti-corruption and conflict of interest.

During 2021 we have created a compliance and ethics program which includes the Alfa Laval Business Principles, governing documents and compliance framework. The governing documents are policies, directives and procedures. Adherence to the Governing documents is mandatory for all employees in the Alfa Laval Group. The compliance framework is a set of standards that are to be implemented by the local companies.

Governance

During 2021 we have launched a concept called three lines of defence. This concept is used to ensure good governance and secure compliance across the company. The first line is managers across the company and at global level. The second line is corporate functions which represent oversight functions. The third line of defence is internal audit, external auditors and external regulators. Their job is to secure that the compliance program and the work environment is working as intended, identify gaps and secure that remedial actions are taken on discovered deficiencies.

The way the three lines of defence is set up is that the second line of defence creates compliance demands, checks and controls called

Minimal internal control requirements (MICR). These requirements (MICR) are sent to the first line of defence. The first line of defence is responsible to answer to the requirements by explaining how they act to comply with the requirements. This information is collected by the second line of defence and analysed and used as a tool for risk assessment. Based on this risk assessment internal audit programs are composed. Internal audit then challenges both the first and second line of defence by making sure that the first line of defence are compliant and that the second line of defence use controls that are effective. Securing compliance is thus made both by acting on deficiencies in the first line or by keeping governing documents created by the second line of defence updated

The Risk and Compliance Board is the most senior body in the second line of defence. This board is appointed by Group Management to be responsible for reviewing the effectiveness of risk management and compliance processes within the company. The Board secure identification, assessment, mitigation and monitoring of enterprise-wide risks. They also ensure implementation and administration of the Company's policies, directives and ethical programs, including the Business Principles.



Anti-bribery and anti-corruption process



Top level commitment

- Group ABAC Policy
- Risk Compliance Board
- Corporate self assessment



Risk assessment

- Enterprise Risk Management
- Risk assessment in supply chain



Proportionate procedures

- Risk mitigation actions
- Supplier contracts include ABAC clause



Communication & training

- ABAC information available on the intranet
- ABAC training for employees
- ABAC training for suppliers



Due diligence

- Agent and distributor background check
- Due diligence on mergers and acquisitions



Monitoring & review

- Internal audit
- Whistleblowing function
- Annual Sustainability Reporting

All managers are responsible for ensuring compliance with our policies, including the ABAC Policy and the implementation of local guidelines. Line managers are continuously trained to keep up their awareness of the latest developments in Alfa Laval corporate policies and global compliance programs.

Reporting breaches

We encourage our employees to resolve work-related issues and disagreements through an open dialogue. If this is not possible, a company-wide whistleblowing system which we call Speak up! enables both internal and external stakeholders to report suspected breaches anonymously. Alfa Laval's whistleblowing system is a secure and efficient tool that enables Alfa Laval employees to combat fraud and uphold the good reputation of the company. The system complies with the EU data privacy regulation (GDPR) as well as EU-wide standards to protect whistleblowers.

During 2021 Alfa Laval assessed the company's compliance with the new EU whistleblower directive. The assessment shows Alfa Laval whistleblowing system to be fully compliant with the directive and Swedish legislation. The legislation requires that both digital and reports via hotline can be made. Alfa Laval goes one step further and has implemented hotlines even in countries outside of the EU. Each report is encrypted and password-protected and can only be decrypted by designated individuals within Alfa Laval Group Legal who decide if and how whistleblowing messages shall be escalated.

Anti-bribery and anti-corruption

Alfa Laval has a zero-tolerance approach towards any form of bribery and corruption. The international scope of Alfa Laval's sales organization means that we are active in several countries where there is a high risk of corruption. One of many tools used by Alfa Laval in assessing risk is Transparency International's

Corruption Perception Index. Alfa Laval's Anti-Bribery and Anti-Corruption (ABAC) Policy outlines the expectations the company has on all employees. Alfa Laval has built its work with anti-bribery and anti-corruption based on the six steps outlined in the UK Bribery Act, and is based on the "prevent, detect and correct" methodology. Risk assessments are made on a global level. No public legal cases regarding corruption have been brought against the organization or its employees during the reporting period.

Training in focus

Proportion of employees trained in anti-corruption in 2021:

100%

The Group Management

87%

White-collar employees

41%

Blue-collar employees

During 2021, a specific session regarding the new Business Principles including Anti-Bribery and Anti-Corruption have been held for all senior managers globally. In addition, specific sessions on conflict of interest have been held across the organization. The sessions are being translated so they can be run locally at all levels of the organization. This year a special focus on renewing awareness on Anti-Bribery and Anti-Corruption has been held in China. Training sessions have been held across the organization including blue collars with more than 780 employees participating.

Responsible sourcing

Responsible sourcing is a prioritized area for Alfa Laval. Our ambition is that all Alfa Laval suppliers live up to our Business Principles.

Compliance at global level

The purchasing organization within Alfa Laval handles the total needs of material to all production and distribution sites. The organization makes many diverse purchases including raw materials such as steel, aluminium, titanium, castings, forgings, machines, electrical instruments and fasteners, to give some examples.

As the company is present with more than 40 production sites and distribution centres in Europe, Asia and America so is our supply chain. We expect our suppliers in all these regions to act ethically and in full compliance with the applicable local regulation. Furthermore, Alfa Laval's direct suppliers are to comply with sustainability requirements in our Business Principles, which enables us to monitor and assess their capacity to meet stricter demands and to improve their overall operations. We work continuously to make this process more effective.

During 2021, lower number of supplier audits have been performed due to continued travel restrictions. Still, responsible sourcing remains in high focus, and audit guidelines were improved, and learning opportunities for the sourcing organization as well as for our suppliers have continued.

Responsible sourcing organization

Alfa Laval's global sourcing organization defines the strategy for supply and supplier management, while the responsibility for the sourcing of products and services is allocated locally. The Alfa Laval Supplier Risk and Compliance Council, with representatives from the Business Units and the global sourcing organization, ensures that suppliers follow our Business Principles and set annual improvement plans. Alfa Laval's Regional Risk & Compliance leads manage supplier

audits and support suppliers when there is a need for improvement due to non-compliance. Risk & Compliance leads are also responsible for training and certifying internal auditors. Supplier managers are in charge of the ongoing dialogue with our suppliers. They implement Alfa Laval's Business Principles and follow up to enable continuous improvement.

Business Principles training for sourcing organization

The Alfa Laval Business Principles are the foundation of our sourcing process. All employees in the global sourcing organization are required to undergo mandatory training on the Business Principles. During the past two years we have had to reduce the number of trainings carried out due to the Covid-19 pandemic but materials are available through our intranet and our Risk & Compliance leads. In total we have trained more than 400 employees within the sourcing organization on Business Principles implementation in the supply community.

Supplier risk assessment

The sourcing organization collects data using a scorecard of critical indicators such as anti-corruption, environmental issues and working conditions. The supplier risk assessment (see figure page 81) includes an initial screening to ensure that we prioritize the suppliers with the highest risk of breaches of our Business Principles.

Supplier audits and action plans

During the year, internally certified auditors and third-party auditors conducted 49 audits in China, India and Mexico to assess suppliers' social and environmental performance and compliance with our Business Principles. The number of audits was somewhat lower due to the Covid pandemic. We follow up all cases of identified potential or actual negative impacts with an improvement action

plan. Our audit platform highlights six critical areas: child labour, young labour, forced labour, freedom of association, health and safety, fire protection and environment. Deviations in any of these areas require immediate correction, both from new and established suppliers. Alfa Laval's main objective is to drive progress throughout the supply chain, which is why we focus on suppliers with significant deviations and high risks. Suppliers with serious breaches get a limited time to implement the necessary improvements with the support of an effective supplier development programme. If the follow-up audit shows insufficient progress, Alfa Laval has an escalation process to terminate the supplier relationship as a final resort. The most common deviations have the past years been in the areas of health and safety, emergency preparedness, environmental discharge overtime/low payment (see the diagram below). During 2021, Alfa Laval phased out five suppliers due to Business Principles breaches or other major deviations.

Progress on sustainability focus

The past two years we have focused on health & safety and developed a program to increase supplier competence on the importance of safety culture and prepared a pamphlet including a supplier diagnostic form as well as best practice in six languages. We have also held virtual training of dilemmas in the safety area in both India and China. Although it was more difficult to perform these workshops due to the pandemic in 2021 we were able to perform one workshop in China.

During 2021 we have also prioritized the baseline for scope 3 emissions upstream which involves our supply chain. To learn more about this work see p. 60-65. We will continue developing our sustainability approach towards our suppliers to encompass all the elements in our sustainability strategy including working with suppliers to minimize waste, increase material reuse and reduce water consumption.

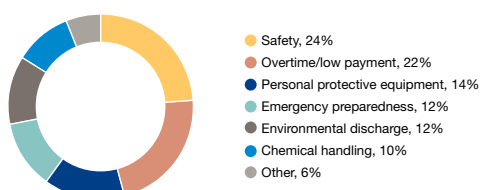
Conflict minerals

The Dodd-Frank Act requires companies to conduct due diligence to ensure that the minerals used in their products are not sourced from mines that finance armed groups guilty of human rights violations. Since 2013, Alfa Laval has been following the company-wide policy on conflict minerals available on www.alfalaval.com. A supplier assessment platform is used to increase transparency and visibility in order to identify suppliers that require an assessment. In 2021, Alfa Laval assessed and initiated dialogue with 450 suppliers to ensure compliance.

Modern Slavery Act

Forced labour and human trafficking are severe global issues with significant negative impact. Alfa Laval has zero tolerance to these issues within its organization and supply chain. Modern Slavery is included in training programmes for employees and suppliers, as well as in the monitoring, auditing and follow-up activities with suppliers. Read more in Alfa Laval's Modern Slavery Act Statement, available on our website.

Most common deviations in supplier audits 2021



Assessing supplier risk

The following three areas guide our risk assessment of suppliers

Country risk

Risk related to human rights breaches or bribery/corruption in the country where the supplier is based.

Product & production process risk

Risk related to occupational health and safety or environmental impacts associated with supplier production processes.

Governance & policies

Risk based on analyses and screenings of the supplier's available documentation of policies and governance.

Contributing to the UN Global Goals

Alfa Laval contributes to progress towards the UN Sustainable Development Goals for 2030. We continuously improve our own sustainability performance and enable change by supporting customers to reach their environmental targets.

- | | |
|--|--|
| <p>2 Zero hunger Alfa Laval's products and solutions improve shelf life, reduce waste and make food production hygienic and safe.</p> <p>3 Good health and well-being Alfa Laval delivers hygienic equipment enabling efficient and safe production in the pharmaceutical industry.</p> <p>4 Quality education Alfa Laval is committed to ensuring competence development in our own business. We also support charities and volunteering projects related to school education around the globe.</p> <p>5 Gender equality Diversity and inclusion are key priorities for Alfa Laval and the aim is to increase the proportion of female employees and managers year-on-year.</p> <p>6 Clean water and sanitation Alfa Laval offers a wide range of technologies to treat wastewater and generate fresh water. These solutions contribute to improved access to clean water around the globe.</p> <p>7 Affordable and clean energy Alfa Laval's products are involved throughout the renewable energy production process, from heating and cooling to mixing and separation.</p> <p>8 Decent work and economic growth Decent work and economic growth Alfa Laval's Business Principles require decent working conditions. Working conditions and safety are highly prioritized areas both in our own operations and in the demands we place on our suppliers.</p> <p>9 Industry, innovation and infrastructure Alfa Laval invests heavily in research and development. The company launches between 30–40 new products per year and has over 3,700 patents.</p> | <p>11 Sustainable cities and communities Alfa Laval provides solutions for energy efficient district heating and cooling — often using waste heat as well as thermal storage solutions.</p> <p>12 Responsible consumption and production Alfa Laval's ambition is to make every new product more efficient than its predecessor from a lifecycle perspective. Many of our products contribute to turning waste into value in different production processes.</p> <p>13 Climate action Alfa Laval works to minimize climate impact throughout the value chain. Our diverse products improve energy efficiency which, in turn, lowers the consumption of fossil fuels and thus reduces carbon emissions.</p> <p>14 Life below water Alfa Laval offers a whole range of products in the areas of energy and environment that contribute to reducing marine pollution and protecting marine biodiversity.</p> <p>15 Life on land Alfa Laval has provided a cooling solution that protects the world's largest seed collection stored to provide a backup if a natural catastrophe, environmental damage or war would deplete the Earth's crop diversity.</p> <p>16 Peace, justice and strong institutions Decent working conditions are a requirement in Alfa Laval's Business Principles. With our global reach, we can potentially make a positive impact on local societies' anti-corruption and anti-bribery activities.</p> <p>17 Partnership for the goals Alfa Laval has been a signatory of the UN Global Compact since 2011. We actively engage with stakeholders throughout our entire value chain to develop common solutions and create shared value.</p> |
|--|--|



Enabling change

Alfa Laval's products and solutions enable our customers to improve the efficiency of their production processes by, for example, improving energy efficiency, reusing water or reducing waste. Moreover, Alfa Laval supports the transition to a more sustainable future in the energy, food and marine industries. Examples of how our products and solutions create value today and enable change for tomorrow, can be found on pages 34-51.

Contributing to progress

By implementing our Business Principles, setting measurable goals and working to continuously improve, we contribute to several of the Global Goals. Examples are improving the health and safety of our employees, reducing our carbon footprint across the value chain, competence development, inclusion and diversity program, responsible supply chain and reducing corruption risks, see more on pages 54-82.

EU Taxonomy Reporting

Taxonomy eligible economic activities regarding climate change

The following KPI's show how much of Alfa Laval's activities that are taxonomy eligible.

| Key Performance Indicators | | |
|---------------------------------------|--------------|--------------------------------|
| Consolidated | Total | Out of which taxonomy eligible |
| 2021 | SEK millions | % |
| Net invoicing ¹⁾ | 40,911 | 15.8 |
| Operational expenditure ²⁾ | 1,342 | 9.3 |
| Investments ³⁾ | 1,712 | 6.4 |

1) The taxonomy eligible economic activities in Alfa Laval for mitigating climate change have been identified based on what applications (industries) each division sell into. By division, these are:

In Energy, applications for:

- manufacturing of energy efficiency equipment for buildings,
- manufacturing of renewable energy technologies,
- manufacturing of equipment for the production and use of hydrogen,
- equipment for material recovery from non-hazardous waste,
- manufacturing of certain raw materials listed in the taxonomy,
- manufacturing of other low carbon technologies,
- biogas and biofuels and
- construction, extension and operation of water collection, treatment and supply systems.

In Food & Water, applications for:

- biodiesel and
- ethanol.

In Marine, applications for:

- offshore wind.

The bulk of the taxonomy eligible economic activities are relating to the Energy Division.

Taxonomy eligible investments and operational expenditure relate to:

- assets or processes associated with taxonomy eligible economic activities and
- purchase of output from taxonomy eligible economic activities and individual measures to become low-carbon or reduce greenhouse gas provided that the measures are implemented and operational within 18 months.

2) Operational expenditure relates to direct costs for:

- training and other HR adaptation (conversion and transformation) needs,
- R&D,
- building renovation,
- short term lease,
- maintenance and repair and
- other direct expenditures for day-to-day servicing of assets or property, plant & equipment by Alfa Laval or third parties.

3) Investments are defined as the sum of purchased and leased capital investments.

EU Taxonomy Reporting

Regulation (EU) 2020/852 of the European Parliament and Council (the 'Taxonomy Regulation') was introduced for a common classification system for sustainable economic activities. The current legislation focuses on economic activities with a substantial contribution to climate change mitigation and adaptation. The EU Taxonomy is still developing, and it is important to note that the current legislation does not cover all sustainable activities on the market. The Taxonomy Regulation sets out a three-step approach towards taxonomy alignment of economic activities:

- 1) Substantially contribute to one or more of the six environmental objectives of which climate change mitigation and adaptation are the ones Alfa Laval has focused on for 2021.
- 2) Do no significant harm to the other four environmental objectives.
- 3) Comply with the minimum safeguards covering social and governance standards.

We have begun our taxonomy alignment process by assessing and documenting compliance with steps 1-3 for all our eligible activities. To do so, we have based our work on the relevant company processes we have in place for each EU-defined criterion relevant to our activities. By describing and documenting existing processes to manage environmental and social risks, we ensure a company-wide compliance approach and get a clear overview of which processes are central to ensure taxonomy alignment. We will continue to develop our approach as the guidance evolves.

Auditor's opinion

Auditor's report on the statutory sustainability statement.

To the general meeting of the shareholders of Alfa Laval AB, corporate identity number 556587-8054.

Engagement and responsibility

It is the Board of Directors who is responsible for the statutory sustainability statement for the year 2021 and that it has been prepared in accordance with the Annual Accounts Act. The scope of the statutory sustainability report has been defined on page 106.

The scope of the audit

Our examination has been conducted in accordance with FAR's (institute for the accountancy profession in Sweden) auditing standard RevR 12 *The auditor's opinion regarding the statutory sustainability statement*. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions

A statutory sustainability statement has been prepared.

Lund 23 March 2022

Ernst & Young AB

Staffan Landén
Authorized Public Accountant

Karoline Tedevall
Authorized Public Accountant

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| Businesses should support and respect the protection of internationally proclaimed human rights | 1 | 57-59; 70-81 |
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| Environment | | |
| Businesses should support a precautionary approach to environmental challenges | 7 | 57-69; 76-77; 80-83 |
| Businesses should undertake initiatives to promote greater environmental responsibility | 8 | 57-69; 76-77; 80-83 |
| Businesses should encourage the development and diffusion of environmentally friendly technologies | 9 | 34-51; 57-69; 76-77; 80-83 |
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| Businesses should work against corruption in all its forms, including extortion and bribery | 10 | 57-59, 76-79; 82-83 |



UN GLOBAL COMPACT

COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

Sustainability notes

The report covers the 2021 calendar year and focuses on material topics and activities in line with stakeholder concerns. The sustainability notes for 2021 including our GRI disclosures can be found on alfalaval.com. Data and sustainability information for previous years are available at www.alfalaval.com/about-us/sustainability/.

Alfa Laval's share during 2021

Alfa Laval's share delivered a strong performance in 2021. A share price of SEK 364.40 (226.3) was quoted at the close of the final trading day of the year, up SEK 138.1, corresponding to 61.0 percent. OMX Stockholm Industrials, the sector index for industrial shares in which Alfa Laval is listed, rose 38.4 percent in 2021. The Stockholm Stock Exchange as a whole rose 35.0 percent in 2021. The highest closing price for the share was SEK 388.8, quoted on November 16. The lowest closing price was SEK 219.6, quoted on January 29. Alfa Laval's market capitalization at year-end was SEK 152.85 billion (94.9). The Alfa Laval share is listed on Nasdaq Stockholm and is included in the large cap segment in Stockholm and the Nordic region as well as OMXS30, which includes 30 companies with the most-traded shares in Stockholm.

Strong long-term return

Since Alfa Laval was listed on the Stockholm Stock Exchange on May 17, 2002, the company's share, including reinvested dividends, has generated a return of 2,521 percent. Measured over the full listing period, this corresponds to an average annual effective return of 18 percent. Compared with an annual effective yield of 12 percent for the Stockholm Stock Exchange during the same period (SIX Return Index).

Share turnover

Alfa Laval's share is not traded exclusively on Nasdaq Stockholm, but also on CBOE Global Markets, the London Stock Exchange and Aquis, to name a few examples of major alternative marketplaces. In 2021, the Stockholm Stock Exchange accounted for 31 percent (36.7) of all trading in the share. Trading on CBOE Global Markets accounted for the largest share at 53.3 percent (45.2). The liquidity of the Alfa Laval share is favourable and declined to 643 million shares (784) in 2021, while trading in the share corresponded to a combined value of SEK 196.40 billion (158.48), including

all marketplaces. This corresponded to a somewhat lower share turnover rate in 2021 of 1.5 times (1.9) the total number of shares outstanding. In 2021, the average number of transactions completed in Alfa Laval shares increased to 9,591 (9,892) per trading day.

Dividend policy

The Board of Directors' goal is to regularly propose a dividend that reflects the Group's performance, financial status, and current and expected capital requirements. Taking into account the Group's cash-generating capacity, the goal is to pay a dividend of between 40 and 50 percent of net profit over a business cycle. For 2021, the Board proposes that the Annual General Meeting approve a dividend of SEK 6.00 (5.50). The proposed dividend corresponds to 46.2 percent (54.3) of earnings per share, adjusted for surplus values.

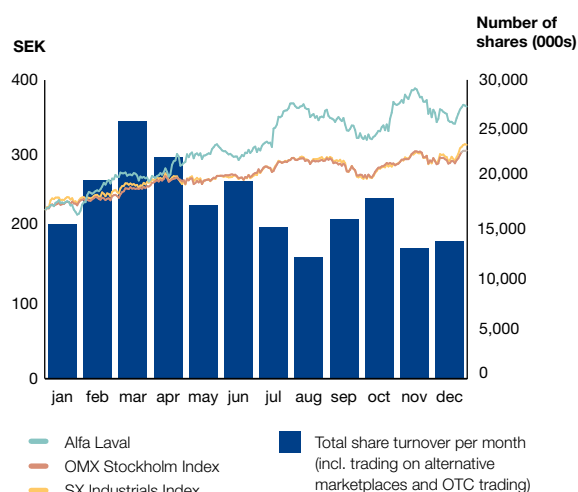
Share capital

The par value at year-end was SEK 2.66 per share (2.66). All shares carry equal voting rights and equal right to the company's assets. Alfa Laval has no options outstanding that could create a dilution effect for shareholders. The total number of shares during the year was unchanged at 419,456,315.

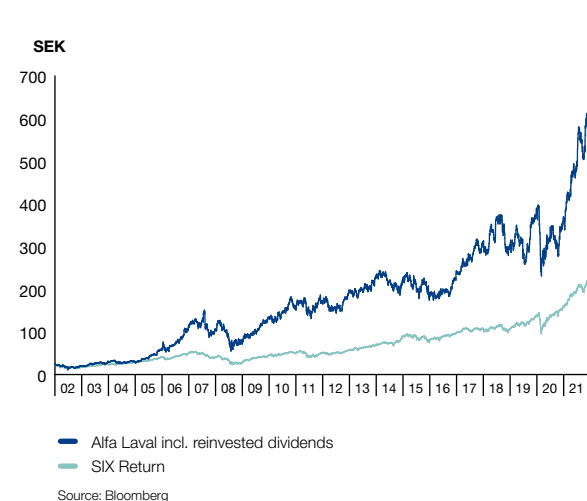
Shareholders

At year-end 2021, Alfa Laval had 44,136 shareholders (43,334), corresponding to an increase of 719 shareholders (2,270). The ten largest shareholders controlled 46.3 percent (49.7) of the shares, excluding nominee-registered shares. The single largest shareholder was Tetra Laval International S.A., whose holding at December 31, 2021 was unchanged at 29.1 percent.

Price trend, January 1 – December 31, 2021



Total return, May 17, 2002 – December 31, 2021



Ownership distribution by size at December 31, 2021

| | No. of shareholders | No. of shareholders, % | No. of shares | Holding, % |
|-----------------|------------------------|---------------------------|--------------------|------------|
| 1 – 500 | 36,011 | 81.6% | 4,135,339 | 1.0% |
| 501 – 1,000 | 3,779 | 8.6% | 3,069,429 | 0.7% |
| 1,001 – 5,000 | 3,340 | 7.6% | 7,581,860 | 1.8% |
| 5,001 – 10,000 | 439 | 1.0% | 3,261,577 | 0.8% |
| 10,001 – 15,000 | 128 | 0.3% | 1,579,155 | 0.4% |
| 15,001 – 20,000 | 80 | 0.2% | 1,466,166 | 0.4% |
| 20,001 – | 358 | 0.8% | 398,335,927 | 95.0% |
| Total | 44,136 | | 419,456,315 | |

Source: Euroclear

Ownership categories at December 31, 2021

| | No. of shares | Holding, % |
|---|---------------|------------|
| Financial companies | 80,258,365 | 19.1% |
| Other financial companies | 342,832 | 0.1% |
| Social insurance funds | 9,124,068 | 2.2% |
| Government | 543,353 | 0.1% |
| Municipal sector | 40,900 | 0.0% |
| Trade organizations | 3,338,772 | 0.8% |
| Other Swedish legal entities | 9,435,728 | 2.2% |
| Shareholders domiciled abroad (legal entities and individuals) | 297,013,558 | 70.8% |
| Swedish individuals | 19,170,050 | 4.6% |
| Uncategorized legal entities | 188,689 | 0.0% |

Source: Euroclear

Data per share

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|--------------------|--------|--------|--------|--------|
| Share price at year-end, SEK | 364.40 | 226.3 | 235.90 | 189.65 | 193.80 |
| Highest paid, SEK | 388.80 | 257.2 | 242.40 | 248.10 | 213.90 |
| Lowest paid, SEK | 219.60 | 149.6 | 165.05 | 188.50 | 152.60 |
| Shareholders' equity, SEK | 77.11 | 69.31 | 66.15 | 56.26 | 48.87 |
| Earnings per share | 11.38 | 8.47 | 13.08 | 10.77 | 7.09 |
| Dividend, SEK | 6.00 ¹⁾ | 5.50 | –* | 5.00 | 4.25 |
| Free cash flow, SEK ²⁾ | 0.57 | 15.89 | 10.00 | 8.56 | 8.92 |
| Price change during the year, % | 61.0 | -4.1 | 24.4 | -2.1 | 29 |
| Dividend as % of EPS, % | 52.7 | 64.9 | –* | 46.4 | 59.9 |
| Direct return, % ³⁾ | 1.6 | 2.4 | 2.3 | 2.6 | 2.2 |
| Share price/shareholders' equity, multiple | 4.7 | 3.3 | 3.6 | 3.4 | 4.0 |
| P/E ratio ⁴⁾ | 32 | 27 | 18 | 18 | 27 |
| No. of shareholders | 44,136 | 43,334 | 41,147 | 34,180 | 32,967 |

Source: OMX Nasdaq, Euroclear, Alfa Laval

¹⁾ Board motion to the Annual General Meeting.

²⁾ Free cash flow is the sum of cash flow from operating and investing activities.

³⁾ Measured as the proposed dividend in relation to closing price on the last trading day.

⁴⁾ Closing price on the last trading day in relation to earnings per share.

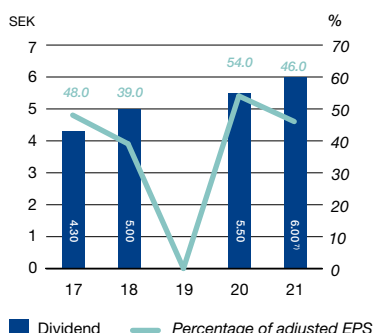
Ten largest shareholders at December 31, 2021⁵⁾

| | No. of shares | Capital/voting rights, % | Change in holding in 2021, percentage points |
|---|--------------------|-----------------------------|--|
| Tetra Laval International S.A. | 122,037,736 | 29.1 | 0.0 |
| Alecta | 23,121,464 | 5.5 | -0.3 |
| Swedbank Robur Funds | 10,453,389 | 2.5 | -0.3 |
| AMF Insurance and Funds | 7,473,665 | 1.8 | -0.3 |
| SEB Investment Management | 7,207,915 | 1.7 | 0.0 |
| CBNY-NORGES BANK | 6,013,087 | 1.3 | -0.1 |
| Handelsbanken Funds | 5,534,977 | 1.3 | 0.0 |
| BANQUE PICTET & CIE (EUROPE) SA, W8IMY | 4,906,550 | 1.2 | 0.0 |
| Första AP-fonden | 3,786,757 | 0.9 | 0.0 |
| Folksam | 3,785,896 | 0.9 | -0.1 |
| Total ten largest shareholders | 194,321,436 | 46.3 | -3.4 |

Source: Euroclear

⁵⁾ The table is adjusted for nominee-registered shares.

Dividend and percentage of adjusted EPS⁶⁾

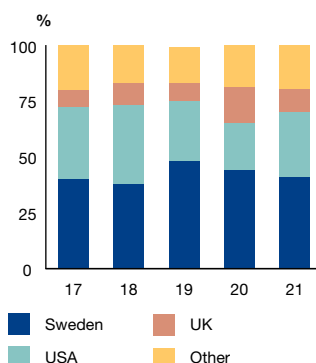


⁶⁾ Adjusted for step up amortization net of taxes.

⁷⁾ Board motion to the Annual General Meeting.

Source: Alfa Laval

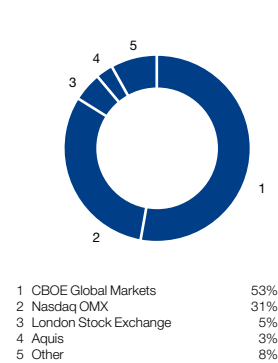
Geographic distribution of the free float, % of capital and voting rights⁸⁾



⁸⁾ Excluding Tetra Laval International SA (Switzerland) 29.1%.

Source: Euroclear

Share turnover on various marketplaces 2021



Source: Bloomberg

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Corporate Governance Report 2021

Responsible, sustainable and effective

Corporate governance identifies what the decision-making process at Alfa Laval looks like and the structures that regulate how the company is governed. Sound corporate governance is an essential basis for ensuring that, from a shareholder perspective, Alfa Laval is governed responsibly, sustainably and effectively. As a Swedish public limited liability company with shares listed on Nasdaq Stockholm, the framework for Alfa Laval's corporate governance is dictated by external rules as set out, inter alia, in the Swedish Companies Act, the Swedish Annual Accounts Act, the Nordic Main Market Rulebook and the Swedish Corporate Governance Code ('the Code'). These provisions are supplemented by internal principles and regulations, including governing documents with guidelines and instructions as well as procedures for control and risk management. At Alfa Laval, these internal governing documents include the Articles of Association, the Board and CEO instructions as well as Alfa Laval's business principles. This Corporate Governance Report describes Alfa Laval's corporate governance for 2021 and has been prepared in accordance with the Swedish Annual Accounts Act and the Code. The Report has been reviewed by the company's auditors.

Acting in society and reaching business goals

In today's society, human impact on our planet is in constant focus. As new legislation becomes increasingly stringent, a sustainability paradigm is taking deeper root in society. This paradigm is leading many companies, including Alfa Laval, to voluntarily take initiatives aimed at improvements. At Alfa Laval, this is reflected in the Group's business principles and elsewhere. Alfa Laval's four business principles, *Planet*, *Transparency*,

Caring and Committed, guide all of the Group's work and describe how Alfa Laval is to act in society and how the individual business goals are to be achieved – in other words, ethically and sustainably. Adhering to the business principles means that there are many occasions and situations where Alfa Laval can contribute to a more sustainable future and to the success of Alfa Laval's customers, people and the planet. All employees at Alfa Laval are to comply with the business principles and are encouraged to bring to light anything that conflicts with them, either to their immediate supervisor, the HR department or through the whistleblower tool 'Speak up!' Alfa Laval's business principles were recently revised and now contain a more distinct Code of Conduct.

Alfa Laval regularly reviews its internal governing documents to ensure they are relevant and consistent with applicable laws and developments in terms of, for example, the Group's business principles. During the year, Alfa Laval's *Insider Policy*, *Export Control and Trade Sanctions Policy* and *Group Information Security Policy* were reviewed and revised. A new *Governing Documents Policy* was also established, which includes guidelines for how to prepare, approve and revise internal governing documents.

As a result of new EU regulations regarding shareholders' rights, Alfa Laval's Board has prepared a remuneration report ahead of the 2021 Annual General Meeting. It describes how the guidelines for remuneration to senior executives were applied in 2020. The remuneration report was submitted to the Annual General Meeting for approval and is available on Alfa Laval's website.

Alfa Laval as a company

Alfa Laval AB

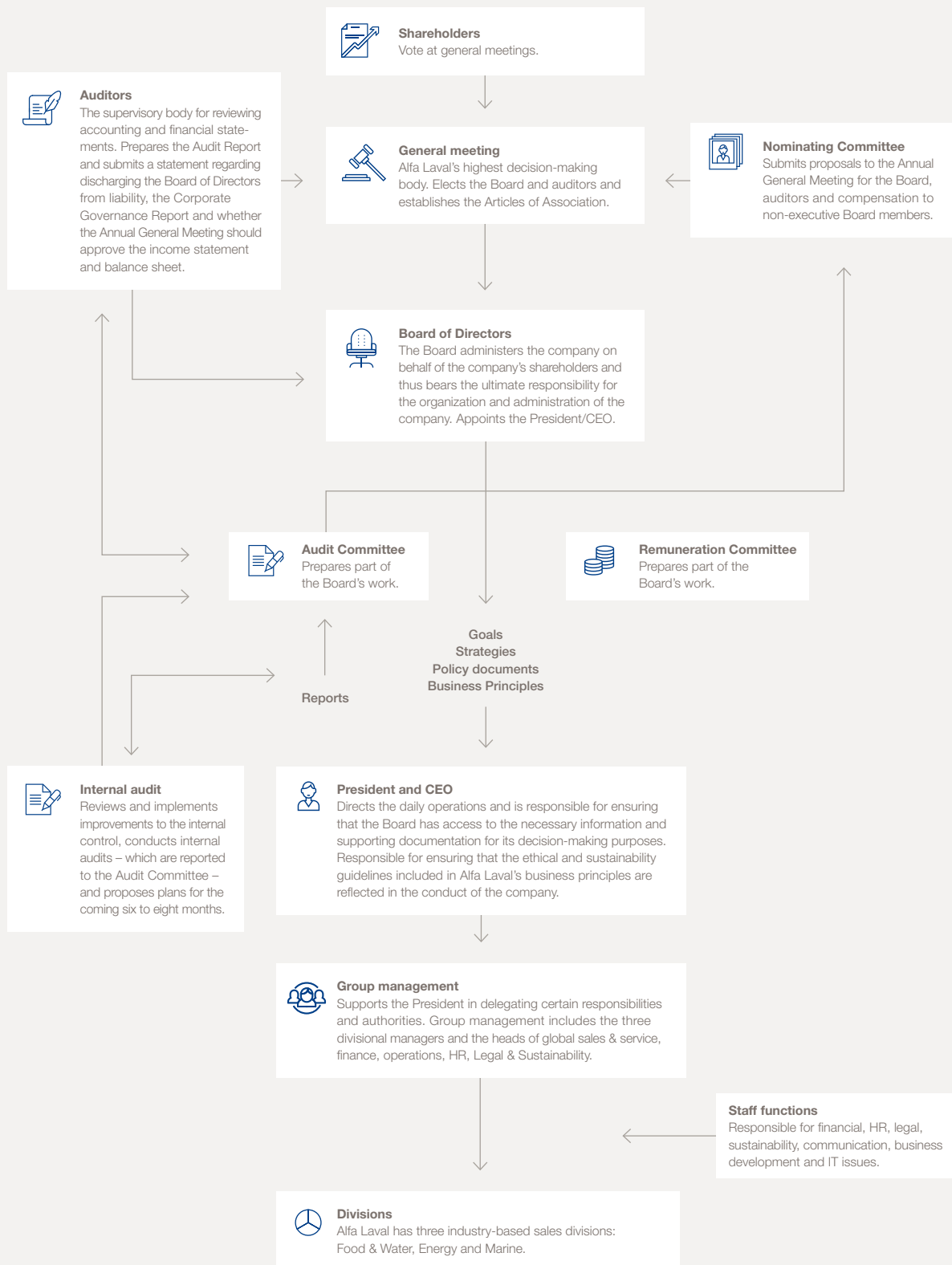
The company's business name is Alfa Laval AB (publ). The company is listed on Nasdaq Stockholm and the registered office of the Board of Directors is in Lund in Sweden. The objective of the company's operations is to, directly or through subsidiaries and joint venture companies in and outside Sweden, develop, manufacture and sell equipment and installations, primarily in the areas of separation, heat transfer and fluid handling, and to administer fixed and movable property, and other related operations. Alfa Laval's fiscal year is from January 1 to December 31.

The company's share capital shall amount to not less than SEK 745,000,000 and not more than SEK 2,980,000,000. The number of shares shall be not less than 298,000,000 and not more than 1,192,000,000. The Articles of Association do not include any limitations regarding the number of votes a shareholder can cast at a general meeting. Nor do they include any specific rules regarding the appointment and dismissal of Board members or changes in the Articles of Association. The Articles of Association include a right for the Board of Directors to collect proxies in accordance with Chapter 7, Section 4 of the Swedish Companies Act and to decide that shareholders may vote in advance of a general meeting.

Alfa Laval's currently prevailing Articles of Association were adopted at the Annual General Meeting on April 27, 2021 and are available in their entirety on

www.alfalaval.com

Corporate governance





Share and ownership structure

At December 31, 2021, Alfa Laval had 419,456,315 shares allocated among 44,136 shareholders according to Euroclear Sweden's share register. Alfa Laval has only one class of shares and each share corresponds to one vote. Tetra Laval International S.A. was the largest owner, with 29.1 percent of the shares in Alfa Laval at year-end, and the only owner with a holding larger than 10 percent. The second largest owner was Alecta with 5.5 percent, followed by Swedbank Robur Funds with a holding of 2.5 percent. Legal entities accounted for slightly more than 95 percent of the holdings, while individuals accounted for the remainder. From a geographic perspective, the following five countries represented a total of 93 percent of the shareholdings: Sweden, Switzerland, the US, the UK and Luxembourg. For more information about Alfa Laval's share, share performance and ownership structure, please refer to the Share section on pages 86–87 of Alfa Laval AB's Annual Report.



General meetings

Shareholders exercise their voting rights at general meetings. The general meeting is Alfa Laval's highest decision-making body. The decisions made at general meetings include resolutions on the Articles of Association, election of Board members, including the Chairman, and of the auditors as well as applicable instructions for the Nominating Committee. The general meeting also makes decisions about compensation to the Board members, discharging Board members and the President from liability, adopting the income statement and balance sheet, distributing the company's profit, and the Executive Remuneration Policy.

Each shareholder listed in the register of shareholders who has notified the company of their participation is entitled to participate and vote according to their shares. Shareholders are entitled to be represented by a proxy at the meeting. The majority of proposals addressed at the meeting are decided by a simple majority. However, certain resolutions sometimes require a qualified majority, such as changes to the Articles of Association or repurchases of shares. Every shareholder, regardless of the size of their holding, is entitled to have an item brought up at the general meeting.

Alfa Laval's ordinary general meeting (Annual General Meeting) is held annually within six months of the end of the fiscal year. Normally,

Ownership categories at December 31, 2021

| | No. of shares | Holding, % |
|--|---------------|------------|
| Financial companies | 80,258,365 | 19.1% |
| Other financial companies | 342,832 | 0.1% |
| Social insurance funds | 9,124,068 | 2.2% |
| Government | 543,353 | 0.1% |
| Municipal sector | 40,900 | 0.0% |
| Trade organizations | 3,338,772 | 0.8% |
| Other Swedish legal entities | 9,435,728 | 2.2% |
| Shareholders domiciled abroad (legal entities and individuals) | 297,013,558 | 70.8% |
| Swedish individuals | 19,170,050 | 4.6% |
| Uncategorized legal entities | 188,689 | 0.0% |

Source: Euroclear

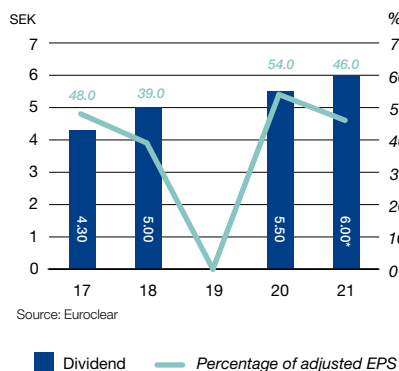
Ten largest shareholders at December 31, 2021*

| | No. of shares | Capital/voting rights, % | Change in holding in 2021, percentage points |
|--|--------------------|--------------------------|--|
| Tetra Laval International S.A. | 122,037,736 | 29.1 | 0.0 |
| Alecta | 23,121,464 | 5.5 | -0.3 |
| Swedbank Robur Funds | 10,453,389 | 2.5 | -0.3 |
| AMF Insurance and Funds | 7,473,665 | 1.8 | -0.3 |
| SEB Investment Management | 7,207,915 | 1.7 | 0.0 |
| CBNY-NORGES BANK | 6,013,087 | 1.3 | -0.1 |
| Handelsbanken Funds | 5,534,977 | 1.3 | 0.0 |
| BANQUE PICTET & CIE (EUROPE) SA, W8IMY | 4,906,550 | 1.2 | 0.0 |
| Första AP-fonden | 3,786,757 | 0.9 | 0.0 |
| Folksam | 3,785,896 | 0.9 | -0.1 |
| Total ten largest shareholders | 194,321,436 | 46.3 | -3.4 |

Source: Euroclear

* The table is adjusted for nominee-registered shares.

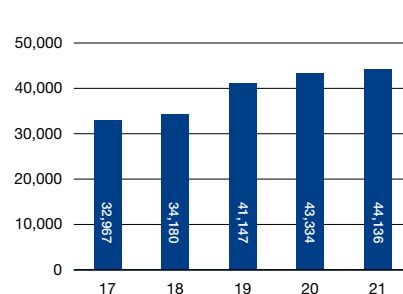
Dividend and percentage of adjusted EPS**



* Board motion to the Annual General Meeting.

** Adjusted for step up amortization net of taxes.

Total number of shareholders



2022 Annual General Meeting

The Annual General Meeting of Alfa Laval AB (publ) will be held on Tuesday, April 26, 2022, at 4:00 p.m. at Scandic Star Lund in Lund. The notice of the 2022 Annual General Meeting will be published not earlier than March 15 and not later than March 29, 2022. Notice of the Annual General Meeting will be inserted as an announcement in the Swedish Official Gazette and on the company's website. An announcement that notification has been issued will then be placed in Dagens Nyheter. Supporting documentation will be published on Alfa Laval's website ahead of the Meeting. Copies of documents will also be sent to those shareholders who request them and state their address.

the Annual General Meeting takes place in late April in Lund. The date and location of the Annual General Meeting are announced not later than in conjunction with the publication of the interim report for the third quarter. Notice of the Annual General Meeting is published as an announcement in the Swedish Official Gazette and on the company's website not more than six and not less than four weeks prior to the Annual General Meeting.

2021 Annual General Meeting

The 2021 Annual General Meeting of Alfa Laval AB was held on April 27, 2021. As a result of the extraordinary situation entailed by the

COVID-19 pandemic, the Annual General Meeting was held pursuant to Sections 20 and 22 of the Swedish Act (2020:198) on temporary exceptions to facilitate the execution of general meetings in companies and other associations. This means that participation in the Meeting was only possible through advance voting (postal voting). Hence, a physical meeting with the opportunity to be present in person or through a proxy was not held. The notice of the Meeting was issued on March 23, 2021. Shareholders who wished to receive information from the President and the Board were able to submit a request in writing up to and including April 17, 2021. The ques-

tions and comments received were answered in writing, published on Alfa Laval's website and made available at the company.

A total of 255,275,906 votes and shares were registered at the Meeting. The total number of votes represented at the Meeting corresponded to 60.859 percent of the total number of votes in the company. Chairman of the Board of Directors, Dennis Jönsson, was appointed as Chairman of the general meeting. The Meeting approved the agenda proposed in the notice and decided on the following resolutions in accordance with the proposals from the Nominating Committee and the Board of Directors.



Resolutions passed by the 2021 Annual General Meeting

- The Meeting determined the income statement and balance sheet as well as the consolidated income statement and consolidated balance sheet as presented in the 2021 Annual Report.
- The Meeting resolved on a dividend of SEK 5.50 per share for 2020 and that the remaining earnings were to be carried forward.
- The general meeting resolved to discharge all individuals who held positions in Alfa Laval AB as Board members, deputy members or CEO during 2020 from liability in respect of their management of the company's business for the 2020 fiscal year.
- The Meeting approved the remuneration report prepared by the Board of Directors.
- The Meeting resolved that the number of Board members elected by the Meeting was to be nine, with no deputy members. This resolution led to an increase in the number of Board members by one compared with the previous year. The Meeting also resolved that the number of auditors was to be two with two deputy auditors.
- The Meeting resolved on compensation to non-executive Board members in an amount of SEK 6,770,000. The Meeting also resolved to pay additional compensation to executive Board members who hold a position in the Audit Committee and/or the Remuneration Committee.
- The Meeting resolved to re-elect Dennis Jönsson, Henrik Lange, Ray Mauritsson, Heléne Mellquist, Maria Moræus Hanssen, Finn Rausing, Jörn Rausing and Ulf Wiinberg as Board members for the period until the end of the 2022 Annual General Meeting. Lilian Fossum Biner was elected as a new Board member.
- The Meeting also resolved to re-appoint Dennis Jönsson as Chairman of the Board.
- The Meeting resolved to re-elect Authorized Public Accountants Staffan Landén and Karoline Tedeval as the company's auditors, and Authorized Public Accountants Henrik Jonzén and Andreas Mast as deputy auditors for the period until the end of the 2022 Annual General Meeting.
- The Meeting resolved to amend the Executive Remuneration Policy adopted at the 2020 Annual General Meeting. The updated policy is available on Alfa Laval's website.
- The Meeting resolved to authorize the Board of Directors to decide on purchase of shares in the company. The resolution was supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at Meeting.
- The Meeting resolved to amend the Articles of Association. The resolution was supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at Meeting. The amendments enable the Board to collect proxies in accordance with Chapter 7, Section 4 of the Swedish Companies Act and to decide that shareholders may vote in advance.

The minutes from the Annual General Meeting, the notice and all other information related to the Meeting are available at www.alfalaval.com/investors/corporate-governance/.



Nominating Committee

Work of the Nominating Committee

The Nominating Committee prepares and submits proposals to the Annual General Meeting regarding candidates for Board members and Chairman of the Board as well as the company's auditors. The Nominating Committee's task also includes preparing proposals to the Annual General Meeting regarding compensation to non-executive Board members and Board committee members as well as proposing a Chairman of the meeting. Rules for the Nominating Committee are provided in the Code and the instructions adopted by the Annual General Meeting.

Every year, the composition of the Nominating Committee is announced in a press release, in the third-quarter interim report and on Alfa Laval's website. In conjunction with this, information is also provided about how shareholders can propose candidates for the Board. The 2018 Annual General Meeting adopted specific instructions for the Nominating Committee that describe the Committee's tasks and how members are to be appointed. The instructions apply until further notice and stipulate that the Nominating Committee is to consist of a minimum of five members appointed by the largest shareholders as of August 31. The Chairman of the Board is also part of the Nominating Committee.

Assessing strengths and future needs

The Nominating Committee's work to propose members of the Board of Directors is based on the annual evaluation of the work by the Board, which is initiated by the Chairman of the Board. The evaluation is intended to provide a deeper understanding of the Board's

work methods, its work climate and its need for particular Board competence considering the company's strategy. As a member of the Nominating Committee, the Chairman of the Board can easily keep the Nominating Committee informed about the company's strategy and future challenges. The Nominating Committee can call upon the assistance of external resources in its search for suitable candidates and conducts interviews with individual Board members.

Work of the Nominating Committee ahead of the 2021 Annual General Meeting

The work of the Nominating Committee began with a statutory meeting where Jörn Rausing was elected Chairman and Dennis Jönsson, Chairman of the Board, was appointed as a member of the Nominating Committee. Due to Jörn Rausing's position as a Board member of Alfa Laval AB, his role as Chairman of the Nominating Committee is a deviation from the Code. The Nominating Committee considered this in its decision, and deemed Jörn Rausing to be particularly well suited to lead the work of the Committee and obtain the best possible results for the company's owners.

The Nominating Committee held three formal meetings, which were partly digital, and also had contact by telephone and by e-mail. The meetings addressed the following:

- Composition of the Board and the need for new members.
- The Code's requirement to strive for an even gender balance on the Board of Directors. The Nominating Committee decided to prioritize this issue, at least up to and including the 2022 Annual General Meeting.
- Board evaluation. The Chairman of the Board presented the results of the digital Board

evaluation and the interviews the Chairman conducted with the Board members.

- Report from CEO Tom Erixon on Alfa Laval's operations and his view on the company's strategy and challenges.
- Interview with Board member Heléne Mellquist and Chairman of the Audit Committee Henrik Lange.

After an overall assessment of the matters raised in the Board evaluation, the Nominating Committee decided to propose to the Annual General Meeting that the Board will be expanded by one member and Lilian Fossum Biner were to be elected as a new Board member. It was also proposed that all other Board members were to be re-elected. The Nominating Committee applied Rule 4.1 of the Code as its diversity policy when preparing its proposal. Following the Nominating Committee's proposal, the Board of Directors will consist of three women and six men. It was noted that a 33 percent share of women on the Board was somewhat lower than desired, but that the issue of an even gender balance would be prioritized going forward. Additional information is available in the Nominating Committee's reasoned statement ahead of the 2021 Annual General Meeting.

Re-election of auditors

Ahead of the 2021 Annual General Meeting, the Nominating Committee also held one meeting with Henrik Lange, Chairman of the Audit Committee. He presented the work of the Audit Committee during the year and the work with the auditors elected by the Annual General Meeting. Based on the Audit Committee's recommendation, the Nominating Committee decided to propose the re-election of Staffan Landén and Karoline Tedevald as the company's auditors at the Annual General Meeting.

Nominating Committee ahead of the 2021 Annual General Meeting

| Name | Representing | Shareholding in Alfa Laval, %* |
|------------------|--------------------------------|--------------------------------|
| Jörn Rausing | Tetra Laval International S.A. | 29.2 |
| Ramsay Brufer | Alecta Pensionsförsäkring | 5.6 |
| Anders Oscarsson | AMF Insurance and Funds | 4.8 |
| Jan Andersson | Swedbank Robur Funds | 3.3 |
| Per Trygg | SEB Funds | 1.8 |

*As of August 31, 2020.



Composition and work of the Nominating Committee ahead of the 2022 Annual General Meeting

Ahead of the 2022 Annual General Meeting, the Nominating Committee included Finn Rausing (Tetra Laval), Anna Magnusson (Alecta Pensionsförsäkring), Lennart Francke (Swedbank Robur Funds), Anders Oscarsson (AMF Insurance and Funds), Tommi Saukkoriipi (SEB Funds) and Dennis Jönsson (Chairman of the Board of Alfa Laval AB). Finn Rausing was elected Chairman and Emma Adleron, General Counsel and Secretary to the Board of Alfa Laval AB, was appointed secretary. Due to Finn Rausing's position as Board member of Alfa Laval AB, his role as Chairman of the Nominating Committee is a deviation from the Code. The Nominating Committee considered this in its decision, and deemed Finn Rausing to be particularly well suited to lead the work of the Committee and obtain the best possible results for the company's owners.

The composition of the Nominating Committee was published in a press release on September 14, 2021.

The information was also included in Alfa Laval's third-quarter interim report, which was published on October 26, 2021. The total holdings of the Nominating Committee represented 41.7 percent of the number of shares outstanding at August 31, 2021. Information about how to submit proposals for Board candidates to the Nominating Committee was published along with the composition of the Nominating Committee.



Board of Directors

The Board of Alfa Laval administers the company on behalf of the shareholders and thus bears the ultimate responsibility for the organization and administration of the company. The work and responsibilities of the Board are governed by the Swedish Companies Act, the Swedish Board Representation (Private Sector Employees) Act, Alfa Laval's Articles of Association, the Nordic Main Market Rulebook and the Code. The Board is also responsible for developing Board instructions in writing for its own work. These instructions describe the Board's work assignments, the committees to be established

within the Board and the division of responsibility between the Board, the committees and the President. The Board instructions also define the role of the Chairman of the Board. To enable the ongoing assessment of the company's financial position, the Board instructions also include separate instructions regarding the financial reporting to be submitted to the Board.

In accordance with Alfa Laval AB's Articles of Association, the Board of Directors is to comprise a minimum of four and maximum of ten members, with a maximum of four deputy members. The members are elected by the Meeting annually for a period until the next Annual General Meeting. The Board members shall devote the required time and care

to the assignment and have the necessary competence, in order to safeguard the best interests of the company and its owners. Additionally, the trade-union organizations appoint three employee representatives to the Board.

The Board's work includes establishing and evaluating Alfa Laval's overall long-term objectives and strategies. This is accomplished by establishing business and financial plans, reviewing and approving financial statements, adopting guidelines, making decisions on issues relating to acquisitions and divestments, deciding on major investments and significant changes to Alfa Laval's organization and operations. The Board appoints, evaluates and dismisses the company's President and establishes the in-

Compensation of Board members and attendance at Board meetings

| | Name | Present | Remuneration* |
|--------------------------|-----------------------|---------|---------------|
| Appointed by the AGM | Dennis Jönsson | ● 10 | 1,850,000 |
| | Finn Rausing | 6 | 615,000 |
| | Jörn Rausing | 9 | 615,000 |
| | Ulf Wiinberg | 10 | 615,000 |
| | Henrik Lange | 10 | 615,000 |
| | Heléne Mellquist | 10 | 615,000 |
| | Maria Moræus Hanssen | 10 | 615,000 |
| | Ray Mauritsson | 10 | 615,000 |
| | Lilian Fossum Biner** | 5 | 615,000 |
| Employee representatives | Henrik Nielsen | 10 | – |
| | Bror García Lantz | 10 | – |
| | Susanne Jonsson | 7 | – |
| | Johan Ranshög | 3 | – |
| | Stefan Sandell | 10 | – |
| Total | | 10 | 6,770,000 |

● Chairman

*The compensation recognized pertains to the period between two AGMs.

** Elected to the board of directors at the 2021 annual general meeting.

structions for the President with respect to the daily operations. The Board of Directors is also responsible for Alfa Laval's corporate governance and business principles.

The Board conducts its work primarily within the framework of formal Board meetings. Approximately eight ordinary Board meetings are held every year and extraordinary meetings are held when needed. Recurring agenda items at these meetings include health and safety, earnings results, order trends, investments, sustainability and business development. The company's President prepares an agenda for each meeting in consultation with the Chairman of the Board. When relevant, the work of each committee is presented by its respective Chairman at the Board meetings. Employees in the company are invited to Board meetings as presenters and experts. The company's Chief Financial Officer participates in all meetings, as does the General Counsel, who serves as Secretary to the Board. The Board of Directors also conducts its work through the Audit Committee and the Remuneration Committee. More information about the work of each committee of the Board is presented below.

Responsibilities of the Chairman of the Board

The Chairman of the Board directs the work of the Board in a manner that ensures it complies with prevailing laws and regulations as well as internal instructions. The Chairman must ensure that the work is well organized and conducted efficiently, and that the Board fulfills its tasks. In dialogue with the company's President, the Chairman monitors operational developments and is responsible for ensuring that the other members continuously receive all information necessary for the work of the Board to be performed in the most effective manner. The Chairman ensures that the Board's decisions are executed and represents the company in ownership issues.

The Chairman is also responsible for introductory education for new Board members and the annual evaluation of the Board's work. The Chairman participates in evaluation and development matters with respect to the Group's senior executives.

Compensation of the Board

Compensation to the Board is determined by the Annual General Meeting based on a proposal from the Nominating Committee. The Chairman and members of the Audit Committee

and the Remuneration Committee receive supplementary compensation. No Board or committee member is entitled to pension payments from the company.

Composition of the Board after the 2021 Annual General Meeting

The Board elected by the 2021 Annual General Meeting consists of nine members, with no deputy members. The Board's assignment lasts until the end of the 2022 Annual General Meeting. The Board also includes three employee representatives with three deputy employee representatives, appointed by the trade-union organizations.

Alfa Laval's Board demonstrates both diversity and breadth. The Chairman and the members have relevant industrial experience and competence in development areas that have been deemed important for Alfa Laval. The members of the Board have gained experience in previous and current Board assignments in other companies as well as from senior positions previously held at other companies. In the last two years, the collective skills of the Board have been expanded with experience from product development, network solutions, and retail and consumer goods companies. Furthermore, since the 2019 Annual General Meeting, the Board has a new Chairman, with thorough experience in successfully leading a large international company in a sector that is significant and relevant for Alfa Laval. More information about the Board members is available on page 98–99 and on Alfa Laval's website.

All members of the Alfa Laval Board elected by the Annual General Meeting are considered independent of the company and its management. All members are also considered independent of the company's major shareholders, except Finn Rausing and Jörn Rausing, who cannot be considered independent due to their relationship with Tetra Laval International S.A., which is the largest shareholder in Alfa Laval AB.

Work of the Board in 2021

The Board held ten Board meetings in 2021, including eight ordinary and two extraordinary meetings. Several Board meetings were held digitally due to COVID-19. Recurring items addressed at Board meetings throughout the year included health and safety, the impact of the COVID-19 pandemic on the company, earnings results, order trends, investments, sustainability, business development and acquisitions. Another important area was climate and sus-

tainability issues, with a focus on the Group's sustainability goals as well as on product development to meet customers' sustainability-related goals and on strategic partnerships and acquisitions to position Alfa Laval for a more sustainable future. The digital service company StormGeo was one of the year's acquisitions. It was part of Alfa Laval's strategy to support the marine industry in its decarbonization efforts and to streamline operations.

Alfa Laval also established a joint venture company, AlfaWall Oceanbird, with Wallenius to deliver innovative solutions for wind-powered vessels. Moreover, the Board of Directors was also regularly updated and involved in Alfa Laval's internal sustainability efforts (see pages 56–85).

In accordance with the authorization resolved on by the 2021 Annual General Meeting, the Board of Directors decided on purchase of shares in the company. The purchase is intended to adjust the company's capital structure.

The Board also regularly monitored the Group's earnings and financial position and discussed the Group's strategy and business plan. Investment and operational restructuring issues as well as follow-ups of previous investments were also addressed at the Board meetings in 2021.

Evaluation of the Board's work and Board education

Each year, an evaluation is made of the Board in order to lay the foundation for well-functioning and effective governance. The evaluation is carried out by the Chairman of the Board, some years in combination with external resources. Recurring areas of the evaluation include the Board's work methods, its work climate and its access to and need for particular Board competence. The evaluation is the foundation of the work of the Nominating Committee, both in terms of proposals for Board members and in terms of compensation. In 2021, the Chairman's annual evaluation was carried out through the customary interviews with Board members and through a digital platform. During the interviews, the Board members were asked to answer several questions related to various areas relevant to the Board's work.

New Board members are to go through a comprehensive introduction program within six months of their election. The program includes an introduction to the company and any other training agreed on by the Chairman and the individual member. In addition, an educational field trip takes place each year for the entire Board. In her capacity as a new Board member, Lilian Fossum Biner started the introduction program in August 2021. The program included an introductory meeting with the President and other members of Group management, a visit to the Marine division in Tumba and the site in Eskilstuna as well as to Alfa Laval's production facility for plate heat exchangers in Lund. The Board also attended an educational field trip to San Bonifacio in Italy. The purpose of the trip was to visit Alfa Laval's new, highly automated production facility for brazed heat exchangers. The Board received a guided tour of the state-of-the-art facility, which also conducts research and development in addition to educating customers.



Committees

The Board instructions stipulate that there must be a Remuneration Committee and an Audit Committee that report to the Board. Members are appointed annually from within the Board at the statutory meeting.

Audit Committee

The Audit Committee's work and responsibilities

Through the Audit Committee, the Board procures auditing services, maintains ongoing contact with the company's auditors and works to ensure that a sound internal control function and formalized procedures are in place to enable monitoring and assessment of the company's financial situation.

The Audit Committee ensures compliance with the principles for financial reporting and internal control. The Committee formulates guidelines for the company's financial reporting and follow-up, and has the right to determine the focus of the internal audit. The Committee examines the procedures for reporting and financial controls as well as the work, qualifications and independence of the external auditors. The Committee also follows up the effectiveness of the internal control systems and reviews the company's financial reports. For further information regarding the responsibilities of the Audit Committee, refer to 'The Board of Directors' report on internal control' on page 102–103.

The Audit Committee's composition and work in 2021

In 2021, the Audit Committee comprised Henrik Lange (Chairman), Dennis Jönsson and Heléne Mellquist with the Group Controller serving as secretary. The company's Chief Financial Officer, the Head of the Internal Audit Function and the company's auditors also participate in the Committee's meetings.

The Audit Committee held 6 digital meetings during 2021. Recurring items addressed at meetings included financial reports and a debriefing from the external auditors, planning external and internal audits, internal control processes, and Group provisions and allocations. The following items were also addressed:

- the financial policy and capital structure strategy as well as the company's enterprise risk management plan,
- reviewing the outcome of the self-assessment in 2021 of managers in the Group regarding internal control points,
- the Sustainability Report,
- BEPS and DAC6 management within the Group,
- guidelines for the provision of services unrelated to auditing from the company's auditors and the independence of the auditors, and
- reporting of environmentally sustainable activities in 2021 according to the EU Taxonomy.

Remuneration Committee

The Remuneration Committee's work and responsibilities

Through the Remuneration Committee, the Board determines salaries and remuneration for the President and senior executives. The Remuneration Committee is involved in recruitment, appointments, and matters pertaining to other conditions of employment relating to the President and Group management. The Committee is responsible for preparing the Executive Remuneration Policy to be resolved on by the Annual General Meeting and for submitting proposals to the Board regarding the remuneration report, which is to be prepared by the Board of Directors each fiscal year and be presented to the Annual General Meeting

Audit Committee: fees and attendance

| Name | Present | Remuneration |
|------------------|----------|----------------|
| Henrik Lange | ● 6 | 250,000 |
| Heléne Mellquist | 6 | 150,000 |
| Dennis Jönsson | 6 | 150,000 |
| Total | 6 | 550,000 |

● Chairman

Remuneration Committee: fees and attendance

| Name | Present | Remuneration |
|----------------|----------|----------------|
| Dennis Jönsson | ● 2 | 75,000 |
| Jörn Rausing | 2 | 75,000 |
| Ulf Wiinberg | 2 | 75,000 |
| Total | 2 | 225,000 |

● Chairman

for approval. In addition, the Committee submits proposals to the Board on matters regarding salary and employment terms for the President and for senior executives reporting directly to the President.

The Remuneration Committee's composition and work in 2021

In 2021, the Remuneration Committee comprised Dennis Jönsson (Chairman), Jörn Rausing and Ulf Wiinberg. President Tom Erixon and Pascale Gimenez, Senior Vice President Human Resources, also participate in the Committee's meetings. Minutes were taken separately or directly in the corresponding Board minutes.

The Remuneration Committee held two meetings in 2021. Recurring items addressed at meetings included short-term (STI) and long-term (LTI) incentive plans as well as remuneration to senior executives. The following items were also addressed:

- Ahead of the 2021 Annual General Meeting, an amendment to the Executive Remuneration Policy adopted at the 2020 Annual General Meeting was discussed. This amendment would involve revising the maximum STI remuneration level for senior executives, not including the President.
- A proposal to the Board regarding the remuneration report for 2020 that was presented at the 2021 Annual General Meeting. The report describes how the Executive Remuneration Policy was applied in 2020.



The company's auditors

The auditors' work and responsibilities

The auditors comprise a supervisory body appointed every year by the Annual General Meeting. According to Alfa Laval AB's Articles of Association, the company must have at least one and not more than two auditors, with not more than two deputy auditors. An authorized public accountant or registered auditing firm is to be appointed as the company's auditor and as deputy auditor.

The assignment includes the following areas:

- auditing the accounting and financial statements of individual companies,
- evaluating the accounting policies applied,
- assessing the administration of company management,
- reviewing the interim report for the third quarter,
- evaluating the overall presentation in the Annual Report,
- review of sustainability report, and
- review of compliance with the principles for remuneration to senior executives.

The results of the auditors' work – the Audit Report – are communicated to shareholders in the Annual Report and at the Annual General Meeting. In addition, the auditors present a statement regarding the proposed discharge from liability, which is included in the agenda of every Annual General Meeting, along with the adoption of the income statement and balance sheet. The auditors also present a statement regarding the Corporate Governance Report.

Auditors elected ahead of the 2021 Annual General Meeting

At the Annual General Meeting on April 27, 2021, Authorized Public Accountants Staffan Landén and Karoline Tedevall were elected as the company's auditors. Henrik Jonzén and Andreas Mast were elected as deputy auditors. According to Alfa Laval's assessment, none of the elected auditors or their deputies have any relationship to Alfa Laval, or any company related to Alfa Laval, that could affect their independent status. In 2021, the entire Board of Directors received a report from the company's external auditors on one occasion, which took place without the President or anyone in Group management being present. The Audit Committee received separate reports on six occasions.

The company's auditors are remunerated according to approved invoices. Refer to Note 7 on page 157.

Board of Directors and auditors

Appointed by the Annual General Meeting



Dennis Jönsson
Chairman since 2020.

Born: 1956.

Formerly President and CEO of Tetra Pak.

Education: BSc. Econ from Stockholm University.

Independent of the company and major shareholders.

Number of shares in Alfa Laval: 210,000* (210,000**)



Ulf Wiinberg
Board member since 2013.

Born: 1958

President of X-Vax Inc. Formerly CEO of H. Lundbeck A/S, Director of Wyeth Pharmaceuticals, EMEA/ Canada & BioPharma, and a number of other senior positions in Wyeth.

Chairman of the Board: Hansa Biopharma AB and Sigrid Therapeutics.

Board member: UCB Pharma and Agenesis Inc.

Independent of the company and major shareholders.

Number of shares in Alfa Laval: 20,000* (20,000**)



Henrik Lange
Board member since 2018.

Born: 1961

Previously President and CEO of Gunnebo AB; held several senior positions within the SKF Group, including Industry Division Manager and CFO, and served as CEO of Johnson Pump AB.

Education: BSc. Econ. from the Gothenburg School of Business, Economics and Law

Board member: Velux A/S, IPCO AB, Thomas Concrete AB, Traction AB and The German-Swedish Chamber of Commerce.

Independent of the company and major shareholders.

Number of shares in Alfa Laval: 4,000* (4,000**)



Heléne Mellquist
Board member since 2019.

Born: 1964

CEO of Volvo Penta.

Previous positions include CEO of Rederi AB Transatlantic and a number of senior positions at Volvo Trucks, Volvo Buses and Volvo Penta.

Board member: Thule Group AB.

Education: Diploma in International Economy from the University of Gothenburg Executive Program Stockholm School of Economics.

Independent of the company and major shareholders.

Number of shares in Alfa Laval: 840* (-**)



Finn Rausing
Board member since 2000.

Born: 1955

Education: B.L., MBA from INSEAD.

Board member: Tetra Laval Group, DeLaval Holding AB, EQT AB, Swede Ship Marine AB and Excillum AB.

Independent of the company.

Number of shares in Alfa Laval: -



Jörn Rausing
Board member since 2000.

Born: 1960

Head of Mergers and Acquisitions (M&A) in the Tetra Laval Group.

Education: BSc. Econ.

Board member: Tetra Laval Group, Ocado PLC and DeLaval Holding AB.

Independent of the company.

Number of shares in Alfa Laval: -



Maria Moraeus Hanssen
Board member since 2019.

Born: 1965

Previously COO, Vice President/ CEO of Wintershall Dea Holding GmbH and President and CEO of DEA Deutsche Erdoel AG.

Held several executive positions in ENGIE SA, Aker ASA, Statoil ASA (now Equinor ASA) and Norsk Hydro ASA.

Education: Petroleum technology at the Norwegian University of Science and Technology (NTNU), and petroleum economics at IFP School in Paris.

Board member: Schlumberger limited, Scatec ASA, Oslobygg KF (chair) and Wastefront AS (chair)

Independent of the company and major shareholders.

Number of shares in Alfa Laval: 830* (-**)



Ray Mauritsson
Board member since 2020.

Born: 1962

President and CEO, Axis AB.

Former positions include several different leading positions in Axis Communications AB and Tac (today part of Schneider Electric).

Education: MSc. Engineering Physics, Lund University Faculty of Engineering. Executive MBA, Lund University School of Economics.

Independent of the company and of major shareholders.

Number of shares in Alfa Laval: -

Employee representatives



Lilian Fossum Biner
Board member since 2021.

Born: 1962

Previously CFO at Axel Johnson AB and Senior Vice President and Head of HR and Organizational Development for Electrolux Group.

Education: BSc. Econ. Stockholm School of Economics.

Board member: L E Lundberg-företagen AB, Scania AB, Carlsberg Group A/S, Givaudan SA and a-connect AG.

Independent of the company and major shareholders.

Number of shares in Alfa Laval: 800* (-)**



Henrik Nielsen
Employee representative since 2015.

Born: 1968

Employed by Alfa Laval since 1994.

Employee representative for the Swedish Metal Workers' Union (IF Metall).

Number of shares in Alfa Laval: 50* (50**)



Johan Ranhög
Employee representative since 2021.

Born: 1964

Employed by Alfa Laval since 2016.

Employee representative for the Swedish Confederation of Professional Associations (SACO).

Number of shares in Alfa Laval: 101* (-)**



Bror García Lantz
Employee representative since 2012.

Born: 1965

Employed by Alfa Laval since 1990.

Employee representative for the Swedish Union of Clerical and Technical Employees in Industry (Unionen).

Number of shares in Alfa Laval: 100* (100**)

*Holdings at December 31, 2021. **Holdings at December 31, 2020.

Deputy employee representatives

Leif Norkvist
Deputy member since 2009.

Born: 1961

Employed by Alfa Laval since 1993.

Deputy employee representative for the Swedish Metal Workers' Union (IF Metall).

Stefan Sandell
Deputy member since 2005.

Born: 1971

Employed by Alfa Laval since 1989.

Deputy employee representative for the Swedish Organization for Managers (Ledarna).

Johnny Hultén
Deputy member since 2017.

Born: 1961

Employed by Alfa Laval since 1977.

Deputy employee representative for the Swedish Metal Workers' Union (IF Metall).

Auditors

Staffan Landén
Authorized Public Accountant, EY.

Born: 1973

Company auditor since 2018.

Karoline Tedevall
Authorized Public Accountant, EY.

Born: 1978

Company auditor since 2018.

Deputy Auditors

Henrik Jonzén
Authorized Public Accountant, EY.

Born: 1977

Deputy auditor since 2018.

Andreas Mast
Authorized Public Accountant, EY.

Born: 1979

Deputy auditor since 2020.

*Holdings at December 31, 2021. **Holdings at December 31, 2020.

President and Group management



Tom Erixon
President and CEO.

Born: 1960

CEO since March 1, 2016.

Former positions include President and CEO of OVAKO AB and President of Sandvik Coromant.

Chairman of the Board: Afry AB.

Education: MA Law from the University of Lund in Sweden and MBA Business Administration from IESE in Spain.

Number of shares in Alfa Laval: 101,200* (101,200**)



Jan Alde
Chief Financial Officer.

Born: 1967

Employed by Alfa Laval since 2018.
Chief Financial Officer since 2018.

Former positions include several international positions at ABB from 1991 to 2017, most recently as Chief Financial Officer for the Americas.

Education: BSc. Econ from Stockholm University.

Number of shares in Alfa Laval: 10,000* (10,000**)



Pascale Gimenez
Senior Vice President,
Human Resources.

Born: 1966

Employed by Alfa Laval since August 1, 2018.

Former positions include Senior Vice President of Human Resources at various units within Sandvik and Electrolux.

Education: Master's degree in marketing from ESSEC Business School and a degree in engineering from the Institut Supérieur Agricole de Beauvais.

Number of shares in Alfa Laval: –



Emma Adlerton
General Counsel & Secretary to the Board of Directors.

Born: 1973

Employed by Alfa Laval since 2008.

General Counsel and Secretary to the Board of Directors since 2015; President of Group Legal & Sustainability. Former positions include senior legal counsel in the Alfa Laval Group and attorney at law.

Education: Master Laws (LL.M), Lund University.

Number of shares in Alfa Laval: 1,000* (1,000**)



Mikael Tydén
President, Operations Division.

Born: 1967

Employed by Alfa Laval since 1995.

President of the Operations Division since January 2017. Former positions include head of global manufacturing and supply of separators, decanters, hygienic fluid handling equipment and air heat exchangers 2005–2016.

Education: Ms. Mech. Eng.

Number of shares in Alfa Laval: 1,000* (1,000**)

*Holdings at December 31, 2021. **Holdings at December 31, 2020.

Areas of responsibility

The President directs the daily operations and is responsible for ensuring that the Board of Directors has access to the necessary information and supporting documentation for its decision-making purposes. The President is also responsible for ensuring that the company's accounting complies with applicable laws and regulations, and that the ethical guidelines included in Alfa Laval's Business Principles are reflected in the conduct of the company. The President has the support of the Group management, to which responsibilities and authority are delegated. The members of Group management include a head of global sales and service, four divisional managers and the heads of HR, Legal and Finance.

Remuneration to senior executives, pensions and severance pay/termination of employment

The remuneration policy for the President and other members of Group management are determined by the Annual General Meeting. For additional information, refer to pages 155–157 and 183–185.



Joakim Vilson
Senior Vice President,
Global Sales & Service.

Born: 1965

Employed by Alfa Laval since 1990. Former positions include Executive Vice President in charge of the Central and Eastern Europe, Latin America, Middle East and Africa Regions, Head of Mid Europe Region and Head of the Process Industry segment.

Education: BSc. Eng.

Number of shares in Alfa Laval: 6,520* (6,520**)



Thomas Møller
President, Energy Division.

Born: 1974

Employed by Alfa Laval since 2002. President of the Energy Division since 2021. Former positions include President Business Unit Decanters, Water & Waste Segment Manager and Market Unit Power Manager.

Education: BSc. Eng.

Number of shares in Alfa Laval: 1,106* (-**)



Nish Patel
President, Food & Water Division.

Born: 1962

Employed by Alfa Laval since 1984. Former positions include Executive Vice President in charge of the Western Europe and North America Regions, and Head of India and the UK.

Education: BSc. Eng.

Number of shares in Alfa Laval: 47,552* (47,552**)



Sameer Kalra
President, Marine Division.

Born: 1962

Employed by Alfa Laval since 2011. Previously President of the Pumping Systems and Offshore business units. Executive Vice President - Sales and Marketing - Aalborg Industries AS.

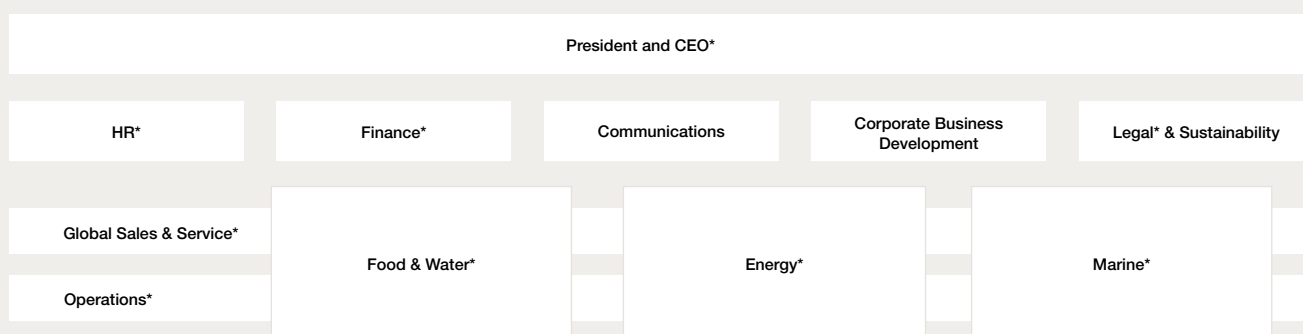
Education: Marine engineer and MBA.

Number of shares in Alfa Laval: 2,000* (-**)

*Holdings at December 31, 2021. **Holdings at December 31, 2020.

Operational control

Alfa Laval's operational control model comprises a matrix in which the Group's divisions are presented vertically, intersecting with the Group's geographic regions, which are presented horizontally. The Operations Division, which is responsible for production-related procurement, production, logistics and distribution, serves as a shared supply chain for the sales divisions.



*Members of Group management

Group management meetings in 2021

Group management held nine scheduled meetings in 2021 during which minutes were taken. In addition, quarterly reviews were performed to discuss the business developments in the divisions and regions. These reviews addressed the business climate, earnings, earnings projections for the next 12 months and specific issues affecting the respective business areas. Separate strategy meetings were also held to address, among other areas, man-

agement's proposals concerning the future direction with regard to organic growth and growth through acquisitions. In 2021, Group management addressed health and safety, business development in divisions and regions with deeper reviews in specific countries, research and development, acquisition opportunities as well as new ways of working. Sustainability was also discussed during the meeting with a focus on decarbonization.

Board of Directors' report on internal control

The Board is responsible for the internal control of the company, with the aim of safeguarding its assets and thus the interests of the shareholders. Through sound internal control, the Board ensures the reliability of Alfa Laval's reporting and its compliance with legislation, regulations, applicable accounting policies and the company's Business Principles. All communication and financial reporting is to be correct, relevant, objective and transparent.

Control environment

The control environment includes the internal governance instruments adopted by the Board for the company's daily operations. The control instruments comprise policy documents, which are continuously assessed, reviewed and updated. These documents include, for example, the Board's instructions, the President's instructions, reporting instructions, the company's finance policy, business principles, investment policy and communication policy.

The Board has overriding responsibility for financial reporting, among other things, and must therefore assess the performance and earnings of the operations through a package of reports including results, forecasts and analyses of key indicators. The Board also reviews the company's interim reports and year-end report and shall meet with the external auditors at least once a year without the presence of the President or other members of Group management.

The Board's Audit Committee is tasked with ensuring compliance with the principles for financial reporting and internal control. The Committee follows up the effectiveness of the internal control system and reviews the financial procedures to ensure that the information can be traced back to underlying financial systems and that it is in line with legislation and relevant standards.

The Committee examines procedures for reporting and financial controls as well as addressing the company's financial reports. It also monitors, evaluates and discusses significant issues related to accounting and financial reporting. The Committee evaluates and manages information pertaining to disputes and potential improprieties, and assists management with identifying and

evaluating mainly financial and similar risks that are relevant to the operations in order to ensure that the focus is on managing these risks. It also reviews the company's information security system and the contingency plans in place to ensure delivery of financial information.

The Audit Committee has the right to determine the focus of the internal audit and is responsible for ensuring the efficiency of the function by assessing its activities, resources and structure. The Committee is also responsible for reviewing the results and recommendations of the internal audit to ensure that they are handled in an appropriate manner. It is responsible for reviewing the internal audit plan every six months to ensure that it addresses the relevant risk areas and for ensuring that there is suitable coordination between the internal and external audit. The Audit Committee holds regular meetings with the external auditors and reviews their work, qualifications and independence, and the results of this review are reported to the company's Nominating Committee on an annual basis. The Audit Committee supports the Nominating Committee in its work to nominate auditors and conducts an annual review of the proposed scope of the audit. Reports are provided to the Board regarding internal meetings as well as meetings with the internal auditors, the external auditors and various specialists in Group management and its support functions. The Committee is responsible for reviewing significant results from the external audit and the recommendations issued by the external auditors as a result. It is also responsible for establishing guidelines that ensure the independence of the external auditors.

The President is subject to instructions issued by the Board and is responsible for

ensuring an effective control environment.

The President is also responsible for the ongoing control work and for ensuring that the company's accounting complies with legislation and that the management of assets is adequately performed. The President is also responsible for ensuring that all Board members regularly receive sufficient information to be able to assess the company's financial position.

Group management is responsible for managing and maintaining the internal control systems required to manage significant risks in the company's operating activities. Management is also responsible for clearly ensuring that all employees understand the requirements for and the individual's role in maintaining sound internal control.

The internal auditors review and implement improvements to the internal control function, conduct internal audits – which are reported to the Audit Committee – and propose plans for the coming six to eight months. The internal auditors also issue reports from individual audits to the appropriate members of Group management. Procedures are in place for performing regular reviews of the agreed actions to guarantee that specific actions are taken following the internal audit. These are based on an agreed schedule set with the party responsible for the individual activities. The Internal Audit Function comprises four internal auditors, internal specialist resources and external auditors. Internal audits encompass a broad spectrum of functions and issues determined by the Board. The areas audited include: compliance with the systems, guidelines, policies and processes established for the Group's business operations; the existence of systems to ensure that financial transactions are carried out, archived and reported in an accurate

and lawful manner; and opportunities to improve management control, the company's profitability and the organization, which may be identified during audits. In 2021, 19 internal audits were performed.

Risk assessment

Within the framework of the company's operating activities and review functions, procedures are in place for risk assessments pertaining to the financial reporting. These procedures aim to identify and evaluate the risks that may affect internal control. The procedures encompass risk assessments in conjunction with strategic planning and acquisition activities as well as processes for identifying amendments to the accounting policies to ensure that they are accurately reflected in the financial reporting.

Control structures

Control structures are in place in all areas of the organization in order to prevent, identify and adjust errors or deviations. They manage the risks that the Board and management consider to be significant to the business, internal control and financial reporting. These structures comprise both an organization with clearly defined roles that enables an effective and – from an internal control perspective – appropriate division of responsibility, and specific control activities that enable the identification and timely prevention of risks becoming a reality. Control activities also include clearly defined decision-making processes and a policy for decision-making with respect to, for example, investments, agreements, acquisitions and divestments, earnings analyses and other forms of analytical reviews, reconciliations, inventory-taking and automatic controls in the IT systems.

Information and communication

The company's regulations, guidelines and

manuals are communicated through several internal channels and the efficiency of this communication is monitored on an ongoing basis. There are formal and informal information channels that enable employees to communicate important information to relevant recipients and ultimately, if necessary, to the Board of Directors. Clear guidelines have also been established for external communications, the aim of which is to provide the most accurate and relevant overview possible while at the same time ensuring that all obligations are met.

Follow-up

The internal control process is mainly followed up by two bodies: the Audit Committee and the Internal Audit Function. The Audit Committee establishes the principles that apply for the company with respect to accounting and financial reporting, and monitors compliance with these regulations. The Committee meets with the external auditors to obtain information about the focus and scope of the audit and to discuss results and coordination of the external and internal audits. In addition, the Committee establishes the direction, scope and time schedules for the work of the internal audit team, whose audits are reported to the Audit Committee and continuously to Group management so that any necessary measures may be taken. The scope of the internal audit includes, among other factors, operational efficiency, compliance with regulations and guidelines, and the quality of financial reporting from the subsidiaries.

Alfa Laval has implemented a management testing process for key internal controls over business processes in the company. The managers and key employees evaluated their compliance through a control self-assessment test for important internal

controls in these business processes and will perform this on an annual basis. Based on the results, the internal controls framework will be strengthened and assist in risk-based valuation of the business processes at Alfa Laval.

Lund, March 2022

Board of Directors

Auditor's report on the corporate governance statement

To the general meeting of the shareholders of Alfa Laval AB (publ), corporate identity number 556587-8054

Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the year 2021 on pages 88-103 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevR 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with

International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Lund 23 March 2022

Staffan Landén
Authorized Public Accountant
Ernst & Young AB

Karoline Tedevall
Authorized Public Accountant
Ernst & Young AB

A close-up photograph of a metal spring and a green wire, likely part of a mechanical device. The spring is coiled and has a green wire running through it. The background is a textured, light-colored surface.

Financial statements

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Board of Directors' Report

The Board of Directors and the President of Alfa Laval AB (publ) hereby submit their annual report for the year of operation January 1, 2021 to December 31, 2021.

The information in this annual report is such information that Alfa Laval AB (publ) must publish in accordance with the Securities Market Act. The information was made public by publishing the annual report on Alfa Laval's website on March 31, 2022 at 10.00 CET.

Alfa Laval AB is a public limited liability company. The seat of the Board is in Lund and the company is registered in Sweden under corporate registration number 556587-8054. The visiting address of the head office is Rudeboksvägen 1 in Lund and the postal address is Box 73, 221 00 Lund, Sweden. Alfa Laval's website is: www.alfalaval.com.

Financial statements

The following parts of the annual report are financial statements: the Board of Directors' Report, the ten-year overview, the consolidated cash flows, the consolidated comprehensive income, the consolidated financial position, the changes in consolidated equity, the parent company cash flows, the parent company income, the parent company financial position, the changes in parent company equity and the notes. All of these have been audited by the auditors.

The Corporate Governance Report, which also has been reviewed by the auditors, is to be found on page 88.

The statutory sustainability report for the parent company and the consolidated Group for 2021 is to be found on pages 54–85. Supplementary sustainability notes are to be found on Alfa Laval's website Alfa Laval – Publications. The supplementary sustainability notes were published on the website at the same time as the annual report.

Ownership and legal structure

Alfa Laval AB (publ) is the parent company of the Alfa Laval Group.

The company had 44,217 (43,417) shareholders on December 31, 2021. The largest owner is Tetra Laval International SA, Switzerland, who owns 29.1 (29.1) percent. Next to the largest owner, there are nine institutional investors with ownership in the range of 8.4 to 1.7 percent. These ten largest shareholders owned 62.2 (49.7) percent of the shares.

Operations

Alfa Laval is a world leader in heat transfer, centrifugal separation and fluid handling, and is active in the areas of Energy, Marine, and Food & Water, offering its expertise, products, and service to a wide range of industries in some 100 countries. The company is committed to optimizing processes, creating

responsible growth, and driving progress to support customers in achieving their business goals and sustainability targets. Alfa Laval is engaged in the development, production and sales of products and systems based on three main technologies: separation/filtration, heat transfer and fluid handling.

Alfa Laval's business is divided into three Business Divisions "Energy", "Food & Water" and "Marine" that sell to external customers and are responsible for the manufacturing of the products and one division "Operations & Other" covering procurement, logistics, distribution and production development as well as corporate overhead and non-core businesses. These four divisions constitute Alfa Laval's four operating segments.

The customers to the Energy Division purchase products and systems for energy applications, whereas the customers to the Food & Water Division purchase products and systems for food and water applications. The customers to the Marine Division purchase products and systems for marine and offshore applications.

The three Business Divisions are in turn split into a number of Business Units. The Energy Division consists of four Business Units: Brazed & Fusion Bonded Heat Exchangers, Energy Separation, Gasketed Plate Heat Exchangers and Welded Heat Exchangers. The Food & Water Division consists of five Business Units: Decanters, Food Heat Transfer, Food Systems, Hygienic Fluid Handling and High Speed Separators. The Marine Division consists of five Business Units: Boiler Systems, Digital Solutions, Environmental Products, Marine Separation & Heat Transfer Equipment and Pumping Systems.

Material factors of risk and uncertainty

The main factors of risk and uncertainty facing the Group concern the development of the COVID-19 pandemic, the price development of metals, global material and freight constraints, fluctuations in major currencies and the business cycle. For additional information, see the sections on financial and operational risks and the section on critical accounting principles, the section on key sources of estimation uncertainty and the section on judgements under accounting principles.

Acquisition of businesses

On June 1, 2021 Alfa Laval completed the acquisition of StormGeo, a global leader in weather intelligence and advanced data science solutions. The acquisition is part of Alfa Laval's strategy to support the marine in-

dustry's efforts to make operations more efficient and will also enhance Alfa Laval's knowledge within digital services. The purchase price is fully financed via cash. The acquisition is neutral to Alfa Laval's EBITA margin and earnings per share. StormGeo, headquartered in Bergen in Norway, provides solutions and services for weather-sensitive operations, primarily in the marine industry, off-shore and other weather-dependent industries. The company's weather information services help customers mitigate risk, improve safety and make sustainable choices on routes and operations. StormGeo was founded in 1997 and has since 2014 been under the ownership of EQT, DNV GL and a group of employees. Total sales in 2020 amounted to NOK 714 million (SEK 699 million). StormGeo will become a part of the Alfa Laval Marine Division. "The acquisition of StormGeo will be a strong addition to our toolbox of solutions that help our customers address the decarbonization challenge in the industry. Furthermore, StormGeo fits excellently to our digital acceleration ambition, and we will use their digital and customer experience to level up our offerings and to get deeper experience in the digital space," says Tom Erixon, President and CEO of Alfa Laval.

On October 1 Alfa Laval acquired the Norwegian system manufacturer LiftUP. LiftUP is a market leader in removing waste from fish farms to reduce their impact on the marine environment. The acquisition is part of Alfa Laval's strategy of building up an attractive aquaculture product portfolio and creating an expanded and sustainable growth platform for the future. Founded in 1991, LiftUP is a world leading supplier of waste extraction systems for fish farms. Its technology can remove up to 70 percent of the sludge from open cages. The LiftUP system is a complement to the Alfa Laval Framo pumping system AquaStream, which brings up fresh low temperature water with high oxygen levels (from around 25 m depth) and creates a perfect sea current – thereby providing conditions similar to the deep fjords, creating an optimal environment for the fish. The acquired company had revenues of 75 MNOK (2020) with good profitability. It will now be part of the business unit Pumping Systems in the Marine Division.

On December 31, 2020 Alfa Laval acquired Sandymount, a US-based beverage technology company with a unique and patented membrane technology to concentrate beer. The technology in combination with Alfa Laval's extensive product range, will open up interesting business opportunities

for the company and enable a more sustainable beer-delivery supply chain. Sandymount's patented membrane technology, Revos™, in combination with Alfa Laval's extensive product range for beer production, will enable beer producers to deliver high quality beer in concentrated form. The solution addresses the transportation inefficiencies in beer supply where beer remains one of the few water-laden products distributed as a 'mostly water' from producer to consumer. The newly acquired company will be integrated into the Business Unit Food Systems in the Food & Water Division.

A smaller operation, WCR Benelux BV in the Netherlands, was acquired on July 1, 2020.

Divestment of businesses

The operations and net assets of DSO Fluid Handling Inc in the U.S. were divested on August 28, 2020. The divestment has resulted in a loss of SEK -55 million that is reported as a comparison distortion item.

Investments in joint ventures and other companies

On February 18, 2021 Alfa Laval announced that it has become a partner in an innovation project to develop pumping technology for more sustainable fish farming together with the joint venture partner the Norwegian fish farming company Lingalaks, by acquiring a 50 percent share in the joint venture Stadion Laks AS in Norway for SEK 4 million.

On February 25, 2021 Alfa Laval announced that it is part of the next phase of development for a sustainable energy storage solution by participating in the new issue of shares in Malta Inc with SEK 81 million, which has increased the ownership to 18.3 percent. Malta Inc is developing a completely new energy storage solution that will facilitate the shift towards renewable energy.

On March 15, 2021 Alfa Laval became a partner in the Power-to-X consortium by acquiring 2.9 percent of the shares in the Swedish company Liquid Wind for SEK 4 million. The company develops electro-fuel facilities to produce renewable clean fuels.

On June 29, 2021 Alfa Laval announced that the company together with Wallenius will form a 50/50 joint venture - AlfaWall Oceanbird – to supply innovative wind propulsion solutions for cargo vessels and other ship types.

On July 8, 2021 Alfa Laval acquired a minority stake in the Netherlands-based technology company Marine Performance Systems. Its innovative air lubrication technology significantly reduces ships' friction when sailing, resulting in fuel savings. The patented solution can be installed on vessels of any size or fuel type and is also suitable for retrofit.

Sale of real estate

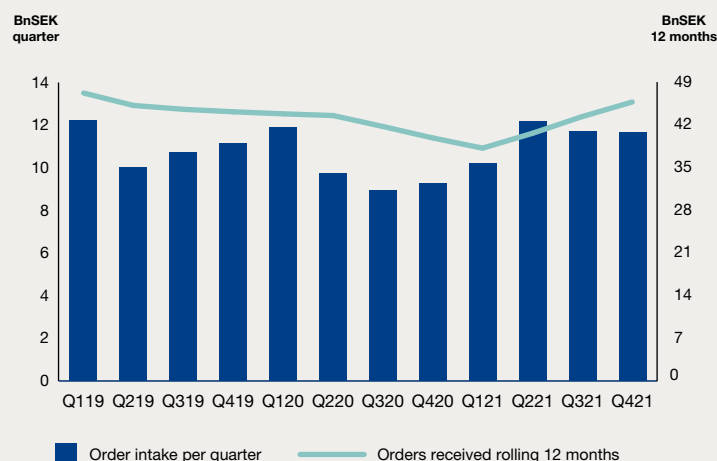
During 2021 a property in Sarole in India has been sold for SEK 17 (7) million with a real-

ised result of SEK 9 (-0) million. The result for 2021 has been reported as comparison distortion item as it is linked to the sale of the remaining air heat exchanger operation in India to LU-VE.

The property in Alonte in Italy, part of the property in Potok in Russia and three smaller properties in India are for sale and are expected to be sold within the next year. These

have therefore been classified as current assets held for sale with SEK 25 (55) million. The fair value of the properties for sale exceeds the book value by approximately SEK 128 (24) million.

Orders received



Orders received amounted to SEK 45,718 (39,833) million during 2021.

Order bridge

| Consolidated | | |
|----------------------------------|--------|--------|
| SEK millions/% | 2021 | 2020 |
| Order intake last year | 39,833 | 44,119 |
| Organic ¹⁾ | 18.4% | -5.8% |
| Structural ¹⁾ | 1.1% | -0.2% |
| Currency | -4.7% | -3.7% |
| Total | 14.8% | -9.7% |
| Order intake current year | 45,718 | 39,833 |

¹⁾ Change excluding currency effects.

Orders received from the aftermarket Service constituted 28.1 (29.6) percent of the Group's total orders received for 2021.

Order bridge Service

| Consolidated | | |
|----------------------------------|--------|--------|
| SEK millions/% | 2021 | 2020 |
| Order intake last year | 11,773 | 12,824 |
| Organic ¹⁾ | 10.8% | -4.4% |
| Structural ¹⁾ | 3.6% | -0.1% |
| Currency | -5.1% | -3.7% |
| Total | 9.3% | -8.2% |
| Order intake current year | 12,864 | 11,773 |

¹⁾ Change excluding currency effects.

- Organic: change excluding acquisition/divestment of businesses.
- Structural: acquisition/divestment of businesses.
- Service: Parts and service.

Large orders

Large orders are orders with a value over EUR 5 million. The volume of large orders is an important indicator of the demand situation and is therefore monitored separately within Alfa Laval. A large volume of large orders normally also means a good load in the factories. During 2021 Alfa Laval has received the following large orders:

Large orders (>EUR 5 million)

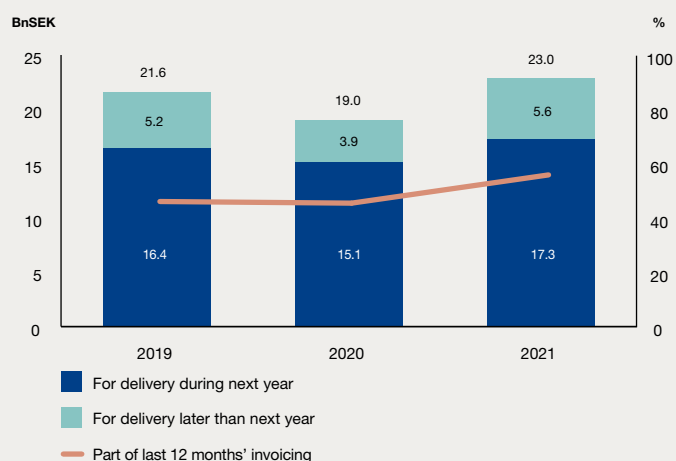
| Division | Business Unit Scope of supply | Order received in | Delivery date | Order | Total per Business Unit | | |
|---|----------------------------------|----------------------|------------------|--------------|-------------------------|-------|--------|
| | | | | amount | 2021 | 2020 | |
| | | | | SEK millions | | | |
| Energy | | | | | | | |
| Welded Heat Exchangers | | | | | | | |
| Alfa Laval OLMI air coolers to a refinery in Egypt. | | | | Q1 | 2021/2022 | 95 | |
| See * below. | | | | Q2 | 2022 | 19 | |
| Heat exchangers to an oil & gas company in the Middle East for natural gas treatment and heat recovery. | | | | Q2 | 2021 | 68 | |
| Alfa Laval OLMI heat exchangers to a refinery in Egypt. | | | | Q2 | 2022 | 55 | |
| Alfa Laval OLMI heat exchangers to a fertilizer plant in China. | | | | Q2 | 2022 | 61 | |
| Compabloc heat exchangers for a natural gas treatment plant in the Middle East. | | | | Q3 | 2022 | 75 | |
| Air coolers to a refinery in Norway. | | | | Q4 | 2022 | 72 | |
| Packinox heat exchangers to a petrochemical refinery in India. | | | | Q4 | 2023 | 80 | 525501 |
| Energy Separation | | | | | | | |
| See * below. | | | | Q2 | 2022 | 33 | 33– |
| Gasketed Plate Heat Exchangers | | | | | | | |
| Heat exchangers to one of the largest copper and nickel producers in Russia. | | | | Q2 | 2022 | 85 | 8519 |
| Food & Water | | | | | | | |
| Decanters | | | | | | | |
| See * below. | | | | Q2 | 2022 | 21 | |
| See ** below. | | | | Q2 | 2022 | 45 | |
| Decanters to a municipal wastewater treatment plant in San Diego, the U.S. | | | | Q3 | 2024 | 91 | |
| Decanters to a wastewater treatment plant in Canada. | | | | Q4 | 2025 | 80 | |
| Membrane systems to a biorefining manufacturing facility in Northern Europe. | | | | Q4 | 2022 | 61 | 29875 |
| Food Systems | | | | | | | |
| A complete processing line to a vegetable oil plant in South Africa. | | | | Q1 | 2022 | 50 | |
| A processing line to a petroleum refiner to support production of renewable diesel and jet fuels in Europe. | | | | Q2 | 2022 | 155 | |
| See * below. | | | | Q2 | 2022 | 342 | 547190 |
| High Speed Separators | | | | | | | |
| See ** below. | | | | Q2 | 2022 | 6 | 6– |
| Marine | | | | | | | |
| Marine Separation & Heat Transfer Equipment | | | | | | | |
| PureBallast systems for tanker vessels in the Middle East. | | | | Q4 | 2022 | 58 | 58– |
| Pumping Systems | | | | | | | |
| Framo cargo pumping systems to an FPSO*** project in China. | | | | Q2 | 2022 | 87 | |
| Framo pumping systems for FPSO*** vessel. | | | | Q3 | 2022 | 81 | |
| Framo pumping systems for FPSO*** vessel. | | | | Q3 | 2022 | 128 | |
| Cargo pumps for an FPSO*** vessel in Brazil. | | | | Q4 | 2022 | 72 | |
| Sea water lift pumps for an FPSO*** vessel in Brazil. | | | | Q4 | 2022 | 96 | |
| Fire water pumps for a production platform in the Middle East. | | | | Q4 | 2022 | 76 | |
| Gas compressors for a production platform in Norway. | | | | Q4 | 2023 | 131 | |
| Cargo pumps for an FPSO*** vessel in Brazil. | | | | Q4 | 2022 | 136 | 807730 |
| Total | | | | | | 2,359 | 1,515 |

* One order of SEK 415 million split between Food & Water and Energy and on several Business Units within the divisions for processing systems and equipment for feedstock pre-treatment to a U.S. refinery that is switching from traditional petroleum refining to renewable biofuel production.

** One order of SEK 51 million split between two Business Units in Food & Water for complete process lines to one of the world's largest olive oil mills to be built in Spain.

*** Floating Production, Storage and Offloading.

Order backlog December 31



Excluding currency effects and adjusted for acquisition and divestment of businesses the order backlog was 26.3 percent lower than the order backlog at the end of 2020.

Net sales

Net sales amounted to SEK 40,911 (41,468) million during 2021.

Sales bridge

| | | |
|-------------------------------|--------|--------|
| Consolidated | | |
| SEK millions/% | 2021 | 2020 |
| Net sales last year | 41,468 | 46,517 |
| Organic ¹⁾ | 1.6% | -6.6% |
| Structural ¹⁾ | 1.1% | -0.9% |
| Currency | -4.0% | -3.4% |
| Total | -1.3% | -10.9% |
| Net sales current year | 40,911 | 41,468 |

¹⁾ Change excluding currency effects.

Net invoicing relating to Service constituted 29.6 (28.7) percent of the Group's total net invoicing for 2021.

Sales bridge Service

| | | |
|-------------------------------|--------|--------|
| Consolidated | | |
| SEK millions/% | 2021 | 2020 |
| Net sales last year | 11,898 | 12,544 |
| Organic ¹⁾ | 3.3% | -1.3% |
| Structural ¹⁾ | 3.5% | -0.2% |
| Currency | -4.7% | -3.6% |
| Total | 2.1% | -5.1% |
| Net sales current year | 12,144 | 11,898 |

¹⁾ Change excluding currency effects.

Operating segments

Energy Division

The division targets customers in HVAC and refrigeration markets as well as process industries such as chemicals, petrochemical industry and the oil & gas industry. Focus is on increased energy efficiency, waste heat recovery and sustainable solutions.

The Energy Division consists of four Business Units: Brazed & Fusion Bonded Heat Exchangers, Energy Separation, Gasketed Plate Heat Exchangers and Welded Heat Exchangers.

Energy Division

Consolidated

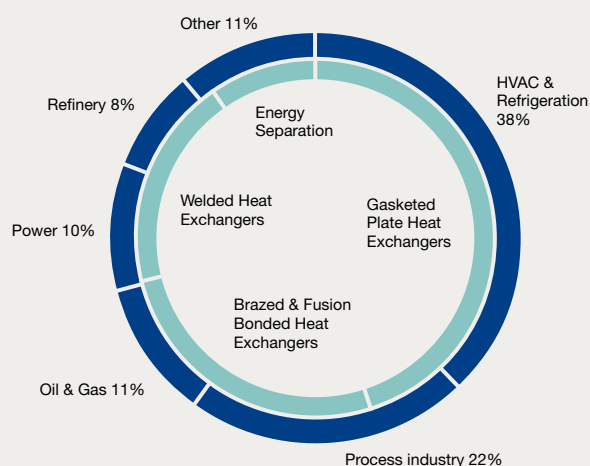
| SEK millions | 2021 | 2020 |
|-------------------------------|--------|--------|
| Orders received | 13,675 | 11,952 |
| Order backlog* | 5,791 | 4,740 |
| Net sales | 12,383 | 12,187 |
| Operating income** | 1,897 | 1,882 |
| Operating margin*** | 15.3% | 15.4% |
| Depreciation and amortisation | 433 | 452 |
| Investments**** | 403 | 352 |
| Assets* | 13,262 | 12,726 |
| Liabilities* | 5,252 | 5,574 |
| Number of employees* | 5,126 | 5,111 |

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

Quarterly development



Order intake 2021 split per end market*/business unit



* Compared to the Annual Report for 2020, the end markets have been redefined to better reflect how we approach the market. Most of them are self-explanatory, but for the sake of clarity it can be mentioned that "process industry" consists of inorganic chemicals, metals, petrochemicals and pulp & paper and that "other" mainly consists of manufacturing and mining.

Order intake

| Order bridge | | |
|----------------------------------|--------|--------|
| Consolidated | | |
| SEK millions/% | 2021 | 2020 |
| Order intake last year | 11,952 | 13,963 |
| Organic ¹⁾ | 19.2% | -11.5% |
| Structural ¹⁾ | 0.0% | 0.0% |
| Currency | -4.8% | -2.9% |
| Total | 14.4% | -14.4% |
| Order intake current year | 13,675 | 11,952 |

¹⁾ Change excluding currency effects.

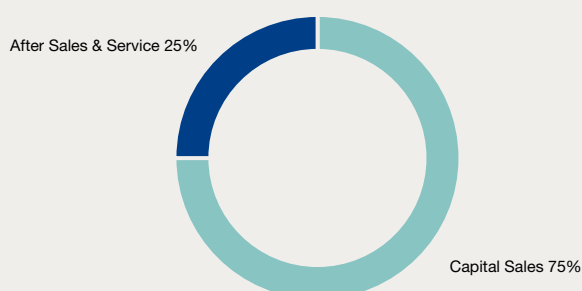
The division reported good growth in the year compared to last year. Demand remained strong for energy efficiency solutions and investments were increasingly steered towards solutions reducing CO₂ emissions. At the same time, most geographical markets saw a recovery from the pandemic and the service business developed in a positive way.

For the largest end market, HVAC* & refrigeration, order intake grew further and reached an all-time high level. The development was driven by continued demand for heat pumps, heating & cooling and industrial & commercial refrigeration. Investments in heavy industry sectors like process industry as well as mining were contributing to the order growth in the year. For all the above industries, the development was strong across most geographical markets. Much of the growth in these industries was coming from increased demand for clean energy and improved energy efficiency. Demand from customers in oil & gas related industries was overall flat and in the refinery sector order intake grew. In both cases volumes were low compared to historic levels.

The aftermarket grew in the year. A positive development was noted across all industries and geographical markets. Spare parts volumes continued to develop well and field service improved as restrictions were lifted, providing increased access to customer sites again.

* Heating, Ventilation & Air Conditioning.

Order intake 2021 split on:



Net sales

| Sales bridge | | |
|-------------------------------|--------|--------|
| Consolidated | | |
| SEK millions/% | 2021 | 2020 |
| Net sales last year | 12,187 | 13,814 |
| Organic ¹⁾ | 5.9% | -8.9% |
| Structural ¹⁾ | 0.0% | 0.0% |
| Currency | -4.3% | -2.9% |
| Total | 1.6% | -11.8% |
| Net sales current year | 12,383 | 12,187 |

¹⁾ Change excluding currency effects.

Net sales grew during the year, however, at a slower pace than the order intake, which resulted in a significantly higher order backlog at year end. Capital sales grew faster than aftersales. The overall positive development was mainly driven by strong performance in energy efficiency solutions, new growth areas and light industries.

Operating income

| Income bridge | | |
|--------------------------------------|-------|-------|
| Consolidated | | |
| SEK millions/% | 2021 | 2020 |
| Operating income last year | 1,882 | 2,069 |
| Volume ¹⁾ | 243 | -407 |
| Mix ¹⁾ | -127 | 114 |
| Costs ¹⁾ | -69 | 143 |
| Currency | -32 | -37 |
| Operating income current year | 1,897 | 1,882 |

¹⁾ Change excluding currency effects.

The operating income was flat compared to last year. The positive volume effect from increased net sales has been mitigated by a negative mix, higher overhead costs and negative currency effects. The mix has been impacted negatively by increased raw material costs and a higher share of capital sales, partly mitigated by lower quality costs.

Food & Water Division

The division offers different types of products for heat transfer, separation and hygienic fluid handling and targets customers in food, pharmaceuticals, biotech, vegetable oils, brewery, dairy and body care products. In addition, the division focuses on public and industrial water treatment as well as wastewater and waste treatment.

The Food & Water Division consists of five Business Units: Decanters, Food Heat Transfer, Food Systems, Hygienic Fluid Handling and High Speed Separators.

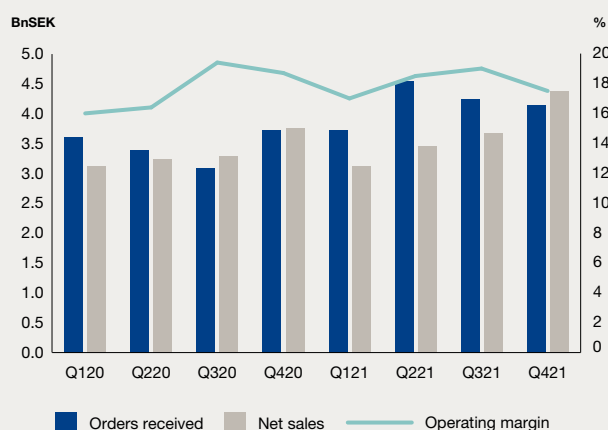
Food & Water Division

Consolidated

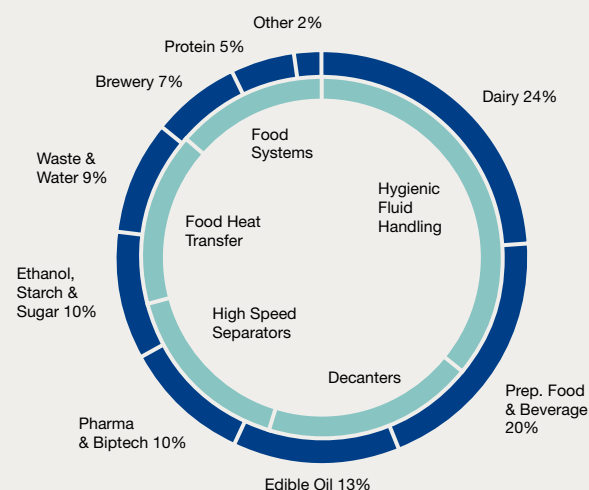
| SEK millions | 2021 | 2020 |
|-------------------------------|--------|--------|
| Orders received | 16,664 | 13,814 |
| Order backlog* | 6,823 | 5,056 |
| Net sales | 14,640 | 13,414 |
| Operating income** | 2,637 | 2,371 |
| Operating margin*** | 18.0% | 17.7% |
| Depreciation and amortisation | 360 | 384 |
| Investments**** | 315 | 295 |
| Assets* | 11,714 | 11,226 |
| Liabilities* | 5,144 | 5,184 |
| Number of employees* | 6,670 | 6,215 |

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

Quarterly development



Order intake 2021 split per end market/business unit



Order intake

| Order bridge | | |
|----------------------------------|--------|--------|
| Consolidated | | |
| SEK millions/% | 2021 | 2020 |
| Order intake last year | 13,814 | 14,026 |
| Organic ¹⁾ | 26.2% | 2.7% |
| Structural ¹⁾ | -0.2% | 0.0% |
| Currency | -5.4% | -4.2% |
| Total | 20.6% | -1.5% |
| Order intake current year | 16,664 | 13,814 |

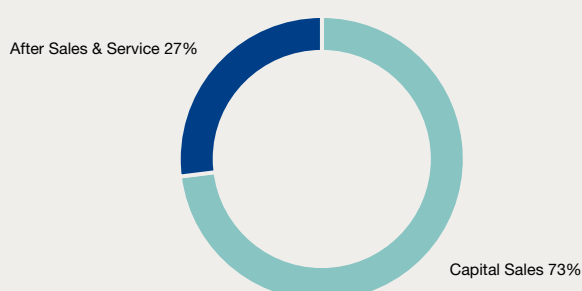
¹⁾ Change excluding currency effects.

Order intake grew significantly compared to last year due to a generally strong macro-economic recovery in the end markets, with increasing investments and especially larger capacity investments. The division also benefitted from previous year's investment in both R&D and market presence. Geographically, all regions showed a double digit growth. North America as well as Latin America and China grew above average. Even though Europe as a whole was below the division average growth rate, most of Europe showed double digit growth.

The pharma and biotech market continued previous year's growth. Investments halted during the pandemic now materialised and many pharma & biotech companies still work on mitigating the vulnerability of not having sufficient national supply chains, which became evident during the pandemic. The waste & water sector grew, with many countries giving governmental support, thereby increasing investments in the sector. This was not least the case in the important U.S. market. The important sustainability focus in the division generated strong order growth, which was particularly evident in the following two areas: 1) The edible oil industry was boosted by the more and more important HVO (Hydrotreated Vegetable Oil) technology for biodiesel, which is becoming an important alternative biofuel. 2) In ethanol, starch & sugar, particularly the ethanol market grew strongly as higher oil prices resulted in a clearly higher demand for alternative fuels. Dairy grew well from a positive business sentiment and additional sales channels extended the exposure to this market. The brewery sector grew well above average despite the industry's reluctance to invest in new capacity during the pandemic. However, new technologies and offerings for production efficiency, end-product enhancement as well as a large replacement market secured growth.

The aftermarket increased by post pandemic recovering industries globally. Parts sales had good growth, but also service offerings grew, with access restrictions to customer sites being lifted.

Order intake 2021 split on:



Net sales

| Sales bridge | | |
|-------------------------------|--------|--------|
| Consolidated | | |
| SEK millions/% | 2021 | 2020 |
| Net sales last year | 13,414 | 14,189 |
| Organic ¹⁾ | 14.1% | -1.7% |
| Structural ¹⁾ | -0.2% | 0.0% |
| Currency | -4.8% | -3.8% |
| Total | 9.1% | -5.5% |
| Net sales current year | 14,640 | 13,414 |

¹⁾ Change excluding currency effects.

Net sales increased compared to last year. A large backlog at the beginning of 2021, combined with a very strong order intake during 2021, which partly was invoiced during the second part of the year, contributed. Strongest sales growth was in edible oil and pharma & biotech, which are areas that have noted particularly strong growth in order intake. Even though aftermarket sales were strong, the growth in capital sales was even stronger during the year, which somewhat changed the mix.

Operating income

| Income bridge | | |
|--------------------------------------|-------|-------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Operating income last year | 2,371 | 2,268 |
| Volume ¹⁾ | 685 | -99 |
| Mix ¹⁾ | -132 | 172 |
| Costs ¹⁾ | -199 | 94 |
| Currency | -88 | -64 |
| Operating income current year | 2,637 | 2,371 |

¹⁾ Change excluding currency effects.

The operating income increased compared to last year, driven by a positive volume effect. A high factory load also contributed positively whereas the mix between product groups and geographies and a stronger growth for new sales than for after sales overall gave a negative mix effect. Overhead cost increased following a high activity level. The currency effect was negative due to the strengthening of the Swedish krona.

Marine Division

The division's customers include shipowners, shipyards, manufacturers of diesel and gas engines, as well as companies that work with offshore extraction of oil and gas. The offering includes pumping systems, boilers, heat transfer equipment, high speed separators and several different environmental products, including systems to clean ballast water and exhaust gases.

The Marine Division consists of five Business Units: Boiler Systems, Digital Solutions, Environmental Products, Marine Separation & Heat Transfer Equipment and Pumping Systems.

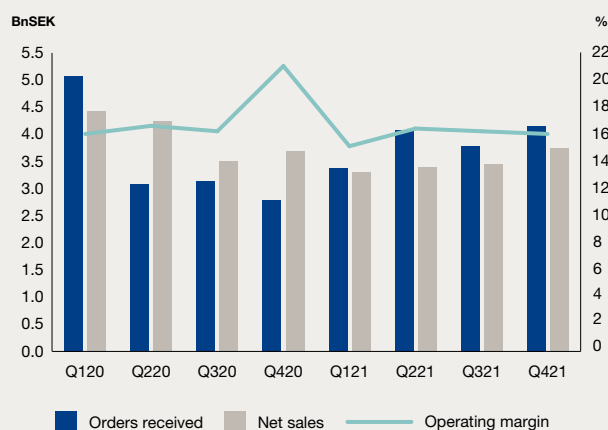
Marine Division

Consolidated

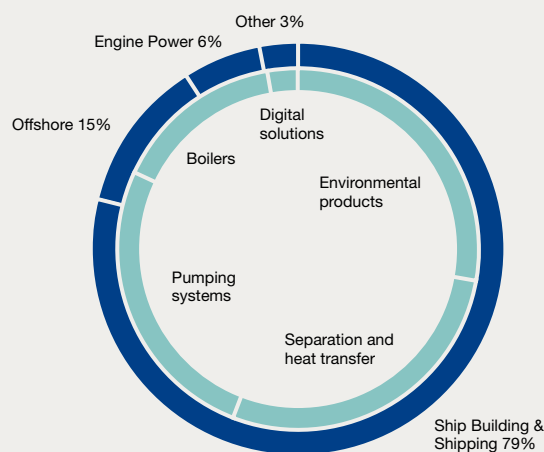
| SEK millions | 2021 | 2020 |
|-------------------------------|--------|--------|
| Orders received | 15,379 | 14,067 |
| Order backlog* | 10,340 | 9,173 |
| Net sales | 13,888 | 15,867 |
| Operating income** | 2,211 | 2,758 |
| Operating margin*** | 15.9% | 17.4% |
| Depreciation and amortisation | 840 | 814 |
| Investments**** | 250 | 137 |
| Assets* | 28,718 | 24,086 |
| Liabilities* | 6,317 | 6,695 |
| Number of employees* | 4,932 | 4,489 |

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

Quarterly development



Order intake 2021 split per end market/business unit



Order intake

| Order bridge | | |
|----------------------------------|--------|--------|
| Consolidated | | |
| SEK millions/% | 2021 | 2020 |
| Order intake last year | 14,067 | 15,953 |
| Organic ¹⁾ | 10.3% | -7.7% |
| Structural ¹⁾ | 3.2% | – |
| Currency | -4.2% | -4.1% |
| Total | 9.3% | -11.8% |
| Order intake current year | 15,379 | 14,067 |

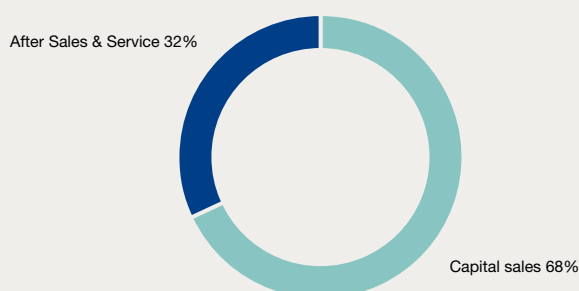
¹⁾ Change excluding currency effects.

Order intake increased compared to last year due to a higher demand for most product areas and service.

Demand for PureBallast increased significantly compared last year. The retrofit period resulting from the ballast water legislation is now close to its peak. The order intake for Alfa Laval PureSOx decreased compared to last year. General demand for equipment tied to the building of new vessels was on a higher level than last year with more vessels being contracted in the year, especially container vessels, but also bulk carriers and gas carriers. Boilers, heat exchangers, separators and inert gas systems recorded a higher demand. Demand for pumping systems remained on a similar level as the year before. Order intake for offshore decreased compared to last year and especially during the first half of the year the demand was very limited in this segment. The underlying market sentiment has however improved due to higher oil prices.

Order intake for service developed overall positively partly due to an increased demand from the growing installed base of environmental products. Vessel utilization improved compared to last year, but travel restrictions for onboard service still had a negative impact on major repair jobs and service upgrades. The acquisition of StormGeo in June 2021 contributed to the growing service order intake.

Order intake 2021 split on:



Net sales

| Sales bridge | | |
|-------------------------------|--------|--------|
| Consolidated | | |
| SEK millions/% | 2021 | 2020 |
| Net sales last year | 15,867 | 17,993 |
| Organic ¹⁾ | -12.2% | -8.4% |
| Structural ¹⁾ | 2.9% | – |
| Currency | -3.2% | -3.4% |
| Total | -12.5% | -11.8% |
| Net sales current year | 13,888 | 15,867 |

¹⁾ Change excluding currency effects.

Net sales were lower than last year due to a lower level of deliveries across most product groups and especially for PureSOx. Invoicing for boilers and pumping systems were also on a lower level. Invoicing of PureBallast increased due to increased vessel retrofitting driven by the ballast water treatment legislation. In addition, the acquisition of StormGeo has increased service sales.

Operating income

| Income bridge | | |
|--------------------------------------|-------|-------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Operating income last year | 2,758 | 3,425 |
| Volume ¹⁾ | -489 | -480 |
| Mix ¹⁾ | 262 | -142 |
| Costs ¹⁾ | -292 | 62 |
| Currency | -28 | -107 |
| Operating income current year | 2,211 | 2,758 |

¹⁾ Change excluding currency effects.

The operating income decreased compared to last year. Net sales were lower than last year, but with a more favourable product mix. The cost level was higher than last year due to the inclusion of StormGeo, increased overhead cost because of a higher activity level and higher royalty costs for PureBallast.

Operations & Other

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

| Operations & Other | | |
|-------------------------------|-------|-------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Orders received | 0 | 0 |
| Order backlog* | 0 | 0 |
| Net sales | 0 | 0 |
| Operating income** | -441 | -629 |
| Depreciation and amortisation | 354 | 339 |
| Investments*** | 261 | 448 |
| Assets* | 1,486 | 1,276 |
| Liabilities* | 801 | 522 |
| Number of employees* | 1,155 | 1,069 |

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

*** Excluding new leases.

The improved operating income in 2021 is mainly due to the cost reduction program and reduced one-off costs.

Information about geographical areas

All comments are excluding currency effects.

Western Europe including Nordic

The order intake in the region showed a strong growth compared to last year. Energy showed growth in Benelux, Mid Europe and Adriatic, driven by a high demand from the refinery and manufacturing industries. Food & Water grew well in Benelux, Spain and Nordic, particularly in brewery and pharmaceuticals & biotech. Marine grew in United Kingdom and Mid Europe supported by good development in shipbuilding and shipping. Service had a good development and grew.

Central and Eastern Europe

The region reported strong order growth compared to last year. In Energy the growth was primarily driven by continued demand for HVAC and petrochemicals in Turkey, Russia and Central Europe. Food & Water reported growth in most of the countries in the region, supported by an increasing underlying demand, new product launches and new partnerships. Marine reported good growth in Central Europe, Poland, Ukraine and Baltic States, mainly driven by shipbuilding and offshore. Service order intake grew.

North America

North America reported strong growth compared to last year. In Energy the growth was particularly strong for refinery and power generation in the U.S. and Canada. Food & Water noted continued good demand for edible oils and waste & water in all countries in the region and Marine reported a good growth in engine power. Service order intake had a strong growth.

Latin America

The region showed strong growth in order intake compared to last year. Energy had a high demand in oil & gas and power generation in Brazil, Chile and Colombia. Food & Water had a robust demand in ethanol, starch & sugar and brewery in Brazil, Mexico and Argentina. Marine was supported by increased shipbuilding activity in Brazil, Chile and Argentina. The demand for service was strong.

Asia

The region reported strong growth in order intake compared to last year. For Energy, demand remained high for HVAC in the Middle East, Malaysia and India. Growth in Food & Water was particularly high in China, Philippines and India driven by a continued demand in ethanol, starch & sugar and dairy. Marine reported good growth in China, South Korea and the Middle East driven by increased shipbuilding. Service developed well and grew.

Africa and Oceania

The region reported strong growth in order intake compared to last year. Energy had a high demand in HVAC and refinery in Australia and Africa. Food & Water reported overall growth in the region, whilst Marine had a more modest development, however, supported by increased ship building in New Zealand and Africa. Service order intake grew in Energy and Food & Water.

Personnel

The parent company does not have any employees.

The Group has on average had 17,419 (17,160) employees. At the end of December 2021, the Group had 17,883 (16,882) employees. The employee turnover rate excluding temporary employees for 2021 is 9.4 (7.5) percent. The highest employee turnover rate in 2021 is found in manufacturing, logistics & procurement, R&D and management & administration.

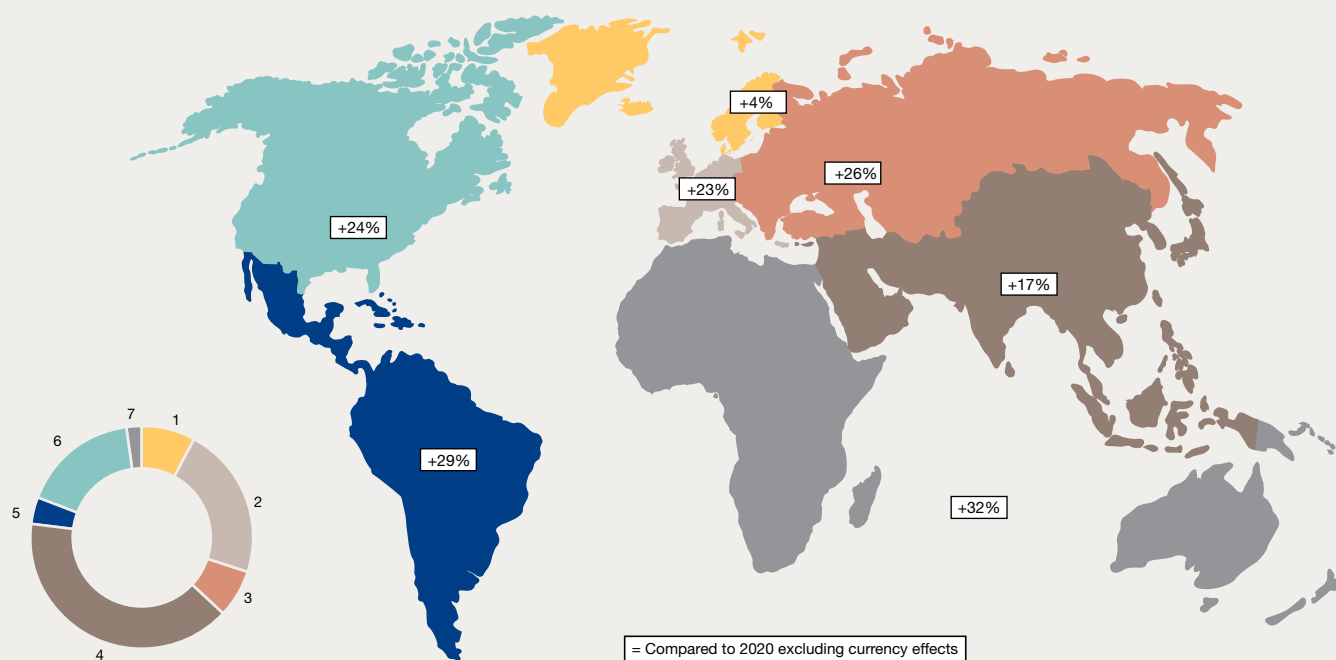
Alfa Laval has the ambition to develop the employees on all levels within the Group. The largest part of the competence development takes place in the daily work when our employees continuously get more demanding tasks as well as get the opportunity to participate in different projects together with more experienced colleagues. Local training and development efforts in the different factories and sales companies around the world are equally important, for instance ALPS (Alfa Laval Production System) that is based on the well-known concepts of Lean and Six Sigma and also on ALPAS (Alfa Laval Product & Application School). The ALPAS trainings are designed and developed by the product responsible Business Unit.

All training programmes and development projects are performed within the Alfa Laval Academy framework, to ensure they follow the Alfa Laval Learning Principles. Further examples of such training programmes are Challenger (for young talents with international leadership potential), Impact (training and mentor programme for high potential women in leadership positions), Project Management, Information Security (mandatory training via E-learning), Inclusion & Diversity (for all employees) and Pure Leadership (for middle management).

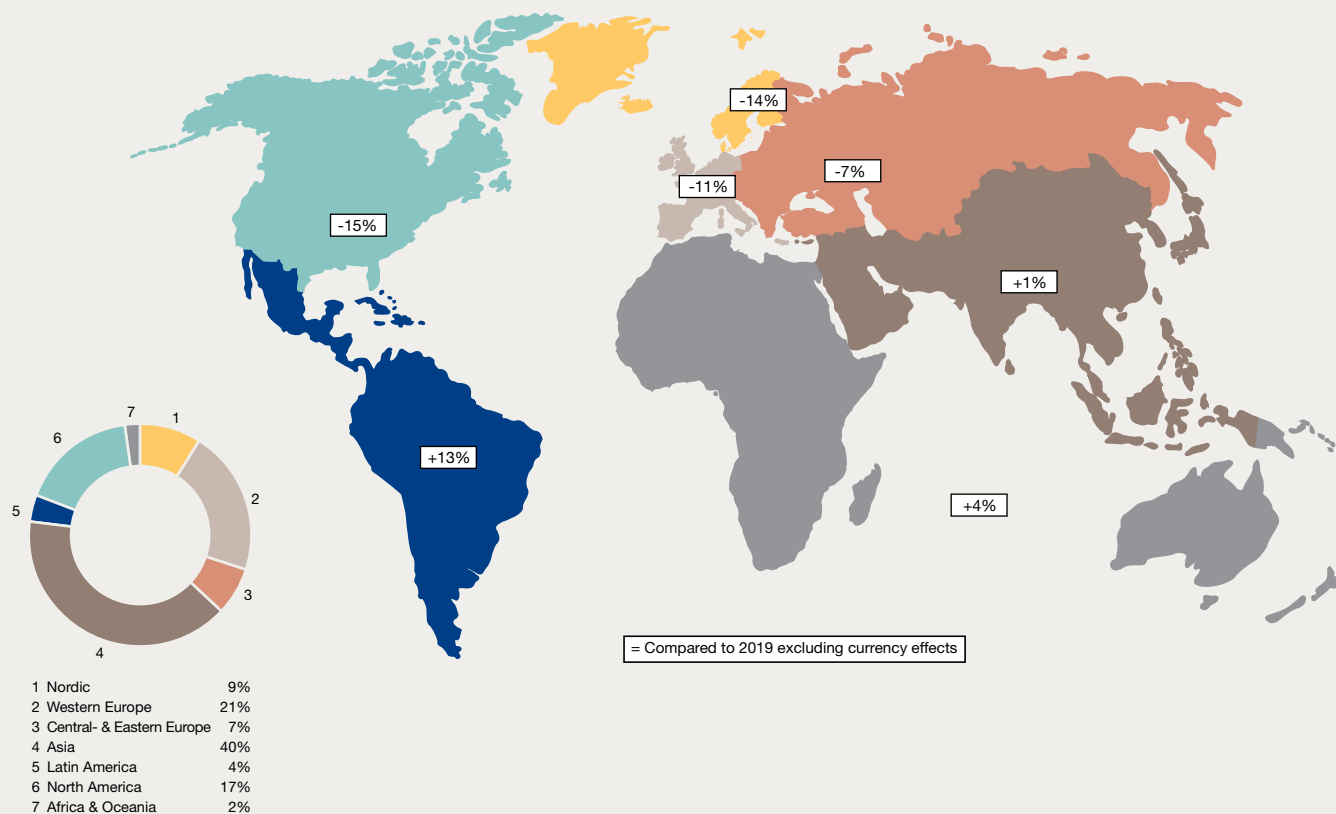
Alfa Laval has a global certification in "Learning Facilitation Capabilities" called "Licence to Train" to secure quality and consistency in the way we deliver our learning programmes internally as well as towards customers and partners.

Alfa Laval is promoting inclusion and diversity at all levels to give all employees fair and equal opportunities for development and career. The latter is not the least important in an international company. Likewise, the number of female managers shall increase in order to better reflect the females' part of the total number of employees. The Impact programme is one component to reach the goal.

Orders received 2021

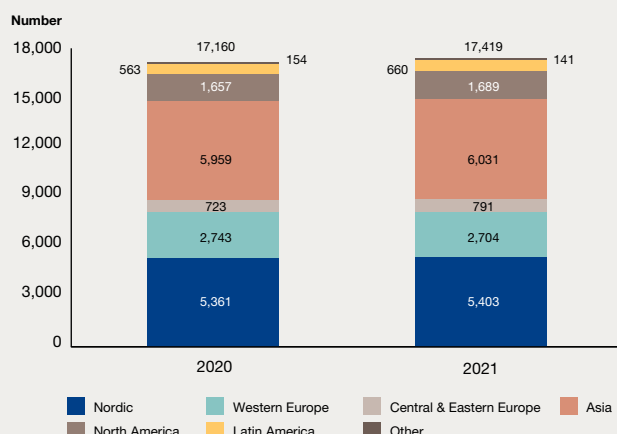


Orders received 2020



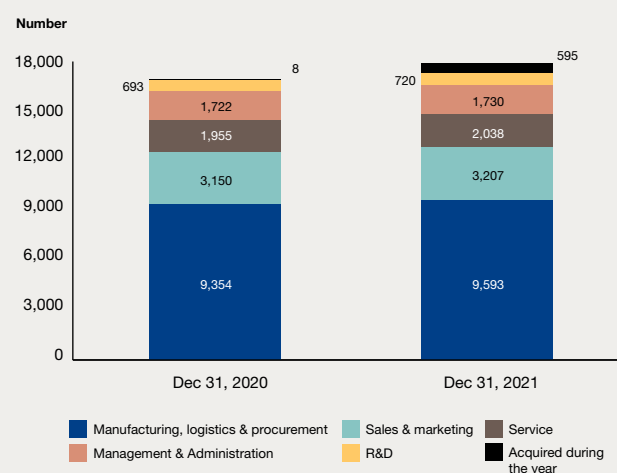
The distribution of the number of employees by region is:

Average number of employees – by region



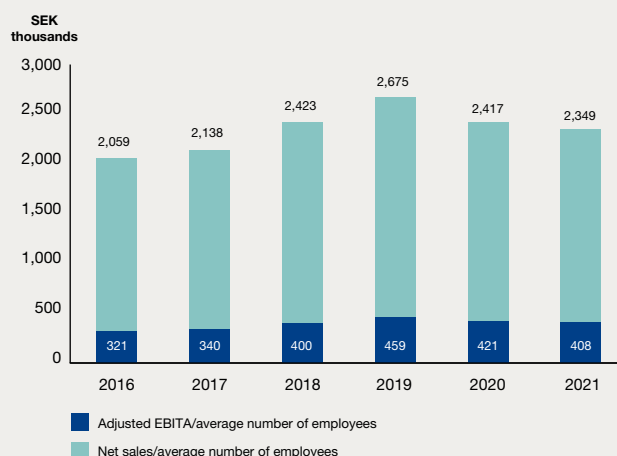
The distribution of the number of employees by personnel category at year end is:

Employees – by category



The productivity by employee has developed as follows:

Employees – Productivity development



The outcome for 2016 was affected by the receding demand, mitigated by the continued weakening of the Swedish krona. The improvement for 2017 is entirely explained by the change programme that was launched during the autumn 2016. This also affects the outcome for 2018 and 2019 but reinforced by the stronger demand within primarily environmental products and the weakening of the Swedish krona. The deterioration during 2020 and 2021 is explained by the consequences of the COVID-19 pandemic and the stronger Swedish krona.

The distribution of employees per country and per municipality in Sweden and between males and females can be found in Note 5 in the notes to the financial statements. The specification of salaries, wages, remunerations, social costs and pension costs are provided in Note 6 in the notes to the financial statements.

Remuneration policy for executive officers

The remuneration policy for executive officers is established by the Annual General Meeting, see further description in Note 6 and the complete policy in Note 37.

The Board of Directors decided in 2021 to implement step four of the modified cash based long-term incentive programme for maximum 95 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The outcome of the modified programme depends on how the adjusted EBITA margin and the net sales growth have developed during a three-year period, with a 50/50 weight between the targets. This means that there will be no award during the first two years since it is first in year three that it can be determined to what extent the targets have been achieved. Maximum outcome is awarded when the targets are exceeded. The remuneration from the modified long-term incentive programme can constitute maximum 25, 40 or 50 percent of the fixed remuneration depending on position. Payment to the participants in the programme is made after year three and only provided that they are still employed at the date of payment.

Research and development

As the result of an intensive and consistent commitment over many years to research and development, Alfa Laval has achieved a world-leading position within the areas of separation and heat transfer. The product development within fluid handling has resulted in a strong market position for a number of products. In order to strengthen the Group's position and to support the organic growth, by identifying new applications for existing products as well as developing new products, research and development is always an activity of high priority. Research and development is conducted at approximately twenty facilities around the world.

The costs for research and development have amounted to SEK 1,159 (1,039) million, corresponding to 2.8 (2.5) percent of net sales. Excluding currency effects and acquisition/divestment of businesses, the costs for research and development have increased by 6.3 percent compared to last year.

Ethics and social responsibility

Two of Alfa Laval's four business principles are: "Respect for human rights is fundamental" and "High ethical standards guide our conduct". This means that Alfa Laval respects human rights and the very different social cultures in which the company works and supplies its products and services and that Alfa Laval conducts its business with honesty, integrity and respect for others.

Globalisation gives Alfa Laval new business opportunities for increased sales as well as lower costs for manufacturing the products. But when part of the supply chain is moved to countries with lower costs the company is often confronted with ethical questions in a more obvious manner. Health, security and working conditions for the employees at the company's suppliers are some of Alfa Laval's main topics. When Alfa Laval procures products from quickly growing economies like China and India it is important for the company to secure that the cost reduction opportunities are not at the expense of those performing the work in each country. Alfa Laval regards it as an obligation to make sure that its suppliers develop quickly if the work, health and security conditions are not acceptable.

Alfa Laval has developed an internal training programme to give salespeople and purchase departments knowledge on legal business practice.

Environment

One of Alfa Laval's four business principles is: "Optimizing the use of natural resources in the most efficient manner is our business." The company's products make a significant contribution to reducing the environmental impact of industrial processes and are used to produce renewable energy.

All sites have an environmental management system in place. More than 95 percent of the delivery value comes from production sites with ISO 14001 certification.

The subsidiary Alfa Laval Corporate AB is involved in operational activities that are subject to an obligation to report and compulsory licensing according to Swedish environmental legislation. The permits mainly relate to the manufacturing of heat exchangers in Lund and Ronneby and the manufacturing of separators in Tumba and Eskilstuna. The external environment is affected through limited discharges into the air and water, through waste and noise.

The foreign manufacturing sites within the Alfa Laval Group are engaged in operational activities with a similar effect on the external environment. To what extent this activity is subject to an obligation to report and/or compulsory licensing according to local environmental legislation varies from country to country. Alfa Laval has an overall intention to operate well within the limits that are set by local legislation.

Consequences of COVID-19

Alfa Laval has global and local crisis teams in place for close monitoring and swift response to changes in the situation to secure the health and safety of our employees.

As a result of successful vaccination programmes Alfa Laval has been able to step by step open up the offices again after the pandemic depending on the situation in each country.

Asbestos-related lawsuits

The Alfa Laval Group was as of December 31, 2021, named as a co-defendant in a total of 571 asbestos-related lawsuits with a total of approximately 571 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.

Result for the parent company

The parent company's result after financial items for the full year 2021 was SEK 666 (404) million, out of which dividends from subsidiaries SEK 682 (413) million, net interests SEK - (-0) million, realised and unrealised exchange rate gains and losses SEK 0 (-0) million, costs related to the listing SEK -4 (-4) million, fees to the Board SEK -10 (-8) million, cost for annual report and annual general meeting SEK -1 (-2) million and other operating income and operating costs the remaining SEK -1 (5) million. Change of tax allocation reserve has been made with SEK -423 (205) million. Group contributions amount to SEK 1,896 (79) million. Tax on this year's result amount to SEK -303 (-64) million. Net income for the year was SEK 1,836 (624) million.

Unrestricted equity for the parent company

The unrestricted equity of Alfa Laval AB (publ) was SEK 8,707 (10,518) million.

Disclosure on share related information

Paragraph 2a in chapter 6 of the Swedish Annual Accounts Act requires listed companies to disclose certain information relating to the company's shares in the Board of Directors' Report. This information is found in the following paragraphs, in the "Changes in consolidated equity" and in Note 6.

Proposed disposition of earnings

The Board of Directors propose a dividend of SEK 6.00 (5.50) per share corresponding to SEK 2,492 (2,307) million and that the remaining income available for distribution in Alfa Laval AB (publ) of SEK 6,215 (8,211) million be carried forward, see Note 40.

The Board of Directors are of the opinion that the proposed dividend is in line with the requirements that the type and size of operations, the associated risks, the capital needs, liquidity and financial position put on the company.

Repurchase of shares

The Annual General Meeting 2021 mandated the Board to decide on repurchase of up to 5 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. Until December 31, 2021 the following repurchases has been made:

| Specification of repurchase of shares | | | | |
|--|----------------|---------------|----------------|-----------|
| 2021 | Second quarter | Third quarter | Fourth quarter | Total |
| Number of repurchased shares | 1,153,000 | 1,500,320 | 1,407,680 | 4,061,000 |
| Percentage of outstanding shares | 0.27% | 0.36% | 0.34% | 0.97% |
| Cash-out and decrease in parent company and consolidated equity (SEK millions) | 330 | 510 | 499 | 1,339 |

Proposal to cancel repurchased shares and make a bonus issue

The Board will propose to the Annual General Meeting 2022 to cancel the repurchased shares. At December 31, 2021, 4,061,000 shares are held by the company. Cancellation of these shares means that the share capital will decrease with SEK 11 million. At the same time the Board will propose that the Annual General Meeting decides to increase the share capital by a bonus issue with the same amount without issuing any new shares. In this way the size of the share capital is restored and the company avoids having to obtain permission from Bolagsverket or if disputed the local court to cancel the repurchased shares.

It is the number of repurchased shares when the notice to the Annual General Meeting is sent that is the basis for the decision on cancellation of shares at the Annual General Meeting.

Proposed share buy-back program

The Board of Directors will also propose the Annual General Meeting to mandate the Board to decide on repurchase of up to 5 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital at the Annual General Meeting 2023. The reduction of the share capital will be met by a corresponding bonus issue without issuing any new shares so that the size of the share capital is restored.

Outlook for the first quarter

In the fourth quarter and full year 2021 report issued on February 2, 2022 the President and Chief Executive Officer Tom Erixon stated:

"We expect demand in the first quarter to be higher than in the fourth quarter."

Earlier published outlook (October 26, 2021): "We expect demand in the fourth quarter to be about the same as in the third quarter."

Date for the next financial reports 2022

Alfa Laval will publish financial reports at the following dates:

| | |
|---------------------------------------|------------|
| Interim report for the first quarter | April 26 |
| Interim report for the second quarter | July 20 |
| Interim report for the third quarter | October 25 |

Consolidated cash flows

| Consolidated cash flows | | | |
|--|------|---------------|---------------|
| SEK millions | Note | 2021 | 2020 |
| Operating activities | | | |
| Operating income | | 6,126 | 5,580 |
| Adjustment for depreciation, amortisation and write down | | 1,987 | 2,349 |
| Adjustment for other non-cash items | | 147 | 397 |
| | | 8,260 | 8,326 |
| Taxes paid | | -1,599 | -1,537 |
| | | 6,661 | 6,789 |
| Changes in working capital: | | | |
| Increase(-)/decrease(+) of receivables | | -591 | 1,409 |
| Increase(-)/decrease(+) of inventories | | -797 | 126 |
| Increase(+)/decrease(-) of liabilities | | 480 | -580 |
| Increase(+)/decrease(-) of provisions | | -489 | -21 |
| Increase(-)/decrease(+) in working capital | | -1,397 | 934 |
| | | 5,264 | 7,723 |
| Investing activities | | | |
| Investments in fixed assets (Capex) | | -1,229 | -1,232 |
| Divestment of fixed assets | | 24 | 119 |
| Acquisition of businesses | 17 | -3,828 | -70 |
| Divestment of businesses | | 8 | 125 |
| | | -5,025 | -1,058 |
| Financing activities | | | |
| Received interests and dividends | | 79 | 76 |
| Paid interests | | -210 | -260 |
| Realised financial exchange gains | | 258 | 92 |
| Realised financial exchange losses | | -82 | -524 |
| Repurchase of shares | | -1,339 | - |
| Dividends to owners of the parent | | -2,307 | - |
| Dividends to non-controlling interests | | -2 | 0 |
| Increase(-) of financial assets | | -80 | -3,460 |
| Decrease(+) of financial assets | | 3,033 | 0 |
| Increase of loans | | 1,000 | 2,000 |
| Amortisation of loans | | -2,431 | -4,841 |
| | | -2,081 | -6,917 |
| Cash flow for the year | | -1,842 | -252 |
| Cash and cash equivalents at the beginning of the year | | 5,150 | 5,594 |
| Translation difference in cash and cash equivalents | | 48 | -192 |
| Cash and cash equivalents at the end of the year | 26 | 3,356 | 5,150 |
| Free cash flow per share (SEK) * | | 0.57 | 15.89 |
| Capex in relation to net sales | | 3.0% | 3.0% |
| Average number of shares | | 418,021,440 | 419,456,315 |

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

Comments to the consolidated cash flows

For further comments on certain individual lines in the cash flow statement, reference is made to Notes 17 and 26.

Cash flows from operating activities

The decrease in cash flows from operating activities in 2021 is mainly explained by the increase in working capital.

Cash and cash equivalents

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

Cash flow

Cash flow from operating and investing activities amounted to SEK 239 (6,665) million during 2021. Out of this, acquisitions of businesses were SEK -3,828 (-70) million whereas divestments generated cash of SEK 8 (125) million.

Adjustment for other non-cash items

Other non-cash items are mainly referring to realised gains and losses in connection with sale of assets. These have to be eliminated since the cash impact of divestments of fixed assets and businesses are reported separately under cash flow from investing activities.

Working capital

Working capital increased by SEK 1,397 million during 2021, mainly due to increased inventories to secure our ability to deliver. During 2020 the working capital instead decreased by SEK 934.

Investments

Investments in property, plant and equipment amounted to SEK 1,229 (1,232) million during 2021.

A number of structural changes in the form of new or improved buildings including move of production and productivity increasing investments for improved cost and availability have been implemented or started during the year, among others in Kolding in Denmark and Jiang Yin, Kunshan and Qingdao in China. Examples of investments made for the individual product groups are as follows:

Heat exchangers

Investments have been made in machines for increased capacity and manufacturing of new products and in productivity enhancing equipment in Ronneby in Sweden, San Bonifacio in Italy and Jiang Yin in China for brazed heat exchangers. Additional investments have been made in Jiang Yin in China and in Lund in Sweden in equipment to widen the product range and increase the productivity for gasketed heat exchangers.

High speed separators

Continued capacity investments in machining equipment for separators have been made in Eskilstuna in Sweden and in Pune in India.

Decaners

Capacity and productivity enhancing investments have been made in Pune in India.

Pumps and valves

Capacity and productivity enhancing investments have been made in Kolding in Denmark and Kunshan in China.

Depreciations

Depreciation, excluding allocated step-up values, amounted to SEK 1,191 (1,134) million during the year.

Acquisitions and disposals

For a further analysis of the impact on the cash flow by acquisitions and disposals, see Note 17.

Free cash flow per share

The free cash flow per share is SEK 0.57 (15.89).

Consolidated comprehensive income

| Consolidated comprehensive income | | | |
|--|----------------|--------------|--------------|
| SEK millions | Note | 2021 | 2020 |
| Net sales | 1, 2, 3, 4, 36 | 40,911 | 41,468 |
| Cost of goods sold | 9 | -26,401 | -27,210 |
| Gross profit | | 14,510 | 14,258 |
| Sales costs | 5, 6, 9 | -4,443 | -4,125 |
| Administration costs | 5, 6, 7, 9 | -1,940 | -1,834 |
| Research and development costs | 9 | -1,159 | -1,039 |
| Other operating income | 8 | 910 | 819 |
| Other operating costs | 8, 9 | -1,828 | -2,521 |
| Share of result in joint ventures | 34 | 76 | 22 |
| Operating income | | 6,126 | 5,580 |
| Dividends and other financial income and costs | 10 | 35 | 26 |
| Interest income and financial exchange rate gains | 11 | 362 | 220 |
| Interest expense and financial exchange rate losses | 11 | -381 | -849 |
| Result after financial items | | 6,142 | 4,977 |
| Tax on this year's result | 16 | -1,308 | -1,372 |
| Other taxes | 16 | -33 | -25 |
| Net income for the year | | 4,801 | 3,580 |
| Other comprehensive income: | | | |
| Items that will subsequently be reclassified to net income | | | |
| Cash flow hedges | | -434 | 744 |
| Translation difference | | 1,681 | -2,454 |
| Deferred tax on other comprehensive income | 16 | 66 | -76 |
| Sum | | 1,313 | -1,786 |
| Items that will subsequently not be reclassified to net income | | | |
| Revaluations of defined benefit obligations | | 567 | -432 |
| Market valuation of external shares | 16 | 357 | -125 |
| Deferred tax on other comprehensive income | | -141 | 87 |
| Sum | | 783 | -470 |
| Comprehensive income for the year | | 6,897 | 1,324 |
| Net income attributable to: | | | |
| Owners of the parent | | 4,759 | 3,553 |
| Non-controlling interests | | 42 | 27 |
| Earnings per share (SEK) | | 11.38 | 8.47 |
| Average number of shares | | 418,021,440 | 419,456,315 |
| Comprehensive income attributable to: | | | |
| Owners of the parent | | 6,834 | 1,308 |
| Non-controlling interests | | 63 | 16 |

Comments to the consolidated comprehensive income

For comments on the individual lines in the consolidated comprehensive income statement, reference is made to Notes 1 to 16 and Notes 34, 36 and 38. For comments on the operating segments, see Note 1.

As a basis for comments on the various main items of the consolidated comprehensive income statement, please find a comparison between the last two years:

| Income analysis | | |
|--------------------------------------|--------------|--------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Net sales | 40,911 | 41,468 |
| Adjusted gross profit * | 15,306 | 15,113 |
| - adjusted gross margin (%) * | 37.4 | 36.4 |
| Expenses ** | -7,001 | -6,748 |
| - in % of net sales | 17.1 | 16.3 |
| Adjusted EBITDA * | 8,305 | 8,365 |
| - adjusted EBITDA margin (%) * | 20.3 | 20.2 |
| Depreciation | -1,191 | -1,134 |
| Adjusted EBITA * | 7,114 | 7,231 |
| - adjusted EBITA margin (%) * | 17.4 | 17.4 |
| Amortisation of step-up values | -796 | -855 |
| Comparison distortion items | -192 | -796 |
| Operating income | 6,126 | 5,580 |

* Alternative performance measures. ** Excluding comparison distortion items.

The gross profit has been affected positively by the mix between service and capital sales and negatively by a lower sales volume.

Sales and administration expenses amounted to SEK 6,383 (5,959) million, which corresponded to 15.6 (14.4) percent of net sales. Excluding currency effects and acquisition/divestment of businesses, sales and administration expenses were 7.6 percent higher than last year.

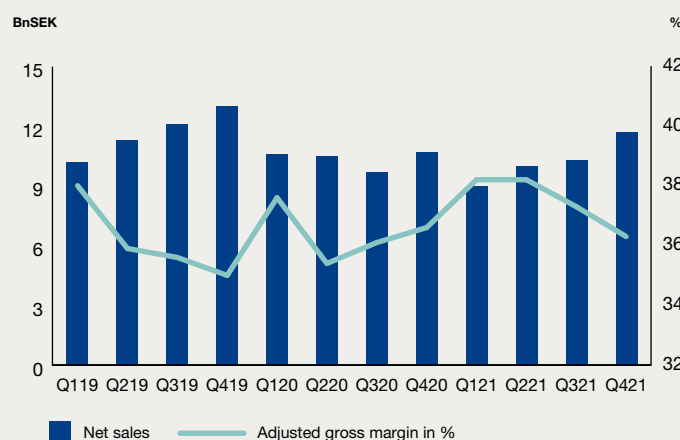
The costs for research and development have amounted to SEK 1,159 (1,039) million, corresponding to 2.8 (2.5) percent of net sales. Excluding currency effects and acquisition/divestment of businesses, the costs for research and development have increased by 6.3 percent compared to last year.

Earnings per share was SEK 11.38 (8.47) for 2021. The corresponding figure excluding amortisation of step-up values and the corresponding tax, was SEK 12.98 (10.12).

Compared with last year Alfa Laval has been affected during 2021 by exchange rate differences, both through translation differences and through the net exposure when trading in foreign currencies. The effect on adjusted EBITA has been calculated to totally about SEK -50 (180) million for 2021 compared with last year. The effect of the exchange rate variations has been limited through exchange rate hedging.

In order to illustrate the quarterly development, the last 12 quarters are shown below for four of the parameters in the income analysis:

Net sales & Adjusted gross margin



Adjusted EBITA



Comparison distortion items

| Consolidated | | |
|--|-------------|-------------|
| SEK millions | 2021 | 2020 |
| Other operating income | | |
| Comparison distortion items: | | |
| – Realised gain on sale of businesses | 3 | – |
| – Realised gain on sale of properties | 9 | – |
| Other operating costs | | |
| Comparison distortion items: | | |
| – Realised loss on sale of businesses | – | -55 |
| – Write down of goodwill | – | -360 |
| – Restructuring costs | -204 | -381 |
| Net comparison distortion items | -192 | -796 |

The comparison distortion items during 2021 are relating to the final step in the restructuring program that was started during the fourth quarter 2020 and the realised gains on the sale of the remaining air heat exchanger operation in India to LU-VE and on the sale of a property in India. The total restructuring cost including write down of goodwill is SEK 945 million, out of which SEK 741 was charged in 2020 and the remaining SEK 204 was charged in 2021. The restructuring program is described below.

The realized loss in 2020 is relating to the divestment of the operations in DSO Fluid Handling Inc in the U.S.

The write down of goodwill and the restructuring costs 2020 are part of the programme for adapting the organisation to changing market fundamentals that was announced on December 16, 2020. The program is mainly addressing structural imbalances in specific parts of the oil & gas business as well as parts of the Marine business. In addition, the program will further drive the competence shift required in light of the accelerated pace of digitalization. The write down of goodwill concerns oil & gas related businesses. Approximately 600 employees mainly in Europe and North America are affected by the program. The program will generate annual savings of around SEK 300 million, with full effect expected from mid-2022.

Consolidated financial net and taxes

The financial net for 2021 was SEK -137 (-191) 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 -10 (-5) million, interest on the bilateral term loans of SEK -2 (-34) million, interest on the corporate bonds of SEK -83 (-82) million, interest on the commercial paper programme of SEK -0 (-) and a net of dividends, changes in fair value and other interest income and interest costs of SEK -42 (-70) million.

The net of realised and unrealised exchange rate differences was SEK 153 (-412) million.

The tax on the result after financial items was SEK -1,341 (-1,397) million in 2021.

Accumulated translation differences *

Consolidated

SEK millions

| Year | Main explanation to translation differences | Change | Accumulated | Pre-tax effect on change by hedging measures |
|------------------------|--|--------|-------------|--|
| Formation of the Group | | | | |
| 2000 | The EUR was appreciated by 6 %, which affected the EUR based acquisition loans | -94 | -94 | -312 |
| 2001 | The USD was appreciated by 10.7 % | 97 | 3 | -105 |
| 2002 | The USD was depreciated by 16.7 % | -190 | -187 | 165 |
| 2003 | The USD was depreciated by 17.5 % | -38 | -225 | 195 |
| 2004 | The USD was depreciated by 9.0 % | -103 | -328 | -19 |
| 2005 | The USD was appreciated by 20.3 % and the EUR was appreciated by 4.8 % | 264 | -64 | -65 |
| 2006 | The USD was depreciated by 13.5 % and the EUR was depreciated by 4.0 % | -269 | -333 | 56 |
| 2007 | The USD was depreciated by 5.7 % whereas the EUR was appreciated by 4.7 % | 224 | -109 | 13 |
| 2008 | The USD was appreciated by 20.5 % and the EUR was appreciated by 16.2 % | 850 | 744 | -468 |
| 2009 | The USD was depreciated by 7.5 % and the EUR was depreciated by 6.0 % | -392 | 352 | 220 |
| 2010 | The USD was depreciated by 5.7 % and the EUR was depreciated by 12.9 % | -554 | -202 | 99 |
| 2011 | The USD was appreciated by 1.4 % whereas the EUR was depreciated by 0.8 % | -254 | -456 | 34 |
| 2012 | The USD was depreciated by 5.8 % and the EUR was depreciated by 3.6 % | -798 | -1,254 | 214 |
| 2013 | The USD was appreciated by 0.3 % and the EUR was appreciated by 4.1 % | 39 | -1,215 | -83 |
| 2014 | The USD was appreciated by 20.5 % and the EUR was appreciated by 6.3 % | 439 | -776 | -1,033 |
| 2015 | The USD was appreciated by 6.6 % whereas the EUR was depreciated by 4.0 % | -1,056 | -1,832 | 301 |
| 2016 | The USD was appreciated by 8.6 % and the EUR was appreciated by 4.6 % | 1,882 | 50 | -643 |
| 2017 | The USD was depreciated by 9.4 % whereas the EUR was appreciated by 2.8 % | -1,339 | -1,289 | -207 |
| 2018 | The USD was appreciated by 8.8 % and the EUR was appreciated by 4.2 % | 641 | -648 | -571 |
| 2019 | The USD was appreciated by 4.2 % and the EUR was appreciated by 2.1 % | 632 | -16 | -288 |
| 2020 | The USD was depreciated by 12.2 % and the EUR was depreciated by 3.7 % | -2,454 | -2,470 | 313 |
| 2021 | The USD was appreciated by 10.2 % and the EUR was appreciated by 1.5 % | 1,681 | -789 | -165 |

* Reported against other comprehensive income. Prior to 2009 these translation differences were reported against equity.

Consolidated financial position

| Consolidated financial position | | | |
|---|------------|---------------|---------------|
| ASSETS | | | |
| SEK millions | Note | 2021 | 2020 |
| Non-current assets | | | |
| Intangible assets | 17, 18 | | |
| Patents and unpatented know-how | | 2,049 | 776 |
| Trademarks | | 962 | 1,301 |
| Licenses, renting rights and similar rights | | 32 | 20 |
| Internally generated intangible assets | | 398 | 107 |
| Goodwill | | 22,480 | 19,080 |
| | | 25,921 | 21,284 |
| Property, plant and equipment | 17, 19 | | |
| Real estate | | 3,060 | 2,878 |
| Machinery and other technical installations | | 2,370 | 2,229 |
| Equipment, tools and installations | | 846 | 801 |
| Construction in progress and advances to suppliers concerning property, plant and equipment | | 475 | 261 |
| Right-of-use assets | | 2,324 | 2,152 |
| | | 9,075 | 8,321 |
| Other non-current assets | | | |
| Other long-term securities | 13, 14, 20 | 1,396 | 1,575 |
| Pension assets | 27 | 70 | 70 |
| Derivative assets | 13, 14, 15 | 56 | 196 |
| Deferred tax assets | 16 | 1,694 | 1,792 |
| | | 3,216 | 3,633 |
| Total non-current assets | | 38,212 | 33,238 |
| Current assets | | | |
| Inventories | 21 | 10,525 | 9,223 |
| Assets held for sale | 19 | 25 | 55 |
| Current receivables | | | |
| Accounts receivable | 13, 22, 36 | 6,738 | 5,834 |
| Current tax assets | | 883 | 521 |
| Other receivables | 13, 23 | 3,446 | 3,213 |
| Prepaid costs and accrued income | 13, 24 | 427 | 419 |
| Derivative assets | 13, 14, 15 | 458 | 589 |
| | | 11,952 | 10,576 |
| Current deposits | | | |
| Other current deposits | 13, 25 | 291 | 2,618 |
| Cash and cash equivalents | 13, 26 | 3,356 | 5,150 |
| Total current assets | | 26,149 | 27,622 |
| TOTAL ASSETS | | 64,361 | 60,860 |

| Consolidated financial position, continued | | | |
|--|------------|---------------|---------------|
| EQUITY AND LIABILITIES | | | |
| SEK millions | Note | 2021 | 2020 |
| Equity | | | |
| Attributable to owners of the parent | | | |
| Share capital | | 1,117 | 1,117 |
| Other contributed capital | | 2,770 | 2,770 |
| Other reserves | | -1,728 | -3,803 |
| Retained earnings | | 29,937 | 28,824 |
| | | 32,096 | 28,908 |
| Attributable to non-controlling interests | 12 | 248 | 163 |
| Total equity | | 32,344 | 29,071 |
| Non-current liabilities | | | |
| Liabilities to credit institutions etc | 13, 29 | 3,059 | 8,043 |
| Lease liabilities | 13, 35 | 1,453 | 1,573 |
| Provisions for pensions and similar commitments | 27 | 1,907 | 2,494 |
| Provision for deferred tax | 16 | 1,838 | 1,553 |
| Other provisions | 28 | 412 | 681 |
| Derivative liabilities | 13, 14, 15 | 63 | 5 |
| Total non-current liabilities | | 8,732 | 14,349 |
| Current liabilities | | | |
| Other current liabilities | | | |
| Liabilities to credit institutions etc | 13, 29 | 5,185 | 1,125 |
| Advances from customers | | 4,824 | 4,381 |
| Accounts payable | 13 | 3,371 | 2,526 |
| Notes payable | 13 | 131 | 232 |
| Current tax liabilities | | 1,055 | 919 |
| Lease liabilities | 13, 35 | 974 | 662 |
| Other liabilities | 13, 30 | 3,557 | 3,577 |
| Other provisions | 28 | 1,811 | 1,757 |
| Accrued costs and prepaid income | 13, 31 | 2,171 | 2,153 |
| Derivative liabilities | 13, 14, 15 | 206 | 108 |
| Total current liabilities | | 23,285 | 17,440 |
| Total liabilities | | 32,017 | 31,789 |
| TOTAL EQUITY AND LIABILITIES | | 64,361 | 60,860 |

Comments on the consolidated financial position

For comments on the individual lines in the statement on financial position, reference is made to Notes 12 to 36. For comments on the operating segments, see Note 1.

Capital employed

The average capital employed including goodwill and step-up values amounted to SEK 34,677 (33,678) million during the year.

Return on capital employed

The return on average capital employed including goodwill and step-up values amounted to 20.0 (19.1) percent during the year.

Capital turnover rate

The capital turnover rate calculated on the average capital employed including goodwill and step-up values amounted to 1.2 (1.2) times for the year.

Return on equity

Net income in relation to the average equity was 15.8 (12.7) percent during the year.

Solidity

The solidity, that is the equity in relation to total assets, was 50.3 (47.8) percent at the end of the year.

Net debt

The net debt was SEK 7,024 (3,635) million at the end of the year.

Net debt to EBITDA

Net debt in relation to EBITDA was 0.87 (0.48) times at the end of December.

Debt ratio

The debt ratio, that is the net debt in relation to equity, was 0.22 (0.13) times at the end of December.

Changes in consolidated equity

| Changes in consolidated equity | | | | | | | | | | | | |
|---|----------------------|---------------------------|------------------|-------------------------------------|-------------------------|---------------|-------------------|---------------|---------------------------|-------------------|------------|---------------|
| Attributable to: | Owners of the parent | | | | | | | | Non-controlling interests | | | Total |
| | Other reserves | | | | | | | | Translation differences | Retained earnings | Subtotal | |
| SEK millions | Share capital | Other contributed capital | Cash flow hedges | Market valuation of external shares | Translation differences | Revaluations | Retained earnings | Subtotal | Translation differences | Retained earnings | Subtotal | |
| As of December 31, 2019 | 1,117 | 2,770 | -95 | 2 | -82 | -1,383 | 25,271 | 27,600 | 18 | 129 | 147 | 27,747 |
| 2020 | | | | | | | | | | | | |
| Comprehensive income | | | | | | | | | | | | |
| Net income | - | - | - | - | - | - | 3,553 | 3,553 | - | 27 | 27 | 3,580 |
| Other comprehensive income | - | - | 590 | -125 | -2,365 | -345 | - | -2,245 | -11 | - | -11 | -2,256 |
| Comprehensive income | - | - | 590 | -125 | -2,365 | -345 | 3,553 | 1,308 | -11 | 27 | 16 | 1,324 |
| Transactions with shareholders | | | | | | | | | | | | |
| Dividends to owners of the parent | - | - | - | - | - | - | - | - | - | - | - | - |
| Dividends to non-controlling interests | - | - | - | - | - | - | - | - | - | 0 | 0 | 0 |
| As of December 31, 2020 | 1,117 | 2,770 | 495 | -123 | -2,447 | -1,728 | 28,824 | 28,908 | 7 | 156 | 163 | 29,071 |
| 2021 | | | | | | | | | | | | |
| Comprehensive income | | | | | | | | | | | | |
| Net income | - | - | - | - | - | - | 4,759 | 4,759 | - | 42 | 42 | 4,801 |
| Other comprehensive income | - | - | -347 | 340 | 1,639 | 443 | - | 2,075 | 21 | - | 21 | 2,096 |
| Comprehensive income | - | - | -347 | 340 | 1,639 | 443 | 4,759 | 6,834 | 21 | 42 | 63 | 6,897 |
| Transactions with shareholders | | | | | | | | | | | | |
| Repurchase of shares | - | - | - | - | - | - | -1,339 | -1,339 | - | - | - | -1,339 |
| Non-controlling interests in acquired companies | - | - | - | - | - | - | - | - | - | 24 | 24 | 24 |
| Dividends to owners of the parent | - | - | - | - | - | - | -2,307 | -2,307 | - | - | - | -2,307 |
| Dividends to non-controlling interests | - | - | - | - | - | - | - | - | - | -2 | -2 | -2 |
| As of December 31, 2021 | 1,117 | 2,770 | 148 | 217 | -808 | -1,285 | 29,937 | 32,096 | 28 | 220 | 248 | 32,344 |

Specification of changes in number of shares and share capital

| Year | Event | Date | Change in number of shares | Total number of shares | Change in share capital SEK millions | Total share capital SEK millions |
|------|------------------------------------|-----------------|----------------------------|------------------------|--------------------------------------|----------------------------------|
| 2000 | Company formation | March 27, 2000 | 10,000,000 | 10,000,000 | 0.1 | 0.1 |
| | New issue of shares | August 24, 2000 | 27,496,325 | 37,496,325 | 0.3 | 0.4 |
| 2002 | Bonus issue of shares | May 3, 2002 | 37,496,325 | 74,992,650 | 0.4 | 1 |
| | Bonus issue of shares | May 16, 2002 | – | – | 749 | 750 |
| | New issue of shares | May 16, 2002 | 3,712,310 | 78,704,960 | 37 | 787 |
| | New issue of shares | May 17, 2002 | 32,967,033 | 111,671,993 | 330 | 1,117 |
| 2008 | Cancellation of repurchased shares | May 27, 2008 | -4,323,639 | 107,348,354 | -43 | |
| | Bonus issue of shares | May 27, 2008 | – | 107,348,354 | 43 | 1,117 |
| | Split 4:1 | June 10, 2008 | 322,045,062 | 429,393,416 | - | 1,117 |
| 2009 | Cancellation of repurchased shares | July 9, 2009 | -7,353,950 | 422,039,466 | -19 | |
| | Bonus issue of shares | July 9, 2009 | – | 422,039,466 | 19 | 1,117 |
| 2011 | Cancellation of repurchased shares | May 16, 2011 | -2,583,151 | 419,456,315 | -7 | |
| | Bonus issue of shares | May 16, 2011 | – | 419,456,315 | 7 | 1,117 |

Comments on changes in consolidated equity

The articles of association of Alfa Laval AB (publ) state that the share capital should be between SEK 745,000,000 and 2,980,000,000 and that the number of shares should be between 298,000,000 and 1,192,000,000.

At January 1, 2021 the share capital of SEK 1,116,719,930 was divided into 419,456,315 shares. Since then, no changes have been made.

The Annual General Meeting 2021 mandated the Board to decide on repurchase of up to 5 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. At December 31, 2021, 4,061,000 shares are held by the company. The Board will propose to the Annual General Meeting 2022 to cancel the repurchased shares. Cancellation of 4,061,000 shares means that the share capital will decrease with SEK 10,811,600. At the same time the Board will propose that the Annual General Meeting decides to increase the share capital by a bonus issue with the same amount without issuing any new shares. In this way the size of the share capital is restored and the company avoids having to obtain permission from Bolagsverket or if disputed the local court to cancel the repurchased shares. If the Annual General Meeting decides to cancel the repur-

chased shares and thereby reduce the share capital and make the bonus issue the share capital will remain at SEK 1,116,719,930 but divided on 415,395,315 shares.

It is the number of repurchased shares when the notice to the Annual General Meeting is sent that is the basis for the decision on cancellation of shares at the Annual General Meeting.

The company has only issued one type of shares and all these have equal rights. There are no restrictions in law or in the articles of association in the negotiability of the shares.

The only shareholder holding more than 10 percent of the shares is Tetra Laval International SA, Switzerland, who owns 29.1 (29.1) percent. The employees of the company do not own any shares in the company through company pension trusts.

No restrictions exist in how many votes that each shareholder can represent at a general meeting of shareholders. The company has no knowledge of any agreements between shareholders that would limit the negotiability of their shares.

The articles of association stipulate that members of the Board are elected at the Annual General Meeting. Election or discharge of members of the Board is otherwise regulated by the provisions in the Swedish Companies Act and the Swedish

Corporate Governance Code. According to the Companies Act changes in the articles of association are decided at general meetings of shareholders.

The senior credit facility with the banking syndicate and the corporate bonds each contain conditions that give the lenders the opportunity to terminate the loans and declare them due and payable if there is a change of control of the company through an acquisition of more than 50 and 30 percent respectively of the total number of shares.

The possibilities to distribute unappropriated profits from foreign subsidiaries are limited in certain countries due to local legislation. These limitations are not material. The limitations relate to:

- the existence of general restrictions concerning restricted equity in many countries,
- that subsidiaries in for instance China and India cannot take up loans to pay dividends, which limits the size of the dividends and
- rules on interest deduction limitations and thin capitalisation in many countries, for instance the U.S., Denmark and Norway limit the possibilities for these countries to increase debt to pay dividends.

Parent company cash flows

| Parent company cash flows | | |
|---|---------------|---------------|
| SEK millions | 2021 | 2020 |
| Cash flow from operating activities | | |
| Operating income | -16 | -9 |
| Taxes paid | -379 | -71 |
| | -395 | -80 |
| Changes in working capital: | | |
| Increase(-)/decrease(+) of receivables | 3,300 | -2,470 |
| Increase(+)/decrease(-) of liabilities | 1 | -5 |
| Increase(-)/decrease(+) in working capital | 3,301 | -2,475 |
| | 2,906 | -2,555 |
| Cash flow from investing activities | | |
| Investment in subsidiaries | - | - |
| | - | - |
| Cash flow from financing activities | | |
| Received interests | 0 | 0 |
| Repurchase of shares | -1,339 | - |
| Received dividends from subsidiaries | 682 | 413 |
| Paid dividends | -2,307 | 0 |
| Received group contribution | 83 | 2,142 |
| Paid group contribution | -4 | 0 |
| | -2,885 | 2,555 |
| Cash flow for the year | 21 | - |
| Cash and cash equivalents at the beginning of the year | - | - |
| Cash and cash equivalents at the end of the year | 21 | - |

Parent company income

| Parent company income* | | |
|--|--------------|------------|
| SEK millions | 2021 | 2020 |
| Administration costs | -15 | -14 |
| Other operating income | 0 | 5 |
| Other operating costs | -1 | 0 |
| Operating income | -16 | -9 |
| Dividends from subsidiaries | 682 | 413 |
| Interest income and similar result items | 0 | 0 |
| Interest expenses and similar result items | 0 | 0 |
| Result after financial items | 666 | 404 |
| Change of tax allocation reserve | -423 | 205 |
| Group contributions | 1,896 | 79 |
| Result before tax | 2,139 | 688 |
| Tax on this year's result | -303 | -64 |
| Net income for the year | 1,836 | 624 |

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

Parent company financial position

| Parent company financial position | | | |
|---------------------------------------|------|---------------|---------------|
| SEK millions | Note | 2021 | 2020 |
| ASSETS | | | |
| Non-current assets | | | |
| Financial non-current assets | | | |
| Shares in group companies | 20 | 4,669 | 4,669 |
| Current assets | | | |
| Current receivables | | | |
| Receivables on group companies | | 9,218 | 10,704 |
| Current tax assets | | 73 | – |
| Other receivables | | 2 | 3 |
| | | 9,293 | 10,707 |
| Cash and cash equivalents | | | |
| | | 21 | – |
| Total current assets | | 9,314 | 10,707 |
| TOTAL ASSETS | | 13,983 | 15,376 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Restricted equity | | | |
| Share capital | | 1,117 | 1,117 |
| Statutory reserve | | 1,270 | 1,270 |
| | | 2,387 | 2,387 |
| Unrestricted equity | | | |
| Profit brought forward | | 6,872 | 9,893 |
| Net income for the year | | 1,836 | 624 |
| | | 8,707 | 10,518 |
| Total equity | | 11,094 | 12,905 |
| Untaxed reserves | | | |
| Tax allocation reserve, taxation 2016 | | – | 68 |
| Tax allocation reserve, taxation 2017 | | 578 | 578 |
| Tax allocation reserve, taxation 2018 | | 391 | 391 |
| Tax allocation reserve, taxation 2019 | | 698 | 698 |
| Tax allocation reserve, taxation 2020 | | 614 | 613 |
| Tax allocation reserve, taxation 2021 | | 99 | 99 |
| Tax allocation reserve, taxation 2022 | | 491 | – |
| | | 2,871 | 2,447 |
| Current liabilities | | | |
| Liabilities to group companies | | 14 | 15 |
| Accounts payable | | 1 | 3 |
| Current tax liabilities | | – | 3 |
| Other liabilities | | 3 | 3 |
| | | 18 | 24 |
| TOTAL EQUITY AND LIABILITIES | | 13,983 | 15,376 |

Changes in parent company equity

| Changes in parent company equity | | | | |
|---|---------------|-------------------|---------------------|---------------|
| SEK millions | Share capital | Statutory reserve | Unrestricted equity | Total |
| As of December 31, 2019 | 1,117 | 1,270 | 9,893 | 12,280 |
| 2020 | | | | |
| Comprehensive income | | | | |
| Net income | – | – | 624 | 624 |
| | – | – | 624 | 624 |
| Transactions with shareholders | | | | |
| Dividends | – | – | – | – |
| As of December 31, 2020 | 1,117 | 1,270 | 10,518 | 12,905 |
| 2021 | | | | |
| Comprehensive income | | | | |
| Net income | – | – | 1,836 | 1,836 |
| | – | – | 1,836 | 1,836 |
| Transactions with shareholders | | | | |
| Repurchase of shares | – | – | -1,339 | -1,339 |
| Dividends | – | – | -2,307 | -2,307 |
| As of December 31, 2021 | 1,117 | 1,270 | 8,707 | 11,094 |

The share capital of SEK 1,116,719,930 (1,116,719,930) is divided among 419,456,315 (419,456,315) shares.

Notes to the financial statements

Accounting principles

The accounting principles mentioned below are only the ones that are relevant for the parent company and the consolidated group.

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments including derivatives that are valued at fair value. The statements are presented in SEK millions, unless otherwise stated.

Statement of compliance

Alfa Laval applies International Financial Reporting Standards (IFRS) as adopted by the European Union. Furthermore, recommendation RFR 1 "Supplementary accounting principles for consolidated groups" from the Council for Financial Reporting in Sweden is applied. Alfa Laval follows the Guidelines on Alternative Performance Measures issued by ESMA (European Securities and Markets Authority).

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.

Changed/implemented accounting principles

The company has chosen to only comment the changed accounting principles that are relevant for the company's financial reporting. During 2021 and 2020 no changed accounting principles have been implemented.

Alternative Performance Measures

In the annual report, alternative performance measures are used. See page 192 for definitions. Alfa Laval follows the Guidelines on Alternative Performance Measures issued by ESMA (European Securities and Markets Authority).

Critical accounting principles

IFRS 3 "Business Combinations" means that goodwill and intangible assets with indefinite useful life are not amortised. They are instead tested for impairment both annually and when there is an indication. The effect of IFRS 3 can be considerable for the Group if the profitability within the Group or parts of the Group goes down in the future, since this could trigger a substantial impairment write down of the goodwill according

to IAS 36 "Impairment of Assets". Such a write down will affect net income and thereby the financial position of the Group. The reported goodwill is SEK 22,480 (19,080) million at the end of the year. No intangible assets with indefinite useful life other than goodwill exist.

The Group has defined benefit plans, which are reported according to IAS 19 "Employee Benefits". This means that the plan assets are valued at fair value and that the present value of the benefit obligations in the defined benefit plans is decided through yearly actuarial calculations made by independent actuaries. If the value of the plan assets starts to decrease at the same time as the actuarial assumptions increase the benefit obligations the combined effect could result in a substantial deficit. The monetary magnitude comes from the fact that the deficit is the difference between two large numbers. The effect on profit and loss however only affects other comprehensive income and not net income. The risk has been limited since many of these defined benefit schemes are closed for new participants and replaced by defined contribution schemes.

The Group's reporting of provisions according to IAS 37 means that SEK 2,223 (2,438) million is reported as other provisions. This constitutes 3.5 (4.0) percent of the Group's assets and is important for the assessment of the Group's financial position, not the least since provisions normally are based on judgements of probability and estimates of costs and risks. If the accounting principles for provision would be changed sometime in the future, this could have a substantial impact on the Group's financial position.

Key sources of estimation uncertainty

The key source of estimation uncertainty is related to the impairment test of goodwill, since the testing is based on certain assumptions concerning future cash flows. See the section on critical accounting principles above for further details.

Judgements

In applying the accounting policies Management has made various judgements, apart from those involving estimations, that can significantly affect the amounts recognised in the financial statements. These judgements mainly relate to:

- probability in connection with business risks;
- the probable outcome of claims;
- the probable outcome of litigations;
- determination of percentage of completion in contracts with customers recognised over time;
- recoverability of accounts receivable;
- obsolescence in inventory; and
- classification of financial instruments.

Associates

The Group does not own shares in any material companies that fulfil the definition of an associate in IAS 28 "Investments in Associates", that is where the ownership is between 20 and 50 percent.

Borrowing costs

Borrowing costs are accounted for according to IAS 23 "Borrowing Costs", which means that the borrowing costs are charged to the profit and loss in the period to which they relate.

Transaction costs that arise in connection with raising a loan are capitalised and amortised over the maturity of the loan. The capitalised amount is reported net against the raised loan.

Business combinations – consolidation principles

The consolidated financial statements have been prepared according to IFRS 3 "Business Combinations" and IFRS 10 "Consolidated financial statements".

An entity shall be consolidated if a decisive influence is present. Control (decisive influence) is present when Alfa Laval has:

- power over the investee, which is described as having rights to direct the activities that significantly affect the investee's returns;
- exposure or rights to variable returns from the involvement in the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

A decisive influence does not need to arise purely through ownership of shares (voting rights). An investor can have a decisive influence over another entity without holding the majority of the shares. An entity must

be consolidated until the day the control ceases, even if the control is present only during a limited period.

The consolidated financial statements include the parent company Alfa Laval AB (publ) and the subsidiaries in which it has a decisive influence.

The statement on consolidated financial position has been prepared in accordance with the purchase method, which means that the book value of shares in the subsidiaries is eliminated from the reported equity in the subsidiaries at the time of their acquisition. This means that the equity in the subsidiaries at the time of acquisition is not included in the consolidated equity.

The difference between the purchase price paid and the net assets of the acquired companies is allocated to the step-up values related to each type of asset, with any remainder accounted for as goodwill.

During the first 12 months after the acquisition the value of the goodwill is often preliminary. The reason to this is that experience has shown that there is some uncertainty linked to the different components of the purchase price allocation concerning:

- primarily the calculation of the allocation to different intangible step-up values, that are dependent on different judgemental questions and estimations;
- the calculation of tangible step-up values, that are dependent on external market valuations, which can extend in time before they can be finalised;
- adjustments of the purchase price contingent on contractual terms, that are dependent on the final size of the operating capital at the acquisition date, once this has been audited and the outcome has been approved by the parties; and
- the final value of the acquired equity, which is also dependent on the audit of the acquired closing balance sheet.

Since the goodwill is a residual that emerges once all other parameters in the purchase price allocation have been established, it will be preliminary and open for changes until all other values are final.

At acquisitions where there is a goodwill it should be stated what the goodwill is relating to. Since goodwill by definition is a residual, this is not always that easy. Generally speaking, the goodwill is usually relating to estimated synergies in procurement, logistics and corporate overheads. It can also be claimed that the goodwill is relating to the acquired entity's ability to over time recreate its intangible assets. Since the value of the intangible assets at the time of acquisition only can be calculated on the assets that exist then, no value can be attached to the patents etc. that the operations manage to create in the future partially as a replace-

ment for the current ones and these are therefore referred to goodwill.

Goodwill and intangible assets with indefinite useful life are not amortised. These assets are instead tested for impairment both annually and when there is an indication. The impairment test is made according to IAS 36 "Impairment on assets".

Transaction costs are reported in net income. If the value of an additional purchase price is changed the change is reported in net income. In business combinations achieved in stages the goodwill is calculated and valued when the acquirer obtains control over a business. If the acquirer previously has reported an equity interest in the company the accumulated change in value of the holding is recognised in net income at the acquisition date. Changes in holdings in subsidiaries, where the majority owner does not lose its decisive influence, are reported in equity. This means that these transactions no longer will generate goodwill or lead to any gains or losses. In addition, the transaction will result in a transfer between owners of the parent and non-controlling interests in equity. If the non-controlling interest's share of reported losses is higher than its reported share of the equity, a negative non-controlling interest is reported.

Comparison distortion items

Items that do not have any link to the normal operations of the Group or that are of a non-recurring nature are classified as comparison distortion items. In the consolidated comprehensive income statement these are reported gross as a part of the most concerned lines but are specified separately in Note 8. To report these together with other items in the consolidated comprehensive income statement without this separate reporting in a note would have given a comparison distortion effect that would have made it difficult to judge the development of the ordinary operations for an outside viewer. Comparison distortion items affecting operating income are reported as a part of operating income, while comparison distortion items affecting the result after financial items are reported as a part of the financial net.

Comprehensive income

Alfa Laval has chosen to report the items in other comprehensive income as a part of one statement over comprehensive income instead of reporting the result down to net income for the year in one statement and the result below this down to comprehensive income in a separate statement.

Other comprehensive income is referring to items that are not transactions with shareholders and relates to for instance cash flow hedges, market valuation of external shares, translation differences and

revaluations and deferred tax related to these.

Disclosures of interest in other entities

Information about interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities must be disclosed in accordance with IFRS 12 "Disclosures of interest in other entities". The purpose with these disclosures is to enable the users of the financial reports to understand:

- the composition of the group;
- the effect of the interests on the financial statements; and
- any risks with the current interests.

Substantial qualitative and quantitative disclosures must be made of each interest. The disclosure requirements include the following:

- Financial information regarding subsidiaries with a considerable part of non-controlling interests.
- Disclosures on the judgements and estimation that have been made in judging whether an entity shall be consolidated or not and if an associate shall be accounted for or whether a joint arrangement is considered to be joint operation or a joint venture.
- Financial disclosures on interests in material associates and joint arrangements.

Disclosures relating to the company's shares

Paragraph 2a in chapter 6 of the Swedish Annual Accounts Act requires listed companies to disclose certain information relating to the company's shares in the Board of Directors' Report. This information is found at the end of the Board of Directors' Report, in the "Changes in consolidated equity" and in Note 6.

Employee benefits

Employee benefits are reported according to IAS 19 "Employee Benefits".

The present value of the benefit obligations in the defined benefit plans is decided through yearly actuarial calculations made by independent actuaries. The plan assets are valued at fair value. The net plan asset or liability is arrived at in the following way.

- + the present value of the defined benefit obligation at December 31
 - the fair value of the plan assets at December 31
-
- = a net liability if positive / a net asset if negative

If the calculation per plan gives a negative amount, thus resulting in an asset, the amount to be recognised as an asset for this particular plan is the lower of the two following figures:

- The above net negative amount.
- The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. This is referred to as the asset ceiling.

The items that relate to the vesting of defined benefit pensions and gains and losses that arise when settling a pension liability and the financial net concerning the defined benefit plan are reported in the income statement above net income. Past service costs are recognised in the income statement already when the plan is amended or curtailed.

Actuarial gains and losses are accounted for currently in other comprehensive income. Changes in the obligations that relate to changes in actuarial assumptions are accounted for in other comprehensive income. None of these actuarial items will ever be reported in operating income but will instead remain in other comprehensive income.

The return on plan assets is calculated with the same interest rate as the discount rate. The difference between the actual return on plan assets and the interest income in the previous sentence is reported in other comprehensive income.

The plan assets are specified on different types of assets.

Sensitivity analysis must be made concerning reasonable changes in all assumptions made when calculating the pension liability.

The difference between short and long-term remunerations focuses on when the commitment is expected to be settled rather than the link to the employee's vesting of the commitment.

Termination benefits are accounted for at the earliest of the following – the time when the benefit offer cannot be withdrawn, alternatively in accordance with IAS 37 as a part of for instance restructuring the operations.

For Swedish entities the actuarial calculations also include future payments of special salary tax. The Swedish tax on returns from pension funds is reported currently as a cost in the profit and loss and are not included in the actuarial calculation for defined benefit pension plans.

The discount rate used to calculate the obligations is determined based on the market yields in each country at the closing date on high quality corporate bonds with a term that is consistent with the estimated term of the obligations. In countries that

lack a deep market in such bonds the country's government bonds are used instead.

The costs for defined contribution plans are reported in Note 6.

The Swedish ITP plan is a multi-employer plan insured by Alecta. It is a defined benefit plan, but since the plan assets and liabilities cannot be allocated on each employer it is reported as a defined contribution plan according to item 30 in IAS 19. The construction of the plan does not enable Alecta to provide each employer with its share of the assets and liabilities or the information to be disclosed. The cost for the plan is reported together with the costs for other defined contribution plans in Note 6. Alecta reported a collective consolidation level at December 31, 2021 of 172 (148) percent. The collective consolidation level is defined as the fair value of Alecta's plan assets in percent of the insured pension commitments calculated according to Alecta's actuarial assumptions, which are not in accordance with IAS 19. Such a surplus can be distributed among the employers or the beneficiaries, but there is no agreement concerning this that enables the company to report a receivable on Alecta.

Events after the closing date

Events after the closing date are reported according to IAS 10 and the Swedish Annual Accounts Act in the notes.

Fair value measurement

IFRS 13 "Fair Value Measurement" describes how a fair value is established when such value is to be or may be used in accordance with each IFRS standard. In accordance with IFRS a fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

The standard presents elucidations on the fair value concept including the following areas:

- Concepts such as "highest and best use" and "valuation premise" are described. These are only applicable on non-financial assets.
- Market participants are assumed to act in a way that maximizes the value for all involved parties in situations where there is no guidance concerning the calculation of fair value in individual IFRS standards.
- The effect of so-called block discounts (large position in relation to the market) may never be included in the calculation of fair value.
- Deciding fair value when the market activity is falling.

Disclosures must be made to explain what valuation models that are used and what information that is used in these models and which effects the valuation has caused in the result.

Financial instruments

The reporting of financial instruments is governed by the following four accounting and financial reporting standards:

- IFRS 9 "Financial Instruments";
- IAS 32 "Financial Instruments: Presentation";
- IFRS 7 "Financial Instruments: Disclosures"; and
- IFRS 13 "Fair Value Measurement".

IFRS 9 means that the company's business model and the characteristics of the asset influence the classification and measurement of financial assets.

Debt instruments are all financial instruments except derivatives and shares. The company's purpose with holding a debt instrument is called its business model. Depending on what business model a company is using for managing its debt instruments the accounting treatment is different. The following business models exist in IFRS 9:

- Held to collect – the debt instrument is held to maturity to collect the contracted cash flows (interest and principal).
- Trading – the company trades with the debt instruments.
- Mixed model – a mix of the two above models.

Alfa Laval business model for managing its debt instruments is "Held to collect". This classification does not mean that we occasionally cannot sell debt instruments before maturity even for large amounts or that we regularly cannot sell many small debt instruments before maturity.

IFRS 9 means that financial derivatives, holdings of bonds and external shares are adjusted to fair value. IFRS 7 contains expanded disclosure requirements related to the significance of financial instruments for the company's financial position and performance and the nature and extent of risks arising from financial instruments.

IFRS 13 describes how a fair value is established when such value is to be or may be used in accordance with each IFRS standard. Disclosures must be made to explain what valuation models that are used and what information that is used in these models and which effects the valuation has caused in the result.

Both IFRS 9 and IFRS 7 formally contain

a considerable amount of information that should be presented. According to IFRS 7.B3 the company however should decide how much detail it provides in order not to overburden the financial statements with excessive details.

Both financial assets and financial liabilities are classified into three different portfolios:

- Valued at fair value through profit or loss;
- Valued at fair value through other comprehensive income and
- Valued at amortised cost.

The classification into different portfolios reflects the valuation of the instruments, i.e. if the instrument is valued at fair value or amortised cost and also where in the statement of consolidated comprehensive income that the valuation to fair value is reported.

The amortised cost is normally equal to the amount recognised upon initial recognition, less any principal repayments and plus or minus any effective interest adjustments.

Prepaid costs, prepaid income and advances from customers are not defined as financial instruments since they will not result in future cash flows.

Disclosures must be made on the methods and, when a valuation technique is used, the assumptions applied in determining the fair value of each class of financial assets and liabilities. The methods are to be classified in a hierarchy of three levels:

1. Quoted prices in active markets;
2. Other inputs than quoted prices that are directly observable (prices) or indirectly observable (derived from prices); and
3. Unobservable market data.

The fair values of holdings of bonds are arrived at using market prices according to level 1. The effect of the measurement at fair value is reported in net income. The fair value adjustment of these instruments is reflected directly on the item bonds in the statement of financial position.

The fair values of shares in external companies are arrived at using market prices according to level 1 or other inputs according to level 2. The effect of the measurement at fair value is reported in other comprehensive income. The fair value adjustment of these instruments is reflected directly on the item other long-term securities in the statement of financial position.

The fair values of the Group's currency forward contracts, currency options, interest-rate swaps, metal forward contracts and electricity futures are arrived at using market prices according to level 1. The fair value changes are arrived at by comparing the conditions of the derivative entered into

with the market price for the same instrument at the closing date and with the same maturity date. The effect of the measurement at fair value is reported in other comprehensive income if the derivative constitutes an effective cash flow hedge and otherwise on the concerned line above net income. The fair value adjustment of these instruments is reported as derivative assets or derivative liabilities in the statement of financial position.

For each class of financial instruments disclosures shall be made on credit risk and an analysis of financial assets that are past due or impaired. Within Alfa Laval credit risk is in reality mainly related to accounts receivable. The disclosures just mentioned are therefore to be found in Note 22.

IFRS 9 has a model for expected credit losses. It is a three steps model that reflects changes in the credit risk. The steps are:

1. Recorded at inception (normally a historical experience-based percentage);
2. For credit risks that have increased significantly since initial recognition (the credit risk has increased significantly if the receivable is more than 30 days overdue; otherwise based on indications of the customer having payment difficulties or financial weakness); and
3. Related to objective evidence of impairment (incurred losses).

The model results in a provision for bad debts. Only at a final loss the receivable is written off.

Government grants

Government grants are recognised in profit and loss over the same periods as the costs the grants are intended to compensate for. The grants are recognised in the income statement as a deduction of these costs.

Group contributions to and from the parent company

The parent company is accounting for group contributions according to the alternative rule in RFR 2 issued by the Council for Financial Reporting in Sweden. This means that both received and given group contributions are reported as appropriations in the income statement.

Hedge accounting

Alfa Laval only applies two types of hedge accounting: cash flow hedges and hedges of net investments in foreign operations.

Cash flow hedges

Alfa Laval has implemented documentation requirements to qualify for hedge accounting on derivative financial instruments.

The effect of the fair value adjustment of derivatives is reported as a part of other comprehensive income for the derivatives where hedge accounting is made (according to the cash flow hedging method) and above net income only when the underlying transaction has been realised. Hedge accounting requires the derivative to be appropriate and expected to be effective regarding the identified risks.

For the derivatives where hedge accounting is not made the fair value valuation is reported above net income. The fair value adjustment of derivatives is reported separately from the underlying instrument as a separate item called derivative assets/derivative liabilities in the statement of financial position.

Hedges of net investments in foreign operations

In order to finance acquisitions of foreign operations loans are raised, if possible, in the same currency as the net investment. The loans thereby constitute a hedge of the net investment in each currency. Exchange rate differences relating to these loans are therefore booked to other comprehensive income.

Income Taxes

Income taxes are reported in accordance with IAS 12 "Income Taxes".

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. Current tax liabilities (receivables) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the closing date. In essence, this means that current tax is calculated according to the rules that apply in the countries where the profit was generated.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax liabilities are recognised for all taxable temporary differences, except for goodwill.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of: (a) deductible temporary differences; (b) the carry-forward of unused tax losses; and (c) the carry-forward of unused tax credits. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable (>50 percent) that taxable profit will be available against which the deductible temporary difference can be utilised. Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable (>50 percent) that future taxable profit will be available against which the unused tax losses and

unused tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the closing date.

If it is not any longer probable that sufficient taxable profits will be available against which a deferred tax asset can be utilised, then the deferred tax asset is reduced accordingly.

Inventories

The Group's inventory has been accounted for after elimination of inter-company gains. The inventory has been valued according to the "First-In-First-Out" (FIFO) method at the lowest of cost or net realisable value, taking into account obsolescence.

This means that raw material and purchased components normally are valued at the acquisition cost, unless the market price has fallen. Work in progress is valued at the sum of direct material and direct labour costs with a mark-up for the product's share in capital costs in the manufacturing and other indirect manufacturing costs based on a forecasted assumption on the capacity utilisation in the factory. Finished goods are normally valued at the delivery value (i.e. at cost) from the factory if the delivery is forthcoming. Spare parts that can be in the inventory during longer periods of time are normally valued at net realisable value.

Joint ventures

Joint ventures are consolidated according to IFRS 11 "Joint arrangements". Joint arrangements are defined as a contractual arrangement where two or more parties have a joint decisive influence.

It is crucial to be able to judge whether a party has control over another party, that is decisive influence or if it rather is a substantial or common influence. If it is the latter, then it is a so-called joint arrangement, which could be either:

- a joint operation; or
- a joint venture.

Jointly owned assets and joint activities are called joint operations. Each owner or party accounts for his share of assets, liabilities, revenues and costs.

Joint ventures are consolidated according to the equity method. This means that the interest is accounted for on one line in the consolidated statement of financial position and that the share of the result is accounted for on one line in the consolidated statement of comprehensive income. It is the net income in the joint ventures that is booked into

one line in the operating income. The counter entry is an increase or decrease of the value of shares in joint ventures. Received dividends reduce the value of the shares in joint ventures. The sales volume and other result items and the balance items in the joint ventures will no longer be reported in the statements over consolidated comprehensive income and consolidated financial position in any of the two owner companies.

Leasing

Leasing is accounted for according to IFRS 16 "Leases", which covers the recognition, measurement, presentation and disclosure of leases by both lessors and lessees.

In connection with the transition a practical expedient has been applied that means that the new leasing definition is only applied on new lease contracts instead of on all leasing contracts.

Alfa Laval has decided to apply a practical expedient for leasing contracts where the contract period is maximum 12 months or the leased asset is of low value. With reference to the materiality rules in IAS 8.8, Alfa Laval has chosen to apply IFRS 16 for leases concerning buildings and land, company cars and other vehicles, forklifts, large servers and large printers. The present value for other leases is estimated to be non-material. The leasing fees for these leases are expensed as incurred.

Lease contracts can include both a leasing part and a service part. According to IFRS 16, the company in these cases can choose to separate them from each other and thus only recognise the leasing part in the balance sheet or capitalise the entire contract. Alfa Laval has chosen to exclude the service part from the lease accounting and it is instead expensed as before.

When Alfa Laval is the lessee, leased assets are accounted for as right-of-use assets and a corresponding financial payable to the lessor in the statement on financial position. The leasing fee to the lessor is accounted for as financial cost calculated as interest on the outstanding payable and as amortisation of the payable. The right-of-use asset is depreciated according to plan in the same manner as for purchased assets.

For lessors a classification into operational and financial leases is made exactly as under IAS 17. When Alfa Laval is the lessor, leased assets that are classified as financial leases are accounted for as a financial receivable from the lessee in the statement on financial position. The leasing fee received from the lessee is accounted for as financial income calculated as interest on the outstanding receivable and as amortisation of the receivable.

IFRS 16 contains a number of disclosures requirements.

Levies

Levies relate to levies/taxes that governmental or corresponding bodies are charging companies in accordance with laws or regulations with exception of income taxes, penalties and fines. IFRIC 21 "Levies" is an interpretation that clarifies when a liability for levies is to be accounted for. The obligating event that gives rise to the reporting of a liability is the activity that triggers the payment of the levy. IFRIC 21 only treats the accounting for the liability side and not whether the debit side is a cost or an asset. One example of a levy is the Swedish real estate tax, which is levied on the owner of a property at January 1. At inception of the year the liability is booked and a corresponding prepaid cost, which is then phased as a cost over the year.

Non-current assets (tangible and intangible)

Assets have been accounted for at cost, net after deduction of accumulated depreciation according to plan. Depreciation according to plan is based on the assets' acquisition values and is calculated according to the estimated useful life of the assets.

The following useful lives have been used:

| | |
|---|---------------------------|
| <i>Tangible:</i> | |
| Computer programs, computers | 3.3 years |
| Office equipment | 4 years |
| Vehicles | 5 years |
| Machinery and equipment | 7–14 years |
| Land improvements | 20 years |
| Buildings | 25–33 years |
| Right-of-use assets | depends on the lease term |
| <i>Intangible:</i> | |
| Patents and unpatented know-how | 10–20 years |
| Trademarks | 10–20 years |
| Licenses, renting rights and similar rights | 10–20 years |
| Internally generated intangible assets | 5 years |

The depreciation is made according to the straight-line method.

Any additions to the purchase price in connection with investments in non-current assets or acquisitions of businesses are amortised over the same period as the original purchase price. This means that the time when the asset is fully depreciated is identical regardless of when payments are made. This is a reflection of the fact that the estimated useful life of the asset is the same.

Upon sale or scrapping of assets, the results are calculated in relation to the net book value after depreciation according to plan. The result on sales is included in operating income.

Impairment of assets

When there are indications that the value of a tangible asset or an intangible asset with a definite useful life has decreased, there is a valuation made if it must be written down according to IAS 36 "Impairment of Assets". If the reported value is higher than the recoverable amount, a write down is made that burdens net income. When assets are up for sale, for instance items of real estate, a clear indication of the recoverable amount is received that can trigger a write down.

Goodwill and intangible assets with indefinite useful life are not amortised. These assets are instead tested for impairment both annually and when there is an indication. The impairment test is made according to IAS 36 "Impairment of assets".

The recoverable amount for goodwill and intangible assets with indefinite useful life is determined from the value in use based on discounted future cash flows. For other assets the recoverable amount is normally determined from the fair value less costs to sell based on an observable market price.

For the impairment testing of goodwill, three of Alfa Laval's operating segments, the three business divisions "Energy", "Food & Water" and "Marine" have been identified as the cash-generating units within Alfa Laval. Technically a recently acquired business activity could be followed independently during an initial period, but acquired businesses are normally integrated into the divisions at a fast rate. This means that the independent traceability is lost fairly soon and then any independent measurement and testing becomes impracticable. The net present value is based on the projected EBITDA figures for the next five years, less projected investments and changes in operating capital during the same period and thereafter the perceived expected average industry growth rate. The used discount rate is the pre-tax weighted average cost of capital (WACC).

Non-current assets and disposal groups held for sale and discontinued operations

The Group is applying IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". IFRS 5 specifies the accounting for assets and disposal groups held for sale and the disclosures to be made for discontinued operations.

Assets and disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell, except for deferred tax items and defined benefit obligations. No depreciation of such assets is made. An asset or disposal group held for sale is an asset whose carrying amount will be recovered basically through a sale rather than through continuing use. It must be available for immediate sale in its current condition. The sale must be highly probable, that is a decision must have

been made and an active sales effort must have been initiated. The sale must be expected to be finalised within one year. Non-current assets are reclassified to current assets and presented separately in the statement on financial position. All assets and liabilities relating to disposal groups are presented separately in the statement of financial position.

Objectives, policies and processes for managing capital

IAS 1 "Presentation of Financial Statements" paragraphs 134 and 135 contain disclosure requirements on the company's objectives, policies and processes for managing capital. This information is disclosed in a separate section after the description of the accounting principles.

Other operating income and other operating costs

Other operating income relates to for instance commission, royalty and license income. Other operating costs refer mainly to restructuring costs and royalty costs.

Comparison distortion items that affect the operating income are reported in other operating income and other operating costs.

Provisions

The Group is applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" for the reporting of provisions, contingent liabilities and contingent assets.

A provision is recognised when and only when:

- there is a present legal or constructive obligation as a result of past events;
- it is probable that a cost will be incurred in settling the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the cost required to settle the present obligation at the closing date.

In measuring the provision:

- risks and uncertainties are taken into account;
- the provisions are discounted, where the effect of the time value of money is material. When discounting is used, the increase of the provision over time is recognised as an interest cost;
- future events, such as changes in law and technology, are taken into account where there is sufficient objective evidence that they will occur; and
- gains from the expected disposal of

assets are not taken into account, even if the expected disposal is closely linked to the event giving rise to the provision.

If a reimbursement of some or all of the costs to settle a provision is expected (e.g. through insurance contracts, indemnity clauses or supplier's warranties), the reimbursement is recognised:

- when and only when, it is virtually certain that the reimbursement will be received if the obligation is settled. The amount recognised for the reimbursement must not exceed the amount of the provision; and
- as a separate asset (gross). In the consolidated comprehensive income statement, however, the income related to the reimbursement is netted against the cost for the provision.

Provisions are reviewed at each closing date and adjusted to reflect the current best estimate. If it is no longer probable that a payment to settle the obligation will be incurred, the provision is reversed.

A provision must only be used for the purpose it was originally recognised for. Provisions are not recognised for future operating losses. An expectation of future operating losses is though an indication that certain assets of the operation may be impaired. If a contract is onerous, the present obligation under the contract is recognised and measured as a provision, once the assets used in order to finalize the contract have been tested for impairment.

A provision for restructuring costs is recognised only when the general recognition criteria are met. A constructive obligation to restructure arises only when there is:

- a detailed formal plan for the restructuring, identifying at least:
 - a) the business or part of a business concerned;
 - b) the principal locations affected;
 - c) the location, function and approximate number of employees who will be compensated for terminating their services;
 - d) the costs that will be undertaken; and
 - e) when the plan will be implemented; and
- a valid expectation in those affected that the restructuring will be carried out.

A management or board decision to restructure does not give rise to a constructive obligation at the closing date unless the company has, before the closing date:

- started to implement the restructuring plan; or
- communicated the restructuring plan to

those affected by it in a sufficiently specific manner to raise a valid expectation in them that the restructuring will happen.

When a restructuring involves the sale of an operation, no obligation arises for the sale until the company is committed to the sale, i.e. through a binding sales agreement.

A restructuring provision only includes the direct costs arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the company.

Research and development

Research costs are charged to the result in the year in which they are incurred. Development costs are charged to the result in the year in which they are incurred provided that they do not fulfil the conditions for instead being capitalised according to IAS 38 "Intangible Assets".

Revenue recognition

Revenue from contracts with customers and revenues from leasing are reported as "Net sales" in the statement of consolidated comprehensive income. "Net sales" are referring to sales value less sales taxes, cancellations and discounts. Contracts with customers relate to sale of goods, services and projects.

IFRS 15 "Revenue from Contracts with Customers" covers how revenue recognition on contracts with customers shall be made. Revenue recognition is based on five steps:

1. Identify the contract with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognise revenue when the entity satisfies a performance obligation.

A performance obligation is a promise in a contract with a customer to transfer to the customer either:

- a good or service (or a bundle of goods or services) that is distinct; or
- a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Two or more contracts entered into at or near the same time with the same customer are accounted for as a single contract if:

- the contracts are negotiated as a package; and/or
- the amount of consideration to be paid in the contracts are linked to each other; and/or
- the goods or services in the contracts are a single performance obligation.

A contract modification is treated as a separate contract if added products or services:

- are distinct; and
- have a stand-alone selling price.

Alfa Laval shall recognise the revenue when the performance obligation has been satisfied by transferring control over a promised good or service to the customer.

Performance obligations can be satisfied either over time or at a point in time.

Alfa Laval transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by Alfa Laval's performance as Alfa Laval performs. This is normally the case for Alfa Laval's service offerings;
- Alfa Laval creates or enhances an asset that the customer controls as the asset is created or enhanced. This is normally the case when Alfa Laval performs the work at the customer's premises, which mainly relates to installation/commissioning; or
- Alfa Laval's performance does not create an asset with an alternative use to Alfa Laval and Alfa Laval has an enforceable right to payment for performance completed to date.

Alternative use to Alfa Laval means if Alfa Laval can sell the equipment to another customer. The number of engineering hours spent by Alfa Laval on making a product or process configuration customer specific with a unique solution is a good indication of whether there is an alternative use to Alfa Laval or not. As a practical expedient, only orders of more than EUR 1 million and with more than 200 engineering hours are recognised over time.

In order to establish the performance over time an output or input method is used. In Alfa Laval output methods are more applicable to service and component deliveries, whereas input methods are more applicable to projects and module sales. Depending on the nature of the project, the following methods are used:

Input methods:

- The proportion that the project costs incurred for work performed to date bear to the estimated total project costs.
- Surveys of work performed.

Considering the type of projects that Alfa Laval companies are involved in, the first method is usually the preferred.

Output methods:

- Completion of a physical proportion of the performance obligations.

If a performance obligation is not satisfied over time it is satisfied at a point in time. To establish the point in time when the customer obtains control of a promised asset and Alfa Laval satisfies a performance obligation, the following control criteria must be considered:

- Alfa Laval has a present right to payment for the asset.
- The customer has legal title to the asset.
- The customer has physical possession of the asset.
- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.

Alfa Laval uses a variety of delivery terms depending on the customers preference, including Ex Works. Alfa Laval's preference is to use DAP (Delivered At Place) or DDP (Delivered Duty Paid) since these gives Alfa Laval better control that the customer really receives the goods in working order.

It is common that Alfa Laval provides a warranty in connection with the sale. The nature of the warranty can vary significantly across contracts. Normally warranties provide a customer with assurance that the related product will function as the parties intended according to the agreed-upon specifications. This is an assurance-type warranty. Alfa Laval's warranties normally cover a 12 months' period and are accounted for as a provision.

IFRS 15 contains a number of disclosures requirements.

Operating segments

IFRS 8 means that the reporting of operating segments must be made according to how the chief operating decision maker monitors the operations, which may deviate from IFRS. Furthermore, information according to IFRS for the company as a whole must be given about products and services as well as geographical areas and information about major customers.

The difference between the operating income for the operating segments and the operating income according to IFRS for the company as a whole is explained by two reconciliation items.

Alfa Laval's operating segments are the divisions. The chief operating decision maker within Alfa Laval is its Board of Directors.

Transactions in foreign currencies

Receivables and liabilities denominated in foreign currencies have been valued at year-end rates of exchange.

Within the Group, exchange gains and losses on loans denominated in foreign currencies that finance acquisitions of foreign subsidiaries are transferred to other comprehensive income as foreign currency translation adjustments if the loans act as a hedge to the acquired net assets. There they offset the translation adjustments resulting from the consolidation of the foreign subsidiaries. In the parent company, these exchange differences are reported above net income.

IAS 21 "The Effects of Changes in Foreign Exchange Rates" covers among other things the existence of functional currencies. Almost all of Alfa Laval's subsidiaries are affected by changes in foreign exchange rates for their procurement within

the Group. They do however usually sell in their local currency and they have more or less all of their non-product related costs and their personnel related costs in their local currency. This means that none of Alfa Laval's subsidiaries qualify for the use of another functional currency than the local currency, with the following exception. Subsidiaries in highly inflationary countries report their closings in the functional hard currency that is valid in each country, which in all cases is USD. During 2021 Venezuela is regarded as a highly inflationary country.

In the consolidation, the foreign subsidiaries have been translated using the current method. This means that assets and liabilities are translated at closing exchange rates and income and expenses are translated at the year's average exchange rate. The translation difference that arises is a result of the fact that net assets in foreign companies are translated at one rate at the beginning of the year and another at year-end and that the result is translated at average rate. The translation differences are part of other comprehensive income.

Recently issued accounting pronouncements

International Accounting Standards Board (IASB) has not issued any new or revised accounting pronouncements, which may be applicable on Alfa Laval and are effective for fiscal years beginning on or after January 1, 2022.

International Accounting Standards Board (IASB) has not issued any financial reporting interpretation developed by the International Financial Reporting Interpretations Committee (IFRIC), which may be applicable on Alfa Laval and are effective for fiscal years beginning on or after January 1, 2022.

Otherwise Alfa Laval will further evaluate the effects of the application of the new or revised accounting standards or interpretations before each time of application.

Objectives, policies and processes for managing capital

Alfa Laval defines its managed capital as the sum of consolidated net debt and equity including the part that is attributable to non-controlling interests. At the end of 2021 the managed capital was SEK 39,368 (32,706) million.

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern and provide an adequate return for shareholders and benefits for other stakeholders.

When managing the capital, the Group monitors several measures including:

| Measure | Goal | Target standard | Target not set | Outcome | | Average over last | | |
|---|-------|-----------------|----------------|---------|--------|-------------------|---------|---------|
| | | | | 2021 | 2020 | 3 years | 5 years | 8 years |
| Invoicing growth per year | ≥5% * | | | -1.3% | -10.9% | 0.7% | 3.0% | 4.7% |
| Adjusted EBITA margin ** | 15% * | | | 17.4% | 17.4% | 17.3% | 16.9% | 16.7% |
| Return on capital employed ** | ≥20% | | | 20.0% | 19.1% | 20.7% | 20.4% | 19.9% |
| Net debt to EBITDA ** | | ≤2.0 | | 0.87 | 0.48 | 0.74 | 0.89 | 1.29 |
| Cash flow from operating activities including investments in fixed assets *** | | 10% | | 9.9% | 15.7% | 11.3% | 10.6% | 9.8% |
| Investments *** | | | X | 3.0% | 3.0% | 2.9% | 2.9% | 2.5% |
| Return on equity | | | X | 15.8% | 12.7% | 16.6% | 16.8% | 16.9% |
| Solidity | | | X | 50.3% | 47.8% | 47.1% | 44.2% | 40.6% |
| Debt ratio ** | | | X | 0.22 | 0.13 | 0.21 | 0.27 | 0.42 |
| Interest coverage ratio ** | | | X | 38.4 | 27.3 | 32.8 | 33.2 | 28.9 |
| Credit rating | | | X | BBB+ | BBB+ | | | |

* Average over a business cycle. ** Alternative performance measures. *** In % of sales.

These measures are connected to each other as communicating vessels. This means that if actions are taken that primarily aim at a certain measure, they will also have an impact on other measures to a varying degree. It is therefore important to consider the whole picture.

In order to maintain a good capital structure, the Group may for instance raise new loans or amortise on existing loans, adjust the amount of dividends paid to shareholders, return capital to shareholders, repurchase own shares, issue new shares or sell assets.

As examples on the Group's active work with managing its capital the following can be mentioned:

- On April 22, 2021 Alfa Laval successfully refinanced the company's revolving credit facility with a EUR 700 million credit facility with a banking syndicate. The facility has a maturity of five years with a possibility to extend it for further two years and it includes a possibility to increase by EUR 200 million.

- The company's Euro Medium Term Note (EMTN) programme has been increased from EUR 1,500 million to EUR 2,000 million in November 2021. Under the programme, two tranches of corporate bonds totalling EUR 800 million have been issued in September 2014 and June 2019.

- The company's commercial paper programme has been increased from SEK 2,000 million to SEK 4,000 million in November 2021 with an unchanged duration of 1–12 months.

- The bilateral term loan of EUR 100 million from Swedish Export Credit from June 2011 matured on June 14, 2021 and has been repaid.

Risks

Risks are divided into financial risks and operational risks, which are described below.

In order to handle and minimise the risks, Alfa Laval has established a comprehensive set of Group wide policies and an internal control framework. To support the work with internal control an extensive set of minimum internal controls has been established.

During the year, managers and other key personnel have made a self-assessment based on a selection of the most important minimum internal controls.

Internal control is monitored by both internal audit and by the external auditors.

Financial risks

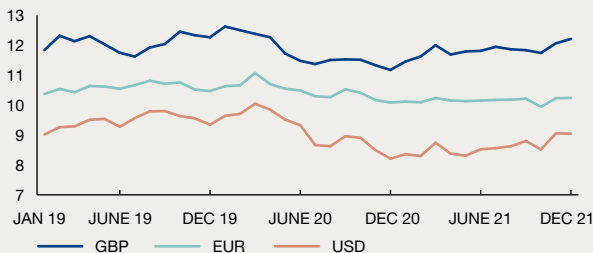
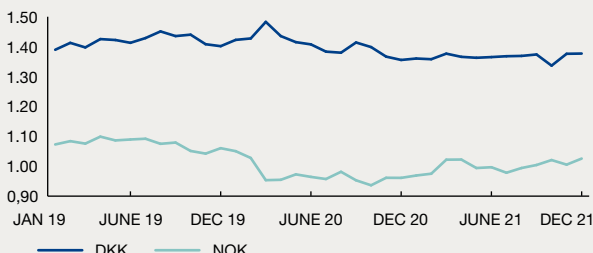

Financial risks are referring to financial instruments.

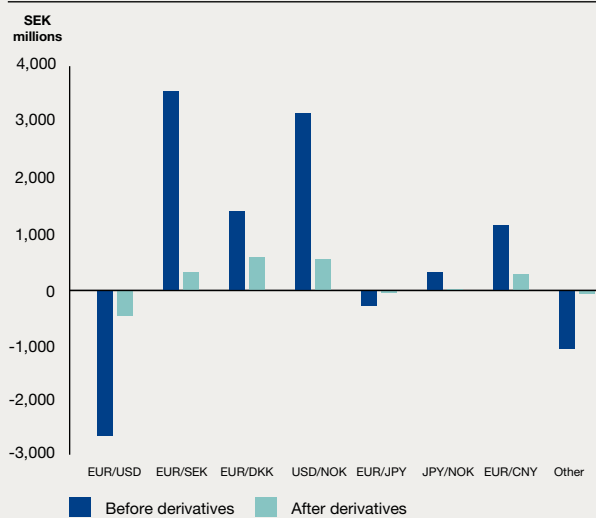
Financial instruments

Alfa Laval has the following financial instruments: cash and cash equivalents, deposits, trade receivables, bank loans, trade payables and a limited number of derivative instruments to hedge primarily currency rates or interests, but also the price of metals and electricity. These include currency forward contracts, currency options, interest-rate swaps, metal forward contracts and electricity futures. See Notes 13 and 14 for more information on these financial instruments.

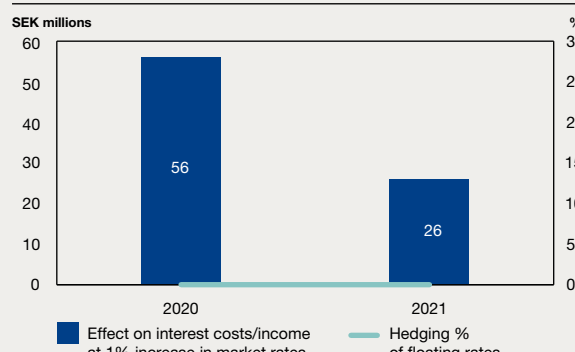
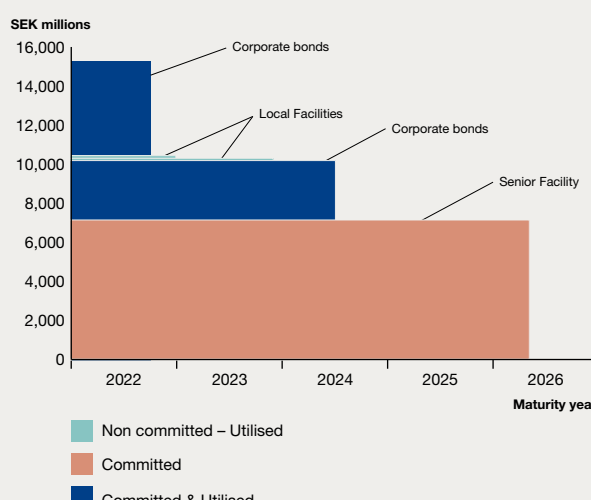
Treasury policy

In order to control and limit the financial risks, the Board of the Group has established a treasury policy. The Group has an aversive attitude toward financial risks, which is expressed in the policy. It establishes the distribution of responsibility between the local companies and the central finance function in Alfa Laval Treasury International, what financial risks the Group can accept and how the risks should be limited.

| Risk | Explanation | Mitigation |
|------------------------|--|------------|
| Financial risks | | |
| Price risk | There are three different types of price risks: currency risk, interest risk and market risk. See below. | |
| Currency risk | <p>Due to the Alfa Laval Group's international business activities and geographical spread the Group is exposed to currency risks. The exchange rate movements in the major currencies for the Group during the last years are presented below (SEK/foreign currency):</p> <p>Exchange rate fluctuations – UK pounds, Euro, US dollars</p>  <p>Exchange rate fluctuations – Danish and Norwegian kroner</p>  <p>Exchange rate fluctuations – Japanese yen, Korean won</p>  | |

| Risk | Explanation | Mitigation | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|------------------------------|--|--------------|------------|-------------|--|--|--------------|------|--|------|--|------------------------------|--|--|--|--|-----|-------|-------|-------|-------|-----|-----|------|-----|------|-----|-----|------|-----|------|-----|-----|------|----|-----|-----|------|-----|------|-----|-----|------|-----|------|-----|-----|----|-----|----|-----|-------|-----|----|-----|----|--------------|------------|-------------|------------|-------------|---|
| Transaction exposure | <p>Currency risk is divided into transaction exposure and translation exposure.</p> <p>Transaction exposure relates to currency risks that arise due to exchange rate fluctuations that affect the currency flows that are generated by the business activities.</p> <p>During 2021 Alfa Laval's sales to countries outside Sweden amounted to 97.1 (97.6) percent of total sales.</p> <p>The Group's net transaction exposure at December 31, 2021 in the most important currencies before and after derivatives for the coming 12 months amounts to:</p> <p>Net transaction exposure per currency pair at December 31, 2021 for the coming 12 months</p>  <p>The positive bars are a reflection of:</p> <ul style="list-style-type: none">– subsidiaries in Sweden and Denmark exporting in EUR;– subsidiaries in Norway exporting mainly in USD but also in JPY; and– subsidiaries in China exporting in EUR. <p>The negative bars are a reflection of subsidiaries in mainly the U.S. and Japan importing in EUR.</p> <p>Currency contracts for projected flows are entered into continuously during the year. For contract-based exposures the derivatives follow the duration of the underlying contract. This means that the company experiences the effects from the market currency rate movements with a varying degree of delay.</p> <p>If the currency rates between SEK and the most important foreign currencies are changed by +/- 10 % it has the following effect on operating income, if no hedging measures are taken:</p> <p>Effect on operating income by exchange rate fluctuations excluding hedging measures</p> <table><tr><th colspan="5">Consolidated</th></tr><tr><th>SEK millions</th><th colspan="2">2021</th><th colspan="2">2020</th></tr><tr><th>Exchange rate change against</th><th colspan="2"></th><th colspan="2"></th></tr><tr><th>SEK</th><th>+ 10%</th><th>- 10%</th><th>+ 10%</th><th>- 10%</th></tr><tr><td>USD</td><td>535</td><td>-535</td><td>478</td><td>-478</td></tr><tr><td>EUR</td><td>259</td><td>-259</td><td>221</td><td>-221</td></tr><tr><td>CNY</td><td>110</td><td>-110</td><td>99</td><td>-99</td></tr><tr><td>NOK</td><td>-293</td><td>293</td><td>-258</td><td>258</td></tr><tr><td>DKK</td><td>-169</td><td>169</td><td>-168</td><td>168</td></tr><tr><td>JPY</td><td>35</td><td>-35</td><td>27</td><td>-27</td></tr><tr><td>Other</td><td>-31</td><td>31</td><td>-52</td><td>52</td></tr><tr><td>Total</td><td>446</td><td>-446</td><td>347</td><td>-347</td></tr></table> | Consolidated | | | | | SEK millions | 2021 | | 2020 | | Exchange rate change against | | | | | SEK | + 10% | - 10% | + 10% | - 10% | USD | 535 | -535 | 478 | -478 | EUR | 259 | -259 | 221 | -221 | CNY | 110 | -110 | 99 | -99 | NOK | -293 | 293 | -258 | 258 | DKK | -169 | 169 | -168 | 168 | JPY | 35 | -35 | 27 | -27 | Other | -31 | 31 | -52 | 52 | Total | 446 | -446 | 347 | -347 | <p>Alfa Laval's local sales companies normally sell in domestic currency to local end customers and have their local cost base in local currency. Exports from production and logistical centres to other Group companies are invoiced in the exporting companies' domestic currencies, except for Sweden, Denmark and the UK where the exports are denominated in EUR.</p> <p>The Group is principally exposed to currency risk from potential changes in contracted and projected flows of payments and receipts. The objective of foreign exchange risk management is to reduce the impact of foreign exchange movements on the Group's income and financial position.</p> <p>The Group normally has natural risk coverage through sales as well as costs in local currencies. The treasury policy states that the local companies are responsible for identifying and hedging exchange rate exposures on all commercial flows via Alfa Laval Treasury International.</p> <p>Transaction exposure from firm committed orders shall be hedged to 100 percent when the value of the net exposure exceeds EUR 200,000. Furthermore, companies with yearly net exposure exceeding EUR 1,000,000 must hedge at least 50 percent of the next 12 months net exposure concerning all uncommitted flows and committed flows below EUR 200,000. The total hedge must never exceed 100 percent. Longer hedging contracts of 13-24 months for uncommitted exposures require special approval.</p> <p>Alfa Laval Treasury International can add to or reduce the total hedging initiated by the local companies in the currencies that Alfa Laval has commercial exposure up to but not exceeding 100 percent and down to but not below 50 percent of the commercial exposure for each currency in a given time period.</p> |
| Consolidated | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SEK millions | 2021 | | 2020 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Exchange rate change against | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SEK | + 10% | - 10% | + 10% | - 10% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| USD | 535 | -535 | 478 | -478 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EUR | 259 | -259 | 221 | -221 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CNY | 110 | -110 | 99 | -99 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| NOK | -293 | 293 | -258 | 258 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DKK | -169 | 169 | -168 | 168 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| JPY | 35 | -35 | 27 | -27 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other | -31 | 31 | -52 | 52 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 446 | -446 | 347 | -347 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Risk | Explanation | Mitigation | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------------------|---|-----------------|----------------------|---------------|--|-----|----------|------|-------|------|-------|---------|----------------------|-----|----------------------|-----|------------------|-----|-----|-----|-----|-----|------|--------|------|--------|-----|-------|--------|--|--------|-----|--------|------|--------|------|-----|----|-----|----|-----|-----|-----|-----|----|-----|-----|----|-----|----|-----|-----|----|----|----|-----|--------------|--|----------------|--|---------------|-----------------|--|--|--|--|-----|-------|-------|-------|-------|-----|-------|-------|-------|-------|-----|-------|-------|-------|-------|-----|-----|-----|-----|-----|-----|---|----|---|----|-----|----|----|---|---|-----|---|---|---|---|--------------|--|---------------|--|---------------|--|
| | <p>Outstanding currency forward contracts and currency options for the Group amounted to the following at the end of the year:</p> <p>Outstanding currency forward contracts and currency options</p> <table><tr><td colspan="5">Consolidated</td></tr><tr><td>Millions</td><td colspan="2">2021</td><td colspan="2">2020</td></tr><tr><td></td><td>Original currency</td><td>SEK</td><td>Original currency</td><td>SEK</td></tr><tr><td colspan="5">Outflows:</td></tr><tr><td>USD</td><td>-812</td><td>-7,349</td><td>-752</td><td>-6,173</td></tr><tr><td>EUR</td><td>-409</td><td>-4,184</td><td>-287</td><td>-2,899</td></tr><tr><td>JPY</td><td>-5,155</td><td>-405</td><td>-5,165</td><td>-411</td></tr><tr><td>SGD</td><td>-2</td><td>-14</td><td>-7</td><td>-45</td></tr><tr><td>CAD</td><td>-13</td><td>-93</td><td>-5</td><td>-33</td></tr><tr><td>AUD</td><td>-3</td><td>-20</td><td>-4</td><td>-26</td></tr><tr><td>NZD</td><td>-1</td><td>-9</td><td>-3</td><td>-17</td></tr><tr><td>Total</td><td></td><td>-12,074</td><td></td><td>-9,604</td></tr><tr><td colspan="5">Inflows:</td></tr><tr><td>NOK</td><td>4,929</td><td>5,055</td><td>4,859</td><td>4,671</td></tr><tr><td>SEK</td><td>4,211</td><td>4,211</td><td>3,653</td><td>3,653</td></tr><tr><td>CNY</td><td>1,441</td><td>2,045</td><td>1,295</td><td>1,628</td></tr><tr><td>DKK</td><td>597</td><td>822</td><td>456</td><td>618</td></tr><tr><td>GBP</td><td>2</td><td>30</td><td>6</td><td>71</td></tr><tr><td>PLN</td><td>13</td><td>29</td><td>-</td><td>-</td></tr><tr><td>CHF</td><td>0</td><td>3</td><td>-</td><td>-</td></tr><tr><td>Total</td><td></td><td>12,195</td><td></td><td>10,641</td></tr></table> | Consolidated | | | | | Millions | 2021 | | 2020 | | | Original currency | SEK | Original currency | SEK | Outflows: | | | | | USD | -812 | -7,349 | -752 | -6,173 | EUR | -409 | -4,184 | -287 | -2,899 | JPY | -5,155 | -405 | -5,165 | -411 | SGD | -2 | -14 | -7 | -45 | CAD | -13 | -93 | -5 | -33 | AUD | -3 | -20 | -4 | -26 | NZD | -1 | -9 | -3 | -17 | Total | | -12,074 | | -9,604 | Inflows: | | | | | NOK | 4,929 | 5,055 | 4,859 | 4,671 | SEK | 4,211 | 4,211 | 3,653 | 3,653 | CNY | 1,441 | 2,045 | 1,295 | 1,628 | DKK | 597 | 822 | 456 | 618 | GBP | 2 | 30 | 6 | 71 | PLN | 13 | 29 | - | - | CHF | 0 | 3 | - | - | Total | | 12,195 | | 10,641 | |
| Consolidated | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Millions | 2021 | | 2020 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Original currency | SEK | Original currency | SEK | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Outflows: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| USD | -812 | -7,349 | -752 | -6,173 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EUR | -409 | -4,184 | -287 | -2,899 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| JPY | -5,155 | -405 | -5,165 | -411 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SGD | -2 | -14 | -7 | -45 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CAD | -13 | -93 | -5 | -33 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| AUD | -3 | -20 | -4 | -26 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| NZD | -1 | -9 | -3 | -17 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | | -12,074 | | -9,604 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Inflows: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| NOK | 4,929 | 5,055 | 4,859 | 4,671 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SEK | 4,211 | 4,211 | 3,653 | 3,653 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CNY | 1,441 | 2,045 | 1,295 | 1,628 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DKK | 597 | 822 | 456 | 618 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| GBP | 2 | 30 | 6 | 71 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PLN | 13 | 29 | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CHF | 0 | 3 | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | | 12,195 | | 10,641 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Translation exposure | <p>Translation exposure relates to the currency risks that arise due to the translation of the subsidiaries' statements on financial position from local currency to SEK.</p> <p>When the subsidiaries' statements of financial position in local currency are translated into SEK a translation difference arises that is due to the current year being translated at a different closing rate than last year and that the comprehensive income statement is translated at the average rate during the year whereas the statement of financial position is translated at the closing rate at December 31. The translation differences are reported against other comprehensive income. The translation exposure consists of the risk that the translation difference represents in terms of impact on comprehensive income. The risk is largest for the currencies where the Group has the largest net assets and where the exchange rate movements against SEK are largest. The Group's net assets or liabilities for the major currencies are distributed as follows:</p> <p>Net assets by currency</p> <table><tr><td colspan="2">SEK millions</td></tr><tr><td></td><td></td></tr><tr><td>NOK</td><td>17,000</td></tr><tr><td>CNY</td><td>4,000</td></tr><tr><td>USD</td><td>3,000</td></tr><tr><td>EUR/DKK</td><td>3,000</td></tr><tr><td>INR</td><td>1,000</td></tr><tr><td>SEK</td><td>1,000</td></tr><tr><td>PLN</td><td>500</td></tr><tr><td>JPY</td><td>500</td></tr><tr><td>BRL</td><td>500</td></tr><tr><td>KRW</td><td>500</td></tr><tr><td>HKD</td><td>500</td></tr><tr><td>Other</td><td>1,000</td></tr></table> <p>■ Net assets</p> <p>The assets and liabilities in EUR and DKK are seen together since the rate for DKK is fixed against the EUR.</p> | SEK millions | | | | NOK | 17,000 | CNY | 4,000 | USD | 3,000 | EUR/DKK | 3,000 | INR | 1,000 | SEK | 1,000 | PLN | 500 | JPY | 500 | BRL | 500 | KRW | 500 | HKD | 500 | Other | 1,000 | <p>The translation differences are a central responsibility and are managed by distributing the loans on different currencies based on the net assets in each currency and through cross currency swaps. Loans taken in the same currency as there are net assets in the Group, decrease these net assets and thereby decrease the translation exposure.</p> <p>These hedges of net investments in foreign operations work in the following way. Exchange gains and losses on loans denominated in foreign currencies that finance acquisitions of foreign subsidiaries are reported as a part of other comprehensive income if the loans act as a hedge to the acquired net assets. In other comprehensive income they offset the translation adjustments resulting from the consolidation of the foreign subsidiaries. In the Group, net exchange differences of SEK -165 (313) million relating to debts in foreign currencies have been charged to other comprehensive income as hedges of net investments in foreign operations. The loans that hedge net investments in foreign operations are denominated in EUR and USD since these foreign currencies have the largest impact on the statement of financial position. Since the Group uses part of its cash flows to amortise the loans in order to improve the financial net, the extent of this hedge tends to decrease over time. A change in the net assets of the foreign subsidiary over time can have the same effect.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SEK millions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| NOK | 17,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CNY | 4,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| USD | 3,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EUR/DKK | 3,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| INR | 1,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SEK | 1,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PLN | 500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| JPY | 500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| BRL | 500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| KRW | 500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKD | 500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other | 1,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

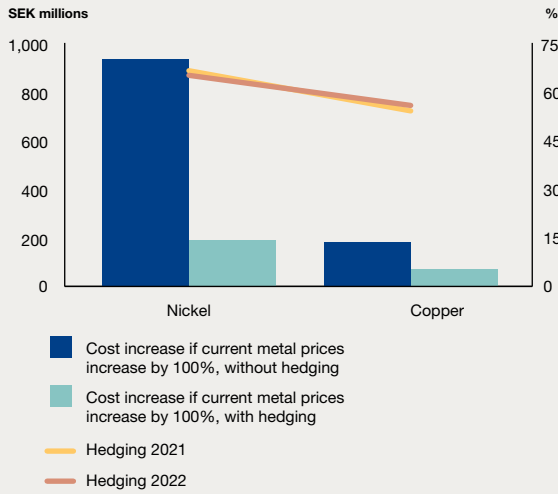


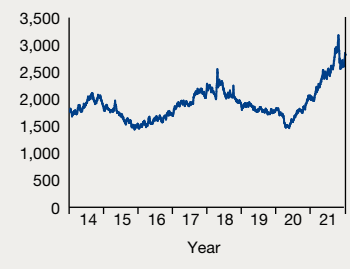


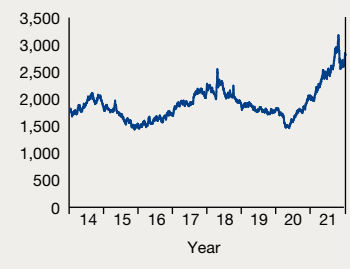
| Risk | Explanation | Mitigation | | | | | | | | | | | | | | | | | | | | | | | | |
|-------------------------------------|---|---|---|---------------------------------|----------------------|------|--------|---------|---------|------|--|---------|---------|------|--------|---------|---------|------|--------|---------|---------|------|--------|---------|---------|--|
| Interest risk | <p>By interest risk is meant how changes in the interest level affect the financial net of the Group and how the value of financial instruments vary due to changes in market interest rates.</p> <p>At December 31, 2021, the total debt portfolio of SEK 8,244 (9,168) million was split on loans with fixed interest of SEK 8,175 (8,040) and loans with floating interest rates of SEK 69 (1,128) million.</p> <p>The average interest and currency duration for all loans including derivatives was 16.6 (26.1) months at the end of 2021.</p> <p>Calculated on an overall increase of market rates by 100 basis points (1 percentage unit), the interest net of the Group would change according to the bar chart below. The reason why it is an income is that large parts of the cash and cash equivalents and the current deposits have floating interest rates.</p> <p>Interest sensitivity analysis versus hedging % of floating rates</p>  <table><caption>Interest sensitivity analysis versus hedging % of floating rates</caption><thead><tr><th>Year</th><th>Effect on interest costs/income at 1% increase in market rates (SEK millions)</th><th>Hedging % of floating rates (%)</th></tr></thead><tbody><tr><td>2020</td><td>56</td><td>~1</td></tr><tr><td>2021</td><td>26</td><td>~1</td></tr></tbody></table> | Year | Effect on interest costs/income at 1% increase in market rates (SEK millions) | Hedging % of floating rates (%) | 2020 | 56 | ~1 | 2021 | 26 | ~1 | <p>The Group attempts to manage the interest risk by:</p> <ul style="list-style-type: none">– seeking a balance between floating and fixed interest rates in the debt portfolio and– through the use of derivative financial instruments such as interest rate swaps. <p>The high portion of loans with fixed interest rate at December 31, 2021 meant a low interest risk.</p> <p>The treasury policy states that:</p> <ul style="list-style-type: none">– the interest rate risk is measured separately for each main currency and for the total debt; and– the average interest duration for the total portfolio should be between 6 and 36 months. <p>When utilised, the senior credit facility will accrue interest at floating rate. At the end of 2020 the only remaining loan was accruing interest at 0.43 %.</p> | | | | | | | | | | | | | | | |
| Year | Effect on interest costs/income at 1% increase in market rates (SEK millions) | Hedging % of floating rates (%) | | | | | | | | | | | | | | | | | | | | | | | | |
| 2020 | 56 | ~1 | | | | | | | | | | | | | | | | | | | | | | | | |
| 2021 | 26 | ~1 | | | | | | | | | | | | | | | | | | | | | | | | |
| Market risk | <p>Market risk is defined as the risk for changes in the value of a financial instrument due to changed market prices. This applies only to financial instruments that are listed or otherwise traded, which for Alfa Laval concern bonds and other securities and other long-term securities totalling SEK 1,353 (2,941) million.</p> | <p>The market risk for these is perceived as low. For other financial instruments, the price risk only consists of currency risk and interest risk.</p> | | | | | | | | | | | | | | | | | | | | | | | | |
| Liquidity risk and refinancing risk | <p>Liquidity risk is defined as the risk that the Group would incur increased costs due to lack of liquid funds.</p> <p>Refinancing risk is defined as the risk that the refinancing of maturing loans becomes difficult or costly.</p> <p>In summary the maturity structure of the loans and the loan facilities is as follows:</p> <p>Maturity structure of Group funding</p>  <table><caption>Maturity structure of Group funding (SEK millions)</caption><thead><tr><th>Maturity year</th><th>Non committed – Utilised</th><th>Committed</th><th>Committed & Utilised</th></tr></thead><tbody><tr><td>2022</td><td>~1,000</td><td>~11,000</td><td>~12,000</td></tr><tr><td>2023</td><td>~1,000</td><td>~11,000</td><td>~12,000</td></tr><tr><td>2024</td><td>~1,000</td><td>~11,000</td><td>~12,000</td></tr><tr><td>2025</td><td>~1,000</td><td>~11,000</td><td>~12,000</td></tr><tr><td>2026</td><td>~1,000</td><td>~11,000</td><td>~12,000</td></tr></tbody></table> | Maturity year | Non committed – Utilised | Committed | Committed & Utilised | 2022 | ~1,000 | ~11,000 | ~12,000 | 2023 | ~1,000 | ~11,000 | ~12,000 | 2024 | ~1,000 | ~11,000 | ~12,000 | 2025 | ~1,000 | ~11,000 | ~12,000 | 2026 | ~1,000 | ~11,000 | ~12,000 | <p>Alfa Laval Treasury International is responsible for ensuring that:</p> <ul style="list-style-type: none">– the Group has a sufficient liquidity reserve, including cash & bank, short-term investments and unutilized committed credit facilities,– a too large part of the outstanding debt is not maturing within the coming 12 month period and– the remaining average credit duration of the total debt portfolio is not too short. <p>The loans of the Group are mainly long-term and only mature when the agreed loan period expires. Since the maturity of the loans is distributed over time the refinancing risk is reduced.</p> <p>On April 22, 2021 Alfa Laval successfully refinanced the company's revolving credit facility with a EUR 700 million credit facility with a banking syndicate. The facility has a maturity of five years with a possibility to extend it for further two years and it includes a possibility to increase by EUR 200 million.</p> <p>The company's Euro Medium Term Note (EMTN) programme has been increased from EUR 1,500 million to EUR 2,000 million in November 2021. Under the programme, two tranches of corporate bonds totalling EUR 800 million have been issued in September 2014 and June 2019. The corporate bonds are listed on the Irish stock exchange and consist of one tranche of EUR 500 million that matures in September 2022 and one tranche of EUR 300 million that matures in June 2024, corresponding to SEK 8,175 million in total.</p> <p>The company's commercial paper programme has been increased from SEK 2,000 million to SEK 4,000 million in November 2021 with an unchanged duration of 1-12 months. It was not utilised at December 31, 2021.</p> <p>The bilateral term loan of EUR 100 million from Swedish Export Credit from June 2011 matured on June 14, 2021 and has been repaid.</p> |
| Maturity year | Non committed – Utilised | Committed | Committed & Utilised | | | | | | | | | | | | | | | | | | | | | | | |
| 2022 | ~1,000 | ~11,000 | ~12,000 | | | | | | | | | | | | | | | | | | | | | | | |
| 2023 | ~1,000 | ~11,000 | ~12,000 | | | | | | | | | | | | | | | | | | | | | | | |
| 2024 | ~1,000 | ~11,000 | ~12,000 | | | | | | | | | | | | | | | | | | | | | | | |
| 2025 | ~1,000 | ~11,000 | ~12,000 | | | | | | | | | | | | | | | | | | | | | | | |
| 2026 | ~1,000 | ~11,000 | ~12,000 | | | | | | | | | | | | | | | | | | | | | | | |

| Risk | Explanation | Mitigation |
|--------------------------|---|--|
| Cash flow risk | Cash flow risk is defined as the risk that the size of future cash flows linked to financial instruments is fluctuating. | This risk is mostly linked to changed interest and currency rates. To the extent that this is perceived as a problem, different derivative instruments are used to fix rates. See description of exposure and hedging measures under interest and currency risks. Maturity analyses of the contractual undiscounted cash flows for loans (including interests) are shown in Note 29 and for currency derivatives, interest derivatives, metal futures and electricity futures in Note 15. |
| Counterparty risk | <p>Counterparty risk is defined as the risk that the counterparty is not able to fulfill its contractual obligations.</p> <p>Financial instruments that potentially subject the Group to significant concentrations of credit risk consist principally of cash and cash equivalents, deposits and derivatives.</p> <p>Received bank guarantees and letters of credit move the credit risk from the customer to the bank, but can still contain a credit risk, but now towards the bank.</p> | <p>The Group has a bank strategy with the objective to establish, maintain and develop strong bank relations at Group level. This in order to provide the Group with long-term banking support, a relevant product range and geographical coverage. The banks at Group level must have a credit rating from two rating institutions of minimum A.</p> <p>The Group maintains cash and cash equivalents and current and non-current investments with various financial institutions approved by the Group. These financial institutions are located in major countries throughout the world and the Group's policy is designed to limit exposures to any one institution. The risk for a counterparty not fulfilling its commitments is limited through the selection of financially solid counterparties and by limiting the engagement per counterparty. The Group performs periodic evaluations of the relative credit standing of those financial institutions that are considered in its investment strategy. The Group does not require collateral on these financial instruments.</p> <p>The Group is exposed to credit risk in the event of non-performance by counterparties to derivative instruments. The Group limits this exposure by diversifying among counterparties with high credit ratings and by limiting the volume of transactions with each counterparty. Furthermore, the Group has entered into ISDA agreements (International Swaps and Derivatives Association) with the counterparties in order to be able to offset assets and liabilities in case of a counterparty default. Alfa Laval has never encountered a counterparty default, which means that such an offset never has been made.</p> <p>In total it is the Group's opinion that the counterparty risks are limited and that there is no concentration of risk in these financial instruments.</p> |

Operational risks

| Risk | Explanation | Mitigation |
|--|---|--|
| Business risks | | |
| Credit risk/ Risk for bad debts | <p>The risk that the customer cannot pay for delivered goods due to financial difficulties.</p> <p>The amount of accounts receivable being overdue is an indication of the risk the company runs for ending up in a bad debt situation.</p> <p>The Group's costs for bad debts and the overdues in percent of accounts receivable are presented in the following graph.</p> <p>Costs for bad debts / overdues in % of accounts receivable</p> <p>SEK millions</p> <p>2020 2021</p> <p>Costs for bad debts in SEK millions</p> <p>≤ 30 days</p> <p>> 30 days but ≤ 90 days</p> <p>> 90 days</p> | <p>Alfa Laval has established a Group Credit Policy to manage and mitigate the credit risk.</p> <p>The Group sells to a large number of customers in countries all over the world. That some of these customers from time to time face payment problems or go bankrupt is unfortunately part of reality in an operation of Alfa Laval's magnitude. All customers except Tetra Laval represent less than 1 percent of net sales and thereby represent a limited risk. Alfa Laval regularly collects credit information on new customers and, if needed, on old customers. Earlier payment habits have an impact on the acceptance of new orders. On markets with political or financial risks, the Group strives to attain credit insurance solutions.</p> <p>Accounts receivable constitutes the single largest financial asset according to Note 13. With reference to the above description, it is management's opinion that there is no material concentration of risk in this financial asset.</p> |

| Risk | Explanation | Mitigation | | | | | | | | | |
|--|---|--|---|-------------------------------------|------|-----|-------|------|-----|-------|--|
| Risk for claims | <p>The risk for the costs Alfa Laval would incur to rectify faults in products or systems and possible costs for penalties.</p> <p>The Group's net claim costs and their relation to net sales are found in the following graph.</p> <p>Claim costs in SEK millions and in % of net sales</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Costs for claims & warranty in SEK millions</th> <th>Claims & warranty in % of net sales</th> </tr> </thead> <tbody> <tr> <td>2020</td> <td>422</td> <td>~1.0%</td> </tr> <tr> <td>2021</td> <td>495</td> <td>~1.2%</td> </tr> </tbody> </table> | Year | Costs for claims & warranty in SEK millions | Claims & warranty in % of net sales | 2020 | 422 | ~1.0% | 2021 | 495 | ~1.2% | <p>Alfa Laval strives to minimize these costs through an ISO certified quality assurance.</p> <p>The major risks for claim costs appear in connection with new technical solutions and new applications. The risks are limited through extensive tests at the manufacturing site and at the customer site.</p> |
| Year | Costs for claims & warranty in SEK millions | Claims & warranty in % of net sales | | | | | | | | | |
| 2020 | 422 | ~1.0% | | | | | | | | | |
| 2021 | 495 | ~1.2% | | | | | | | | | |
| Economic risk Competition | <p>The Group operates in competitive markets, which can impact the company's development negatively.</p> | <p>In order to address this competition, the Group has for instance:</p> <ul style="list-style-type: none"> – organized the operations into divisions based on business units in order to get a customer focused market penetration; – a strategy for acquisition of businesses in order to for instance reinforce the presence on certain markets or widen the Group's product offering; – worked with creating a competitive cost level based on its international presence; and – worked with securing the availability of strategic metals and components in order to maintain the ability to deliver. | | | | | | | | | |
| Business climate | <p>In an overall economic downturn, the Group tends to be affected with a delay of six to twelve months depending on business division. The same applies with an economic upturn.</p> | <p>The fact that the Group is operating on a large number of geographical markets and within a wide range of business units means a diversification that limits the effects of fluctuations in the business climate. Historically, fluctuations in the business climate have not generated decreases in orders received by more than approximately 10-15 percent. The downturn in the business climate in 2009 and 2010 however meant a considerably larger decline in order intake. This was partly due to the fact that the decline happened abruptly from a very high level of demand that was the culmination of a long-lasting boom and that the price level in connection with this peak was inflated by substantial increases in raw material prices.</p> | | | | | | | | | |
| Pandemics | <p>The outbreak of the COVID-19 pandemic proved to have a large impact on the world economy and the international business climate. Lockdowns in many regions within countries or in entire countries have during certain periods limited Alfa Laval's ability to visit potential customers and perform service on site at customers but has only to a limited extent impacted the company's supply chain and ability to manufacture products.</p> <p>Future pandemics can, depending on the rate of the spread of the infection and the risk for severe illness and death have smaller or larger consequences than COVID-19.</p> | <p>Global and local crisis management work and obedience to advice, instructions and rules from authorities are important to be able to short and long term handle the consequences of the pandemic.</p> <p>Cost reduction programmes and the flexibility in different national work time reduction schemes are important components to reduce costs to match the declining revenues.</p> <p>Employees outside the manufacturing have to a large extent been able to work from home. Travelling has been severely restricted and has to a large extent been replaced by digital meetings.</p> | | | | | | | | | |

| Risk | Explanation | Mitigation |
|--|---|--|
| Commodity prices | <p>The Group depends on deliveries of stainless steel, carbon steel, copper and titanium etc and on electricity for the manufacture of products. The prices in some of these markets are volatile and the supply of titanium has occasionally been limited. There are a limited number of possible suppliers of titanium. The risk for severely increased prices or limited supply constitutes serious risks for the operations. The possibilities to pass on higher input prices to an end customer vary from time to time and between different markets depending on the competition.</p> <p>The below graph below shows how much of the purchases of nickel and copper that have been hedged during 2021 and how much of the expected purchases during 2022 that were hedged at the end of 2021. The graph also presents to what extent the Group's costs for these purchases during 2022 would be affected if the prices would double from the level at December 31, 2021.</p> <p>Sensitivity analysis and metal price hedging</p>  <p>Nickel</p>  <p>Copper</p>  <p>Aluminium</p>  | <p>The Group is addressing this risk by securing long-term supply commitments and through fixed prices from the suppliers during six to twelve months and through derivatives for metals and electricity.</p> <p>For metals:</p> <ul style="list-style-type: none"> – The exposures for the coming 12 months of expected flows must be hedged between 30-70 percent. – In certain situations, exposures beyond 12 months can also be hedged. <p>For electricity the coming 12 months' expected exposure shall be hedged between 30-90 percent and the coming 13-24 months can be hedged up to 80 percent.</p> <p>During periods of large price increases the customer price on titanium products has been linked to Alfa Laval's procurement costs for titanium. The Group has during certain periods experienced large price fluctuations for many raw materials, but in particular for stainless steel, carbon steel, copper and titanium. During 2021 the metal prices have increased substantially. The price volatility for the most important metals is presented below.</p> <p>Nickel</p>  <p>Copper</p>  <p>Aluminium</p>  <p>The Group uses metal futures to secure the price on strategic metals.</p> |
| Global material and freight constraints | <p>During 2021, many companies have experienced global material and freight constraints. Alfa Laval has not been hit by this to any larger extent, but sub-suppliers have from time to time during 2021 experienced shortages of sourced semiconductors for control panels.</p> | <p>Alfa Laval has a global footprint with 39 major manufacturing units across Europe, Asia, the US and Latin America. The company has well-established business continuity plans and a global supply chain with alternative sourcing solutions for most products and services and close collaboration with key suppliers.</p> |

| Risk | Explanation | Mitigation |
|---|--|---|
| Legal and compliance risks | | |
| Non-compliance with socioeconomic or environmental legislation | Alfa Laval's global and diversified business means that the Group is required to adhere to a variety of laws and regulations. Failure to meet socio-economic or environmental requirements could lead to legal and financial consequences, and negatively impact the company's reputation. | Policies, procedures and training programmes are in place to ensure that legal risks relating to its business activities are identified and that decisions are made on the appropriate level in the organisation. The legal counsel supports the business in identifying and handling these legal risks. A whistle-blowing system is in place where employees can report any breaches of laws or Alfa Laval policies anonymously without repercussions. |
| Bribery and corruption | If Alfa Laval employees fail to comply with anti-bribery and anti-corruption laws, this could potentially lead to loss of business, financial penalties and reputational damage. | The Alfa Laval Anti-Bribery and Anti-Corruption Policy is applicable to all employees within the Group. The policy sets procedures for preventing, detecting, reporting and investigating acts of bribery and corruption. Training is a focus area to ensure an understanding of the risks associated with improper behaviour in this area. |
| Material source or type | Alfa Laval uses metals that may originate from areas classified as "conflict areas". We manufacture products for customers with specific demands due to industry standards, for example marine, food and pharmaceutical customers. | Alfa Laval supports the US Securities and Exchange Commission's rules and other initiatives concerning conflict minerals. Alfa Laval established a Conflict Minerals Policy in 2013. Due diligence is conducted in our supply chain to minimise the risk that minerals originate from conflict areas (especially in the Democratic Republic of Congo). Alfa Laval's Supplier Risk & Compliance unit has processes in place to identify risks and monitor potential high-risk suppliers. The Alfa Laval Regulatory Operations unit monitors emerging legislation to ensure adherence in prioritized areas. |
| Unfair competition and antitrust | Infringements of applicable competition rules may result in Alfa Laval having to pay fines and losing goodwill. | The Fair Competition Policy provides guidelines to assist employees with how to adhere to competition law/antitrust laws, rules and regulation. Employees working with sales or purchasing are obliged to comply with this policy. |
| Export control and trade sanction regulations | Breach of export control and trade sanction regulations can lead to a denial of trade privileges, criminal proceedings and reputational damage | The Alfa Laval Export Control Policy establishes rules for Group-wide handling of the relevant export control regulations, adherence to applicable trade sanctions and it ensures that no products or services supplied by Alfa Laval are used in relation to weapons of mass destruction. |
| Risk for and in connection with litigations | This risk for the costs the Group may incur in managing litigations, costs in connection with settlements and costs for imposed penalties. The Group is involved in a few litigations, mainly with customers. | Any estimated loss risks are provided for. |
| Asbestos-related lawsuits | The Alfa Laval Group was as of December 31, 2021, named as a co-defendant in a total of 571 asbestos-related lawsuits with a total of approximately 571 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. |
| Supply chain risks | | |
| Business Principles deviation in the supply chain | Deviations could have an adverse impact on people, the environment and society that could damage the company's reputation. | Alfa Laval works to have a supply chain that follows laws and the company's business principles. All suppliers sign contracts where they agree to abide by the Alfa Laval Business Principles. Suppliers are assessed based on a risk analysis (country/process) and high-risk suppliers are regularly audited. All employees within the procurement organisation and many suppliers are trained in all areas that are covered by the business principles. |
| Human Rights breaches | The risk that the human rights of individuals linked to Alfa Laval are violated. For example, child labour, forced labour and freedom of association. | Alfa Laval's Business Principles build on the UN Global Compact, the OECD Guidelines for multinational enterprises, the UN Guiding Principles for Business and Human Rights and incorporate the UK Modern Slavery Act. Suppliers sign off on these business principles in their contracts with Alfa Laval. High-risk suppliers are also audited that they follow the business principles. |

| Risk | Explanation | Mitigation |
|--|---|---|
| Production or product related risks | | |
| Risk connected to technical development | The risk that a competitor develops a new technical solution that makes Alfa Laval's products technically obsolete and therefore difficult to sell. | Alfa Laval makes a deliberate investment in research and development aiming at being in the absolute frontline of technical development. |
| Risk for technically related damages | The risk for the costs Alfa Laval may incur in connection with a product delivered by the Group breaking down and causing damages to life and property. The main risk in this context concerns high-speed separators, due to the large forces that are involved when the bowl in the separator spins with a very high number of revolutions. In a breakdown the damages can be extensive. | Alfa Laval makes extensive testing and has an ISO certified quality assurance. The Group has product liability insurance. The number of damages is low and few damages have occurred historically. |
| Health & Safety | Health and safety risks such as occupational diseases and accidents. The risk that an employee is injured or killed in a workplace accident. | The Alfa Laval Occupational Health & Safety (OHS) Policy guides the work together with our OHS Manual. The purpose with these is to safeguard a healthy and safe working environment by preventing accidents, occupational diseases and other health risks. We have a process to continuously monitor high-risk areas in our operations, train employees and enforce changes. |
| Environmental risks | | |
| Major environmental incident at a site | An incident that causes a significant environmental damage could lead to long-term environmental impact, negative impact on people, fines and reputational damage to the company. | The Alfa Laval Environmental Policy is applicable to the entire Alfa Laval Group. Environmental performance is monitored and measured through Environmental Management Systems. The large sites are ISO 14001 certified. Smaller sites work according to Environmental Management Systems where risks are identified, and effective countermeasures are implemented. |
| Use of hazardous chemicals | Using hazardous chemicals could lead to severe illness or have a serious negative impact on our environment or society. | The Alfa Laval Group Black and Grey Chemicals List is the primary tool to control the use of chemical substances. This list compiles substances that are classified as banned, very high concern or concern. The list is based on EU legislations, such as REACH and RoHS, and global agreements such as for example POPs and IMO. The list is updated each year to reflect any legislative changes. |
| Climate and water | Climate change could lead to increased costs and constrain production. Water scarcity in the supply chain or at our sites can constrain production. Cost of energy or carbon emissions can increase due to climate legislation. | Alfa Laval does not use significant amounts of energy in its production. To continuously improve, we have targets to both increase energy efficiency and to reduce carbon emissions. Alfa Laval production is not water intensive and most water facilities are closed loop. The Environmental Strategy for 2021 includes targets for all three areas. Read more in the Environment chapter in Alfa Laval's Sustainability Report. |
| IT related risks | | |
| Loss of intellectual property, financial or personal data | Loss of intellectual property, financial or personal data due to for instance unauthorized access to Alfa Laval's computer systems. | Alfa Laval holds compulsory trainings on information security awareness. Policies describe what is confidential information and how the information should be classified. Alfa Laval's IT agreements contain the necessary Information Security components. Information security is also monitored in our project model – feasibility, pre-study and project. A template is also sent at an early stage to all potential suppliers to identify if there are any possible infringements of information security. |

| Risk | Explanation | Mitigation |
|---|---|--|
| Human capital risks | | |
| Risk connected to attracting and retaining talents | Companies that do not succeed in attracting and retaining talents risk experiencing an inferior development compared to companies that succeed with this. | To offer interesting positions, personal and professional development, a good working environment and competitive compensation and benefits are prioritized areas within Alfa Laval. |
| Other risks | | |
| Business interruption risks | <p>The risk that single units or functions within the Group can be hit by business interruption due to:</p> <ul style="list-style-type: none"> – strikes and other labour market conflicts; – fires, natural catastrophes etc; – computer access violations, lack of backups etc.; and – corresponding problems at major sub-suppliers. | <p>Alfa Laval has a well-developed dialog with the local unions, which reduces the risk for conflicts and strikes where Alfa Laval is directly involved. It is however more difficult to protect the company against conflicts in other parts of the labour market, for instance within transportation.</p> <p>Alfa Laval is minimizing the following two risks through an active preventive work at each site in line with the developed global policies in each area under supervision of manufacturing management, the Group's Risk Management function, Real Estate Management, IT and HR.</p> <p>Problems at major sub-suppliers are minimized by Alfa Laval trying to use several suppliers of input goods that when needed can cover up for a drop in production somewhere else. The wish for long-term and competitive delivery agreements however puts restrictions on the level of flexibility that can be achieved. When there is a shortage the total supply may be too limited to allow exchangeability.</p> <p>HPR stands for "Highly Protected Risk" and is the insurance industry's highest rating for risk quality. This rating is reserved for those commercial properties where the exposure for physical damages is reduced to a minimum considering building construction, operations and local conditions. HPR means that all physical risks in and around the facility are documented and that these are kept within certain limits. Alfa Laval's production facility in Lund in Sweden, which is the Group's largest and most important facility is HPR classified, as well as the production facilities in Chesapeake and Newburyport in the U.S. A number of other key production facilities are being evaluated and may eventually become HPR classified.</p> <p>An HPR classification means that the facility has state of the art fire and machinery protection systems and that the responsible personnel has adequate security routines to make sure that these protection systems are maintained and in function. In addition, known possible sources of ignition are under strict control to prevent a fire from starting. For an HPR facility the risk for a physical damage is brought to a minimum, which minimises the risk for business interruption that could have extensive consequences for Alfa Laval and its customers. For other production facilities, not HPR classified, the aim is also to reduce the risk for damage and business interruption to a minimum by keeping, among other things, ignition sources under strict control. Loss prevention visits are conducted according to a schedule based on size and importance for Alfa Laval.</p> |
| Political risk | The risk that the authorities, in the countries where the Group is operating, by political decisions or administration make continued operations difficult, expensive or impossible for the Group. | The Group is mainly operating in countries where the political risk is considered to be negligible or minor. The operations that are performed in countries where the political risk is deemed to be higher are not material. |
| Insurance risks | These risks refer to the costs that Alfa Laval may incur due to an inadequate insurance coverage for property, business interruption, liability, transport, life and pensions. | The Group strives to maintain an insurance coverage that keeps the risk level at an acceptable level for a Group of Alfa Laval's size and still is cost efficient. At the same time a continuous work is going on to minimise the risks in the operations through proactive measures. |
| Risks connected to credit terms | The limited freedom of action that can be imposed on the Group through restrictions connected to credit terms in loan agreements. | Alfa Laval's strong solidity and profitability limits this risk. |

Notes

Note 1. Operating segments

Alfa Laval's business is divided into three Business Divisions "Energy", "Food & Water" and "Marine" that sell to external customers and are responsible for the manufacturing of the products and one division "Operations & Other" covering procurement, logistics, distribution and production development as well as corporate overhead and non-core businesses. These four divisions constitute Alfa Laval's four operating segments.

The customers to the Energy Division purchase products and systems for energy applications, whereas the customers to the Food & Water Division purchase products and systems for food and water applications. The customers to the Marine Division purchase products and systems for marine and offshore applications.

The three first Business Divisions are in turn split into a number of Business Units. The Energy Division consists of four Business Units: Braze & Fusion Bonded Heat Exchangers, Energy Separation, Gasketed Plate Heat Exchangers and Welded Heat Exchangers. The Food & Water Division consists of five Business Units: Decanters, Food Heat Transfer, Food Systems, Hygienic Fluid Handling and High Speed Separators. The Marine Division consists of five Business Units: Boiler Systems, Digital Solutions, Environmental Products, Marine Separation & Heat Transfer Equipment and Pumping Systems.

The operating segments are only responsible for the result down to and including operating income excluding comparison distortion items and for the operating capital they are managing. This means that financial assets and liabilities, pension assets, provisions for pensions and similar commitments and current and deferred tax assets and liabilities are a Corporate responsibility and not an operating segment responsibility. This also means that the financial net and income taxes are a Corporate responsibility and not an operating segment responsibility.

The operating segments are only measured based on their transactions with external parties.

Orders received

| Consolidated | | |
|--------------------|---------------|---------------|
| SEK millions | 2021 | 2020 |
| Energy | 13,675 | 11,952 |
| Food & Water | 16,664 | 13,814 |
| Marine | 15,379 | 14,067 |
| Operations & Other | 0 | 0 |
| Total | 45,718 | 39,833 |

Order backlog

| Consolidated | | |
|--------------------|---------------|---------------|
| SEK millions | 2021 | 2020 |
| Energy | 5,791 | 4,740 |
| Food & Water | 6,823 | 5,056 |
| Marine | 10,340 | 9,173 |
| Operations & Other | 0 | 0 |
| Total | 22,954 | 18,969 |

Net sales

| Consolidated | | |
|--------------------|---------------|---------------|
| SEK millions | 2021 | 2020 |
| Energy | 12,383 | 12,187 |
| Food & Water | 14,640 | 13,414 |
| Marine | 13,888 | 15,867 |
| Operations & Other | 0 | 0 |
| Total | 40,911 | 41,468 |

Operating income in management accounts

| Consolidated | | |
|-------------------------------------|--------------|--------------|
| SEK millions | 2021 | 2020 |
| Energy | 1,897 | 1,882 |
| Food & Water | 2,637 | 2,371 |
| Marine | 2,211 | 2,758 |
| Operations & Other | -441 | -629 |
| Total | 6,304 | 6,382 |
| Reconciliation with Group total: | | |
| Comparison distortion items | -192 | -796 |
| Consolidation adjustments * | 14 | -6 |
| Total operating income | 6,126 | 5,580 |
| Financial net | 16 | -603 |
| Result after financial items | 6,142 | 4,977 |

* Difference between management accounts and IFRS.

Operating income in management accounts is very close to operating income under IFRS. There are only two differences. Operating income in management accounts does not include comparison distortion items nor all the consolidation adjustments that are made in the official accounts.

Assets / Liabilities

| Consolidated | Assets | | Liabilities | |
|--------------------|---------------|---------------|---------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| SEK millions | | | | |
| Energy | 13,262 | 12,726 | 5,252 | 5,574 |
| Food & Water | 11,714 | 11,226 | 5,144 | 5,184 |
| Marine | 28,718 | 24,086 | 6,317 | 6,695 |
| Operations & Other | 1,486 | 1,276 | 801 | 522 |
| Subtotal | 55,180 | 49,314 | 17,514 | 17,975 |
| Corporate | 9,181 | 11,546 | 14,503 | 13,814 |
| Total | 64,361 | 60,860 | 32,017 | 31,789 |

Corporate refers to items in the statement on financial position that are interest bearing or are related to taxes.

Investments

| Consolidated | | |
|--------------------|--------------|--------------|
| SEK millions | 2021 | 2020 |
| Energy | 403 | 352 |
| Food & Water | 315 | 295 |
| Marine | 250 | 137 |
| Operations & Other | 261 | 448 |
| Total | 1,229 | 1,232 |

Depreciation

| Consolidated | | |
|--------------------|--------------|--------------|
| SEK millions | 2021 | 2020 |
| Energy | 433 | 452 |
| Food & Water | 360 | 384 |
| Marine | 840 | 814 |
| Operations & Other | 354 | 339 |
| Total | 1,987 | 1,989 |

Note 2. Information about geographical areas

Countries with more than 10 percent of either net sales, non-current assets or investments are reported separately.

| Net sales | | | | |
|---------------------|---------------|--------------|---------------|--------------|
| Consolidated | | | | |
| | 2021 | | 2020 | |
| | SEK millions | % | SEK millions | % |
| To customers in: | | | | |
| Sweden | 1,166 | 2.9 | 989 | 2.4 |
| Other EU | 9,837 | 24.0 | 11,205 | 27.0 |
| Other Europe | 4,182 | 10.2 | 3,247 | 7.8 |
| USA | 6,031 | 14.7 | 5,923 | 14.3 |
| Other North America | 763 | 1.9 | 946 | 2.3 |
| Latin America | 1,606 | 3.9 | 1,630 | 3.9 |
| Africa | 500 | 1.2 | 418 | 1.0 |
| China | 6,803 | 16.6 | 6,180 | 15.0 |
| South Korea | 3,160 | 7.7 | 3,456 | 8.3 |
| Other Asia | 6,346 | 15.6 | 6,984 | 16.8 |
| Oceania | 517 | 1.3 | 490 | 1.2 |
| Total | 40,911 | 100.0 | 41,468 | 100.0 |

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

| Non-current assets | | | | |
|----------------------------|---------------|--------------|---------------|--------------|
| Consolidated | | | | |
| | 2021 | | 2020 | |
| | SEK millions | % | SEK millions | % |
| Sweden | 2,273 | 5.9 | 2,344 | 7.1 |
| Denmark | 4,847 | 12.7 | 4,806 | 14.4 |
| Other EU | 3,978 | 10.4 | 4,046 | 12.2 |
| Norway | 15,573 | 40.8 | 11,172 | 33.6 |
| Other Europe | 377 | 1.0 | 117 | 0.4 |
| USA | 3,692 | 9.7 | 3,343 | 10.1 |
| Other North America | 137 | 0.4 | 130 | 0.4 |
| Latin America | 269 | 0.7 | 202 | 0.6 |
| Africa | 8 | 0.0 | 9 | 0.0 |
| Asia | 3,788 | 9.9 | 3,523 | 10.6 |
| Oceania | 110 | 0.3 | 110 | 0.3 |
| Subtotal | 35,052 | 91.8 | 29,802 | 89.7 |
| Other long-term securities | 1,396 | 3.6 | 1,575 | 4.7 |
| Pension assets | 70 | 0.2 | 70 | 0.2 |
| Deferred tax asset | 1,694 | 4.4 | 1,791 | 5.4 |
| Total | 38,212 | 100.0 | 33,238 | 100.0 |

| Investments | | | | |
|---------------------|--------------|--------------|--------------|--------------|
| Consolidated | | | | |
| | 2021 | | 2020 | |
| | SEK millions | % | SEK millions | % |
| Sweden | 258 | 20.9 | 184 | 14.9 |
| Denmark | 114 | 9.3 | 135 | 11.0 |
| Italy | 154 | 12.5 | 298 | 24.2 |
| Other EU | 102 | 8.3 | 74 | 6.0 |
| Norway | 208 | 16.9 | 81 | 6.6 |
| Other Europe | 23 | 1.9 | 3 | 0.2 |
| USA | 83 | 6.8 | 69 | 5.6 |
| Other North America | 2 | 0.2 | 2 | 0.2 |
| Latin America | 13 | 1.1 | 7 | 0.6 |
| Africa | 0 | 0.0 | 0 | 0.0 |
| China | 206 | 16.7 | 254 | 20.6 |
| Other Asia | 60 | 4.9 | 122 | 9.9 |
| Oceania | 6 | 0.5 | 3 | 0.2 |
| Total | 1,229 | 100.0 | 1,232 | 100.0 |

Note 3. Information about products and services

| Net sales by product/service | | |
|-------------------------------------|---------------|---------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Own products within: | | |
| Separation | 7,107 | 7,116 |
| Heat transfer | 16,274 | 16,439 |
| Fluid handling | 9,291 | 9,156 |
| Marine environmental | 4,063 | 5,170 |
| Other | 0 | 1 |
| Associated products | 1,555 | 1,338 |
| Services | 2,621 | 2,248 |
| Total | 40,911 | 41,468 |

The split of own products within separation, heat transfer and fluid handling is a reflection of the current three main technologies. Marine environmental is a product area basically outside the main technologies. Other is own products outside these four product areas. Associated products are mainly purchased products that complement Alfa Laval's product offering. Services cover all sorts of service and service agreements excluding spare parts.

Note 4. 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 4.7 (4.7) percent of net sales. See Note 33 for more information.

Note 5. Employees

| Average number of employees – total | | | | |
|--|----------------------------|--------------|---------------------------|---------------|
| Consolidated | | | | |
| | Number of female employees | | Total number of employees | |
| | 2021 | 2020 | 2021 | 2020 |
| Parent company | – | – | – | – |
| Subsidiaries in Sweden (9) | 592 | 576 | 2,425 | 2,392 |
| Total in Sweden (9) | 592 | 576 | 2,425 | 2,392 |
| Total abroad (142) | 3,187 | 3,017 | 14,994 | 14,768 |
| Total (151) | 3,779 | 3,593 | 17,419 | 17,160 |

The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2021.

| Average number of employees – in Sweden by municipality | | |
|--|--------------|--------------|
| Consolidated | | |
| | 2021 | 2020 |
| Botkyrka | 584 | 575 |
| Eskilstuna | 239 | 232 |
| Lund | 1,165 | 1,155 |
| Ronneby | 274 | 275 |
| Vänersborg | 97 | 98 |
| Other * | 66 | 57 |
| Total | 2,425 | 2,392 |

*"Other" refers to municipalities with less than 10 employees and also includes employees at branch offices abroad.

Average number of employees – by country/district

Consolidated

| | Number of female employees | | Total number of employees | |
|----------------------|----------------------------|--------------|---------------------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| Argentina | 11 | 11 | 40 | 38 |
| Australia | 20 | 21 | 80 | 89 |
| Belgium | 2 | 2 | 23 | 22 |
| Brazil | 93 | 57 | 463 | 372 |
| Bulgaria | 1 | 1 | 5 | 5 |
| Chile | 7 | 5 | 29 | 27 |
| Colombia | 18 | 16 | 40 | 38 |
| Denmark | 446 | 443 | 1,734 | 1,763 |
| Philippines | 5 | 7 | 17 | 17 |
| Finland | 27 | 28 | 112 | 114 |
| France | 169 | 169 | 810 | 817 |
| United Arab Emirates | 23 | 22 | 112 | 109 |
| Greece | 8 | 8 | 28 | 27 |
| Hong Kong | 9 | 3 | 26 | 14 |
| India | 80 | 78 | 1,253 | 1,292 |
| Indonesia | 20 | 20 | 84 | 84 |
| Iran | – | – | 1 | 1 |
| Italy | 162 | 165 | 744 | 737 |
| Japan | 57 | 59 | 241 | 250 |
| Canada | 20 | 18 | 96 | 94 |
| China | 743 | 707 | 3,456 | 3,354 |
| Korea | 51 | 50 | 302 | 305 |
| Latvia | 6 | 6 | 9 | 9 |
| Lithuania | 1 | – | 22 | – |
| Malaysia | 44 | 44 | 124 | 124 |
| Mexico | 11 | 12 | 51 | 50 |
| Netherlands | 84 | 96 | 370 | 442 |
| Norway | 227 | 210 | 1,132 | 1,092 |
| New Zealand | 2 | 2 | 18 | 18 |
| Panama | 5 | 6 | 16 | 17 |
| Peru | 5 | 5 | 21 | 21 |
| Poland | 100 | 80 | 382 | 348 |
| Portugal | 4 | 4 | 8 | 8 |
| Qatar | – | – | 7 | 9 |
| Romania | 2 | 2 | 10 | 9 |
| Russia | 93 | 88 | 226 | 215 |
| Saudi Arabia | – | – | 47 | 39 |
| Switzerland | 3 | 3 | 12 | 12 |
| Singapore | 68 | 64 | 241 | 237 |
| Slovakia | 2 | 1 | 9 | 8 |
| Slovenia | 4 | 4 | 15 | 17 |
| Spain | 27 | 27 | 103 | 103 |
| UK | 60 | 42 | 320 | 288 |
| Sweden | 592 | 576 | 2,425 | 2,392 |
| South Africa | 12 | 15 | 43 | 47 |
| Taiwan | 18 | 17 | 44 | 44 |
| Thailand | 17 | 17 | 55 | 59 |
| Czech Republic | 6 | 6 | 26 | 28 |
| Turkey | 15 | 15 | 64 | 61 |
| Germany | 67 | 62 | 269 | 270 |
| Ukraine | 2 | 3 | 12 | 11 |
| Hungary | 2 | 3 | 11 | 12 |
| USA | 321 | 286 | 1,593 | 1,563 |
| Vietnam | 4 | 4 | 21 | 21 |
| Austria | 3 | 3 | 17 | 17 |
| Total | 3,779 | 3,593 | 17,419 | 17,160 |

Gender distribution

Consolidated

| | 2021 | | | 2020 | | |
|--|--------------|--------|----------|--------------|--------|----------|
| | Total number | Male % | Female % | Total number | Male % | Female % |
| Board members (excluding deputies) | 12 | 66.7 | 33.3 | 11 | 72.7 | 27.3 |
| President and other executive officers | 9 | 77.8 | 22.2 | 10 | 70.0 | 30.0 |
| Managers in Sweden | 304 | 76.0 | 24.0 | 293 | 75.4 | 24.6 |
| Managers outside Sweden | 2,441 | 81.2 | 18.8 | 2,339 | 81.9 | 18.1 |
| Managers total | 2,745 | 80.6 | 19.4 | 2,632 | 81.2 | 18.8 |
| Employees in Sweden | 2,425 | 75.6 | 24.4 | 2,392 | 75.9 | 24.1 |
| Employees outside Sweden | 14,994 | 78.7 | 21.3 | 14,768 | 79.6 | 20.4 |
| Employees total | 17,419 | 78.3 | 21.7 | 17,160 | 79.1 | 20.9 |

Note 6. Salaries and remunerations

| Salaries and remunerations – total | | |
|--|---------------|---------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Board of Directors, Presidents and Vice Presidents | 283 | 275 |
| - out of which, variable | 59 | 48 |
| Other | 8,293 | 8,097 |
| Total salaries and remunerations | 8,576 | 8,372 |
| Social security costs | 1,462 | 1,359 |
| Pension costs, defined benefit plans | 105 | 96 |
| Pension costs, defined contribution plans | 633 | 592 |
| Total personnel costs | 10,776 | 10,419 |

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 29 (33) million and SEK 266 (276) million respectively. SEK 70 (82) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Equity compensation benefits

During the period 2020 to 2021 no equity related benefits existed within Alfa Laval.

Variable remunerations

All employees have either a fixed salary or a fixed base salary. For certain personnel categories the remuneration package also includes a variable element. This relates to personnel categories where it is customary or part of a market offer to pay a variable part. Variable remunerations are most common in sales related jobs and on higher managerial positions. Normally the variable part constitutes a minor part of the total remuneration package.

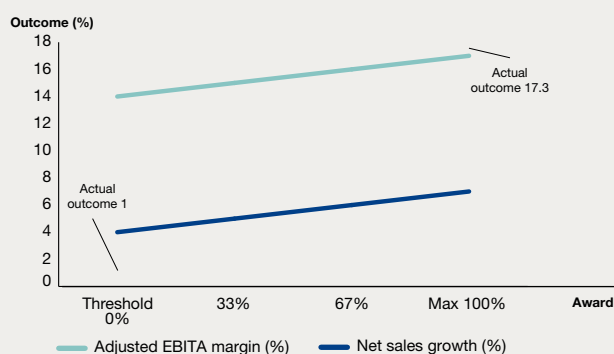
Cash-based long-term incentive programme

The Board of Directors decided in 2021 to implement step four of the modified cash based long-term incentive programme for maximum 95 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The Annual General Meeting 2020 decided to implement step three of the programme for the same target group. The outcome of the modified programme depends on how the adjusted EBITA margin and the net sales growth have developed during the three-year period, with a 50/50 weight between the targets. This means that there will be no award during the first two years since it is first in year three that it can be determined to what extent the targets have been achieved. Maximum outcome is awarded when the targets are exceeded. The remuneration from the modified long-term incentive programme can constitute maximum 25, 40 or 50 percent of the fixed remuneration depending on position. Payment to the participants in the programme is made after year three and only provided that they are still employed at the date of payment (except in case of termination of employment due to retirement, death or disability). If the employee resigns or is dismissed before the end of the three-year period, the employee will not be entitled to any payout. If the employee moves to a position that is not eligible for this programme, a pro-rata payment will be made after the end of the three year period. Paid remunerations from the long-term incentive programme do normally not affect the pensionable income or the holiday pay.

In 2021 step two, three and four of the modified programme were running in parallel.

The outcome of step one covering the period January 1, 2019 – December 31, 2021 was:

Long-term incentive plan 2019–2021



The performance targets were:

| Long-term incentive plans | | |
|-------------------------------|---------------------|---------|
| | Performance targets | |
| | Threshold | Maximum |
| Adjusted EBITA margin (%) | 14.0 | 17.0 |
| Net sales growth (%) | 4 | 7 |
| If achieved, the award is (%) | 0 | 100 |

The actual outcome and the resulting award were:

| Long-term incentive plans | | | | | |
|---------------------------|---------|------|------|---------|------------|
| Consolidated | | | | | |
| Plan | Outcome | | | | Award in % |
| | 2019 | 2020 | 2021 | Average | |
| Adjusted EBITA margin (%) | 17.2 | 17.4 | 17.4 | 17.3 | 100.00 |
| Net sales growth (%) | 14 | -11 | -1 | 1 | 0.00 |
| Plan | Outcome | | | | Award in % |
| | 2018 | 2019 | 2020 | Average | |
| Adjusted EBITA margin (%) | 16.5 | 17.2 | 17.4 | 17.0 | 100.00 |
| Net sales growth (%) | 15 | 14 | -11 | 6 | 66.67 |

There are three opportunity levels in the plan and the award per opportunity level and the total cost for the plan was:

| Long-term incentive plans, Award | | | | | |
|----------------------------------|---------------------------------|--------|--------|-------------------------|---------|
| Consolidated | | | | | |
| Plan | Outcome per maximum opportunity | | | Total cost SEK millions | Paid in |
| | 25% | 40% | 50% | | |
| Plan 2019–2021 | 12.50% | 20.00% | 25.00% | 27 | 2022 |
| Plan 2018–2020 | 20.83% | 33.33% | 41.67% | 42 | 2021 |

The Annual General Meeting 2017 decided to implement step seven of a cash-based long-term incentive programme for maximum 85 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. Step seven covered the period January 1, 2017 – December 31, 2019. The outcome during the three year period in percent of maximum outcome was 100 percent and the award of SEK 27 million was paid during 2020.

Remuneration policy for executive officers

The remuneration policy for executive officers is established by the Annual General Meeting. The complete policy is found in Note 37.

The remunerations to the Chief Executive Officer/Managing Director are decided by the Board of Directors based on proposals from the Remuneration Committee according to the guidelines established by the Annual General Meeting. The remunerations to the other members of Group Management are decided by the Remuneration Committee according to the same guidelines. The principle used when deciding the remunerations to executive officers is to offer a competitive remuneration where the remuneration package is mainly based on a fixed monthly salary, with an option for a company car and in addition to that a variable remuneration of up to 50 percent of the salary (managing director up to 60 percent of the salary). The outcome of the variable remuneration depends on the level of fulfilment of the established mainly financial targets and to a limited extent also qualitative objectives. The guidelines for pension, termination and severance pay differ between the Chief Executive Officer/Managing Director and the other executive officers, see the below table.

The Annual General Meeting 2017 decided to implement step seven of a

cash-based long-term incentive programme for maximum 85 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers.

The Board of Directors decided in 2021 to implement step four of the modified cash based long-term incentive programme for maximum 95 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The Annual General Meeting 2020 decided to implement step three of the programme for the same target group. The outcome of the modified programme depends on how the adjusted EBITA margin and the net sales growth have developed during a three-year period, with a 50/50 weight between the targets. This means that there will be no award during the first two years since it is first in year three that it can be determined to what extent the targets have been achieved. Maximum outcome is awarded when the targets are exceeded. The remuneration from the modified long-term incentive programme can constitute maximum 25, 40 or 50 percent of the fixed remuneration depending on position. Payment to the participants in the programme is made after year three and only provided that they are still employed at the date of payment.

Salaries and remunerations to Group Management

| Consolidated | Group Management | | | |
|--|---|---------------|-----------------------------|---------------|
| | Chief Executive Officer/President Tom Erixon | | Other executive officers | |
| | 2021 | 2020 | 2021 | 2020 |
| SEK thousands | | | | |
| Salary and remunerations | | | | |
| Fixed remuneration | | | | |
| Base salary | 14,420 | 14,000 | 29,437 | 31,254 |
| Voluntary salary reduction due to COVID-19 | – | -1,167 | – | -1,119 |
| Other benefits ¹⁾ | 918 | 545 | 887 | 1,364 |
| Variable remuneration ²⁾ | | | | |
| Variable salary | 6,300 | 4,905 | 8,059 | 6,926 |
| Cash-based long-term incentive programme | 5,834 | 5,063 | 9,310 | 6,900 |
| Total salary and remuneration | 27,472 | 23,346 | 47,693 | 45,325 |
| Pension costs | | | | |
| Retirement and survivors' pension ³⁾ | 7,231 | 7,015 | 12,040 | 14,649 |
| Life, disability and health care insurance ⁴⁾ | 40 | 48 | 384 | 399 |
| Total pension costs | 7,271 | 7,063 | 12,424 | 15,048 |
| Total remuneration | 34,743 | 30,409 | 60,117 | 60,373 |
| Proportion of fixed and variable remuneration | | | | |
| Fixed remuneration including fixed pension costs | 65% | 67% | 66% | 71% |
| Variable remuneration including variable pension costs | 35% | 33% | 34% | 29% |
| Number of other executive officers at year end | | | 8 | 9 |
| Variable salary (STI) | | | | |
| Included | Yes | | Yes | |
| Un-guaranteed target of base salary | 30% | | Not set | |
| Maximum of base salary | 60% | | 50% | 40% |
| Cash-based long-term incentive programme (LTIP) | | | | |
| Included | Yes | | Yes | |
| Current year award ⁵⁾ | 3,605 | 5,834 | 5,921 | 9,457 |
| Vested unpaid awards at December 31 | 3,605 | 5,834 | 5,921 | 9,457 |
| Commitment for early retirement ⁶⁾ | No | | Yes | |
| Commitment for severance pay | Yes ⁷⁾ | | Yes ⁸⁾ | |
| Commitment for retirement and survivors' pension | ⁹⁾ | | ¹⁰⁾ | |

¹⁾ Value of company car, housing benefit, taxable daily allowances, holiday pay and payment for vacation taken in cash.

²⁾ Refers to what was paid during the year.

³⁾ Defined contribution based.

⁴⁾ Defined benefit based.

⁵⁾ Based on current base salary.

⁶⁾ From the age of 62. A defined contribution solution for early retirement with a premium of 15 percent of the pensionable salary.

⁷⁾ If Alfa Laval terminates his employment before the age of 61, he will receive 24 months' remuneration, between 61 and 62 he will receive 12 months' remuneration and from 62 he will receive 6 months' remuneration.

⁸⁾ Maximum 2 years' salary. The commitments define the conditions that must be fulfilled in order for them to become valid.

⁹⁾ Is not included in the ITP plan. He has a defined contribution benefit comprising 50 percent of the base salary. In addition, he may exchange salary and variable remunerations for a temporary old age and family pension.

¹⁰⁾ For salaries above 30 base amounts there is a defined contribution pension solution with a premium of 30 percent of the pensionable salary above 30 base amounts. Until May 1, 2012 the executive officers also had a special family pension that represented a supplement between the old age pension and the family pension according to ITP. For the persons that were executive officers on May 1, 2012 the special family pension has been converted to a premium based supplementary retirement pension based on the premium level in December 2011. In addition, they may exchange salary and variable remunerations for a temporary old age and family pension.

During 2021 two of the other executive officers in Group Management have retired, Peter Torstensson as per January 1, 2021 and Susanne Pahlén-Åklundh as per August 1, 2021. Thomas Möller joined Group Management from August 1, 2021. Their costs are included in the above table for the period they have been part of Group Management.

Board of Directors

For 2021, the Board of Directors receive a total fixed remuneration of SEK 7,545 (6,445) thousand, which is distributed among the members elected at the Annual General Meeting that are not employed by the company. These Directors do not receive any variable remuneration.

Remunerations to Board members *

| Consolidated | | | |
|---|----------|--------------|--------------|
| SEK thousands | 2021 | 2020 | |
| Fees by function: | | | |
| Chairman of the Board | 1,850 | 1,750 | |
| Other members of the Board | 615 | 585 | |
| Supplement to: | | | |
| Chairman of the Audit Committee | 250 | 200 | |
| Other members of the Audit Committee | 150 | 125 | |
| Chairman of the remuneration committee | 75 | 50 | |
| Other members of the remuneration committee | 75 | 50 | |
| Fees by name: | | | |
| Dennis Jönsson | Chairman | 2,075 | 1,925 |
| Henrik Lange | Member | 865 | 785 |
| Ray Mauritsson | Member | 615 | 585 |
| Heléne Mellquist | Member | 765 | 710 |
| Maria Moræus Hanssen | Member | 615 | 585 |
| Lilian Fossum Biner | Member | 615 | – |
| Finn Rausing | Member | 615 | 585 |
| Jörn Rausing | Member | 690 | 635 |
| Ulf Wiinberg | Member | 690 | 635 |
| Total | | 7,545 | 6,445 |

* Elected at the Annual General Meeting and not employed by the company.

The reported remunerations refer to the period between two Annual General Meetings.

The Chairman of the Board does not have any agreement on future retirement or severance pay with Alfa Laval.

The audit committee and the remuneration committee have had the following members during the last two years:

| | 2021 | 2020 |
|--------------------------------|------------------|------------------|
| Audit Committee: | | |
| Chairman | Henrik Lange | Henrik Lange |
| Other member | Dennis Jönsson | Dennis Jönsson |
| Other member | Heléne Mellquist | Heléne Mellquist |
| Remuneration committee: | | |
| Chairman | Dennis Jönsson | Dennis Jönsson |
| Other member | Ulf Wiinberg | Ulf Wiinberg |
| Other member | Jörn Rausing | Jörn Rausing |

The members of the committees are appointed at the constituent meeting of the Board of Directors directly after the Annual General Meeting.

Note 7. Information on auditors and auditors' fee

The line "Group auditors" in the below table is referring to the auditors elected at Annual General Meeting of Alfa Laval AB (publ). The Annual General Meetings 2020 and 2021 decided to elect EY as the Group's auditors for the coming year.

Fees and expense compensation

| Consolidated | | |
|------------------------|-----------|-----------|
| SEK millions | 2021 | 2020 |
| Audit engagements | | |
| Group auditors | 39 | 40 |
| Other audit firms | 2 | 0 |
| Total | 41 | 40 |
| Audit related services | | |
| Group auditors | 1 | 2 |
| Other audit firms | 1 | 2 |
| Total | 2 | 4 |
| Tax services | | |
| Group auditors | 7 | 8 |
| Other audit firms | 9 | 10 |
| Total | 16 | 18 |
| Other services | | |
| Group auditors | 3 | 1 |
| Other audit firms | 18 | 8 |
| Total | 21 | 9 |
| Expenses | | |
| Group auditors | 0 | 0 |
| Other audit firms | 0 | 0 |
| Total | 0 | 0 |
| Total | | |
| Group auditors | 50 | 51 |
| Other audit firms | 30 | 20 |
| Total | 80 | 71 |

An audit engagement includes examining the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an examination in order to give an opinion on the Board's discharge from liability. Audit related services are audit services that are outside the audit engagement. Tax services refer to advices given in connection with various tax matters. All other assignments are defined as other services. Expenses refer to reimbursements of travel costs, secretarial services etc.

Note 8. Comparison distortion items

Comparison distortion items

| Consolidated | | |
|--|-------------|-------------|
| SEK millions | 2021 | 2020 |
| Other operating income | | |
| Comparison distortion items: | | |
| – Realised gain on sale of businesses | 3 | – |
| – Realised gain on sale of properties | 9 | – |
| Other operating costs | | |
| Comparison distortion items: | | |
| – Realised loss on sale of businesses | – | -55 |
| – Write down of goodwill | – | -360 |
| – Restructuring costs | -204 | -381 |
| Net comparison distortion items | -192 | -796 |

The comparison distortion items during 2021 are relating to the final step in the restructuring program that was started during the fourth quarter 2020 and the realised gains on the sale of the remaining air heat exchanger operation in India to LU-VE and on the sale of a property in India. The total restructuring cost including write down of goodwill is SEK 945 million, out of which SEK 741 was charged in 2020 and the remaining SEK 204 was charged in 2021. The restructuring program is described below.

The realized loss in 2020 is relating to the divestment of the operations in DSO Fluid Handling Inc in the U.S.

The write down of goodwill and the restructuring costs 2020 are part of the programme for adapting the organisation to changing market fundamentals that was announced on December 16, 2020. The program is mainly addressing structural imbalances in specific parts of the oil & gas business as well as parts of the Marine business. In addition, the program will further drive the competence shift required in light of the accelerated pace of digitalization. The write down of goodwill concerns oil & gas related businesses. Approximately 600 employees mainly in Europe and North America are affected by the program. The program will generate annual savings of around SEK 300 million, with full effect expected from mid-2022.

Note 9. Depreciation and amortisation

| Split by function | | |
|--------------------------|---------------|---------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Cost of goods sold | -1,465 | -1,484 |
| Sales | -134 | -151 |
| Administration | -211 | -216 |
| Research and development | -55 | -9 |
| Other income and costs | -122 | -129 |
| Total | -1,987 | -1,989 |

| Split by type of asset | | |
|---|---------------|---------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Intangible assets | | |
| Patents and unpatented know-how | -362 | -321 |
| Trademarks | -410 | -505 |
| Licenses, renting rights and similar rights | -34 | -5 |
| Internally generated intangible assets | -22 | -3 |
| | -828 | -834 |
| Tangible assets | | |
| Purchased assets | | |
| Buildings and ground installations | -232 | -212 |
| Machinery | -373 | -362 |
| Equipment | -155 | -145 |
| | -760 | -719 |
| Leased assets | | |
| Right-of-use asset real estate | -314 | -350 |
| Righth-of-use asset machinery | -14 | -17 |
| Righth-of-use asset equipment | -71 | -69 |
| | -399 | -436 |
| Sum tangible assets | -1,159 | -1,155 |
| Total | -1,987 | -1,989 |

Note 10. Dividends and other financial income and costs

| Split by type | | |
|---|-----------|-----------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Dividends from other | 41 | 0 |
| Gain or loss on sale of marketable securities | -10 | 71 |
| Fair value changes in marketable securities | 4 | -45 |
| Total | 35 | 26 |

Note 11. Interest income/expense and financial exchange rate gains/losses

| Split on type of income/expense or gain/loss | | |
|--|-------------|-------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Interest income | | |
| Leasing | 0 | 0 |
| Other interest | 45 | 48 |
| Exchange rate gains | | |
| Unrealised | 59 | 80 |
| Realised | 258 | 92 |
| Total | 362 | 220 |
| Interest expenses | | |
| Leasing | -74 | -78 |
| Other interest | -143 | -187 |
| Exchange rate losses | | |
| Unrealised | -82 | -60 |
| Realised | -82 | -524 |
| Total | -381 | -849 |

In the Group, reported net exchange differences of SEK -165 (313) million relating to debts in foreign currencies have been charged to other comprehensive income. These debts finance the acquisition of shares in foreign subsidiaries and act as a hedge to the acquired net assets. The amount is charged with tax resulting in a net after tax impact on other comprehensive income of SEK -131 (248) million.

Note 12. Non-controlling interests

Alfa Laval has the following subsidiaries with non-controlling interests. None of these non-controlling interests are material.

| Specification of subsidiaries with non-controlling interests | | | | | | | |
|--|---------------------|----------------------------|--------|---|-----------|------------|------------|
| SEK millions, unless otherwise stated | | | | | | | |
| Company name | Country of domicile | Non-controlling interest % | | Attributable tonon-controlling interest | | | |
| | | | | Net income | | Equity | |
| | | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Alfa Laval Aalborg Indústria e Comércio Ltda | Brazil | 0.5 | 0.5 | 0 | 0 | 0 | 0 |
| ClimaTempo Participacoes SA | Brazil | 49 | - | 0 | - | 15 | - |
| Agência Brasileira de Meteorologia Ltda | Brazil | 49.01 | - | 1 | - | 5 | - |
| Climanet Serviços de Internet Ltda | Brazil | 49 | - | 2 | - | 3 | - |
| TV Meteorológica Ltda* | Brazil | 70.42 | - | 0 | - | 1 | - |
| Somar Meteorologia Ltda | Brazil | 49 | - | 0 | - | 1 | - |
| Southern Marine Weather Services Ltda | Brazil | 49 | - | 0 | - | 1 | - |
| Liyang Sifang Stainless Steel Products Co., Ltd. | China | 35 | 35 | 38 | 24 | 218 | 158 |
| Ziepack SA | France | 49 | 49 | 1 | 3 | 4 | 5 |
| AO Alfa Laval Potok | Russia | 0.0005 | 0.0005 | 0 | 0 | 0 | 0 |
| Total | | | | 42 | 27 | 248 | 163 |

* Alfa Laval has a controlling interest.

Note 13. Classification of financial assets and liabilities

| Financial assets | | | | | | |
|----------------------------------|--------------------|----------------------------|--------------|--------------|----------------|---------------|
| Consolidated | | | | | | |
| Valuation hierarchy level | Measured at | | | | | |
| | Fair value through | | | | Amortised cost | |
| | Profit or loss | Other comprehensive income | | | | |
| SEK millions | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Non-current assets | | | | | | |
| Other non-current assets | | | | | | |
| Other long-term securities | 1 and 2 | – | – | 1,231 | 1,490 | – |
| Derivative assets | 2 | 4 | 5 | 52 | 191 | – |
| Current assets | | | | | | |
| Current receivables | | | | | | |
| Accounts receivable | * | – | – | – | – | 6,738 |
| Notes receivable | * | – | – | – | – | 456 |
| Other receivables | * | – | – | – | – | 2,990 |
| Accrued income | * | – | – | – | – | 92 |
| Derivative assets | 2 | 75 | 94 | 383 | 495 | – |
| Current deposits | | | | | | |
| Deposits with banks | * | – | – | – | – | 163 |
| Bonds and other securities | 1 | 118 | 1,447 | – | – | – |
| Debt instruments | * | – | – | – | – | 4 |
| Other deposits | * | – | – | – | – | 6 |
| Cash and cash equivalents | * | – | – | – | – | 3,356 |
| Total financial assets | | 197 | 1,546 | 1,666 | 2,176 | 13,805 |

* Valued at amortised cost.

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.

| Financial liabilities | | | | | | |
|--|--------------------|----------------------------|-----------|------------|----------------|---------------|
| Consolidated | | | | | | |
| Valuation hierarchy level | Measured at | | | | | |
| | Fair value through | | | | Amortised cost | |
| | Profit or loss | Other comprehensive income | | | | |
| SEK millions | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Non-current liabilities | | | | | | |
| Liabilities to credit institutions etc | * | – | – | – | – | 3,059 |
| Lease liabilities | * | – | – | – | – | 1,453 |
| Derivative liabilities | 2 | – | 1 | 63 | 4 | – |
| Current liabilities | | | | | | |
| Liabilities to credit institutions etc | * | – | – | – | – | 5,185 |
| Accounts payable | * | – | – | – | – | 3,371 |
| Notes payable | * | – | – | – | – | 131 |
| Lease liabilities | * | – | – | – | – | 974 |
| Other liabilities | * | – | – | – | – | 3,557 |
| Accrued costs | * | – | – | – | – | 2,159 |
| Derivative liabilities | 2 | 25 | 50 | 181 | 58 | – |
| Total financial liabilities | | 25 | 51 | 244 | 62 | 19,889 |

* Valued at amortised cost.

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.

Derivatives measured through other comprehensive income only relate to cash flow hedges.

All of the financial instruments above sum up either to the corresponding item in the statement on financial position or to the item specified in the notes referred to in the statement on financial position. The risks linked to these financial instruments including any concentrations of risk are presented in the sections on risks on pages 142–151.

Result of financial instruments

The result of the bonds and other current and non-current securities measured at fair value through profit or loss is found in Note 10 as fair value changes in securities.

The result of financial assets measured at amortised cost is presented in Note 11 as other interest income for deposits with banks, other deposits and cash and cash equivalents. The other financial assets measured at amortised cost do not generate a result but only a cash-in of the principal amount.

The result of the financial liabilities measured at amortised cost is presented in Note 11 as other interest costs for the liabilities to credit institutions etc. The other financial liabilities measured at amortised cost do not generate a result but only a cash-out of the principal amount.

The result of the derivative instruments impacting net income is presented below:

Result effect on net income of derivatives

| Consolidated | | |
|---|------------|-------------|
| SEK millions | 2021 | 2020 |
| Reported in cost of goods sold, relating to: | | |
| Currency forward contracts | 354 | -317 |
| Metal forward contracts | 116 | -7 |
| Electricity futures | 11 | -16 |
| Derivative assets and liabilities measured at fair value through profit or loss | 24 | -4 |
| Subtotal | 505 | -344 |
| Reported in exchange gains and losses in the financial net, relating to: | | |
| Currency forward contracts | 102 | -56 |
| Derivative assets and liabilities measured at fair value through profit or loss | 31 | 53 |
| Subtotal | 133 | -3 |
| Total impact on net income | 638 | -347 |

The result of the derivative assets and liabilities measured at fair value through other comprehensive income is reported as part of other comprehensive income in the consolidated comprehensive income statement.

Note 14. Fair value of financial instruments

The fair value changes in shares in external companies are made under other comprehensive income and amounts to SEK 357 (-125) million, see the consolidated comprehensive income statement.

The fair value changes in marketable securities are made on the line dividends and other financial income and costs in the consolidated comprehensive income statement and amounts to SEK 4 (-45) million, see Note 10.

The net of derivative assets and derivative liabilities in the consolidated financial position is a net asset of SEK 245 (672) million, which are specified below:

Fair value of derivatives

Consolidated

| | | | Difference between contracted rate and current rate | |
|--|----------------|-------|---|------------|
| SEK millions | Currency pairs | | 2021 | 2020 |
| Derivative assets/liabilities | | | | |
| Foreign exchange forward contracts: | EUR | USD | -71 | 77 |
| | EUR | SEK | 6 | 197 |
| | EUR | AUD | -1 | -1 |
| | EUR | CAD | 0 | 1 |
| | EUR | CNY | 82 | 8 |
| | EUR | GBP | 0 | 1 |
| | EUR | JPY | 1 | 1 |
| | EUR | SGD | -3 | 0 |
| | EUR | INR | 13 | -10 |
| | EUR | MYR | 0 | 2 |
| | USD | CAD | 1 | -1 |
| | USD | DKK | -22 | 37 |
| | USD | SEK | 0 | 1 |
| | USD | KRW | -8 | 12 |
| | USD | SGD | 0 | 1 |
| | USD | INR | 1 | – |
| | DKK | NOK | 3 | 2 |
| | DKK | SEK | -1 | 2 |
| | NOK | EUR | -8 | -7 |
| | NOK | USD | 25 | 271 |
| | CNY | JPY | 1 | 1 |
| | CNY | SEK | 15 | -19 |
| | CNY | USD | 4 | 13 |
| | JPY | NOK | 16 | 16 |
| | JPY | KRW | -1 | -1 |
| | PLN | SEK | 1 | – |
| | Other | Other | 1 | -1 |
| Subtotal | | | 55 | 603 |
| Currency options | | | 3 | 18 |
| Metal forward contacts | | | 163 | 55 |
| Electricity futures | | | 24 | -4 |
| Total, corresponding to a net derivative asset (+) or liability (-) | | | 245 | 672 |

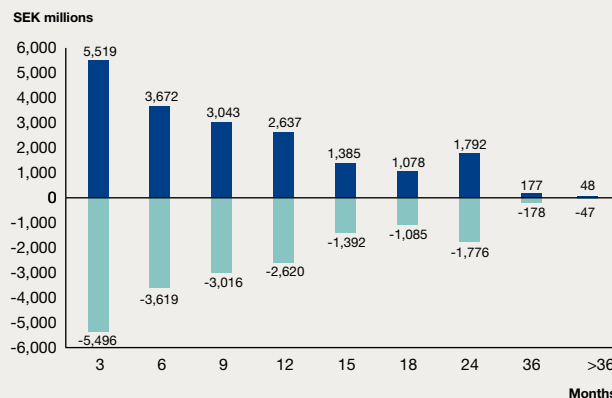
For currency options and electricity futures hedge accounting has not been applied. For foreign exchange forward contracts, interest rate swaps and metal forward contracts hedge accounting has been applied when the conditions for hedge accounting have been fulfilled.

The fair value adjustment of derivatives is made through other comprehensive income if hedge accounting can be applied and the derivatives are effective. In all other cases the fair value adjustment is made above net income. The corresponding entries are made on derivative assets and liabilities and not on the underlying financial instruments in the statement on financial position.

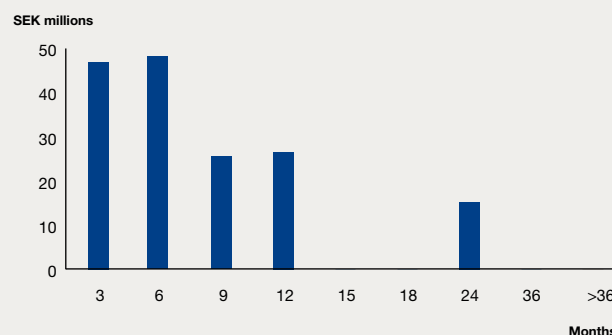
Note 15. Maturity analysis of derivatives

The future undiscounted cash flows for the different types of derivatives are shown in the following three graphs:

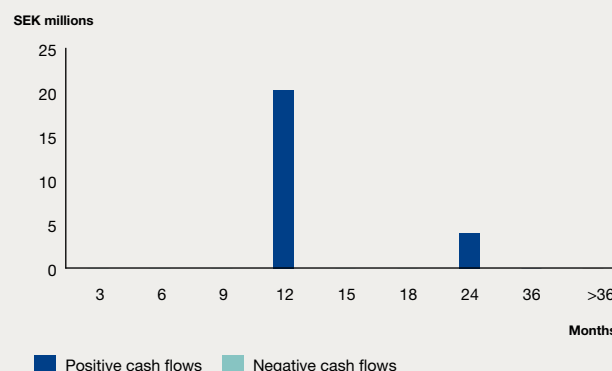
Maturity analysis for currency derivatives



Maturity analysis for metal derivatives



Maturity analysis for electricity futures



Note 16. Current and deferred taxes

| Tax on this year's net income and other taxes | | |
|--|---------------|---------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Major components of the Group's tax cost | | |
| Current tax cost | -1,500 | -1,598 |
| Adjustment for current taxes on prior periods | 250 | -92 |
| Deferred tax costs/income on changes in temporary differences | -53 | 345 |
| Deferred tax costs/income on changes in tax rates or new taxes | 1 | 26 |
| Previously unrecognised tax assets related to tax losses and tax credits | 0 | 0 |
| Previously unrecognised deferred tax assets related to tax losses, tax credits and temporary differences | 2 | 23 |
| Deferred tax cost from the write down or reversal of a previous write down of a deferred tax asset | -8 | -35 |
| Dividend distribution tax | 0 | -41 |
| Other taxes | -33 | -25 |
| Total tax cost | -1,341 | -1,397 |

Other taxes are mainly referring to wealth tax.

| Tax on this year's other comprehensive income | | |
|---|------------|-----------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Major components of the Group's tax cost | | |
| Deferred tax on: | | |
| Cash flow hedges | 87 | -154 |
| Market valuation of external shares | -17 | 0 |
| Translation difference | -21 | 78 |
| Revaluations of defined benefit obligations | -124 | 87 |
| Total tax cost | -75 | 11 |

The difference between the tax costs of the Group and the tax cost based upon applicable tax rates can be explained as follows:

| Tax cost reconciliation | | |
|--|---------------|---------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Result after financial items | 6,142 | 4,977 |
| Tax according to applicable tax rates | -1,478 | -1,263 |
| Tax effect of: | | |
| Non-deductible costs | -244 | -318 |
| Non-taxable income | 234 | 148 |
| Differences between reported official depreciation and depreciation according to tax rules | -6 | 5 |
| Differences between reported other official appropriations and other appropriations according to tax rules | -110 | -18 |
| Tax losses and tax credits | 56 | 30 |
| Adjustment for current tax on prior periods | 239 | 59 |
| Adjustment deferred tax | 1 | 26 |
| Dividend distribution tax | 0 | -41 |
| Other | -33 | -25 |
| Total tax costs | -1,341 | -1,397 |

Alfa Laval has provisions for uncertain tax positions and they are booked as a part of current tax liabilities when for instance a local tax audit or a taxation decision indicate an increased tax burden and the company makes the judgement that the tax authority wholly or partially can gain success in the future litigation.

Temporary differences exist when there is a difference between the book value and the tax base of assets and liabilities. The Group's temporary differences have resulted in a deferred tax asset or a deferred tax liability relating to the following assets and liabilities:

| Deferred tax assets and liabilities | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| Consolidated | | | | |
| | 2021 | | 2020 | |
| SEK millions | Assets | Liabilities | Assets | Liabilities |
| Relating to: | | | | |
| Intangible non-current assets | 13 | 924 | 13 | 660 |
| Tangible non-current assets | 72 | 141 | 61 | 158 |
| Inventory | 145 | 58 | 146 | 33 |
| Other current assets | 3 | 5 | 3 | 16 |
| Financial assets | 2 | 6 | 5 | 137 |
| Short term liabilities | 1,513 | 27 | 1,596 | 10 |
| Tax losses and tax credits * | 10 | - | 22 | 15 |
| Other | 20 | 761 | 23 | 601 |
| Subtotal | 1,778 | 1,922 | 1,869 | 1,630 |
| Possible to net | -84 | -84 | -77 | -77 |
| Total deferred taxes | 1,694 | 1,838 | 1,792 | 1,553 |

* The Group has reported a deferred tax asset on unused tax losses and tax grants of SEK 98 (140) million. These unused tax losses and tax grants are essentially not restricted in time.

In the Group there are temporary differences and unused tax losses and tax credits of SEK 412 (416) million that have not resulted in corresponding deferred tax assets, since these are not likely to be used. The temporary differences are mainly relating to pensions, where the date of payment is so far into the future that considering discounting and uncertainty concerning future profit levels no asset is deemed to exist. The unused tax losses and tax grants are essentially not restricted in time, but the tax losses that can be utilised per year can be restricted to a certain proportion of the taxable result.

The nominal tax rate has changed in the following countries between 2020 and 2021 or will change during 2022.

| Tax rates by country | | | |
|----------------------|------|------|------|
| Consolidated | | | |
| Percent | 2022 | 2021 | 2020 |
| Belgium | 25.0 | 25.0 | 29.0 |
| Colombia | 35.0 | 31.0 | 33.0 |
| Philippines | 25.0 | 25.0 | 30.0 |
| France | 25.0 | 27.5 | 27.5 |
| Greece | 22.0 | 24.0 | 24.0 |
| Indonesia | 20.0 | 22.0 | 22.0 |
| Netherlands | 25.8 | 25.0 | 25.0 |
| Sweden | 20.6 | 20.6 | 21.4 |
| Turkey | 23.0 | 25.0 | 25.0 |

The tax rates for 2021 and 2020 have been used to calculate the actual tax each year, while the tax rates for 2022 and 2021 have been used to calculate the deferred tax for 2021 and 2020 respectively.

The Group's normal effective tax rate is approximately 26 (26) percent based on taxable result, and it is calculated as a weighted average based on each subsidiary's part of the result before tax. One-time items can however increase or decrease the tax rate for an individual year.

The total tax cost for 2021 has been decreased by the following non-recurring items:

- the tax effect of SEK 175 million in total from received tax incentives and repaid taxes in connection with closed tax litigations and
- the tax effect of SEK 49 million in total from utilizing tax losses.

The total tax cost for 2020 increased by the following non-recurring items:

- the tax effect of SEK 141 million in total from non-deductible write downs on financial non-current assets and goodwill and
- withholding tax of SEK 38 million on dividends from India.

Tax cost per country/district

Consolidated

| SEK millions (unless otherwise stated) | 2021 | | | 2020 | | |
|--|--|---------------|--------------------|--|---------------|--------------------|
| | Earnings before tax and received dividends | Tax cost | Tax percentage (%) | Earnings before tax and received dividends | Tax cost | Tax percentage (%) |
| Top ten countries/districts | | | | | | |
| Sweden | 1,625 | -343 | 21.1% | 716 | -183 | 25.6% |
| China | 1,337 | -342 | 25.6% | 1,209 | -276 | 22.8% |
| Norway | 844 | -212 | 25.1% | 1,241 | -271 | 21.8% |
| Denmark | 585 | -86 | 14.6% | 404 | -84 | 20.9% |
| India | 354 | -60 | 16.9% | 285 | -69 | 24.2% |
| Brazil | 134 | -54 | 40.5% | 144 | -49 | 33.8% |
| France | 156 | -44 | 28.4% | 112 | -49 | 43.9% |
| Hong Kong | 50 | -27 | 54.9% | 65 | -42 | 64.7% |
| Japan | 75 | -27 | 36.1% | 217 | -66 | 30.4% |
| Korea | 103 | -27 | 26.0% | 97 | -21 | 21.3% |
| Total top ten countries/districts | 5,263 | -1,222 | 23.2% | 4,490 | -1,110 | 24.7% |
| Other countries/districts | | | | | | |
| With a positive result | 852 | -99 | 11.6% | 1,468 | -329 | 22.4% |
| With losses | -53 | 8 | -15.5% | -353 | -24 | 6.7% |
| Total all countries/districts | 6,062 | -1,313 | 21.6% | 5,605 | -1,463 | 26.1% |
| Consolidation entries | | | | | | |
| Elimination of appropriations | 436 | -89 | 20.4% | -50 | 11 | 22.0% |
| Amortisation of step-up values | -796 | 150 | 18.8% | -855 | 195 | 22.8% |
| Write down of goodwill | — | — | — | -360 | — | — |
| Central provisions and consolidation adjustments | 440 | -89 | 20.2% | 637 | -140 | 22.0% |
| Total | 6,142 | -1,341 | 21.8% | 4,977 | -1,397 | 28.1% |

The above table presents the earnings before tax and received dividends, the tax cost and the tax percentage per country for the top ten countries/districts separately and the others grouped under profit generating and loss-making respectively and the consolidation entries in order to arrive at the total. The local results include appropriations. The reason why the result is before received dividends is that these mostly are non-taxable. The top ten countries/districts are defined as the ten countries/districts with the highest tax cost in 2021. The comparison figures 2020 are for these ten countries/districts, although they might not have been among the ten countries/districts with highest tax cost also in 2020.

Observe that individual companies in the top ten countries/districts and in the group with a positive result can report losses. The group with losses can contain individual companies with profits. Also observe that the presented result is without correction for any non-deductible costs and non-taxable revenues outside received tax free dividends.

Companies with losses in countries/districts without tax pooling might have unused tax losses that have not resulted in a corresponding deferred tax asset, since these are not likely to be used. The lack of such a deferred tax income in these cases has an impact on the tax percentage in the concerned countries/districts.

Note 17. Goodwill and step-up values – acquisition of businesses

The allocation of step-up values to tangible and intangible assets and the residual goodwill in effect means that all acquisitions are valued at market. In order to separate out this valuation effect Alfa Laval focuses on EBITA, where any amortisation of step-up values is excluded. The development of these step-up values and any goodwill is shown in the table below.

Movement schedule

Consolidated

| SEK millions | Opening balance 2021 | Acquisitions | Planned depreciation/ amortisation | Translation difference | Closing balance 2021 |
|---------------------------------|-------------------------|--------------|--|---------------------------|-------------------------|
| Buildings | 208 | — | -31 | 3 | 180 |
| Land and land improvements | -60 | — | — | -1 | -61 |
| Patents and unpatented know-how | 717 | 1,503 | -355 | 81 | 1,946 |
| Trademarks | 1,301 | — | -410 | 71 | 962 |
| Subtotal step-up values | 2,166 | 1,503 | -796 | 154 | 3,027 |
| Goodwill | 19,080 | 2,354 | — | 1,046 | 22,480 |
| Total | 21,246 | 3,857 | -796 | 1,200 | 25,507 |

During 2021 the Group has not recorded any impairment losses related to step-up values.

There is no deferred tax liability calculated on the goodwill. The deferred tax liability on the other step-up values is SEK 622 (411) million.

For assets sold, net gains or losses are recognised on the cost basis including any related step-up value.

The next table shows each acquisition separately. Any later adjustments to the allocations are referred to the original year of the acquisition. The figures for the allocations are based on the prevailing rates at the time the transactions took place and any change in exchange rates until December 31, 2021 is shown as a translation difference. The corresponding presentation by asset type is found in Notes 18 and 19.

**Acquisition of businesses since 2000**

Consolidated

SEK millions

| Year | Businesses | Buildings | Land and land improvements | Inventory | Patents and unpatented know-how | Trademarks | Other | Total step-up values | Goodwill | Total |
|--------------------------------------|---------------------------------------|------------|----------------------------|-----------|---------------------------------|------------|----------|----------------------|---------------|---------------|
| 2000 | Alfa Laval Holding | 1,058 | -228 | 340 | 1,280 | 461 | 1,112 | 4,023 | 3,683 | 7,706 |
| 2002 | Danish Separation Systems | - | - | - | - | - | - | - | 118 | 118 |
| 2003 | Toftejorg | 1 | - | - | - | - | - | 1 | 35 | 36 |
| 2005 | Packinox | - | - | 6 | 99 | 183 | - | 288 | 253 | 541 |
| 2006 | Tranter | 17 | - | 6 | 180 | 265 | - | 468 | 530 | 998 |
| 2007 | AGC Engineering | - | - | - | - | 12 | - | 12 | 20 | 32 |
| | Helpman | 9 | 8 | - | 36 | - | - | 53 | 4 | 57 |
| | Publikt erbjudande Alfa Laval (India) | - | - | - | - | - | - | - | 441 | 441 |
| | DSO Fluid Handling | - | - | - | - | 39 | - | 39 | 42 | 81 |
| | Fincoil | - | - | - | 233 | - | - | 233 | 241 | 474 |
| 2008 | Høyer Promix A/S | - | - | - | - | - | - | - | 16 | 16 |
| | Nitrile India Pvt Ltd | - | - | - | - | - | - | - | 6 | 6 |
| | Standard Refrigeration | - | - | 5 | 166 | - | - | 171 | 152 | 323 |
| | Pressko AG | - | - | 1 | - | - | - | 1 | 69 | 70 |
| | Hutchison Hayes Separation | - | - | 1 | 95 | 49 | - | 145 | 46 | 191 |
| | P&D's Plattvärmeväxlarservice | - | - | - | - | - | - | - | 10 | 10 |
| | Ageratec | - | - | - | - | - | - | - | 44 | 44 |
| 2009 | Two providers of parts & service | - | - | - | - | 291 | - | 291 | 210 | 501 |
| | Onnuri Industrial Machinery | - | - | - | 40 | 39 | - | 79 | 48 | 127 |
| | HES Heat Exchanger Systems | - | - | - | 83 | - | - | 83 | 59 | 142 |
| | Public offer Alfa Laval (India) | - | - | - | - | - | - | - | 311 | 311 |
| | Termatrans | - | - | - | - | 7 | - | 7 | 6 | 13 |
| | Tranter acquisitions in Latin America | - | - | - | - | 20 | - | 20 | 16 | 36 |
| | ISO Mix | - | - | - | 22 | - | - | 22 | - | 22 |
| | LHE | - | - | - | 298 | 297 | - | 595 | 344 | 939 |
| 2010 | Champ Products | - | - | - | 15 | 14 | - | 29 | 2 | 31 |
| | A leading U.S. service provider | - | - | - | - | 134 | - | 134 | 82 | 216 |
| | G.S Anderson | - | - | - | 35 | - | - | 35 | 23 | 58 |
| | Astepo | - | - | - | 24 | 15 | - | 39 | 8 | 47 |
| | Si Fang Stainless Steel Products | - | - | - | 27 | 16 | - | 43 | 42 | 85 |
| | Definox | - | - | - | 4 | 5 | - | 9 | 2 | 11 |
| | Olimi | - | - | 37 | 58 | 32 | - | 127 | - | 127 |
| 2011 | Service company in the U.S. | - | - | - | - | 150 | - | 150 | 126 | 276 |
| | Aalborg Industries | 248 | - | - | 430 | 860 | - | 1,538 | 3,630 | 5,168 |
| 2012 | Vortex Systems | - | - | - | 148 | - | - | 148 | 225 | 373 |
| | Ashbrook Simon-Hartley | - | - | - | 86 | - | - | 86 | 55 | 141 |
| | Gamajet Cleaning Systems | - | - | - | 47 | - | - | 47 | 37 | 84 |
| | Air Cooled Exchangers (ACE) | - | - | - | 585 | - | - | 585 | 346 | 931 |
| 2013 | Niagara Blower Company | - | - | - | 202 | - | - | 202 | 203 | 405 |
| 2014 | Frank Mohn AS | - | - | 38 | 1,160 | 3,793 | - | 4,991 | 9,831 | 14,822 |
| | CorHex Corp | - | - | - | 15 | - | - | 15 | - | 15 |
| 2015 | Eftermarknadsbolag (separation) | - | - | - | - | 32 | - | 32 | 24 | 56 |
| | K-Bar Parts LLC | - | - | - | - | 16 | - | 16 | - | 16 |
| 2019 | Airec | - | - | - | 60 | - | - | 60 | 22 | 82 |
| 2020 | WCR Benelux | - | - | - | - | 10 | - | 10 | 3 | 13 |
| | Sandymount | - | - | - | 41 | - | - | 41 | 15 | 56 |
| 2021 | StormGeo | - | - | - | 1,397 | - | - | 1,397 | 2,245 | 3,642 |
| | LiftUP | - | - | - | 106 | - | - | 106 | 109 | 215 |
| Accumulated during the period | | | | | | | | | | |
| | Realised | -542 | 122 | -435 | - | - | -123 | -978 | -50 | -1,028 |
| | Write down | -6 | -9 | - | -89 | -5 | - | -109 | -941 | -1,050 |
| | Planned depreciation/amortisation | -600 | - | - | -5,298 | -5,634 | -993 | -12,525 | -612 | -13,137 |
| | Translation difference | -5 | 46 | 1 | 361 | -139 | 4 | 268 | 349 | 617 |
| Closing balance | | 180 | -61 | - | 1,946 | 962 | - | 3,027 | 22,480 | 25,507 |

The acquisition of the Alfa Laval Holding AB group in connection with the acquisition by Industri Kapital of the Alfa Laval Group from Tetra Laval on August 24, 2000 is shown on the first row.

"Other" relates to step-up values from 2000 for "Machinery" of SEK 548 million and "Equipment" of SEK 452 million that have been fully depreciated or realised, for "Research and development" of SEK 54 million and "Capital gain (Industrial Flow)" of SEK 42 million that have been fully realised and for "Construction in process" of SEK 16 million that has been transferred to "Machinery".

Acquisition of businesses

During 2021

On June 1, 2021 Alfa Laval completed the acquisition of StormGeo, a global leader in weather intelligence and advanced data science solutions. The acquisition is part of Alfa Laval's strategy to support the marine industry's efforts to make operations more efficient and will also enhance Alfa Laval's knowledge within digital services. The purchase price is fully financed via cash. The acquisition is neutral to Alfa Laval's EBITA margin and earnings per share. StormGeo, headquartered in Bergen in Norway, provides solutions and services for weather-sensitive operations, primarily in the marine industry, off-shore and other weather-dependent industries. The company's weather information services help customers mitigate risk, improve safety and make sustainable choices on routes and operations. StormGeo was founded in 1997 and has since 2014 been under the ownership of EQT, DNV GL and a group of employees. Total sales in 2020 amounted to NOK 714 million (SEK 699 million). StormGeo will become a part of the Alfa Laval Marine Division.

The purchase price is SEK 3,016 million, out of which all has been paid in cash. In addition, Alfa Laval has repaid StormGeos external loans with SEK 655 million at the same time as liquid assets of SEK 105 million in the acquired businesses were taken over. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 22 million, which is reported as other operating costs. The impact on the cash flow is thus SEK -3,588 million. Out of the difference between the purchase price paid and the net assets acquired SEK 1,397 million has been allocated to patents and un-patented know-how, while the residual SEK 2,245 million has been allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and the company's ability to over time recreate its intangible assets. The value of the goodwill is still preliminary. The step-up value for patents and un-patented know-how is amortised over 10 years. From the date of the acquisition the company has added SEK 416 million in orders received, SEK 416 million in invoicing and SEK 47 million in adjusted EBITA to Alfa Laval. If the company had been acquired at January 1, 2021 the corresponding figures would have been SEK 707 million, SEK 707 million and SEK 87 million respectively. At the end of December 2021, the number of

employees was 581.

On October 1 Alfa Laval acquired the Norwegian system manufacturer LiftUP. LiftUP is a market leader in removing waste from fish farms to reduce their impact on the marine environment. The acquisition is part of Alfa Laval's strategy of building up an attractive aquaculture product portfolio and creating an expanded and sustainable growth platform for the future. Founded in 1991, LiftUP is a world leading supplier of waste extraction systems for fish farms. Its technology can remove up to 70 percent of the sludge from open cages. The LiftUP system is a complement to the Alfa Laval Framo pumping system AquaStream, which brings up fresh low temperature water with high oxygen levels (from around 25 m depth) and creates a perfect sea current – thereby providing conditions similar to the deep fjords, creating an optimal environment for the fish. The acquired company had revenues of 75 MNOK (2020) with good profitability. It will now be part of the business unit Pumping Systems in the Marine Division.

The purchase price is SEK 205 million, out of which all has been paid in cash. At the acquisition cash of SEK 0 million was taken over. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 2 million, which is reported as other operating costs. The impact on the cash flow is thus SEK -207 million. Out of the difference between the purchase price paid and the net assets acquired SEK 106 million has been allocated to patents and un-patented know-how, while the residual SEK 109 million has been allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and the company's ability to over time recreate its intangible assets. The value of the goodwill is still preliminary. The step-up value for patents and un-patented know-how is amortised over 10 years. From the date of the acquisition the company has added SEK 18 million in orders received, SEK 16 million in invoicing and SEK 1 million in adjusted EBITA to Alfa Laval. If the company had been acquired at January 1, 2021 the corresponding figures would have been SEK 70 million, SEK 75 million and SEK 12 million respectively. At the end of December 2021, the number of employees was 14.

All acquired assets and liabilities were reported according to IFRS at the time of the acquisitions.

The acquisitions during 2021 can be summarized as follows:

Acquisitions 2021

| SEK millions | StormGeo | | | LiftUP | | | Total |
|---|------------|--------------------------|------------|------------|--------------------------|------------|------------|
| | Book value | Adjustment to fair value | Fair value | Book value | Adjustment to fair value | Fair value | Fair value |
| Property, plant and equipment | 19 | – | 19 | 7 | – | 7 | 26 |
| Right-of-use assets | 34 | – | 34 | – | – | – | 34 |
| Patents and unpatented know-how | 38 | 1,397 | 1,435 | – | 106 | 106 | 1,541 |
| Capitalised development costs | 184 | – | 184 | 12 | – | 12 | 196 |
| Inventory | 4 | – | 4 | 21 | – | 21 | 25 |
| Accounts receivable | 98 | – | 98 | 9 | – | 9 | 107 |
| Other receivables | 55 | – | 55 | 6 | – | 6 | 61 |
| Liquid assets | 105 | – | 105 | 0 | – | 0 | 105 |
| Provisions for pensions and similar commitments | -10 | – | -10 | – | – | – | -10 |
| Loans | -655 | – | -655 | -19 | – | -19 | -674 |
| Lease liability | -38 | – | -38 | – | – | – | -38 |
| Accounts payable | -13 | – | -13 | -4 | – | -4 | -17 |
| Other liabilities | -122 | – | -122 | -17 | – | -17 | -139 |
| Tax liabilities | -5 | – | -5 | -2 | – | -2 | -7 |
| Deferred tax | -13 | -307 | -320 | – | -23 | -23 | -343 |
| Acquired net assets | -319 | 1,090 | 771 | 13 | 83 | 96 | 867 |
| Goodwill | | | 2,245 | | | 109 | 2,354 |
| Purchase price | | | -3,016 | | | -205 | -3,221 |
| Costs directly linked to the acquisitions | | | -22 | | | -2 | -24 |
| Liquid assets in the acquired businesses | | | 105 | | | 0 | 105 |
| Overtaken bank loans | | | -655 | | | – | -655 |
| Other minor acquisitions current year | | | | | | | -13 |
| Payment of amounts retained in prior years | | | | | | | -20 |
| Effect on the Group's liquid assets | | | -3,588 | | | -207 | -3,828 |

During 2020

On December 31, 2020 Alfa Laval acquired Sandymount, a US-based beverage technology company with a unique and patented membrane technology to concentrate beer. The technology in combination with Alfa Laval's extensive product range, will open up interesting business opportunities for the company and enable a more sustainable beer-delivery supply chain. Sandymount's patented membrane technology, Revos™, in combination with Alfa Laval's extensive product range for beer production, will enable beer producers to deliver high quality beer in concentrated form. The solu-

tion addresses the transportation inefficiencies in beer supply where beer remains one of the few water-laden products distributed as a 'mostly water' from producer to consumer. The newly acquired company will be integrated into the Business Unit Food Systems in the Food & Water Division.

The purchase price was SEK 49 million, out of which all was paid in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 3 million, which was reported as other operating costs. Liquid assets of SEK 0 million in the acquired company were taken over. The impact on the cash

flow was thus SEK -52 million. Out of the difference between the purchase price paid and the net assets acquired SEK 41 million was allocated to patents and un-patented know-how, while the residual SEK 15 million was allocated to goodwill. The goodwill was relating to estimated synergies in procurement, logistics and corporate overheads and the company's ability to over time recreate its intangible assets. The value of the goodwill has been finalised in 2021. The step-up value for patents and un-patented know-how is amortised over 10 years. From the date of the acquisition the company added SEK - million in orders received, SEK - million in invoicing and SEK - million in adjusted EBITA to Alfa Laval. If the company had been acquired at January 1, 2020 the corresponding figures would have been SEK - million, SEK - million and SEK -10 million respectively. At the end of December 2020, the company had 2 employees.

A smaller operation, WCR Benelux BV in the Netherlands, was acquired on July 1, 2020. The purchase price was SEK 13 million, out of which SEK 10 million was paid in cash and SEK 3 million was retained for a period of up to 1 year. The retained part of the purchase price was contingent on certain warranties in the contract not being triggered. The probable outcome was SEK 3 million, which was also the fair value since the contingent consideration is to be paid in cash. The amount was paid in cash at two occasions during 2020 and 2021. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 1 million, which was reported as other operating costs. Liquid assets of SEK 1 million in the acquired company were taken over. The impact on the cash flow was thus SEK -10 million. Out of the difference between the purchase price paid and the net assets acquired SEK 10 million was allocated to the WCR trademark, while the residual SEK 3 million was allocated to goodwill. The goodwill was relating to estimated synergies in procurement, logistics and corporate overheads and the company's ability to over time recreate its intangible assets. The value of the goodwill has been finalised in 2021. The step-up value for the trademark is amortised over 10 years. From the date of the acquisition the company added SEK 11 million in orders received, SEK 8 million in invoicing and SEK -0 million in adjusted EBITA to Alfa Laval. If the company had been acquired at January 1, 2020 the corresponding figures would have been SEK 16 million, SEK 14 million and SEK -1 million respectively. At the end of December 2020, the company had 6 employees.

All acquired assets and liabilities were reported according to IFRS at the time of the acquisitions.

Impairment testing

An impairment test has been performed at the end of 2021 indicating that there is not any need to further write down the goodwill.

Prior to a possible divestment, closure or restructuring an impairment test was also made during 2020 concerning certain oil & gas related businesses, which showed a need to write down the entire goodwill for these businesses. Write down of goodwill was thus made with SEK -360 million, which was reported as a comparison distortion item among other operating costs. The write down of goodwill and the restructuring costs were part of the programme for adapting the organisation to changing market fundamentals that was announced on December 16, 2020. The program was mainly addressing structural imbalances in specific parts of the oil & gas business as well as parts of the Marine business.

Three of Alfa Laval's operating segments, the three business divisions "Energy", "Food & Water" and "Marine" have been identified as the cash-generating units within Alfa Laval. Technically a recently acquired business activity could be followed independently during an initial period, but acquired businesses are normally integrated into the divisions at a fast rate. This means that the independent traceability is lost fairly soon and then any independent measurement and testing becomes impracticable.

The recoverable amount of the cash-generating units is based on their value in use, which is established by calculating the net present value of future cash flows. The net present value is based on the projected EBITDA figures for the next five years, less projected investments and changes in operating capital during the same period and thereafter the perceived expected average industry growth rate.

This projection is based on the following components:

- The projection for 2022 is based on the Group's normal 12 month revolving "Forecast" reporting. This is based on a very large number of rather detailed assumptions throughout the organisation concerning the business cycle, volume growth, market initiatives, product mix, currency rates, cost development, cost structure, R&D etc.
- The projection for the years 2023 till 2026 is based on Management's general assumptions concerning the business cycle, volume growth, market initiatives, product mix, currency rates, cost development, cost structure, R&D etc.
- The projection for the years 2027 and onwards is based on the perceived expected average industry growth rate.

The assumptions used for the projections reflect past experiences or information from external sources.

The used discount rate is the pre-tax weighted average cost of capital (WACC) of 9.11 (9.69) percent.

There exists no reasonably possible change in a key assumption in the impairment test that would cause the carrying amount to exceed the recoverable amount. The reason is that the recoverable amounts with a very good margin exceed the carrying amounts. Due to this a sensitivity analysis is not presented.

Alfa Laval does not have any intangible assets with indefinite useful lives other than goodwill.

Goodwill has been allocated to the following cash-generating units:

| Goodwill | | |
|--------------|---------------|---------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Energy | 3,115 | 2,953 |
| Food & Water | 2,515 | 2,371 |
| Marine | 16,850 | 13,756 |
| Total | 22,480 | 19,080 |

Note 18. Intangible non-current assets

Patents and unpatented know-how

| Consolidated | | |
|--|---------------|---------------|
| SEK millions | 2021 | 2020 |
| Accumulated acquisition values | | |
| Opening balance | 5,512 | 6,393 |
| Purchases | 45 | 38 |
| Acquisition of businesses | 122 | 41 |
| Sales/disposals | -5 | -8 |
| Reclassifications | 48 | - |
| Step-up values | 1,503 | - |
| Translation difference | 208 | -952 |
| Closing balance | 7,433 | 5,512 |
| Accumulated amortisation | | |
| Opening balance | -4,736 | -5,289 |
| Acquisition of businesses | -84 | - |
| Sales/disposals | 5 | 8 |
| Reclassifications | -41 | 0 |
| Amortisation of step-up value | -355 | -317 |
| Amortisation for the year | -7 | -4 |
| Translation difference | -166 | 866 |
| Closing balance | -5,384 | -4,736 |
| Closing balance, net book value | 2,049 | 776 |

Trademarks

| Consolidated | | |
|--|---------------|---------------|
| SEK millions | 2021 | 2020 |
| Accumulated acquisition values | | |
| Opening balance | 6,499 | 7,124 |
| Acquisition of businesses | - | 10 |
| Divestment of businesses | - | -44 |
| Translation difference | 390 | -591 |
| Closing balance | 6,889 | 6,499 |
| Accumulated amortisation | | |
| Opening balance | -5,198 | -5,170 |
| Divestment of businesses | - | 44 |
| Amortisation of step-up values | -410 | -505 |
| Translation difference | -319 | 433 |
| Closing balance | -5,927 | -5,198 |
| Closing balance, net book value | 962 | 1,301 |

| Licenses, renting rights and similar rights | | |
|--|---------------|---------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Accumulated acquisition values | | |
| Opening balance | 183 | 210 |
| Purchases | 36 | 3 |
| Sales/disposals | -25 | -19 |
| Reclassifications | 4 | -1 |
| Translation difference | 14 | -10 |
| Closing balance | 212 | 183 |
| Accumulated amortisation | | |
| Opening balance | -163 | -187 |
| Sales/disposals | 24 | 19 |
| Reclassifications | 5 | 1 |
| Amortisation for the year | -34 | -5 |
| Translation difference | -12 | 9 |
| Closing balance | -180 | -163 |
| Closing balance, net book value | 32 | 20 |
| Internally generated intangible assets | | |
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Accumulated acquisition values | | |
| Opening balance | 111 | 54 |
| Acquisition of businesses | 394 | – |
| Expenses | 123 | 57 |
| Reclassifications | -5 | – |
| Translation difference | 10 | – |
| Closing balance | 633 | 111 |
| Accumulated amortisation | | |
| Opening balance | -4 | -1 |
| Acquisition of businesses | -210 | – |
| Reclassifications | 1 | – |
| Amortisation for the year | -22 | -3 |
| Translation difference | 0 | – |
| Closing balance | -235 | -4 |
| Closing balance, net book value | 398 | 107 |
| Internally generated intangible assets are referring to capitalised IT costs and acquired capitalised development cost related to R&D. | | |
| Goodwill | | |
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Accumulated acquisition values | | |
| Opening balance | 20,574 | 22,331 |
| Goodwill in connection with acquisition of businesses | 2,354 | 18 |
| Divestment of businesses | – | -50 |
| Translation difference | 1,392 | -1,725 |
| Closing balance | 24,320 | 20,574 |
| Accumulated amortisation | | |
| Opening balance | -1,494 | -1,219 |
| Write down of goodwill | – | -360 |
| Translation difference | -346 | 85 |
| Closing balance | -1,840 | -1,494 |
| Closing balance, net book value | 22,480 | 19,080 |

Note 19. Property, plant and equipment

| Real estate | | |
|--|---------------|---------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Accumulated acquisition values | | |
| Opening balance | 5,953 | 6,042 |
| Purchases | 155 | 261 |
| Acquisition of businesses | 11 | – |
| Sales/disposal | -259 | -164 |
| Reclassifications | 42 | 262 |
| Reclassification to assets for sale | -106 | -65 |
| Translation difference | 451 | -383 |
| Closing balance | 6,247 | 5,953 |
| Accumulated depreciation | | |
| Opening balance | -3,075 | -3,094 |
| Acquisition of businesses | -5 | – |
| Sales/disposals | 255 | 87 |
| Reclassifications | 4 | -97 |
| Reclassification to assets for sale | 81 | 10 |
| Depreciation of step-up value | -31 | -33 |
| Depreciation for the year | -201 | -179 |
| Translation difference | -215 | 231 |
| Closing balance | -3,187 | -3,075 |
| Closing balance, net book value | 3,060 | 2,878 |
| Non-current assets held for sale | | |
| Within Alfa Laval these assets are normally relating to real estate. | | |
| The property in Alonte in Italy, part of the property in Potok in Russia and three smaller properties in India are for sale and are expected to be sold within the next year. These have therefore been classified as current assets held for sale with SEK 25 (55) million. The fair value of the properties for sale exceeds the book value by approximately SEK 128 (24) million. | | |
| Machinery and other technical installations | | |
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Accumulated acquisition values | | |
| Opening balance | 7,550 | 7,813 |
| Purchases | 292 | 365 |
| Acquisition of businesses | 5 | – |
| Sales/disposal | -190 | -389 |
| Reclassifications | 80 | 304 |
| Translation difference | 375 | -543 |
| Closing balance | 8,112 | 7,550 |
| Accumulated depreciation | | |
| Opening balance | -5,321 | -5,676 |
| Acquisition of businesses | -4 | – |
| Sales/disposals | 172 | 346 |
| Reclassifications | 49 | -8 |
| Depreciation for the year | -373 | -362 |
| Write down | -2 | -1 |
| Translation difference | -263 | 380 |
| Closing balance | -5,742 | -5,321 |
| Closing balance, net book value | 2,370 | 2,229 |

| Equipment, tools and installations | | |
|--|---------------|---------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Accumulated acquisition values | | |
| Opening balance | 2,926 | 2,906 |
| Purchases | 149 | 249 |
| Acquisition of businesses | 98 | – |
| Sales/disposal | -229 | -115 |
| Reclassifications | 51 | 69 |
| Translation difference | 268 | -183 |
| Closing balance | 3,263 | 2,926 |
| Accumulated depreciation | | |
| Opening balance | -2,125 | -2,236 |
| Acquisition of businesses | -79 | – |
| Sales/disposals | 201 | 103 |
| Reclassifications | -18 | 4 |
| Depreciation for the year | -155 | -145 |
| Translation difference | -241 | 149 |
| Closing balance | -2,417 | -2,125 |
| Closing balance, net book value | 846 | 801 |

Construction in progress and advances to suppliers concerning property, plant and equipment

| Consolidated | | |
|--|------------|------------|
| SEK millions | 2021 | 2020 |
| Accumulated acquisition values | | |
| Opening balance | 261 | 505 |
| Purchases | 429 | 259 |
| Reclassifications | -249 | -423 |
| Translation difference | 34 | -80 |
| Closing balance | 475 | 261 |
| Closing balance, net book value | 475 | 261 |

Right-of-use asset real estate

| Consolidated | | |
|--|--------------|--------------|
| SEK millions | 2021 | 2020 |
| Accumulated acquisition values | | |
| Opening balance | 2,576 | 2,883 |
| New or adjusted leases | 406 | 130 |
| Acquisition of businesses | 78 | – |
| Sales/disposal | -96 | -28 |
| Reclassifications | -177 | -201 |
| Translation difference | 144 | -208 |
| Closing balance | 2,931 | 2,576 |
| Accumulated depreciation | | |
| Opening balance | -601 | -392 |
| Acquisition of businesses | -44 | – |
| Sales/disposals | 95 | 15 |
| Reclassifications | 137 | 81 |
| Depreciation for the year | -314 | -350 |
| Translation difference | -46 | 45 |
| Closing balance | -773 | -601 |
| Closing balance, net book value | 2,158 | 1,975 |

| Right-of-use asset machinery | | |
|--|------------|------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Accumulated acquisition values | | |
| Opening balance | 58 | 87 |
| New or adjusted leases | 9 | 15 |
| Sales/disposal | -6 | -6 |
| Reclassifications | -1 | -30 |
| Translation difference | 5 | -8 |
| Closing balance | 65 | 58 |
| Accumulated depreciation | | |
| Opening balance | -34 | -59 |
| Sales/disposals | 5 | 5 |
| Reclassifications | 4 | 32 |
| Depreciation for the year | -14 | -17 |
| Translation difference | -2 | 5 |
| Closing balance | -41 | -34 |
| Closing balance, net book value | 24 | 24 |

Right-of-use asset equipment, tools and installations

| Consolidated | | |
|--|-------------|-------------|
| SEK millions | 2021 | 2020 |
| Accumulated acquisition values | | |
| Opening balance | 271 | 235 |
| New or adjusted leases | 68 | 75 |
| Sales/disposal | -28 | -27 |
| Reclassifications | -3 | 2 |
| Translation difference | 6 | -14 |
| Closing balance | 314 | 271 |
| Accumulated depreciation | | |
| Opening balance | -118 | -71 |
| Sales/disposals | 17 | 22 |
| Reclassifications | 4 | -6 |
| Depreciation for the year | -71 | -69 |
| Translation difference | -4 | 6 |
| Closing balance | -172 | -118 |
| Closing balance, net book value | 142 | 153 |

Note 20. Other non-current assets

Shares in subsidiaries, joint ventures and other companies

| SEK millions | Consolidated | | Parent company | |
|---------------------------|--------------|--------------|----------------|--------------|
| | 2021 | 2020 | 2021 | 2020 |
| Shares in subsidiaries | – | – | 4,669 | 4,669 |
| Shares in joint ventures | 165 | 85 | – | – |
| Shares in other companies | 1,231 | 1,490 | – | – |
| Total | 1,396 | 1,575 | 4,669 | 4,669 |

Alfa Laval does not hold any shares in unconsolidated structured entities.

The consolidated financial statements include the parent company Alfa Laval AB (publ) and the subsidiaries in which it has a decisive influence, which in all cases refer to companies where the parent company directly or indirectly had an ownership of more than 50 percent during the period. These are consolidated according to the purchase method and are referred to as subsidiaries. Most of the subsidiaries are owned to 100 percent and only 10 (4) companies have non-controlling interests, see Note 12. The subsidiaries are displayed in the table on pages 168–170. Since all consolidated companies are owned to more than 50 percent there is no risk that judgements if a decisive influence exists or not at ownerships below 50 percent means that companies from time to time are included or not included in the consolidation.

Alfa Laval also has interests in 5 (3) small joint ventures, out of which one has a fully owned subsidiary, that are consolidated according to the equity method since no decisive influence exists. These are displayed in a separate table on page 170. The risks associated with joint ventures are basically business oriented and are not materially different than the risks linked to subsidiaries, with one exception. The exception relates to the risk of disagreeing with the other joint venture partner concerning for instance larger investments, financing and future direction for market penetration and product development, which could result in a sub-optimal development of the operations. Since Alfa Laval's joint ventures are of marginal significance for the Group as a total this risk is judged to be small.

The share of capital in the below tables is in all cases the same as the share of voting rights.

The below specification of shares contains some simplifications, for instance in connection with ownership in multiple layers or when the ownership is split on several owners or at cross-holdings. This is in order not to unnecessarily burden the presentation. A complete specification of shares can be ordered by contacting Alfa Laval's head office in Lund or via the Swedish Companies Registration Office (Bolagsverket).

| Specification of shares in subsidiaries | | | | | |
|---|---------------------|------------------------|------------------|--------------------|-------------------------|
| Company name | Registration number | Domicile | Number of shares | Share of capital % | Book value SEK millions |
| Alfa Laval Holding AB | 556587-8062 | Lund, Sweden | 8,191,000 | 100 | 4,461 |
| Alfa Laval NV | | Maarsse, Netherlands | 887,753 | 100 | – |
| Alfa Laval Inc. | | Newmarket, Canada | 1,000,000 | 67 | – |
| Alfa Laval S.A. DE C.V. | | Tlalnapantla, Mexico | 45,057,057 | 100 | – |
| Alfa Laval S.A. | | San Isidro, Argentina | 1,223,967 | 95 | – |
| Alfa Laval Ltda | | Sao Paulo, Brazil | 21,129,066 | 100 | – |
| Framo do Brasil Ltda. | | Rio de Janeiro, Brazil | 14,850 | 4.67 | – |
| Alfa Laval SpA | | Santiago, Chile | 2,735 | 100 | – |
| Ashbrook Chile S.A. | | Santiago, Chile | 579,999 | 100 | – |
| Alfa Laval S.A. | | Bogota, Colombia | 11,563 | 95 | – |
| Alfa Laval S.A. | | Lima, Peru | 4,346,832 | 100 | – |
| Alfa Laval Venezolana S.A. | | Caracas, Venezuela | 10,000 | 100 | – |
| Alfa Laval Oilfield C.A. | | Caracas, Venezuela | 203 | 81 | – |
| Alfa Laval Taiwan Ltd | | Taipei, Taiwan | 1,499,994 | 100 | – |
| Alfa Laval (China) Ltd | | Hong Kong, China | 79,999 | 100 | – |
| Alfa Laval (Jiangyin) Manufacturing Co Ltd | | Jiang Yin, China | | 100 | – |
| Alfa Laval Flow Equipment (Kunshan) Co Ltd | | Jiangsu, China | | 30 | – |
| Alfa Laval Flow Equipment (Kunshan) Co Ltd | | Jiangsu, China | | 70 | – |
| Alfa Laval (Shanghai) Technologies Co Ltd | | Shanghai, China | | 100 | – |
| Wuxi MCD Gasket Co Ltd | | Jiang Yin, China | | 100 | – |
| Tranter Heat Exchangers (Beijing) Co Ltd | | Beijing, China | | 100 | – |
| Liyang Sifang Stainless Steel Products Co., Ltd | | Liyang City, China | | 65 | – |
| Alfa Laval (Taicang) Technologies Co Ltd | | Taicang City, China | | 100 | – |
| Alfa Laval Iran Ltd | | Teheran, Iran | 32,983 | 100 | – |
| Framo Korea Ltd | | Busan, South Korea | 20,000 | 100 | – |
| Alfa Laval Philippines Inc. | | Makati, Philippines | 72,000 | 100 | – |
| Alfa Laval Singapore Pte Ltd | | Singapore | 5,000,000 | 100 | – |
| Alfa Laval (Thailand) Ltd | | Bangkok, Thailand | 1,199,999 | 100 | – |
| Alfa Laval Middle East Ltd | | Nicosia, Cyprus | 40,000 | 100 | – |
| Alfa Laval Service Operations Qatar LLC | | Doha, Qatar | 9,800 | 49 | – |
| Alfa Laval Benelux NV/SA | | Brussels, Belgium | 98,284 | 100 | – |
| Alfa Laval EOOD | | Sofia, Bulgaria | 100 | 100 | – |
| Alfa Laval Slovakia S.R.O. | | Bratislava, Slovakia | | 1 | – |
| Alfa Laval Spol S.R.O. | | Prague, Czech Republic | | 20 | – |
| Alfa Laval Nordic OY | | Esbo, Finland | 20,000 | 100 | – |
| Alfa Laval Nederland BV | | Maarsse, Netherlands | 10,000 | 100 | – |
| Alfa Laval Benelux BV | | Maarsse, Netherlands | 20,000 | 100 | – |
| PHE Holding AB | 556306-2404 | Lund, Sweden | 2,500 | 100 | – |
| Tranter Heat Exchangers Canada Inc. | | Edmonton, Canada | 100 | 100 | – |
| Tranter Indústria e Comércio de Equipamentos Ltda | | Sao Paulo, Brazil | 2,018,370 | 100 | – |
| Tranter India Pvt Ltd | | Pune, India | 3,009,999 | 100 | – |
| Alfa Laval India Pvt Ltd | | Pune, India | 1 | 0 | – |
| Alfa Laval Korea Ltd | | Seoul, South Korea | 36,400 | 10 | – |
| Alfa Laval Korea Holding Company Ltd | | Chungnam, South Korea | 13,318,600 | 100 | – |
| Alfa Laval Korea Ltd | | Seoul, South Korea | 327,600 | 90 | – |
| Alfa Laval Corhex Ltd | | Daejeon, South Korea | 50,000 | 100 | – |
| LHE Co. Ltd | | Gim Hae, South Korea | 4,104,000 | 90 | – |
| LHE Co. Ltd | | Gim Hae, South Korea | 456,000 | 10 | – |
| Tranter International AB | | Vänersborg, Sweden | 100,000 | 100 | – |
| Multbran AB | | Lund, Sweden | 2,723 | 100 | – |
| Alfa Laval India Pvt Ltd | | Pune, India | 1 | 0 | – |
| Breezewind AB | | Lund, Sweden | 1,000 | 100 | – |
| Alfa Laval India Pvt Ltd | | Pune, India | 1 | 0 | – |
| Alfa Laval Corporate AB | | Lund, Sweden | 13,920,000 | 100 | – |
| Alfa Laval S.A. | | San Isidro, Argentina | 64,419 | 5 | – |
| Alfa Laval S.A. | | Bogota, Colombia | 609 | 5 | – |
| Definox (Beijing) Stainless Steel Equipment Ltd | | Beijing, China | | 100 | – |
| Alfa Laval India Pvt Ltd | | Pune, India | 17,832,712 | 100 | – |
| Tranter India Pvt Ltd | | Pune, India | 1 | 0 | – |
| PT Alfa Laval Indonesia | | Jakarta, Indonesia | 16,240 | 100 | – |
| Alfa Laval Malaysia Sdn Bhd | | Shah Alam, Malaysia | 10,000 | 100 | – |
| Alfa Laval d.o.o. | | Trzin, Slovenia | | 100 | – |
| Alfa Laval Kolding A/S | | Kolding, Denmark | 40 | 100 | – |
| Alfa Laval Nordic A/S | | Rødovre, Denmark | 1 | 100 | – |
| Alfa Laval Copenhagen A/S | | Søborg, Denmark | 1 | 100 | – |
| Alfa Laval Nakskov A/S | | Nakskov, Denmark | 242,713 | 100 | – |
| Alfa Laval Aalborg A/S | | Aalborg, Denmark | 2,560,972 | 100 | – |

Specification of shares in subsidiaries, continued

| Company name | Registration number | Domicile | Number of shares | Share of capital % | Book value SEK millions |
|---|---------------------|-----------------------------|------------------|--------------------|-------------------------|
| Alfa Laval Aalborg Indústria e Comércio Ltda | | Petrópolis, Brazil | 5,969,401 | 99.5 | – |
| Alfa Laval Qingdao Ltd | | Jiaozhou City, China | | 100 | – |
| Alfa Laval Aalborg Oy | | Rauma, Finland | 3,000 | 100 | – |
| Alfa Laval Nijmegen BV | | Nijmegen, Netherlands | 182 | 100 | – |
| Alfa Laval Aalborg Holding Pty Ltd | | North Wyong, Australia | 2,875,010 | 100 | – |
| Alfa Laval Aalborg Pty Ltd | | North Wyong, Australia | 225,000 | 100 | – |
| Alfa Laval Olmi SpA | | Suisio, Italy | 500,000 | 100 | – |
| Alfa Laval Italy Srl | | Milan, Italy | | 33.3 | – |
| Alfa Laval Nordic AS | | Oslo, Norway | 100 | 100 | – |
| Framo AS | | Nesttun, Norway | 95,347,695 | 100 | – |
| Framo do Brasil Ltda. | | Rio de Janeiro, Brazil | 303,002 | 95.33 | – |
| Framo Shanghai Ltd. | | Shanghai, China | 0 | 100 | – |
| Framo Singapore PTE Ltd. | | Singapore | 1,000,000 | 100 | – |
| Framo Nederland BV | | Spijkensisse, Netherlands | 500 | 100 | – |
| Framo Nippon KK | | Tokyo, Japan | 600 | 100 | – |
| Framo Fusa AS | | Fusa, Norway | 86,236 | 100 | – |
| Framo Holsnøy AS | | Frekhaug, Norway | 25,000 | 100 | – |
| LiftUP AS | | Eikelandssøsen, Norway | 106 | 100 | – |
| Framo Flatøy AS | | Frekhaug, Norway | 45,330 | 100 | – |
| Framo Services AS | | Nesttun, Norway | 10,000 | 100 | – |
| PHE Holding AS | | Nesttun, Norway | 45,000 | 100 | – |
| StormGeo Holding AS | | Bergen, Norway | 204,167 | 100 | – |
| StormGeo AS | | Bergen, Norway | 125,960 | 100 | – |
| StormGeo Ltd | | Aberdeenshire, UK | 1,000 | 100 | – |
| StormGeo Japan KK | | Tokyo, Japan | 500 | 100 | – |
| StormGeo Pte Ltd | | Singapore | 100,000 | 100 | – |
| StormGeo Inc | | Seoul, South Korea | 40,000 | 100 | – |
| StormGeo Ltd | | Hong Kong, China | 100 | 100 | – |
| StormGeo FZ LLC | | Dubai, United Arab Emirates | 50 | 100 | – |
| StormGeo AB | 556761–9472 | Stockholm, Sweden | 10,000 | 100 | – |
| StormGeo GmbH | | Hamburg, Germany | 25,000 | 100 | – |
| StormGeo Brasil AS | | Bergen, Norway | 30,000 | 100 | – |
| StormGeo do Brasil Servicos Meteorologicos Ltda | | Rio de Janeiro, Brazil | 150,000 | 100 | – |
| ClimaTempo Participacoes SA | | Sao Paulo, Brazil | 985,864 | 51 | – |
| Agência Brasileira de Meteorologia Ltda | | Sao Paulo, Brazil | 859,999 | 100 | – |
| Climanet Serviços de Internet Ltda | | Sao Paulo, Brazil | 45,000 | 100 | – |
| TV Meteorológica Ltda | | Sao Paulo, Brazil | 5,800 | 58 | – |
| Somar Meteorologia Ltda | | Sao Paulo, Brazil | 790,000 | 100 | – |
| Southern Marine Weather Services Ltda | | Sao Paulo, Brazil | 1,400,000 | 100 | – |
| UAB StormGeo | | Vilnius, Lithuania | 2,500 | 100 | – |
| Alfa Laval Nordic AB | 556243-2061 | Tumba, Sweden | 1,000 | 100 | – |
| Alfa Laval Treasury International (publ) AB | 556432-2484 | Lund, Sweden | 50,000 | 100 | – |
| Alfa Laval India Pvt Ltd | | Pune, India | 1 | 0 | – |
| Alfa Laval Europe AB | 556128-7847 | Lund, Sweden | 500 | 100 | – |
| Alfa Laval Technologies AB | 556016-8642 | Lund, Sweden | 100 | 100 | – |
| Alfa Laval India Pvt Ltd | | Pune, India | 1 | 0 | – |
| Alfa Laval International Engineering AB | 556039-8934 | Lund, Sweden | 4,500 | 100 | – |
| Alfa Laval Tumba AB | 556021-3893 | Tumba, Sweden | 1,000 | 100 | – |
| Alfa Laval Oilfield C.A. | | Caracas, Venezuela | 47 | 19 | – |
| AO Alfa Laval Potok | | Koroljov, Russia | 31,092,939 | 100 | – |
| Alfa Laval Makine Sanayii ve Ticaret Ltd Sti | | Istanbul, Turkey | 27,001,755 | 99 | – |
| Alfa Laval SIA | | Riga, Latvia | 125 | 100 | – |
| Alfa Laval Australia Pty Ltd | | Homebush, Australia | 2,088,076 | 100 | – |
| Alfa Laval New Zealand Pty Ltd | | Hamilton, New Zealand | 1,000 | 100 | – |
| Alfa Laval Holding BV | | Maarsse, Netherlands | 60,035,631 | 100 | – |
| Alfa Laval (Pty) Ltd | | Isando, South Africa | 2,000 | 100 | – |
| Alfa Laval SA (Pty) Ltd | | Isando, South Africa | 100 | 100 | – |
| Alfa Laval Slovakia S.R.O. | | Bratislava, Slovakia | | 99 | – |
| Alfa Laval Spol S.R.O. | | Prague, Czech Republic | | 80 | – |
| Alfa Laval Holding SAS | | Saint-Priest, France | 2,000,000 | 100 | – |
| Alfa Laval France & North West Africa SAS | | Saint-Priest, France | 606,700 | 100 | – |
| Alfa Laval Moatti SAS | | Elancourt, France | 24,000 | 100 | – |
| Alfa Laval Spiral SAS | | Nevers, France | 79,999 | 100 | – |
| MCD SAS | | Gury, France | 71,300 | 100 | – |
| Alfa Laval Vicarb SAS | | Grenoble, France | 200,000 | 100 | – |
| Canada Inc. | | Newmarket, Canada | 480,000 | 100 | – |
| Alfa Laval Inc. | | Newmarket, Canada | 481,600 | 33 | – |
| SCI du Companil | | Grenoble, France | 32,165 | 100 | – |
| Alfa Laval Packinox SAS | | Paris, France | 348,115 | 100 | – |
| Ziepack SA | | Paris, France | 37,701 | 51 | – |
| Tranter SAS | | Nanterre, France | | 100 | – |

Specification of shares in subsidiaries, continued

| Company name | Registration number | Domicile | Number of shares | Share of capital % | Book value SEK millions |
|---|---------------------|----------------------------|------------------|--------------------|-------------------------|
| Definox SAS | | Clisson, France | 10,000 | 100 | – |
| Alfa Laval Holding GmbH | | Glinde, Germany | 1 | 100 | – |
| Alfa Laval Mid Europe GmbH | | Wiener Neudorf, Austria | 1 | 100 | – |
| Tranter Wärmetauscher GmbH | | Guntramsdorf, Austria | | 100 | – |
| Alfa Laval Mid Europe GmbH | | Glinde, Germany | 1 | 100 | – |
| Tranter GmbH | | Artern, Germany | 1 | 100 | – |
| Alfa Laval Heat Exchanger Service GmbH | | Frechen, Germany | 1 | 100 | – |
| Alfa Laval Mid Europe AG | | Dietlikon, Switzerland | 647 | 100 | – |
| Alfa Laval Single Member SA | | Holargos, Greece | 807,000 | 100 | – |
| Alfa Laval Kft | | Budapest, Hungary | 1 | 100 | – |
| Alfa Laval SpA | | Monza, Italy | 1,992,276 | 99 | – |
| Alfa Laval Italy Srl | | Milan, Italy | | 66.7 | – |
| WCR Benelux BV | | Veenendahl, Netherlands | 180 | 100 | – |
| Alfa Laval Polska Sp.z.o.o. | | Warszaw, Poland | 7,600 | 100 | – |
| Alfa Laval Kraków Sp.z.o.o. | | Krakow, Poland | 80,080 | 100 | – |
| Alfa Laval (Portugal) Ltd | | Linda-A-Velha, Portugal | | 1 | – |
| Alfa Laval SRL | | Bucharest, Romania | 38,566 | 100 | – |
| Alfa Laval Iberia SA | | Madrid, Spain | 99,999 | 99.999 | – |
| Alfa Laval (Portugal) Ltd | | Linda-A-Velha, Portugal | 1 | 99 | – |
| Alfa Laval Holdings Ltd | | Camberley, UK | 14,053,262 | 100 | – |
| Alfa Laval Ltd | | Camberley, UK | 11,700,000 | 100 | – |
| Tranter Ltd | | Doncaster, UK | 10,000 | 100 | – |
| Alfa Laval Eastbourne Ltd | | Eastbourne, UK | 10,000 | 100 | – |
| Alfa Laval Ashbrook-Simon Hartley Ltd | | Newcastle-under-Lyme, UK | 2 | 100 | – |
| Alfa Laval Makine Sanayii ve Ticaret Ltd Sti | | Istanbul, Turkey | 1 | 1 | – |
| Alfa Laval USA Inc. | | Richmond, Virginia, USA | 1,000 | 100 | – |
| Alfa Laval US Holding Inc. | | Richmond, Virginia, USA | 180 | 100 | – |
| Alfa Laval Inc. | | Richmond, Virginia, USA | 44,000 | 100 | – |
| Alfa Laval Niagara Inc. | | Buffalo, New York, USA | 4,000,200 | 100 | – |
| Framo Houston Inc. | | La Porte, Texas, USA | 5,000 | 100 | – |
| Alfa Laval US Treasury Inc. | | Richmond, Virginia, USA | 1,000 | 100 | – |
| DSO Fluid Handling Inc. | | Irvington, New Jersey, USA | 100 | 100 | – |
| AGC Heat Transfer Inc. | | Bristow, Virginia, USA | 1,000 | 100 | – |
| Tranter Inc. | | Wichita Falls, Texas, USA | 1,000 | 100 | – |
| MCD Gaskets Inc. | | Richmond, Virginia, USA | 1,000 | 100 | – |
| Definox Inc. | | New Berlin, Wisconsin, USA | 1,000 | 100 | – |
| StormGeo Holding Inc. | | Houston, Texas, USA | 100 | 100 | – |
| StormGeo Inc | | Houston, Texas, USA | 1,000 | 100 | – |
| StormGeo Corp. Inc | | Sunnyvale, California, USA | 542,554 | 100 | – |
| Alfa Laval IC Disc Inc. | | Richmond, Virginia, USA | 1,000 | 100 | – |
| Alfa Laval Försäkrings AB | 516406-0682 | Lund, Sweden | 50,000 | 100 | – |
| Alfa Laval Ltda | | Sao Paulo, Brazil | 2 | 0 | – |
| Tranter Indústria e Comércio de Equipamentos Ltda | | Sao Paulo, Brazil | 1 | 0 | – |
| Alfa Laval Benelux NV/SA | | Brussels, Belgium | 2 | 0 | – |
| Alfa Laval SpA | | Monza, Italy | 20,124 | 1 | – |
| Alfa Laval Iberia SA | | Madrid, Spain | 1 | 0.001 | – |
| Alfa Laval Ukraine | | Kiev, Ukraine | | 100 | – |
| Alfa Laval India Pvt Ltd | | Pune, India | 1 | 0 | – |
| Alfa Laval Vietnam LLC | | Ho Chi Minh City, Vietnam | 0 | 100 | – |
| Alfa Laval KK | | Tokyo, Japan | 1,200,000 | 100 | 208 |
| Total | | | | | 4,669 |

Specification of shares in other companies

| Company name | Registration number | Domicile | Number of shares | Share of capital % | Book value SEK millions |
|---------------------------------|---------------------|---------------------|------------------|--------------------|-------------------------|
| Alfa Laval Holding AB | | | | | |
| Alfdex AB | 556647-7278 | Botkyrka, Sweden | 1,000 | 50 | 75 |
| Alfdex Kunshan Co Ltd | | Kunshan, China | | 100 | 36 |
| Alfa Laval Corporate AB | | | | | |
| AlfaWall AB | 556723-6715 | Botkyrka, Sweden | 500 | 50 | 9 |
| AlfaWall Oceanbird AB | 559333-0003 | Botkyrka, Sweden | 500 | 50 | 22 |
| PHE Holding AS | | | | | |
| Stadion Laks AS | | Norheimsund, Norway | 17,630 | 50 | 23 |
| Alfa Laval Ltd | | | | | |
| Rolls Laval Heat Exchangers Ltd | | Wolverhampton, UK | 5,000 | 50 | 0 |
| Total | | | | | 165 |

**Specification of shares in other companies**

| Company name | Domicile | Number of shares | Share of capital % | Book value SEK thousands |
|--|-------------------|------------------|--------------------|--------------------------|
| Alfa Laval US Holding Inc. | | | | |
| Malta Inc | USA | 17,700,000 | 18.3 | 160,131 |
| AMI Global LLC | USA | | 20 | 31,664 |
| Alfa Laval Aalborg Indústria e Comércio Ltda | | | | |
| Tractebel | Brazil | 1,268 | | 70 |
| Elektrobras | Brazil | 7,107 | | 94 |
| Alfa Laval Philippines Inc. | | | | |
| Philippine Long Distance Telephone | Philippines | 820 | | 0 |
| Alfa Laval Nordic OY | | | | |
| As Oy Koivulantie 7A | Finland | 1 | | 317 |
| Helsinki Halli | Finland | 4 | | 143 |
| Alfa Laval NV | | | | |
| Marine Performance Systems | Netherlands | 1,976 | 16.5 | 25,599 |
| Framo Nederland BV | | | | |
| Triangle (Air) Freight Forwarders BV | Netherlands | 12 | 33 | 2,048 |
| Framo Flatøy AS | | | | |
| Nordhordaland handverk og industrilag AS | Norway | 50 | 4 | 26 |
| Gløde AS | Norway | 8,960 | 5.4 | 3 |
| Alfa Laval Treasury International AB (publ) | | | | |
| Neles Oyj | Finland | 12,723,923 | 8.46 | 1,006,032 |
| Alfa Laval Tumba AB | | | | |
| Smedhålsan Ekonomisk Förening | Sweden | | | 61 |
| Alfa Laval Corporate AB | | | | |
| European Development Capital Corporation (EDCC) NV | Curacao | 36,129 | | 0 |
| Multiprogress | Hungary | 100 | 3 | 0 |
| Kurose Chemical Equipment Ltd | Japan | 180,000 | 11 | 0 |
| Liquid Wind AB | Sweden | 2,500 | 2.9 | 4,889 |
| Poljopriveda | former Yugoslavia | | | 0 |
| Tecnica Argo-Industrial S.A. | Mexico | 490 | 49 | 0 |
| Adela Investment Co S.A. (preference) | Luxemburg | 1,911 | 0 | 0 |
| Adela Investment Co S.A. | Luxemburg | 1,911 | 0 | 0 |
| Mas Dairies Ltd | Pakistan | 125,000 | 5 | 0 |
| Total | | | | 1,231,077 |

None of these other companies with a share of capital of 20 percent or more are accounted for as associates since they are dormant or have very limited activities and Alfa Laval does not have a significant influence according to IAS 28 item 6.

Note 21. Inventories

Type of inventory

| | | |
|--|---------------|--------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Raw materials and consumables | 3,677 | 3,199 |
| Work in progress | 2,342 | 1,866 |
| Finished goods & goods for resale, new sales | 2,923 | 2,650 |
| Finished goods & goods for resale, spare parts | 1,232 | 1,236 |
| Advance payments to suppliers | 351 | 272 |
| Total | 10,525 | 9,223 |

A considerable part of the inventory for spare parts is carried at net realisable value.

Obsolescence related to inventories amounts to and has changed as follows:

Obsolescence

| | | | | | |
|--------------|-----------|------------------------|------------|---------------------------------|-------------|
| Consolidated | | | | | |
| SEK millions | January 1 | Translation difference | Write down | Reversal of previous write down | December 31 |
| Year: | | | | | |
| 2020 | 1,251 | -89 | 405 | -292 | 1,275 |
| 2021 | 1,275 | 66 | 251 | -262 | 1,330 |

The Group's inventories have been accounted for after deduction for inter-company gains in inventory due to internal sales within the Group. The inter-company profit reserve at the end of 2021 amounts to SEK 564 (571) million.

Note 22. Accounts receivable

Accounts receivable with a maturity exceeding one year of SEK 127 (122) million have not been accounted for as non-current assets as they are not intended for permanent use.

Accounts receivable are reported net of provisions for bad debts. The provision for bad debts amounts to and has changed as follows:

| Bad Debts | | | | | | | | |
|------------------|-----------|------------------------|----------|--|--------------|-------------------------|---------------------------|-------------|
| Consolidated | | | | | | | | |
| SEK millions | January 1 | Translation difference | Acquired | New provisions and increase of existing provisions | Amounts used | Unused amounts reversed | Change due to discounting | December 31 |
| Year: | | | | | | | | |
| 2020 | 366 | -32 | – | 97 | -48 | -64 | 0 | 319 |
| 2021 | 319 | 18 | 2 | 91 | -41 | -73 | 0 | 316 |

The amount of accounts receivable being overdue is an indication of the risk the company runs for ending up in bad debts. The percentage is in relation to the total amount of accounts receivable.

| Accounts receivable – overdue | | | | |
|---------------------------------------|--------------|-------------|--------------|-------------|
| Consolidated | | | | |
| SEK millions | 2021 | % | 2020 | % |
| Overdue: | | | | |
| Maximum 30 days | 591 | 8.8 | 536 | 9.2 |
| More than 30 days but maximum 90 days | 435 | 6.4 | 304 | 5.2 |
| More than 90 days | 497 | 7.4 | 425 | 7.3 |
| Total | 1,523 | 22.6 | 1,265 | 21.7 |

| Provision for lifetime expected credit losses | | | | | | | | | | |
|--|--|--------------|-----------------------|-----------|--|------------|---|------------|------------|------------|
| Consolidated | | | | | | | | | | |
| Relating to | | | Provision | | | | | | | |
| SEK millions | Accounts and notes receivables / Other receivables | | Recorded at inception | | For credit risks that have increased significantly since initial recognition | | Related to objective evidence of impairment | | Total | |
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Accounts and notes receivable | | | | | | | | | | |
| Undue | 5,966 | 5,041 | 7 | 8 | 5 | 5 | 35 | 32 | 47 | 45 |
| Overdue 1–30 days | 591 | 536 | 4 | 1 | 1 | 0 | – | 7 | 5 | 8 |
| Overdue 31–60 days | 331 | 181 | – | – | 6 | 4 | – | 3 | 6 | 7 |
| Overdue 61–90 days | 104 | 123 | – | – | 1 | 9 | 2 | 4 | 3 | 13 |
| Overdue 91–365 days | 328 | 295 | – | – | 46 | 50 | 55 | 66 | 101 | 116 |
| Overdue >365 days | 169 | 130 | – | – | 71 | 59 | 62 | 40 | 133 | 99 |
| Total | 7,489 | 6,306 | 11 | 9 | 130 | 127 | 154 | 152 | 295 | 288 |
| Other receivables | | | | | | | | | | |
| Contract assets | 1,660 | 2,084 | 14 | 11 | 2 | 12 | 2 | 5 | 18 | 28 |
| Financial lessor receivable | 3 | 4 | 1 | – | – | 1 | 2 | 2 | 3 | 3 |
| Total | 1,663 | 2,088 | 15 | 11 | 2 | 13 | 4 | 7 | 21 | 31 |

Note 23. Other short-term receivables

| Split on type and maturity | | |
|---|--------------|--------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Notes receivable | 456 | 184 |
| Financial lessor receivable | 3 | 4 |
| Revenue recognition ahead of progress invoicing | 1,642 | 2,056 |
| Other receivables | 1,345 | 969 |
| Total | 3,446 | 3,213 |
| Of which, not due within one year: | | |
| Notes receivable | 0 | 0 |
| Other receivables | 41 | 19 |
| Total | 41 | 19 |

Other receivables relate to a wide range of other receivables, including balanced invoicing relating to satisfied performance obligations that have not yet been invoiced (where the revenue recognition is ahead of the progress invoicing), VAT receivables, receivables on governments for export incitements, receivables on personnel, rent receivables etc.

Note 24. Prepaid expenses and accrued income

| Split on type | | |
|------------------|------------|------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Prepaid expenses | 335 | 323 |
| Accrued income | 92 | 96 |
| Total | 427 | 419 |

Note 25. Other current deposits

| Split on type and maturity | | |
|------------------------------------|------------|--------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Deposits with banks | 163 | 1,160 |
| Bonds and other securities | 122 | 1,451 |
| Other deposits | 6 | 7 |
| Total | 291 | 2,618 |
| Of which, not due within one year: | | |
| Deposits with banks | 7 | 7 |
| Other deposits | 0 | 0 |
| Total | 7 | 7 |

Note 26. Cash and cash equivalents

The item cash and cash equivalents in the statement on financial position and in the cash flow statement is mainly relating to bank deposits and liquid deposits.

Note 27. Defined benefit obligations

The Group has defined benefit commitments to employees and former employees and their survivors. The benefits are referring to old age pension, survivor's pension, disability pension, health care and severance pay.

The defined benefit plans are in place in Austria, Belgium, France, Germany, India, Indonesia, Italy, Japan, Mexico, the Netherlands, Norway, Philippines, South Africa, Sweden, Switzerland, Taiwan, the United Kingdom and the United States. Most plans have been closed for new participants and replaced by defined contribution plans for new employees. As of 2020 that also applies to the Netherlands. During 2020 the defined benefit pension plan in the US has been settled for the largest subsidiaries through purchase of annuities.

Risks

The cost for defined benefit obligations is impacted by several factors that are outside the control of the company, such as the discount rate, the return on plan assets, future salary increases, the development of the average length of life and the claim rates under medical plans. The size of and the development of these costs are therefore difficult to predict. According to the IAS 19 all of these remeasurements are reported in other comprehensive income.

The following table presents how the net defined benefit liability is arrived at out of the present values of the different defined benefit plans, less the fair value of the plan assets.

| Net defined benefit liability | | |
|---|---------------|---------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Present value of defined benefit obligation, unfunded | -1,155 | -1,124 |
| Present value of defined benefit obligation, funded | -5,607 | -5,740 |
| Present value of defined benefit obligation at year end | -6,762 | -6,864 |
| Fair value of plan assets | 4,925 | 4,440 |
| Net defined benefit liability | -1,837 | -2,424 |
| Less disallowed assets due to asset ceiling | – | – |
| (-) liability/(+) asset at December 31 | -1,837 | -2,424 |

The net plan cost for the defined benefit plans describes the different cost elements of the plans. The net plan cost is reported in the consolidated comprehensive income statement on the lines where personnel costs are reported. The interest cost/income is not part of the financial net, but instead just a way to categorize the components of the net plan cost. All remeasurements are reported in other comprehensive income and will never be reclassified to net income.

| Total plan cost | | |
|--|-------------|-------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Net plan cost | | |
| Current service cost | -100 | -114 |
| Net interest cost/income | -31 | -36 |
| Past service cost/income from plan amendments and curtailments and gains and losses on settlements | 8 | 8 |
| Net plan (-) cost/(+) income | -123 | -142 |
| Remeasurements | | |
| Actuarial losses/gains arising from changes in demographic assumptions | 6 | -59 |
| Actuarial losses/gains arising from changes in financial assumptions | 455 | -674 |
| Actuarial losses/gains arising from changes in experience | 43 | -12 |
| Return on plan assets less interest on plan assets | 64 | 313 |
| Change in disallowed assets due to asset ceiling | – | – |
| Other comprehensive income (OCI) | 568 | -432 |
| Total plan cost | 445 | -574 |

The following table presents how the present value of the defined benefit liability has changed during the year and lists the different components of the change.

| Present value of defined benefit liability | | |
|--|---------------|---------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Present value of defined benefit liability at January 1 | -6,864 | -7,476 |
| Acquired businesses | -8 | – |
| Translation difference | -461 | 608 |
| Current service cost | -100 | -114 |
| Interest cost | -83 | -124 |
| Employee contributions | -3 | -4 |
| Actuarial losses/gains arising from changes in demographic assumptions | 6 | -59 |
| Actuarial losses/gains arising from changes in financial assumptions | 455 | -674 |
| Actuarial losses/gains arising from changes in experience | 43 | -12 |
| Past service cost/income from plan amendments and curtailments and gains and losses on settlements | 8 | 8 |
| Benefit payments | 245 | 286 |
| Settlement payments | 0 | 697 |
| (-) liability at December 31 | -6,762 | -6,864 |

The liability has the following duration and maturity:

| Duration and maturity | | |
|--|-------|-------|
| Consolidated | | |
| | 2021 | 2020 |
| Weighted average duration of the defined benefit obligation (years) | 9 | 11 |
| Maturity analysis of benefit payments (non-discounted amounts) SEK millions | | |
| maturity ≤ 1 year | 240 | 206 |
| maturity > 1 ≤ 5 years | 1,016 | 1,325 |
| maturity > 5 ≤ 10 years | 1,521 | 1,326 |
| maturity > 10 ≤ 20 years | 2,920 | 2,564 |
| maturity > 20 years | 3,668 | 3,502 |

The following table presents how the fair value of the plan assets has developed during the year and lists the components of the change.

| Fair value of plan assets | | |
|--|--------------|--------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Fair value of plan assets at January 1 | 4,440 | 5,225 |
| Translation difference | 311 | -409 |
| Employer contributions | 313 | 155 |
| Employee contributions | 3 | 4 |
| Interest on plan assets | 52 | 88 |
| Return on plan assets less interest on plan assets | 64 | 313 |
| Benefit payments | -193 | -240 |
| Settlement payments | 0 | -696 |
| Other | -65 | - |
| (+) asset at December 31 | 4,925 | 4,440 |

The plan assets are split on the following types of assets:

| Split of plan assets | | |
|----------------------------------|--------------|--------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Cash and cash equivalents | 530 | 299 |
| Equity instruments | 935 | 938 |
| Debt instruments | 2,151 | 1,759 |
| Real estate | 94 | 269 |
| Derivatives | - | 17 |
| Investment funds | 1,215 | 1,158 |
| Fair value at December 31 | 4,925 | 4,440 |

The plan assets are in all essentials valued at quoted market prices in active markets.

The table below presents how the net defined benefit liability has changed and the factors affecting the change.

| Net defined benefit liability/asset | | |
|---|---------------|---------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Defined benefit liability/asset at January 1 | -2,424 | -2,251 |
| Acquired businesses | -8 | - |
| Translation difference | -150 | 199 |
| Net plan cost | -123 | -142 |
| Employer contributions | 313 | 155 |
| Remeasurements (other comprehensive income) | 568 | -432 |
| Benefit payments, unfunded plans | 52 | 46 |
| Settlement payments, unfunded plans | 0 | 1 |
| Other | -65 | - |
| (-) liability/(+) asset at December 31 | -1,837 | -2,424 |

The gross plan assets and gross defined benefit liabilities of each plan are to be reported as a net amount. The following table shows how the net asset and the net liability are calculated.

| Gross defined benefit liability/asset | | |
|---|---------------|---------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Assets | | |
| Fair value of plan assets | 4,925 | 4,440 |
| Less disallowed assets due to asset ceiling | - | - |
| | 4,925 | 4,440 |
| Netting | -4,855 | -4,370 |
| Assets in statement on financial position | 70 | 70 |
| Liabilities | | |
| Present value of defined benefit obligation at year end | -6,762 | -6,864 |
| Netting | 4,855 | 4,370 |
| Provision in statement on financial position | -1,907 | -2,494 |

The weighted averages for the more significant actuarial assumptions that have been used at the year-end are:

Actuarial assumptions

| Consolidated | | |
|--|------|------|
| | 2021 | 2020 |
| Discount rate (%) | 1.7 | 1.2 |
| Expected average retirement age (years) | 64 | 64 |
| Life expectancy for a 45-year-old male (years) | 81 | 82 |
| Life expectancy for a 45-year-old female (years) | 85 | 85 |
| Claim rates under medical plans (%) | 5 | 5 |
| Expected rate of salary/wage increase (%) | 3 | 3 |
| Change in health care costs (%) | 5 | 5 |
| Index for future compensation increases (%) | 2 | 2 |

Future contributions

| Consolidated | |
|---|------|
| SEK millions | 2022 |
| Expected employer contributions to the plan for the next calendar year | -221 |
| Expected employer contributions for the next calendar year to multi-employer plans reported as defined contribution plans | -35 |

The following table presents how the defined benefit pension schemes are distributed on different countries.

Regional split

| Consolidated | | | | | | | | | |
|---|---------------|----------------|-------------|------------|------------|------------|-----------|--------------|---------------|
| SEK millions, unless otherwise stated | United States | United Kingdom | Netherlands | Germany | Norway | Italy | Belgium | Other | Total |
| Net defined benefit liability | | | | | | | | | |
| Present value of the defined benefit obligation, unfunded | -555 | – | – | -191 | -10 | -14 | – | -385 | -1,155 |
| Present value of the defined benefit obligation, funded | – | -3,624 | -746 | – | -822 | – | -90 | -325 | -5,607 |
| Present value of the defined benefit obligation at year end | -555 | -3,624 | -746 | -191 | -832 | -14 | -90 | -710 | -6,762 |
| Fair value of plan assets | – | 2,926 | 746 | – | 893 | – | 68 | 292 | 4,925 |
| Net defined benefit liability | -555 | -698 | 0 | -191 | 61 | -14 | -22 | -418 | -1,837 |
| Less disallowed assets due to asset ceiling | – | – | – | – | – | – | – | – | – |
| (-) liability/(+) asset | -555 | -698 | 0 | -191 | 61 | -14 | -22 | -418 | -1,837 |
| Net plan cost | -27 | -42 | 0 | -1 | -10 | 0 | -2 | -41 | -123 |
| Remeasurements (OCI) | 55 | 483 | 2 | -2 | 39 | – | 7 | -16 | 568 |
| Sensitivity analysis* | | | | | | | | | |
| Discount rate decreased by 1% point | -56 | -663 | -159 | -17 | -107 | – | -5 | -95 | -1,102 |
| Life expectancy increased by 1 year | -20 | -184 | -30 | -12 | -32 | – | 0 | -11 | -289 |
| Expected average retirement age decreased by 1 year | -3 | – | – | 0 | 0 | – | 1 | -11 | -13 |
| Claim rates under medical plans increased by 1 % point | -4 | – | – | – | – | – | – | – | -4 |
| Expected rate of salary increases increased by 1% point | – | -69 | – | – | -12 | – | -9 | -24 | -114 |
| Medical costs increased by 1% point | -21 | – | – | – | – | – | – | 0 | -21 |
| Index for future compensation increases increased by 1% point | – | -101 | -53 | -20 | -99 | – | – | -1 | -274 |
| Cost for actuarial services | -2 | -2 | 0 | 0 | -1 | 0 | 0 | 0 | -5 |
| Number of participants in the plans at December 31 | | | | | | | | | |
| Current employees (active members) | 944 | 76 | 14 | 7 | 94 | – | 12 | 2,477 | 3,624 |
| Current employees (only vested value for closed plans) | – | – | 34 | 2 | 1 | 107 | – | 11 | 155 |
| Former employees that are not yet pensioners | – | 316 | 312 | 3 | – | – | 55 | – | 686 |
| Pensioners | 676 | 671 | 109 | 217 | 400 | – | – | 71 | 2,144 |
| Total | 1,620 | 1,063 | 469 | 229 | 495 | 107 | 67 | 2,559 | 6,609 |
| Remaining service period | | | | | | | | | |
| Average remaining service period for active members (years) | 8 | 8 | 11 | 6 | 4 | – | 15 | 8 | 8 |

* How much would the present value of the defined benefit obligation at December 31 increase if the (all other things being equal):

Note 28. Other provisions

| Movement schedule | | | | | | |
|--------------------------|--------------|------------------------|--|---------------|-------------------------|--------------|
| Consolidated | | | | | | |
| SEK millions | January 1 | Translation difference | New provisions and increase of existing provisions | Amounts used | Unused amounts reversed | December 31 |
| 2020 | | | | | | |
| Claims & warranty | 1,460 | -54 | 513 | -571 | -91 | 1,257 |
| Deferred costs | 153 | -7 | 102 | -64 | -18 | 166 |
| Restructuring | 166 | -5 | 321 | -85 | -14 | 383 |
| Onerous contracts | 99 | -3 | 9 | -32 | -24 | 49 |
| Environmental | - | - | 50 | - | - | 50 |
| Litigations | 200 | -4 | 12 | - | -2 | 206 |
| Other | 424 | -43 | 168 | -208 | -14 | 327 |
| Total | 2,502 | -116 | 1,175 | -960 | -163 | 2,438 |
| Of which: | | | | | | |
| current | 1,863 | | | | | 1,757 |
| non-current | 639 | | | | | 681 |
| 2021 | | | | | | |
| Claims & warranty | 1,257 | 29 | 629 | -519 | -134 | 1,262 |
| Deferred costs | 166 | 6 | 95 | -68 | -29 | 170 |
| Restructuring | 383 | 4 | 97 | -324 | -17 | 143 |
| Onerous contracts | 49 | 0 | 37 | -16 | - | 70 |
| Environmental | 50 | - | - | - | - | 50 |
| Litigations | 206 | 0 | 61 | -83 | 0 | 184 |
| Other | 327 | 19 | 193 | -181 | -14 | 344 |
| Total | 2,438 | 58 | 1,112 | -1,191 | -194 | 2,223 |
| Of which: | | | | | | |
| current | 1,757 | | | | | 1,811 |
| non-current | 681 | | | | | 412 |

Unused amounts reversed refer to, among other items, changed classifications and reversals of provisions made in prior years that have not been used.

Each type of provision entails everything from a few up to a large number of different items. It is therefore not practicable or particularly meaningful to specify the provisions item by item. As indicated above a clear majority of the provisions will result in disbursements within the next year.

Claims & warranty refers to claims from customers according to the conditions in issued warranties. The claims concern technical problems with the delivered goods or that promised performance has not been achieved.

Deferred costs are partly costs that are known but not yet debited at the time of invoicing, partly costs that are unknown but expected at the time of invoicing. The provision for deferred costs is charged to costs of goods sold in order to get a correct phasing of the gross margin.

Provisions for restructuring are usually relating to closure of plants or closure or move of production lines, businesses, functions etc. or reduction of the number of employees in connection with a downturn in the business climate. The provisions for restructuring are affecting approximately 45 (600) employees.

The provision for onerous contracts is relating to orders where a negative gross margin is expected. Provisions are made as soon as a final loss on the order can be expected. This can in exceptional cases happen already at the time when the order is taken. Normally this provision is relating to larger and complex orders where the final margin is more uncertain.

The provision for litigations refers to ongoing or expected legal disputes. The provision covers expected legal costs and expected amounts for damages or settlements.

Other refers to miscellaneous provisions that do not fall within any of the above categories.

Note 29. Borrowings and net debt

| Net debt | | |
|--|--------------|--------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Credit institutions | 69 | 120 |
| Swedish Export Credit | – | 1,008 |
| Corporate bonds | 8,175 | 8,040 |
| Lease liabilities | 2,427 | 2,235 |
| Total debt | 10,671 | 11,403 |
| Cash and cash equivalents and current deposits | -3,647 | -7,768 |
| Net debt * | 7,024 | 3,635 |

* Alternative performance measure.

The changes in the loans during the year are explained by the following table:

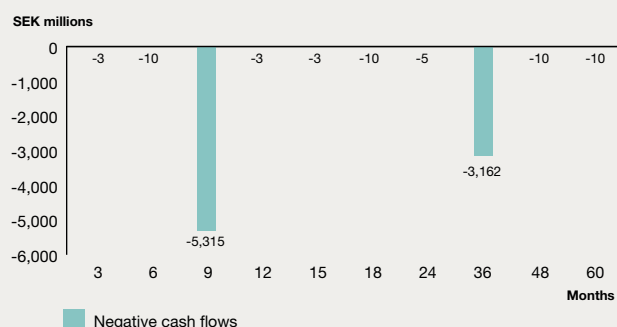
| Loans | | | | |
|--------------|-----------|------------|-----------------------|-------------|
| Consolidated | | | | |
| SEK millions | January 1 | Cash flows | Exchange rate effects | December 31 |
| Year: | | | | |
| 2020 | 12,022 | -2,841 | -13 | 9,168 |
| 2021 | 9,168 | -1,431 | 507 | 8,244 |

The loans are distributed among currencies as follows:

| Maturity of loans by currency | | | | |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Consolidated | | | | |
| | Current | | Non-current | |
| SEK millions | 2021 | 2020 | 2021 | 2020 |
| Currency: | | | | |
| BRL | 5 | 3 | – | – |
| CAD | 1 | – | – | – |
| EUR | 5,145 | 1,092 | 3,045 | 8,043 |
| INR | 9 | 8 | – | – |
| NOK | 25 | – | 14 | – |
| PLN | – | 22 | – | – |
| Total | 5,185 | 1,125 | 3,059 | 8,043 |
| Of which, not due within five years: | | | – | – |

The maturity structure of the loans is presented in the bar chart in the section "Liquidity risk and refinancing risk" under Financial risks.

Maturity analysis for loans



Loans with floating interest rate

Loan from credit institutions

On April 22, 2021 Alfa Laval successfully refinanced the company's revolving credit facility with a banking syndicate with a credit facility of EUR 700 million, corresponding to SEK 7,168 at December 31, 2021. The facility has a maturity of five years with a possibility to extend it for further two years and it includes a possibility to increase by EUR 200 million. The facility was not utilised at December 31, 2021.

The interest is based on EURIBOR plus a mark-up that depends on Alfa Laval's credit rating.

At year end the commitment fee on the un-utilised facility was 14.0 (17.5) basis points.

Bilateral term loans with other lenders

The bilateral term loan of EUR 100 million from Swedish Export Credit from June 2011 matured on June 14, 2021 and has been repaid.

Interest level of loans with floating interest rate

When utilised, the senior credit facility will accrue interest at floating rate.

At the end of 2020 the only remaining loan was accruing interest at 0.43 %.

Loans with fixed rate

Corporate bonds and commercial papers

The company's Euro Medium Term Note (EMTN) programme has been increased from EUR 1,500 million to EUR 2,000 million in November 2021. Under the programme, two tranches of corporate bonds totalling EUR 800 million have been issued in September 2014 and June 2019. The corporate bonds are listed on the Irish stock exchange and consist of one tranche of EUR 500 million, with a fixed interest rate of 1.495 percent based on a coupon of 1.375 percent that matures in September 2022 and one tranche of EUR 300 million, with a fixed interest of 0.308 percent based on a coupon of 0.250 percent that matures in June 2024. The average interest rate for the two tranches is 0.95 percent.

The company's commercial paper programme has been increased from SEK 2,000 million to SEK 4,000 million in November 2021 with an unchanged duration of 1-12 months. It was not utilised at December 31, 2021. When commercial papers are issued, the interest rate is fixed at inception based on current interest level.

Transaction costs

The transaction costs in connection with raising the loans or issuing the bonds have been capitalised and are being amortised over the maturity of the loans. At the end of the year the capitalised amount was SEK 31 (21) million. The current year's cost for the fee amortisation is SEK -16 (-13) million.

Average interest and currency duration

The average interest and currency duration for all loans including derivatives is 16.6 (26.1) months at the end of 2021.

Financial covenants

The new syndicated loan is not linked to any financial covenants that must be fulfilled throughout the life of the loan.

Note 30. Other current liabilities

| Split by type | | |
|---|--------------|--------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| VAT liabilities, employee withholding taxes | 259 | 194 |
| Progress invoicing ahead of revenue recognition | 852 | 795 |
| Other non-interest bearing liabilities | 2,446 | 2,588 |
| Total | 3,557 | 3,577 |

Note 31. Accrued costs and prepaid income

| Split by type and maturity | | |
|------------------------------------|--------------|--------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Accruals for social security | 357 | 402 |
| Reserve for severance pay | 175 | 200 |
| Accrued interest expenses | 25 | 26 |
| Other accrued expenses | 1,602 | 1,516 |
| Prepaid income | 12 | 9 |
| Total | 2,171 | 2,153 |
| Of which, not due within one year: | | |
| Accruals for social security | 42 | 42 |
| Reserve for severance pay | 123 | 120 |
| Other accrued expenses | 107 | 148 |
| Total | 272 | 310 |

Note 32. Pledged assets and contingent liabilities

| Split by type | | |
|---------------------------------------|--------------|--------------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Pledged assets | | |
| Other pledges and similar commitments | 7 | 7 |
| Total | 7 | 7 |
| Contingent liabilities | | |
| Discounted bills | 12 | 17 |
| Performance guarantees | 1,483 | 1,503 |
| Other contingent liabilities | 1,535 | 1,377 |
| Total | 3,030 | 2,897 |

As of December 31, 2021, the Group had sold receivables with recourse totalling SEK 12 (17) million. These are disclosed as discounted bills above.
Other contingent liabilities are among other items referring to bid guarantees, payment guarantees to suppliers and retention money guarantees.

Note 33. Transactions with related party

Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with 4.7 (4.7) percent of net sales. In June 1999, Tetra Pak entered into a purchasing agreement with Alfa Laval that governs the distribution, research and development, market and sales information, use of trademarks and intellectual property. The following areas shall be agreed upon from time to time between representatives of the parties: products that are subject to the agreement, prices and discounts of such products, geographical markets and product areas where Tetra Pak is Alfa Laval's preferred distributor, the right of Tetra Pak to affix its trademarks to Alfa Laval products, sales goals for Tetra Pak in defined geographical markets, products and technologies that are the focus of joint research and development and the ownership rights of the research and development result and use of market and sales information. The agreement aims at the applications within liquid food where Tetra Pak has a natural market presence through the deliveries of packaging equipment and packaging material.

The agreement has a 12-month period of notice. The prices Tetra Pak receives are not lower than the prices Alfa Laval would obtain when selling to a comparable third party. The prices are fixed on a calendar year basis.

Alfa Laval rented premises to DeLaval in Russia up to and including 2020. The total rent income for this amounted to SEK - (1) million.

The Board of Directors for Alfa Laval AB (publ) has two representatives from Tetra Laval – Jörn Rausing and Finn Rausing.

At year-end, Alfa Laval has the following balance items against companies within the Tetra Laval group (Tetra Pak and DeLaval).

| Receivables on/payables to related parties | | |
|--|------|------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Receivables: | | |
| Accounts receivable | 205 | 159 |
| Liabilities: | | |
| Accounts payable | – | 0 |
| Other liabilities | 24 | 19 |

Alfa Laval has had the following transactions with companies within the Tetra Laval group (Tetra Pak and DeLaval).

| Revenues/expenses from related parties | | |
|--|-------|-------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Net sales | 1,940 | 1,968 |
| Other operating income | – | 1 |

Note 34. Interests in joint ventures

Alfa Laval owns 50 percent in five different joint ventures: Rolls Laval Heat Exchangers Ltd with Rolls Royce as partner, Alfdex AB with Concentric as partner, Stadion Laks AS with Lingalaks AS partner and AlfaWall AB and AlfaWall Oceanbird AB with Wallenius as partner. Alfdex AB has a fully owned subsidiary Alfdex Kunshan Co Ltd. None of these joint ventures are of material importance and for that reason no disclosures are made of each individual joint venture. Instead, disclosures in aggregate are made on the carrying amount of Alfa Laval's interests in these individually immaterial joint ventures. See the below tables.

Since joint ventures as from 2014 are consolidated according to the equity method in IFRS 11 "Joint arrangements", the amounts in the following two tables are no longer part of Alfa Laval's statements over consolidated comprehensive income and consolidated financial position.

| Assets/liabilities | | |
|-------------------------|------|------|
| Joint ventures | | |
| SEK millions | 2021 | 2020 |
| Current assets | 299 | 179 |
| Non-current assets | 104 | 88 |
| Current liabilities | 161 | 105 |
| Non-current liabilities | 21 | 34 |
| Contingent liabilities | 38 | 35 |

| Revenues/expenses | | |
|-----------------------------|-----------|-----------|
| Joint ventures | | |
| SEK millions | 2021 | 2020 |
| Net sales | 409 | 273 |
| Cost of goods sold | -257 | -182 |
| Other operating income | 99 | 95 |
| Other operating costs | -146 | -156 |
| Financial net | -1 | -1 |
| Result before tax | 104 | 29 |
| Taxes | -27 | -7 |
| Net income | 77 | 22 |
| Other comprehensive income | -1 | 0 |
| Comprehensive income | 76 | 22 |

Instead, the application of the equity method means that the net income in the joint ventures is booked into one line in the operating income. The counter entry is an increase or decrease of the value of shares in joint ventures. Received dividends reduce the value of the shares in joint ventures.

| Interests in joint ventures | | |
|----------------------------------|------------|-----------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Opening balance | 85 | 63 |
| Acquisition/capital contribution | 49 | – |
| Comprehensive income | 76 | 22 |
| Received dividends | -45 | – |
| Shares in joint ventures | 165 | 85 |

The effect on comprehensive income is the same as the net income.

Note 35. Leasing

| Leasing disclosures | | |
|--|-------|-------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Lessee | | |
| Financial position | | |
| Right-of-use assets | 2,324 | 2,152 |
| Lease liabilities | 2,427 | 2,235 |
| New or adjusted leases | 483 | 220 |
| Income statement | | |
| Depreciation | -399 | -436 |
| Interest cost on lease liabilities | -74 | -78 |
| Expenses | | |
| Expense for not capitalised short-term leases | 64 | 64 |
| Expense for not capitalised leases of low-value assets not included in above line | 3 | 7 |
| Expense for not capitalised leases of low-value assets according to Alfa Laval's higher materiality thresholds not included in above lines | 14 | 10 |
| Expense for variable lease payments not included in lease liabilities | 2 | 0 |
| Cash flow | | |
| Total cash outflow for all leases, including leases that are not capitalised, excluding non-lease components | 584 | 593 |
| Lessor | | |
| Financial position | | |
| Financial lessor receivable | 3 | 4 |
| Income statement | | |
| Finance income | 0 | 0 |
| Income from subleasing | 1 | 1 |
| Income from variable lease payments not included in financial lessor receivable | 0 | 0 |
| Lease income from operating leases | 15 | 13 |
| – out of which variable lease payments not dependent on an index or a rate | 0 | 0 |

The leasing periods are between 1 and 25 years. The latter figure relates to a very limited number of properties. Normally the maximum leasing period is 10 years for buildings and 3-5 years for all other assets.

The weighted average incremental borrowing rate used to discount the value of the lease liabilities during 2021 is 3.50 (3.26) percent.

| Maturity analysis of lease liabilities and receivables | | | | | | |
|--|------------------------------|--------------|---|----------|---|----------|
| Consolidated | | | | | | |
| SEK millions | Lease payments by the lessee | | Finance lease payments received by the lessor | | Operating lease payments received by the lessor | |
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Maturity in year: | | | | | | |
| 2021 | N/A | 426 | N/A | 1 | N/A | 0 |
| 2022 | 481 | 395 | 2 | 1 | 0 | 0 |
| 2023 | 475 | 332 | 1 | 1 | 0 | 0 |
| 2024 | 372 | 302 | – | 1 | 0 | 0 |
| 2025 | 327 | 246 | – | – | – | – |
| 2026 | 257 | N/A | – | N/A | – | N/A |
| Later | 955 | 953 | – | – | – | – |
| Total | 2,867 | 2,654 | 3 | 4 | 0 | 0 |
| Unearned finance income | | | 0 | 0 | | |
| Discounted unguaranteed residual value | | | 3 | 4 | | |

Note 36. Revenue recognition from contracts with customer

| Revenue recognition from contracts with customers | | |
|---|--------|--------|
| Consolidated | | |
| SEK millions | 2021 | 2020 |
| Income statement | | |
| Net sales from: | | |
| Contracts with customers | 40,876 | 41,435 |
| Leasing | 35 | 33 |
| Total net sales | 40,911 | 41,468 |
| Net sales from contracts with customers with a contract duration of: | | |
| ≤ 1 year | 36,319 | 36,622 |
| > 1 year | 4,557 | 4,813 |
| | 40,876 | 41,435 |
| Performance obligations towards customers satisfied: | | |
| at a point in time | 34,945 | 34,141 |
| over time | 5,931 | 7,294 |
| | 40,876 | 41,435 |
| Additional information: | | |
| Net sales: | | |
| included in contract liability at January 1 | 837 | 426 |
| from performance obligations satisfied or partially satisfied in previous periods | 51 | 209 |
| Amortisation of capitalised costs to obtain or fulfil contracts with external customers | – | – |
| Impairment losses | – | – |
| Assets | | |
| Accounts and notes receivables, contracts with external customers | 7,174 | 5,985 |
| Accounts and notes receivables, external, other | 20 | 33 |
| Contract assets | 1,642 | 2,056 |
| Capitalised costs to obtain a contract with a customer | 4 | – |
| Capitalised costs to fulfil a contract with a customer | – | – |
| Liabilities | | |
| Contract liabilities | 5,676 | 5,176 |

Net sales per Business Division, per geography and per product is shown in Note 1, 2 and 3. Since contracts with customers account for 99.9 percent of net sales and leasing less than 0.1 percent the figures are shown for total net sales in these notes and not separately for contracts with customers.

A contract asset is Alfa Laval's right to consideration in exchange for goods or services that Alfa Laval has transferred to a customer when that right is conditioned on something other than the passage of time (for example, Alfa Laval's future performance). It could be balanced invoicing relating to satisfied performance obligations that have not yet been invoiced (where the revenue recognition is ahead of the progress invoicing) and inventory linked to revenue recognised over time (like work in progress).

A contract liability is Alfa Laval's obligation to transfer goods or services to a customer for which Alfa Laval has received consideration (or the amount is due) from the customer. It could be advance payments and balanced invoicing relating to unsatisfied performance obligations that have been invoiced (where the progress invoicing is ahead of the revenue recognition).

Note 37. Remuneration policy for executive officers

The executive officers, i.e. the CEO and other members of Group Management reporting to the CEO, fall within the provisions of this policy. The policy must be adopted by the annual general meeting once every four years or when changed. The policy is forward-looking, i.e. applicable to remuneration agreed, and amendments to remuneration already agreed, after adoption of the policy by the annual general meeting. This policy does not apply to any remuneration decided or approved by the general meeting. The below policy was adopted by the annual general meeting 2021.

A prerequisite for the successful implementation of the company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the company is able to recruit and retain qualified personnel, consequently it is necessary that the company offers market competitive remuneration.

For information regarding Alfa Laval's business strategy, please visit <https://www.alfalaval.com/investors/in-brief/#xaa>

This policy enables the company to offer the executive officers a competitive total remuneration. The remuneration shall be on market terms and may consist of the following components: fixed base salary, variable cash remuneration (including STI and LTIP), pension benefits and other benefits.

The components, their purpose and link to the company's business strategy are described below.

The decision-making process to determine, review and implement the policy

The Board of Directors has established a Committee within the Board (the Remuneration Committee), with the tasks of preparing, within the Board of Directors, the policy for remuneration for executive officers. The Board of Directors shall propose a revised policy at least every fourth year and submit it to the general meeting. The policy shall be in force until a new policy is adopted by the general meeting.

Unless otherwise stated herein, the Board of Directors shall resolve on matters regarding remuneration and employment provisions for all other executive officers. The Committee shall continuously report to the Board of Directors. The CEO and the other executive officers shall not be present when their respective remuneration terms are decided.

Additionally, the general meeting may – irrespective of this policy – resolve on, among other things, share-related or share price-related remuneration.

Fixed Base Salary

| | |
|-------------------------------------|--|
| Purpose and link to strategy | Supports the attraction and retention of the best talents. Ensures competitiveness while controlling fixed costs to maximise efficiency. |
| Operational Details | <ul style="list-style-type: none"> – Normally reviewed annually and increases will usually be effective from 1 January or following a change in responsibilities. – The Remuneration Committee will consider, among other things, the following parameters when reviewing fixed base salary: <ul style="list-style-type: none"> – Economic and salary conditions and trends. – The individual's performance and responsibilities. – Base salaries and total remuneration at other companies that operate in the same markets, typically benchmarked against similar roles. |

Variable Cash Remuneration

A portion of the total remuneration for the executive officers is linked to business performance so that total remuneration will increase or decrease in line with performance, thus promoting the company's business strategy and long-term interests.

Annual Short-Term Incentive (STI)

| | |
|-------------------------------------|--|
| Purpose and link to strategy | To incentivise and create focus on the delivery of annual financial and strategic criteria. |
| Operational Details | <ul style="list-style-type: none"> – The performance criteria, weighting and targets are to be proposed by the Remuneration Committee annually and approved by the Board of Directors. Targets shall be set by reference to the company's operating plan and historical and projected performance. – The outcome of criteria for awarding STI is to be measured over a period of one year and depend on the degree of fulfilment of predetermined targets. – The Board of Directors shall have the possibility, under applicable law or contractual provisions, subject to the restrictions that may apply under law or contract, to reclaim in whole or in part STI paid on incorrect grounds (so-called claw-back). |
| Opportunity Levels | The maximum opportunity for STI can amount up to 50 percent of fixed base salary. For the CEO the maximum opportunity can amount up to 60 percent of fixed base salary. The Remuneration Committee shall have the possibility to review the opportunity levels in order to ensure market competitiveness. |
| Performance criteria | The STI plan awards shall be based on mainly financial criteria. The criteria shall be designed so as to contribute to the company's business strategy and long-term interests. |

Long-Term Incentive Plan (LTIP)

| | |
|-------------------------------------|---|
| Purpose and link to strategy | Give extra focus on the long-term value creation for the shareholders. |
| Operational Details | <ul style="list-style-type: none"> – An annual grant of the LTIP, with a three-year performance period, can be decided by the Board of Directors each year. – Payment to the participants of the program is made after year three, provided, that they are still employed at the date of payment. – The Board of Directors shall have the possibility, under applicable law or contractual provisions, subject to the restrictions that may apply under law or contract, to reclaim in whole or in part LTIP paid on incorrect grounds (so-called claw-back). – In the event of a restructuring of the Company or any other extraordinary event which the Remuneration Committee considers will affect the value of an award, the method of calculating the proportion of the maximum value of the award which will be paid to a Participant on vesting may be adjusted in such manner as the Remuneration Committee shall determine to be fair and reasonable. |
| Opportunity Levels | For executive officers the maximum opportunity for LTIP can amount up to 40 percent of fixed base salary for each three-year performance period. For the CEO the maximum opportunity can amount up to 50 percent of fixed base salary for each three-year performance period. |
| Performance Criteria | The performance criteria of the LTIP are to be related to financial targets over a business cycle, including but not necessarily limited to, Operating margin (adjusted EBITA margin) and Net invoicing growth. Maximum outcome is awarded when the externally communicated long-term financial targets are clearly exceeded. |

For retention or recruitment purposes or extraordinary performance beyond the individual's ordinary tasks the Remuneration Committee based on proposal of CEO, may decide on a specific cash remuneration. Such remuneration may not exceed an annual amount corresponding to 40 percent of fixed annual cash salary and may not be paid more than once each year per individual.

Pension Benefits

| | |
|-------------------------------------|--|
| Purpose and link to strategy | Provide competitive and cost-effective pension benefits. |
| Operational Details | <ul style="list-style-type: none"> – Pension benefits shall be defined contribution (premium defined) unless the individual concerned is subject to defined benefit pension under mandatory collective agreement provisions. – Variable cash remuneration shall not qualify for pension benefits unless the executive officer is part of mandatory collective agreed provisions where this is stipulated. – Early retirement may be offered selectively and only after a special decision by the Remuneration Committee, with a defined contribution early retirement scheme. – For executive officers governed by rules other than Swedish, pension benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of this policy. |
| Opportunity Levels | The pension premiums for defined contribution pension shall amount to not more than 50 percent of the pensionable salary (for the CEO fixed annual base salary). |

Other Benefits

| | |
|-------------------------------------|--|
| Purpose and link to strategy | Provide competitive and cost-effective benefits. |
| Operational Details | <ul style="list-style-type: none"> – Other benefits may include but is not limited to life insurance, disability insurance and health care insurance and a company car or car allowance. – For executive officers governed by rules other than Swedish, benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of this policy. – Executive officers who are international assignees (for example expatriates) to or from Sweden may receive additional remuneration and other benefits to the extent reasonable in light of the special circumstances associated with the international assignment arrangement, taking into account, to the extent possible, the overall purpose of this policy. |
| Opportunity Levels | <p>Other benefits may amount to not more than 5 percent of the fixed annual cash salary and shall be set at a level which the Remuneration Committee considers to:</p> <ul style="list-style-type: none"> – provide the relevant level of benefit depending on role and the individual circumstances, – be in line with comparable roles in companies with similar size and complexity in the local market, and – be appropriate compared to the benefits offered to the wider workforce in the local market. |

Termination of employment

| | |
|----------------|---|
| Details | <ul style="list-style-type: none"> – If notice of termination of employment is made by the company: <ul style="list-style-type: none"> – The notice period may not exceed twelve months. – Fixed cash salary during the period of notice and severance pay may together not exceed an amount equivalent to the fixed cash salary for two years. – When termination is made by the executive officer the period of notice may not to exceed six months without any right to severance pay. – Appropriate so-called good leaver/bad leaver principles are to be applied for STI and LTIP. – Repatriation – If the executive officer is an international assignee the company may reimburse reasonable cost for the repatriation of good leavers, taking into account, to the extent possible, the overall purpose of this policy. <p>For executive officers governed by rules other than Swedish, payments in connection with termination may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of this policy.</p> |
|----------------|---|

Salary and employment conditions for employees

In the preparation of the Board of Directors' proposal for this remuneration policy, salary and employment conditions for employees of the company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time. The development of the difference between the remuneration to executive officers and remuneration to other employees will be disclosed in the remuneration report.

Derogation from the policy

The Board of Directors may temporarily resolve to derogate from the policy, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As set out above, the Remuneration Committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the policy.

Note 38. Government grants

In 2021 Alfa Laval has received SEK 27 (61) million in government grants. These have mainly been received to cover the costs for various working hour reduction schemes linked to COVID-19 in different countries. In addition, SEK 47 (-) million has been reported in the P&L concerning support for reduced working hours in Sweden that was received in 2020, but that was not reported in the P&L then but instead was balanced due to the uncertainty around the conditions for the support.

Note 39. Events after the closing date

On February 11, 2022, Alfa Laval has issued two corporate bonds of EUR 300 million each, under the company's existing EMTN program. The bonds will be listed on the Irish Stock Exchange. The bonds will have four- and seven-years maturity respectively, i.e. with maturity on February 18, 2026 and on February 18, 2029. The four-year bonds carry a coupon of 0.875 percent annually and the seven year bonds carry a coupon of 1.375 percent annually. The proceeds from the bonds will be used for general corporate purposes including refinancing of EUR 500 million bonds, maturing in September 2022.

The statements on financial position and the comprehensive income statements will be adopted at the Annual General Meeting of shareholders on April 27, 2021.

Note 40. Proposed disposition of earnings

| The unrestricted equity in Alfa Laval AB (publ) is SEK: | |
|---|----------------|
| Profit brought forward | 8,211,007,565 |
| Repurchase of shares | -1,339,425,908 |
| Repaid dividend | 42,673 |
| Net income 2021 | 1,835,921,470 |
| | 8,707,545,800 |

The Board of Directors propose a dividend of SEK 6.00 (5.50) per share corresponding to SEK 2,492,371,890 (2,307,009,733) and that the remaining income of SEK 6,215,173,910 (8,211,007,565) be carried forward.

The Board of Directors are of the opinion that the proposed dividend is in line with the requirements that the type and size of operations, the associated risks, the capital needs, liquidity and financial position put on the company.

True and fair view

The undersigned certify that the annual report for the Group and the Parent company has been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union, and generally accepted accounting principles respectively, and gives a true and fair view of the financial positions and results of the Group and the Parent company, and that the Board of Directors' report gives a fair review of the development of the operations, financial positions and results of the Group and the Parent company and describes substantial risks and uncertainties that the Group companies face.

Lund, March 15, 2022

Dennis Jönsson
Chairman

Lilian Fossum Biner
Director

Maria Moræus Hanssen
Director

Henrik Lange
Director

Bror García Lantz
Employee representative

Ray Mauritsson
Director

Heléne Mellquist
Director

Henrik Nielsen
Employee representative

Johan Ranhög
Employee representative

Finn Rausing
Director

Jörn Rausing
Director

Ulf Wiinberg
Director

Tom Erixon
President and CEO

Our Auditors' Report concerning this Annual Report has been issued on March 23, 2022.

Staffan Landén
Authorised Public Accountant

Karoline Tedeval
Authorised Public Accountant

Auditor's report

To the general meeting of the shareholders of Alfa Laval AB (publ), corporate identity number 556587-8054

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Alfa Laval AB (publ) for the year 2021. The annual accounts and consolidated accounts of the company are included on pages 105–185 and 190–192 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2021 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2021 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the consolidated financial position and parent company income and financial position for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of intangible assets

Description

Book value of goodwill amounts to 22,480 MSEK per 31 December 2021 which corresponds to 35% of the group's total assets. The company evaluates whether the book value of goodwill exceeds its recoverable amount on an annual basis or upon indications of declining value. The recoverable amount is determined for each cash-generating unit through means of a calculation of net present value of future cash flows. Future cash flows are based on management's business plans and forecasts and includes various assumptions such as development in earnings, growth, investment needs and discount rates. If a decision is made to wind-up or dispose a business a separate impairment test is performed and a write down is recorded if the recoverable amount is lower than the recorded value for the business.

Changes to the assumptions could have a major impact on the calculation of the recoverable amount and the assumptions applied by the company are thus important to the assessment as to whether an impairment is present. We have thus determined valuation of goodwill to represent a key audit matter for the group.

A description of goodwill and the impairment tests is included in note 17.

How our audit addressed this key audit matter

During our audit we have evaluated and tested the company's process for the impairment test, for example by evaluating historic growth and current forecasts. We have also benchmarked with peer companies in order to evaluate the reasonableness of the valuation and, through support of our valuation specialists, evaluated the chosen discount rate and assumptions on long-term growth. We have also evaluated the company's model and method for executing the impairment test and made sensitivity analyses.

In our audit we have also examined whether the disclosures in the annual report are appropriate and in accordance with the assumptions applied by group management.

Other provisions

Description

Book value of other provisions in the group amounts 2,223 MSEK per 31 December 2021. The provisions amongst other relates to provision for expected expenses for warranties, litigation, restructuring and onerous contracts, as expressed in note 28 Other provisions.

The provisions include assumptions about future outcome, primarily as it relates to amount, timing and magnitude of the final settlement. Provisions for this type of expenses are uncertain and are based on various assumptions made by the company. Changes to the assumptions upon which the provisions are based could have a major impact on the reported earnings.

How our audit addressed this key audit matter

We have obtained the group's documentation of the provisions. We have evaluated the provisions recorded and discussed the assumptions and risk assessments made by the company for each major provision in order to establish that the provisions are in compliance with applicable accounting standards. We have also followed up the provisions with legal assessments, documented decisions and historic outcome.

In our audit we have also examined whether the disclosures in the annual report are appropriate.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–104. The remuneration report for the financial year 2021 also constitutes other information. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or related safeguards applied.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Report on the audit of the administration and the proposed appropriations of the company's profit or loss

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Alfa Laval AB (publ) for the year 2021 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated (loss be dealt with) in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this in-

cludes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the ESEF report

Opinion

In addition to our audit of the annual accounts and consolidated accounts, we have also examined that the Board of Directors and the Managing Director have prepared the annual accounts and consolidated accounts in a format that enables uniform electronic reporting (the Esef report) pursuant to Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528) for Alfa Laval AB (publ) for the financial year 2021.

Our examination and our opinion relate only to the statutory requirements.

In our opinion, the ESEF report #[checksum] has been prepared in a format that, in all material respects, enables uniform electronic reporting.

Basis for opinion

We have performed the examination in accordance with FAR's recommendation RevR 18 Examination of the ESEF report. Our responsibility under this recommendation is described in more detail in the Auditors' responsibility section. We are independent of Alfa Laval AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the Esef re-

port in accordance with Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), and for such internal control that the Board of Directors and the Managing Director determine is necessary to prepare the Esef report without material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to obtain reasonable assurance whether the Esef report is in all material respects prepared in a format that meets the requirements of Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), based on the procedures performed.

RevR 18 requires us to plan and execute procedures to achieve reasonable assurance that the Esef report is prepared in a format that meets these requirements.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an engagement carried out according to RevR 18 and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Esef report.

The audit firm applies ISQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with professional

ethical requirements, professional standards and legal and regulatory requirements.

The examination involves obtaining evidence, through various procedures, that the Esef report has been prepared in a format that enables uniform electronic reporting of the annual and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the report, whether due to fraud or error. In carrying out this risk assessment, and in order to design audit procedures that are appropriate in the circumstances, the auditor considers those elements of internal control that are relevant to the preparation of the Esef report by the Board of Directors and the Managing Director, but not for the purpose of expressing an opinion on the effectiveness of those internal controls. The examination also includes an evaluation of the appropriateness and reasonableness of assumptions made by the Board of Directors and the Managing Director.

The procedures mainly include a technical validation of the Esef report, i.e. if the file containing the Esef report meets the technical specification set out in the Commission's Delegated Regulation (EU) 2019/815 and a reconciliation of the Esef report with the audited annual accounts and consolidated accounts.

Furthermore, the procedures also include an assessment of whether the Esef report has been marked with iXBRL which enables a fair and complete machine-readable version of the consolidated statement of financial performance, financial position, changes in equity and cash flow.

Staffan Landén, Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of Alfa Laval AB by the general meeting of the shareholders on the 27th of April 2021 and has been the company's auditor since the 23rd of April 2018.

Karoline Tedevall, Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of Alfa Laval AB by the general meeting of the shareholders on the 27th of April 2021 and has been the company's auditor since the 23rd of April 2018.

Lund March 23, 2022

Staffan Landén
Authorized Public Accountant

Karoline Tedevall
Authorized Public Accountant

Ten-year overview

Ten-year overview

Consolidated

SEK millions, unless otherwise stated

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 * | 2012 ** |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Profit and loss | | | | | | | | | | |
| Net sales | 40,911 | 41,468 | 46,517 | 40,666 | 35,314 | 35,634 | 39,746 | 35,067 | 29,801 | 29,813 |
| Comparison distortion items | -192 | -796 | 189 | 151 | - | -1,500 | 0 | -320 | 0 | -51 |
| Operating income | 6,126 | 5,580 | 7,198 | 5,831 | 4,589 | 2,989 | 5,717 | 4,667 | 4,353 | 4,396 |
| Financial net | 16 | -603 | 23 | 65 | -218 | 336 | -273 | -550 | -181 | 133 |
| Result after financial items | 6,142 | 4,977 | 7,221 | 5,896 | 4,371 | 3,325 | 5,444 | 4,117 | 4,172 | 4,529 |
| Taxes | -1,341 | -1,397 | -1,713 | -1,359 | -1,383 | -1,013 | -1,583 | -1,149 | -1,132 | -1,306 |
| Net income for the year | 4,801 | 3,580 | 5,508 | 4,537 | 2,988 | 2,312 | 3,861 | 2,968 | 3,040 | 3,223 |
| Financial position | | | | | | | | | | |
| Goodwill | 22,480 | 19,080 | 21,112 | 20,537 | 19,775 | 20,436 | 19,498 | 20,408 | 10,061 | 9,792 |
| Other intangible assets | 3,441 | 2,204 | 3,134 | 3,873 | 4,692 | 5,946 | 6,556 | 7,898 | 3,582 | 3,807 |
| Property, plant and equipment | 9,075 | 8,321 | 8,943 | 5,732 | 4,851 | 4,940 | 4,773 | 5,004 | 3,785 | 3,823 |
| Other non-current assets | 3,216 | 3,633 | 2,081 | 1,958 | 1,654 | 2,100 | 1,804 | 2,092 | 1,447 | 1,509 |
| Inventories | 10,525 | 9,223 | 10,077 | 9,253 | 8,424 | 7,831 | 7,405 | 7,883 | 6,312 | 6,176 |
| Current receivables | 11,977 | 10,631 | 12,582 | 11,807 | 8,808 | 8,431 | 8,964 | 9,791 | 7,671 | 8,050 |
| Current deposits | 291 | 2,618 | 873 | 617 | 1,208 | 1,075 | 1,021 | 697 | 605 | 427 |
| Cash and cash equivalents | 3,356 | 5,150 | 5,594 | 4,295 | 3,137 | 2,619 | 1,876 | 2,013 | 1,446 | 1,404 |
| TOTAL ASSETS | 64,361 | 60,860 | 64,396 | 58,072 | 52,549 | 53,378 | 51,897 | 55,786 | 34,909 | 34,988 |
| Equity | 32,344 | 29,071 | 27,747 | 23,599 | 20,500 | 20,276 | 18,423 | 17,202 | 16,162 | 14,453 |
| Provisions for pensions etc. | 1,907 | 2,494 | 2,321 | 2,118 | 2,297 | 2,425 | 1,931 | 2,221 | 1,494 | 1,727 |
| Provisions for taxes | 1,838 | 1,553 | 1,662 | 1,945 | 2,100 | 2,722 | 2,925 | 3,074 | 1,758 | 1,932 |
| Other non-current liabilities | 1,928 | 2,259 | 2,571 | 802 | 677 | 636 | 521 | 660 | 423 | 473 |
| Non-current loans | 3,059 | 8,043 | 10,600 | 8,540 | 11,092 | 12,169 | 12,484 | 16,454 | 3,529 | 5,393 |
| Current liabilities | 23,285 | 17,440 | 19,495 | 21,068 | 15,883 | 15,150 | 15,613 | 16,175 | 11,543 | 11,010 |
| TOTAL EQUITY & LIABILITIES | 64,361 | 60,860 | 64,396 | 58,072 | 52,549 | 53,378 | 51,897 | 55,786 | 34,909 | 34,988 |

* Restated to IFRS 11. ** Restated to the new IAS 19.

Changes in accounting standards

A reader of the ten-year overview should observe that accounting standards have changed repeatedly over this period of time. The major changes are the following.

During 2019 IFRS 16 "Leases" was implemented, which meant that right-of use assets and lease liabilities increased by SEK 2,766 million as per January 1, 2019 in connection with the initial application.

In 2014 IFRS 11 "Joint arrangements" was implemented as per January 1, 2013, which meant a restatement of the comparison figures for 2013.

In 2013 the revised IAS 19 "Employee Benefits" was implemented as per January 1, 2012, which meant a restatement of the comparison figures for 2012.

Ten-year overview

| Consolidated | | | | | | | | | | |
|---|--------|--------|--------|--------|--------|--------|--------|---------|--------|---------|
| SEK millions, unless otherwise stated | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 * | 2012 ** |
| Key ratios | | | | | | | | | | |
| Orders received | 45,718 | 39,833 | 44,119 | 45,005 | 36,628 | 32,060 | 37,098 | 36,660 | 30,202 | 30,339 |
| Order backlog at year end | 22,954 | 18,969 | 21,551 | 23,168 | 18,289 | 16,870 | 20,578 | 22,293 | 14,568 | 14,468 |
| EBITA | 6,922 | 6,435 | 8,178 | 6,869 | 5,610 | 4,680 | 6,811 | 5,571 | 4,914 | 4,883 |
| EBITDA | 8,113 | 7,569 | 9,251 | 7,495 | 6,239 | 5,323 | 7,478 | 6,136 | 5,360 | 5,330 |
| EBITA-margin % | 16.9% | 15.5% | 17.6% | 16.9% | 15.9% | 13.1% | 17.1% | 15.9% | 16.5% | 16.4% |
| EBITDA-margin % | 19.8% | 18.3% | 19.9% | 18.4% | 17.7% | 14.9% | 18.8% | 17.5% | 18.0% | 17.9% |
| Adjusted EBITA | 7,114 | 7,231 | 7,989 | 6,718 | 5,610 | 5,553 | 6,811 | 5,891 | 4,914 | 4,934 |
| Adjusted EBITDA | 8,305 | 8,365 | 9,062 | 7,344 | 6,239 | 6,196 | 7,478 | 6,456 | 5,360 | 5,381 |
| Adjusted EBITA-margin % | 17.4% | 17.4% | 17.2% | 16.5% | 15.9% | 15.6% | 17.1% | 16.8% | 16.5% | 16.5% |
| Adjusted EBITDA-margin % | 20.3% | 20.2% | 19.5% | 18.1% | 17.7% | 17.4% | 18.8% | 18.4% | 18.0% | 18.0% |
| Profit margin % | 15.0% | 12.0% | 15.5% | 14.5% | 12.4% | 9.3% | 13.7% | 11.7% | 14.0% | 15.2% |
| <i>Excl. goodwill and step-up values:</i> | | | | | | | | | | |
| Capital turnover rate, times | 3.8 | 3.9 | 4.4 | 7.4 | 5.7 | 8.6 | 10.6 | 7.9 | 6.4 | 6.7 |
| Capital employed | 10,839 | 10,751 | 10,649 | 5,474 | 6,201 | 4,146 | 3,734 | 4,447 | 4,657 | 4,430 |
| Return on capital employed % | 63.9% | 59.9% | 76.8% | 125.5% | 90.5% | 112.9% | 182.4% | 125.3% | 105.5% | 110.2% |
| <i>Incl. goodwill and step-up values:</i> | | | | | | | | | | |
| Capital turnover rate, times | 1.2 | 1.2 | 1.3 | 1.3 | 1.1 | 1.2 | 1.3 | 1.3 | 1.6 | 1.7 |
| Capital employed | 34,677 | 33,678 | 35,550 | 30,729 | 31,698 | 30,663 | 31,512 | 27,259 | 18,598 | 17,833 |
| Return on capital employed % | 20.0% | 19.1% | 23.0% | 22.4% | 17.7% | 15.3% | 21.6% | 20.4% | 26.4% | 27.4% |
| Return on equity % | 15.8% | 12.7% | 21.3% | 20.3% | 13.9% | 11.8% | 21.7% | 17.6% | 17.9% | 22.9% |
| Solidity % | 50.3% | 47.8% | 43.1% | 40.6% | 39.0% | 38.0% | 35.5% | 30.8% | 46.3% | 41.3% |
| Net debt *** | 7,024 | 3,635 | 8,175 | 6,985 | 8,200 | 9,619 | 11,688 | 15,068 | 2,611 | 4,270 |
| Net debt to EBITDA, times *** | 0.87 | 0.48 | 0.88 | 0.93 | 1.31 | 1.81 | 1.56 | 2.46 | 0.49 | 0.80 |
| Debt ratio, times *** | 0.22 | 0.13 | 0.29 | 0.30 | 0.40 | 0.47 | 0.63 | 0.88 | 0.16 | 0.30 |
| Interest coverage ratio, times | 38.4 | 27.3 | 32.8 | 39.3 | 28.4 | 24.5 | 22.3 | 18.2 | 22.1 | 23.2 |
| Cash flow from: | | | | | | | | | | |
| operating activities | 5,264 | 7,723 | 5,223 | 4,883 | 4,463 | 4,979 | 5,850 | 5,123 | 4,233 | 3,586 |
| investing activities | -5,025 | -1,058 | -1,027 | -1,293 | -721 | -795 | -710 | -14,970 | -951 | -3,260 |
| financing activities | -2,081 | -6,917 | -2,945 | -2,445 | -3,159 | -3,566 | -5,229 | 10,250 | -3,191 | -407 |
| Investments | 1,229 | 1,232 | 1,337 | 1,490 | 675 | 617 | 674 | 603 | 492 | 531 |
| Average number of employees | 17,419 | 17,160 | 17,387 | 16,785 | 16,521 | 17,305 | 17,486 | 17,109 | 16,238 | 16,060 |
| Earnings per share, SEK | 11.38 | 8.47 | 13.08 | 10.77 | 7.09 | 5.46 | 9.15 | 7.02 | 7.22 | 7.64 |
| Free cash flow per share, SEK | 0.57 | 15.89 | 10.00 | 8.56 | 8.92 | 9.97 | 12.25 | -23.48 | 7.82 | 0.78 |

* Restated to IFRS 11. ** Restated to the new IAS 19.

***Lease liabilities have increased by SEK 2,766 million as per January 1, 2019 due to the initial application of IFRS 16 Leases, which affects the net debt at December 31, 2019.

Observe that certain financial measures above constitute alternative performance measures.

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Alternative performance measures and definitions

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 annual 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 123, except for the last one.

- **EBITA** or Earnings Before Interests, Taxes and Amortisation is defined as operating income before amortisation of step-up values. This measure of result is fully comparable over time independent of the financing costs and the amortisation of step-up values that from time to time burden the Group.
- **EBITA margin (%)** is defined as EBITA in relation to net sales and expressed in percent.
- **EBITDA** or Earnings Before Interest, Taxes, Depreciation and Amortisation is defined as operating income before depreciation and amortisation of step-up values. This measure of result is fully comparable over time independent of the financing costs, the depreciation and the amortisation of step-up values that from time to time burden the Group.
- **EBITDA margin (%)** is defined as EBITDA in relation to net sales and expressed in percent.
- **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 123, while the corresponding tax is SEK 131 (164) 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 Net debt table in Note 29. 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.
- **Interest coverage ratio, times** is defined as EBITDA plus financial net increased by interest costs in relation to interest costs. Expressed as a multiple of interest costs. Gives an expression for the Group's ability to pay interest. The reason EBITDA is used as the starting point is that this forms the starting point for a cash flow perspective on the ability to pay interest. Financial items classified as comparison distortion are excluded from the calculation.

Definitions of other performance measures

Net sales

Revenues from goods sold and services performed that are part of the ordinary operations of the Group, after deduction for given discounts, value added tax and other tax directly linked to the sales.

Comparison distortion items

Items that do not have any link to the normal operations of the Group or that are of a non-recurring nature, where a reporting together with other items in the consolidated comprehensive income statement would have given a comparison distortion effect that would have made it difficult to judge the development of the ordinary operations for an outside viewer.

Orders received

Incoming orders during the year, calculated in the same way as net sales. The orders received give an indication of the current demand for the Group's products and services, that with a varying delay appear in net sales.

Order backlog at year-end

Incoming orders that not yet have been invoiced. The

order backlog at the end of the year is equal to the sum of the order backlog at the beginning of the year plus the orders received during the year less the net sales for the year. It gives an indication of how the net sales can be expected to develop in the future.

Profit margin %

Result after financial items in relation to net sales, expressed in percent.

Capital turnover rate, times

Net sales in relation to average capital employed, expressed as a multiple of capital employed. Shown excluding and including goodwill, step-up values and the corresponding deferred tax liability.

Capital employed

Average 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. Shown excluding and including goodwill and step-up values and the corresponding deferred tax liability. Shows the capital that is used in the operations. The capital employed for the Group differs from the net capital for the operating segments concerning taxes, deferred taxes and pensions.

Return on equity %

Net income for the year in relation to average equity, expressed in percent.

Solidity %

Equity in relation to total assets, expressed in percent.

Cash flow from operating activities

Shows the Group's cash flow from operating activities, that is the cash flow generated in the daily operational activities.

Cash flow from investing activities

Shows the Group's cash flow from investing activities, i.e. the cash flow generated by mainly the Group's investments in fixed assets, divestments and acquisitions of businesses and divestments of real estate.

Cash flow from financing activities

Shows the Group's cash flow from financing activities, that is mainly dividends, increase and amortisation of loans and the cash flow components of the financial net.

Investments

Investments represent an important component in the cash flow for the Group. The level of investments during a couple of years gives a picture of the capacity build up in the Group.

Average number of employees

The costs that are related to the number of employees represent a large part of the total costs for the Group. The development of the average number of employees over time in relation to the development of the net sales therefore gives an indication of the cost rationalisation that is taking place.

Earnings per share

Net income for the year attributable to the equity holders of the parent divided by the average number of shares.

Free cash flow per share

The sum of cash flows from operating and investing activities for the year divided by the average number of shares. This represents the cash flow available for interest payments, amortisation and dividends to investors.

Financial information

Alfa Laval uses a number of channels to provide information about the company's operations and financial development. The website – www.alfalaval.com/investors – is updated continuously with annual reports, quarterly reports, press releases and presentations. Annual reports are also sent to those shareholders who have notified the company that they wish to receive a copy. Conference calls with analysts, investors and the media are arranged by Alfa Laval in conjunction with the publication of the company's quarterly reports. A capital markets day is organized each year, during which representatives from the financial market are offered more in-depth information regarding the company's operations. In addition, representatives of Group management meet with analysts, investors and journalists on an ongoing basis to ensure that they have correct and current information. Pursuant to the company's agreement with Nasdaq Stockholm, information that could have an effect on the share price and that is not yet publicly known is never disclosed in conjunction with these types of meetings or contacts. Alfa Laval employs a so-called silent period of three weeks prior to the publication of a quarterly report. The President and Chief Financial Officer do not meet or speak to representatives from the financial market during this period.

Financial information for fiscal year 2022

Alfa Laval will publish quarterly reports on the following dates in 2022:

- First quarter report: April 26, 2022
- Second quarter report: July 20, 2022
- Third quarter report: October 25, 2022
- Year-end report 2022: February 2, 2023

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Annual General Meeting 2022

The Annual General Meeting of Alfa Laval AB (publ) will be held on Tuesday, April 26, 2022, at 4:00 p.m. at Scandic Star Lund, Glimmervägen 5, in Lund. In accordance with the company's Articles of Association, notice of the Annual General Meeting will be inserted as an announcement in the Swedish Official Gazette and on the company's website not more than six and not less than four weeks prior to the Meeting. An announcement that notification has been issued will be placed in Dagens Nyheter. As a service to existing shareholders, information about the Annual General Meeting can also be sent to them by mail. The following information concerning the Meeting does not constitute legal notice.

Notification of participation

A shareholder who wishes to attend the Annual General Meeting must be recorded as shareholder in the register of shareholders prepared by Euroclear Sweden AB relating the circumstances on April 14, 2022, and notify participation – no later than April 20, 2022 – in accordance with the instructions in the notice. Shareholders may exercise their voting rights at the Annual General Meeting 2022 by voting in advance. A shareholder whose shares are held in the name of a nominee must, in addition to providing notification of participation, register its shares in its own name so that the shareholder is recorded in the register of shareholders as of April 20, 2022.

Notification of participation shall be made to:

- Alfa Laval AB, Group Staff Legal, Box 73, SE-221 00 Lund, Sweden
- E-mail: arsstamma.lund@alfalaval.com
- Website: www.alfalaval.com
- Tel: +46 46 36 74 00 or +46 46 36 65 00.

Shareholders must state their name, personal identity number and telephone number on the notice of participation. If participation is by proxy, a power of attorney or authorization must be submitted to the company prior to the Meeting.

Meeting program

4:00 p.m. Start of Meeting

Dividend

The Board of Directors and the President propose that a dividend of SEK 6.00 per share be distributed to shareholders. The proposed record date for the dividend is Thursday, April 28, 2022. If the Annual General Meeting approves the proposal, the dividend is expected to be distributed by Euroclear Sweden AB on Tuesday, May 3, 2022. The record date and dividend payment date may be postponed due to the technical procedures required for the execution of the payment.



This is Alfa Laval

Alfa Laval is active in the areas of Energy, Marine, and Food & Water, offering its expertise, products, and service to a wide range of industries in some 100 countries. The company is committed to optimizing processes, creating responsible growth, and driving progress – always going the extra mile to support customers in achieving their business goals and sustainability targets.

Alfa Laval's innovative technologies are dedicated to purifying, refining, and reusing materials, promoting more responsible use of natural resources. They contribute to improved energy efficiency and heat recovery, better water treatment, and reduced emissions. Thereby, Alfa Laval is not only accelerating success for its customers, but also for people and the planet. Making the world better, every day. It's all about *Advancing better™*.

How to contact Alfa Laval

Up-to-date Alfa Laval contact details for all countries are always available on our website at www.alfalaval.com