

## **AGM 2015**

Ladies and gentlemen, shareholders and co-workers,

### **A good year for oil, gas and marine**

2014 began with an optimistic view of the global economy, although this optimism successively waned as the conditions gradually deteriorated over the course of the year. Nonetheless, we experienced a very strong order intake from the shipbuilding industry and the areas linked to oil and gas also displayed a strong trend. The year was particularly marked by our acquisition of Frank Mohn AS, a leading supplier of submerged pumping systems for the marine and offshore markets. This acquisition, our largest to date, made a significant contribution to the Group's order intake, sales and operating profit. In 2014, our order intake increased 21 percent to SEK 36.7 billion and sales rose 18 percent to SEK 35.1 billion. The operating margin was 16.8 percent, an improvement compared with 2013

### **Continued positive development in our largest markets**

The US strengthened its position as Alfa Laval's largest market, driven by generally favorable demand, shale gas extraction and a minor acquisition. In China, we noted significant, broad-based growth due to increasing demand from the shipbuilding industry and the recent expansion of our sales and service resources. South Korea advanced to a third-place position as a result of strong demand from the shipbuilding and offshore industry, in which Frank Mohn is also active, while the operations in Russia felt the effects of the country's conflict with Ukraine and declined somewhat compared with the record levels achieved in 2013. In Western Europe, Germany displayed a positive trend, partly driven by environmental investments in the marine industry.

### **Performance of the business divisions**

In Process Technology, order intake remained unchanged compared with 2013. The division, whose focus areas include energy, the environment and an increased presence in faster-growing markets, noted a strong trend in oil and gas extraction, both on land and offshore. At the same time, the ample access to cheap gas in North America helped enable the reindustrialization of the process industry in the US to continue unabated, which benefited Alfa Laval. In the food industry, we experienced growing interest in our process lines for the production of vegetable proteins and starch for health foods and animal feed. The ongoing strong trend in craft beer, for which Alfa Laval's equipment is highly suitable, also contributed to favorable demand from the brewery industry.

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Equipment also reported an unchanged order intake. The division is focusing on increasing its market presence in a cost efficient manner, by adding more sales channels, and expanding its presence in the aftermarket. Work on these goals continued during the year at the same time as we noted positive results among our major direct customers. With respect to our end markets, we noted a positive trend in the dairy industry, where China is driving global demand. A trend contributing to this favorable development was the growing demand for processed milk products, such as yoghurt, as well as lactose-free and protein-enriched products.

The Marine & Diesel division prioritizes areas such as the environment and energy efficiency. Order intake rose strongly thanks to strong contracting in the shipbuilding industry and the acquisition of Frank Mohn AS. The environmental product Pure SOx, which cleans exhaust gas using scrubber technology, experienced an increase in demand, and several major orders were booked for installation aboard both new and existing vessels. Heat recovery from exhaust gas was also a fast-growing area. The division as a whole built up a large order backlog, which will generate stable invoicing over the next few years.

### **Service has a considerable potential**

We believe that our Service business offers significant potential given that our installed base is continuously growing. Our goal is to sell spare parts and service to a larger proportion of this base and thus increase our market shares. At the same time, we are aiming to sell more man-hours and expand our service operations. The aim is to protect our installed base and ensure that it is Alfa Laval that succeeds in capitalizing on these growth opportunities. From a medium and long-term perspective, Service is expected to make a significant contribution to both our profitability and our growth.

Five new service centers were opened during the year, bringing our total number of service centers at year-end to 107 – giving us the absolute best market coverage in the industry. We also expanded our existing centers in order to better meet the needs of our customers. Service displayed organic growth of 6 percent during the year with respect to its order intake. The expansion of our installed base and our focus on advancing the operations played a key role in this growth. Including currency and the acquisition of Frank Mohn, the increase amounted to 25 percent.

### **Significant events in 2014**

A major significant event last year, was the acquisition of Frank Mohn. A few years ago, the Board of Directors and Group Management decided to focus on expansion in the area of

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industrial fluid handling products by including these products in our offering to customers with whom Alfa Laval already commanded a strong position. Our top choice was Frank Mohn AS, a company we had the opportunity to acquire in May. The company is a world-leading supplier of submerged pumping systems for the marine and offshore markets. In the marine industry, the systems are used for loading and unloading liquid cargo aboard product and chemical tankers. These systems are critical to the operations conducted onboard and improve productivity and earnings capacity. The company's product offering complemented our existing offering in the area of fluid handling, where until now we have primarily focused on hygienic pumps and valves. We are hence familiar with Frank Mohn AS's technology and we are familiar with its customers, something that decreases the risk and is expected to generate revenue synergies over time. During 2014 it contributed SEK 3.8 billion to our order intake and SEK 3.3 billion to our sales. And, it has a substantial order backlog for delivery in the coming years!

Another important focus area last year, was the cost-cutting program we announced in October. We saw a need to adjust our sales and administration costs and to enhance the efficiency of our research and development processes. We also consolidated a number of the production units gained through acquisitions in recent years. These actions are expected to generate savings that reach a level of SEK 300 million, on an annual basis, by year-end 2015. But, we saw positive effects on our operating margin already during 2014.

### ***Break for product presentation***

#### **Employees**

But besides offering attractive products, Alfa Laval should also be an attractive employer. We know that motivated and committed employees create the foundation for our continued success. Since employees that develop and grow will give a positive contribution to the company's development, we offer a number of initiatives and training programs. I would like to highlight the two programs we offered for employees with special potential: a mentor program for female employees, called Impact, and a training program for young employees, called Challenger. Our experience from previous programs has taught us that the participants in these programs will, to a large degree, go on to pursue successful careers at Alfa Laval.

In Sweden, Alfa Laval was named one of the ten most attractive employers in the country. The most gratifying part of this recognition is that it was voted on by our employees during a

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period in which we were implementing a cost-cutting program. But despite this positive acknowledgment, we cannot be complacent – we have to continue our work.

With nearly 18,000 employees spread across 60 different countries, our corporate culture is the glue that holds the company together. Accordingly, we are making a concerted effort to communicate and instill Alfa Laval's core values in all of our employees.

More than 90 nationalities work in Alfa Laval and the proportion of female employees is 19 percent. We have 31 nationalities represented among managers reporting directly to Group management, of which the female proportion is 17.5 percent, an improvement compared to 2013. The share of women across all manager levels is 17 percent. Over the past few years the female share of managers has increased as a result of several targeted efforts, including work to expand the recruitment base for female managers by employing a higher percentage of female graduates.

### **Sustainability**

Sustainability is prioritized by the Group management of Alfa Laval and we focus on sustainability areas that entail a higher risk and where we are able to exert an influence and make improvements. Since 8 years' I have a coworker, who only work with sustainability-related questions. We also have a Commercial Ethics Council, since ethics and the efforts to fight corruption, in all its forms, are stressed in our business principles. Other important areas include the environment, transparency and social responsibility.

We implement comprehensive education and carry out risk evaluation in the areas included in our business principles. We carry out sample checks and audits to control that the business principles are met. Included in this control function is a yearly process in which our 120 of our top managers have to confirm that they live up to the business principles as well as other relevant guidelines, by signing a document. In case of deviations, they have to specify which measures they plan to take to ensure fulfilment.

I would like to conclude by extending my sincere thanks to all of our employees for your commitment and your determination in contributing to building an even more successful Alfa Laval. And last year our hard efforts were recognized. Alfa Laval was ranked number 25 in a global study by the Harvard Business Review. The review focused on everything from our customers' views to our financial and social performance, as a base for the evaluation. This was a great international recognition which made us all very proud.

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A few hours' ago we released the report for the first quarter. It showed that the order intake rose 32 percent to SEK 9.8 billion. Sales increased by 38 percent to SEK 9.1 billion and the operating profit grew 48 percent to SEK 1.6 billion, giving an operating margin of 17.3 percent. And for the nearest future we expect "that demand during the second quarter will be somewhat lower than in the first quarter."

***Thank you!***