AGM 2014

Ladies and gentlemen, shareholders and co-workers,

2013 was a year that was characterized by continued uncertainty in the global economy. However, we saw accelerating demand from the shipbuilding industry at the same time as there was a continued favorable trend in areas related to oil and gas. At year-end, order intake and sales had each increased by 4 percent, excluding currency effects. Including currency effects, order intake and invoicing were unchanged, amounting to SEK 30.3 and SEK 29.9 billion, respectively.

The operating margin was 16.4 percent (16.5). Despite negative currency effects and continued investments in future initiatives, we were able to maintain an unchanged operating margin, thanks to our previously implemented cost cutting program. From a geographic perspective, our performance varied. The US strengthened its position as Alfa Laval’s largest market through acquisitions, with shale gas extraction and the subsequent reindustrialization of the process industry contributing to this trend. Our order intake in China displayed a broad, solid increase due to the recovery of the shipbuilding industry and the comprehensive expansion of our sales and service organization in the central region of the country in recent years. South Korea maintained its fourth-place position due to an upturn in the shipbuilding industry, which offset the decline reported among Korean contracting companies. Growth in Germany was favourable thanks to the country’s positive economic trend. Solid, broad demand in Russia resulted in order intake remaining on a record level.

Continued investments in research and development
Investments in research and development remains important to us since new and refined products are fundamental to profitable growth. In total, we invested SEK 730 million in R&D during 2013. Several exciting products were launched, including T35 – part of the next generation of large-scale, gasketed heat exchangers designed for the marine and process industries. The product family, which includes several unique innovations and patents, has been very well received by the market. At last year’s AGM I presented this product as well as the PureDry. It was launched in 2012, achieving broad acceptance among our marine customers. The product, which is the most important innovation in high-speed separation in many years, enables the recovery of waste oil aboard ships and thus has the potential to generate major savings.

In parallel, we also invested in a new marine testing and training center in Aalborg, Denmark. The center is constructed to resemble an engine room aboard a commercial vessel. The center provides a strong platform for continued research and development and it also offers excellent customer training opportunities. Overall, this investment should be seen as a confirmation of our belief in the marine market.

Focus areas and performance of the divisions in 2013
The prioritized areas in the Process Technology Division include energy, the environment and an increased presence in faster-growing markets. The division had an unchanged order intake after experiencing extremely strong growth in the preceding year. Demand in the area of oil and gas exploration was strong, with major investments made in offshore extraction, particularly in the North Sea and off the west coast of Australia. Production in North America
increased rapidly as a result of improved methods for extracting oil and gas from shale formations. The abundant supply of inexpensive gas as both a commodity and a form of energy is also resulting in the reindustrialization of the US process industry, which is benefitting Alfa Laval. As a result of a number of complementary acquisitions in recent years, the division has expanded its product offering to the oil and gas industry. Over the past year, the US order intake from this sector amounted to approximately SEK 1 billion. At the same time, the aftermarket displayed strong growth, driven by our increasing installed base and our focus on expanding our geographic presence in recent years.

The priority in the Equipment Division is to increase the company’s market presence in a cost-efficient manner by establishing additional sales channels, as well as expanding its presence in the aftermarket. This is an ongoing effort that also includes the gradual roll-out of our e-commerce platform Alfa Laval Anytime. The division had an unchanged order intake overall, but noted growth in demand from the food and pharmaceuticals industries. At the same time, our newly developed products contributed to a sharp increase in demand from OEM customers and the aftermarket business experienced favourable growth.

The main priorities in the Marine & Diesel Division are the environment and energy efficiency. Our recently launched environmental products have attracted considerable interest. Following a weak start to the year, demand from the shipbuilding industry increased and favourable growth was reported for the full year. The Pure SOx exhaust gas cleaning system based on scrubber technology grew significantly and several major orders were booked, while the PureDry oil recovery system achieved broad acceptance among shipowners. Many shipowners are now also prioritizing heat recovery from exhaust gases and the application potential of this technology is growing rapidly. The aftermarket business remained unchanged, however, as a result of the impact of low freight rates on many shipowners. Nevertheless, freight rates trended upwards toward year-end, which is a positive sign.

Focus on service
Since 2005, we have increased the number of employees in our service organization, as well as the number of service centers, by more than 50 percent, at the same time as our sales rose by more than 80 percent. Despite this already sharp increase, we believe that the aftermarket still offers considerable potential. The main goal is to boost the market share of our installed base by assuming clearer ownership and a more proactive approach. We will intensify our efforts to expand our "service operations" with respect to man-hours. The aim is to protect our installed base and capitalize on growth opportunities. To achieve this goal, we must continue refining our service offering and investing in the skills development of our service personnel. From a medium and long-term perspective, Service is expected to make a significant contribution to our profitability and growth.

Break for product presentation

The share
In 2013, the share price rose 22 percent, compared with an increase of 12 percent for the NASDAQ OMX Stockholm Industrials Index. Alfa Laval's market capitalization at year-end amounted to approximately SEK 69 billion. Our share continued to attract considerable interest, with slightly more than 36,000 shareholders at year-end and some 20 analysts tracking Alfa Laval on a regular basis.
A sound corporate culture provides a foundation for motivated employees

Alfa Laval’s goal is to be an attractive employer with motivated and committed employees, thus creating a foundation for our continued success. Ultimately, the development of the company goes hand-in-hand with the development of our employees – in other words, when our employees grow, so does the company. Our annual employee attitude survey, which encompasses all employees, is a powerful tool for developing our organization. The results of the survey provide each work group with guidance on how to improve the leadership and overall performance of the group. With 16,000 employees spread across several continents, a sound 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 80 nationalities work in Alfa Laval and the proportion of female employees is 19 percent. We have 26 nationalities represented among managers reporting directly to Group management, of which the female proportion is 17 percent, an increase of 1 percentage point compared to 2013. The share of women across all manager levels is 16 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. Since 7 years’ I have a coworker, who only work with sustainability-related questions. We also have a Commercial Ethics Council, where I am the chairman. Ethics and the efforts to fight corruption, in all its forms, are stressed in our business principles. These also highlight human rights, especially children’s rights. We implement comprehensive education and carry out risk evaluation and we have a whistle blower function, where employees anonymously can report suspected breaches against our business principles. We also control that our business principles are met. Every year, 120 of our top managers have to confirm that they have read, understood and live up to the business principles as well as other relevant guidelines, by signing a document.

With a product portfolio designed to save energy, protect the environment and optimize the use of natural resources, it is only natural that the employees in our research and development department or those in sales and service, for example, are involved in sustainability issues on a daily basis. Behind the scenes, however, many other employees are also making a difference: our logistics experts work to reduce the company’s CO₂ emissions; our purchasing staff discuss and agree on improvements that should be made to the working conditions of our suppliers; our production managers implement projects to save energy and water; and our HR department ensures that Alfa Laval offers its employees a workplace that is free from discrimination. Naturally, this list could be significantly longer.

I would like to take the opportunity to extend my warm and sincere thanks to all of our employees for your commitment and determination in contributing to the continued success of Alfa Laval.

A few hours’ ago we released the report for the first quarter. It showed that the order intake rose 5 percent to SEK 7.5 billion. Sales reached SEK 6.6 billion and the operating profit totaled SEK 1.1 billion, giving an operating margin of 16.1 percent.
Our expectations for the nearest future is: "We expect that demand during the second quarter 2014 will be on about the same level as in the first quarter."

THANK YOU!