Annual Report 2013

The vision of
a brighter future

Contents

3 ABOUT ALFA LAVAL

42 SUSTAINABILITY

45 CORPORATE GOVERNANCE

59 FINANCIAL STATEMENTS

Natural gas.
A source of shining light when experts look into their crystal balls to predict future energy supply. In the next ten years the demand for natural gas is expected to increase by 30 per cent. Within 25 years we will probably be using more gas than oil or coal. This ignites a clear flame of hope for our planet – for gas is the cleanest fossil fuel in both CO2 emissions and its content of sulphur and heavy metals. Alfa Laval's know-how is playing a key role in this development. Our equipment, systems and service are vital links in the long chain that stretches from exploration via production and processing to the transportation of natural gas.

Pure Performance. Energy. Environment. Marine. Mechanical engineering. Pharmaceuticals. Chemicals. You name the industry. Alfa Laval is helping all of them to purify and refine their processes and products. Time and time again. We are hard at work in more than 100 countries with our expertise and support. Helping to create better, more comfortable living conditions for all mankind. That is our burning ambition.

What we do

Alfa Laval is a world-leading supplier of products and solutions in the key technologies of heat transfer, separation and fluid handling. The company's equipment is used to heat, cool, separate and transport products in industries that produce food, beverages, fuel, chemicals, pharmaceuticals, starch, sugar and ethanol. They are also used aboard vessels, in power plants, in the engineering industry, for treating sludge and wastewater, for comfort heating and cooling, and much more.

Our market position – number one

Heat transfer

More than 30 percent of the world market

Most industrial processes need some sort of solution for heat transfer. Alfa Laval's offering includes heat exchangers that optimize customers' energy consumption, cut costs and reduce the impact on the environment.

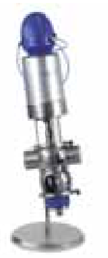
Read more on page 25.

Separation

25 to 30 percent of the world market

Alfa Laval's separators and decanters can be used in many areas of application to separate liquids from one another, solid particles from liquids, and particles and liquids from gases. The offering also includes belt filter presses and membrane filters.

Read more on page 26.



Fluid handling

10 to 12 percent of the world market

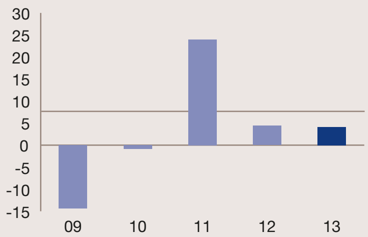
Alfa Laval offers pumps and valves for industries with stringent hygiene requirements, such as the food and pharmaceutical industries.

Read more on page 27.

We are global

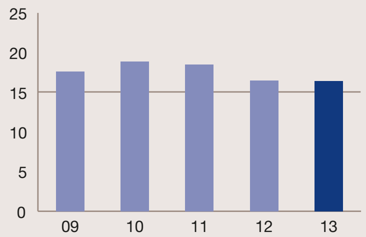
Alfa Laval's worldwide sales and aftermarket organization helps customers in some 100 countries to optimize their processes. Alfa Laval has 16,282 employees, the majority of whom are located in Sweden (2,160), China (2,700), Denmark (1,740), USA (1,837), India (1,455) and France (902). The company also has 34 major production units spread across Europe (17), Asia (9), the US (6) and Latin America (2).

Invoicing growth, %



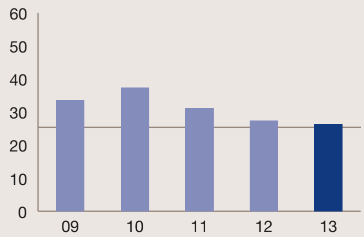
The goal is to grow an average of at least 8 percent annually measured over a business cycle.

Operating margin, %



The goal is to have an operating margin of 15 percent measured over a business cycle.

Return on capital employed, %



The goal is to have a return on capital employed of at least 25 percent.

Well-adapted organization

Alfa Laval has three sales divisions – Equipment, Process Technology and Marine & Diesel – as well as one division known as Operations, which is responsible for production, procurement and logistics. The three sales divisions have separate business models designed to meet specific customer requirements and purchasing habits, which ultimately enables Alfa Laval to fulfil its business concept: "To optimize the performance of customers' processes, time and time again." Sales of products based on the company's three key technologies, including heat exchangers, separators, decanters, pumps and valves, are carried out by all three divisions.

Equipment

Equipment is characterized by a fast-moving business, with components sold to customers with recurring requirements and well-defined needs through various sales channels.

The division comprises four segments: Industrial Equipment, Sanitary, OEM and Service.

Read more on page 30.

Process Technology

Process Technology sells customized solutions and systems directly to end customers through the Group's own sales companies and contractors.

The division comprises four segments: Process Industry, Energy & Environment, Food Technology and Service.

Read more on page 32.

Marine & Diesel

Marine & Diesel offers components, modules, systems and service for customers in the marine and offshore markets and land-based diesel power.

The division comprises three segments: Marine & Diesel Equipment, Marine & Offshore Systems and Service.

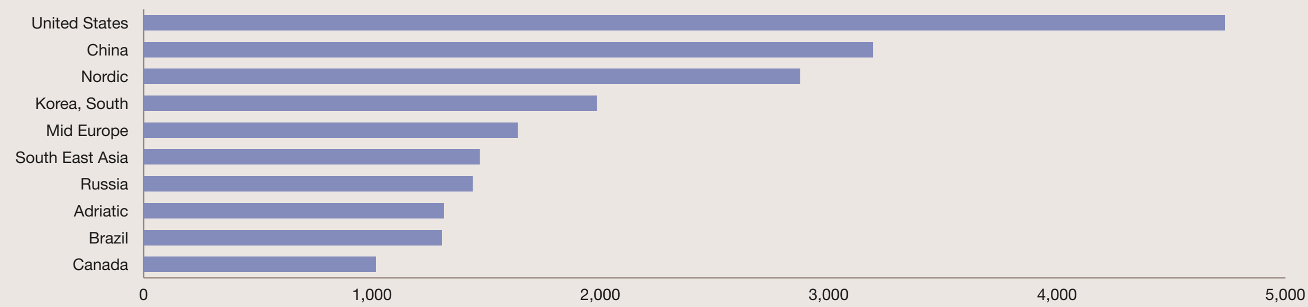
Read more on page 34.

Operations

Operations is responsible for the Group's production-related procurement, as well as its manufacturing, distribution and logistics. Having a centralized, coordinated and global supply chain is crucial to ensuring reliable access to the company's products worldwide.

Read more on page 36.

Ten largest markets



Order intake in Alfa Laval's top ten markets 2013.

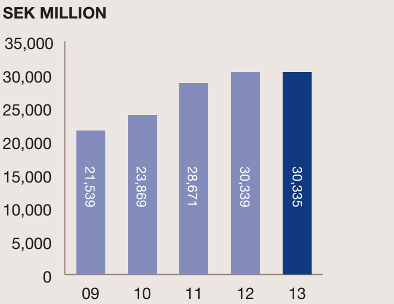
2013 in brief

- **Order intake amounted to SEK 30,335 million, compared with SEK 30,339 million in 2012.**
- **Alfa Laval generated a free cash flow of SEK 3,275 million (326) in 2013.**
- **The adjusted EBITA margin, or operating margin, for 2013 was 16.4 percent, compared with 16.5 percent in 2012.**

Amounts in SEK million unless otherwise stated	+/- %[6]	2013	2012	2011	2010	2009
Order intake	0	30,335	30,339	28,671	23,869	21,539
Net sales	0	29,934	29,813	28,652	24,720	26,039
Adjusted EBITDA [1]	0	5,363	5,381	5,736	5,107	4,976
Adjusted EBITA [2]	0	4,914	4,934	5,287	4,682	4,585
Operating margin (adjusted EBITA [2]), %		16.4	16.5	18.5	18.9	17.6
Profit after financial items	-8	4,172	4,529	4,676	4,364	3,760
Return on capital employed, %		26.4	27.4	31.3	37.4	33.6
Return on shareholders' equity, %		20.4	22.9	22.9	24.4	24.5
Earnings per share, SEK	-5	7.22	7.64	7.68	7.34	6.42
Dividend per share, SEK	7	3.75 [3]	3.50	3.25	3.00	2.50
Equity per share, SEK	12	38.53	34.46	36.10	32.30	28.98
Free cash flow per share, SEK [4]		7.81	0.78	-4.93	6.38	6.46
Equity ratio, %		46.3	41.3	43.9	50	46.7
Debt/equity ratio, %		16	30	22	-4	4
Number of employees [5]	-1	16,308	16,419	16,064	12,618	11,390

1) Adjusted EBITDA – Operating income before depreciation, amortization of goodwill and amortization of other surplus values, adjusted for items affecting comparability.
2) Adjusted EBITA – Operating income before amortization of goodwill and other surplus 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.
6) Percentage change between 2012 and 2013.

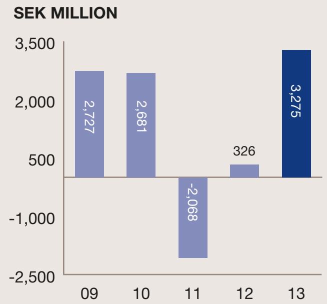
Order intake



Order intake totalled SEK 30,335 million in 2013, compared with SEK 21,539 million in 2009. Order intake rose 4 percent* in 2013 compared with 2012.

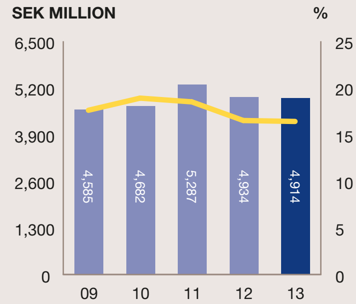
* Excluding exchange-rate variations.

Free cashflow



Alfa Laval generated free cash flow amounting to SEK 3 275 million (326) in 2013.

Adjusted EBITA



Adjusted EBITA amounted to SEK 4,914 million in 2013, compared with SEK 4,934 million in 2012.

Adjusted EBITA *Operating margin*

R&D and service – two focus areas for profitable growth

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. Growth in Germany was favourable thanks to the country's positive economic trend. South Korea maintained its fourth-place position due to an upturn in the shipbuilding industry, which offset the decline reported among Korean contracting companies. Solid, broad demand in Russia resulted in order intake remaining at a record level.

During 2013, various investments in increased capacity and productivity were completed at a number of highly specialized plants in Sweden and France. Investments were also carried out to streamline the supply chain and thus boost the company's competitiveness and shorten lead times.

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. Several exciting products were launched during the year, 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. PureDry, which was launched in 2012, also achieved broad acceptance during the year. 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 total, we invested SEK 732 million in research and development, an increase of 3.5 percent compared with 2012 on a like-for-like basis. In parallel, we also invested in a new marine testing and training center in Aalborg, Denmark. The center offers an opportunity to experience an advanced ship simulation, thanks to the design of the premises themselves which are constructed to resemble an engine room aboard a commercial vessel. The center will enable us to test our products individually, as well as assessing their functionality when integrated. In addition to providing a strong platform for continued research and development, the center 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 fast-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 addtional 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 recenently launched environmental products PureSOx and PureDry have attracted considerable interest. The Pure SOx exhaust gas cleaning system based on scrubber technology grew siginificantly 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. Following a weak start to the year, demand from the shipbuilding industry increased and favourable growth was reported for the full year, while the aftermarket business remained unchanged, excluding acquisitions, 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 sharp increase, we believe that the aftermarket still offers considerable potential. To provide an internal signal of our increased focus on the aftermarket, we changed the name of the Parts & Service segment to Service, which now comprises "Parts" and "Service operations." 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 with the aim of protecting our installed base and capitalizing 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.

The share

During the final few days of 2013, the share price climbed to record-high levels. Over the full year, 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 all areas of our organization. Professional management is crucial for the success of the company and its employee satisfaction. 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.

Sustainability

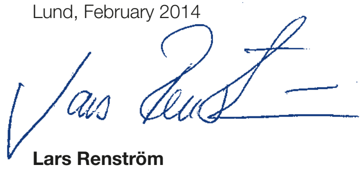
When Alfa Laval's Business Principles were updated in 2012, we adamantly stated that they must be put into practice if we are to achieve our vision of helping to create better everyday conditions for people.

For many of our employees, these challenges are part of their ongoing work. 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 CO_2 emissions from transportation; 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 at our production sites; and our HR department ensures that Alfa Laval offers its employees a workplace that is free from discrimination. However, this list could be siginicantly longer.

Several of the industries represented among Alfa Laval's customers have worked to establish standard procedures for responsible supply chain management. In 2013, Alfa Laval became more active in these joint industry initiatives, which I believe will provide us with greater momentum when it comes to implementing practical improvements.

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

Lund, February 2014



Lars Renström

President and Chief Executive Officer

External changes driving demand

Demand for Alfa Laval's products and services is naturally driven by individual customer requirements. However, other more general external factors also influence – and are expected to continue influencing – the demand and need for products in the areas of heat transfer, separation and fluid handling. Alfa Laval takes a proactive approach to understanding and analyzing these external changes as well as the underlying dynamics, in order to identify existing and potential future requirements and respond to these requirements by having a presence in the right markets and offering the right products. The following description provides an overview of four structural changes that are impacting demand for the company's products, as well as examples of Alfa Laval's efforts to capitalize on the opportunities arising.

Growing energy needs

According to the International Energy Agency, the world's energy needs are expected to grow by approximately 30 percent by 2035, primarily driven by increased demand in non-OECD countries. In China alone, demand is expected to increase by 60 percent during this period. This development is expected to require global investments of USD 37 trillion, of which non-OECD countries are expected to account for 61 percent. At the same time, increasing energy prices are forcing industrial companies to review their processes and make them more energy efficient, thereby reducing costs.

Alfa Laval in the energy sector

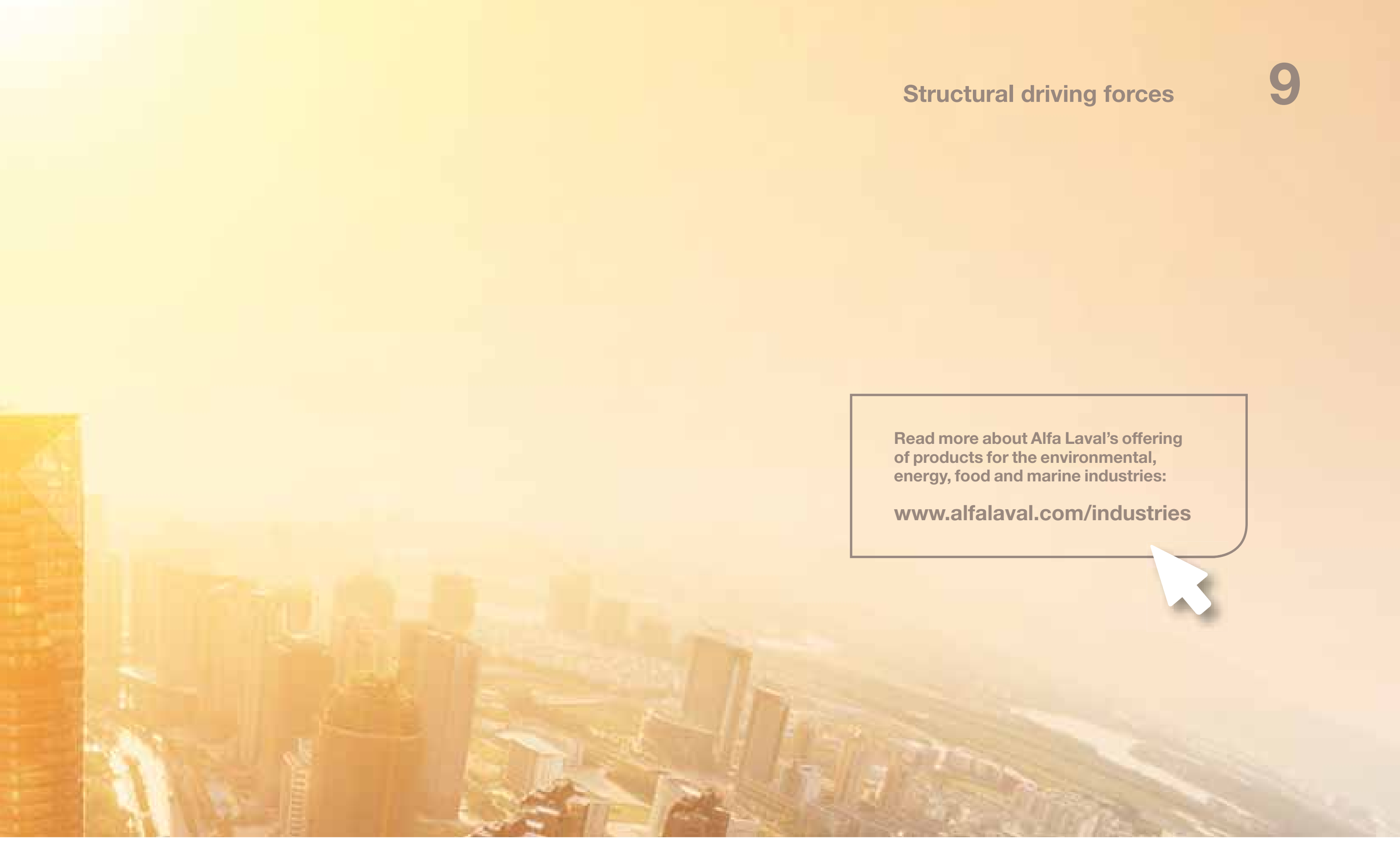
Alfa Laval's products are currently used in everything from oil and gas exploration to oil refinement and power production. In light of the recent US investments in shale gas, intended to enable energy independence, Alfa Laval has expanded its presence in the country, as well as its product portfolio, in order to increase its exposure to a sector deemed to have significant potential. In parallel, the company is actively working to show its customers in a number of industries the energy and cost-savings that can be achieved by switching from traditional shell-and-tube technology to Alfa Laval's compact plate heat exchangers. In other words, Alfa Laval is participating in both the expansion of energy extraction and the initiatives being carried out by individual companies to utilize the energy already being produced in a more efficient manner.

Stricter environmental regulations

As environmental problems increase, new, stricter regulations are introduced to reduce society's environmental impact. Take the marine industry, where more stringent legislative regulations are gradually being introduced, for example with regard to the amount of sulphur permitted in the exhaust gas of ships. To meet these demands, shipowners can choose between changing to a more expensive, low-sulphur fuel or investing in an exhaust gas cleaning solution.

Alfa Laval in the environmental sector

Alfa Laval has developed a product that enables shipowners to continue using heavy oil for fuel while at the same time meeting the legislative requirements. This product, known as Alfa Laval Pure SOx, reduces the sulphur content in the exhaust gases to the legally required level. Since heavy oil is cheaper than low-sulphur fuel, this investment pays off in one to two years.



Read more about Alfa Laval's offering of products for the environmental, energy, food and marine industries:

www.alfalaval.com/industries

Higher standard of living

People in the world's faster-growing economies have gradually achieved a better position. According to statistics from the World Bank, gross national income per capita in the BRIC countries increased three to fivefold between 2003 and 2012. Along with a stronger economy, particularly for the poorest people in society, follows increased demand for better food, such as vegetable oil. At the same time, accelerated urbanization and the increased presence of women in the workforce is resulting in greater demand for everything from processed and semi-processed food to complete food stores.

Alfa Laval in the food sector

Food has been a focus area for Alfa Laval since 1883. Heat exchangers, separators, pumps and valves for hygienic applications are sold through the Sanitary and Food Technology segments to the global food, beverage and pharmaceutical industries. At the same time Industrial Equipment delivers heat exchangers for use in cooling chains. The company's product range is being developed on a continuous basis, and its production operations are gradually being expanded in fast-growing regions in order to meet increasing demand. In recent years, Alfa Laval has, for example, established local production units for air heat exchangers – which are used in cold food-storage rooms – in all BRIC countries.

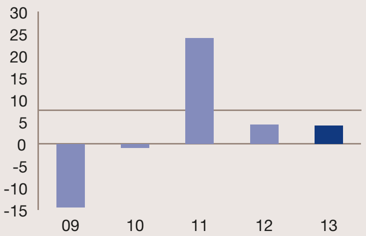
Globalization creating demand for transportation

According to statistics from the World Trade Organization, international trade has grown by an annual average of 5.4 percent over the past 20 years. This growth is the result of an increasingly globalized world where it is not uncommon to find raw materials in one country, production in another and consumers in yet another. Although the growth rate has slowed somewhat in recent years, forecasts indicate continued growth, which will entail a greater need for transportation solutions, with shipping being the most cost-effective alternative.

Alfa Laval in the shipping sector

Alfa Laval has been delivering equipment to the marine sector for decades, and its products are currently found aboard about 75 percent of the global ocean-going fleet. The company's products have traditionally been used in engine rooms, including separators for cleaning fuel and lubricants, and heat exchangers for heating fuel, cooling engines and generating freshwater. The product portfolio has gradually been expanded through the development of new, proprietary products, as well as the acquisition of prominent companies such as Aalborg Industries. As the industry's focus on the environment has intensified, Alfa Laval has expanded its offering to include environmental solutions, such as systems for treating ballast water and reducing the sulphur content in ships' exhaust gas.

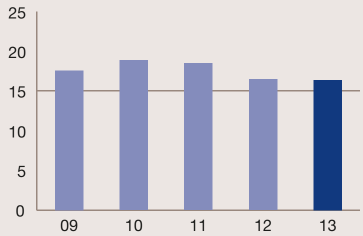
Invoicing growth, %



In 2013, invoicing rose 4.1* percent, with organic growth accounting for 1.2 percent and acquisitions for 2.9 percent. The compound annual growth over the past ten-year period is 11.5 percent.

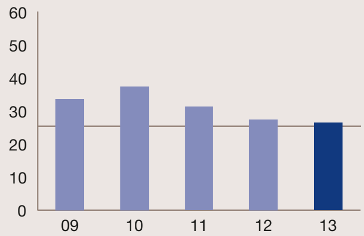
*Excluding exchange-rate variations

Operating margin, %



The operating margin for 2013 was 16.4 percent, compared with 16.5 for full-year 2012.

Return on capital employed, %



The return on capital employed for 2013 was 26.4 percent.

Vision, business concept, goals and strategy

Vision

To "help create better everyday conditions for people" by offering efficient and environmentally responsible products and solutions for water treatment, energy production and food production.

Business concept

Based on its three key technologies – heat transfer, separation and fluid handling – Alfa Laval offers products and solutions that "optimize the performance of our customers' processes, time and time again." In other words, Alfa Laval aims to help its customers become more productive, energy-efficient and competitive.

Goals

Financial goals

Alfa Laval's operations are governed not only by the company's business concept, but also by the financial goals established with regard to growth, profitability and return. By achieving or exceeding these goals, Alfa Laval creates the necessary scope for its continued development, as well as generating increased value for its shareholders in the form of an annual dividend and by boosting the value of the company.

Growth

The goal is to have an average annual growth rate of at least 8 percent measured over a business cycle, with organic growth accounting for 4 to 5 percentage points and acquisitions for 3 to 4 percentage points. This goal was established based on the company's growth over a period of ten years and an assessment of its future prospects.

Profitability

The goal is to have an operating margin (adjusted EBITA) of 15 percent measured over a business cycle. The profitability goal was established based on historical margins and the company's growth ambitions.

Capital utilization

The goal is to have a return on capital employed of at least 25 percent. This level was set taking into account the relatively low level of capital tied up in operating activities.

Financial benchmark values

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

Debt/equity ratio

In the long term, the debt/equity ratio, meaning the capital the company borrows in relation to the carrying amount of shareholders' equity, is to be less than 75 percent. Although the ratio may exceed 100 percent in connection with major acquisitions, this should be viewed as merely temporary, since cash flow and earnings are expected to offset this effect.

Investments

The benchmark value states that 2.0 percent of sales should go to investments. Given the investments and capacity expansion carried out in recent years, this investment level is deemed sufficient to create the scope for replacement investments and an expansion of capacity in line with the organic growth goal for the Group's existing core products.

Cash flow from operating activities

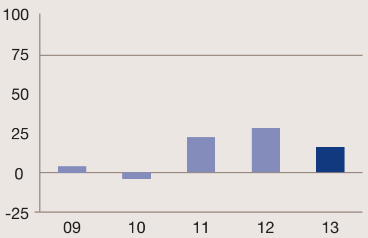
Cash flow from operating activities is to amount to 10 percent of sales, including investments in fixed assets. This value is lower than the goal for the operating margin, since organic growth normally requires an increase in working capital. In addition, taxes are paid in an amount corresponding to approximately 28 percent of earnings before tax.

Sustainability goals

In addition to its financial goals, Alfa Laval has a number of non-financial goals, including a reduction in water consumption, increased energy efficiency, a reduction in the use of restricted "grey-list" chemicals and a reduction in greenhouse gas emissions from freight transportation and travel.

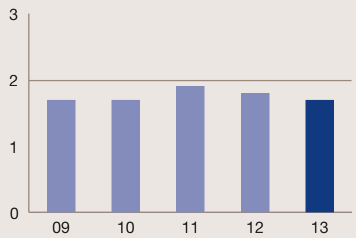
For more information about these goals and other sustainability initiatives, visit: www.alfalaval.com/about-us/sustainability

Debt/equity ratio, %



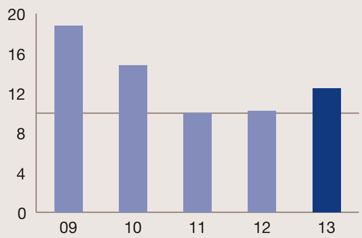
The debt/equity ratio at year-end 2013 was 16 percent.

Investments, %*



Investments in 2013 amounted to 1.7 percent.

Cash flow from current operations, %*



In 2013, cash flow from operating activities amounted to 12.5 percent.**

*In percent of sales. ** Including investments in fixed assets.

Strategy

In order to achieve its vision, implement its business concept and attain its growth, profitability and capital utilization goals, Alfa Laval has established a number of strategic priorities. These include strategies for expanding the Group's product offering and market presence – mainly organically, but also through acquisitions – as well as strategies for increased efficiency.

Products

Alfa Laval's **existing products** in its three key areas provide a foundation for the company's continued profitable growth, since the high quality and energy efficiency of these products are becoming increasingly important criteria for customers. At the same time, the company is investing in research and development in order to respond to changing customer needs with **new products** and improved versions of existing products. Identifying **new areas of application** for existing products and key technologies is another important means of achieving profitable growth. Alfa Laval also strengthens its offering by adding new products through **acquisitions**, both supplementary products in its three key technologies and new products that complement the company's offering in application areas where it is already active.

Examples of strategic priorities:

– Alfa Laval invests approximately 2.5 percent of its sales in research and development, which generates between 35 and 40 new products annually. One such product is Lynx, a decanter used to treat oil-contaminated water. Decanters are traditionally used for the dewatering of sludge in wastewater treatment plants, but upon request from a customer, Alfa Laval developed a version of the product for this new application. Other examples of new products include the environmental solutions developed by Alfa Laval for the marine industry, which are designed to help customers meet new legislation and regulations, including the PureSOx exhaust gas cleaning system and ballast water treatment systems.

– Energy-intensive processes can be made more efficient if customers replace their shell-and-tube heat exchangers with plate heat exchangers. This has resulted in a gradual technological shift. Alfa Laval has played an active role in driving this shift by showing its customers in various energy-intensive sectors the energy and cost-savings that can be achieved by switching technology.

– In 2012 and 2013, several acquisitions were carried out to supplement the Group's product offering for the US oil and gas sector, an industry that is currently undergoing major investments. One such acquisition involved the US company Vortex, which added mud mixing equipment used in oil and gas exploration to the Group's offering. Although the company's products are outside Alfa Laval's three key technologies, the acquisition strengthened the Group's drilling offering, an area in which Alfa Laval has been active for several years.

– The acquisition of Ashbrook Simon-Hartley added belt filter presses, a leading water treatment technology that complements Alfa Laval's traditional technology in the area. As a result of this acquisition, Alfa Laval can now offer its customers both leading technologies.

Presence

Having a local presence is crucial to Alfa Laval's operations in terms of both sales and production. This entails having a strong geographic presence in areas with good growth potential with regard to demand and favorable operational conditions – and these considerations are assessed on a continuous basis. The main goal is to identify areas where the company can expand its presence organically – either in terms of breadth by entering new geographic areas or in terms of depth by further expanding the Group's presence in existing countries and regions with strong potential demand. Another way to quickly improve the Group's presence is to carry out acquisitions. In some areas however, the best way to improve the Group's presence is to add new sales channels. Alfa Laval's e-commerce solution also offers a cost-effective way to serve a large number of customers in a variety of geographic regions.

Examples of strategic priorities:

– Alfa Laval opens two to three service centers every year as a way of continuously improving the market coverage of its installed base of products.

– The Group's e-commerce solution, Alfa Laval Anytime, has gradually been rolled out in various countries over the past two years and provides a cost-efficient way of bringing the Group's component-based offering to various markets.

– In accordance with its "go west" strategy, Alfa Laval has increased its number of sales offices in China, expanding its presence to include the western and central regions of the country, which has had a positive impact on sales.

– The Group has established production sites for air heat exchangers in Brazil, Russia, India and China to respond to local demand. Air heat exchangers are cumbersome and therefore difficult and costly to transport. Local manufacturing is the only way to fully capitalize on the growth potential in these areas.

– Alfa Laval has significantly increased its aftermarket presence through the acquisition of various service companies.

– The Group's multibrand strategy, which has been in place for several years, has resulted in the acquisition of prominent competitors in order to add new channels in specific geographic and industry-based markets.

Profitability and return

Several basic steps must be taken in order to ensure profitability and a favorable return. The first, which pertains to procurement and production, is to decide which products Alfa Laval should produce itself and which products should be purchased from suppliers. In terms of logistics, Alfa Laval must figure out how to meet its customers' services requirements, while at the same time ensuring an efficient allocation of capital. The Group must also establish business models for its sales divisions and consider the breadth of its offering.

Examples:

– Alfa Laval conducts continuous reviews to determine which products the Group should produce itself and which products should be purchased from suppliers. These are fundamental decisions when it comes to achieving a favorable return. One example of this is district heating stations, which were previously produced by the Group in Ronneby, Sweden, but – following a review – were deemed more suitable for purchase from suppliers.


东方明珠方向
Oriental Pearl TV Tower Of Shanghai
正大广场方向
Super Brand Mall
海洋水族馆方向
Shanghai Ocean Aquarium

– Alfa Laval maintains central stocks of inventories in order to enable a high service level. The downside of this centralized approach is higher transportation costs. However, the net result is positive since Alfa Laval is also able to maintain a lower level of tied-up capital. Take, for example, the Group's inventories of spare parts. It is not feasible for the Group to have the complete product range available in stock in each individual market. Consequently, Alfa Laval has divided its spare parts into different categories: those that should always be available, those that should be available for order from a central warehouse and those ordered on demand. These categories are adjusted on an ongoing basis as new products are continuously introduced.

– With respect to its sales and product mix, Alfa Laval has adopted business models that allow sales of both components and solutions. The Equipment Division's business model focuses exclusively on sales of key products, an approach that offers relatively high margins compared with Process Technology's business model, which focuses on a broader offering including third-party products. However, there are advantages to be gained by combining these two models, including more frequent customer contact. A combined approach is also attractive since it enables Alfa Laval to reduce the customer's workload by customizing a package comprising a mix of proprietary and third-party products, which adds value. Although Alfa Laval also assumes part of the risk and its capital becomes tied up in production, the Group can ultimately achieve a reduction in tied-up capital by demanding advance payments. Limits have also been established with regard to the scope of the offering. In order to limit its risk exposure and ensure profitability, Alfa Laval does not deliver solutions outside a process line.

Between 2009 and 2013, Alfa Laval acquired 20 companies with combined sales of SEK 7,540 million, corresponding to an average annual growth of SEK 1,508 million.

2009

ACQUISITION	REASON	SALES, SEK MILLION*
P&S Multibrand	Channel	200
P&S Multibrand	Channel	100
Onnuri, South Korea	Channel/geography	150
HES, Germany	Product	85
PHE, Brazil	Geography	45
LHE, South Korea	Channel/geography	750
Additional 12 percent of the share capital in Alfa Laval India. (Total holding 89 percent)	Geography	Did not affect sales

DIVESTMENTS	REASON	SALES, SEK MILLION*
–	–	–

2010

ACQUISITION	REASON	SALES, SEK MILLION*
Champ Products Inc., USA	Product	100
Service company, USA	Channel	100
Astepo S.r.l., Italy	Product	70
Si Fang, China (65 percent)	Channel	150
Definox, France	Channel	200
Olmi S.p.A, Italy	Product	700

DIVESTMENTS	REASON	SALES, SEK MILLION*
–	–	–

2011

ACQUISITION	REASON	SALES, SEK MILLION*
P&S Multibrand	Channel	100
Aalborg Industries A/S, Denmark	Product	3,300

DIVESTMENTS	REASON	SALES, SEK MILLION*
–	–	–

2012

ACQUISITION	REASON	SALES, SEK MILLION*
Additional 8.5 percent of the share capital in Alfa Laval India. (Total holding 97.5 percent)	Geography	Did not affect sales
Vortex Systems, USA	Product	100
Ashbrook Simon-Hartley, USA	Product	500
Gamajet Cleaning Systems, USA	Product/geography	75
Air Cooled Exchangers, LLC, USA	Product/geography	350**

DIVESTMENTS	REASON	SALES, SEK MILLION*
–	–	–

2013

ACQUISITION	REASON	SALES, SEK MILLION*
Gas combustion unit	Product	40***
Niagara Blower Company	Product	425

DIVESTMENTS	REASON	SALES, SEK MILLION*
–	–	–

* Refers to sales for the year preceding the acquisition or divestment.

** Sales in 2012.

*** Expected sales for 2013 on the acquisition date.

Strong stock market trend for Alfa Laval

Alfa Laval experienced a strong stock market trend in 2013. After a sluggish start, the Alfa Laval share climbed 22 percent during the year, nearly double the increase reported for the OMX Stockholm Industrials Index, which rose 12 percent. The OMX Stockholm Industrials Index comprises industrial companies on the OMX Nordic Exchange Stockholm. Including the dividend of SEK 3.50 per share, the total return for the Alfa Laval share was 25 percent.

The Alfa Laval share ended 2013 at SEK 165.00 (135.30). The highest price listed for the share was SEK 167.00 in late December and the lowest price was SEK 133.00 in late June. Alfa Laval's market capitalization at year-end was SEK 69.2 billion (56.8).

The Alfa Laval share is listed on NASDAQ OMX Stockholm and is included in the large cap segment in Stockholm and the Nordic region. The share is also included in a number of other indexes in Sweden and abroad, including the OMXN40 Index, which comprises 40 companies with the largest market capitalization and most-traded shares in the Nordic region, as well as the OMXS30 Index, which includes 30 companies with the most-traded shares in Stockholm.

Strong long-term return

Since Alfa Laval was relisted on the OMX Nordic Exchange Stockholm on May 17, 2002, the company's share, including reinvested dividends, has generated a yield of 814 percent. Measured over the full listing period, the average annual yield amounts to 19.6 percent, compared with an average annual yield of 6.0 percent for the SIX Return Index during the same period.

Share turnover

Alfa Laval's share is not traded exclusively on NASDAQ OMX Exchange Stockholm, but also on BATS Chi-X, BOAT, Turquoise and Burgundy, to name a few of the largest alternative marketplaces. The NASDAQ OMX Exchange Stockholm was once again dominant in 2013, accounting for 41 percent (40) of all shares traded. The liquidity of the Alfa Laval share is favorable and 690 (927) million shares in the company were traded in 2013 at a combined value of SEK 101 billion (119), including all alternative marketplaces. This corresponds to a turnover rate of 1.6 (2.2) times the total number of shares outstanding. During the year, an average of 5,516 (7,060) share transactions were completed in Alfa Laval shares per 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, adjusted for surplus value. For 2013, the Board has proposed that the Annual General Meeting approve a dividend of SEK 3.75 (3.50). The proposed dividend corresponds to 45.8 percent (41.7) of net profit, adjusted for surplus value.

Share capital

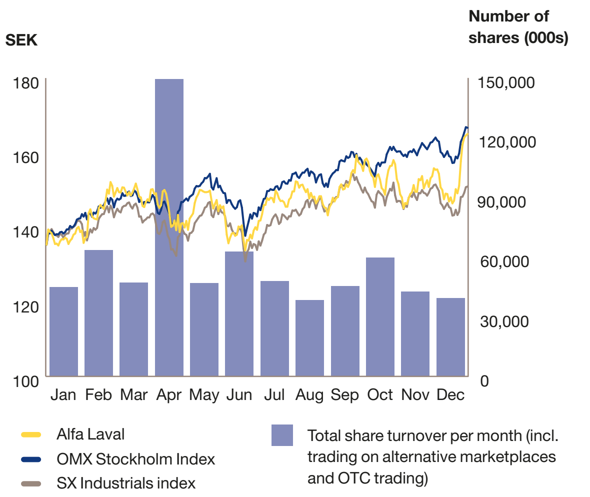
The par value at year-end was SEK 2.84 (2.84) per share. All shares carry equal voting rights and equal right to the company's assets. Alfa Laval has no options outstanding that could create a dilution effect for shareholders. At the Annual General Meeting on April 23, 2013, the Board was granted a mandate to repurchase shares in the company, if the Board deems this to be suitable, up to the next Annual General Meeting. The mandate pertained to the repurchase of up to 5 percent of the shares outstanding for the purpose of cancelling the repurchased shares and reducing the share capital. The repurchase would be made through purchases on the NASDAQ OMX Exchange Stockholm.

Alfa Laval made no repurchases during the year or after the 2013 Annual General Meeting. As of March 19, 2013, when the notice of the Annual General Meeting was issued to the shareholders, the number of repurchased shares held in treasury was zero. Accordingly, the total number of shares during the year was unchanged at 419,456,315.

Shareholders

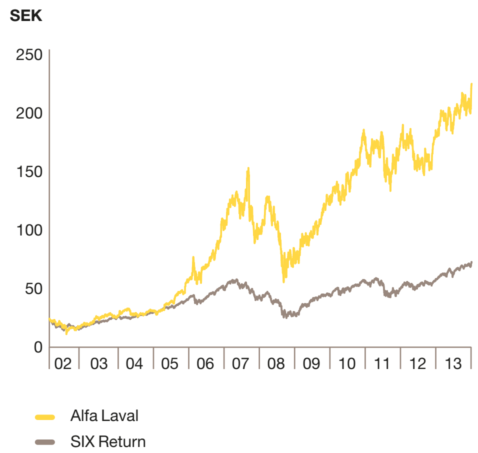
At year-end 2013, Alfa Laval had 36,212 (34,629) shareholders. A net total of 1,582 (decrease: 1,938) new shareholders were added during the year. The ten largest shareholders controlled 54.6 percent (51.3) of the shares at year-end 2013. The single largest shareholder was Tetra Laval B.V., whose holding remained unchanged at 26.1 percent. The ownership structure remained relatively stable, despite a reweighting among certain institutions.

Price trend, January 2 – December 30, 2013



Source: SIX / Fidessa

Total return, May 17, 2002 – December 30, 2013



Source: SIX

Ownership distribution by size at December 30, 2013

	No. of share-holders	No. of share-holders, %	No. of shares	Holding, %
1 – 500	24,515	67.7	4,096,164	1.0
501 – 1,000	5,149	14.2	4,313,384	1.0
1,001 – 5,000	4,793	13.2	11,182,886	2.7
5,001 – 10,000	713	2.0	5,308,731	1.3
10,001 – 20,000	361	1.0	5,371,052	1.3
20,001 – 50,000	267	0.7	8,502,324	2.0
50,001 –	414	1.1	380,682,774	90.7
Total number of shareholders	**36,212**			

Source: Euroclear

Ownership categories at December 30, 2013

	No. of shares	Holding, %
Financial companies	108,619,843	25.90
Other financial companies	25,376,512	6.05
Social insurance funds	12,142,733	2.89
Government	1,094,939	0.26
Municipal sector	103,028	0.02
Trade organizations	5,674,028	1.35
Other Swedish legal entities	8,688,691	2.07
Shareholders domiciled abroad (legal entities and individuals)	228,984,411	54.59
Swedish individuals	24,649,781	5.88
Uncategorized legal entities	4,122,349	0.98

Source: Euroclear

Data per share

	2013	2012	2011	2010	2009
Share price at year-end, SEK	165.00	135.30	130.30	141.70	99.00
Highest paid, SEK	167.00	146.50	147.70	142.60	100.20
Lowest paid, SEK	133.00	110.40	101.40	94.95	55.00
Shareholders' equity, SEK	38.53	34.46	36.10	32.40	29.00
Earnings per share	7.22	7.64	7.68	7.34	6.42
Dividend, SEK	3.75[1]	3.50	3.25	3.00	2.50
Free cash flow, SEK [2]	7.81	0.78	-4.93	6.38	6.46
Price change during the year, %	+22	+4	-8	+43	+47
Dividend as % of EPS, %	51.9	45.8	42.3	40.9	38.9
Direct return, % [3]	2.27	2.59	2.5	2.1	2.5
Share price/shareholders' equity, multiple	4.3	3.9	3.6	4.4	3.4
P/E ratio [4]	23	18	17	19	15
No. of shareholders	36,212	34,629	36,567	33,565	33,780

Source: OMX Nordic Exchange Stockholm

[1] Board proposal to the Annual General Meeting.
[2] Free cash flow is the sum of cash flow from operating and investing activities.
[3] Measured as proposed dividend in relation to closing price on last trading day.
[4] Closing price on last trading day in relation to earnings per share.

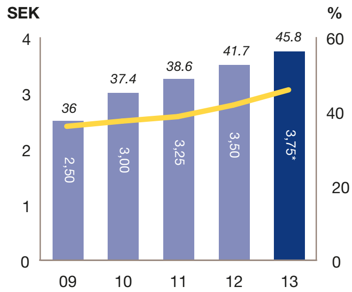
Ten largest shareholders at December 30, 2013*

	No. of shares	Capital/Voting rights, %	Change in holding in 2013, percentage points
Tetra Laval BV	109,487,736	26.1	+/-0
Swedbank Robur Funds	26,843,371	6.4	2.4
Alecta	26,486,000	6.3	-0.4
Foundation Asset Management AB	25,100,000	6.0	+/-0
AMF Insurance and Funds	16,618,270	4.0	0.6
Nordea Investment Funds	9,153,983	2.2	1.5
Fourth Swedish Pension Insurance Fund	4,368,874	1.0	+/-0
First Swedish Pension Insurance Fund	3,996,638	1.0	-0.4
Handelsbanken Funds	3,722,564	0.9	-0.2
Folksam	3,060,992	0.7	+/-0
Total ten largest shareholders	**228,838,428**	**54.6**	

* The table is adjusted for custodian banks. Were they to be included, they would represent a holding of 4.3 %.

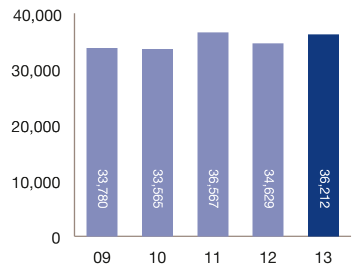
Source: Euroclear

Dividend and percentage of net profit**



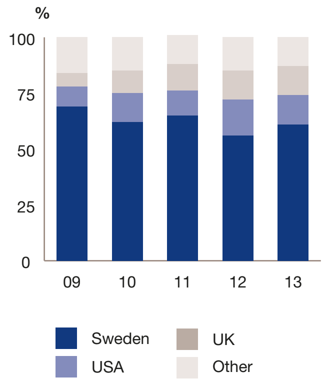
*Board proposal to the Annual General Meeting
**Adjusted for surplus values.

Total number of shareholders



Source: Euroclear

Geographic distribution of the free float, % of capital and voting rights



Excluding Tetra Laval (Netherlands) 26.1%

Source: Euroclear

Research and development promotes profitable growth

To achieve profitable growth, it is crucial to identify new market demands and transform them into new products faster than the competition – this requires continuous investments in research and development. Such investments can result in everything from minor adjustments to existing products to the development of new equipment to meet existing and future requirements.

Fruitful investments

The benchmark value for Alfa Laval, which has been characterized by innovation and invention since it was founded in the 1880s, states that the company should invest approximately 2.5 percent of its annual sales in order to further strengthen its product portfolio. This work results in some 35 to 40 new products each year, an optimal level for ensuring that the company receives the greatest possible return on every investment it makes in research and development. To maintain a sense of momentum and energy in the organization, continuous assessments are carried out. It is important to monitor how quickly an individual product reaches the market, as well as the time it takes for that product to become profitable. The company also continuously monitors the proportion of total sales derived from products introduced within the past five years.

Patent protection is fundamental

New products must naturally be protected to ensure that the company's investments generate revenues. Alfa Laval's patent division works actively to protect and defend Alfa Laval's technologies and products around the world. At year-end, Alfa Laval held more than 2,000 patents.

Meeting customer needs and requirements

Customers in different industries have different demands. Some may impose safety requirements – in other words, require that the product in question can withstand a certain process – which is important, for example, in petrochemical and refinery operations, while others may need a product that meets strict hygiene standards and effectively eliminates all risks of contamination, which is crucial in the food and pharmaceutical industries. Customers are generally also looking for high-quality products that can optimize their processes for several problem-free years and be upgraded when necessary. Thanks to its investments in research and development, Alfa Laval is at the forefront in all of these areas and delivers products that can improve the performance of customers' processes, thereby strengthening their competitiveness – today and tomorrow. By successfully applying this strategy from the start, Alfa Laval has earned a top position among companies in the areas of heat transfer, separation and fluid handling. Customers know what they are getting when they choose Alfa Laval – high-performance, quality products with a long service life.

Alfa Laval invested SEK 732 million (707) in research and development in 2013, corresponding to 2.4 percent (2.4) of sales.

New products from Alfa Laval in 2013

Diabon S15

The latest addition to Alfa Laval's Diabon heat exchanger portfolio, designed for the steel and chemical industry, is the largest unit ever built. Like the other sizes in the product portfolio, the Diabon S15 is able to withstand corrosive environments. Diabon graphite material offers exceptional corrosion resistance at up to 200°C. This new, larger version more than doubles the flow rate and can therefore replace shell-and-tube or block heat exchangers while providing all the benefits of a plate heat exchanger, such as maximum heat recovery, minimal downtime and low maintenance costs, all of which contribute to low operating costs.

New series of high-speed separators

Four new separators were launched to strengthen Alfa Laval's competitiveness: PAPX 10 for palm oil, VNPX 310 for beverages and herbal extract applications in China, VO 10 for vegetable oil, primarily in India, and VO 20 for vegetable oil, primarily in China. These new separators are unique in that they were developed to compete in pre-defined application areas in price-sensitive markets. Alfa Laval developed the separators to meet the needs of the middle price segment without compromising on quality and reliability.

Unique diaphragm valve – Premium UltraPure

Alfa Laval has developed a new diaphragm valve offering improved performance. Ideal for use in sterile and ultra-hygienic processes, this reliable valve provides a higher flow rate and lower pressure drop than traditional diaphragm valves. The innovative design makes it easy to install and service, and helps to cut energy costs. The new valve offers lower maintenance costs, doubles the flow rate and helps customers reduce their total operating costs.

INSIGHTS

Appearances aren't everything. It's what is inside that counts.

A plate heat exchanger may seem like a fairly simple piece of equipment. Plates, a frame, bolts and rubber gaskets – is it really all that complicated and advanced?

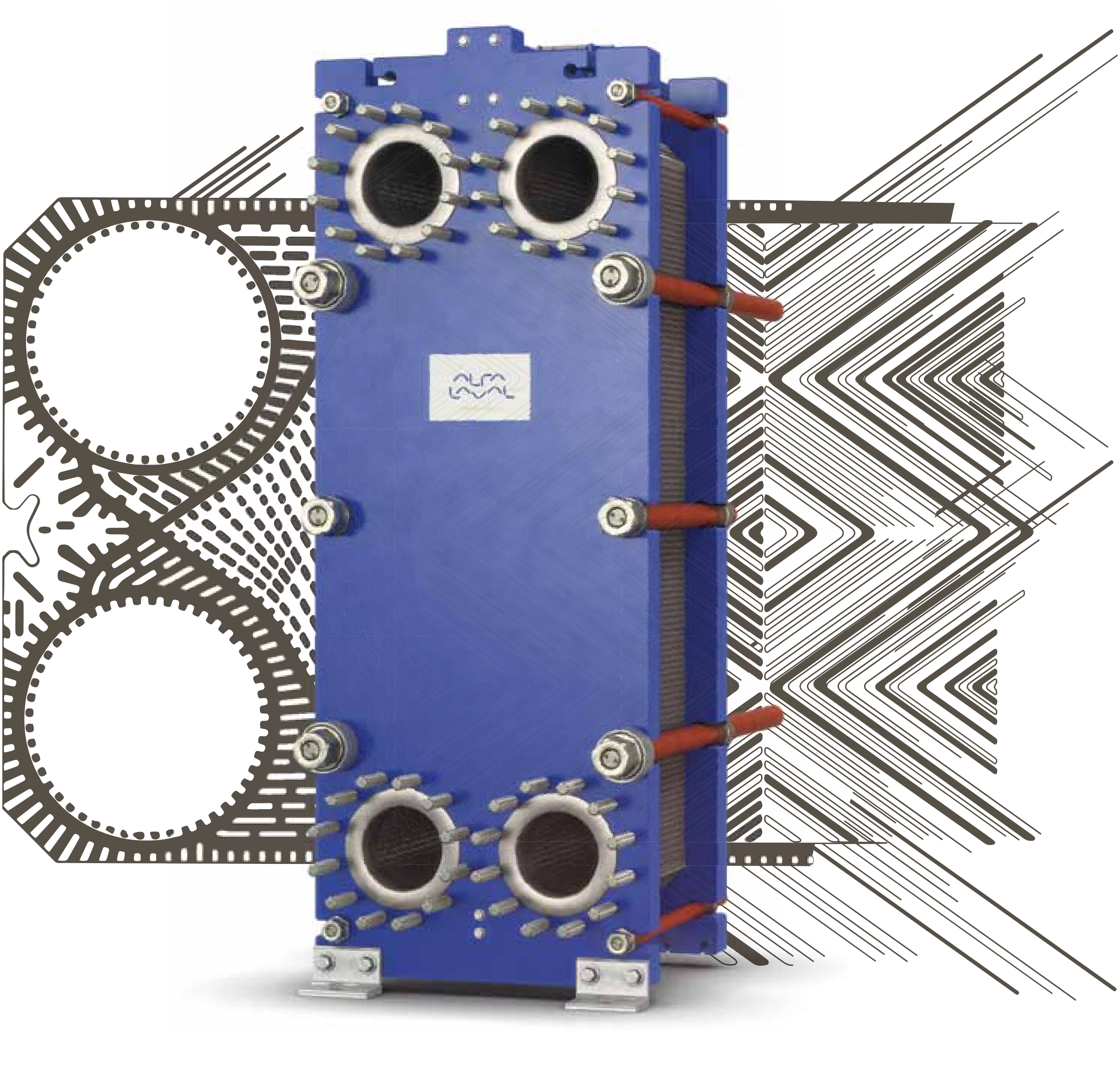
The short answer is "Yes!" To understand its full value, you must first understand exactly what a plate heat exchanger does. Because what you don't see when you look at an Alfa Laval plate heat exchanger is the quality and reliability it offers: thin plates that provide unsurpassed efficiency during the heat transfer process, which in turn saves energy and reduces the impact on the environment; specific plate patterns designed to optimize processes; and a long service life that contributes to a low cost of ownership and thus helps maximize the customer's profitability.

So take another look. There is a lot hiding under the surface.

Discover more. Download our app.

Download our app, use your smartphone to scan the picture on the page to the right and step into an entirely new dimension.

For more information, visit www.alfalaval.com/insights



USA | New York

Powering the highest towers. One Bryant Park

The new Bank of America tower at One Bryant Park in New York City is built from locally recycled materials and powered by Alfa Laval plate heat exchangers for heating the building in winter, and cooling it in summer. It is an excellent example of green building that cuts greenhouse gas emissions.

Read the case

The Netherlands | Gronningen

Renewable natural gas

The Attero renewable natural gas plant in the Netherlands uses Alfa Laval gasketed plate heat exchangers for fluid cooling, rich fluid heating and reboiling in a process that upgrades biogas to renewable natural gas.

Read the case

The Antarctic

Running water at the South Pole

In most parts of the world we put ice in our drinking water to make it cool. In the Antarctic we need to maintain drinking water above its freezing point. A plate heat exchanger is installed at Scott Base to recover energy and keep water from freezing, and indoor temperatures comfortable.

Read the case

Brazil | Rio

Oil at great depths

Brazil's Petrobras, recovers oil from 2,200 meters deep.Their floating production storage and offloading vessel outside Rio is equipped with Alfa Laval T50 plate heat exchangers to recover heat used to separate oil from water and gas. The solution halved the number of heat exchangers, saving on space and maintenance.

Watch the case movie

Russia | Moscow

Heating and cooling Europe's tallest buildings

A total of 57 compact plate heat exchangers are used to heat and cool the great heights of the Federation Complex Towers in Moscow, Europe's tallest building. The heat exchangers reduce operational costs and easily handle the necessary pressure in buildings of this height.

Read the case

United Arab Emirates | Dubai

Record breaking tower

With 52 gasketed plate heat exchangers for water, HVAC and swimming pool applications, Alfa Laval's technology keeps the world's tallest building cool. The heat exchangers work with the district water supply and an innovative ice-storage system.

Read the case

China | Shanghai

Double-wall, double safety at MDI plant

An Alfa Laval double-wall plate heat exchanger provides double safety in a large Chinese chemical plant producing MDI used for rigid polyurethane foam. The double-wall design eliminates the risk of intermixing the fluids.

Read the case

Pakistan | Karachi

Tap water triumph

Alfa Laval technology turns seawater into fresh potable water in Karachi, Pakistan. Seawater is heated to evaporation and condensed into freshwater using Alfa Laval titanium plate heat exchangers. Minerals are then added to make potable water for distribution to the city.

Watch the case movie

Examples from around the world

Use the INSIGHTS app to discover the advantages of using Alfa Laval's gasketed plate heat exchangers.

Scan one of the images above using your mobile device. When an image is displayed, click on your unit to read the full story.

Three technologies for optimized processes

Alfa Laval's operations are based on three key technologies for heat transfer, separation and fluid handling, which are of decisive importance for many industrial processes. In 2013, heat transfer products accounted for 53 percent (54) of sales, separation products for 22 percent (22) and fluid handling products for 11 percent (10). Alfa Laval is the global leader in all three technology areas.

Global leader in heat transfer

Alfa Laval has been active in the field of heat transfer since 1931, when the company started to supply pasteurizing equipment for the dairy industry. Today, the company can supply heat exchangers that optimize energy use for heating, cooling, refrigeration, ventilation, evaporation and condensation. The offering comprises heat exchangers for applications that range from use in environments with lower pressures and temperatures to environments that require the handling of aggressive fluids at high and variable pressures and temperatures. Most industrial processes need some form of solution for heat transfer. Accordingly, Alfa Laval's customers can be found in such widely diverse industries as the chemical, food, oil, gas and power production, marine, construction and many, many more.

Air heat exchangers

Air heat exchangers offer the most efficient method of transferring heat between air and liquid. They consist of a series of tubes threaded through corrugated lamellas. Fans force the air between the lamellas, while liquid (water or a cooling medium) flows in the tubes. The range includes air-cooled condensers, air-cooled liquid coolers, dry coolers, and unit coolers for commercial use, as well as industrial cooling, refrigeration and air-conditioning. They are used in applications ranging from industrial cold stores to power plants, industrial processes, breweries, dairies, office properties, etc.

Plate heat exchangers enable efficient energy utilization

A heat exchanger transfers heating or cooling, usually from one fluid to another, but also between various gases. These products are of vital importance in ensuring the efficiency of the customer's entire manufacturing process. Compact plate heat exchangers, the main product in Alfa Laval's offering, can offer the customer a very efficient energy utilization, which cuts costs and reduces the environmental impact. Their efficiency stems from their construction, plate heat exchangers are made up of a series of plates assembled closely to each other. Between the plates, there are two channels containing media at different temperatures. These pass on either side of the plates and in opposite directions to each other. Heating or cooling is then transferred via the plates and the temperatures balanced. Different types of plate heat exchangers have been designed to withstand various forms of pressure and a range of temperatures.

Shell-and-tube heat exchangers

Alfa Laval has a niche range of shell-and-tube heat exchangers, specially designed for applications in the food and pharmaceutical industries, as well as for cooling, but also for applications in the petrochemical, power, oil and gas, process and marine industries. A shell-and-tube heat exchanger is made up of a shell containing a bundle of tubes. The primary liquid (cooling medium) flows through the tubes, while the secondary liquid (normally water) flows through the shell around the tubes to enable heat to be transferred from one liquid to the other. Thanks to their robust configuration, shell-and-tube heat exchangers can withstand extremely high pressure and temperatures.

Thermal fluid systems

A thermal fluid system is a closed system that permits the heating medium – synthetic oil – to circulate in a coiled heating surface. The surface then gathers the heat that is produced, either from waste steam or through a combustion process, and this heat is transferred to the synthetic oil, enabling it to remain in liquid form. Thermal fluid systems are generally used to generate heat for oil tanks, separators and systems for heating fuel. Other typical applications include delivering heat to steam generators, tank cleaning systems and the central heating of a vessel. These systems are also used to heat various types of cargo being transported, such as bitumen, oil-based products and chemicals.

Boilers

A boiler is a closed vessel containing thin tubes. The larger the boiler, the more tubes it contains. The technology is extremely common onboard vessels but can also be utilized for industrial applications. Alfa Laval's product range includes two different types of boilers, in which the tubes are heated in different ways: one uses waste heat from the engine exhaust, while the other, which mainly operates when the engine is turned off, utilizes heat from an oil burner. The heat from the tubes is used, in turn, to heat and vaporize the water in the container, generating steam that can then be used for a number of processes, including heating, cooling, cleaning, generating electricity or producing hot water for people onboard a vessel.

Market segments

- Industrial Equipment
- Marine & Diesel Equipment
- Marine & Offshore Systems
- OEM
- Sanitary
- Food
- Energy & Environment
- Process Industry

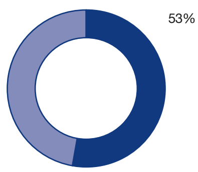
Competitors

- GEA (Germany)
- HISAKA (Japan)
- SPX/APV (USA)
- SWEP (USA)
- KANGRIM (Korea)
- SAACKE (Germany)
- MIURA (Japan)
- HEATMASTER (Netherlands)
- OSAKA (Japan)

Market position

More than 30 percent of the world market

Sales



Share of Group sales

Separation expertise since 1883

Ever since Alfa Laval was established in 1883; separation technology has been a central part of operations. The technology is used to separate different liquids from each other and solid particles from liquids. The technology can also be used to separate particles and liquids from gases.

Decanters

Decanter centrifuges are normally based on horizontal separation technology, which works at a speed of 5,000 revolutions per minute. They are used to separate large particles and are thus commonly used in such applications as the dewatering of sludge in wastewater treatment plants, olive oil production, distilleries and handling drilling mud in conjunction with oil extraction.

Belt filter presses

Presses intended for the dewatering of municipal and industrial wastewater. This separation technology was added through the acquisition of Ashbrook Simon-Hartley and is a complement to our decanters.

High-speed separators

High-speed separators have many areas of application, including the treatment of fuel and lubricating oils onboard vessels, the processing of vegetable oil, the production of pharmaceuticals, milk, beer, wine, juice and other beverages, and in the chemical and oil and gas industry. They have high rotation speeds and can rotate as quickly as 12,000 revolutions per minute. They are generally mounted vertically and are used primarily for separating liquids from one other.

Membrane filtration

Another separation technology offered by Alfa Laval is membrane filtration, which is an established solution for separating very small particles.

Market segments

- Industrial Equipment
- Marine & Diesel Equipment
- Marine & Offshore Systems
- OEM
- Sanitary
- Food
- Energy & Environment
- Process Industry

Competitors

Separators

- GEA (Germany)
- MITSUBISHI KAKOKI KAISHA (Japan)
- PIERALISI (Italy)

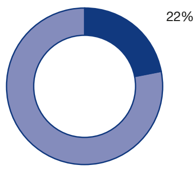
Decanters

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

Market position

25 to 30 percent of the world market

Sales



Share of Group sales

Precise and hygienic fluid handling

Transporting and regulating fluids in an efficient, safe and hygienic manner are crucial to processes in many industries. Alfa Laval focuses on fluid handling in industries with stringent hygiene requirements, such as the food and pharmaceutical industries. The company's pumps, valves and installation material are used in such applications as the production of beverages, dairy products, food, pharmaceutical products, and health and personal care products, in other words, in environments where any risk of contamination is precluded. Alfa Laval also offers equipment for tank cleaning.

Pumps and valves

Pumps drive the flow of liquids during a process and valves are used to guide and direct the flow by opening and closing. For hygienic applications, Alfa Laval mainly offers centrifugal, liquid ring and rotary lobe pumps. The most common types of valves include control valves, constant-pressure valves, butterfly valves and diaphragm valves.

Tank equipment

Alfa Laval offers hygienic tank equipment primarily designed for use in the food and pharmaceutical industries. The company's range includes everything from mixers to cleaning equipment. Alfa Laval's mixers work well on both high and low-viscosity liquids, ranging from milk, wine and juice to yoghurt, desserts and fruit drinks. There is even a mixer that offers mixing of liquids and cleaning of the tank afterwards.

Market segments

- Industrial Equipment
- Marine & Diesel Equipment (selected)
- Marine & Offshore Systems
- OEM
- Sanitary (selected)
- Food (selected)
- Energy & Environment
- Process Industry (selected)

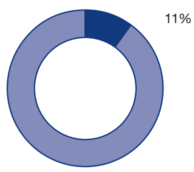
Competitors

- GEA (Germany)
- SPX/APV/ WAUKESHA CHERRY BURRELL (USA)
- FRISTAM (Germany)

Market position

10 to 12 percent
of the world market

Sales



Share of
Group sales

An organization that supports the Group's business concept

Alfa Laval's organization is rooted in its business concept: to optimize the performance of customers' processes, time and time again. To achieve this goal, the company's structure must be based on an understanding of its customers' needs and processes, which hinges on the specialist expertise of its employees. Combined with insight into how customers conduct procurement and purchasing, this expertise serves as the foundation for Alfa Laval's sales organization and its three divisions: Equipment, Process Technology and Marine & Diesel.

Equipment

Business model
Equipment offers components for customers with a well-defined and regularly recurring need for Alfa Laval's products.

Sales
Sales are primarily conducted through system builders and contracting companies, as well as dealers, agents and distributors. The division continuously increases its number of sales channels since availability is a key prerequisite. Availability is ensured through several channels to various geographic markets and industries. Given this business model, it is natural that the division also continuously develops its e-commerce offering.

Segments:
- Sanitary
- Industrial Equipment
- OEM
- Service

Share of Group's order intake 32%

Aftermarket's share of the division 18%

Read more on pages 30–31.

Process Technology

Business model
Process Technology serves customers that require customized solutions in the areas of heat transfer, separation or fluid handling in order to enhance the efficiency of their processes and boost their capacity.

Sales
Sales are mainly conducted through the Group's own sales companies and contractors, and are made directly to customers. The division combines expertise in its key technologies with solid knowledge about customer processes, and offers package solutions that cover everything from individual products to systems, complete solutions and efficient customer service.

Segments:
- Process Industry
- Energy & Environment
- Food Technology
- Service

Share of Group's order intake 46%

Aftermarket's share of the division 29%

Read more on pages 32–33.

Marine & Diesel

Business model
The division offers products, solutions and systems in the areas of energy, the environment and safety for customers in the marine and offshore markets and land-based diesel power.

Sales
Sales are conducted through the Group's own sales organization directly to shipowners, shipyards, manufacturers of diesel engines and offshore customers. The offering includes 16 main product groups comprising components, modules, adapted systems, boilers, separators, heat exchangers, inert gas systems, freshwater generators, exhaust gas cleaning systems, heat recovery systems and ballast water treatment systems.

Segments:
- Marine & Diesel Equipment
- Marine & Offshore Systems
- Service

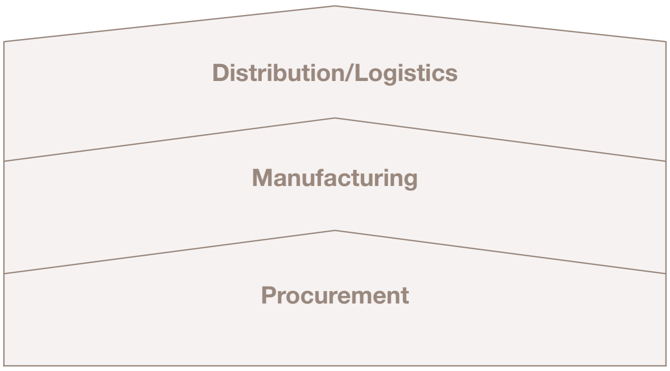
Share of Group's order intake 22%

Aftermarket's share of the division 38%

Read more on pages 34–35.

Operations

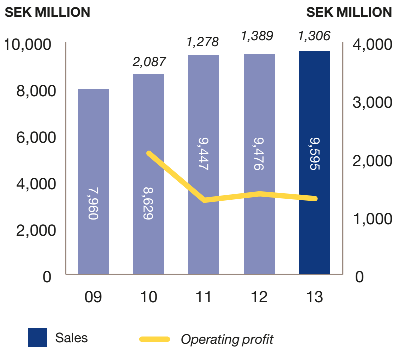
The Group has a shared supply chain that serves all three sales divisions. Known as the Operations Division, this centralized unit is responsible for production-related procurement, manufacturing and distribution. Time, cost, quality and sustainability are guiding concepts for this division, since optimal supply chain performance is one of many critical steps in delivering products that in turn can help optimize the performance of customers' processes, time and time again. Final delivery should include the right product with the right quality and the right documentation at the right time. Combined with the sales divisions, Operations helps Alfa Laval achieve its business concept.
Read more on pages 36–37.



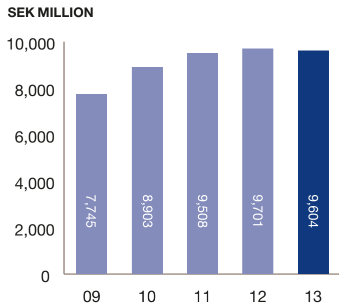
Equipment Division

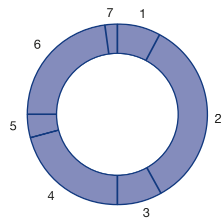
The division's customers are characterized by a well-defined and regularly recurring need for Alfa Laval's products. In most cases, sales are conducted through system builders and contracting companies, as well as dealers, agents and distributors – direct sales to end-users are limited. The Equipment Division continuously increases its number of sales channels, since it is strategically important that its products are available through many channels worldwide. Given that its business model focuses on availability, it is natural that the division also strives to further develop and strengthen the Group's e-commerce offering.

Sales and operating profit



Order intake





1	Sweden	8%
2	Other EU	34%
3	Other Europe	9%
4	North America	20%
5	Latin America	4%
6	Asia	23%
7	Other	2%

"While the division as a whole saw unchanged demand, a number of areas considered to be of strategic importance for our future development displayed a very positive trend."

Susanne Pahlén Åklundh
President, Equipment Division

Significant events in 2013

- Sales through distribution channels displayed significant growth.
- The Group's new e-commerce platform, which was test-launched in 2012, was made available for more markets, languages and products. By the end of the year, e-commerce accounted for a large portion of the total number of orders in Western Europe.
- Alfa Laval noted a strong trend in many growth economies in Central and Eastern Europe and Asia, regions where structural changes drive demand, for example, for food and pharmaceuticals.
- Increased demand for many of the Group's traditional core products, such as plate heat exchangers, valves and pumps for hygienic applications.
- Continued growth in sales of service and spare parts.
- The development varied in the different end markets. In the Sanitary segment, pharmaceuticals and personal care products displayed considerable growth, driven by structural changes in fast-growing economies. At the same time, the level of base business in the US and Western Europe remained high. Demand from producers of heat pumps and combination boilers was favorable, driven by a positive reception of newly launched products, while customers in the Engine & Transportation segment, including producers of leisure boats, experienced weaker demand, causing them to reduce their inventory levels and subsequently cut back on purchasing. Demand in other customer segments remained relatively unchanged.

Industrial Equipment

Operations
Sales comprise heat exchangers for district heating and cooling, air conditioning of plants, offices and shopping malls, and cooling and freezing solutions for the food, beverage and pharmaceutical industries, as well as supermarkets. In addition, the segment's customers are active in the manufacturing industries to which Alfa Laval sells heat exchangers and separators for temperature regulation and/or cleaning of liquids to enable their reuse, thus lowering operating costs and protecting the environment.

Forces driving demand
Activity levels in the construction industry, energy price trends, the need for energy-efficient solutions, the shift toward demand for more environmentally friendly cooling media, environmental legislation, industry capacity utilization, commodity and energy price trends, increased environmental focus and expansion of power supply.

Order intake	Share of division's order intake	Change in order intake
	38%	= 2013 = 2012 + 2011

Sanitary

Operations
Alfa Laval's products are used to produce liquid and viscous foods, pharmaceuticals and hygiene products. Customers are active in the beverage, dairy, food and biotechnology industries, all of which have stringent requirements in terms of hygiene and safety.

Forces driving demand
Changes in consumption habits as a result of urbanization in growing economies, the development of new medicines, improved standard of living, demographic changes, the need for energy-efficient solutions and expanded food production.

Order intake	Share of division's order intake	Change in order intake
	33%	= 2013 + 2012 + 2011

OEM

Operations
Customers in this segment include manufacturers of air-conditioning systems, air compressors, heat pumps, air dryers and gas boilers. Among other products, Alfa Laval sells brazed plate heat exchangers, which are later integrated into customers' end-products.

Forces driving demand
Increased focus on the environment, the need for energy-efficient solutions, government subsidies and energy price trends.

Order intake	Share of division's order intake	Change in order intake
	11%	+ 2013 – 2012 = 2011

Service

Operations
Customers are active in all of the division's segments, with the exception of OEM. The aftermarket is a priority area and the overall strategy is to further develop and expand the spare parts and service operations. Read more on pages 38–39.

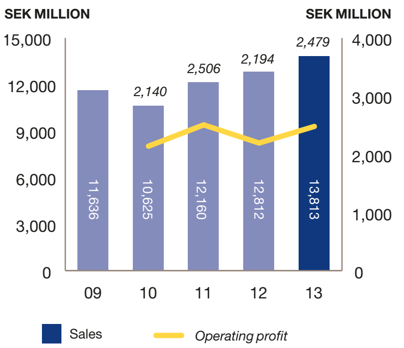
Forces driving demand
The industrial capacity utilization rate and growth in the installed base.

Order intake	Share of division's order intake	Change in order intake
	18%	+ 2013 + 2012 + 2011

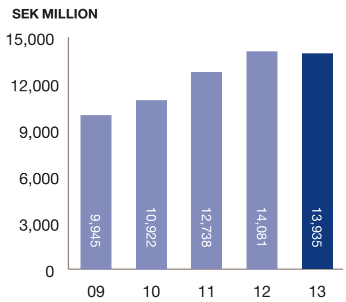
Process Technology Division

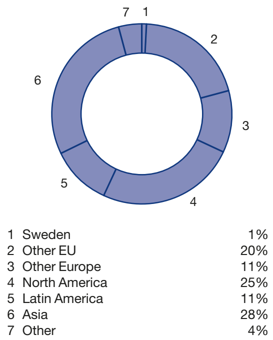
This division serves customers that require customized solutions to enhance the efficiency of their processes or boost their capacity. Sales are mainly conducted through the Group's own sales companies and contractors, and are made directly to customers. Alfa Laval combines expertise in its key technologies with solid knowledge about customer processes, and offers package solutions that cover everything from individual products to systems, complete solutions and efficient customer service.

Sales and operating profit



Order intake





"Investments in the gas sector continued, not least in North America. The division secured several major heat exchanger orders for gas – based on the strength of our product range and application know-how."

Svante Karlsson
President, Process Technology Division

Significant events in 2013

– The division reported a stable trend, with a continuing strong influence from energy and environment-related areas, where energy-saving initiatives in the process industry and energy sector created opportunities for Alfa Laval's products and solutions.

– The potential for structural growth remained clear. A growing middle class and increasing consumption resulted in investments in areas in which Alfa Laval has a strong presence, such as the food industry.

– Investments in the gas sector continued, particularly in North America. Two acquisitions, conducted in late 2012 and mid-2013, enhanced the Group's potential for a strong market presence. The division secured several major heat exchanger orders for gas – based on the strength of the product range and application know-how – and gas hence increased its overall share of the all-important oil and gas area during the year.

– Structural changes in the world's fast-growing economies contributed to a capacity expansion in such areas as the petrochemical industry, which generated several major orders for heat exchangers. Food Technology also benefited from the changing consumption patterns of the growing middle class. To further support sales to the Asian food and process industry, regional centers were established during the year.

– The division's focus on the aftermarket yielded results, with strong growth reported for spare parts and the even more highly prioritized area of service operations.

Process Industry

Operations
Alfa Laval's products are used for manufacturing petrochemical products, plastics, polymers, metals, minerals, biofuels, pharmaceuticals, starch, paper and sugar.

Forces driving demand
Global market prices for raw materials, such as sugar, ethanol, corn, oil and steel, energy price trends, environmental legislation, the need for energy-efficient solutions, the need for productivity enhancements, demand for fuel and a technological shift.

Order intake | Share of division's order intake 25% | Change in order intake − 2013 + 2012 + 2011

Energy & Environment

Operations
In the energy sector, Alfa Laval's products, modules and systems play a major role in both the extraction of oil and gas and the production of energy in power plants. Alfa Laval is also active in the environmental sector, since the company's products can help customers fulfill increasingly strict environmental requirements and legislation. In the waste treatment segment, Alfa Laval supplies products that reduce sludge volumes so that they can be managed in a cost-efficient manner in municipal treatment plants throughout the world.

Forces driving demand
Energy: Oil and gas prices, a growing need for energy in developing countries, national independence (LNG), development of energy production using renewable fuels, increased focus on nuclear power and the need for energy-efficient solutions.

Environment: New rules and regulations, increased need for freshwater due to a growing population and increased urbanization.

Order intake | Share of division's order intake 29% | Change in order intake − 2013 + 2012 + 2011

Food Technology

Operations
Alfa Laval Alfa Laval supplies process solutions for the beverage and food industries. Among other applications, the Group's solutions are used in the production of beer, wine, juice, fruit concentrates, food ingredients, milk proteins, sugars, semi-processed foods, vegetable/olive oil, and meat and fish proteins.

Forces driving demand
Demographic changes, population growth, improved standard of living, changes in consumption patterns, increased focus on healthy food, subsidies and raw material price trends.

Order intake | Share of division's order intake 17% | Change in order intake + 2013 − 2012 + 2011

Service

Operations
Customers are active in all of the division's segments. The aftermarket is a priority area and the overall strategy is to develop and expand the spare parts and service business, which offers customer value, brings customers closer to Alfa Laval and is less sensitive to variations in the business cycle. By creating continuous customer contacts, the division facilitates new sales. Read more on pages 38–39.

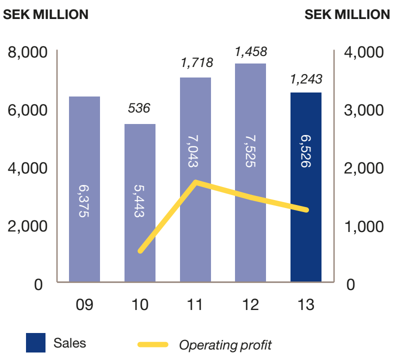
Forces driving demand
The general activity level in various industries, the need to upgrade older equipment, an increased need for efficiency and the need for service and spare parts to prevent unplanned stoppages and minimize the time necessary for planned stoppages.

Order intake | Share of division's order intake 29% | Change in order intake + 2013 = 2012 + 2011

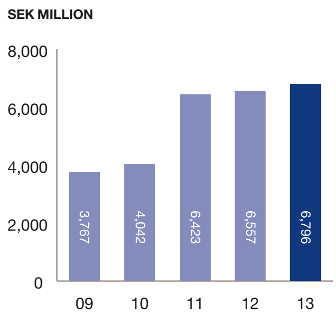
Marine & Diesel Division

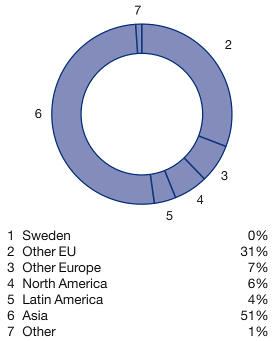
The division has a wide and varied range of products in the areas of energy, the environment and safety for customers in the marine industry, manufacturers of diesel engines and offshore customers. Sales are conducted through the Group's own sales organization directly to customers. The offering, which includes sales of 16 main product groups, comprises components, modules and adapted systems, such as boilers, separators, heat exchangers, inert gas systems, freshwater generators, exhaust gas cleaning systems, heat recovery systems and ballast water treatment systems. In addition, the division has a well-developed aftermarket organization.

Sales and operating profit



Order intake





"The division saw positive effects from the recovery of ship contracting. At the same time demand grew for the two main applications within our environmental offering – ballast water treatment and exhaust gas cleaning."

Peter Leifland
President, Marine & Diesel Division

Significant events in 2013

– The division started to see the positive effects from the recovery of ship contracting. In addition, higher-than-anticipated growth in world trade and a tendency towards increasing freight rates at the end of the year were early signs of an improved business climate in the industry. Service remained unchanged, as an increase in the base business was offset by the discontinuation of a number of major repair orders secured in 2012.

– Demand for equipment for land-based diesel power plants declined due to a generally lower level of market activity.

– The division's environmental operations reported growth for the two main applications – ballast water treatment and exhaust gas cleaning – driven by legislative changes. The ballast water treatment market saw increased activity and orders were boosted by the introduction of the third-generation PureBallast, which was well-received in the market. The PureSOx scrubber for exhaust gas cleaning also achieved customer acceptance, leading to repeat orders for both new installations and retrofits.

– There was an increase in demand for new products that save energy and recover waste fuel: a waste heat recovery unit designed for use after auxiliary engines and the PureDry system. These new solutions gained market acceptance and orders were booked in line with expectations.

– A gas-combustion unit was added to the portfolio via acquisition. This new safety product experienced better-than-expected demand due to the high contracting rate for gas carriers.

Marine & Diesel Equipment

Operations
The segment supplies shipowners, shipyards and manufacturers of diesel engines with a wide range of products in the areas of energy, the environment and power. The product portfolio includes separators, heat exchangers, freshwater generators, tank cleaning equipment, ballast water treatment systems and much more.

Forces driving demand
Marine: Global transport requirements, consolidation in the shipbuilding industry, government initiatives to support local shipyards, environmental legislation and a focus on energy efficiency.

Diesel: The need for electricity in remote locations, global energy demand, the need for power reserves, for example, for nuclear power plants and wind farms.

Order intake | Share of division's order intake 35% | Change in order intake 2013 2012 2011

Marine & Offshore Systems

Operations
Supplies customers in the marine industry and offshore sector with a number of components, modules and adapted systems aimed at optimizing their processes, saving energy and reducing emissions. The offering includes boilers, inert gas systems, exhaust gas cleaning systems and thermal fluid systems.

Forces driving demand
Global transport requirements, governmental initiatives to support local shipyards, environmental legislation, increased focus on energy efficiency, safety regulations for transporting flammable cargoes, increased energy demand leading to investments in offshore oil and gas exploration, and offshore drilling technology improvements.

Order intake | Share of division's order intake 27% | Change in order intake 2013

Service

Operations
Has a wide offering for the division's customers comprising spare parts, service, repairs, upgrades and replacement products. The network is well-developed and ready to help customers whenever and wherever they need assistance. Read more on pages 38–39.

Forces driving demand
Increased trade and capacity utilization in the global shipping fleet.

Order intake | Share of division's order intake 38% | Change in order intake 2013 2012 2011

The road to Alfa Laval's financial goals begins on the shop floor

Operations is the joint Group unit responsible for production-related procurement, manufacturing, logistics and distribution. Sustainability, efficiency, quality and productivity are guiding concepts for this division, since optimal supply chain performance is one of many critical steps in delivering products that in turn can help optimize the performance of customers' processes, time and time again. Final delivery should be made with short lead times and include the right product with the right quality and the right documentation at the right time. Combined with the sales divisions, Operations thus helps Alfa Laval achieve its business concept.

Procurement → Manufacturing → Distribution/Logistics

Procurement

Production-related procurement, which includes everything from rubber gaskets and stainless steel to electronics, is managed by a specific unit within the Operations division. Since direct materials comprise about 70 percent of the cost of goods sold, it is critical that the Group's purchasing volumes are consolidated as this provides an edge in negotiations with sub-suppliers. However, the Group's relationships with its sub-suppliers are about much more than simply cost. Other key factors that must be considered include punctual deliveries, lead times and quality, as well as the supplier's compliance with Alfa Laval's Business Principles with respect to health, safety, the environment and ethics. The procurement unit has an ongoing program for developing work plans, methods and frameworks to be used during the procurement process to ensure that the selected suppliers enable Alfa Laval to meet customer expectations in terms of cost, quality and delivery time. Continuous activities are also carried out to develop the supplier base, identify the areas of expertise needed in the organization and determine how to manage various issues, such as fluctuating purchasing volumes. The ongoing, proactive work of the procurement organization contributes to Alfa Laval's competitiveness in several ways.

Raw materials

Steel, nickel, copper, aluminum and titanium are the primary metals used by Alfa Laval. Accordingly, the company works proactively to reduce the effects of price fluctuations, which can have a major impact on the Group as a whole. This is accomplished in several ways. One alternative involves signing long-term delivery commitments with the company's suppliers, extending for six to 12 months at fixed prices; another alternative is to implement price adjustments or include price clauses in customer contracts. In the Process Technology Division, which has a large proportion of contract-based sales, Alfa Laval produces to order and uses advance payments from customers to cover its material purchases. For more information about raw material prices, refer to the section on operational risks on page 101.

Manufacturing

With a global production chain, it is important that all individual production units are standardized, meaning that all units are alike regardless of their location. This concept also simplifies the process of establishing new production units. Several target parameters have also been implemented, including efficiency, production, quality and environmental targets. These apply for the entire supply chain and are not exclusive to the Group's manufacturing operations. However, as part of its efforts to achieve its production targets, Alfa Laval continuously enhances its manufacturing processes, including everything from the Group's various manufacturing technologies to long-term investments in expertise.

Alfa Laval operates 34 major production units, spread across Europe, Asia, the US and Latin America. Production is based on manufacturing technology, product group and size, not on the final application of the product. This means that some units, for example, specialize in large-scale separators, while others manufacture small and medium-sized units. Several factors explain Alfa Laval's global spread, including the gradual relocation of the Group's production operations to low-cost countries. The main reason, however, is the benefits to be gained by responding to local demand with local production, since global shipping is costly, time-consuming and less environmentally friendly.

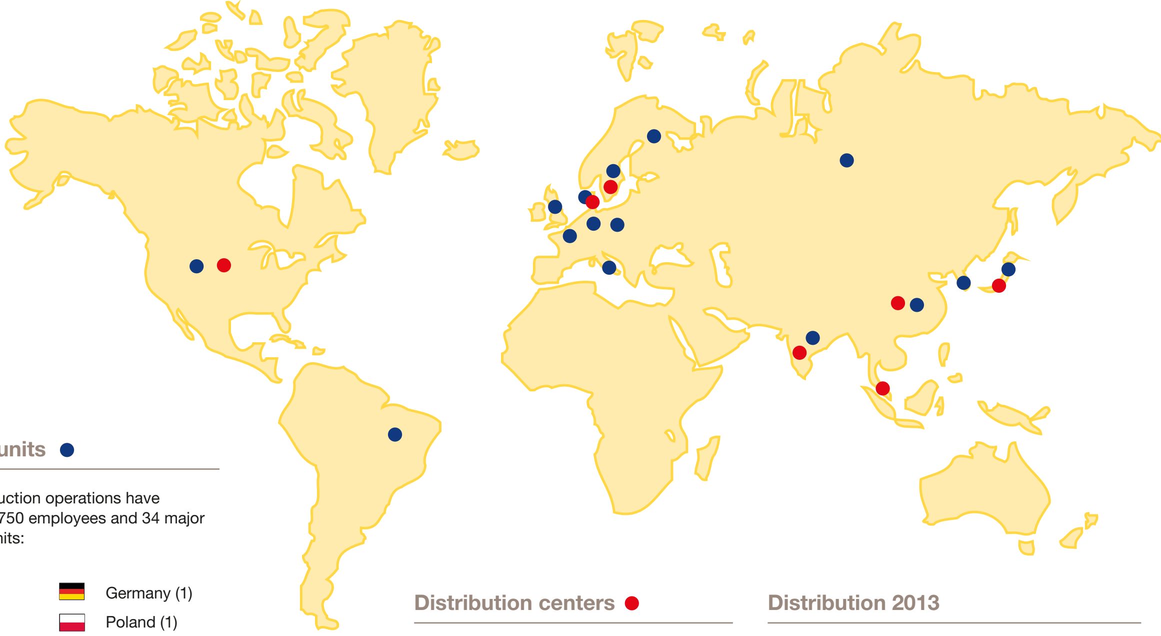
Environment and sustainability

Alfa Laval's products can reduce customers' energy and water consumption, thereby helping to mitigate the environmental impact of their processes. Alfa Laval also makes a concerted internal effort to ensure that its own operations are as energy-smart, clean and efficient as possible. This environmental work is led by the line organization in order to ensure it is treated as part of the Group's daily operations, thus enabling a long-term approach. Part of the Group's environmental initiatives includes certification in accordance with the ISO 14001 environmental management system. At year-end, 93 percent (86) of the total delivery value came from certified production sites. For more information about sustainability, read our GRI report online at www.alfalaval.com.

Distribution/logistics

Having a shared organization that manages the Group's overall transport needs enables Alfa Laval to create sufficient volumes to gain an edge during negotiations. Centralized management provides a higher service level and simplifies the Group's work to limit the environmental impact of its transportation operations. A concerted effort is being made to reduce the amount of carbon emissions from transportation: the goal is to achieve an annual reduction of 3 percent by 2015. One way to achieve this goal is to reduce the proportion of airfreight and instead ship more goods by sea. In 2013, 26 percent (28) of the Group's goods were shipped by sea, 67 percent (65) by road and 7 percent (7) by air.

Distribution and logistics are about more than just transportation. These areas also include processes for order handling, inventory management, stock picking and invoicing. Alfa Laval's eight distribution centers – three central and five regional – located in the US, Sweden, Denmark, China, Singapore, Japan and India serve as the hub for these activities. The distribution centers ensure delivery reliability, as well as monitoring the demand for spare parts and managing inventories and deliveries. In 2013, a new center was established in China in response to the growth potential noted by Alfa Laval in the country. One positive effect is that this center is expected to reduce the need for global transportation and thus bring Alfa Laval one step closer to achieving its environmental goals.



Production units

Alfa Laval's production operations have approximately 7,750 employees and 34 major manufacturing units:

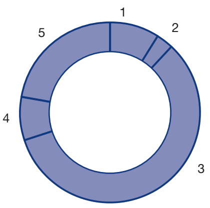
- USA (6)
- Brazil (2)
- Sweden (4)
- Denmark (3)
- UK (1)
- France (3)
- Italy (2)
- Finland (1)
- Germany (1)
- Poland (1)
- Russia (1)
- China (3)
- India (4)
- Japan (1)
- Korea (1)

Distribution centers

- USA (1)
- Sweden (2)
- Denmark (1)
- China (1)
- Singapore (1)
- Japan (1)
- India (1)

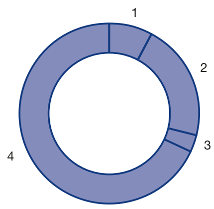
Distribution 2013

Investments by geographic market, %



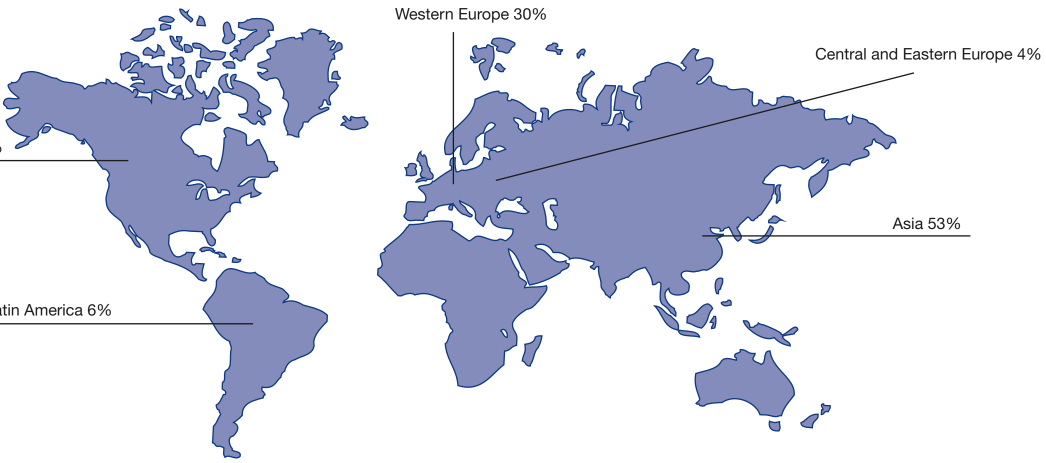
1	North America	9%
2	Latin America	3%
3	Western Europe	58%
4	Central and Eastern Europe	8%
5	Asia	22%

Purchases by geographic market, %



1	North and Latin America	8%
2	Asia	21%
3	Central and Eastern Europe	3%
4	Western Europe	68%

Geographic distribution of direct labor hours in production, %



Service

When customers purchase equipment from Alfa Laval, they receive high-quality products with a long service life. In addition, they also receive a high level of operational reliability and favorable operating finances. Customers who also invest in proper care in the form of genuine replacement parts, maintenance and upgrades gain a peace of mind that lasts throughout the service life of the product.

New name, new opportunities

Traditionally, Alfa Laval has sold more spare parts than service. However, the Group's large installed base offers built-in potential to expand its service operations. To reflect these opportunities, the organization changed its name to Service during the year. This name change represents the favorable growth opportunities Alfa Laval sees in the area, with a maintained focus on spare parts.

The organization will face a number of challenges as it shifts its focus toward service operations, since the process of selling services is more abstract than selling physical products. This process requires sales personnel and service engineers with in-depth knowledge of customer processes and an ability to clearly show the customer the value of Alfa Laval's offering. In other words, the organization must demonstrate to customers in practical terms how the offering can optimize the efficiency and performance of their processes.

Glocal operations

Together, Alfa Laval's more than 100 service centers form a global network. The individual units have a local focus and well-trained, experienced service engineers, supported by a central group of process specialists. A great deal of work can be carried out at the customer's premises, but a service center is never far away when major repairs or reconditioning is needed. This proximity to the customer is a clear advantage, particularly when customers need immediate help. As a "glocal" company, Alfa Laval has the ability to offer what the customer wants in terms of content, time and location – in other words, the right product and service offering, at the right time and in the right place. In 2013, the service network was further expanded and several new service centers were added in such locations as Asia.

The customer decides

In the aftermarket business, demand is governed by the work environment of the product, as well as by the customer's operations, needs and requirements. A demand for spare parts and service may arise just a few months after installation or after several years – this all depends on the environment in which the product is employed and the intensity with which it is used. Another key factor is whether the customer is large enough to handle maintenance and service itself or whether it has a small organization with limited resources that therefore must purchase spare parts and service. Since each customer is unique, Alfa Laval's offering is broad and includes both spare parts, available worldwide, and service agreements customized to meet each customer's unique needs. These agreements are flexible and can include everything from basic maintenance and cleaning to upgrades, inspections, online monitoring, round-the-clock technical support seven days a week, monitoring of spare parts consumption and complete maintenance plans.

Good for the customer, good for Alfa Laval

Investing in service and spare parts from Alfa Laval generates value for the customer, since the installed products then are given optimal conditions for a long, problem-free service life. Naturally, there are also benefits for Alfa Laval. The Service business is not only profitable, but also less sensitive to economic trends and thus has a stabilizing effect on invoicing. It is also an important component of the Group's efforts to identify new customer requirements and needs, which can then be translated into new products with the help of the research and development organization. Last but not least, the organization's frequent customer contacts create opportunities for additional new sales. All in all, this makes the Group's Service operations an attractive and prioritized area for Alfa Laval. The goal is to achieve continued growth and development in terms of both location and content.

For more information about Alfa Laval's Service offering, visit

www.alfalaval.com/service-and-support

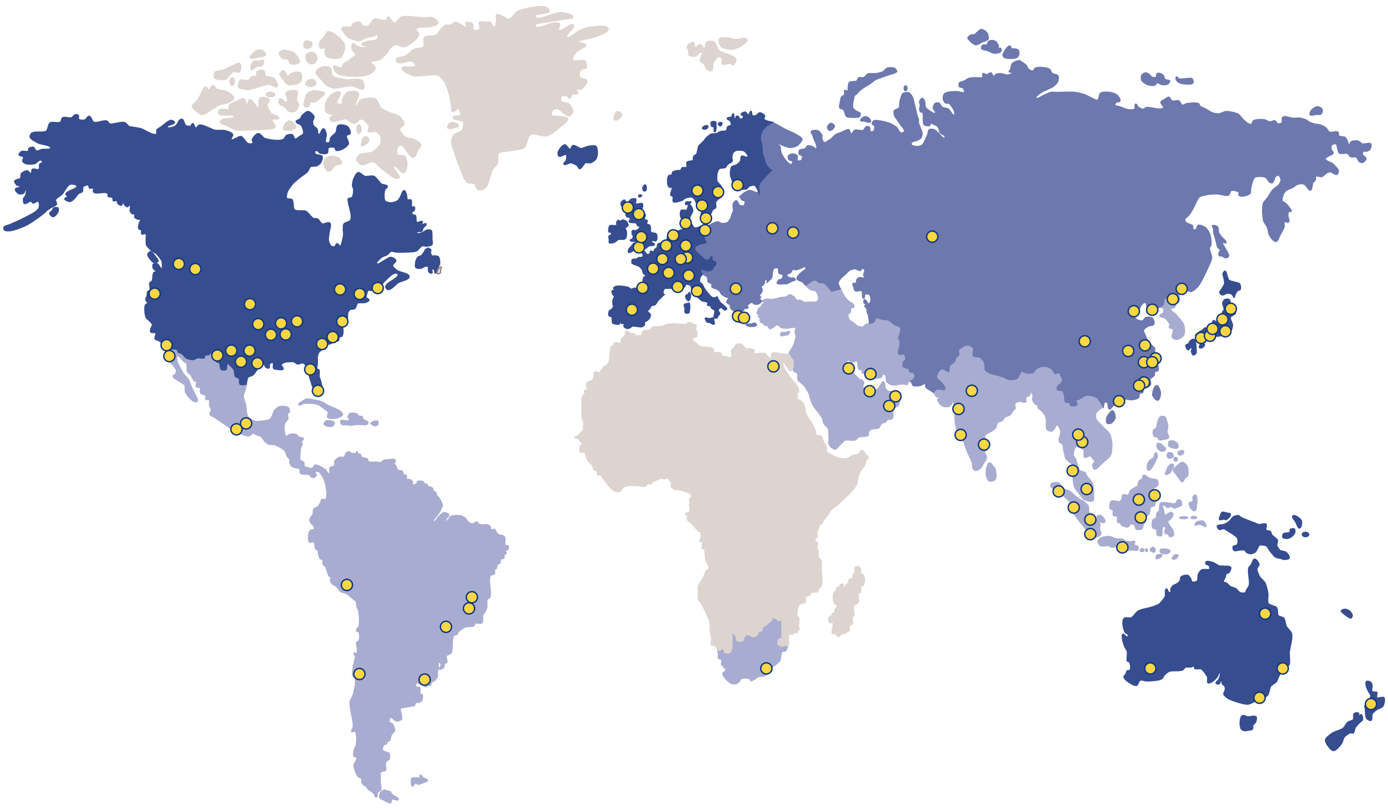
Why choose Service from Alfa Laval?

Fewer stops

Budget service costs

Short payback time

Improved performance



Service centers

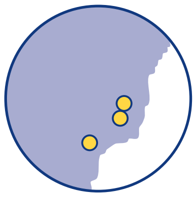
106

At year-end 2013, Alfa Laval had 106 service centers to meet customer demand worldwide.

Installed base

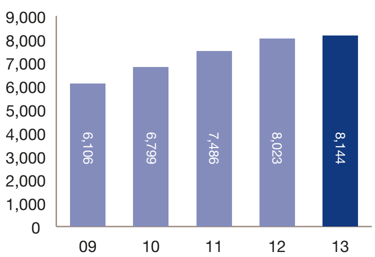
Large and mature installed base that needs to be maintained and renewed.

A combination of fast-growing markets and established niche applications.

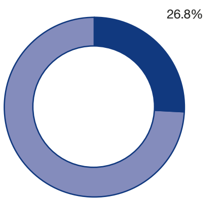


Installed base that is growing rapidly.

Order intake, SEK million

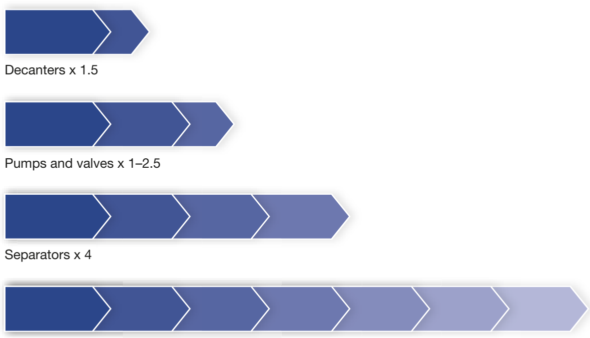


Share of Group's order intake, %



Long-term potential

Value of the aftermarket relative to new sales



Employees

Alfa Laval has established financial goals for growth and profitability and a business plan that focuses on "optimizing the performance of customers' processes, time and time again." To achieve the business plan and meet its financial goals, the Group has implemented a number of strategies. One of the most important strategies pertains to Alfa Laval's employees and is based on the clear link between a thriving company and employees who grow and develop. The HR function's efforts to support the company and its employees are crucial. Alfa Laval employees should feel secure knowing that the company has a strong focus on health and safety, favorable working conditions, equal access to various career paths and personal development opportunities. So how is this achieved?

First step

The first and most important step is to comply with local legislation and regulations, as well as Alfa Laval's Business Principles, which prohibit discrimination, support freedom of association, respect human rights, prohibit child labor and stipulate that Alfa Laval is to offer a healthy and safe workplace. Alfa Laval's Business Principles are available on the company's intranet and managers are responsible for introducing them to all new employees and making sure they are correctly understood. For many people, these are considered non-negotiable rights. However, Alfa Laval is also active in markets and countries where its Business Principles are more far-reaching than the local legislation.

Diversity

No employee within Alfa Laval may be discriminated against on the basis of race, gender, religion, sexual orientation, political or union affiliation, age, nationality or disability. On the contrary, the ambition is to employ people from a variety of backgrounds since cooperation between people with different genders, nationalities, ages, sexual orientation, experience and opinions contributes to increased creativity and fresh ideas, which is important in an innovative company such as Alfa Laval. To achieve a favorable composition of employees, Alfa Laval uses an open internal recruiting process. All available positions are published on the company's intranet and all employees are welcome to apply. This approach broadens the base of applicants and promotes mobility and diversity, two key concepts that characterize the company's recruitment, employee development and managerial appointments. All employees should feel they have career paths open to them – this is particularly important in a company represented by 85 nationalities and crucial to Alfa Laval's goal fulfilment.

The proportion of female employees in Alfa Laval is 19.0 percent and the proportion of women in the group of managers reporting directly to Group management is 17.3 percent. To increase this percentage, the company is working to expand its recruitment base for female managers by employing a higher percentage of female graduates.

Development

The company offers several opportunities for employee development, including the Alfa Laval Academy, which provides training in three faculties. The Group also offers independent study opportunities via Internet-based modules that can be followed in a real-time group setting or independently at the individual employee's own pace. Alfa Laval aims to create and maintain a stimulating work environment that offers ample development opportunities for each employee. To achieve its business concept of "optimizing the performance of customers' processes," the Group must first optimize its own operations. With a firmly rooted performance culture, Alfa Laval aims to offer continuous training opportunities in the areas it considers to be top priorities for the Group. This also ensures that the company has the right expertise in the right place, thus boosting the quality and efficiency for both its processes and products. Naturally, development opportunities are not, by definition, linked to a particular course or training module. All employees who are open to change are wel-

come to apply for new positions and, within the framework of their duties, gain an opportunity to learn something new.

Goal fulfilment

Alfa Laval's goal fulfilment in the areas of profitability and growth is measured on a continuous basis and published in each of its interim reports. Insight into how employees rate the company is gained on a yearly basis through a global, Group-wide employee survey known as Compass. Approximately 94 percent of the company's employees participated in the most recent survey, which was in line with the previous year. The results indicated an employee satisfaction index level of 78, a stable outcome compared to 2012.

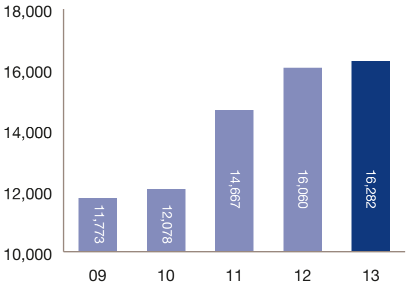
Health and safety

Alfa Laval's goal is to have a workplace that is free from accidents and work-related illnesses. To support its efforts to improve safety, the Group has established an Occupational Health and Safety program (OHS), which aims to make safety issues part of the company's daily operations. All units are expected to develop and implement long-term health and safety plans. This process begins with an analysis to identify existing risks and any improvement measures required to prevent and minimize these risks. Employees also receive training related to legislation, regulations and Alfa Laval's internal guidelines as part of their daily work.

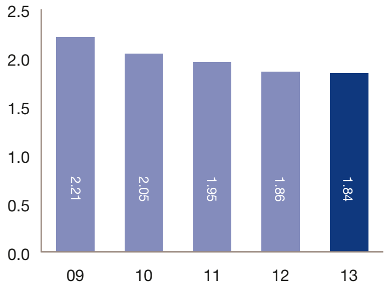
Alfa Laval has established several goals pertaining to health and safety. Learn more about the results for 2013 in the Group's GRI report, which is available in the sustainability section at:

www.alfalaval.com

Average number of employees

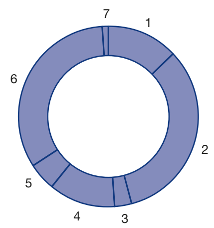


Sales per employee, SEK million



The outcomes for 2009 and 2010 were affected by the financial crisis and the outcome for 2011 by the acquisition of Aalborg Industries and the euro crisis. Aalborg Industries has lower sales per employee than Alfa Laval.

Employees per region



1 Sweden	13%
2 Other EU	33%
3 Other Europe	3%
4 North America	12%
5 Latin America	5%
6 Asia	33%
7 Other	1%

"From the time we first published our Business Principles in 2003 and again when we updated them in 2012, we have committed ourselves to transforming them into better everyday conditions for people.

Many employees have been directly involved in this challenge as a part of their regular jobs. Our products save energy, protect the environment and optimize the use of natural resources, and it is natural that our research and development, sales and service personnel are engaged in sustainability concerns every day.

But behind the scenes, many other employees are making a difference: our logistics experts work to reduce our transportation carbon footprint; our purchasing staff discuss and agree on improvements that should be made to the working conditions at our suppliers' facilities; our production management team implements energy and water-saving projects at our plants; our human resource specialists ensure we have a discrimination-free workplace; the list goes on.

Several of the industries that we serve, such as the consumer goods, chemical and marine industries, have been working to adopt standard practices for managing supply chains in a responsible manner. During 2013, Alfa Laval became more involved in these joint industry initiatives, which I believe will give us even greater momentum when it comes to implementing practical improvements."

Lars Renström

Sustainability report 2013

Alfa Laval's four Business Principles

Alfa Laval's Business Principles form the basis for the company's work on sustainability.

SOCIAL	BUSINESS INTEGRITY	ENVIRONMENT	TRANSPARENCY
Respect for human rights is fundamental	High ethical standards guide our conduct	Optimising the use of natural resources is our business	Our commitment to open dialogue builds trust

This Sustainability Report focuses on the highlights of our work in implementing the Business Principles during 2013. Detailed statistics relating to these highlights and other sustainability initiatives can be can be found on www.alfalaval.com, in the 2013 Business Principles Progress Report and the data-rich Global Reporting Initiative Report (GRI).

Social

Respect for human rights is fundamental

In 2012, Alfa Laval updated its Business Principles to incorporate the United Nations Guiding Principles on Business and Human Rights and the latest revision of the OECD Guidelines for Multi-National Enterprises. We were not alone in this change; many of our largest multi-national customers are also working hard to adhere to these guidelines. Alfa Laval units are subject to several customer audits each year, with an increasing focus on social, human rights and environmental performance, as well as technical assessment.

Major companies in several industries have joined together to develop common processes to drive responsible supply chains. One of the most established networks is Aim-Progress, within the consumer goods industry. This forum includes many of the largest brand names found in supermarkets around the world. In another example, several leading chemical companies have formed Together for Sustainability.

Alfa Laval supports these initiatives because, although many of these companies have a significant influence on their own, a common industrial sector "voice" has an even greater impact when it comes to implementing improvements that affect the lives of people working in the supply chain. In 2013, a number of major shipowners and the International Marine Purchasing Association (IMPA) launched a new initiative with the goal of achieving an effective, responsible supply chain management system for the industry. Alfa Laval was one of the pilot companies audited by the shipowners, and in recognition of our sustainability performance, we were invited to become a member of the Advisory Board of the initiative.

In major developing economies where statutory enforcement of labor standards is still inadequate, our own responsible supply chain initiatives have identified an unacceptably slow rate of improvement at some suppliers. Despite their commitment to make improvements to the health, safety and working conditions of their workers, as a part of their business relationship with Alfa Laval, their progress has been disappointing. Although we have been working with these issues for several years, we realized that we needed to strengthen our own organization and dedicate more resources to support change in these suppliers. We will provide more training and guidance to enable them to achieve the standards that we demand and their employees should expect. In tandem, we must make it clearer that if they fail to progress quickly, they will lose Alfa Laval's business.

Business Integrity

High ethical standards guide our conduct

The Business Integrity section of our Business Principles covers: Legal Compliance; Conflict of Interests; Political Contributions; Anti-Bribery and Anti-Corruption (ABAC); Fair Competition; and Governance.

Alfa Laval's Commercial Ethics Council was formed in 2012 and is chaired by the CEO. Its scope includes export control matters, Group policies on general compliance (including ABAC), the Fair Competition Policy, as well as guidance on the commercial implications of the Business Principles.

Eliminating bribery and corruption is essential for the continued development of international fair trade. Alfa Laval has conducted intensive training, internal auditing and reporting on this issue in recent years and this paragraph of the Business Principles was strengthened in 2012. During 2013, a review of the ABAC risk assessment and associated processes was initiated, including the roll-out of a new ABAC risk assessment methodology to all sales units.

Transparency

The company's commitment to open dialogue builds trust

Details on Alfa Laval's sustainability performance are published in the company's Progress Reports and GRI Reports, available in the sustainability section of www.alfalaval.com. Historically, most of the responses to these reports have come from SRI analysts and investors, as well as students. However, in 2013, we started to see more demand from customers for similar information.

In the past, non-financial data has been collected and managed at the corporate level, but the need to communicate this information to customers through various data exchanges has introduced new challenges with regard to both the systems used, as well as the people reporting the data. In response, we strengthened our resources during the year to handle these evolving demands.

In July 2010, the US Congress agreed to apply commercial pressure to help stop human rights abuses in the conflict-ridden areas in and around the Democratic Republic of the Congo. They did this by including a requirement in the Dodd-Frank Wall Street Reform and Consumer Protection Act directing the U.S. Securities and Exchange Commission (SEC) to promulgate rules requiring certain reporting companies to disclose whether the sources of conflict minerals (those needed to produce tin, tantalum, tungsten and gold) in their product offerings are "conflict-free."

Alfa Laval supports the SEC's rules and is committed to having a conflict-free supply chain. When conflict minerals are used in our products, our goal is to conduct due diligence of the supply chain to ensure they come from conflict-free sources. Alfa Laval will collaborate with and disclose this information to our customers who are required, or who have voluntarily decided, to comply with the SEC's rules. Consequently, Alfa Laval has formed a project team, headed by a full-time project leader, to ensure that we comply with this transparency requirement.

Alfa Laval's environmental work

Environment

Optimising the use of natural resources is our business

Our environmental targets for key manufacturing units

(Baseline 2011, Period 2012-2015. Applicable for the 23 sites that together accounted for 85 percent of our manufacturing energy consumption in 2011.):

- Improve energy efficiency by 12%
- Reduce water consumption by 20%
- Reduce restricted "grey" chemicals usage by 50%
- Reduce greenhouse gas from freight transportation by 12%

In the first two years of this target period, we focused on starting projects at our largest manufacturing sites, units of a size that justifies allocating people and money to make tangible progress in reducing energy, water and chemical use. Once successful outcomes are demonstrated, the knowledge gained will be used to "copy and paste" the solutions into other relevant, but smaller sites.

Since the start of the target period, 11 energy-saving projects have been completed and nine projects have been initiated at larger sites with higher energy consumption.

We have also completed a project to measure and calculate the water footprint of the five sites with the highest water consumption. In this project, we determined the exact use of water and thus identified projects that could make significant impact. Our processes are not generally water-intensive but we still expect there to be a limited number of sites where we can "copy and paste" the solutions to achieve the overall goal.

Restricted ("grey") chemicals are legally permitted but associated with potentially hazardous environmental or health risks. Many are found in cleaning solutions, paints, and other surface treatment applications. Analysis of the most common usage of "grey" chemicals has led to projects focused on replacing some solvents used in painting processes and cleaning operations. Once successful, these projects can be extended to several sites. In some cases, however, we will need detailed performance tests before we can have a realistic dialog with customers who specify existing paint finishes.

Greenhouse gas emissions from freight are mainly from air transportation. We analyze the weight and distance of all air freight shipments every month to help pinpoint projects that can reduce the need for air freight and replace it with surface transportation. Demand for airfreight is driven by customer requests or when an order is accepted below the normal lead time for the product. It can also be a way to recover lost time if there has been a delay in production. Many logistics projects have been carried out to improve the underlying day-to-day operations, but achievement of the overall goal can be impeded by a few large, heavy orders that have to be airfreighted to meet customer requirements.

Numerical information illustrating our achievements during 2013 is available in the GRI Report, published in the sustainability section of

www.alfalaval.com

Contents – Corporate Governance Report

Introduction by the Chairman of the Board

Corporate governance encompasses the set of processes, laws and regulations that impact a company's management, administration and internal control, as well as the relationships between the numerous stakeholders involved, the division of responsibility within the organization and the company's goals and objectives. Stakeholders may include shareholders, management, the Board of Directors, employees, customers, creditors, suppliers, government authorities and society as a whole. Sound corporate governance combined with transparency enables these stakeholders to assess whether the company is being governed in a rational manner in compliance with relevant laws and regulations, and to ensure that the administration of the company takes the best interests of its shareholders into consideration.

At Alfa Laval, we have tried to go one step further by basing the company's corporate governance on our four Business Principles, which were established in 2003. The aim of these principles is to continuously improve Alfa Laval's social, environmental and ethical behavior, as well as its transparency. The Business Principles are based on the OECD Guidelines for Multi-National Enterprises and the UN Global Compact, which in many instances are more ambitious than the minimal legal requirements. We also have several long-standing policies that specify how the various activities that take place within our business operations are to be managed. To further clarify these policies, we have implemented Group-wide instructions, which are available on the company's intranet. These instructions were compiled to enable the Group to follow up on the implementation of – and compliance with – various regulations, which takes place in the form of an annual review during which all managers are responsible for evaluating and implementing any instructions that are relevant to their individual areas.

Since the shareholders have delegated responsibility for the management of the company to us, the goal of this report is to demonstrate that the company's operations are characterized by rigorous governance and control. The report also describes the actions and interaction of various bodies, as well as the structures in place to ensure sound corporate governance. These areas are highly prioritized, as are our efforts to ensure that our communication is transparent, thereby enabling our various stakeholders to form an opinion of Alfa Laval.

During 2013, the work of the Board focused on a number of areas, such as acquisitions, ongoing financial and operational performance, and other areas considered critical to our long-term success. These areas included the Service operations, the construction of a testing center in Aalborg, Denmark, and the development of the Group's offering for the oil and gas sector. Driven by the link between the latter and trends in the US, the Board visited Alfa Laval's US headquarters in Richmond, Virginia. While there, we were able to further improve our understanding of Alfa Laval's offering and the Group's potential in the country, which the company should strive to capitalize on. Work on our environmental policy continued, with an ongoing focus on less resource-intensive products, energy and water-efficient production processes, and reducing the amount of restricted "grey-list" chemicals used in our operations. Other prioritized areas included our environmental management system and reporting, as well as the challenges encountered during the process of integrating acquired units into our established environmental initiatives. Last but not least, we continued to implement our Business Principles in order to ensure that Alfa Laval is governed in a long-term sustainable manner that takes the interests of the company's shareholders to heart.

Lund, February 2014

Anders Narvinger
Chairman of the Board

Corporate Governance Report 2013

This report is intended to provide various stakeholders with a foundation on which to base their view of Alfa Laval and its governance. It describes the regulations, guidelines, legislation and policies to which Alfa Laval is subject, the division of responsibility within the company and the actions and interaction of the Group's three decision-making bodies – the Annual General Meeting, the Board of Directors and the President.

Alfa Laval is to be governed in a manner that is sustainable from a long-term perspective taking its shareholders, employees, customers, suppliers and other stakeholders into consideration. This requires clear goals, guidelines and strategies, as well as business principles that are continuously put into practice rather than just being pretty words.

Introduction to Alfa Laval

Vision

To "help create better everyday conditions for people" by offering efficient and environmentally responsible products and solutions in the three key technologies of heat transfer, separation and fluid handling.

Business concept

Based on its three key technologies, Alfa Laval offers products and solutions that "optimize the performance of customers' processes, time and time again." In reality, this involves helping customers become more productive, energy-efficient and competitive.

Financial goals

Alfa Laval is a result-oriented company with clear financial goals. Its operations are governed not only by its business concept, but also by the financial goals established with regard to growth, profitability and return. By achieving or even exceeding these goals, Alfa Laval creates the necessary scope for its continued development in line with its strategic priorities. A favorable result also generates value for the Group's shareholders in the form of an annual dividend and by boosting the value of the company.

Strategy

In order to achieve its vision, fulfill its business concept and attain its financial goals, Alfa Laval has established a number of strategic priorities. These include strategies for expanding the Group's product offering and market presence – mainly organically, but also through acquisitions – as well as strategies for increased efficiency. Read more on pages 12–15.

Focus on the journey, not only the destination

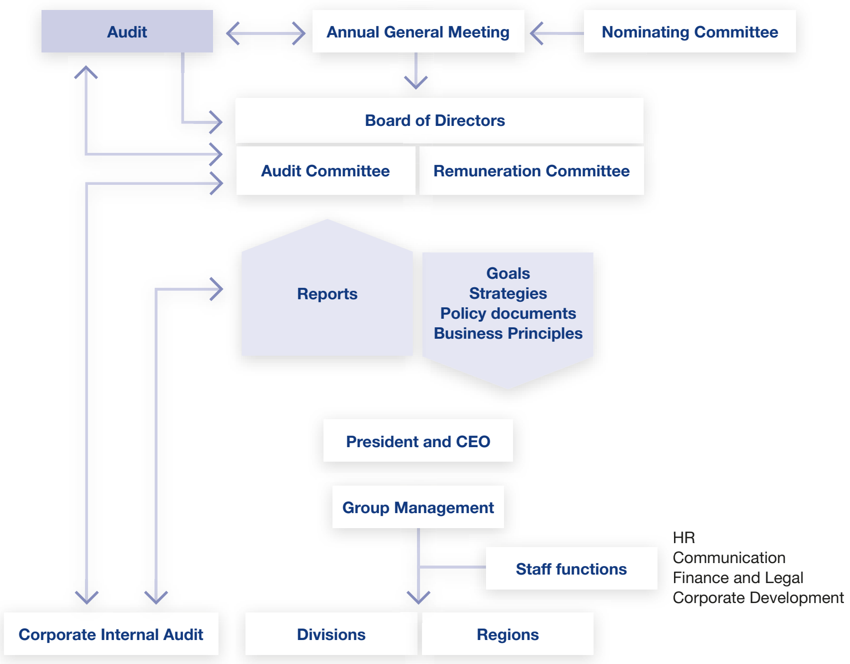
Equally as important as achieving goals and fulfilling the Group's business concept are the actions of the company and its employees along the way. As a public company, Alfa Laval's corporate governance is subject to a number of laws and regulations, the most important of which include the Swedish Companies Act, the Swedish Annual Accounts Act, the rules of the stock exchange and the Swedish Corporate Governance Code (the "Code"). Alfa Laval also follows a number of internal regulations, including governing documents, such as guidelines and instructions, as well as procedures for control and risk management. The work of the Board and the President is governed by formal work plans.

In addition to these regulations, Alfa Laval has established four Business Principles that reflect the company's ambitions in terms of the actions and interaction of the company and its employees with respect to the environment, human rights, ethics and transparency. All Alfa Laval employees are expected to be familiar with these principles and use them as a basis for their own actions. A brief description of the four Business Principles is provided below. The full principles can be downloaded at www.alfalaval.com.

- *Optimising the use of natural resources is our business*
- *Respect for human rights is fundamental*
- *High ethical standards guide our conduct*
- *Our commitment to open dialogue builds trust*

Alfa Laval's Corporate Governance Report for 2013 has been reviewed by the company's auditors.

Corporate governance



Alfa Laval – the company

The registered name of the company is Alfa Laval AB (publ) and the registered office of the Board of Directors shall be in Lund Municipality in Sweden. 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 fiscal year is the calendar year. 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. The Articles of Association do not include any limitations regarding the number of votes a shareholder can cast at an Annual General Meeting. Nor does it include any specific rules regarding the appointment and dismissal of Board members or changes in the Articles of Association.

The currently prevailing Articles of Association were adopted at the Annual General Meeting on April 20, 2009 and are available in their entirety on Alfa Laval's website:

www.alfalaval.com

Share and ownership structure

At December 31, 2013, Alfa Laval had 419,456,315 shares outstanding, allocated among 36,212 shareholders according to Euroclear Sweden's shareholders' register. Each share corresponds to one vote. Tetra Laval was the largest owner, with 26.1 percent of the shares in Alfa Laval at year-end, and the only owner with a stake larger than 10 percent. The second largest owner was Swedbank Robur Fonder with 6.4 percent, followed by Alecta Pensionsförsäkring with a holding of 6.3 percent. Legal entities accounted for about 94 percent of holdings, while individuals accounted for the remainder. From a geographic perspective, the following countries were represented by the five largest shareholders: Sweden, the Netherlands, the UK, the US and Luxembourg. For more information about Alfa Laval's share and ownership structure, refer to the Share section on pages 16 and 17.

Annual General Meeting

The Annual General Meeting is Alfa Laval's highest decision-making body in which all shareholders are entitled to participate and each share entitles its holder to one vote. The majority of proposals addressed at the Annual General Meeting are decided by a simple majority. However, certain points require a qualified majority; these include resolutions to amend the company's Articles of Association or resolutions to buy back shares. The Annual General Meeting is to be held annually within six months of the close of the fiscal year in either Lund or Stockholm. Normally, the Annual General Meeting takes place in late April or early May in Lund. The date and location is announced by the publication date for the interim report for the third quarter, the latest.

To be entitled to participate and vote in the Annual General Meeting, shareholders must be registered in the shareholders' register maintained by Euroclear Sweden AB. Any shareholder who is unable to attend in person, may participate through a proxy with a power of attorney. Shareholders with nominee-registered shares must have the shares temporarily registered under their own name. The Annual General Meeting is held in Swedish and all documentation is available in Swedish and English. Alfa Laval endeavors to ensure that all Board members participate, as well as, in so far as it is possible, all members of the Group management. The company's auditors are always present.

Annual General Meeting for the 2012 fiscal year

The Annual General Meeting for the 2012 fiscal year was held at Färs och Frosta Sparbank Arena in Lund on April 23, 2013. The Annual General Meeting was attended by 414 people, including shareholders, proxies, assistants, guests and officials – representing 59.9 percent of the total number of shares and votes. Both of the company's external auditors attended, as did all Board members elected by the Annual General Meeting. Chairman of the Board Anders Narvinger was elected as the Meeting Chairman. The resolutions passed at the Annual General Meeting included the following:

– The Annual General Meeting adopted the income statement and balance sheet and resolved that the Board of Directors and President be discharged from liability.

– The Annual General Meeting resolved in accordance with the Board's motion that a dividend of SEK 3.50 per share be paid for the 2012 fiscal year.

– A resolution was passed to authorize the Board, on one or more occasions before the next Annual General Meeting, to repurchase a maximum of 5 percent of the company's shares outstanding to enable the Board to adjust the capital structure of the company during the period leading up to the next Annual General Meeting. The Board intends to propose that the next Annual General Meeting resolve to cancel those shares bought back under this authorization.

– A resolution was passed that the number of Board members elected by the Annual General Meeting should amount to nine, with no deputies.

– A resolution was passed to re-elect Board members Gunilla Berg, Arne Frank, Björn Hägglund, Anders Narvinger, Finn Rausing, Jörn Rausing, Lars Renström and Ulla Litzén, and to elect Ulf Wiinberg as a new Board member. In addition, a resolution was passed in favor of the Nominating Committee's proposal for auditors. Authorized public accountants Staffan Landén and Håkan Olsson Reising were re-elected for the coming year. In addition, auditors Johan Thuresson and Karoline Tedevall were re-elected as deputy auditors for the company.

– A resolution was passed that fees paid to non-executive directors on the Board shall amount to SEK 4,395,000, compared with SEK 3,850,000 in the preceding year when the number of non-executive directors was seven. In addition, fees are payable for work on the Board's committees.

– A resolution was passed accepting the Board's motion for remuneration principles for senior executives. These principles comprise fixed remuneration and short-term and long-term programs for variable remuneration.

Nominating Committee

Work of the Nominating Committee

The Nominating Committee prepares and submits proposals regarding candidates for Board members and, if applicable, auditors. The supporting documentation utilized by the Nominating Committee for its work includes the annual evaluation of the work of the Board, which is initiated by the Chairman of the Board. Other key factors to be considered, against the background of the company's strategy, include the type of competence required. The Nominating Committee can call upon the assistance of external resources in its search for suitable candidates and can also conduct interviews with individual Board members. Its duties also comprise the submission of motions in respect of remuneration to the Board and members of the Board committees.

Composition

The composition of the Nominating Committee is determined in accordance with the process approved by the Annual

Composition of the Nominating Committee for the 2014 Annual General Meeting

Name	Representing	Shareholding in Alfa Laval, %*
Finn Rausing	Tetra Laval	26.10
Jan Andersson	Swedbank Robur Fonder	6.55
Ramsay Brufer	Alecta	6.43
Claes Dahlbäck	Foundation Asset Management	5.98
Lars-Åke Bokenberger	AMF Pension	3.26

* As of September 30, 2013.

Proposals to the Nominating Committee

Shareholders wishing to submit proposals to the Nominating Committee prior to the Annual General Meeting may contact Alfa Laval's Board Chairman Anders Narvinger, or one of the owner representatives.

Contact may also take place directly via e-mail at **valberedningen@alfalaval.com**

General Meeting. In practice, this means that Alfa Laval's Chairman of the Board contacts representatives of the company's largest shareholders at the end of the third quarter and requests that they each appoint one member of the Nominating Committee. The Nominating Committee may then decide whether or not to include the Chairman of the Board or other Board members. Once the composition of the Nominating Committee has been established, an announcement is made in a press release, the third-quarter interim report and on Alfa Laval's website. Ahead of the 2014 Annual General Meeting, the composition of the Nominating Committee was announced on October 15, 2013 and in Alfa Laval's third-quarter interim report, which was published on October 29.

Ahead of the 2014 Annual General Meeting

The following individuals comprise the Nominating Committee for the 2014 Annual General Meeting: Finn Rausing (appointed by Tetra Laval,) Jan Andersson (appointed by Swedbank Robur Fonder), Ramsay Brufer (appointed by Alecta), Claes Dahlbäck (appointed by Foundation Asset Management) and Lars-Åke Bokenberger (appointed by AMF Pension).

The holdings of the Nominating Committee represented 48.32 percent of the number of shares outstanding at September 30, 2013. The Chairman of the Board Anders Narvinger was elected as member and secretary, and Finn Rausing was elected as Chairman of the Nominating Committee. Due to Finn Rausing's position as a Board member, his role as Chairman is considered a deviation from the Code. The reason for this deviation is that the Nominating Committee deemed Finn Rausing to be particularly well-suited to lead the work of the Committee in an effective manner and obtain the best possible results for the company's owners.

Work of the Nominating Committee ahead of the 2014 Annual General Meeting

The Nominating Committee held two meetings ahead of the 2014 Annual General Meeting and conducted a number of discussions by phone and e-mail. The focus of the Committee's meetings included an assessment of the potential future competence requirements of the Board. The Nominating Committee also discussed the motion to the Annual General Meeting concerning the election of the company's auditors.

Board of Directors

Work and responsibilities

The Board bears the ultimate responsibility for the organization and administration of the company. Its work and responsibilities are governed by the Swedish Companies Act, the Swedish Board Representation (Private Sector Employees) Act, the Articles of Association, the Board's own formal work plan, NASDAQ's Rule Book for Issuers and the Swedish Corporate Governance Code. The Board prepares and evaluates Alfa Laval's overall long-term objectives and strategies, which includes establishing business and financial plans, reviewing and approving financial statements, adopting guidelines, making decisions on issues relating to acquisitions and divestments, and deciding on major investments and significant changes to Alfa Laval's organization and operations. The Board also establishes the instructions for the President with respect to the Group's daily operations and, through the Audit Committee, procures auditing services and maintains ongoing contact with the company's auditors. In addition, the Board works to ensure that the company has a sound internal control function and formalized procedures. The Board also appoints the President and, through the Remuneration Committee, determines salaries and remuneration for the President and senior executives.

Composition

The Board of Directors is to comprise a minimum of four and maximum of ten members, with a maximum of four deputy members. At present, the Board comprises nine members and no deputies. The members are elected annually for the period until the conclusion of the next Annual General Meeting and are obligated to dedicate the requisite time and diligence to the assignment, as well as have the necessary knowledge to best look after the interests of the company and its owners. In addition, the trade-union organizations appoint three employee representatives and three deputy employee representatives. Salaried employees in the company are invited to Board meetings as presenters and experts. The company's Chief Financial Officer participates in all meetings and Alfa Laval's Chief Legal Counsel serves as Board Secretary.

Independence of Board members

All members of the Alfa Laval Board elected by the Annual General Meeting are considered independent of the company, except Lars Renström, who is President and CEO of the company. All members are also considered independent of the company's major shareholders, except Finn Rausing and Jörn Rausing,

Remuneration of Board members and attendance at Board and committee meetings

		Board		Remuneration Committee		Audit Committee	
	Name	Present	Remuneration	Present	Remuneration	Present	Remuneration
Appointed by the Annual General Meeting	Anders Narvinger	● 11	1,175,000	● 3	50,000		
	Gunilla Berg	9	460,000			5	100,000
	Arne Frank	10	460,000				
	Björn Hägglund	11	460,000	3	50,000		
	Ulla Litzén	11	460,000			5	100,000
	Finn Rausing	10	460,000			● 5	150,000
	Jörn Rausing	11	460,000	3	50,000		
	Lars Renström	11					
	Ulf Wiinberg	7	460,000				
	Total		**4,395,000**		**150,000**		**350,000**
Employee representatives	Jan Nilsson	11					
	Susanna Norrby	8					
	Bror Garcia Lantz	11					
	Number of meetings	**11**		**3**		**5**	

● Chairman

who cannot be considered independent due to their relation to Tetra Laval, which, on December 31, 2013, owned 26.1 percent of the shares in the company.

The Board's formal work plan

The work of the Board is governed by a formal work plan that is determined annually at the statutory meeting held immediately after the Annual General Meeting. This formal work plan describes the Board's work assignments and the division of responsibility between the Board, the committees and the President. It also defines the role of the Chairman of the Board and includes a separate instruction for the company's President regarding the financial reporting to be submitted to the Board to enable ongoing assessment of the financial position.

Work of the Board in 2013

A total of 11 Board meetings were held in 2013, eight of which were scheduled meetings. Four meetings were held by phone and the other meetings were held in Lund, Stockholm, Malmö and Richmond (USA).

The normal agenda items addressed at Board meetings include earnings results, order trends, investments and acquisitions. The company's President prepares an agenda for each meeting in consultation with the Chairman of the Board. Board members who wish to discuss a particular matter must inform the Chairman of the Board well in advance, so that the requisite material on which to base decisions can be prepared. Notices of meetings, including the meeting agenda and the requisite information or documentation on which to base decisions, must reach the Board members not later than one week prior to the date of the meeting. Board decisions are made based on open discussions led by the Chairman.

Board training

All new Board members receive an extensive introduction program. In addition, each year, a combined training course and field trip takes place at one of Alfa Laval's facilities. In 2013, the trip had as its destination Alfa Laval's facility in Richmond, Virginia in the US.

Evaluation of the Board's work

The Chairman of the Board ensures that an annual evaluation is conducted of the work of the Board. This is carried out through open discussions and interviews with the individual members. The evaluation focuses on the Board's work methods, its work climate and its access to and need for particular Board competence. The goal is to ensure a well-functioning Board. The evaluation forms part of the supporting documentation for the Nominating Committee when nominating Board members and proposing remuneration levels.

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 the Swedish Companies Act, the Articles of Association, the formal work plan of the Board and the Code. In addition, the Chairman must ensure that the work is well organized and conducted efficiently, so that the Board fulfills its tasks. In dialog 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 is responsible for evaluating the Board's work, participates in evaluation and development matters with respect to the Group's senior executives and ensures that the Board's decisions are executed. The Chairman also represents the company in ownership issues.

Remuneration to the Board

Remuneration to the Board is determined by the Annual General Meeting based on the motions submitted by the Nominating Committee. The Chairman and members of the Audit Committee and the Remuneration Committee receive supplementary remuneration. No Board member is entitled to pension payments from the company.

Committees

Alfa Laval's Articles of Association stipulate that there must be a Remuneration Committee and an Audit Committee that report to the Board. Committee members are appointed from among the Board members for a period of one year.

Audit Committee

Areas of responsibility

Among other duties, the Audit Committee is tasked with ensuring 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 also examines the procedures for reporting and financial controls, as well as the work qualifications and independence of the external auditors. For further information regarding the responsibilities of the Audit Committee, refer to "The Board of Directors' report on internal control" on page 57.

Members and meetings in 2013

Members are appointed annually at the Board's statutory meeting. In 2013, the Committee comprised Finn Rausing (Chairman), Gunilla Berg and Ulla Litzén. Alfa Laval's Chief Legal Counsel served as the Committee's secretary. Five meetings were held in 2013, two of which were conducted by phone. The meetings lasted an average of approximately two hours. The company's Chief Financial Officer, the Head of the Internal Audit Function and the company's auditors were also present at the meetings. During the year, the following items were dealt with at the Committee meetings: review of the procedures for corporate governance, review and follow-up of the results of the current annual feedback from approximately 200 managers regarding controls, updates regarding new IFRS developments, amendments to the Code and a review of Group provisions and allocations.

Remuneration Committee

Areas of responsibility

The Remuneration Committee is involved in recruitment, appointments, and matters pertaining to other conditions of employment relating to the President or members of Group management. The Committee's assignment is to prepare the guidelines for remuneration to senior executives to be resolved on by the Annual General Meeting and to submit proposals to the Board of Directors regarding salary and employment terms for the President. In addition, the Committee addresses matters on behalf of the Board regarding salary and employment terms for senior executives who report directly to the President.

Members and meetings in 2013

The Remuneration Committee is appointed annually at the Board's statutory meeting. In 2013, the Committee comprised Anders Narvinger (Chairman), Jörn Rausing and Björn Hägglund. The Remuneration Committee held three meetings, which were attended by all members. A number of phone meetings were also held to address ongoing issues. Separate minutes are taken at all meetings and the contents are distributed to the Board members, except in certain cases when the minutes are noted directly in the corresponding Board minutes. The meetings of the Remuneration Committee included a review and follow-up of the guidelines for remuneration to senior executives, other Group guidelines and international issues pertaining to this area, as well as personnel issues related to the integration of acquired companies. The Committee also reviewed the Group's management development and terms of employment for Group management, as well as addressing the conditions of the Group's incentive program.

The company's auditors

The auditors comprise a supervisory body appointed by the Annual General Meeting. Their assignment includes the following: 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 and evaluating the overall presentation in the Annual Report. The result of the audit – the Audit Report – is communicated to shareholders in the Annual Report and at the Annual General Meeting. In addition, the auditors present a statement regarding the discharge from liability of the Board of Directors, a statement regarding the adoption of the income statement and balance sheet by the Annual General Meeting and a statement regarding the Corporate Governance Report. The Group must have a minimum of one and maximum of 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, where applicable, as deputy auditor.

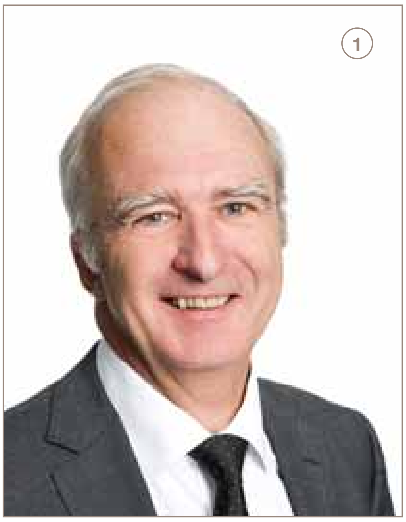
At the Annual General Meeting on April 23, 2013, authorized public accountants Staffan Landén and Håkan Olsson Reising were re-elected as the company's auditors. In addition, auditors Johan Thuresson and Karoline Tedevall were appointed as the company's deputy auditors. During the year, Håkan Olsson Reising resigned from his appointment prematurely since he was leaving his position at Ernst & Young AB. Deputy auditor Johan Thuresson took over Håkan Olsson Reising's position as the company's auditor.

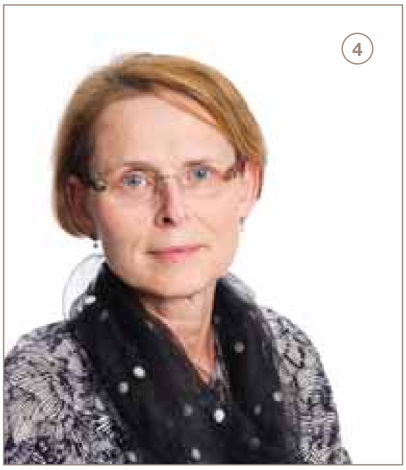
According to Alfa Laval's assessment, none of these auditors has any relationship to Alfa Laval, or any company related to Alfa Laval, that could affect their independent status in relation to the company. In 2013, the entire Board received reports from the company's external auditors on two occasions. On one occasion, this occurred without the presence of the President or other members of Group management. The Board's Audit Committee received separate reports from the company's external auditors on four occasions.

Remuneration to auditors

(Refer to Note 7 on page 109.)

Board of Directors and Auditors





Elected by the Annual General Meeting

1

Anders Narvinger
Chairman since 2003.

Born: 1948.
Formerly President of Teknikföretagen and formerly President and CEO of ABB Sweden.
Education: BSc. Eng. from the Faculty of Engineering at Lund University, BSc. Econ from Uppsala University.
Chairman of the Board: Coor Service Management AB and Capio AB.
Board member of JM AB, ÅF AB and Pernod Ricard SA.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 40,000* (40,000**).

2

Gunilla Berg
Board member since 2004.

Born: 1960.
Executive Vice President and CFO of the Teracom Group. Former positions include Executive Vice President and CFO of the SAS Group and Executive Vice President and CFO of the KF Group.
Education: BSc. Econ from the Stockholm School of Economics.
Board member of L E Lundbergföretagen AB and Vattenfall AB.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 3,400* (3,400**).

3

Björn Hägglund
Board member since 2005.

Born: 1945.
Former positions include Deputy CEO of Stora Enso.
Education: PhD (For.)
Chairman of the Board of SweTree Technologies.
Board member of, among others, Bergvik Skog AB, the Knut and Alice Wallenberg Foundation, the UN Global Compact and AB Karl Hedin.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 12,000* (12,000**).

4

Ulla Litzén
Board member since 2006.

Born: 1956.
Former positions include President of W Capital Management and various executive positions at Investor.
Education: BSc. Econ from the Stockholm School of Economics, MBA from the Massachusetts Institute of Technology.
Board member of, among others, Atlas Copco AB, Boliden AB, Husqvarna AB, NCC AB and SKF AB.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 15,600* (15,600**).

5

Finn Rausing
Board member since 2000.

Born: 1955.
Education: B.L., MBA from INSEAD.
Board member of Tetra Laval Group, De Laval Holding AB, EQT Holdings AB and Swede Ship Marine AB.
Independent of company.

6

Ulf Wiinberg
Board member since 2013.

Born: 1958.
President and CEO of H. Lundbeck A/S. Formerly director of Wyeth Pharmaceuticals, EMEA/Canada & BioPharma, and a number of other senior positions in Wyeth.
Board member of the European Federation of Pharmaceutical Industries and Associations (EFPIA), the International Federation of Pharmaceutical Manufacturer Associations (IFPMA) and the Industrial Policy Committee of the Confederation of Danish Industry.
Independent of company and major shareholders.

7

Lars Renström
Board member since 2005.

Born: 1951.
President and CEO of Alfa Laval.
Education: BSc. Eng., BSc. Econ.
Chairman of the Board of ASSA ABLOY AB.
Board member of Tetra Laval Group.
Independent of major shareholders.
Number of shares in Alfa Laval: 40,400* (40,400**).

8

Arne Frank
Board member since 2010.

Born: 1958
President and CEO of AarhusKarlshamn AB.
Education: BSc. Eng. in industrial economics from Linköping Institute of Technology.
Chairman of the Board of Contex Holding A/S
Independent of the company and major shareholders.
Number of shares in Alfa Laval: 16,000* (16,000**).

9

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 of the Tetra Laval Group, Ocado Ltd. and De Laval Holding AB.
Independent of company.

Employee representatives

10

Jan Nilsson
Employee representative since 2000.

Born: 1952.
Employed by Alfa Laval since 1974. Employee representative for the Swedish Metal Workers' Union (IF Metall).

11

Susanna Norrby
Employee representative since 2003.

Born: 1967.
Employed by Alfa Laval since 1992.
Employee representative for the Swedish Association of Graduate Engineers (CF).
Number of shares in Alfa Laval: 5,000* (5,000**).

12

Bror Garcia 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).

Deputy employee representatives

Henrik Nielsen
Deputy member since 2008.

Born: 1968.
Employed by Alfa Laval since 1994.
Deputy employee representative for the Swedish Metal Workers' Union (IF Metall).

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).

Auditors

Staffan Landén
Authorized Public Accountant, Ernst & Young AB.

Born: 1963.
Auditor for Alfa Laval since 2008. Elected auditor at 2008 Annual General Meeting. Staffan Landén has extensive experience in auditing exchange-listed and internationally active companies. Among other assignments, he is auditor for Capio AB, Papyrus AB, Academedia AB, Rederi AB Transatlantic and Lindab International AB.

Håkan Olsson Reising
Authorized Public Accountant, Ernst & Young AB.

Born: 1961.
Deputy auditor at Alfa Laval from 2000–2011.
Elected auditor at 2012 Annual General Meeting.
Håkan Olsson Reising has extensive experience in auditing exchange-listed and internationally active companies.

Stepped down at his own request on July 17, 2013.

Deputy auditors

Johan Thuresson
Authorized Public Accountant, Ernst & Young AB.

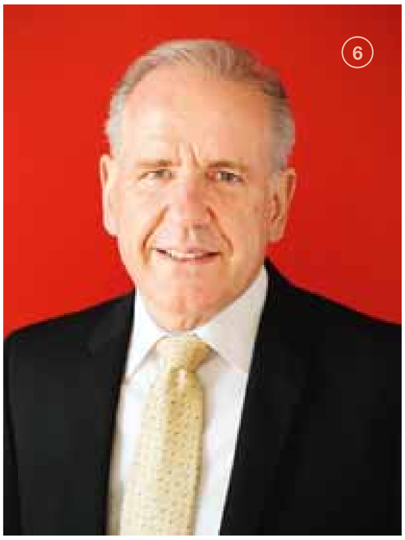
Born: 1964
Deputy auditor for Alfa Laval since 2012.

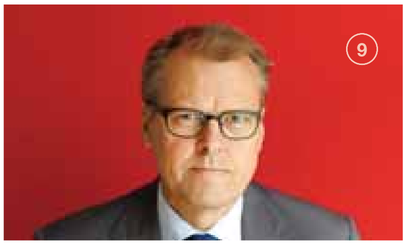
Karoline Tedevall
Authorized Public Accountant, Ernst & Young AB.

Born: 1978
Deputy auditor for Alfa Laval since 2012.

* Holdings as of December 31, 2013.
** Holdings as of December 31, 2012.

President and Group management





1

Lars Renström

President and CEO.

Born: 1951.
CEO since October 1, 2004. Former positions include President and CEO of Seco Tools AB, Division Manager at Ericsson AB and Atlas Copco AB.
Chairman of the Board of ASSA ABLOY AB
Board member of Tetra Laval Group.
Education: BSc. Eng., BSc. Econ.
Number of shares in Alfa Laval: 40,400* (40,400**).

2

Joakim Vilson

Executive Vice President in charge of the Central and Eastern Europe, Latin America, Middle East and Africa Region.

Born: 1965.
Employed by Alfa Laval since 1990.
Regional manager since January 1, 2013. Previous positions include head of the Mid Europe Region and the Process Industry segment.
Education: BSc. Eng.
Number of shares: 6,520* (0**).

3

Peter Torstensson

Senior Vice President, Corporate Communications.

Born: 1955.
Employed by Alfa Laval since 1999.
Senior Vice President, Corporate Communications since 1999. Formerly held such positions as President of Borstahusen Informationsdesign.
Number of shares in Alfa Laval: 66,000* (76,000**).

4

Thomas Thuresson

Chief Financial Officer.

Born: 1957.
Employed by Alfa Laval since 1988.
CFO since 1995. Former assignments include Controller of the Flow business area and Group Controller of the Alfa Laval Group.
Board member of PartnerTech AB.
Education: BSc. Econ., IMD (BPSE).
Number of shares in Alfa Laval: 130,720* (130,800**).

5

Susanne Pahlén Åklundh

President, Equipment Division.

Born: 1960.
Employed by Alfa Laval since 1983.
President of the Equipment Division since 2009. Previously responsible for the Mid Europe and Nordic Regions and the Process Industry segment.
Board member of Nederman AB.
Education: MSc. Eng.
Number of shares in Alfa Laval: 756* (756**).

6

Ray Field

Executive Vice President in charge of the Asia, India and Oceania Region.

Born: 1954.
Employed by Alfa Laval since 1985.
Regional manager since September 1, 2004. Prior to this, he served as President of Alfa Laval China for more than ten years.
Education: BSc. Eng.
Number of shares in Alfa Laval: 54,588* (54,588**).

7

Nish Patel

Executive Vice President in charge of the Western Europe and North America Region.

Born: 1962.
Employed by Alfa Laval since 1984.
Regional manager since 2011. Prior to this, he served as head of India and the UK.
Education: BSc. Eng.
Number of shares in Alfa Laval: 47,552* (47,552**).

8

Göran Mathiasson

President, Operations Division.

Born: 1953.
Employed by Alfa Laval since 1979.
President of the Operations Division since April 2003.
Previously in charge of Alfa Laval Manufacturing and Thermal Technology, including research and development, production development, system development and purchasing.
Board member of Heatex AB.
Education: BSc. Eng.
Number of shares in Alfa Laval: 6,588* (6,588**).

9

Svante Karlsson

President, Process Technology Division.

Born: 1955.
Employed by Alfa Laval since 1984.
Former President of the Equipment Division, head of the Thermal business area and President of Marine & Power.
Education: BSc. Econ.
Number of shares in Alfa Laval: 62,744* (72,744**).

10

Peter Leifland

President, Marine & Diesel Division.

Born: 1954.
Employed by Alfa Laval since 1985.
President of the Marine & Diesel Division since 2011. Formerly regional manager in charge of the Western Europe and North America Region 2004-2011, the Asia and Latin America Region 2001-2004 and the Eastern Europe and Latin America Region 1999–2001.
Education: B.L., lic.spec. IMD (PED).
Number of shares in Alfa Laval: 430,000* (460,000**).

11

Peter Bailliere

Senior Vice President, Human Resources.

Born: 1963.
Employed by Alfa Laval since 2007.
Senior Vice President, Human Resources since July 1, 2007.
Many years of experience at Volvo Cars, most recently as Head of Group Human Resources.
Education: Master of Sociology, Bachelor in Fiscal Law.

* Holdings as of December 31, 2013.
** Holdings as of December 31, 2012.

Areas of responsibility

The President directs the daily operations and is responsible for ensuring that the Board receives information and the necessary supporting documentation for its decision-making purposes. The President is also responsible for ensuring that the company's accounting complies with applicable laws and provisions. In support of sound corporate governance and to ensure that the company's actions follow the requisite ethical guidelines, Alfa Laval also has a number of Business Principles.

The President has the support of the Group management, to which responsibilities and authority are delegated. The members of the Group management are responsible for their respective areas of operation, which comprise divisions or geographic regions, and collectively for the Group as a whole. Group management comprises the CEO and those individuals who, on the CEO's recommendation, have been appointed by the Board.

Group management meetings in 2013

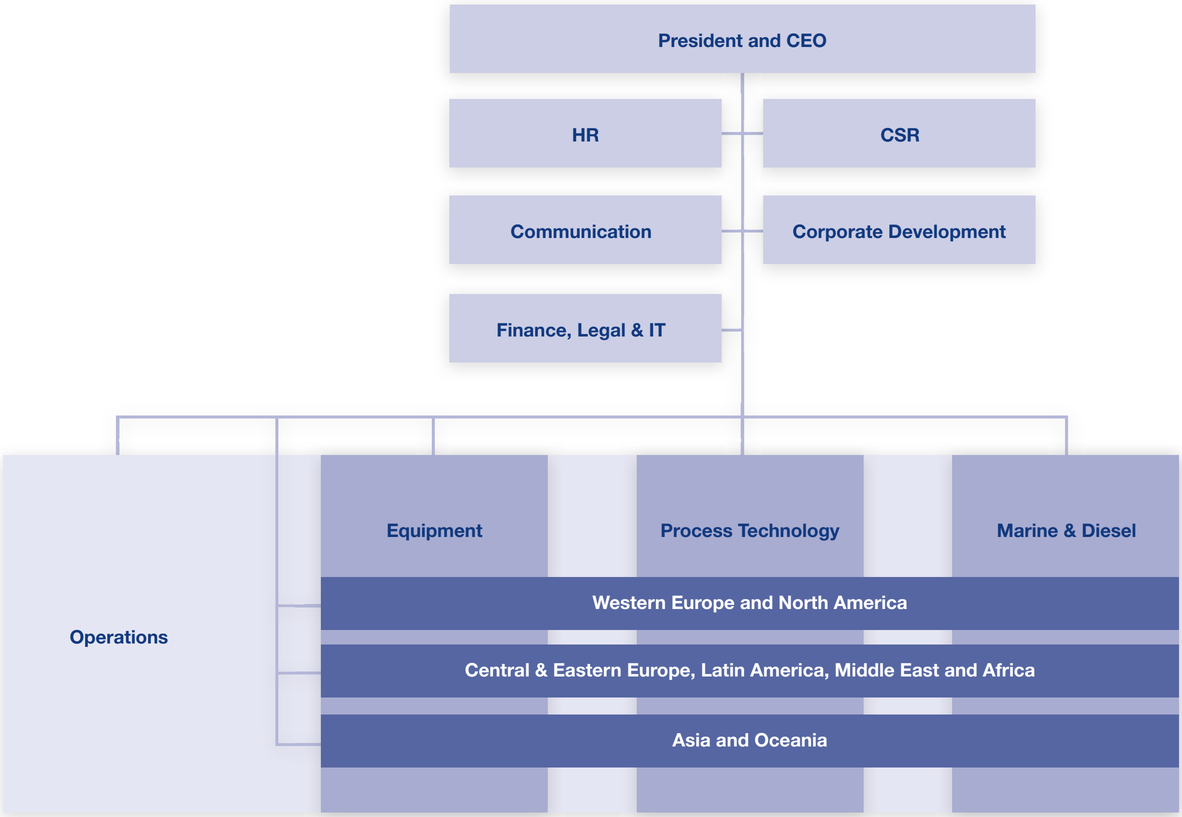
The Group management held six meetings in 2013, during which minutes were taken. In addition, quarterly reviews are held of all business developments in the company's divisions and geographic regions, which address such items as the business climate, earnings, earnings projections for the next 12 months and other specific issues affecting the respective business areas. In addition, separate strategy meetings were held that addressed the following areas: the management's proposals concerning future direction with regard to organic growth and growth through acquisition. The strategic review focused on risks and opportunities in individual segments, application areas and geographic regions, in addition, it contained a review of the consequences of the above on the company's supply chain. Furthermore, a review was performed of the direction for acquisitions with regard to product, technology, channel and location.

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

The remuneration principles for the President and other members of Group management are determined by the Annual General Meeting. For additional information, see pages 107–109.

Business control

Alfa Laval's business control model comprises a matrix in which the Group's divisions and segments 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.



Board of Directors' report on internal control

The Board is responsible for ensuring that a sound internal control function is in place to safeguard the company's assets and thus the shareholders' investments. The internal control function must ensure the reliability of Alfa Laval's financial reporting, its compliance with legislation, regulations, applicable accounting policies as well as the company's Business Principles. In turn, the communication of financial information and reporting must be correct, relevant, objective and transparent and be performed simultaneously, to thereby facilitate assessment of the company by its owners and external parties with an interest in the company.

Control environment

The control environment includes the internal governance instruments set by the Board. A number of policy documents are utilized as governance instruments in the company's daily operations. These are tested annually as well as reviewed and updated on an ongoing basis and encompass such instruments as the Board's formal work plan, the President's instructions, reporting instructions, the company's finance policy, its Business Principles, investment policies and communication policy.

The Board is responsible for ensuring that the company's organizational structure is logical and transparent, with clearly defined roles, responsibilities and processes. In addition, clear processes and formal work plans covering the work of the Board and its committees are in place, with a clear internal distribution of tasks.

The Board has overriding responsibility for financial reporting and, accordingly, must 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.

The Board's Audit Committee is tasked with ensuring compliance with the principles for financial reporting and internal control. It follows up the effectiveness of the internal control system and reviews the financial procedures to ensure that the financial information can be traced back to underlying financial systems and that it is in line with legislation and relevant standards. It also examines procedures for reporting and financial controls, as well as addressing the company's financial reports. The Committee monitors, evaluates and discusses significant issues in the areas of accounting and financial reporting. It evaluates and manages information pertaining to disputes and potential improprieties, as well as assisting management with identifying and evaluating the primary risks that are relevant to the operations in order to ensure that management focuses on managing these risks. The Audit Committee has the right to determine the focus of the internal audit and examines the work of the external auditors, their qualifications and independence. Reports are provided to the Board regarding internal committee meetings and meetings with the internal auditors, the external auditors and various specialists in Group management and its support functions.

The President is subject to instructions issued by the Board and is responsible for ensuring the existence of an effective control environment. The President is also responsible for the ongoing work pertaining to internal control and for ensuring that the company's accounting complies with legislation and that the management of assets is adequately performed.

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 report to the CFO and comprise the function that reviews and implements improvements to the internal control function, reports these results to the Audit Committee and proposes 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 ensure that specific actions are taken following the internal audit. These are based on a schedule agreed on with the party responsible for the individual activities. The internal audit function comprises two internal auditors, supplemented by internal specialist resources and auditors from the auditing company KPMG. In 2013, 30 internal audits were performed. These encompassed a broad spectrum of functions and areas of inquiry. The scope was determined by the Board and involved examining such aspects as:

– 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.

– opportunities to improve management control, the company's profitability and the organization, which may be identified during audits.

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, forecasts and acquisition activities, as well as processes for identifying amendments to the accounting policies to ensure that these amendments are accurately reflected in the financial reporting.

Control structures

The control structures are designed to manage those risks that the Board and management consider to be significant to the business operations, internal control and financial reporting. The control structures comprise (i) an organization with clearly defined roles that enables an effective, and from an internal control perspective, appropriate division of responsibility, and (ii) specific control activities that enable the identification and timely prevention of risks becoming a reality. Examples of control activities include clearly defined decision-making processes and a policy for decision-making in relation 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 to ensure sound control. The effectiveness of this communication is monitored continuously to ensure that the information is sufficiently accessible. There are also formal and informal information channels that enable employees to communicate important information to relevant recipients and ultimately, if necessary, to the Board of Directors. For communication with external parties, a clearly defined policy has been formulated. The aim is to provide the most accurate overview possible and to ensure that all obligations with regard to information 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 Audit Committee also 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. The Audit Committee establishes the direction, scope and time schedules for the internal audit team's work. The internal audit team reports the results of its audits 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. An annual feedback function is also in place, which is geared toward the company's senior executives. This feedback function is designed to ensure that Alfa Laval's internal instructions and rules are fully implemented. All managers who report directly to Group management are expected to review the guidelines and rules that apply to their respective areas. They must sign and submit a document confirming their understanding of the significance of these guidelines and compliance with these guidelines in their area of responsibility. If there are any deviations compared with the instructions, they must specify what actions they intend to take to ensure compliance. This process also aims to increase transparency and thus facilitate assessments by the external and internal auditors.

Lund, February 2014

Board of Directors

Auditor's statement on the Corporate Governance Report

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

Assignment and responsibilities

We have audited the Corporate Governance Report for the year 2013 on pages 46–58. The Board of Directors is responsible for the Corporate Governance Report and for ensuring that it has been prepared in accordance with the Swedish Annual Accounts Act. Our responsibility is to express an opinion on the Corporate Governance Report based on our audit.

Focus and scope of the audit

We conducted our audit in accordance with FAR's auditing standard RevU 16: The Auditor's Examination of the Corporate Governance Report. This standard requires that we have planned and performed the audit to obtain reasonable assurance that the Corporate Governance Report is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the information included in the Corporate Governance Report. We believe that our audit procedures provide a reasonable basis for our opinion set out to the right.

Opinion

In our opinion, a Corporate Governance Report has been prepared and is consistent with the annual accounts and consolidated financial statements.

Lund, March 3, 2014

Staffan Landén
Authorized Public Accountant

Johan Thuresson
Authorized Public Accountant

Financial statements

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, 2013 to December 31, 2013.

The information in this annual report is such information that Alfa Laval AB (publ) must publish in accordance with the Securities Market Act and/or the Financial Instruments Trading Act. The information was made public by publishing the annual report on Alfa Laval's website on April 4, 2014 at 10.00 CET and by sending the printed annual report to the shareholders in week 15, 2014 starting at April 7, 2014.

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 audited, is to be found on page 45.

Ownership and legal structure

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

The company had 36,211 (34,629) shareholders on December 31, 2013. The largest owner is Tetra Laval B.V., the Netherlands who owns 26.1 (26.1) percent. Next to the largest owner there are nine institutional investors with ownership in the range of 6.4 to 0.7 percent. These ten largest shareholders own 54.6 (51.4) percent of the shares.

Operations

The Alfa Laval Group 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 "Equipment", "Process Technology" and "Marine & Diesel" that sell to external customers and one division "Other" covering procurement, production and logistics as well as corporate overhead and non-core businesses. These four divisions constitute Alfa Laval's four operating segments.

The three business divisions (operating segments) are in turn split into a number of customer segments. The customers to the Equipment division purchase products whereas the customers to the Process Technology division purchase solutions for processing applications. The customers to the Marine & Diesel division purchase products and solutions for marine and off-shore applications and for diesel power plants. The Equipment division consists of four customer segments: Industrial Equipment, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Service. The Process Technology division consists of four customer segments: Energy & Environment, Food Technology, Process Industry and the aftermarket segment Service. The Marine & Diesel division consists of three customer segments: Marine & Diesel Equipment, Marine & Offshore Systems and the aftermarket segment Service.

In 2013 Alfa Laval has renamed its three former "Parts & Service" segments to only "Service" in order to emphasize the importance of service and get focus on what is outside parts.

Material factors of risk and uncertainty

The main factors of risk and uncertainty facing the Group concern the price development of metals, 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

The full information on the acquisitions is found in Note 16. Below follows a shorter summary of each acquisition during 2013.

Niagara Blower Company

On May 29, 2013 Alfa Laval acquired the U.S. based Niagara Blower Company, a manufacturer of energy-efficient niche heat transfer solutions. The company's products are engineered-to-order, and particularly suited for use in the oil and gas processing industries. They are also used in a wide range of other industries, such as power, food & beverage and pharmaceuticals. Lars Renström, President and CEO of the Alfa Laval Group, comments on the reasons for the acquisition: "The acquisition of Niagara Blower brings in new and complementary heat-transfer products, mainly air-cooled heat exchangers, which further strengthen our offering to the oil and gas processing industries. They strengthen our U.S. portfolio and will gradually also be added to our product offering on a global scale." Niagara Blower Company is located in Buffalo, New York. It generated sales of about SEK 425 million in 2012, with profitability well above the average for the Alfa Laval Group. The intention is to integrate Niagara Blower into the segment Energy & Environment, within the Process Technology Division.

Snecma

On February 28, 2013 Alfa Laval acquired the assets and technology for a gas combustion unit from the company Snecma (Safran). The product, which will be included in the offering from the Marine & Offshore Systems segment, is expected to generate sales of about SEK 40 million in 2013. Lars Renström, President and CEO of the Alfa Laval Group, comments on the acquisition: "With this acquisition we expand and further strengthen our offer to the growing gas transportation business, a business which typically has high barriers to entry. Few companies can offer this type of safety equipment."

Alfa Laval (India) Ltd

In a press release on September 19, 2011 Alfa Laval communicated its proposal to buy all outstanding shares in its subsidiary Alfa Laval (India) Ltd and seek delisting of the shares from Bombay Stock Exchange Limited and National Stock Exchange of India Limited. The proposal came on the back of regulatory changes in India which requires Alfa Laval (India) Ltd to have a minimum public float of 25 percent or seek delisting. In a reverse book building process that was finalised on February 23, 2012 minority shareholders together holding more than the necessary 50 percent of the public float were willing to sell to Alfa Laval at a price of INR 4,000 per share. Through the acquisition of the 1.03 million shares

Alfa Laval achieved an ownership of 94.5 percent, which enabled Alfa Laval (India) Ltd to delist from both stock exchanges on April 12, 2012. The cost for the acquisition of the shares was SEK 553 million. As a part of the process the remaining minority owners could sell their shares to Alfa Laval for INR 4,000 during the next 12 months. During this period minority owners with an additional 0.68 million shares have sold their shares to Alfa Laval for SEK 340 million, which has increased Alfa Laval's ownership to 98.2 percent. This means that the total acquisition cost was SEK 893 million.

Tranter Solarice GmbH
On February 22, 2013 Alfa Laval acquired the remaining minority shares in the company Tranter Solarice GmbH in Germany.

Sale of real estate
During 2013 a property in Korea that was used by Onnuri has been sold at book value without any effect on profit and loss.

Alfa Laval Aalborg BV has moved to Alfa Laval's office in Breda in the Netherlands in the first half of 2013. The vacated property in Spijkenisse in the Netherlands is to be sold, but it is not expected to be sold within the next year. One small property in France is planned for sale. It is empty and has been for sale for several years. It is not expected to be sold within the next year. Alfa Laval Aalborg's factory in Vietnam is for sale since the Vietnamese company is under closure. It is not expected to be sold within the next year. This means that none of these properties have been re-classified as current assets held for sale. The fair value of the concerned properties exceeds the book value by approximately SEK 5 (4) million.

During 2012 a property in Korea that was used by Onnuri was sold for SEK 21 million with a realised loss of SEK -3 million. In addition to the property that was sold during 2012 Onnuri had an additional property in South Korea that was empty and planned to be sold during the beginning of 2013. Due to this it was re-classified as a current asset held for sale with SEK 9 million.

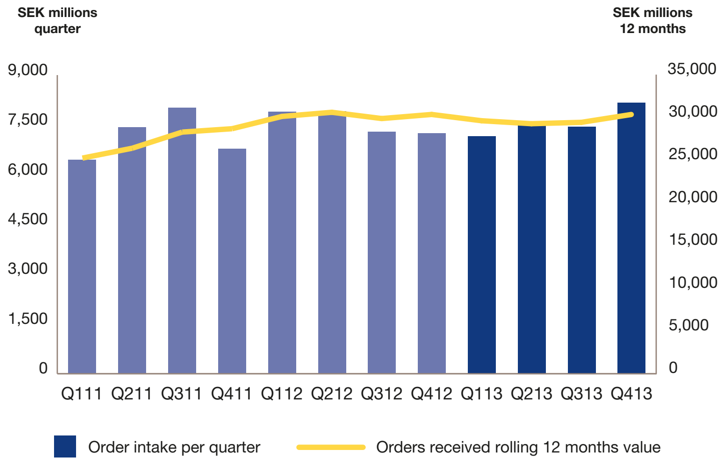
These disposals are reported as comparison distortion items in Note 8 to the consolidated comprehensive income statement.

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 2013 Alfa Laval has received large orders for more than SEK 2,100 (2,475) million. By quarter it has looked like the following:

During the first quarter 2013 Alfa Laval received large orders for SEK 445 (950) million:

- An order from the South Korean shipyard Daewoo Shipbuilding & Marine Engineering (DSME) to supply Alfa Laval Aalborg heaters to a floating production, storage and offloading vessel (FPSO), which will be built in South Korea. The order, booked in the Marine & Offshore Systems segment, is worth approximately SEK 130 million and delivery is scheduled for 2013.
- An order to supply compact heat exchangers to a Liquid Natural Gas plant (LNG), for processing of shale gas in the U.S. The order, booked in the Energy & Environment segment, is worth approximately SEK 55 million and delivery is scheduled for 2013.
- An order to supply heavy oil treatment systems to a power plant in Middle East. The order, booked in the Energy & Environment segment, has a value of approximately SEK 90 million and delivery is scheduled for 2013.
- An order to supply compact heat exchangers to a gas plant being built in Russia. The order, booked in the Energy & Environment segment, has a value of approximately SEK 60 million and delivery is scheduled to start in 2013 and be finalized in 2014.
- An order to supply plate heat exchangers for cooling applications in Canada. The order, booked in the Energy and Environment segment, has a value of approximately SEK 60 million and delivery is scheduled to start in 2013 and be finalized in 2014.

Orders received



% = change by quarter compared to corresponding period last year, at constant rates

Orders received amounted to SEK 30,335 (30,339) million during 2013.

Order bridge

Consolidated

SEK millions, unless otherwise stated	2013	2012
Order intake last year	30,339	28,671
Structural change [1]	2.2%	1.6%
Organic development [2]	1.6%	4.7%
Currency effects	-3.8%	-0.5%
Total	0.0%	5.8%
Order intake current year	30,335	30,339

Orders received from the aftermarket Service constituted 26.8 (26.4) percent of the Group's total orders received for 2013. Excluding currency effects, the order intake for parts and service increased by 5.8 percent during 2013 compared to last year.

1) Acquired businesses are:
Niagara Blower Company at May 29, 2013, Air Cooled Exchangers, LLC (ACE) at December 31, 2012, Gamajet Cleaning Systems Inc at August 23, 2012, Ashbrook Simon-Hartley at August 1, 2012 and Vortex Systems at June 30, 2012.

2) Change excluding acquisition of businesses.

– An order to supply Alfa Laval PureBallast systems to a leading shipyard in South Korea. The order, booked in the Marine & Diesel Equipment segment, has a value of approximately SEK 50 million. Delivery will start in 2013 and be finalized in 2014.

During the second quarter 2013 Alfa Laval received large orders for SEK 310 (600) million:

– An order from MAN Diesel & Turbo to supply Alfa Laval PureSOx exhaust gas cleaning systems for two cruise ships. The order, which is for four scrubbers, is booked in the Marine & Offshore Systems segment. It has a value of approximately SEK 55 million and delivery is scheduled for 2013 and 2014.
– An order to supply Alfa Laval Packinox heat exchangers to a petrochemical plant in the Middle East. The order, booked in the Process Industry segment, has a value of approximately SEK 85 million and delivery is scheduled to take place in 2013 and 2014.
– An order to supply Alfa Laval PureSOx exhaust gas cleaning systems for retrofit installation onboard vessels. The order, booked in the Marine & Offshore Systems segment, has a value of approximately SEK 170 million. Delivery is scheduled for 2014.

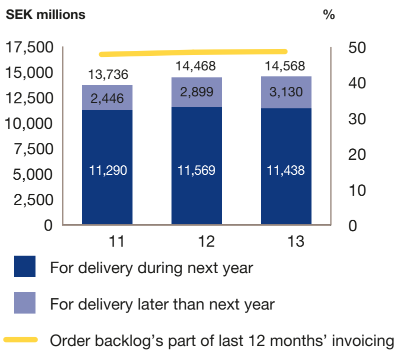
During the third quarter 2013 Alfa Laval received large orders for SEK 445 (475) million:

– An order to supply waste heat recovery systems from Alfa Laval Aalborg for two diesel power plants in the Middle East. The order, booked in the Marine & Diesel Equipment segment, has a value of approximately SEK 80 million. Delivery is scheduled for 2013.
– An order to supply Alfa Laval Packinox heat exchangers to a petrochemical plant in India. The order is booked in the Process Industry segment and has a value of approximately SEK 185 million. Deliveries are scheduled for 2013 and 2014.
– An order to supply compact heat exchangers to a Liquefied Natural Gas plant (LNG), for processing of shale gas in the U.S. The order, booked in the Energy & Environment segment, is worth approximately SEK 50 million and delivery is scheduled for 2014.
– An order to supply equipment to Diageo, a premium drinks manufacturer and owner of brands such as Guinness. The order, booked in the Food Technology segment, has a value of approximately SEK 60 million and delivery is scheduled for 2014.
– An order from a vegetable oil plant in Brazil. The order, booked in the Food Technology segment, has a value of approximately SEK 70 million and delivery is scheduled for 2014.

During the fourth quarter 2013 Alfa Laval received large orders for more than SEK 900 (450) million:

– An order in Russia to supply a complete process line for a vegetable protein extraction plant. The order, booked in the Food Technology segment, has a value of approximately SEK 75 million. Delivery is scheduled for 2014.
– An order from a South Korean company for freshwater generators to an offshore oil platform in Norway. The order, booked in the Energy & Environment segment, has a value of approximately SEK 90 million. Delivery is scheduled for 2014.
– An order to supply Alfa Laval PureSOx exhaust gas cleaning systems to the Dutch ship owner Spliethoff. The order is booked in the Marine & Offshore Systems segment and delivery is scheduled for 2014. Due to a confidentiality agreement Alfa Laval is unable to disclose the value of the order.
– An order to supply equipment to a major brewery in Brazil. The order, booked in the Food Technology segment, has a value of approximately SEK 165 million and delivery is scheduled to start in 2014 and be finalized in 2015.
– An order to supply compact heat exchangers to a crude oil production facility in Canada. The order, booked in the Energy & Environment segment, has a value of approximately SEK 100 million. Deliveries are scheduled for 2014 and 2015.
– An order to supply Alfa Laval OLMI heat exchangers to a petrochemical plant in the US. The order, booked in the Process Industry segment has a value of approximately SEK 60 million. Deliveries are scheduled for 2014 and 2015.
– An order to supply equipment to an offshore oil platform in the North Sea. The order, booked in Energy & Environment segment, has a value of approximately SEK 50 million and delivery is scheduled for 2014.
– An order to supply equipment to a Russian processing plant. The order, booked in the Process Industry segment, has a value of approximately SEK 100 million and delivery is scheduled for 2014.
– An order from a leading Australian energy company to supply a unique water-treatment system for cleaning wastewater from natural gas production. The order, booked in the Energy & Environment segment, is worth approximately SEK 90 million and delivery is scheduled for 2014.
– An order for compact heat exchangers to a nuclear power plant in Russia. The order, booked in the Energy & Environment segment, has a value of approximately SEK 90 million and delivery is scheduled to start in 2014 and be finalized in 2016.

Order backlog December 31



The order backlog at December 31, 2013 was SEK 14,568 (14,468) million. Excluding currency effects and adjusted for acquisitions of businesses the order backlog was 3.7 percent higher than the order backlog at the end of 2012.

Net sales

Net sales amounted to SEK 29,934 (29,813) million during 2013.

Sales bridge

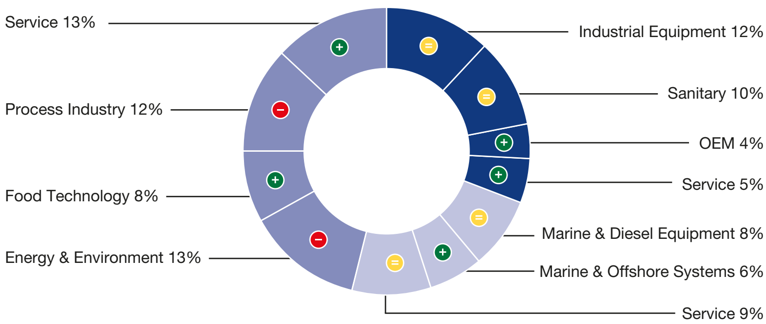
Consolidated

SEK millions, unless otherwise stated	2013	2012
Net sales last year	29,813	28,652
Structural change	2.9%	3.5%
Organic development	1.2%	0.9%
Currency effects	-3.7%	-0.3%
Total	0.4%	4.1%
Net sales current year	29,934	29,813

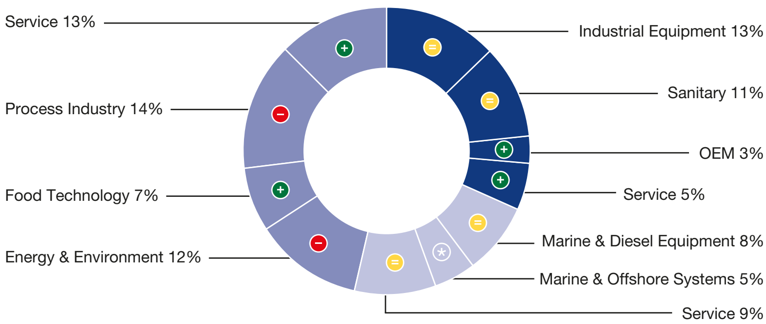
Net invoicing relating to Service constituted 26.7 (26.6) percent of the Group's total net invoicing for 2013. Excluding currency effects, the net invoicing for parts and service increased by 5.1 percent during 2013 compared to last year.

Orders received by customer segment

Orders received by customer segment 2013



Orders received by customer segment 2012



Equipment
Process Technology
Marine & Diesel

increase
decrease
unchanged (+/- 3 %)

Compared to previous year, at constant rates adjusted for acquisition of businesses.

* New customer segment, no corresponding period last year exists.

Operating segments

EQUIPMENT DIVISION

The Equipment division consists of four customer segments: Industrial Equipment, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Service.

Orders received and net sales

(all comments are excluding currency effects)

Taking a quarterly view the development for Equipment division during 2013 has been as follows:

Order intake was down slightly in the first quarter 2013, compared to the last quarter 2012. The drop was most notable in the Sanitary segment, whereas Service all-over had a good development. From a geographical perspective there was good growth reported in the U.S., France and the Adriatic region. The Nordic region and China, however, were down compared to the previous quarter, negatively affected by non-repeats in Sanitary. Sanitary contracted compared to the previous quarter, as the larger projects booked in the fourth quarter – mainly to customers in the dairy markets in the U.S., China and the Nordic region – were not repeated. Personal care applications saw a good development and regions that performed well included Mid Europe, Adriatic and France. Industrial Equipment declined somewhat from the previous quarter, the main reason being a slow development in district heating. At the same time demand from the refrigeration market increased. Both the U.S. and China grew compared to the previous quarter, while the Nordic countries and Russia decreased, negatively affected by the development in district heating. OEM was unchanged from the fourth quarter 2012 as the prolonged cold winter in certain parts of the world led to lower demand from customers making air conditioning units. At the same time growth was recorded from boiler manufacturers.

Order intake grew in the second quarter compared to the first, boosted by a seasonal pick-up in demand for segments Industrial Equipment and OEM. From a geographical perspective the development was good in major markets such as the Nordic countries, China and Mid Europe. Order intake in the U.S. was on an unchanged level from the first quarter. Industrial Equipment showed significant growth compared to the previous quarter, due to the seasonal effect in the heating and refrigeration applications. Both did well across the line, especially in the Nordic countries, Russia and China. Also the market units fluids & utilities and engine & transport contributed to the segment's positive development. Sanitary was slightly up versus the first quarter following good demand for products to beverage and dairy applications. The smaller market unit pharmaceuticals & personal care declined somewhat. In OEM (Original Equipment Manufacturers), order intake from manufacturers of heat pumps and air conditioning units grew significantly as the season for making heating and cooling installations took off. Another factor contributing to the growth was the positive development for new products, which, since their launch have continued to attract customers. The demand for spare parts and services was unchanged from the previous quarter.

Order intake dropped somewhat in the third quarter compared to the second, driven by a decline in Industrial Equipment and OEM. From a geographical perspective, demand declined in the U.S. and the Nordic countries, while many developing economies such as China, Russia and India as well as countries in Southeast Asia, developed well. Industrial Equipment saw lower demand, negatively impact by products going into refrigeration applications. Demand for products for HVAC applications, however,

Equipment division

Consolidated

SEK millions	2013	2012
Orders received	9,604	9,701
Order backlog*	1,495	1,583
Net sales	9,595	9,476
Operating income**	1,306	1,389
Depreciation and amortisation	173	162
Investments	57	46
Assets*	5,955	5,804
Liabilities*	910	986
Number of employees*	2,742	2,813

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

Change excluding currency effects

Consolidated

	Order intake			Net sales		
%	Structural change	Organic development	Total	Structural change	Organic development	Total
2013/2012	0.7	1.2	1.9	0.7	3.5	4.2
2012/2011	0.5	1.6	2.1	0.6	-0.1	0.5

remained unchanged as the seasonal effect seen in the second quarter, continued. In OEM (Original Equipment Manufacturers), order intake from manufacturers of air conditioners dropped as higher order intake in the previous quarter related to phase out of older products among these manufacturers did not continue. Demand for products aimed at the boiler and heat pump applications were growing in volume. Sanitary was unchanged, but met good demand for products that go to beverage, pharmaceuticals & personal care applications. The demand for spare parts and services was unchanged from the previous quarter.

Order intake remained flat in the fourth quarter compared to the third quarter as a slight decline in Industrial Equipment was offset by growth in Sanitary, while OEM saw unchanged demand. From a geographical perspective the development was good in markets such as North America and the Nordic countries, whereas demand in China declined, affected by the non-repeat of pharmaceutical projects as well as a certain seasonality effect in the market unit Comfort. Sanitary showed growth in the quarter following good demand for products that go into brewery, dairy and other food applications. The market unit personal care also reported a good development, while orders for products going into pharmaceuticals declined somewhat as projects were not repeated. Industrial Equipment experienced a slight decline, driven by lower demand for products for HVAC applications, due to the cold season. Demand for other applications remained stable. In OEM order intake remained unchanged. Demand from boiler manufacturers continued to grow, driven by new products. At the same time demand for products for other HVAC applications declined somewhat, affected by seasonality. The demand for services and spare parts was unchanged from the previous quarter.

Operating income
(excluding comparison distortion items)
The decrease in operating income during 2013 compared to last year is mainly explained by a negative price/mix variation and higher sales and administration costs and development costs, partly mitigated by a higher sales volume.

PROCESS TECHNOLOGY DIVISION
The Process Technology division consists of four customer segments: Energy & Environment, Food Technology, Process Industry and the aftermarket segment Service.

Orders received and net sales
(all comments are excluding currency effects)
Taking a quarterly view the development for Process Technology division during 2013 has been as follows:

Demand in the first quarter was slightly down from the previous quarter, mainly driven by fewer large orders within the Process Industry segment and the market unit environment. Energy related areas, however, such as oil & gas and power, recorded strong growth, while Service was unchanged. Geographically, North America grew, Latin America was stable, Europe was virtually unchanged and Asia declined. Energy & Environment showed good growth compared to the previous quarter, primarily driven by large orders, especially for oil and gas exploration. This sector showed continued strength with extensive ongoing investment programmes. The power market unit had a strong quarter, also contributing to the positive development. The environmental business saw a slight contraction even as the base business* grew, due to less of large orders. Process Industry declined, mainly driven by fewer large orders compared to the fourth quarter 2012. However, the base business had a stable development, reflecting the underlying activity level seen in the end markets. Food Technology showed a decline compared to the previous quarter, affected by the development in the market units brewery and beverage & viscous food. The market unit vegetable oil technology however – the largest part of the segment – noted strong growth. This reflected a continued strong activity level in the industry, with both upgrades and investments in capacity, primarily in Latin America and Asia.

Demand was in total unchanged in the second quarter, compared to the first, as Food Technology and Process Industry reported steady growth while Energy & Environment declined. Geographically the picture was also mixed. Europe and Asia were both stable, Latin America reported a strong quarter, whereas North America declined, partly due to said development for Energy & Environment. Energy & Environment's decline was partly a result of non-repeat large orders. It is also a reflection of the fact that the very high activity level among end-users and contractors in the oil & gas industry has led to certain investments being postponed due to lack of execution resources. The general activity level in oil and gas however, still remains high, with significant ongoing investment programmes. The power market unit also declined, due to non-repeats, while the environmental business had a strong development, especially for large

* Base business and base orders refer to orders with an order value of less than EUR 0.5 million.

Process Technology division

Consolidated

SEK millions	2013	2012
Orders received	13,935	14,081
Order backlog*	8,393	8,358
Net sales	13,813	12,812
Operating income**	2,479	2,194
Depreciation and amortisation	297	230
Investments	98	110
Assets*	10,828	10,608
Liabilities*	4,029	4,304
Number of employees*	5,256	5,085

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

Change excluding currency effects

Consolidated

	Order intake			Net sales		
%	Structural change	Organic development	Total	Structural change	Organic development	Total
2013/2012	4.3	-0.9	3.4	6.2	6.3	12.5
2012/2011	2.2	9.2	11.4	2.0	4.2	6.2

orders. Process Industry reported growth in the quarter compared to the previous quarter as the base business grew, reflecting a continued favourable sentiment in the end markets. Large orders remained on the same level as in the previous quarter. Food Technology showed strong growth compared to the previous quarter for base business and large orders alike. Structural growth drivers continue to generate orders. Market unit brewery was up on more large contracts, while market unit food solutions grew as a result of a stronger base business. Market unit vegetable oil declined somewhat from the first quarter, but still remained on a very good level, reflecting a strong activity in Asia as well as Central and Eastern Europe. Service was unchanged compared to the first quarter.

Process Technology reported an increase in demand in the third quarter compared to the previous quarter, lifted by a favourable development in both Process Industry and Energy & Environment. The base business reported a limited decline. Geographically, North and South America grew, as did Asia and Western Europe. Overall, the BRIC countries showed a good development, while Eastern Europe reported an overall contraction. Energy & Environment recorded steady growth, driven by a positive development for large orders. Oil & gas developed well, reflecting a continued positive sentiment and high activity level. The positive development materialized despite the trend of investments being postponed due to lack of execution resources. Market unit power had a strong quarter and the environmental business recorded growth, with steady market conditions. Process Industry also grew in the quarter, driven by market unit refinery which was boosted by a large energy efficiency order in India. Food Technology declined somewhat from a good level, as the market unit food solutions dropped, partly related to the non-repeat of larger orders. Brewery, on the other hand, noted a higher level, based on an upturn in the base business as well as large orders. Market unit vegetable oil also grew, benefitting from a large order in Latin America, a region with an overall positive sentiment. Demand for parts and services grew in the quarter. A very strong development for large orders contributed to the positive development. Regionally, the strongest development was noted in Asia.

Process Technology showed a strong increase in demand in the fourth quarter compared to the third quarter, boosted by a very favourable development in the Energy & Environment and Food Technology segments. Large orders reached a level considerably above the quarterly average but also the base business reported good growth. Geographically, North America and to an even higher degree, Latin America grew. A very strong development could also be seen in Eastern Europe, while the BRIC countries delivered growth in line with the average for the division. Energy & Environment recorded very strong growth, driven by large orders in the oil & gas sector. Market unit Power contributed to the positive development as large nuclear orders were secured, reflecting an increased activity level in the sector. The base business showed a positive development in the quarter. Process Industry declined compared to the third quarter, caused by a lower level of large orders within market unit Refinery. All other areas within Process Industry showed a strong development and the segment also generated a steady growth in the base business. Strong growth characterised all areas of Food Technology, with the exception of Vegetable oil, which was affected by the non-repeat of some large orders. Market unit Protein did very well as did market unit Brewery, boosted by a very large order for a brewery project in Latin America. Base business continued to develop favourably. Demand for parts and services continued to grow in the quarter. The high level of larger orders reported in previous quarters remained.

Operating income

(excluding comparison distortion items)

The increase in operating income during 2013 compared to last year is mainly explained by a higher sales volume, partly mitigated by a negative mix variation and higher sales costs.

MARINE & DIESEL DIVISION

The Marine & Diesel division consists of three customer segments: Marine & Diesel Equipment, Marine & Offshore Systems and the aftermarket segment Service.

Orders received and net sales

(all comments are excluding currency effects)

Taking a quarterly view the development for Marine & Diesel division during 2013 has been as follows:

Order intake for the Marine & Diesel Division grew substantially in the first quarter of 2013 compared to the fourth quarter of

2012, boosted by growth for the base business as well as some large orders within the environmental and offshore applications. The Marine and Diesel Equipment segment saw a recovery in demand, with solid growth across the traditional marine portfolio, diesel power plants and, in particular, marine environmental solutions. The latter included a large order for ballast water treatment systems, worth SEK 50 million. The Marine & Offshore Systems segment also reported growth following a large offshore gas order in South Korea, worth approximately SEK 130 million. The base business showed a stable development compared to the previous quarter. Demand for parts and services showed growth compared to the previous quarter, mainly due to good repair activity.

Order intake for the Marine & Diesel Division grew in the second quarter compared to the first, boosted by continued growth in the base business as well as large orders for exhaust gas cleaning. Marine & Diesel Equipment ended up on the same level as the previous quarter. The base business within Marine grew, which began to reflect an increase in the contracting to the yards as customers seem to take advantage of the low ship-building prices to invest in new very energy-efficient ships. Environmental solutions declined versus the previous quarter as a large order for ballast water treatment systems booked in the first quarter was not repeated. Demand for equipment for land-based diesel power plants declined compared to the first quarter, due to a slow general market activity. Marine & Offshore Systems had a good quarter, reflecting a strong base business development as well as increasing demand for the environmental solution for exhaust gas cleaning, Alfa Laval PureSOx. Demand for parts and services declined in the second quarter, compared to the first, as large repair orders booked in the previous quarter were not repeated.

Order intake for the Marine & Diesel division was down in the third quarter compared with the second, due to the non-repeat of large exhaust gas cleaning orders and a decline in demand for other environmental solutions. The demand for parts and services was unchanged. The Marine & Diesel Equipment segment was down from the previous quarter, affected by a decline for the base business as well as for environmental solutions. The underlying trend is however still positive, following the continued growth in order intake to the yards and continued good interest in environmental products and applications. The market unit diesel power had a strong development following a large order in the Middle East. The Marine & Offshore Systems segment reported a decline in order intake compared to the second quarter as large orders for exhaust gas cleaning were not repeated. Market unit offshore systems, where the order intake tends to vary, also saw a decline whereas the base business of the marine systems market unit showed solid growth.

Order intake for the Marine & Diesel division increased in the fourth quarter compared with the third, as the growth in order intake to the yards throughout the year, manifested itself in high demand across the capital sales segments. A further boost came from a large order for the exhaust gas cleaning system Alfa Laval Pure SOx. The Marine & Diesel Equipment segment saw overall higher demand than in the previous quarter, even as demand for equipment for diesel power plants declined. The positive development was instead explained by the high contracting to the yards, which generated good growth for the Marine Equipment base business. Environmental solutions also contributed to growth, lifted by an increasing demand for PureDry. The Marine & Offshore Systems segment was up significantly compared to the third quarter, reflecting a positive development across the board. Growth was recorded for the Marine Systems base business, for Offshore Systems and also exhaust gas cleaning, the latter due to an order for equipment to be retrofitted on board five vessels owned by the Dutch ship-owner Spliethoff. Demand for parts and services were below the third quarter due to lower repair activity.

Operating income

(excluding comparison distortion items)

The decrease in operating income during 2013 compared to last year is mainly explained by lower sales volume, partly mitigated lower costs for sales and administration.

Marine & Diesel division

Consolidated

SEK millions	2013	2012
Orders received	6,796	6,557
Order backlog*	4,680	4,527
Net sales	6,526	7,525
Operating income**	1,243	1,458
Depreciation and amortisation	204	224
Investments	49	38
Assets*	8,101	8,309
Liabilities*	2,167	2,043
Number of employees*	2,945	3,346

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

Change excluding currency effects

Consolidated

	Order intake			Net sales		
%	Structural change	Organic development	Total	Structural change	Organic development	Total
2013/2012	–	7.5	7.5	–	-10.3	-10.3
2012/2011	3.3	-0.8	2.5	11.8	-5.1	6.7

OTHER
Other is covering procurement, production and logistics as well as corporate overhead and non-core businesses.

Other

Consolidated		
SEK millions	2013	2012
Orders received	0	0
Order backlog*	0	0
Net sales	0	0
Operating income**	-581	-541
Depreciation and amortisation	336	318
Investments	291	337
Assets*	5,236	5,395
Liabilities*	2,442	2,188
Number of employees*	5,365	5,175

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

Information about geographical areas
All comments are reflecting the quarterly development during the year and are after considering exchange rate variations.

Western Europe including Nordic
Order intake declined in the first quarter compared with the previous quarter, affected by fewer large contracts being booked in the Process Technology Division. The base business*, however, had an overall positive development. Service developed positively across the region and a good development was also recorded for Marine & Diesel Equipment and OEM. From a regional perspective France and Mid Europe developed positively, while the Iberica and Nordic sales regions declined as a result of the fewer large contracts.

Order intake increased in the second quarter compared to the first, driven by a good development across most countries and regions. Both the base business and large projects developed positively. Segments to do especially well included Industrial Equipment, OEM, Food Technology and Marine Offshore Systems. Demand for Service was unchanged across the region compared with the previous quarter.

Order intake declined in the third quarter compared with the second, affected by the development in sales regions such as Nordic, France, Benelux, Adriatic and Iberica. The decline was mainly in the base business, across a majority of segments. Mid Europe, however, showed continued growth, as did the UK, boosted by large projects in the brewery and process industries. Service declined during the quarter.

Order intake increased in the fourth quarter compared with the third following a positive development for both the base business and large orders. A majority of sales regions/countries rose, with the Nordic, Benelux and Adriatic areas developing particularly well. Standing out among the segments were Sanitary, Marine & Offshore Systems and Energy & Environment. The demand for parts and services also developed positively across the region.

Central and Eastern Europe
Central and Eastern Europe reported a strong increase in order intake in the first quarter compared to the fourth quarter 2012. The base business was stable and Service saw a very good development. The main driver, however, was an increase in large orders, primarily in oil & gas and refinery in Russia. Russia was hence the country to show the best performance, followed by Poland, the Baltic states and Turkey.

Central and Eastern Europe reported a strong increase in order intake during the second quarter compared to the first. The growth was driven by a very good base business development, for both Equipment and Process Technology, as well as for Service. Large orders declined somewhat, affected by the development in Russia. As a whole the country was still on an unchanged level from the previous quarter, helped by a positive base business development. With Russia flat, the growth in the region is explained by the increased demand in Central Europe as well as Poland and the Baltic states.

Central and Eastern Europe reported a slight decrease in order intake during the third quarter compared to the second, explained by Poland and Turkey. The two countries were affected by a lower base business in the Process Technology division as well as the non-repeat of large contracts. The decline was mitigated by good growth in Russia, where especially the Equipment division had a very strong quarter. The service business continued to develop well throughout the region during the quarter.

Central and Eastern Europe reported a strong increase in order intake during the fourth quarter compared to the third, mainly due to a very positive development in Russia, Poland and the Baltic states. Russia reported a record quarter, due to three large orders for power, starch processing and food.

North America
Order intake increased in the first quarter compared to the previous quarter, both in the U.S. and in Canada. The base business contributed to this positive development, but the main explanation was the development for large projects. Both Energy & Environment and OEM did particularly well in the quarter, while Service declined somewhat.

In the second quarter the order intake declined compared with the first quarter as large projects were not repeated. The base business however remained unchanged. One explanation to the decline was the oil and gas sector in the Energy & Environment segment, where customers, due to a general high activity level, were forced to postpone certain projects due to lack of resources. Segments to perform well were Industrial Equipment, OEM and Process Industry. Service reported an unchanged level of demand compared to the first quarter.

Order intake was unchanged in the third quarter compared to the previous quarter as the United States reported continued growth, while Canada declined. The base business grew and there was also a continued positive development for parts and service. From a segment perspective, Food Technology was doing well, but the strongest development was recorded in Energy & Environment.

The order intake for the region grew in the fourth quarter compared to the third quarter, mainly due to large projects, with a good development seen in both the US and Canada. The base business also did well as demand continued to grow. Driving the development were segments Sanitary, Industrial Equipment, Process Industry and Food Technology. The demand for parts and services was up compared to the third quarter.

Latin America
Order intake was virtually unchanged in the

* Base business and base orders refer to orders with an order value of less than EUR 0.5 million.

first quarter compared to the fourth quarter 2012. A drop in new sales in the divisions Marine & Diesel and Equipment was compensated by an increase in project orders in the Process Technology Division. Service saw an overall good development. Geographically, the best performance was reported in Brazil and Mexico, boosted by projects relating to investments in the refinery and food sectors.

Order intake increased in the second quarter compared to the previous quarter, boosted by large orders in the food and oil & gas sectors. The base business also reported growth and order intake in general developed well in all countries in the region.

Order intake grew in the third quarter compared to the previous quarter, driven by a very strong development in Brazil and Mexico. Brazil had a very good base business development, together with a number of large orders within oil & gas, marine and vegetable oil. Mexico was boosted by a good development in the Equipment division and the Process Technology division saw a large order in the oil & gas sector adding to a positive base business development. The Service business continued to develop well throughout the region during the quarter.

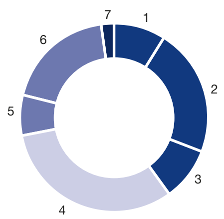
Order intake increased in the fourth quarter compared to previous quarter driven by strong growth in Brazil and Argentina. Brazil had a particularly positive development, seen both for the base business as well as for large orders, with the latter dominated by a large brewery project. Argentina's growth was driven by a good development for the base business in the Process Technology division.

Asia

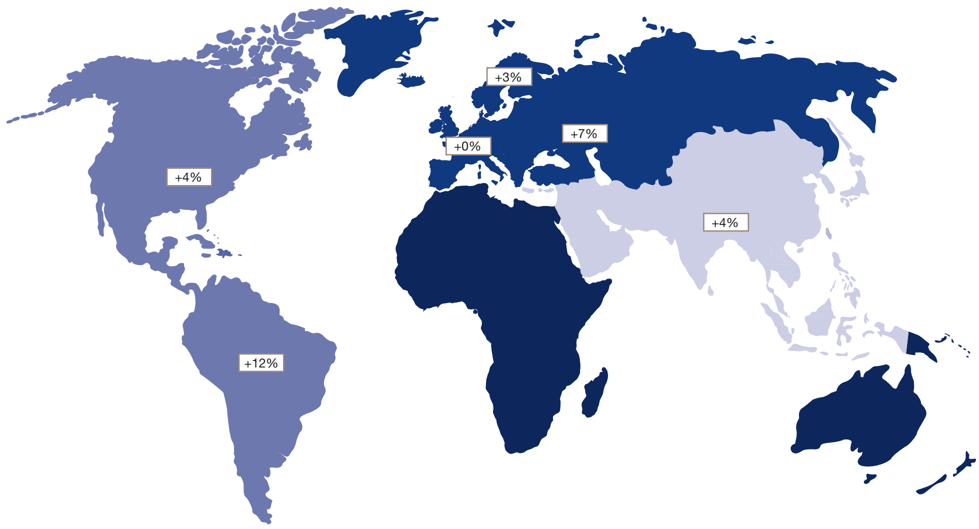
Order intake was unchanged in the first quarter compared to the previous quarter. Demand for parts and services was also on the same level as in the fourth quarter while the Equipment division dropped somewhat due to a lower order intake for Sanitary. The Process Technology division also declined, as fewer large orders were booked in the first quarter compared to the fourth. At the same time, smaller projects within refinery, vegetable oil and life science noted a high activity level across the region. The best performance was seen in the Marine & Diesel division and in particular for ballast water treatment systems, marine boilers and the traditional Marine & Diesel Equipment portfolio. South Korea, Malaysia and Japan were the best performing countries. China declined somewhat as the project business in the country continued to be in a wait-and-see mode, the exception being Process Industry which saw strong growth compared to the previous quarter.

Information about geographical areas

Orders received 2013

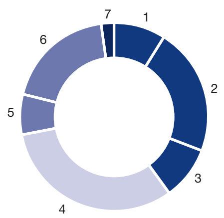


1	Nordic	9%
2	Western Europe	22%
3	Central & Eastern Europe	9%
4	Asia	32%
5	Latin America	7%
6	North America	19%
7	Other	2%



= Compared to 2012 after adjustment for exchange rate fluctuations

Orders received 2012



1	Nordic	9%
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4	Asia	32%
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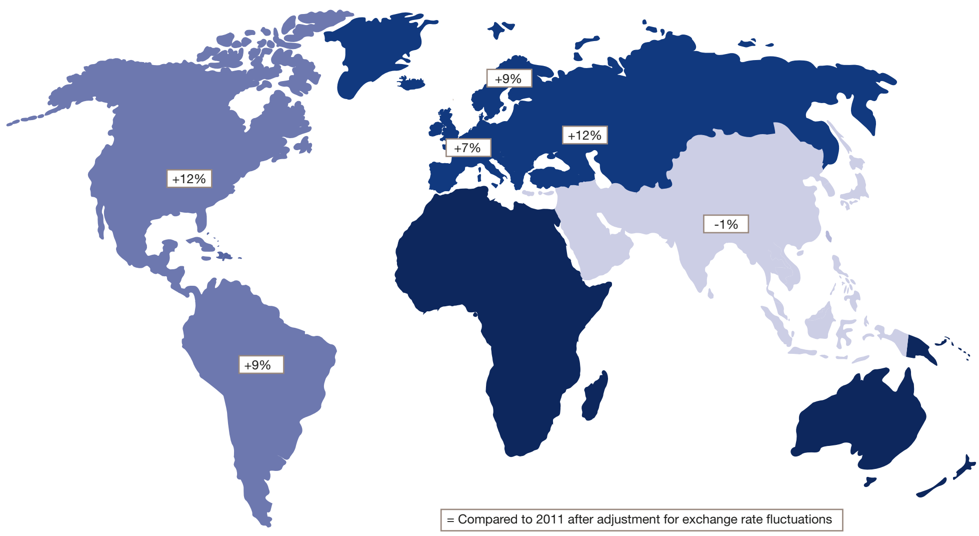
6	North America	19%
7	Other	2%



= Compared to 2011 after adjustment for exchange rate fluctuations

Order intake showed growth in the second quarter compared to the first quarter, boosted by a particularly strong base business development across all three divisions. Equipment and Marine & Diesel grew, while Process Technology declined somewhat due to non-recurring large orders within the vegetable oil and energy sectors in South East Asia. OEM, Industrial Equipment, Marine & Offshore Systems and Food Technology were segments that did particularly well during the quarter. Looking at Marine in more detail, the division was positively influenced by growth in new shipbuilding contracts, as customers took advantage of the low shipbuilding prices generally and in particular by good demand for vessels for transportation of oil and gas. Service delivered good growth compared to the previous quarter. Looking at the development by country, China and Japan both reported strong growth. India also did well, supported by a good base business development, even as the project business was affected by a somewhat erratic investment climate. The growth in China was broad-based, covering most segments and concerned both base business and large orders. Customers, who for some quarters adopted a wait-and-see mode when it came to investments, now seem to be moving towards a more positive sentiment.

Order intake showed growth in the third quarter compared to the second, boosted by a strong development in China, India and South East Asia. The positive development in China was driven by larger projects, secured in segments such as Industrial Equipment, Energy & Environment and Marine & Offshore Systems. The base business was, however, somewhat weaker reflecting that the customers are still in a “wait and see” mode. Chinese demand for parts and services still showed a positive development. India developed well, following a large Packinox energy-efficiency order from a local petrochemical plant. Looking at the region as a whole, all three divisions reported growth, with Energy & Environment, Process Industry and Marine & Offshore Systems doing particularly well. Industrial Equipment also did well on the back of some larger cooling projects in China. Energy & Environment was lifted by projects in oil & gas and nuclear power, the latter reflecting pent up demand post Fukushima. Process Industry rose, benefitting from refinery investments across Asia and Marine & Offshore Systems saw rising order intake for products going to LNG and product carriers in South Korea, China and also Japan.

Order intake was unchanged in the fourth quarter compared to the third, even as a large order in India in the third quarter was not repeated. A positive development was reported by the Marine & Diesel division, which had a strong quarter, as well as the base business which developed well, especially in the Process Technology division. The Marine & Diesel division was lifted by a high activity level among shipyards in South Korea, China and Japan. Meanwhile, segment Energy & Environment also did well, thanks to a large LNG contract in Australia for wastewater treatment. The Process Technology division as a whole however, declined due to the non-repeat order in India. The Equipment division reported a slightly lower pace compared to the relatively strong performance seen in the first three quarters. Korea and Japan stood out from a geographic perspective, showing a strong and broad based positive development. China also reported growth, with a very strong development in the Marine & Diesel division, Food Technology, Process Industries as well as Service. For the region as a whole, the demand for parts and services was unchanged from the third quarter.

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 732 (707) million, corresponding to 2.4 (2.4) percent of net sales. Excluding currency effects and acquisition of businesses, the costs for research and development have increased by 3.5 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 sales people 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.

Since 2004 the Group runs a project to improve the internal environmental management systems. Today all sites (except recent acquisitions) have an environmental management system in place. At the end of 2013 28 (26) production sites with ISO 14001 certification accounted for about 93 (86) percent of the delivery value. The increase is due to certification of two sites for boiler manufacturing in Denmark and in China. Yet one site has an ongoing certification. The goal is to have a certification level of at least 95 percent.

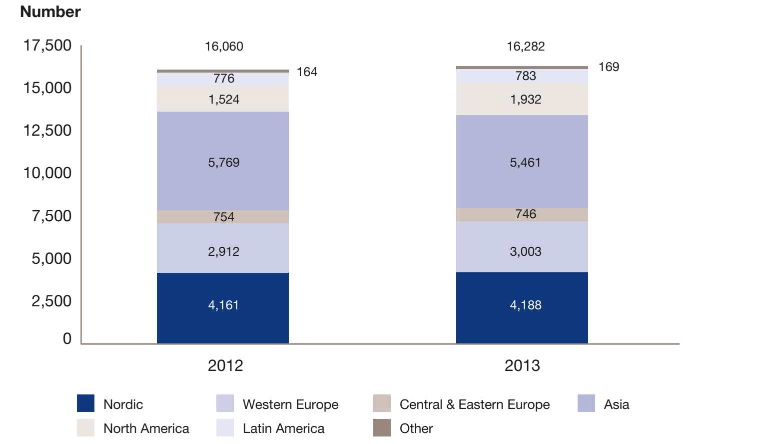
The subsidiary, Alfa Laval Corporate AB, is involved in operational activities that are subject to an obligation to report and compulsory licensing according to Swedish environmental legislation. The permits mainly relate to the manufacturing of heat exchangers in Lund and Ronneby and the manufacturing 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.

Employees

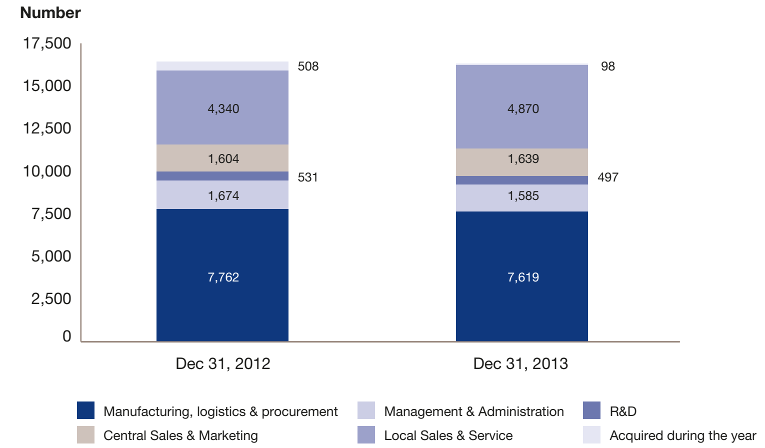
The distribution of the number of employees by region is:

Average number of employees – by region



The distribution of the number of employees by personnel category is:

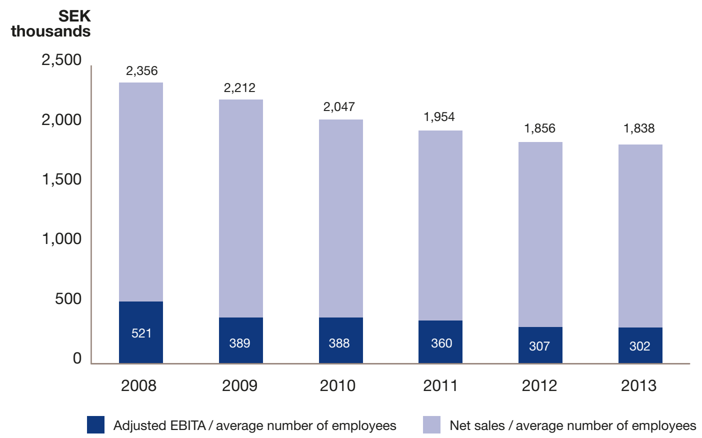
Employees – by category



The productivity by employee has developed as follows:

The figures for 2008 were inflated by the high metal prices. The outcome for 2009 and 2010 has been affected by the financial crisis and the outcome for 2011 and 2012 by the acquisition of Aalborg Industries and the Euro crisis. Aalborg Industries has a lower turnover per employee than Alfa Laval.

Employees – Productivity development



Personnel
The parent company does not have any employees.

The Group has on average had 16,282 (16,060) employees. At the end of December 2013 the Group had 16,308 (16,419) employees. The employee turnover rate for 2013 is 10.2 (10.3) percent and mainly relates to employees within manufacturing units and the sales organisation.

Alfa Laval has the ambition to develop the employees on all levels within the Group. Part of this is made through local training and development efforts in the different factories and sales companies around the world, for instance ALPS (Alfa Laval Production System) that is based on the well known concepts of Lean and Six Sigma, while the more comprehensive group-wide training programmes and development projects are performed within the Alfa Laval Academy framework. Examples of these training programmes are Challenger (for young talents with international leadership potential), Impact (for women in the middle of the carreer), Project Management, Product trainings, Information Security (mandatory training via E-learning) and Pure Leadership (for middle management).

Alfa Laval is working to achieve equal career opportunities independent of for instance gender or ethnic origin. 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. To facilitate this, a mentor programme has started for women with capacity to become future leaders.

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.

Guidelines for remunerations to executive officers
The guidelines for remunerations to executive officers are established by the Annual General Meeting, see further description in Note 6.

The Annual General Meeting 2013 decided to implement step three of a modified 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 will propose the Annual General Meeting 2014 to implement step four of this modified cash-based long term incentive programme for the period January 1, 2014 – December 31, 2016. No other changes of these guidelines are proposed by the Board of Directors.

Asbestos-related lawsuits
The Alfa Laval Group was as of December 31, 2013, named as a co-defendant in a total of 759 asbestos-related lawsuits with a total of approximately 819 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 was SEK 1,762 (101) million, out of which dividends from subsidiaries were SEK 1,697 (-) million, net interests SEK 71 (115) million, realised and unrealised exchange rate gains and losses SEK 4 (-1) million, costs related to the listing SEK -3 (-3) million, fees to the Board SEK -6 (-6) million, costs for annual report and annual general meeting SEK -2 (-4) million and other operating costs the remaining SEK 1 (-0) million. Change of tax allocation reserve has been made with SEK 30 (283) million. Group contributions amount to SEK 855 (-403) million, Tax on this year's result amount to SEK -212 (-1) million. Net income for the year was SEK 2,435 (-20) million.

Unrestricted equity for the parent company
The unrestricted equity of Alfa Laval AB (publ) was SEK 9,253 (8,285) million.

Proposed disposition of earnings
The Board of Directors propose a dividend of SEK 3.75 (3.50) per share corresponding to SEK 1,573 (1,468) million and that the remaining income available for distribution in Alfa Laval AB (publ) of SEK 7,680 (6,817) million be carried forward, see page 134.

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.

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.

Repurchase of shares
The Annual General Meeting 2013 gave the Board a mandate to decide on repurchase of the company's shares – if the Board deems this appropriate – until the next Annual General Meeting. The mandate referred to repurchase of up to 5 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. The repurchase would be made through purchases on OMX Stockholm Stock Exchange. Until December 31, 2013 Alfa Laval has not made any repurchases.

Proposal on repurchase of shares
Alfa Laval's financial position is very strong. In order to adjust this to a more efficient structure while maintaining financial flexibility, the Board of Directors will propose the Annual General Meeting to mandate the Board to decide on repurchase of the company's shares – if the Board deems this appropriate – until the next Annual General Meeting. The mandate will refer to repurchase of up to 5 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. The repurchase will be made through transactions on OMX Stockholm Stock Exchange.

Events after the closing date
The statements on financial position and the comprehensive income statements will be adopted at the Annual General Meeting of shareholders on April 28, 2014.

Outlook for the first quarter
In the fourth quarter and full year 2013 report issued on February 5, 2014, the President and Chief Executive Officer Lars Renström stated:

"We expect that demand during the first quarter 2014 will be in line with or somewhat lower than in the fourth quarter."

Earlier published outlook (October 29, 2013):
"We expect that demand during the fourth quarter 2013 will be on about the same level as in the third quarter."

Date for the next financial reports during 2014
Alfa Laval will publish interim reports during 2014 at the following dates:

Interim report for the first quarter	April 28
Interim report for the second quarter	July 17
Interim report for the third quarter	October 28

Consolidated cash flows

Consolidated cash flows

SEK millions	Note	2013	2012 *
Operating activities			
Operating income		4,353	4,396
Adjustment for depreciation		1,010	934
Adjustment for other non-cash items		-38	241
		5,325	5,571
Taxes paid		-1,093	-1,569
		4,232	4,002
Changes in working capital:			
Increase(-)/decrease(+) of receivables		107	-158
Increase(-)/decrease(+) of inventories		-134	-214
Increase(+)/decrease(-) of liabilities		201	-25
Increase(+)/decrease(-) of provisions		-178	-19
Increase(-)/decrease(+) in working capital		**-4**	**-416**
		4,228	**3,586**
Investing activities			
Investments in fixed assets (Capex)		-495	-531
Divestment of fixed assets		37	49
Acquisition of businesses	*16*	-495	-2,778
		-953	**-3,260**
Financing activities			
Received interests and dividends		122	97
Paid interests		-208	-252
Realised financial exchange differences		-16	104
Dividends to owners of the parent		-1,468	-1,363
Dividends to non-controlling interests		0	-7
Increase(-)/decrease(+) of financial assets		-190	5
Increase(+)/decrease(-) of borrowings		-1,431	1,009
		-3,191	**-407**
Cash flow for the period		**84**	**-81**
Cash and bank at the beginning of the period		1,404	1,564
Translation difference in cash and bank		-34	-79
Cash and bank at the end of the period	*25*	**1,454**	**1,404**
Free cash flow per share (SEK) **		7.81	0.78
Capex in relation to sales		1.7%	1.8%
Average number of shares		419,456,315	419,456,315

* Restated to the new IAS 19.

** 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 16 and 25.

Cash flows from operating activities
The increase in cash flows from operating activities in 2013 is explained by the lower tax payments and the lower increase in working capital.

Cash and bank
The item cash and bank mainly consists of short term deposits of less than three months with banks.

Cash flow
Cash flow from operating and investing activities amounted to SEK 3,275 (326) million during 2013. Out of this, acquisitions of businesses were SEK -495 (-2,778) million whereas divestments generated cash of SEK 37 (49) 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 4 (416) million during 2013.

Investments
Investments in property, plant and equipment amounted to SEK 495 (531) million during 2013. The investments made for the individual product groups are as follows:

Heat exchangers
Investments have been made in machines for manufacturing of new products and in productivity enhancing equipment in Ronneby in Sweden and in Jiang Yin in China for brazed heat exchangers. Investments have been made in Jiang Yin in China and in Lund in Sweden in equipment to increase capacity and widen the product range for gasketted heat exchangers. Investments in manufacturing equipment for a wider product range of air heat exchangers have been made in Groningen in the Netherlands and in Alonte in Italy.

Decanters
During 2013 a new factory for decanters has been completed in Kunshan in China.

High speed separators
Investments in machine capacity have been made during the year in Eskilstuna in Sweden and in Pune in India.

Fluid handling products
During 2013 investments in productivity and capacity increasing equipment have been made relating to fluid handling products.

Depreciations
Depreciation, excluding allocated step-up values, amounted to SEK 449 (447) million during the year.

Acquisitions and disposals
For a further analysis of the impact on the cash flow by acquisitions and disposals, see Note 16.

Free cash flow per share
The free cash flow per share is SEK 7.81 (0.78).

Consolidated comprehensive income

Consolidated comprehensive income			
SEK millions	*Note*	2013	2012 *
Net sales	*1, 2, 3, 4*	29,934	29,813
Cost of goods sold	*9*	-19,349	-19,169
Gross profit		10,585	10,644
Sales costs	*5, 6, 9*	-3,481	-3,345
Administration costs	*5, 6, 7, 9*	-1,590	-1,656
Research and development costs	*9*	-732	-707
Other operating income **	*8*	453	384
Other operating costs **	*8, 9*	-882	-924
Operating income		4,353	4,396
Dividends and changes in fair value	*10*	8	8
Interest income and financial exchange rate gains	*11*	358	501
Interest expense and financial exchange rate losses	*11*	-547	-376
Result after financial items		4,172	4,529
Tax on this year's result	*15*	-1,098	-1,279
Other taxes	*15*	-34	-27
Net income for the year		**3,040**	**3,223**
Other comprehensive income:			
Items that will subsequently be reclassified to net income			
Cash flow hedges		13	168
Translation difference		39	-798
Deferred tax on other comprehensive income	*15*	-14	-50
Sum		38	-680
Items that will subsequently not be reclassified to net income			
Revaluations of defined benefit obligations		234	-277
Deferred tax on other comprehensive income	*15*	-81	35
Sum		153	-242
Comprehensive income for the year		**3,231**	**2,301**
Net income attributable to:			
Owners of the parent		3,027	3,206
Non-controlling interests		13	17
Earnings per share (SEK)		7.22	7.64
Average number of shares		419,456,315	419,456,315
Comprehensive income attributable to:			
Owners of the parent		3,212	2,288
Non-controlling interests		19	13

* Restated to the new IAS 19.

** The line has been affected by comparison distortion items, see specification in Note 8.

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 15 and Note 28. 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	2013	2012 *
Net sales	29,934	29,813
Adjusted gross profit **	11,146	11,131
- in % of net sales	***37.2***	***37.3***
Expenses ***	-5,783	-5,750
- in % of net sales	*19.3*	*19.3*
Adjusted EBITDA	***5,363***	***5,381***
- in % of net sales	*17.9*	*18.0*
Depreciation	-449	-447
Adjusted EBITA	**4,914**	**4,934**
- in % of net sales	***16.4***	***16.5***
Amortisation of step up values	-561	-487
Comparison distortion items	–	-51
Operating income	4,353	4,396

* Restated to the new IAS 19. ** Excluding amortisation of step up values. *** Excluding comparison distortion items.

The gross margin has decreased by 0.1 percentage unit between 2012 and 2013. Exchange rate effects have caused a negative impact that more than corresponds to the total change of 0.1 percent. A minor positive effect relating to prices has been mitigated by a limited negative change in mix.

Sales and administration expenses amounted to SEK 5,071 (5,001) million. Excluding currency effects and acquisition of businesses, sales and administration expenses were 1.5 percent higher than last year.

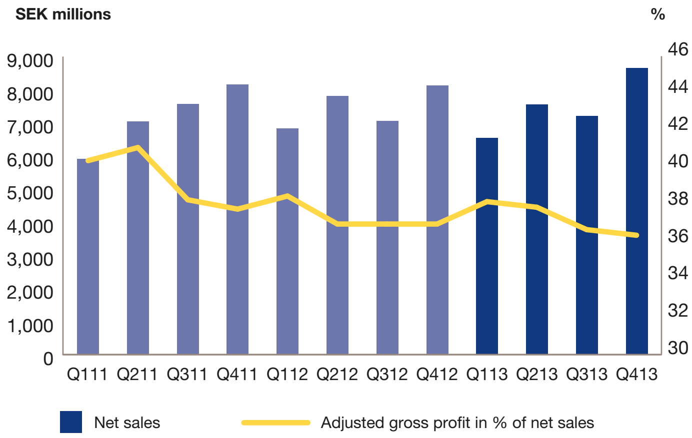
The costs for research and development have amounted to SEK 732 (707) million, corresponding to 2.4 (2.4) percent of net sales. Excluding currency effects and acquisition of businesses, the costs for research and development have increased by 3.5 percent compared to last year.

The net income attributable to the owners of the parent, excluding depreciation of step-up values and the corresponding tax, is SEK 8.18 (8.39) per share.

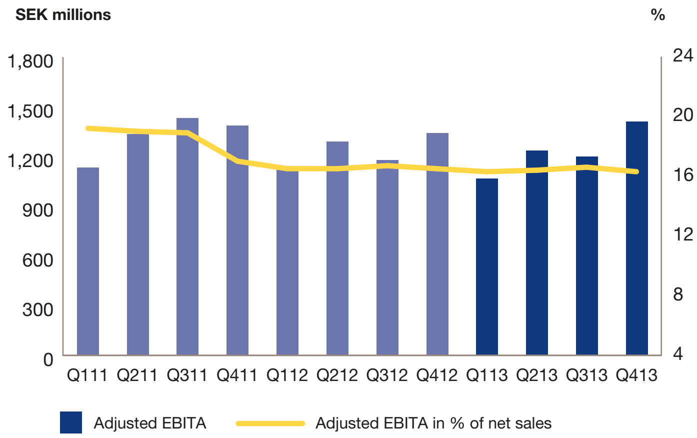
Compared with last year Alfa Laval has been affected during 2013 by exchange rate differences, both through translation differences and through the net exposure when trading in foreign currencies. The effect on adjusted EBITA has been calculated to totally about SEK -187 (-139) million for 2013 compared with last year. The effect of the exchange rate variations has been limited through exchange rate hedging and through the distribution of the company's financial debts in relation to its net assets in different currencies.

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 profit margin



Adjusted EBITA



The operating income has been affected by comparison distortion items of SEK - (-51) million, which are specified below. In the consolidated comprehensive income statement these are reported gross as a part of other operating income and other operating costs, see summary in Note 8.

The comparison distortion cost during 2012 of SEK -51 million related to write down of the goodwill relating to the acquisition of Onnuri with SEK -48 million and a realised loss on sale of a property in Korea that was used by Onnuri with SEK -3 million.

The financial net has amounted to SEK -90 (-126) million, excluding realised and unrealised exchange rate losses and gains. The main elements of costs were interest on debt to the banking syndicate of SEK -21 (-25) million, interest on the bilateral term loans SEK -70 (-83) million, interest on the private placement of SEK -12 (-16) million and a net of dividends, other interest income and interest costs of SEK 13 (-2) million.

The net of realised and unrealised exchange rate differences amounts to SEK -91 (259) million.

The item cash flow hedges in other comprehensive income almost entirely consist of fair value changes in cash flow hedges:

Fair value changes in cash flow hedges

Consolidated		
SEK millions	2013	2012
Opening balance	110	-58
Booked into other comprehensive income during the year	-41	124
Reversed from other comprehensive income due to inefficiency:		
booked against cost of goods sold	17	-40
Reversed from other comprehensive income:		
booked against cost of goods sold	46	90
booked against interest income/interest costs	-9	-6
Closing balance	**123**	**110**
Change reported against other comprehensive income	13	168

The Group has not had any cash flow hedges that have affected the initially recognised carrying amount of non-financial assets.

In the item cash flow hedges in other comprehensive income the fair value changes in shares in external companies is also included with SEK -0 (-0) million for 2013. They are not material enough to render a separate line in the comprehensive income statement.

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

* 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*	2013	2012 *	Opening balance January 1, 2012
Non-current assets				
Intangible assets	*16, 17*			
Patents and unpatented know-how		1,927	1,943	1,327
Trademarks		1,618	1,819	2,130
Licenses, renting rights and similar rights		37	45	45
Goodwill		10,061	9,792	9,543
		13,643	13,599	13,045
Property, plant and equipment	*16, 18*			
Real estate		1,664	1,702	1,734
Machinery and other technical installations		1,435	1,430	1,439
Equipment, tools and installations		560	541	555
Construction in progress and advances to suppliers concerning property, plant and equipment		137	150	208
		3,796	3,823	3,936
Other non-current assets				
Other long-term securities	*13, 14, 19*	8	9	25
Pension assets	*26*	11	3	15
Deferred tax assets	*15*	1,401	1,497	1,559
		1,420	1,509	1,599
Total non-current assets		**18,859**	**18,931**	**18,580**
Current assets				
Inventories	*20*	6,319	6,176	6,148
Assets held for sale				
Real estate	*18*	–	9	–
Current receivables				
Accounts receivable	*13, 21*	5,059	5,211	5,080
Current tax assets		1,113	1,207	918
Other receivables	*13, 22*	1,085	1,098	1,188
Prepaid costs and accrued income	*13, 23*	219	200	174
Derivative assets	*13, 14*	219	325	303
		7,695	8,041	7,663
Current deposits				
Other current deposits	*13, 24*	611	427	483
Cash and bank	*13, 25*	1,454	1,404	1,564
Total current assets		**16,079**	**16,057**	**15,858**
TOTAL ASSETS		**34,938**	**34,988**	**34,438**

* Restated to the new IAS 19.

Consolidated financial position, continued

EQUITY AND LIABILITIES SEK millions	Note	2013	2012 *	Opening balance January 1, 2012
Equity				
Attributable to owners of the parent				
Share capital		1,117	1,117	1,117
Other contributed capital		2,770	2,770	2,770
Other reserves		-1,949	-2,134	-1,216
Retained earnings		14,149	12,639	11,543
		16,087	14,392	14,214
Attributable to non-controlling interests	*12*	75	61	162
Total equity		**16,162**	**14,453**	**14,376**
Non-current liabilities				
Liabilities to credit institutions	*13, 28*	2,813	4,679	4,302
Private placement	*13, 28*	716	714	758
Provisions for pensions and similar commitments	*26*	1,494	1,727	1,604
Provision for deferred tax	*15*	1,761	1,932	1,927
Other provisions	*27*	431	473	520
Total non-current liabilities		**7,215**	**9,525**	**9,111**
Current liabilities				
Liabilities to credit institutions	*13, 28*	1,049	610	132
Advances from customers		2,027	2,121	2,020
Accounts payable	*13*	2,250	2,198	2,529
Notes payable	*13*	144	135	139
Current tax liabilities		1,064	1,104	1,050
Other liabilities	*13, 29*	1,532	1,381	1,356
Other provisions	*27*	1,539	1,603	1,612
Accrued costs and prepaid income	*13, 30*	1,722	1,671	1,685
Derivative liabilities	*13, 14*	234	187	428
Total current liabilities		**11,561**	**11,010**	**10,951**
Total liabilities		**18,776**	**20,535**	**20,062**
TOTAL EQUITY AND LIABILITIES		**34,938**	**34,988**	**34,438**
PLEDGED ASSETS AND CONTINGENT LIABILITIES				
Pledged assets	*31*	17	10	51
Contingent liabilities	*31*	1,950	2,015	1,722

* Restated to the new IAS 19.

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 34. For comments on the operating segments, see Note 1.

Capital employed
The average capital employed including goodwill and step-up values amounted to SEK 18,586 (17,833) million during the year.

Return on capital employed
The return on average capital employed including goodwill and step-up values amounted to 26.4 (27.4) 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 1.6 (1.7) times for the year.

Return on equity
Net income in relation to the average equity was 20.4 (22.9) percent during the year.

Solidity
The solidity, that is the equity in relation to total assets, was 46.3 (41.3) percent at the end of the year.

Net debt
The net debt was SEK 2,597 (4,270) million at the end of the year.

Net debt to EBITDA
Net debt in relation to EBITDA was 0.48 (0.80) times at the end of December.

Debt ratio
The debt ratio, that is the net debt in relation to equity, was 0.16 (0.30) 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									
SEK millions	Share capital	Other contribu-ted capital	Cash flow hedges	Translation differences	Revaluations	Deferred tax	Retained earnings	Subtotal	Translation differences	Retained earnings	Subtotal	
As of December 31, 2011	**1,117**	**2,770**	**-58**	**-441**	**-768**	**51**	**11,543**	**14,214**	**-15**	**177**	**162**	**14,376**
2012												
Comprehensive income												
Net income	–	–	–	–	–	–	3,206	3,206	–	17	17	3,223
Other comprehensive income	–	–	168	-794	-277	-15	–	-918	-4	–	-4	-922
Comprehensive income	–	–	168	-794	-277	-15	3,206	2,288	-4	17	13	2,301
Transactions with shareholders												
Decrease of non-controlling interests	–	–	–	–	–	–	-747	-747	–	-107	-107	-854
Dividends to owners of the parent	–	–	–	–	–	–	-1,363	-1,363	–	–	–	-1,363
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	-7	-7	-7
As of December 31, 2012	**1,117**	**2,770**	**110**	**-1,235**	**-1,045**	**36**	**12,639**	**14,392**	**-19**	**80**	**61**	**14,453**
2013												
Comprehensive income												
Net income	–	–	–	–	–	–	3,027	3,027	–	13	13	3,040
Other comprehensive income	–	–	13	33	234	-95	–	185	6	–	6	191
Comprehensive income	–	–	13	33	234	-95	3,027	3,212	6	13	19	3,231
Transactions with shareholders												
Decrease of non-controlling interests	–	–	–	–	–	–	-49	-49	–	-5	-5	-54
Dividends to owners of the parent	–	–	–	–	–	–	-1,468	-1,468	–	–	–	-1,468
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	0	0	0
As of December 31, 2013	**1,117**	**2,770**	**123**	**-1,202**	**-811**	**-59**	**14,149**	**16,087**	**-13**	**88**	**75**	**16,162**

* Restated to the new IAS 19.

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 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, 2013 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 2013 gave the Board a mandate to decide on repurchase of the company's shares – if the Board deems this appropriate – until the next Annual General Meeting. The mandate referred to repurchase of up to 5 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. The repurchase would be made through purchases on OMX Stockholm Stock Exchange. Until December 31, 2013 Alfa Laval has not made any repurchases.

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 B.V., the Netherlands who owns 26.1 (26.1) 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, the private placement and the bilateral term loans with Swedish Export Credit and the European Investment Bank 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 a public offering or otherwise.

The possibilities to distribute unappropriated profits from foreign subsidiaries are limited in certain countries due to currency regulations and other legislation.

Parent company cash flows

Parent company cash flows

SEK millions	2013	2012
Cash flow from operating activities		
Operating income	-10	-13
Taxes paid	-3	-214
	-13	-227
Changes in working capital:		
Increase(-)/decrease(+) of receivables	112	1,444
Increase(+)/decrease(-) of liabilities	4	-374
Increase(-)/decrease(+) in working capital	**116**	**1,070**
	103	**843**
Cash flow from investing activities		
Investment in subsidiaries	–	–
	–	**–**
Cash flow from financing activities		
Financial net, paid	71	115
Received dividends from subsidiaries	1,697	–
Paid dividends	-1,468	-1,363
Received/paid group contribution	-403	405
	-103	**-843**
Cash flow for the year	**–**	**–**
Cash and bank at the beginning of the year	–	–
Cash and bank at the end of the year	**–**	**–**

Parent company income *

SEK millions	*Note*	2013	2012 **
Administration costs		-11	-13
Other operating income		4	3
Other operating costs		-3	-3
Operating income		-10	-13
Dividends from subsidiaries		1,697	–
Interest income and similar result items	*11*	79	118
Interest expenses and similar result items	*11*	-4	-4
Result after financial items		1,762	101
Change of tax allocation reserve		30	283
Group contributions		855	-403
Result before tax		2,647	-19
Tax on this year's result		-212	-1
Net income for the year		**2,435**	**-20**

* The parent company income statement also constitutes its comprehensive income statement.
** Group contributions restated due to changes in RFR.

Parent company financial position

Parent company financial position			
SEK millions	Note	2013	2012 *
ASSETS			
Non-current assets			
Financial non-current assets			
Shares in group companies	19	4,669	4,669
Current assets			
Current receivables			
Receivables on group companies		8,263	8,035
Current tax assets		40	249
Other receivables		3	3
Accrued income and prepaid costs		1	1
		8,307	8,288
Cash and bank		**–**	**–**
Total current assets		**8,307**	**8,288**
TOTAL ASSETS		**12,976**	**12,957**
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		6,818	8,305
Net income for the year		2,435	-20
		9,253	8,285
Total equity		**11,640**	**10,672**
Untaxed reserves			
Tax allocation reserve, taxation 2008		–	350
Tax allocation reserve, taxation 2009		239	239
Tax allocation reserve, taxation 2010		224	224
Tax allocation reserve, taxation 2011		313	313
Tax allocation reserve, taxation 2012		140	140
Tax allocation reserve, taxation 2014		320	–
		1,236	1,266
Current liabilities			
Liabilities to group companies		99	1 018
Accounts payable		1	1
		100	1 019
TOTAL EQUITY AND LIABILITIES		**12,976**	**12,957**
MEMORANDUM ITEMS			
Pledged assets and contingent liabilities			
PLEDGED ASSETS		None	None
CONTINGENT LIABILITIES (for subsidiaries):			
Performance guarantees		None	None
Other contingent liabilities		None	None

* Group contributions restated due to changes in RFR.

Changes in parent company equity

Changes in parent company equity

SEK millions	Share capital	Statutory reserve	Unrestricted equity	Total
As of December 31, 2011	**1,117**	**1,270**	**9,668**	**12,055**
2012 *				
Comprehensive income				
Net income	–	–	-20	-20
	–	–	-20	-20
Transactions with shareholders				
Dividends	–	–	-1,363	-1,363
As of December 31, 2012	**1,117**	**1,270**	**8,285**	**10,672**
2013				
Comprehensive income				
Net income	–	–	2,435	2,435
	–	–	2,435	2,435
Transactions with shareholders				
Dividends	–	–	-1,468	-1,468
As of December 31, 2013	**1,117**	**1,270**	**9,253**	**11,640**

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

* Group contributions restated due to changes in RFR.

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

As from January 1, 2005 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.

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 2013 the changes in IAS 1 "Presentation of Financial Statements" have been implemented. The change means that the grouping of transaction reported in other comprehensive income is changed. The items that are recycled over the income statement are to be reported separately from the items that are not recycled over the income statement. The proposal does not change the actual content of other comprehensive income but only the format. The changes must be applied retroactively in accordance with IAS 8.

During 2013 the changes in IAS 19 "Employee Benefits" have been implemented. The changes mean substantial changes concerning the accounting for defined benefit pension schemes, for example:

- The possibility to phase actuarial gains and losses as a part of the corridor cannot be used, but these are to be accounted for currently in other comprehensive income. 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.
- Changes in the obligations that relate to changes in actuarial assumptions are accounted for in other comprehensive income.
- The return on plan assets is calculated with the same interest rate as the discount rate. The expected return cannot be used any longer.
- The difference between the actual return on plan assets and the interest income in the previous bullet point is reported in other comprehensive income.
- Past service costs must be recognised in the income statement already when the plan is amended or curtailed.
- The plan assets must be 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.
- The changes include further changes that do not focus on accounting for pensions but other forms of employee benefits. Termination benefits shall be 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 will also include future payments of special salary tax.

The revised standard must be applied retroactively in accordance with IAS 8. The changes to IAS 19 mean that:

- The present value of the defined benefit obligations is fully booked in the statement of financial position, with a magnitude approximately corresponding to the unrecognised actuarial losses as per the end of 2011.
- This results in an increased deferred tax receivable.
- The net of these two amounts is booked as a reduction of equity as a change in accounting principles per January 1, 2012.
- As a consequence of this the comparison figures for 2012 have been changed.
- From January 1, 2012 the actuarial gains and losses are reported currently 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 impact on other comprehensive income can as a result become substantial between the years.
- The amount of disclosures will increase.

During 2013 IFRS 13 "Fair Value Measurement" has been implemented. 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. 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.

New 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.

The standard is to be applied prospectively.

During 2013 Alfa Laval has decided to make an early adoption of the changes in RFR 2 issued by the Council for Financial Reporting in Sweden. The parent company has chosen to account for group contributions according to the alternative rule. This means that both received and given group contributions are reported as appropriations in the income statement. The comparison figures for last year have been restated.

During 2013 the opinion UFR 9 ”Redovisning av avkastningsskatt” from the Swedish Financial Reporting Board has been implemented. The opinion covers how the Swedish tax on returns from pension funds is to be treated in light of the changes to IAS 19. The tax on returns from pension funds is to be reported currently as a cost in the profit and loss and must not be included in the actuarial calculation for defined benefit pension plans. UFR 9 has not meant any change compared to how the Swedish tax on returns from pension funds has been accounted earlier. It is rather a clarification in order to establish that the tax should not be included in the actuarial calculations.

During 2012 the amendment to IFRS 7 ”Financial Instruments: Disclosures” was implemented. The amendment means that additional quantitative and qualitative disclosures that must be made when removing financial instruments from the statement of financial position.

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. Such a write down will affect net income and thereby the financial position of the Group. The reported goodwill is SEK 10,061 (9,792) 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 start 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 risk for this happening has increased due to the implementation of the new IAS 19. 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 1,970 (2,076) million is reported as other provisions. This constitutes 5.6 (5.9) 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.

IAS 39 ”Financial Instruments: Recognition and Measurement” has a considerable effect on the Groups comprehensive income and equity and may have a substantial effect on net income if the used derivatives turns out not to be effective.

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:

– classification of financial instruments;
– probability in connection with business risks;
– determination of percentage of completion in work in progress;
– recoverability of accounts receivable;
– obsolescence in inventory; and
– whether a lease entered into with an external lessor is a financial lease or an operational lease.

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 according to IAS 39 ”Financial Instruments: Recognition and Measurement”. 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 IAS 27 ”Consolidated and Separate Financial Statements”.

The consolidated financial statements include the parent company Alfa Laval AB (publ) and the subsidiaries in which it holds more than 50 percent during the period.

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 replacement 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 difference 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 from 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, but that before 2009 were reported directly against equity. Now they are instead reported in comprehensive income as a part of other comprehensive income. Other comprehensive income relates to for instance cash flow hedges and translation differences and deferred tax related to these.

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.

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, 2013 of 148 (129) 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 under a separate heading in the Board of Directors' report.

Financial instruments

The reporting of financial instruments is governed by the following four accounting and financial reporting standards:

- IAS 39 Financial Instruments: Recognition and Measurement,
- IAS 32 Financial Instruments: Presentation,
- IFRS 7 Financial Instruments: Disclosures and
- IFRS 13 Fair Value Measurement.

IAS 39 means that financial derivatives, 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 IAS 39 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.

Financial assets are classified into four different portfolios:

- Financial assets at fair value through profit or loss,
- Held to maturity investments,
- Loans and receivables and
- Available for sale financial assets.

The Financial assets at fair value through profit or loss are split on:

- Designated upon initial recognition,
- Held for trading and
- Derivatives used for hedging.

Financial liabilities are classified into two portfolios:

- Financial liabilities at fair value through profit or loss and
- Loans.

The Financial liabilities at fair value through profit or loss are split on:

- Designated upon initial recognition,
- Held for trading and
- Derivatives used for hedging.

The classification into different portfolios has a direct impact on the valuation of the instruments, i.e. if the instrument is valued at fair value or amortised cost. "Loans and receivables", "Held to maturity investments" and "Loans" are valued at amortised cost, whereas "Financial assets and Financial liabilities at fair value through profit or loss" and "Available for sale financial assets" are valued at fair value. Derivatives are always classified in the portfolios "Financial assets and Financial liabilities at fair value through profit or loss".

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 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 only related to accounts receivable. The disclosures just mentioned are therefore to be found in Note 21. The factors to be taken into account when providing for bad debts are:

- If the customer despite reminders does not pay, in spite of the fact that the customer has not raised any objections against the invoice or part of the invoice,
- For how long the invoice has been past due,
- If the customer has cancelled their payments,
- If the customer has asked for composition and
- If the customer has filed for bankruptcy.

Based on this the best estimate based on past experience is made on which amount that is probable to be received and the difference is provided for as unsecure.

Only at a final loss the receivable is written off.

Group contributions to and from the parent company

The parent company is accounting for group contributions according to the alternative rule in the new rules 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

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 effective within an 80 – 125 percent range. For the part of an effective derivative that exceeds 100 percent effectiveness the fair value adjustment is reported above net income. 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 the proportional consolidation method in IAS 31 ”Interests in Joint Ventures”.

Leasing

Leasing is accounted for in accordance with IAS 17 ”Leases”.

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.

When Alfa Laval is the lessee, leased assets that are classified as financial leases are accounted for as capitalised 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. Depreciation according to plan is done in the same manner as purchased assets.

Leased assets classified as operational leases are not capitalised. The leasing fees are expensed as incurred.

Long-term construction projects

Revenue for projects is recognised using the percentage of completion method in IAS 11 ”Construction Contracts”. This means that when the outcome of a construction project can be calculated reliably, the revenue and the costs related to the project are recognised in relation of the percentage of completion at the closing date. An estimated loss is recognised immediately. The percentage of completion for a construction project is normally established through the relationship between incurred project costs for work performed at the closing date and the estimated total project costs.

Disclosures shall be made for:

- the amount of recognised project sales revenue,
- the aggregated amount of costs incurred and recognised profits less recognised losses,
- retentions,
- the gross amount due from customers for work in progress,
- advances and
- the gross amount due to customers for work in progress.

The amount of recognised project sales revenue is the amount recognised in consolidated comprehensive income as a reflection of the percentage of completion of the projects. It has nothing to do with the volume of progress billing in the period. This figure shows how much of the net invoicing of the Group that originates from project sales.

The aggregated amount of costs incurred and recognised profits less recognised losses shows the total volume of work performed on ongoing projects at the closing date. It has nothing to do with the recognised costs in the consolidated comprehensive income statement.

Retentions are amounts of progress billing that are not paid according to the contract until conditions specified in the contract have been satisfied or until defects have been rectified. This has a negative effect on the profitability of the project. Progress billing is amounts billed for work performed on a project whether or not they have been paid by the customer.

The gross amount due from customers for work in progress on plant projects is the net amount of:

1. + costs incurred
2. + recognised profits
3. - recognised losses
4. - progress billing

for each project in progress where the net of the first three items is higher than item 4. The figure shows how much progress billing is lacking behind the work performed.

Advances are amounts received from the customer before the related work is performed and are usually very important for the overall profitability of the project.

The gross amount due to customers for work in progress on plant projects is the net amount of:

1. + costs incurred
2. + recognised profits
3. - recognised losses
4. - progress billing

for each project in progress where the net of the first three items is smaller than item 4. The figure shows how much progress billing is ahead of the work performed.

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:

Tangible:	
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
Intangible:	
Patents and unpatented know-how	10–20 years
Trademarks	10–20 years
Licenses, renting rights and similar rights	10–20 years
Goodwill, strategic Not amortised after January 1, 2004	20 years
Goodwill, other Not amortised after January 1, 2004	10 years

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 on 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 divisions "Equipment", "Process Technology" and "Marine & Diesel" 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 tend to be 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 twenty years, less projected investments and changes in operating capital during the same period. The used discount rate is the pre-tax weighted average cost of capital (WACC). The growth rate for the divisions during the period is the perceived expected average industry growth rate. No terminal value has been calculated since this would render a very large and uncertain value, which could give an erroneous impression that no impairment exists.

Non-current Assets 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 held for sale and the disclosures to be made for discontinued operations.

Assets held for sale are to be measured at the lower of the carrying amount and fair value, less sales costs. No depreciation of such assets is made. An asset 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.

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 to 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 recognition is made according to IAS 18 ”Revenue” and IAS 11 ”Construction Contracts”.

Revenues from sale of goods, services and projects are reported as "Net sales" in the statement of consolidated comprehensive income.

Sale of goods

Revenue from sale of goods is recognised when all of the following conditions have been fulfilled:
– the seller has transferred the significant risks and rewards of ownership of the goods to the buyer;
– the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
– the amount of revenue can be measured reliably;
– it is probable that the seller will get paid; and
– the costs incurred or to be incurred related to the transaction can be measured reliably.

The revenue recognition is usually governed by the delivery terms used in the sale. Net sales are referring to sales value less sales taxes, cancellations and discounts.

Sale of services

To the extent that Alfa Laval also delivers services the three last conditions above apply together with:
– the stage of completion at the closing date can be measured reliably.

Project sales

Revenue for projects is recognised using the percentage of completion method in IAS 11 ”Construction Contracts”, see above under "Long-term construction projects".

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 2013 Turkey and Venezuela are regarded as highly inflationary countries.

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 issued the following new or revised accounting pronouncements, which may be applicable on Alfa Laval and are effective for fiscal years beginning on or after January 1, 2014. Alfa Laval has chosen not to make any early adoption of any of these pronouncements, except the amendments to IAS 36.

IFRS 9

IFRS 9 ”Financial Instruments: Recognition and Measurement” is the first step of a complete revision of the current standard IAS 39. The standard means a reduction of the number of valuation categories for financial assets and contains the main categories reported at cost (amortised cost) and fair value through profit or loss. This first part of the standard will be complimented by rules on impairments, hedge accounting and valuation of liabilities. Any decision on when the final standard is going to be implemented does not exist. The European Union has not adopted any part for application.

Alfa Laval's assessment is that IFRS 9 will mean a reallocation of the financial assets on fewer categories, but otherwise will have limited impact on the financial statements of Alfa Laval and the disclosures in them.

IFRS 10

IFRS 10 ”Consolidated financial statements” replaces the part of IAS 27 ”Consolidated and separate financial statements” that covers consolidation principles. What remains in IAS 27 going forward is the treatment of subsidiaries, joint ventures and associates in separate financial statements.

The consolidation principles have not been changed. The change is rather related to how an entity shall proceed to decide if a decisive influence is present and thus if an entity shall be consolidated. Control (decisive influence) is present when the investor 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.

An investor is a party that has a potential influence over an entity. 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.

IFRS 10 has been adopted by the European Union and becomes effective for financial years beginning on or after January 1, 2014. The standard must be applied retroactively in accordance with IAS 8, with certain modifications, that includes exceptions from consolidation where this is impracticable. Early application is allowed if the company also makes an early application of IFRS 11 and IFRS 12 and the changes in IAS 27 and IAS 28.

Alfa Laval's assessment is that IFRS 10 will have limited impact on the financial statements of Alfa Laval and the disclosures in them, since Alfa Laval seldom is facing uncertainties on whether a decisive influence is present or not.

IFRS 11

IFRS 11 ”Joint arrangements” covers the accounting for joint arrangements, which is defined as a contractual arrangement where two or more parties have a joint decisive influence. IFRS 11 replaces IAS 31 ”Interests in Joint Ventures” and SIC 13 ”Jointly Controlled Entities – Non-Monetary Contributions by Ventures”.

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 no longer allowed to be consolidated according to the proportional consolidation method, but instead the equity method must be used. 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.

IFRS 11 has been adopted by the European Union and becomes effective for financial years beginning on or after January 1, 2014. The standard must be applied retroactively with certain transitional provisions. Early application is allowed if the company also makes an early application of IFRS 10 and IFRS 12 and the changes in IAS 27 and IAS 28.

Joint ventures are today consolidated according to the proportional consolidation method in IAS 31 ”Interests in Joint Ventures”. Since the proportional consolidation method disappears Alfa Laval's assessment is that IFRS 11 will lead to that all amounts in note 33 “Interests in joint ventures” will disappear out of Alfa Laval's statements over consolidated comprehensive income and consolidated financial position. Instead the application of the equity method will mean that the net income before tax in the joint ventures will be booked into one line in other operating income and the corresponding tax on the tax line. The counter entry will be an increase or decrease of the value of shares in joint ventures. Alfa Laval is of the opinion that the deletion of the proportional consolidation method means a clear deterioration of accounting practice compared to before since the sales volume and other result items and the balance items in the joint ventures no longer will be reported in the statements over consolidated comprehensive income and consolidated financial position in any the two owner companies. This does not give a correct representation of the operations, especially if the operations in the joint ventures are substantial. In such cases IFRS 11 might trigger changes in how the operations are organized in the joint ventures instead of just supplying accounting rules for reporting of the operations. In the case of Alfa Laval, the operations in these companies are however presently fairly limited, why IFRS 11 at least initially will have limited impact on the financial statements of Alfa Laval and the disclosures in them.

IFRS 12

IFRS 12 ”Disclosures of interest in other entities”. Entities having interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities must disclose information about these in accordance with IFRS 12. 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 judgments 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 on the risks and rewards that are associated with unconsolidated structured entities and what the effect would be if the risks changed.

IFRS 12 has been adopted by the European Union and becomes effective for financial years beginning on or after January 1, 2014. The standard must be applied retroactively in accordance with IAS 8. Early application is allowed even if IFRS 10 and IFRS 11 and the changes in IAS 27 and IAS 28 are not applied early. Entities are encouraged to voluntarily provide certain information even if the entire standard is not applied early.

Alfa Laval’s assessment is that IFRS 12 will result in a substantial increase of the amount of disclosures in the financial statements of Alfa Laval, which will further burden the presentation without corresponding benefit for the reader.

IAS 19

IAS 19 ”Employee Benefits” have been amended. The amendment relates to disclosure requirement for employee contributions to defined benefit plans.

The amendment to IAS 19 has not yet been adopted by the European Union. The standard must be applied retroactively in accordance with IAS 8. Early application is allowed.

Alfa Laval’s assessment is that the amendments to IAS 19 will have limited impact on the financial statements of Alfa Laval and the disclosures in them.

IAS 32

IAS 32 ”Financial Instruments: Presentation” has been amended. The amendment contains clarifications on the legal right to net and items settled with a net amount.

IAS 32 has been adopted by the European Union and becomes effective for financial years beginning on or after January 1, 2014. The standard must be applied retroactively in accordance with IAS 8. Early application is allowed if disclosures are made on netting according to the amendment to IFRS 7.

Alfa Laval’s assessment is that the amendments to IAS 32 will have limited impact on the financial statements of Alfa Laval and the disclosures in them.

IAS 36

IAS 36 “Impairment of Assets” has been amended. The amendments have reduced the circumstances in which the recoverable amount of assets or cash-generating units must be disclosed and clarified the disclosures required.

IAS 36 has been adopted by the European Union and becomes effective for financial years beginning on or after January 1, 2014. The standard must be applied retroactively in accordance with IAS 8. Early application is allowed.

Alfa Laval has decided to make an early adoption of the amended IAS 36 during 2013 in order to avoid unnecessary disclosures.

International Accounting Standards Board (IASB) has issued the following financial reporting interpretations 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, 2014.

IFRIC 21

IFRIC 21 ”Levies” is an interpretation that clarifies when a liability for levies is to be accounted for. 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 has not yet been adopted by the European Union. The interpretation must be applied retroactively in accordance with IAS 8. Early application is allowed.

Alfa Laval’s assessment is that IFRIC 21 will have limited impact on the financial statements of Alfa Laval and the disclosures in them.

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 2013 the managed capital was SEK 18,759 (18,723) 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 2013	Outcome 2012 *	Average over last 3 years	Average over last 5 years	Average over last 8 years
Invoicing growth per year **	≥8%			0.4%	4.1%	7.0%	1.5%	10.4%
Adjusted EBITA margin **	15%			16.4%	16.5%	17.1%	17.6%	18.2%
Return on capital employed	≥25%			26.4%	27.4%	28.4%	31.2%	37.5%
Debt ratio		<0.75		0.16	0.30	0.23	0.14	0.18
Cash flow from operating activities including investments in fixed assets ***		10%		12.5%	10.2%	10.9%	13.3%	12.6%
Investments ***		2.0%		1.7%	1.8%	1.8%	1.8%	2.0%
Return on equity			X	20.4%	22.9%	22.1%	23.0%	28.4%
Solidity			X	46.3%	41.3%	43.8%	45.6%	41.9%
Net debt to EBITDA			X	0.48	0.80	0.6	0.4	0.4
Interest coverage ratio			X	22.2	23.2	24.7	25.0	23.7

* Restated to the new IAS 19. ** average over a business cycle *** 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 the longer term the debt ratio should be less than 0.75. As a result of major acquisitions the ratio may temporarily exceed 0.75, but the ratio is then expected to soon decrease beneath 0.75 due to positive cash flows and results from the acquired activity.

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:

- In December 2013 Alfa Laval has made an agreement with the European Investment Bank of a loan facility of EUR 115 million with a duration of seven years. This loan can be called for within 12 months, but has not been utilised at December 31, 2013.
- The bilateral term loan with Swedish Export Credit from June 2011.
- The senior credit facility with a new banking syndicate from April 2011.
- The finance contract with the European Investment Bank from September 2009, where a bilateral term loan was called for on March 2011.
- The private placement in the U.S. in 2006.
- The repurchases of shares made during 2007, 2008 and 2010 and the proposal for a new mandate to repurchase shares during 2014.

The repurchases of shares should be viewed in light of that the consolidated cash flows from operations are large enough to finance the build up of working capital and the mid-size acquisitions of businesses that have been made as well as the dividend to the shareholders.

Financial risks

Financial instruments

Financial risks are referring to financial instruments. Alfa Laval has the following instruments: cash and bank, 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.

Financial policy

In order to control and limit the financial risks, the Board of the Group has established a financial policy. The Group has an aversive attitude toward financial risks. This 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.

Price risk

There are three different types of price risks: currency risk, interest risk and market risk. See below.

Currency risk

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):

Currency risk is divided into transaction exposure that relates to exchange rate fluctuations that affects the currency flows that arise due to the business activities and translation exposure that relates to the translation of the subsidiaries' statements on financial position from local currency to SEK.

Transaction exposure

During 2013 Alfa Laval's sales to countries outside Sweden amounted to 96.9 (97.1) percent of total sales.

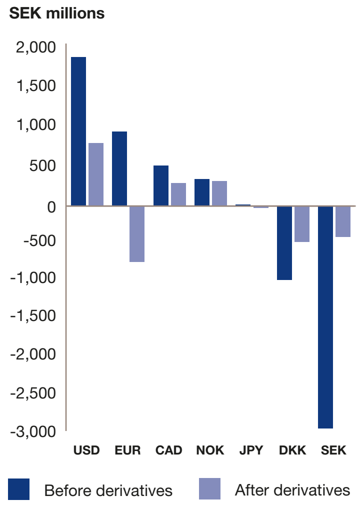
Alfa Laval's local sales companies normally sell in domestic currency to local end customers and have their local cost base in local currency. Exports from production and logistical centres to other Group companies are invoiced in the exporting companies' domestic currencies, except for Sweden, Denmark and UK where the exports are denominated in EUR.

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.

The Group normally has natural risk coverage through sales as well as costs in local currencies. The financial policy states that the local companies are responsible for identifying and hedging exchange rate exposures on all commercial flows via Alfa Laval Treasury International. Contract based exposures must be fully hedged. In addition, the balance of projected flows the next 12 months must be hedged to at least 50 percent. The remaining part of the projected flows can be partially hedged after conferring with the Group's central finance function. 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 of one year's commercial exposure for each currency.

The Group's net transaction exposure at December 31, 2013 in different currencies before and after derivatives for the coming 12 months amounts to:

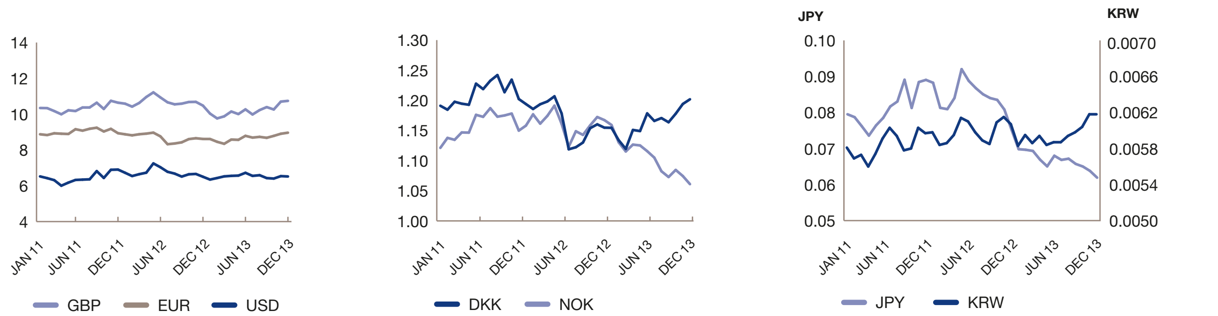
Net transaction exposure per currency at December 31, 2013 for the coming 12 months



This is a reflection of the fact that a substantial part of the production within the Group is located in Sweden and Denmark with costs denominated in local currencies.

Currency contracts for projected flows are entered into continuously during the year with 12 months maximum duration. 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.

Exchange rate fluctuation



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:

Effect on operating income by exchange rate fluctuations excluding hedging measures

Consolidated

SEK millions	2013		2012	
Exchange rate change against SEK	+ 10%	- 10%	+ 10%	- 10%
USD	192	-192	245	-245
EUR	96	-96	72	-72
CAD	52	-52	47	-47
NOK	35	-35	31	-31
DKK	-95	95	-98	98
JPY	2	-2	-14	14
Other	40	-40	41	-41
Total	**322**	**-322**	**324**	**-324**

Outstanding currency forward contracts and currency options for the Group amounted to the following at the end of the year:

Outstanding currency forward contracts and currency options

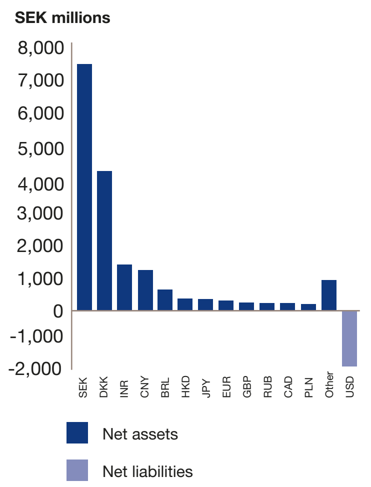
Consolidated

Millions	2013		2012	
	Original currency	SEK	Original currency	SEK
Outflows:				
USD	-590	-3,844	-577	-3,750
EUR	-526	-4,715	-134	-1,157
KRW	–	–	-93,436	-567
CAD	-26	-155	-50	-329
JPY	-1,402	-87	–	–
BRL	–	–	-2	-6
RUB	-13	-3	-117	-25
Other		-28		-19
Total		**-8,832**		**-5,853**
Inflows:				
SEK	2,926	2,926	5,480	5,480
DKK	605	727	84	96
NOK	4,771	5,062	104	121
CNY	151	162	5	5
SGD	16	84	4	24
GBP	10	103	14	148
JPY	–	–	1,892	142
AUD	8	47	8	53
Other		0		0
Total		**9,111**		**6,069**

Translation exposure

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:

Net assets and liabilities by currency



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 currency forward contracts. Loans taken in the same currency as there are net assets in the Group, decrease these net assets and thereby decrease the translation exposure.

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 -83 (214) 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.

Interest risk

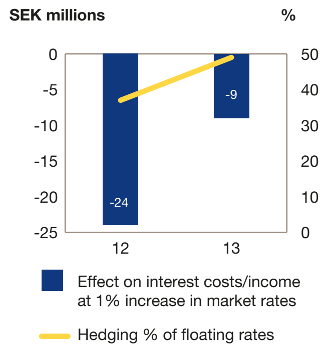
By interest risk is meant how changes in the interest level affect the financial net of the Group and how the value of financial instruments vary due to changes in market interest rates. The Group attempts to manage interest-rate risk by matching fixed interest periods of financial assets and liabilities and through the use of derivative financial instruments such as interest-rate swaps.

The financial policy states that the interest rate risk and duration are measured by each main currency. The minimum interest duration for the loans should be 10 months and the maximum interest duration should be 24 months according to the policy.

The senior credit facility and the bilateral term loans accrue interest at floating rate. The Group has chosen to hedge 53 (36) percent of the loans to fixed interest rate, with a duration of 19.0 (26.3) months. The average interest and currency duration including derivatives is 12.6 (12.8) months at the end of 2013.

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.

Interest sensitivity analysis versus hedging % of floating rates



In total this means that the Group has a comparably low interest risk.

Market risk

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 255 (140) million. The market risk for these is perceived as low. For other financial instruments, the price risk only consists of currency risk and interest risk.

Liquidity risk and refinancing risk

Liquidity risk is defined as the risk that the Group would incur increased costs due to lack of liquid funds.

Refinancing risk is defined as the risk that the refinancing of maturing loans becomes difficult or costly. 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.

In 2006 Alfa Laval made a private placement in the U.S. The offer was over-subscribed and was closed at USD 110 million, corresponding to SEK 716 million. The loan matures in April 2016.

In connection with the acquisition of Tranter Alfa Laval signed a bilateral term loan with SHB of EUR 25 million. The loan was repaid on the maturity date at December 30, 2013.

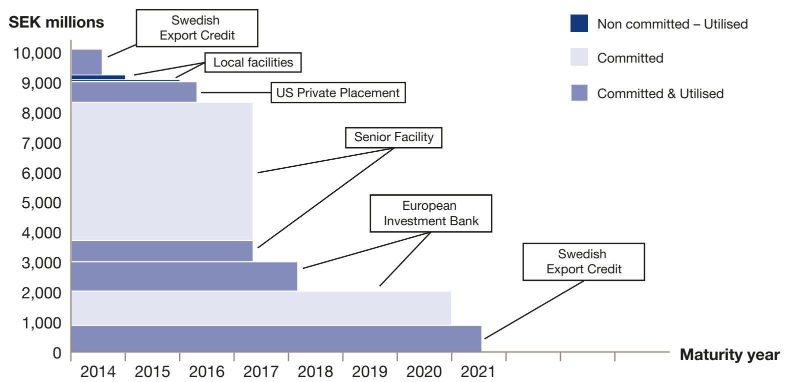
Alfa Laval has a senior credit facility of EUR 301 million and USD 420 million, corresponding to SEK 5,437 million with a banking syndicate. At December 31, 2013 SEK 704 million of the facility was utilised. The facility matures in April 2017.

Alfa Laval has a bilateral term loan from Swedish Export Credit split on one loan of EUR 100 million that matures in June 2014 and one loan of EUR 100 million that matures in June 2021, corresponding to SEK 1,793 million in total.

Alfa Laval also has a bilateral term loan from the European Investment Bank of EUR 130 million, corresponding to SEK 1,165 million. The loan matures in March 2018. In December 2013 Alfa Laval has made an agreement with the European Investment Bank of a loan facility of EUR 115 million with a duration of seven years. This loan has not been utilised at December 31, 2013.

In summary the maturity structure of the loans and the loan facilities is as follows:

Maturity structure of Group funding



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 risk. See the maturity structure of currency derivatives, interest derivatives, metal futures and electricity futures below.

Counterpart risks

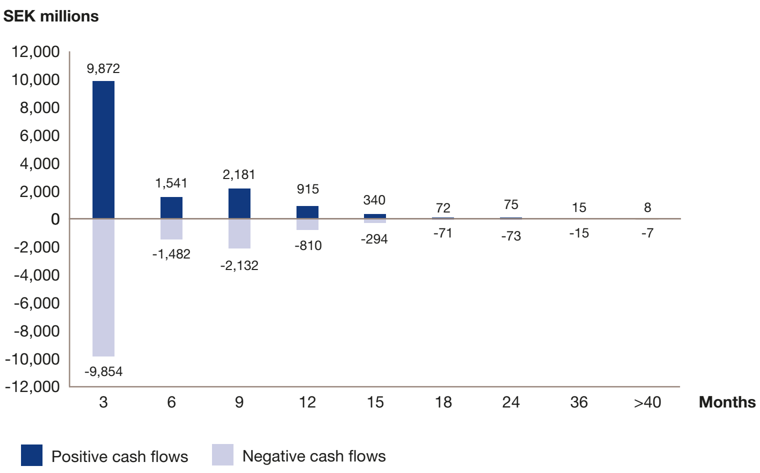
Financial instruments that potentially subject the Group to significant concentrations of credit risk consist principally of cash, deposits and derivatives.

The Group maintains cash and bank and short and long-term 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 counterpart not fulfilling its commitments is limited through the selection of financially solid counterparts and by limiting the engagement per counterpart. 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.

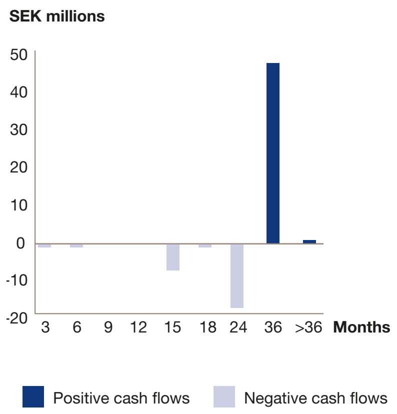
The Group is exposed to credit risk in the event of non-performance by counterparts to derivative instruments. The Group limits this exposure by diversifying among counterparts with high credit ratings and by limiting the volume of transactions with each counter party.

In total it is the Group's opinion that the counterpart risks are limited and that there is no concentration of risk in these financial instruments.

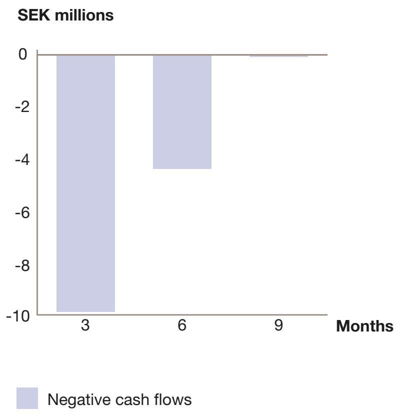
Maturity structure of currency derivatives



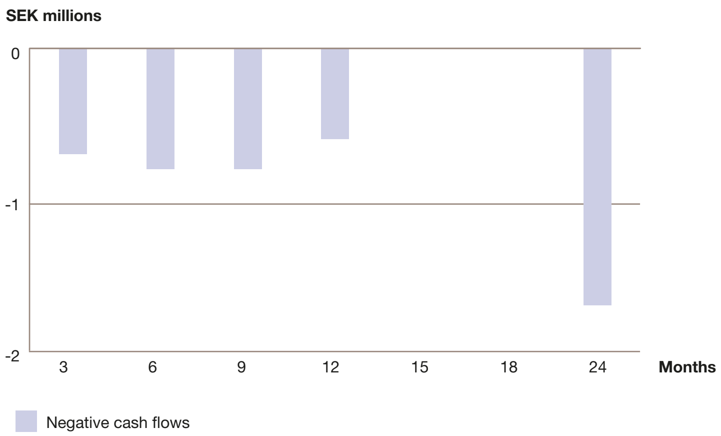
Maturity structure of interest derivatives



Maturity structure of metal derivatives



Maturity structure of electricity futures



Operational risks

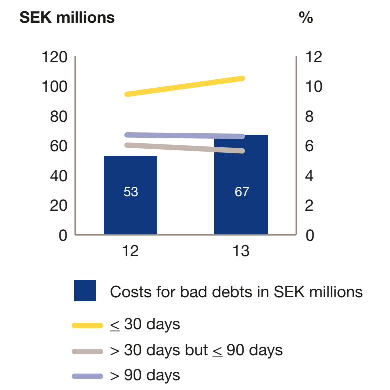
Risk for bad debts

The risk for bad debts is referring to the risk that the customer cannot pay for delivered goods due to financial difficulties. 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. 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.

The amount of accounts receivable being overdue is an indication of the risk the company runs for ending up in a bad debt situation.

The Group's costs for bad debts and the overdues in percent of accounts receivable are presented in the following graph:

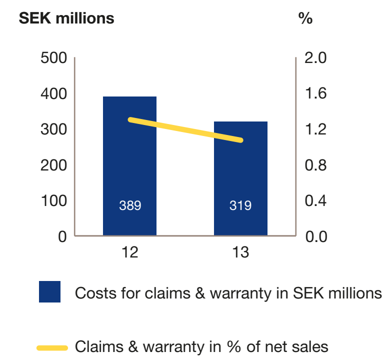
Costs for bad debts / overdues in % of accounts receivable



Risk for claims

The risk for claims refers to the costs Alfa Laval would incur to rectify faults in products or systems and possible costs for penalties. Alfa Laval strives to minimize these costs through an ISO certified quality assurance. 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. The Group's net claim costs and their relation to net sales are found in the following graph:

Claim costs in SEK millions and in % of sales



Risk connected to technical development

This risk refers to the risk that some competitor develops a new technical solution that makes Alfa Laval's products technically obsolete and therefore difficult to sell. Alfa Laval addresses this risk by a deliberate investment in research and development aiming at being in the absolute frontline of technical development.

Economic risk

Competition

The Group operates in competitive markets. In order to address this competition the Group has for instance:

- organized the operations into divisions based on customer segments 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

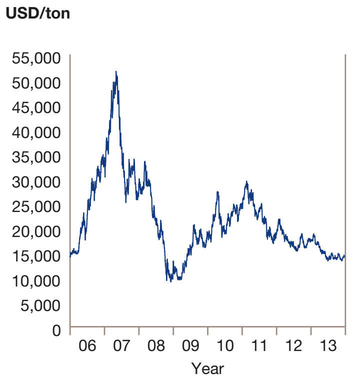
In an overall economic downturn the Group tends to be affected with a delay of six to twelve months depending on customer segment. The same applies with an economic upturn. The fact that the Group is operating on a large number of geographical markets and within a wide range of customer segments means 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 10 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.

Prices of raw material

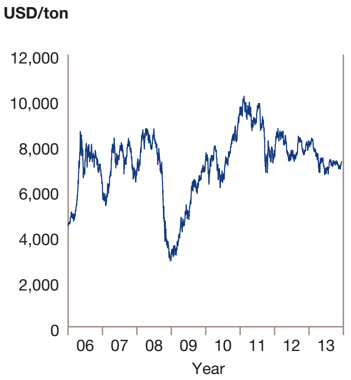
The Group depends on deliveries of stainless steel, carbon steel, copper and titanium etc for the manufacture of products. The prices in some of these markets are volatile and the supply of titanium has occasionally been limited. There are a limited number of possible suppliers of titanium. The risk 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. The Group is addressing this risk by securing long-term supply commitments and through fixed prices from the suppliers during six to twelve months. During periods of large price increases the customer price on titanium products has been linked to Alfa Laval's procurement costs for titanium. Primarily in the period 2006 to 2011 the Group has experienced large price fluctuations for many raw materials, but in particular for stainless steel, carbon steel, copper and titanium.

The price volatility for the most important metals is presented below:

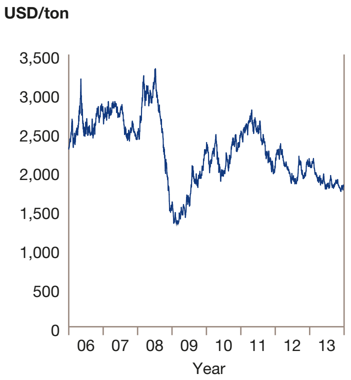
Nickel



Copper

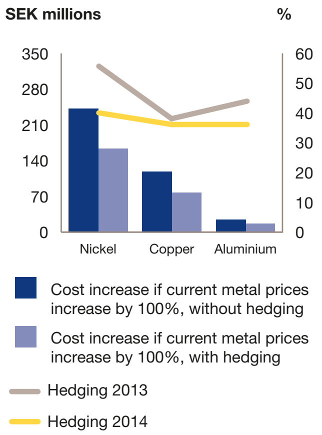


Aluminium



The Group uses metal futures to secure the price on strategic metals. The graph below shows how much of the purchases of nickel, copper and aluminium that have been hedged during 2013 and how much of the expected purchases during 2014 that were hedged at the end of 2013. The graph also presents to what extent the Group's costs for these purchases would be affected if the prices would double from the current levels.

Sensitivity analysis and metal price hedging



Environmental risks

This risk relates to the costs that the Group may incur to reduce emissions according to new or stricter environmental legislation, to restore land at previously or currently owned industrial sites, to arrange more effective waste disposal, to obtain prolonged or new concessions etc. The Group has an ambition to be well within the boundaries that local legislation sets, which should reduce the risks. The operations of the Group are not considered to have a significant environmental impact. For more information on Alfa Laval's environmental impact, see the section on "Sustainability" on page 42.

Political risk

Political risk is 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.

Risk for and in connection with litigations

This risk pertains to 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, 2013, named as a co-defendant in a total of 759 asbestos-related lawsuits with a total of approximately 819 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.

Risk for technically related damages

This risk refers to 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 addresses these risks through extensive testing and an ISO certified quality assurance. The Group has product liability insurance. The number of damages is low and few damages have occurred historically.

Business interruption risks

These risks refer to the risk that single units or functions within the Group can be hit by business interruption due to:

– strikes and other labour market conflicts,
– fires, natural catastrophes etc.,
– computer access violations, lack of backups etc. and
– corresponding problems at major sub-suppliers.

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.

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.

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.

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 Richmond, Lykens, Chesapeake, Sarasota and Newburyport in the U.S. A number of other key production facilities are being evaluated and may eventually become HPR classified.

A 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.

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 is still cost efficient. As a part in this Alfa Laval has an own captive. 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

This risk is referring to the limited freedom of action that can be imposed on the Group through restrictions connected to credit terms in loan agreements. The loan agreement with the banking syndicate does not contain any such restrictions.

Notes

Note 1. Operating segments

Alfa Laval's business is divided into three business divisions "Equipment", "Process Technology" and "Marine & Diesel" that sell to external customers and one division "Other" covering procurement, production and logistics as well as corporate overhead and non-core businesses. These four divisions constitute Alfa Laval's four operating segments.

The three business divisions (operating segments) are in turn split into a number of customer segments. The customers to the Equipment division purchase products whereas the customers to the Process Technology division purchase solutions for processing applications. The customers to the Marine & Diesel division purchase products and solutions for marine and off-shore applications and for diesel power plants. The Equipment division consists of four customer segments: Industrial Equipment, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Service. The Process Technology division consists of four customer segments: Energy & Environment, Food Technology, Process Industry and the aftermarket segment Service. The Marine & Diesel division consists of three customer segments: Marine & Diesel Equipment, Marine & Offshore Systems and the aftermarket segment Service.

In 2013 Alfa Laval has renamed its three former "Parts & Service" segments to only "Service" in order to emphasize the importance of service and get focus on what is outside parts.

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	2013	2012
Equipment	9,604	9,701
Process Technology	13,935	14,081
Marine & Diesel	6,796	6,557
Other	0	0
Total	**30,335**	**30,339**

Order backlog

Consolidated

SEK millions	2013	2012
Equipment	1,495	1,583
Process Technology	8,393	8,358
Marine & Diesel	4,680	4,527
Other	0	0
Total	**14,568**	**14,468**

Net sales

Consolidated

SEK millions	2013	2012
Equipment	9,595	9,476
Process Technology	13,813	12,812
Marine & Diesel	6,526	7,525
Other	0	0
Total	**29,934**	**29,813**

Operating income in management accounts

Consolidated

SEK millions	2013	2012 *
Equipment	1,306	1,389
Process Technology	2,479	2,194
Marine & Diesel	1,243	1,458
Other	-581	-541
Total	4,447	4,500
Reconciliation with Group total:		
Comparison distortion items	–	-51
Consolidation adjustments	-94	-53
Total operating income	4,353	4,396
Financial net	-181	133
Result after financial items	**4,172**	**4,529**

* Restated to the new IAS 19.

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	
SEK millions	2013	2012 *	2013	2012 *
Equipment	5,955	5,804	910	986
Process Technology	10,828	10,608	4,029	4,304
Marine & Diesel	8,101	8,309	2,167	2,043
Other	5,236	5,395	2,442	2,188
Subtotal	30,120	30,116	9,548	9,521
Corporate	4,818	4,872	9,228	11,014
Total	**34,938**	**34,988**	**18,776**	**20,535**

* Restated to the new IAS 19.

Corporate refers to items in the statement on financial position that are interest bearing or are related to taxes

Investments

Consolidated

SEK millions	2013	2012
Equipment	57	46
Process Technology	98	110
Marine & Diesel	49	38
Other	291	337
Total	**495**	**531**

Depreciation

Consolidated

SEK millions	2013	2012
Equipment	173	162
Process Technology	297	230
Marine & Diesel	204	224
Other	336	318
Total	**1,010**	**934**

Note 2. Information about geographical areas

Countries with more than 10 percent of either of net sales, non-current assets or investments are reported separately.

Net sales

Consolidated

	2013 SEK millions	2013 %	2012 SEK millions	2012 %
To customers in:				
Sweden	916	3.1	856	2.9
Other EU	8,176	27.4	7,911	26.5
Other Europe	2,702	9.0	2,521	8.5
USA	4,857	16.2	4,626	15.5
Other North America	1,117	3.7	921	3.1
Latin America	1,797	6.0	1,950	6.5
Africa	299	1.0	330	1.1
China	2,992	10.0	3,298	11.1
Other Asia	6,646	22.2	6,969	23.4
Oceania	432	1.4	431	1.4
Total	**29,934**	**100.0**	**29,813**	**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

	2013 SEK millions	2013 %	2012* SEK millions	2012* %
Sweden	1,445	7.7	1,504	7.9
Denmark	4,493	23.9	4,385	23.3
Other EU	4,079	21.6	4,057	21.4
Other Europe	298	1.6	312	1.6
USA	3,890	20.6	3,631	19.2
Other North America	110	0.6	120	0.6
Latin America	366	1.9	429	2.3
Africa	1	0.0	1	0.0
Asia	2,680	14.2	2,890	15.3
Oceania	77	0.4	93	0.5
Subtotal	17,439	92.5	17,422	92.1
Other long-term securities	8	0.0	9	0.0
Pension assets	11	0.1	3	0.0
Deferred tax asset	1,401	7.4	1,497	7.9
Total	**18,859**	**100.0**	**18,931**	**100.0**

* Restated to the new IAS 19.

Investments

Consolidated

	2013 SEK millions	2013 %	2012 SEK millions	2012 %
Sweden	68	13.7	66	12.4
Denmark	82	16.5	41	7.7
Other EU	111	22.4	99	18.6
Other Europe	17	3.5	13	2.5
USA	91	18.4	32	5.9
Other North America	3	0.7	6	1.2
Latin America	14	2.8	22	4.1
Africa	0	0.0	0	0.1
China	56	11.3	113	21.4
India	36	7.3	103	19.4
Other Asia	16	3.2	33	6.2
Oceania	1	0.2	3	0.5
Total	**495**	**100.0**	**531**	**100.0**

Note 3. Information about products and services

Net sales by product/service

Consolidated

SEK millions	2013	2012
Own products within:		
Separation	6,709	6,646
Heat transfer	16,001	16,010
Fluid handling	3,254	3,046
Other	799	919
Associated products	1,848	1,828
Services	1,323	1,364
Total	**29,934**	**29,813**

The split of own products within separation, heat transfer and fluid handling is a reflection of the current three main technologies. Other is own products outside these main technologies. Associated products are mainly purchased products that compliment Alfa Laval's product offering. Services cover all sorts of service, service agreements etc.

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 4.8 (3.3) percent of net sales. See Note 32 for more information.

Note 5. Employees

Average number of employees - total

Consolidated

	Number of female employees 2013	Number of female employees 2012	Total number of employees 2013	Total number of employees 2012
Parent company	–	–	–	–
Subsidiaries in Sweden (9)	501	497	2,160	2,158
Total in Sweden (9)	501	497	2,160	2,158
Total abroad (132)	2,581	2,511	14,122	13,902
Total (141)	**3,082**	**3,008**	**16,282**	**16,060**

The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2013.

Average number of employees – in Sweden by municipality

Consolidated

	2013	2012
Botkyrka	443	440
Eskilstuna	214	212
Lund	1,014	1,006
Ronneby	254	261
Stockholm	11	9
Vänersborg	134	139
Other *	90	91
Total	**2,160**	**2,158**

* "Other" refers to municipalities with less than 10 employees and also includes employees at branch offices abroad.

Average number of employees – by country

Consolidated

	Number of female employees		Total number of employees	
	2013	2012	2013	2012
Argentina	10	10	38	38
Australia	17	17	109	110
Belgium	2	2	29	28
Brazil	54	52	582	579
Bulgaria	7	11	23	40
Chile	11	8	45	38
Colombia	10	8	20	19
Denmark	394	412	1,740	1,715
Philippines	4	3	12	11
Finland	44	43	249	250
France	160	159	902	894
United Arab Emirates	19	19	182	175
Greece	6	6	20	20
Hong Kong	7	8	20	22
India	79	71	1,455	1,462
Indonesia	17	17	84	73
Iran	1	2	5	9
Italy	150	142	866	843
Japan	60	57	267	282
Canada	19	17	95	86
Kazakhstan	0	2	2	6
China	577	548	2,700	2,831
Korea	58	66	305	355
Latvia	5	6	13	14
Malaysia	32	27	102	87
Mexico	16	15	57	60
Netherlands	56	51	312	297
Norway	8	7	39	38
New Zeeland	5	5	18	18
Panama	3	3	9	7
Peru	7	7	26	28
Poland	45	46	226	229
Portugal	3	4	10	12
Qatar	-	-	8	8
Romania	4	5	13	13
Russia	117	116	348	333
Switzerland	4	4	16	15
Singapore	49	43	169	154
Slovakia	2	2	10	10
Spain	20	20	79	81
UK	56	48	354	312
Sweden	501	497	2,160	2,158
South Africa	9	4	42	36
Taiwan	13	13	37	39
Thailand	12	11	59	67
Czech Republic	8	8	38	39
Turkey	7	7	43	41
Germany	75	75	392	385
Ukraine	9	9	19	20
Hungary	4	4	13	15
USA	280	247	1,837	1,438
Venezuela	1	3	6	7
Vietnam	20	36	54	188
Austria	5	5	23	25
Total	**3,082**	**3,008**	**16,282**	**16,060**

Gender distribution among managers

Consolidated

	2013 Total number	2013 Male %	2013 Female %	2012 Total number	2012 Male %	2012 Female %
Board members (excluding deputies)	12	75.0	25.0	11	72.7	27.3
President and other executive officers	11	90.9	9.1	11	90.9	9.1
Managers in Sweden	269	80.7	19.3	241	82.2	17.8
Managers outside Sweden	1,728	84.1	15.9	1,664	84.7	15.3
Managers total	1,997	83.6	16.4	1,905	84.4	15.6
Employees in Sweden	2,160	76.8	23.2	2,158	77.0	23.0
Employees outside Sweden	14,122	81.7	18.3	13,902	81.9	18.1
Employees total	16,282	81.1	18.9	16,060	81.3	18.7

Note 6. Salaries and remunerations

Salaries and remunerations – total

Consolidated

SEK millions	2013	2012
Board of Directors, Presidents and Vice Presidents	229	220
- out of which, variable	40	32
Other	5,430	5,186
Total salaries and remunerations	5,659	5,406
Social security costs	968	953
Pension costs, defined benefit plans	102	100
Pension costs, defined contribution plans	415	394
Total costs of personnel	**7,144**	**6,853**

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 37 (34) million and SEK 298 (274) million respectively. SEK 130 (134) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Equity compensation benefits
During the period 2012 to 2013 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 categorises 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 Annual General Meetings 2008 to 2010 decided to implement step one to three of a cash-based long term incentive programme. The Annual General Meetings 2011 to 2013 decided to implement step one to three of a modified cash-based long term incentive programme. The difference between the programmes is that the modified programme allows a higher outcome and a more centred range within which an award is made.

The long term incentive programme is targeting maximum 85 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers.

Each of the steps stretches over three years and the awards under each step are divided into three tranches (one for each year). The award under each tranche is set independently from the other two tranches. Since each step stretches over three years, three steps of the programmes will always run in parallel. In 2013 step one, two and three of the modified programme are running in parallel.

The final award for each step is calculated on the employee's yearly base salary at the end of the three year period. The maximum award is set to a percentage of the employee's annual maximum variable remuneration according to the following:

Maximum long term incentive

Maximum variable remuneration per year in percent of base salary	Maximum long term incentive in percent of base salary – Modified programme – In total over the three year period
60%	45%
40%	30%
30%	25%
25%	20%
15%	12%

The outcome of the programme is linked to the development of earnings per share (EPS) for Alfa Laval. The EPS targets for the three tranches within each step are set by the Board of Directors. The modified programme opens up for setting more aggressive EPS targets.

For the modified programme the award is calculated in the following way. When the EPS is within the range of -10 percent to +10 percent of the target EPS the employee gets 5 percent of one third of the maximum outcome per year for each percent that the EPS exceeds the bottom level of 90 percent of the target EPS up to the maximum level of 110 percent of the target EPS.

To be eligible for payout the employees must be in service on the award date and the vesting date (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 awards will lapse and the employee will not be entitled to any payout. If the employee moves to a position that is not eligible for this programme the tranches that already have been earned are paid out upon the change of position. Paid remunerations from the long term incentive programme do not affect the pensionable income or the holiday pay.

Based on the reported EPS during the period 2008 to 2013, the different steps have resulted in the following awards:

Cash based long term incentive plan

Consolidated

SEK millions, unless otherwise stated						Per year							Accumulated		
			Covering period			Actual outcome in % of maximum outcome							Payable in per-cent of base salary based on 15% in variable remuneration	Awards	
Plan	Step	Decided by Annual General Meeting	January 1 –	December 31	Payable in April	2013	2012	2011	2010	2009	2008	To date		Paid	Estimated
Original plan															
	One	2008	2008	2010	2011	N/A	N/A	N/A	11.00%	0.00%	100.00%	37.00%	2.78%	5	N/A
	Two	2009	2009	2011	2012	N/A	N/A	51.92%	80.25%	58.50%	N/A	63.56%	4.77%	9	N/A
	Three	2010	2010	2012	2013	N/A	100.00%	100.00%	100.00%	N/A	N/A	100.00%	7.50%	15	N/A
Modified plan															
	One	2011	2011	2013	2014	33.65%	100.00%	100.00%	N/A	N/A	N/A	77.88%	9.35%	N/A	23
	Two	2012	2012	2014	2015	23.57%	99.06%	N/A	N/A	N/A	N/A	61.32%	4.91%	N/A	13
	Three	2013	2013	2015	2016	100.00%	N/A	N/A	N/A	N/A	N/A	100.00%	4.00%	N/A	11
Awards per year						17	25	17	9	3	5	Total		29	47

The costs for the awards per step and per year are based on estimated base salaries at the future time of payment.

Guidelines for remunerations to executive officers

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 40 percent of the salary (managing director up to 60 percent of the salary). The size of the variable remuneration depends on the outcome of a number of financial measurements and the result of special projects, all compared with the objectives that have been established for the year.

The guidelines for pension, termination and severance pay differ between the Chief Executive Officer/Managing Director and the other executive officers and are presented in the respective sections below.

The Annual General Meetings 2008 to 2010 decided to implement step one to three 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 Annual General Meetings 2011 to 2013 decided to implement step one to three of a modified cash-based long term incentive programme. The Board of Directors will propose the Annual General Meeting 2014 to implement step four of this modified cash-based long term incentive programme for the period January 1, 2014 – December 31, 2016. No other changes of these guidelines are proposed by the Board of Directors.

Chief Executive Officer/Managing Director

The Chief Executive Officer and Managing Director Lars Renström receives a remuneration of SEK 16,954,683 (16,007,287), out of which SEK 4,329,832 (5,100,000) represent the variable part and SEK 2,652,000 (1,632,002) the payment from the cash-based long term incentive programme. The variable part refers to what was paid during the year. The remuneration contains the value of company car, taxable daily allowances, holiday pay and payment for vacation taken in cash.

Lars Renström has a base salary of SEK 9,280,000 (8,840,000) per annum. In his remuneration package there is a variable element with an un-guaranteed target of 30 (30) percent of the base salary and with a maximum opportunity of 60 (60) percent. He is covered by the cash based long term incentive programme and based on the estimated base salary at the future time of payment the award for 2013 was SEK 2,283,141 (3,656,535). The vested unpaid awards at December 31, 2013 amounted to SEK 6,500,901. He does not have an agreement on early retirement. The ordinary ITP up to a salary of 30 base amounts is funded in order to achieve full ITP benefits at the age of 65. On top of the ordinary ITP he has a defined contribution benefit comprising 50 percent of the base salary. If Alfa Laval terminates his employment before the age of 63 he will receive twenty four months' remuneration. If Alfa Laval terminates his employment after the age of 63 he will receive twenty four months' remuneration reduced with the number of months that has passed since his 63rd birthday.

During the year, Alfa Laval has recorded costs for pension premiums for retirement and survivors' pension of SEK 5,409,899 (5,681,143). In addition the company has incurred costs for life insurance, disability insurance and health care insurance of SEK 99,278 (174,286).

The employment contract for Lars Renström is valid until 2016.

Other executive officers

Other executive officers are the ten members of Group Management in addition to the Chief Executive Officer. Their remunerations were SEK 41 (38) million, out of which the variable part was SEK 7 (9) million and SEK 5 (3) million the payment from the cash based long term incentive programme. The variable part refers to what was paid during the year. They are covered by the cash based long term incentive programme and based on estimated base salaries at the future time of payment the award for 2013 was SEK 4 (6) million. The vested unpaid awards at December 31, 2013 amounted to SEK 12 million. During 2013, Alfa Laval has recorded costs for pension premiums for retirement and survivors' pension of SEK 16 (16) million for them. In addition the company has incurred costs for life insurance, disability insurance and health care insurance of SEK 0 (1) million.

For these executive officers, early retirement has in some cases been committed from the age of 62. What is offered is a defined contribution solution for early retirement with a premium of 15 percent of the pensionable salary. Early retirement is offered selectively and only after a specific decision in the Remuneration Committee. 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.

Alfa Laval has made commitments for severance pay to a limited group of senior executives. The commitments are restricted to a maximum amount of two annual salaries. The commitments define the conditions that must be fulfilled in order for them to become valid.

Board of Directors

For 2013, the Board of Directors receive a total fixed remuneration of SEK 4,895,000 (4,275,000), 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		2013	2012
Fees by function:			
Chairman of the Board		1,175,000	1,150,000
Other members of the Board		460,000	450,000
Supplement to:			
Chairman of the Audit Committee		150,000	125,000
Other members of the Audit Committee		100,000	75,000
Chairman of the remuneration committee		50,000	50,000
Other members of the remuneration committee		50,000	50,000
Fees by name:			
Anders Narvinger	Chairman	1,225,000	1,200,000
Gunilla Berg	Member	560,000	525,000
Arne Frank	Member	460,000	450,000
Björn Hägglund	Member	510,000	500,000
Ulla Litzén	Member	560,000	525,000
Finn Rausing	Member	610,000	575,000
Jörn Rausing	Member	510,000	500,000
Ulf Wiinberg	Member	460,000	–
Total		**4,895,000**	**4,275,000**

* 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:

	2013	2012
Audit Committee:		
Chairman	Finn Rausing	Finn Rausing
Other member	Gunilla Berg	Gunilla Berg
Other member	Ulla Litzén	Ulla Litzén
Remuneration committee:		
Chairman	Anders Narvinger	Anders Narvinger
Other member	Björn Hägglund	Björn Hägglund
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 Annual General Meeting 2013 decided to re-elect Ernst & Young as the Group's auditors for the coming year.

Fees and expense compensation

Consolidated

SEK millions	2013	2012
Audit engagements		
Ernst & Young	28	29
Other audit firms	1	1
Total	**29**	**30**
Audit related services		
Ernst & Young	3	16
Other audit firms	5	3
Total	**8**	**19**
Tax services		
Ernst & Young	5	3
Other audit firms	3	4
Total	**8**	**7**
Other services		
Ernst & Young	2	1
Other audit firms	2	3
Total	**4**	**4**
Expenses		
Ernst & Young	1	1
Other audit firms	0	0
Total	**1**	**1**
Total		
Ernst & Young	39	50
Other audit firms	11	11
Total	**50**	**61**

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 are reported gross in the consolidated comprehensive income statement as a part of other operating income and other operating costs.

Comparison distortion items

Consolidated

SEK millions	2013	2012 *
Operational		
Other operating income	453	384
Comparison distortion items	–	–
Total other operating income	**453**	**384**
Other operating costs	-882	-873
Comparison distortion items	–	-51
Total other operating costs	**-882**	**-924**

* Restated to the new IAS 19.

Specification of comparison distortion items

Consolidated

SEK millions	2013	2012
Loss on:		
Write down of goodwill in Onnuri	–	-48
Sale of real estate	–	-3
Subtotal losses/costs	–	-51
Net total	**–**	**-51**

The comparison distortion cost during 2012 of SEK -51 million related to write down of the goodwill relating to the acquisition of Onnuri with SEK -48 million and a realised loss on sale of a property in Korea that was used by Onnuri with SEK -3 million.

Note 9. Depreciation and amortisation

Split by function

Consolidated

SEK millions	2013	2012
Cost of goods sold	-838	-782
Sales	-38	-37
Administration	-59	-68
Research and development	-8	-7
Other income and costs	-67	-40
Total	**-1,010**	**-934**

Split by type of asset

Consolidated

SEK millions	2013	2012
Patents and unpatented know-how, trade-marks, etc.	-513	-439
Machinery and equipment	-388	-384
Financial leasing machinery and equipment	-4	-4
Buildings and ground installations	-98	-100
Financial leasing buildings	-7	-7
Total	**-1,010**	**-934**

Note 10. Dividends and changes in fair value of financial instruments

Split by type

Consolidated

SEK millions	2013	2012
Dividends from other	7	2
Fair value changes in securities	1	6
Total	**8**	**8**

Note 11. Interest income/expense and financial exchange rate gains/losses

Split on type of income/expense or gain/loss

Consolidated

SEK millions	2013	2012
Interest income		
Financial leasing	0	0
Other interest	147	112
Exchange rate gains		
Unrealised	163	122
Realised	48	267
Total	**358**	**501**
Interest expenses		
Financial leasing	0	0
Other interest	-245	-246
Exchange rate losses		
Unrealised	-175	-72
Realised	-127	-58
Total	**-547**	**-376**

Split on type of income/expense or gain/loss

Parent company

SEK millions	2013	2012
Interest income		
External companies	2	0
Subsidiaries	69	115
Exchange rate gains		
Unrealised	8	3
Total	**79**	**118**
Interest costs		
External companies	–	0
Exchange rate losses		
Unrealised	-4	-4
Total	**-4**	**-4**

In the Group, reported net exchange differences of SEK -83 (214) 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 -65 (158) million.

Note 12. Non-controlling interests

Non-controlling interests relates to seven subsidiaries in Brazil, China, France, India, Kazakhstan, Russia and Singapore with owners with non-controlling interests.

Note 13. Classification of financial assets and liabilities

Financial assets

Consolidated

		Financial assets at fair value through profit or loss:						Loans and receivables		Available for sale financial assets	
	Valuation hierarchy level	Designated upon initial recognition		Held for trading		Derivatives used for hedging					
SEK millions		2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Non-current assets											
Other non-current assets											
Other long-term securities	1 and 2	–	–	–	–	–	–	–	–	8	9
Current assets											
Current receivables	*										
Accounts receivable	*	–	–	–	–	–	–	5,059	5,211	–	–
Notes receivable	*	–	–	–	–	–	–	296	304	–	–
Other receivables	*	–	–	–	–	–	–	778	783	–	–
Accrued income	*	–	–	–	–	–	–	55	39	–	–
Derivative assets	1	–	–	61	92	158	233	–	–	–	–
Current deposits											
Deposits with banks	*	–	–	–	–	–	–	348	283	–	–
Bonds and other securities	1	247	131	–	–	–	–	–	–	–	–
Other deposits	*	–	–	–	–	–	–	16	13	–	–
Cash and bank	*	–	–	–	–	–	–	1,454	1,404	–	–
Total financial assets		**247**	**131**	**61**	**92**	**158**	**233**	**8,006**	**8,037**	**8**	**9**

* Valued at amortised cost. The book value is the same as the fair value.
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.

The Group does not have any financial assets that represent held-to-maturity investments.

Financial liabilities

Consolidated

SEK millions	Valuation hierarchy level	Financial liabilities at fair value through profit or loss: Held for trading 2013	Held for trading 2012	Derivatives used for hedging 2013	Derivatives used for hedging 2012	Loans 2013	Loans 2012 *
Non-current liabilities							
Liabilities to credit institutions	*	–	–	–	–	2,813	4,679
Private placement	*	–	–	–	–	716	714
Current liabilities							
Liabilities to credit institutions	*	–	–	–	–	1,049	610
Accounts payable	*	–	–	–	–	2,250	2,198
Notes payable	*	–	–	–	–	144	135
Other liabilities	*	–	–	–	–	1,448	1,284
Accrued costs	*	–	–	–	–	1,714	1,652
Derivative liabilities	1	100	60	134	127	–	–
Total financial liabilities		**100**	**60**	**134**	**127**	**10,134**	**11,272**

* Valued at amortised cost. The book value is the same as the fair value.
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.

The Group does not have any financial liabilities at fair value through profit and loss designated upon initial recognition.

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 97–103.

Result of financial instruments

The result of the financial assets designated upon recognition is found in Note 10 as fair value changes in securities.

The result of the financial assets held for trading of SEK 1 (45) million has affected cost of goods sold with SEK 0 (2) million, exchange gains in Note 11 with SEK - (43) million and interest income in Note 11 with the remaining SEK 1 (-) million.

The result of the assets under loans and receivables is presented in Note 11 as other interest income for deposits with banks, other deposits and cash and bank. The other assets under loans and receivables do not generate a result but only a cash-in of the principal amount.

The result of the available for sale financial assets is reported as part of other comprehensive income in the consolidated comprehensive income statement.

The result of the financial liabilities held for trading of SEK -31 (-13) million has affected cost of goods sold with SEK -5 (-1) million and exchange losses in Note 11 with SEK -26 (-12) million.

The result of the liabilities under loans is presented in Note 11 as other interest costs for the liabilities to credit institutions and the private placement. The other liabilities under loans do not generate a result but only a cash-out of the principal amount.

The result of the derivative assets and liabilities used for hedging 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 -0 (-0) million, see the comments to the consolidated comprehensive income statement.

The fair value changes in marketable securities are made on the line dividends and changes in fair value in the consolidated comprehensive income statement and amounts to SEK 1 (6) million, see Note 10.

Fair value of derivatives

Consolidated

SEK millions	Currency pairs		Difference between contracted rate and current rate 2013	2012
Derivative assets/liabilities				
Foreign exchange forward contracts:	EUR	USD	37	40
	EUR	SEK	-38	62
	EUR	AUD	4	0
	EUR	CAD	6	0
	EUR	DKK	-1	-2
	EUR	JPY	4	1
	USD	CAD	1	-2
	USD	DKK	10	3
	USD	GBP	–	-1
	USD	SEK	-19	36
	USD	JPY	1	-12
	DKK	SEK	4	6
	USD	KRW	-14	-17
	NOK	EUR	-7	–
	NOK	SEK	-1	–
	NOK	USD	-3	1
	CNY	USD	1	–
	Other	Other	-1	0
Subtotal			-16	115
Currency options			-1	3
Interest Rate Swaps			20	15
Metal forward contacts			-14	5
Electricity futures			-4	0
Total, corresponding to a net derivative asset (+) or liability (-)			**-15**	**138**

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. Current and deferred taxes

Tax on this year's net income and other taxes

Consolidated

SEK millions	2013	2012 *
Major components of the Group's tax costs		
Current tax cost	-1,319	-1,426
Adjustment for current taxes on prior periods	-1	4
Deferred tax costs/income on changes in temporary differences	222	44
Deferred tax costs/income on changes in tax rates or new taxes	0	99
Tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	0	0
Deferred tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	0	0
Deferred tax cost from the write down or reversal of a previous write down of a deferred tax asset	0	0
Other taxes	-34	-27
Total tax cost	**-1,132**	**-1,306**

Tax on this year's other comprehensive income

Consolidated

SEK millions	2013	2012 *
Major components		
Deferred tax on cash flow hedges	-14	-50
Deferred tax on revaluations of defined benefit obligations	-81	35
Total tax cost	**-95**	**-15**

* Restated to the new IAS 19.

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	2013	2012 *
Result after financial items	4,172	4,529
Tax according to applicable tax rates	-1,126	-1,357
Tax effect of:		
Non-deductible costs	-76	-129
Non-taxable income	110	79
Differences between reported official depreciation and depreciation according to tax rules	0	-8
Differences between reported other official appropriations and other appropriations according to tax rules	8	130
Tax losses and tax credits	-13	2
Adjustment for current tax on prior periods	-1	4
Other	-34	-27
Total tax costs	**-1,132**	**-1,306**

* Restated to the new IAS 19.

Other taxes are mainly referring to wealth tax.

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

	2013		2012 *	
SEK millions	assets	liabilities	assets	liabilities
Relating to:				
Intangible non-current assets	22	795	33	927
Tangible non-current assets	67	242	67	257
Inventory	183	28	187	19
Other current assets	1	5	4	6
Financial assets	1	0	15	5
Short term liabilities	1,159	77	944	119
Tax losses and tax credits **	40	–	39	–
Other	10	696	292	683
Subtotal	1,483	1,843	1,581	2,016
Possible to net	-82	-82	-84	-84
Total deferred taxes	**1,401**	**1,761**	**1,497**	**1,932**

* Restated to the new IAS 19.

** The Group has reported a deferred tax asset on unused tax losses and tax grants of SEK 113 (92) 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 618 (849) 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 tax rules and 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 or be limited by up-coming structural changes.

The nominal tax rate has changed in the following countries during 2012 and 2013.

Tax rates by country

Consolidated

Percent	2013	2012
Greece	26	20
India	34	32
Mexico	30	35
UK	23	24
Sweden	22	26
Thailand	20	23
Ukraine	19	21

The Group's normal effective tax rate is approximately 28 (29) percent based on taxable result, and it is calculated as a weighted average based on each subsidiary's part of the result before tax.

Note 16. 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 2013	Adjustment of last year's purchase price allocation	Acquired	Planned deprecia-tion/ amorti-sation	Translation difference	Closing balance 2013
Buildings	470	–	–	-31	-8	431
Land and land improvements	-59	–	–	–	25	-34
Equipment	54	–	–	-27	0	27
Patents and unpatented know-how	1,922	–	202	-274	21	1,871
Trademarks	1,819	–	–	-229	28	1,618
Subtotal step-up values	4,206	–	202	-561	66	3,913
Goodwill	9,792	-62	236	–	95	10,061
Total	**13,998**	**-62**	**438**	**-561**	**161**	**13,974**

The Group has not recorded any impairment losses related to neither goodwill nor any other step up values in 2013.

There is no deferred tax liability calculated on the goodwill. The deferred tax liability on the other step-up values is SEK 734 (830) million.

For assets sold, net gains or losses are recognised on the costs 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, 2013 is shown as a translation difference. The corresponding presentation by asset type is found in Notes 17 and 18.

Acquisition of businesses since 2000

Consolidated

SEK millions Year/Businesses	Buildings	Land and land improve-ments	Equipment	Inventory	Patents and unpatented know-how	Trademarks	Other	Total step-up values	Goodwill	Total
2000										
Alfa Laval Holding	1 058	-228	452	340	1 280	461	660	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
Public offer 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
Olmi	–	–	–	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	236	438
Accumulated during the period										
Realised	-524	122	-24	-397	–	–	-99	-922	–	-922
Write down	–	–	–	–	–	–	–	–	-48	-48
Planned depreciation/amortisation	-344	–	-395	–	-2,286	-1,177	-571	-4,773	-612	-5,385
Translation difference	-34	64	-6	1	-36	-94	10	-95	-797	-892
Closing balance	**431**	**-34**	**27**	**–**	**1,871**	**1,618**	**–**	**3,913**	**10,061**	**13,974**

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 that has 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 2013

On May 29, 2013 Alfa Laval acquired the U.S. based Niagara Blower Company, a manufacturer of energy-efficient niche heat transfer solutions. The company's products are engineered-to-order, and particularly suited for use in the oil and gas processing industries. They are also used in a wide range of other industries, such as power, food & beverage and pharmaceuticals. Lars Renström, President and CEO of the Alfa Laval Group, comments on the reasons for the acquisition: "The acquisition of Niagara Blower brings in new and complementary heat-transfer products, mainly air-cooled heat exchangers, which further strengthen our offering to the oil and gas processing industries. They strengthen our U.S. portfolio and will gradually also be added to our product offering on a global scale." Niagara Blower Company is located in Buffalo, New York. The intention is to integrate Niagara Blower into the segment Energy & Environment, within the Process Technology Division. The purchase price is SEK 444 million, out of which SEK 379 million has been paid in cash and SEK 65 million is retained for a period of 1-1.5 years. The retained part of the purchase price is contingent on certain warranties in the contract not being triggered or that certain profitability goals are fulfilled. The outcome can be anything between SEK 0 million and SEK 199 million, but the probable outcome is SEK 65 million, which is also the fair value since the contingent consideration is to be paid in cash. 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 1 million, which is reported as other operating costs. Liquid assets of SEK 8 million in the acquired company were taken over. The impact on the cash flow is thus SEK -372 million. Out of the difference between the purchase price paid and the net assets acquired SEK 202 million is allocated to patents and un-patented know-how, while the residual SEK 236 million is 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 41 million in orders received, SEK 119 million in invoicing and SEK 17 million in adjusted EBITA to Alfa Laval. If the company had been acquired at January 1, 2013 the corresponding figures would have been SEK 127 million, SEK 289 million and SEK 63 million respectively. At the end of December 2013 the number of employees was 98.

On February 28, 2013 Alfa Laval acquired the assets and technology for a gas combustion unit from the company Snecma (Safran). The product, which will be included in the offering from the Marine & Offshore Systems segment, is expected to generate sales of about SEK 40 million in 2013. Lars Renström, President and CEO of the Alfa Laval Group, comments on the acquisition: "With this acquisition we expand and further strengthen our offer to the growing gas transportation business, a business which typically has high barriers to entry. Few companies can offer this type of safety equipment." The purchase price of SEK 42 million has been paid in cash. The impact on the cash flow is thus SEK -42 million.

In a press release on September 19, 2011 Alfa Laval communicated its proposal to buy all outstanding shares in its subsidiary Alfa Laval (India) Ltd and seek delisting of the shares from Bombay Stock Exchange Limited and National Stock Exchange of India Limited. The proposal came on the back of regulatory changes in India which requires Alfa Laval (India) Ltd to have a minimum public float of 25 percent or seek delisting. In a reverse book building process that was finalised on February 23, 2012 minority shareholders together holding more than the necessary 50 percent of the public float were willing to sell to Alfa Laval at a price of INR 4,000 per share. Through the acquisition of the 1.03 million shares Alfa Laval achieved an ownership of 94.5 percent, which enabled Alfa Laval (India) Ltd to delist from both stock exchanges on April 12, 2012. The cost for the acquisition of the shares was SEK 553 million. As a part of the process the remaining minority owners could sell their shares to Alfa Laval for INR 4,000 during the next 12 months. During this period minority owners with an additional 0.68 million shares have sold their shares to Alfa Laval for SEK 340 million, which has increased Alfa Laval's ownership to 98.2 percent. This means that the total acquisition cost was SEK 893 million. The purchase price for the purchases made in 2013 of SEK 62 million has been paid in cash. 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 1 million, which is reported as other operating costs. The impact on the cash flow is thus SEK -63 million. The difference of SEK 50 million between the purchase price paid and the net assets acquired is reported against equity.

On February 22, 2013 Alfa Laval acquired the remaining minority shares in the company Tranter Solarice GmbH in Germany. The purchase price of SEK 0 million has been paid in cash. The impact on the cash flow is thus SEK -0 million. The difference of SEK -1 million between the purchase price paid and the net assets acquired is reported against equity.

Payment of retained parts of the purchase price from previous acquisitions constitutes the remaining part of the cash flow related to acquisition of businesses.

The acquisitions during 2013 can be summarized as follows:

Acquisitions 2013

Consolidated

	Minority in subsidiaries			Others			Total
SEK millions	Book value	Adjustment to fair value	Fair value	Book value	Adjustment to fair value	Fair value	Fair value
Property, plant and equipment	–	–	–	13	–	13	13
Patents and unpatented know-how [1]	–	–	–	32	202	234	234
Inventory	–	–	–	14	–	14	14
Accounts receivable and other receivables	–	–	–	24	–	24	24
Liquid assets	–	–	–	8	–	8	8
Accounts payable and other liabilities	–	–	–	-62	–	-62	-62
Deferred tax	–	–	–	2	–	2	2
Acquired net assets	**–**	**–**	**–**	**31**	**202**	**233**	**233**
Goodwill [2]			–			236	236
Equity attributable to owners of parent			-49			–	-49
Currency translation			-8			–	-8
Equity attributable to non-controlling interests			-5			–	-5
Purchase price			-62			-469	-531
Costs directly linked to the acquisitions [3]			-1			-1	-2
Retained part of purchase price [4]			–			66	66
Liquid assets in the acquired businesses			–			8	8
Payment of amounts retained in prior years			–			-36	-36
Effect on the Group's liquid assets			**-63**			**-432**	**-495**

[1] The step up value for patents and un-patented know-how is amortised over 10 years.
[2] The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and the companies' ability to over time recreate its intangible assets. The value of the goodwill is still preliminary.
[3] Refers to fees to lawyers, due diligence and assisting counsel. Has been expensed as other operating costs.
[4] Contingent on certain warranties in the contract not being triggered or that certain profitability goals are fulfilled. The probable outcome has been calculated.

During 2012

Alfa Laval acquired the US-based company Air Cooled Exchangers, LLC (ACE), a leading manufacturer of custom-engineered air-cooled heat exchangers, used to cool air, natural gas, oil and water in the natural gas market as well as other energy-related end markets. Lars Renström, President and CEO of the Alfa Laval Group, commented: "The acquisition of ACE brings a new product range into our heat transfer offering, at a time when demand for air-cooled heat exchangers is accelerating – especially in the natural gas industry. Together, Alfa Laval's overall position is further strengthened and we are even better positioned to serve the energy-related industries." The intention is to integrate Air Cooled Exchangers, LLC into Alfa Laval's Energy & Environment segment, within the Process Technology division. The company was acquired on December 31, 2012. The company is located in Broken Arrow, Oklahoma, the U.S. The purchase price was SEK 1,027 million, out of which everything 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 1 million, which was reported as other operating costs. The impact on the cash flow was thus SEK -1,028 million. Out of the difference between the purchase price paid and the net assets acquired SEK 585 million was allocated to patents and un-patented know-how, while the residual SEK 357 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. In connection with the finalisation of the purchase price allocation in 2013 the value of the goodwill has been decreased by SEK 11 million to SEK 346 million. 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 during 2012, since the acquisition was made at December 31, 2012. If the company had been acquired at January 1, 2012 the corresponding figures would have been SEK 410 million, SEK 394 million and SEK 124 million respectively. At the end of December 2012 the number of employees was 230.

On November 27, 2012 Alfa Laval acquired the remaining 10 percent of the shares in the subsidiary LHE Co Ltd in South Korea from the minority shareholder. The purchase price was SEK 102 million, out of which everything was paid in cash. The impact on the cash flow was SEK -102 million. The difference of SEK 51 million between the purchase price paid and the net assets acquired was reported against equity.

Alfa Laval acquired Gamajet Cleaning Systems, Inc., a leading provider of tank cleaning machines as well as self-contained and portable cleaning systems for the industrial and sanitary markets in North America. Gamajet is headquartered in Exton, Pennsylvania. Lars Renström, President and CEO of the Alfa Laval Group, commented on the acquisition: "We have built the leading position within tank cleaning equipment over the past 10 years. Gamajet fits very well with our ambitions and it expands our product portfolio. It will especially extend our offer to the industrial market and also strengthen our position in North America." Gamajet Cleaning Systems will be integrated into Alfa Laval. The company was consolidated from August 23, 2012. The purchase price was SEK 116 million, out of which SEK 82 million was paid in cash and SEK 34 million was retained for a period of 1-2 years. The retained part of the purchase price was contingent on certain warranties in the contract not being triggered or that certain profitability goals were fulfilled. The outcome could be anything between SEK 0 million and SEK 34 million, but the probable outcome was SEK 34 million, which was also the fair value since the contingent consideration is to be 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 1 million, which was reported as other operating costs. The impact on the cash flow was thus SEK -83 million. Out of the difference between the purchase price paid and the net assets acquired SEK 47 million was allocated to patents and un-patented know-how, while the residual SEK 37 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 2013. 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 23 million in orders received, SEK 24 million in invoicing and SEK 4 million in adjusted EBITA to Alfa Laval during 2012. If the company had been acquired at January 1, 2012 the corresponding figures would have been SEK 61 million, SEK 59 million and SEK 7 million respectively. At the end of December 2012 the number of employees was 31.

Alfa Laval acquired Ashbrook Simon-Hartley, a leading provider of belt filter presses, which is a complement and alternative to Alfa Laval's decanter range in the dewatering of municipal and industrial wastewater. Ashbrook Simon-Hartley is headquartered in Houston, Texas, USA, with offices in the UK, Chile and Brazil, and has an installed base in many countries around the world. Lars Renström, President and CEO of the Alfa Laval Group, commented on the acquisition: "I'm very pleased that we have been able to acquire Ashbrook Simon-Hartley. With this acquisition we are adding a complementary and expanded range of products and solutions further strengthening our offer for municipal and industrial wastewater treatment applications." Ashbrook Simon-Hartley was founded more than 100 years ago. The intention is to integrate Ashbrook Simon-Hartley into Alfa Laval. The company was consolidated into Alfa Laval from August 1, 2012. The purchase price was SEK 318 million, out of which SEK 263 million was paid in cash and SEK 55 million was retained for a period of 1-2 years. The retained part of the purchase price was contingent on that certain profitability goals were fulfilled. The outcome could be anything between SEK 0 million and SEK 55 million, but the probable outcome was SEK 55 million, which was also the fair value since the contingent consideration is to be 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 5 million, which was reported as other operating costs. At the acquisition cash of SEK 11 million was taken over. The impact on the cash flow was thus SEK -257 million. Out of the difference between the purchase price paid and the net assets acquired SEK 86 million was allocated to patents and un-patented know-how, while the residual SEK 112 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. In connection with the finalisation of the purchase price allocation in 2013 the value of the goodwill has been decreased by SEK 57 million to SEK 55 million. 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 171 million in orders received, SEK 170 million in invoicing and SEK -19 million in adjusted EBITA to Alfa Laval during 2012. If the company had been acquired at January 1, 2012 the corresponding figures would have been SEK 462 million, SEK 398 million and SEK -25 million respectively. At the end of December 2012 the number of employees was 228.

Alfa Laval acquired the US based company Vortex Systems, a leading manufacturer of innovative mixing and blending solutions for the oil and gas industry. Lars Renström, President and CEO of the Alfa Laval Group, commented on the acquisition: "The acquisition of Vortex Systems will further strengthen our offering to the interesting oil and gas industry, both for onshore and offshore applications." Vortex Systems is located in Houston, Texas, the U.S. The intention is to integrate Vortex Systems into Alfa Laval. The company was consolidated into Alfa Laval from June 30, 2012. The purchase price was SEK 350 million, out of which everything 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. The impact on the cash flow was thus SEK -353 million. Out of the difference between the purchase price paid and the net assets acquired SEK 148 million was allocated to patents and un-patented know-how, while the residual SEK 219 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. In connection with the finalisation of the purchase price allocation in 2013 the value of the goodwill has been increased by SEK 6 million to SEK 225 million. 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 49 million in orders received, SEK 52 million in invoicing and SEK 23 million in adjusted EBITA to Alfa Laval during 2012. If the company had been acquired at January 1, 2012 the corresponding figures would have been SEK 109 million, SEK 111 million and SEK 32 million respectively. At the end of December 2012 the number of employees was 19.

In a press release on September 19, 2011 Alfa Laval communicated its proposal to buy all outstanding shares in its subsidiary Alfa Laval (India) Ltd and seek delisting of the shares from Bombay Stock Exchange Limited and National Stock Exchange of India Limited. The proposal came on the back of regulatory changes in India which requires Alfa Laval (India) Ltd to have a minimum public float of 25 percent or seek delisting. At the time, Alfa Laval held 88.8 percent of the share capital of Alfa Laval (India), meaning the public float was 11.2 percent. The objective is to achieve full ownership of the subsidiary, which will provide Alfa Laval with increased operational flexibility to support the business and meet the customers' needs. In a reverse book building process that was finalised on February 23, 2012 minority shareholders together holding more than the necessary 50 percent of the public float were willing to sell to Alfa Laval at a price of INR 4,000 per share. The Board of Directors of Alfa Laval AB therefore decided to proceed with the delisting process. Through the acquisition of the 1.03 million shares Alfa Laval has achieved an ownership of 94.5 percent, which enabled Alfa Laval (India) Ltd to apply for delisting from both stock exchanges. The applications have been approved and Alfa Laval (India) Ltd was delisted on April 12, 2012. The cost for the acquisition of the shares has been SEK 553 million. As a part of the process the remaining minority owners can sell their shares to Alfa Laval for INR 4,000 during the next 12 months. During the first eight months until December 31, 2012 minority owners with an additional 0.55 million shares have sold their shares to Alfa Laval for SEK 278 million, which has increased Alfa Laval's ownership to 97.5 percent. If all shareholders in the end sell their shares to Alfa Laval at this exit price the acquisition will incur a consideration of approximately SEK 1,065 million.

The purchase price of SEK 830 million 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 8 million, which was reported as other operating costs. The impact on the cash flow was thus SEK -838 million. The difference of SEK 694 million between the purchase price paid and the net assets acquired was reported against equity.

If Alfa Laval had not succeeded in achieving an ownership of 94.4 percent the company would have been required to increase the public float to 25 percent latest in June 2013.

During 2012 an additional purchase price of SEK 2 million was paid in cash to the former minority owner in a Bulgarian subsidiary, which impacted the cash flow with SEK -2 million. The difference of SEK 2 million between the purchase price paid and the net assets acquired was reported against equity.

Payment of retained parts of the purchase price from previous acquisitions constitutes the remaining part of the cash flow related to acquisition of businesses.

The acquisitions during 2012 can be summarized as follows:

Acquisitions 2012

Consolidated

SEK millions	Minority in subsidiaries Book value	Minority in subsidiaries Adjustment to fair value	Minority in subsidiaries Fair value	Others Book value	Others Adjustment to fair value	Others Fair value	Total Fair value
Property, plant and equipment	–	–	–	96	–	96	96
Patents and unpatented know-how [1]	–	–	–	–	866	866	866
Inventory	–	–	–	89	–	89	89
Accounts receivable and other receivables	–	–	–	220	–	220	220
Liquid assets	–	–	–	11	–	11	11
Accounts payable and other liabilities	–	–	–	-134	–	-134	-134
Deferred tax	–	–	–	–	-61	-61	-61
Acquired net assets	**–**	**–**	**–**	**282**	**805**	**1,087**	**1,087**
Goodwill [2]			–			725	725
Equity attributable to owners of parent			-747			–	-747
Currency translation			-80			–	-80
Equity attributable to non-controlling interests			-107			–	-107
Purchase price			-934			-1,812	-2,746
Costs directly linked to the acquisitions [3]			-8			-9	-17
Retained part of purchase price [4]			–			90	90
Liquid assets in the acquired businesses			–			11	11
Payment of amounts retained in prior years			–			-115	-115
Effect on the Group's liquid assets			**-942**			**-1,836**	**-2,778**

[1] The step up values for patents and unpatented know-how are amortised over 10 years.
[2] The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and the companies' ability to over time recreate its intangible assets. The value of the goodwill is still preliminary.
[3] Refers to fees to lawyers, due diligence and assisting counsel. Has been expensed as other operating costs.
[4] Contingent on certain warranties in the contract not being triggered or that certain profitability goals are fulfilled. The probable outcome has been calculated.

All acquired assets and liabilities were reported according to IFRS at the time of the acquisition. The acquisitions of minority shares in different subsidiaries and other acquisitions are not reported per acquisition since such a reporting would have been too fragmented and rather would have burdened the presentation than increased clarity. Instead they are reported together split on acquisitions of minority shares in subsidiaries and other acquisitions.

Impairment testing
An impairment test has been performed at the end of 2013 indicating that there is not any need to write down the goodwill.

Three of Alfa Laval's operating segments, the three divisions "Equipment", "Process Technology" and "Marine & Diesel" 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. Although Tranter is operating as a separate sales channel it is subject to a considerable co-ordination related to purchasing and some support functions.

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 twenty years, less projected investments and changes in operating capital during the same period. This projection for the coming 20 years is based on the following components:

- The projection for 2014 is based on the Groups 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 2015 and 2016 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 2017 to 2033 is based on the perceived expected average industry growth rate.

The reason why a longer period than 5 years has been used for the calculation of the net present value is that Management considers 5 years to be a too short period for an operation where applying the going concern concept can be justified.

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 8.95 (7.36) 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.

The three cash-generating units have been allocated the following amounts of goodwill:

Goodwill

Consolidated

SEK millions	2013	2012
Equipment	2,408	2,271
Process Technology	3,370	3,346
Marine & Diesel	4,283	4,175
Total	**10,061**	**9,792**

Note 17. Intangible non-current assets

Patents and unpatented know-how

Consolidated

SEK millions	2013	2012
Accumulated acquisition values		
Opening balance	3,876	3,129
Purchases	2	0
Acquisition of businesses	32	–
Sales/disposals	-6	-3
Step-up values	202	866
Translation difference	52	-116
Closing balance	**4,158**	**3,876**
Accumulated amortisation		
Opening balance	-1,933	-1,802
Sales/disposals	3	2
Reclassifications	–	0
Amortisation of step-up value	-274	-193
Amortisation for the year	-2	-3
Translation difference	-25	63
Closing balance	**-2,231**	**-1,933**
Closing balance, net book value	**1,927**	**1,943**

Trademarks

Consolidated

SEK millions	2013	2012
Accumulated acquisition values		
Opening balance	2,750	2,858
Translation difference	43	-108
Closing balance	**2,793**	**2,750**
Accumulated amortisation		
Opening balance	-931	-728
Amortisation of step-up values	-229	-233
Translation difference	-15	30
Closing balance	**-1,175**	**-931**
Closing balance, net book value	**1,618**	**1,819**

Licenses, renting rights and similar rights

Consolidated

SEK millions	2013	2012
Accumulated acquisition values		
Opening balance	224	223
Purchases	3	11
Sales/disposals	-13	-6
Reclassifications	20	3
Translation difference	-10	-7
Closing balance	**224**	**224**
Accumulated amortisation		
Opening balance	-179	-178
Sales/disposals	0	4
Reclassifications	-1	-23
Amortisation for the year	-8	-10
Translation difference	1	28
Closing balance	**-187**	**-179**
Closing balance, net book value	**37**	**45**

Alfa Laval does not have any internally generated intangible assets.

Goodwill

Consolidated

SEK millions	2013	2012
Accumulated acquisition values		
Opening balance	10,318	10,095
Goodwill in connection with acquisition of businesses	174	734
Write down of goodwill	–	-48
Translation difference	91	-463
Closing balance	**10,583**	**10,318**
Accumulated amortisation		
Opening balance	-526	-552
Translation difference	4	26
Closing balance	**-522**	**-526**
Closing balance, net book value	**10,061**	**9,792**

Note 18. Property, plant and equipment

Real estate

Consolidated

SEK millions	2013	2012
Accumulated acquisition values		
Opening balance	2,802	2,755
Purchases	56	106
Acquisition of businesses	0	41
Sales/disposal	-26	-37
Reclassifications	75	69
Translation difference	-54	-132
Closing balance	**2,853**	**2,802**
Accumulated depreciation		
Opening balance	-1,222	-1,152
Sales/disposals	11	7
Reclassifications	-6	-38
Depreciation of step-up value	-31	-32
Depreciation for the year	-67	-68
Translation difference	6	61
Closing balance	**-1,309**	**-1,222**
Closing balance, net book value	**1,544**	**1,580**

Non-current assets held for sale

Within Alfa Laval these assets are normally relating to real estate.

Alfa Laval Aalborg BV has moved to Alfa Laval's office in Breda in the Netherlands in the first half of 2013. The vacated property in Spijkenisse in the Netherlands is to be sold, but it is not expected to be sold within the next year. One small property in France is planned for sale. It is empty and has been for sale for several years. It is not expected to be sold within the next year. Alfa Laval Aalborg's factory in Vietnam is for sale since the Vietnamese company is under closure. It is not expected to be sold within the next year. This means that none of these properties have been re-classified as current assets held for sale.

In addition to the property that was sold during 2012 Onnuri had an additional property in South Korea that was empty and planned to be sold during the beginning of 2013. Due to this it was re-classified as a current asset held for sale with SEK 9 million.

Machinery and other technical installations

Consolidated

SEK millions	2013	2012
Accumulated acquisition values		
Opening balance	4,614	4,494
Purchases	160	192
Acquisition of businesses	13	37
Sales/disposal	-153	-108
Reclassifications	147	227
Translation difference	-40	-228
Closing balance	**4,741**	**4,614**
Accumulated depreciation		
Opening balance	-3,198	-3,073
Sales/disposals	132	88
Acquisition of businesses	-3	-33
Reclassifications	-8	-80
Depreciation for the year	-255	-249
Translation difference	14	149
Closing balance	**-3,318**	**-3,198**
Closing balance, net book value	**1,423**	**1,416**

Equipment, tools and installations

Consolidated

SEK millions	2013	2012
Accumulated acquisition values		
Opening balance	2,032	2,033
Purchases	152	122
Acquisition of businesses	0	9
Sales/disposal	-85	-71
Reclassifications	31	20
Translation difference	-25	-81
Closing balance	**2,105**	**2,032**
Accumulated depreciation		
Opening balance	-1,493	-1,480
Sales/disposals	79	58
Acquisition of businesses	0	-5
Reclassifications	-20	8
Depreciation of step-up value	-27	-29
Depreciation for the year	-106	-106
Translation difference	20	61
Closing balance	**-1,547**	**-1,493**
Closing balance, net book value	**558**	**539**

Construction in progress and advances to suppliers concerning property, plant and equipment

Consolidated

SEK millions	2013	2012
Accumulated acquisition values		
Opening balance	150	208
Purchases	122	100
Reclassifications	-137	-150
Translation difference	2	-8
Closing balance	**137**	**150**
Closing balance, net book value	**137**	**150**

Leased real estate

Consolidated

SEK millions	2013	2012
Accumulated acquisition values		
Opening balance	147	150
Reclassifications	–	2
Translation difference	6	-5
Closing balance	**153**	**147**
Accumulated depreciation		
Opening balance	-25	-19
Depreciation for the year	-7	-7
Translation difference	-1	1
Closing balance	**-33**	**-25**
Closing balance, net book value	**120**	**122**

Leased machinery

Consolidated		
SEK millions	2013	2012
Accumulated acquisition values		
Opening balance	33	34
Reclassifications	–	0
Translation difference	1	-1
Closing balance	**34**	**33**
Accumulated depreciation		
Opening balance	-19	-16
Depreciation for the year	-3	-3
Translation difference	0	0
Closing balance	**-22**	**-19**
Closing balance, net book value	**12**	**14**

Leased equipment, tools and installations

Consolidated		
SEK millions	2013	2012
Accumulated acquisition values		
Opening balance	3	6
Sales/disposal	0	-4
Reclassifications	–	0
Translation difference	0	1
Closing balance	**3**	**3**
Accumulated depreciation		
Opening balance	-1	-4
Sales/disposals	0	3
Reclassifications	1	1
Depreciation for the year	-1	-1
Translation difference	0	0
Closing balance	**-1**	**-1**
Closing balance, net book value	**2**	**2**

Leased real estate, machinery and equipment relate to fixed assets which are leased and where the leasing agreement has been considered to be a financial lease. These financial leases are capitalised in the statement on financial position.

Note 19. Other non-current assets

Shares in subsidiaries and other companies

	Consolidated		Parent company	
SEK millions	2013	2012	2013	2012
Shares in subsidiaries	–	–	4,669	4,669
Shares in other companies	8	9	–	–
Total	**8**	**9**	**4,669**	**4,669**

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		Maarssen, Netherlands	887,753	100	–
Alfa Laval Inc.		Newmarket, Canada	1,000,000	67	–
Alfa Laval S.A. DE C.V.		Tlalnepantla, Mexico	45,057,057	100	–
Alfa Laval S.A.		San Isidro, Argentina	1,223,967	95	–
Alfa Laval Ltda		Sao Paulo, Brazil	21,129,068	100	–
Alfa Laval SpA		Santiago, Chile	2,735	100	–
Ashbrook Chile S.A.		Santiago, Chile	579,999	100	–
Ashbrook Do Brasil Ltda		Pinhais, Brazil	1,000	100	–
Alfa Laval S.A.		Bogota, Colombia	12,195	100	–
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		75	–
Alfa Laval Flow Equipment (Kunshan) Co Ltd		Jiangsu, China		25	–
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 Iran Ltd		Teheran, Iran	32,983	100	–
Alfa Laval Industry (PVT) Ltd		Lahore, Pakistan	119,110	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	792,000	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		Espoo, Finland	20,000	100	–
Alfa Laval Vantaa OY		Vantaa, Finland	7,000	100	–
Alfa Laval Nederland BV		Maarssen, Netherlands	10,000	100	–
Alfa Laval Benelux BV		Maarssen, Netherlands	20,000	100	–
Helpman Capital BV		Breda, Netherlands	35,578	100	–
Helpman Holding BV		Naarden, Netherlands	80	100	–
Alfa Laval Groningen BV		Groningen, Netherlands	15,885	100	–
PHE Holding AB	556306-2404	Lund, Sweden	2,500	100	–
Tranter Heat Exchangers Canada Inc.		Edmonton, Canada	100	100	–
Tranter Latin America S.A. de C.V.		Queretaro, Mexico	49,999	100	–
Tranter Indùstria e Comércio de Equipamentos Ltda		Sao Paulo, Brazil		100	–
MCD Nitrile India Pvt Ltd		Falta, India	2,432	9	–
Tranter India Pvt Ltd		Poona, India	3,009,999	100	–
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	–
LHE Co. Ltd		Gim Hae, South Korea	4,560,000	100	–
LHE (Qingdao) Heat Exchanger Co. Ltd		Jiaozhou City, China		100	–
Kenus LLP		Almaty, Kazakhstan		90	–
Tranter Heat Exchangers Middle East (Cyprus) Ltd		Nicosia, Cyprus	20,000	100	–
MCD SAS		Guny, France	7,130	10	–
Tranter Srl		Monza, Italy		100	
Tranter International AB	556559-1764	Vänersborg, Sweden	100,000	100	–
Ageratec AB	556662-3988	Norrköping, Sweden	2,723	100	–
Breezewind AB	556773-6532	Lund, Sweden	1,000	100	–
OOO Tranter CIS		Moscow, Russia		100	–
Alfa Laval Nordic AB	556243-2061	Tumba, Sweden	1,000	100	–
Alfa Laval Corporate AB	556007-7785	Lund, Sweden	13,920,000	100	–
Alfa Laval S.A.		San Isidro, Argentina	64,419	5	–
Definox (Beijing) Stainless Steel Equipment Ltd		Beijing, China		100	–
Alfa Laval (Kunshan) Manufacturing Co Ltd		Kunshan, China		100	–
Alfa Laval (India) Ltd		Poona, India	17,832,739	98,2	–
Alfa Laval Support Services Pvt Ltd		Poona, India	10	0	–
Tranter India Pvt Ltd		Poona, India	1	0	–
PT Alfa Laval Indonesia		Jakarta, Indonesia	1,249	100	–

Specification of shares in subsidiaries, continued

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Alfa Laval (Malaysia) Sdn Bhd		Shah Alam, Malaysia	10,000	100	–
Alfa Laval Kolding A/S		Kolding, Denmark	40	100	–
Alfa Laval Nordic A/S		Rödovre, Denmark	1	100	–
Alfa Laval Copenhagen A/S		Söborg, Denmark	1	100	–
Alfa Laval Nakskov A/S		Nakskov, Denmark	242,713	100	–
Alfa Laval Tank Equipment A/S		Ishoej, Denmark	61	100	–
Alfa Laval Aalborg A/S		Aalborg, Denmark	2,560,972	100	–
Alfa Laval Aalborg Ltda		Petrópolis, Brazil	5,969,400	99,5	–
Aalborg Industries Ltda		Itu, Brazil	4,644,373	100	–
Alfa Laval Aalborg Ltd		Shanghai, China		100	–
Alfa Laval Qingdao Ltd		Jiaozhou City, China		100	–
Alfa Laval Aalborg Ltd		Hong Kong, China	99	100	–
Aalborg Industries Engineering Bhd		Kuala Lumpur, Malaysia		100	–
Aalborg Industries Water Treatment Pte Ltd		Singapore	4,800,000	60	–
Alfa Laval HaiPhong Co. Ltd		HaiPhong, Vietnam		100	–
Alfa Laval Aalborg Oy		Rauma, Finland	3,000	100	–
Alfa Laval Aalborg Nijmegen BV		Nijmegen, Netherlands	182	100	–
Alfa Laval Aalborg Nijmegen2 BV		Nijmegen, Netherlands	200	100	–
Alfa Laval Aalborg Holding Pty Ltd		North Wyong, Australia	11,500,000	100	–
Alfa Laval Aalborg Pty Ltd		North Wyong, Australia	225,000	100	–
Alfa Laval SAS		Saint-Priest, France	46,700	7,7	–
Alfa Laval Olmi SpA		Suisio, Italy	500,000	100	–
Alfa Laval Italy Srl		Milano, Italy		100	–
Alfa Laval Nordic A/S		Oslo, Norway	100	100	–
Tranter Poland Sp.z.o.o.		Pruszków, Poland	2,000	100	–
AlfaWall AB	556723-6715	Botkyrka, Sweden	500	50	–
Alfa Laval Oilfield C.A.		Caracas, Venezuela	47	19	–
Alfa Laval Treasury International AB	556432-2484	Lund, Sweden	50,000	100	–
Alfa Laval Europe AB	556128-7847	Lund, Sweden	500	100	–
Alfa Laval Lund AB	556016-8642	Lund, Sweden	100	100	–
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 Makine Sanayii ve Ticaret Ltd Sti		Istanbul, Turkey	27,001,755	99	–
Alfa Laval SIA		Riga, Latvia	125	100	–
Alfa Laval UAB Ltd		Vilnius, Lithuania	2,009	100	–
Alfa Laval Australia Pty Ltd		Homebush, Australia	2,088,076	100	–
Tranter Heat Exchanger Pty Ltd		Sydney, Australia	600,000	100	–
Alfa Laval New Zeeland Pty Ltd		Hamilton, New Zeeland	1,000	100	–
Alfa Laval Holding BV		Maarssen, Netherlands	60,035,631	100	–
Alfa Laval (Pty) Ltd		Isando, South Africa	2,000	100	–
Alfa Laval Slovakia S.R.O.		Bratislava, Slovakia		99	–
Alfa Laval Spol S.R.O.		Prague, Czech Republic		80	–
Alfa Laval France SAS		Saint-Priest, France	2,000,000	100	–
Alfa Laval SAS		Saint-Priest, France	560,000	92,3	–
Alfa Laval Moatti SAS		Elancourt, France	24,000	100	–
Alfa Laval Spiral SAS		Nevers, France	79,999	100	–
MCD SAS		Guny, France	64,170	90	–
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 HES SA		Lentilly, France	150,000	100	–
Packinox SA		Paris, France	348,115	100	–
Ziepack SA		Paris, France	37,701	51	–
Tranter SAS		Nanterre, France		100	–
Definox SAS		Lyon, France	10,000	100	–
Alfa Laval Holding GmbH		Glinde, Germany	1	100	–
Alfa Laval Mid Europe GmbH		Wiener Neudorf, Austria	1	100	–
Tranter Warmetauscher GmbH		Guntramsdorf, Austria		100	–
Alfa Laval Mid Europe GmbH		Glinde, Germany	1	100	–
Alfa Laval Dortmund GmbH		Artern, Germany	1	100	–
Tranter GmbH		Artern, Germany	1	100	–
Tranter Solarice GmbH		Artern, Germany		100	–
Alfa Laval Mid Europe AG		Dietlikon, Switzerland	647	100	–
Alfa Laval AEBE		Holargos, Greece	807,000	100	–
Alfa Laval Kft		Budapest, Hungary	1	100	–
Alfa Laval SpA		Monza, Italy	1,992,276	99	–
Alfa Laval Polska Sp.z.o.o.		Warsaw, 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	100	–

Specification of shares in subsidiaries, continued

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Alfa Laval (Portugal) Ltd		Linda-A-Velha, Portugal	1	99	–
Alfa Laval Holdings Ltd		Camberley, UK	14,053,262	100	–
Alfa Laval Eastbourne Ltd		Eastbourne, UK	10,000	100	–
Alfa Laval 2000		Camberley, UK	28,106	100	–
Alfa Laval Ltd		Camberley, UK	11,700,000	100	–
Rolls Laval Heat Exchangers Ltd		Wolverhampton, UK	5,000	50	–
Tranter Ltd		Doncaster, UK	10,000	100	–
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 Air Cooled Exchangers Inc		Broken Arrow, Oklahoma, USA	1,000	100	–
Niagara Blower Company Inc.		Buffalo, New York, USA	4,000,200	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	–
Hutchison Hayes Separation Inc.		Houston, Texas, USA	1,000	100	–
Alfa Laval Champ Inc.		Sarasota, Florida, USA	1,000	100	–
Definox Inc.		New Berlin, Wisconsin, USA	1,000	100	–
Alfa Laval Aalborg Inc.		Miramar, Florida, USA	200	100	–
Vortex Ventures Inc		Houston, Texas, USA	1,000	100	–
Alfa Laval Ashbrook Simon-Hartley Inc		Houston, Texas, USA	1	100	–
Alfa Laval Tank Equipment Inc		Exton, Pennsylvania, USA	1,000	100	–
AO Alfa Laval Potok		Koroljov, Russia	31,077,504	100	–
Alfa Laval Försäkrings AB	516406-0682	Lund, Sweden	50,000	100	–
Alfdex AB	556647-7278	Botkyrka, Sweden	1,000	50	–
Alfa Laval Support Services Pvt Ltd		Poona, India	99,990	100	–
MCD Nitrile India Pvt Ltd		Falta, India	24,593	91	–
Alfa Laval Ukraine		Kiev, Ukraine		100	–
Alfa Laval SpA		Monza, Italy	20,124	1	–
Alfa Laval KK		Tokyo, Japan	1,200,000	100	208
Total					**4,669**

Specification of shares in other companies

Company name	Domicile	Number of shares	Share of capital %	Book value SEK thousands
Alfa Laval Aalborg Ltda				
Tractebel	Brazil	1,268		106
Elektrobras	Brazil	3,981		296
Alfa Laval Philippines Inc.				
Philippine Long Distance Telephone	Philippines	820		12
Alfa Laval Nordic OY				
As Oy Koivulantie 7A	Finland	1		278
Helsinki Halli	Finland	4		125
Alfa Laval Vantaa OY				
Länsi-Vantaan Tenniskeskus	Finland	4		0
Mikkelin Puhelin Oyj	Finland	5		36
Alfa Laval Aalborg OY				
Finda OY	Finland	1		54
Alfa Laval France SAS				
SEMACLA	France	10		0
Alfa Laval HES SA				
Thermothec	France	9,130		0
Alfa Laval Benelux BV				
Bordewes	Netherlands	1		152
Helpman Holding BV				
Helpman Sofia OOD	Bulgaria	500	49	5,997
Alfa Laval NV				
Dalian Haven Automation Co Ltd	China	102	43	798
Alfa Laval Tumba AB				
Smedhälsan Ekonomisk Förening	Sweden			0
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
Poljopriveda	former Yugoslavia			0
Tecnica Argo-Industrial S.A.	Mexico	490	49	0
Adela Investment Co S.A. (preference)	Luxembourg	1,911	0	0
Adela Investment Co S.A.	Luxembourg	1,911	0	0
Mas Dairies Ltd	Pakistan	125,000	5	0
Total				**7,854**

Note 20. Inventories

Type of inventory

Consolidated

SEK millions	2013	2012
Raw materials and consumables	2,003	2,113
Work in progress	2,178	2,137
Finished goods & goods for resale, new sales	1,320	1,112
Finished goods & goods for resale, spare parts	686	690
Advance payments to suppliers	132	124
Total	**6,319**	**6,176**

A considerable part of the inventory for spare parts is carried at fair value.

Obsolescence related to inventories amounts to and has changed as follows:

Obsolescence

Consolidated

SEK millions	January 1	Translation difference	Acquired	Write-down	Reversal of previous write-down	December 31
Year:						
2012	859	-26	2	203	-185	853
2013	853	-3	2	166	-136	882

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 2013 amounts to SEK 427 (419) million.

Note 21. Accounts receivable

Accounts receivable with a maturity exceeding one year of SEK 202 (230) 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:								
2012	352	-12	1	106	-54	-53	0	340
2013	340	3	0	113	-56	-46	0	354

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	2013	%	2012	%
Overdue:				
Maximum 30 days	536	10.6	494	9.5
More than 30 days but maximum 90 days	279	5.6	315	6.0
More than 90 days	336	6.6	350	6.7
Total	**1,151**	**22.8**	**1,159**	**22.2**

Note 22. Other short-term receivables

Split on type and maturity

Consolidated		
SEK millions	2013	2012
Notes receivable	296	304
Financial leasing receivables	11	11
Other receivables	778	783
Total	**1,085**	**1,098**
Of which, not due within one year:		
Notes receivable	4	4
Other receivables	23	21
Total	**27**	**25**

Note 23. Prepaid expenses and accrued income

Split on type

Consolidated		
SEK millions	2013	2012
Prepaid expenses	164	161
Accrued income	55	39
Total	**219**	**200**

Note 24. Other current deposits

Split on type and maturity

Consolidated		
SEK millions	2013	2012
Deposits with banks	348	283
Bonds and other securities	247	131
Other deposits	16	13
Total	**611**	**427**
Of which, not due within one year:		
Deposits with banks	55	94
Other deposits	6	5
Total	**61**	**99**

Note 25. Cash and bank

The item cash and bank in the statement on financial position and in the cash-flow statement is mainly relating to bank deposits. Cash and bank includes a bank deposit in the previously publicly listed subsidiary Alfa Laval (India) Ltd of about SEK 53 (59) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 98.2 (97.5) percent.

Note 26. 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, Canada, France, Germany, India, Indonesia, Italy, Japan, Mexico, the Netherlands, Norway, Philippines, South Africa, Sweden, 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.

Changed accounting principles

During 2013 the changes in IAS 19 "Employee Benefits" have been implemented. The changes mean substantial changes concerning the accounting for defined benefit pension schemes, for example:

- The possibility to phase actuarial gains and losses as a part of the corridor cannot be used, but these are to be accounted for currently in other comprehensive income. 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.
- Changes in the obligations that relate to changes in actuarial assumptions are accounted for in other comprehensive income.
- The return on plan assets is calculated with the same interest rate as the discount rate. The expected return cannot be used any longer.
- The difference between the actual return on plan assets and the interest income in the previous bullet point is reported in other comprehensive income.
- Past service costs must be recognised in the income statement already when the plan is amended or curtailed.
- The plan assets must be 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.
- The changes include further changes that do not focus on accounting for pensions but other forms of employee benefits. Termination benefits shall be 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 will also include future payments of special salary tax.

The revised standard must be applied retroactively in accordance with IAS 8. For this reason a new opening balance has been established for January 1, 2012.

The changes to IAS 19 mean that:

- The present value of the defined benefit obligations is fully booked in the statement of financial position, with a magnitude approximately corresponding to the unrecognised actuarial losses as per the end of 2011.
- This results in an increased deferred tax receivable.
- The net of these two amounts is booked as a reduction of equity as a change in accounting principles per January 1, 2012.
- As a consequence of this the comparison figures for 2012 have been changed.
- From January 1, 2012 the actuarial gains and losses are reported currently 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 impact on other comprehensive income can as a result become substantial between the years.
- The amount of disclosures will increase.

In figures the consequences of the changes to IAS 19 have been as follows:

The consolidated comprehensive income has been affected as follows:

Effect of restatement to new IAS19

SEK millions	Full year 2012
CONSOLIDATED COMPREHENSIVE INCOME	
Other operating costs	24
Operating income	24
Result after financial items	24
Taxes	-8
Net income for the period	**16**
Other comprehensive income:	
Items that will subsequently be reclassified to net income	
Translation difference	60
Sum	60
Items that will subsequently not be reclassified to net income	
Revaluations of defined benefit obligations	-277
Deferred tax on other comprehensive income	35
Sum	-242
Comprehensive income for the period	**-166**
Net income attributable to:	
Owners of the parent	16
Non-controlling interests	0
Earnings per share (SEK)	0,03
Comprehensive income attributable to:	
Owners of the parent	-166
Non-controlling interests	0

The consolidated financial position has been changed as follows:

Effect of restatement to new IAS19

SEK millions	December 31, 2012	Opening balance January 1, 2012
CONSOLIDATED FINANCIAL POSITION		
Decrease of plan assets	-380	-331
Increase of defined benefit obligations	-898	-752
Increase of deferred tax assets	289	266
Decrease of deferred tax liabilities	7	3
Decrease of accrued costs	48	46
Decrease of equity relating to the owners of the parent	-934	-768

Risks

The cost for defined benefit obligations are 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 new IAS 19 all of these remeasurements are reported in other comprehensive income and not in net 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	2013	2012 *
Present value of defined benefit obligation, unfunded	-999	-1,016
Present value of defined benefit obligation, funded	-3,421	-3,409
Present value of defined benefit obligation at year end	-4,420	-4,425
Fair value of plan assets	2,937	2,701
Defined benefit liability	-1,483	-1,724
Less disallowed assets due to asset ceiling	–	–
(-) liability/(+) asset at December 31	**-1,483**	**-1,724**

* Restated to the new IAS 19.

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	2013	2012 *
Net plan cost		
Current service cost	-36	-51
Net interest cost/income	-60	-59
Past service cost/income from plan amendments and curtailments and gains and losses on settlements	-29	-18
Net plan (-) cost/(+) income	**-125**	**-128**
Remeasurements		
Actuarial losses/gains arising from changes in demographic assumptions	20	-94
Actuarial losses/gains arising from changes in financial assumptions	102	-176
Actuarial losses/less gains arising from changes in experience	-60	-111
Return on plan assets less interest on plan assets	172	104
Other comprehensive income (OCI)	**234**	**-277**
Total plan cost	**109**	**-405**

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	2013	2012 *
Present value of defined benefit liability at January 1	-4,425	-3,989
Translation difference	-43	4
Current service cost	-36	-51
Interest cost	-164	-169
Employee contributions	-4	-3
Actuarial losses/gains arising from changes in demographic assumptions	20	-94
Actuarial losses/gains arising from changes in financial assumptions	102	-176
Actuarial losses/gains arising from changes in experience	-60	-111
Past service cost/income from plan amendments and curtailments and gains and losses on settlements	-29	-18
Benefit payments	205	170
Settlement payments	14	12
(-) liability at December 31	**-4,420**	**-4,425**

The liability has the following duration and maturity:

Duration and maturity

Consolidated		
SEK millions	2013	2012 *
Weighted average duration of the defined benefit obligation (years)	12	12
Maturity analysis of benefit payments (non discounted amounts) SEK millions		
maturity ≤ 1 year	244	210
maturity > 1 ≤ 5 years	828	811
maturity > 5 ≤ 10 years	1,101	1,062
maturity > 10 ≤ 20 years	2,122	2,134
maturity > 20 years	3,445	3,390

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	2013	2012 *
Fair value of plan assets at January 1	2,701	2,468
Translation difference	30	0
Employer contributions	110	152
Employee contributions	4	3
Interest on plan assets	104	110
Return on plan assets less interest on plan assets	168	106
Benefit payments	-166	-130
Settlement payments	-14	-8
(+) asset at December 31	**2,937**	**2,701**

The plan assets are split on the following types of assets:

Split of plan assets

Consolidated

SEK millions	2013	2012 *
Cash and cash equivalents	83	71
Equity instruments	1,204	956
Debt instruments	1,244	1,243
Real estate	85	84
Investment funds	321	347
Fair value at December 31	**2,937**	**2,701**

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	2013	2012 *
Defined benefit liability/asset at January 1	-1,724	-1,522
Translation difference	-17	7
Net plan cost	-125	-128
Employer contributions	110	152
Remeasurements (other comprehensive income)	234	-277
Benefit payments, unfunded plans	39	40
Settlement payments, unfunded plans	–	4
(-) liability/(+) asset at December 31	**-1,483**	**-1,724**

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	2013	2012 *
Assets		
Fair value of plan assets	2,937	2,701
Less disallowed assets due to asset ceiling	–	–
	2,937	2,701
Netting	-2,926	-2,698
Assets in statement on financial position	**11**	**3**
Liabilities		
Present value of defined benefit obligation at year end	-4,420	-4,425
Netting	2,926	2,698
Provision in statement on financial position	**-1,494**	**-1,727**

The weighted averages for the more significant actuarial assumptions that have been used at the year-end are:

Actuarial assumptions

Consolidated

	2013	2012
Discount rate (%)	4.2	3.6
Expected average retirement age (years)	63	63
Claim rates under medical plans (%)	5	5
Expected rate of salary/wage increase (%)	3	3
Change in health care costs (%)	5	8
Index for future compensation increases (%)	3	3

Future contributions

Consolidated

SEK millions	2014
Expected employer contributions to the plan for the next calendar year	-114
Expected employer contributions for the next calendar year to multi-employer plans reported as defined contribution plans	-39

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	Nether-lands	Germany	Norway	Italy	Belgium	Other	Total
Net defined benefit liability									
Present value of the defined benefit obligation, unfunded	-580	–	–	-168	-4	-33	–	-214	**-999**
Present value of the defined benefit obligation, funded	-838	-1,792	-295	–	-100	–	-66	-330	**-3,421**
Present value of the defined benefit obligation at year end	-1,418	-1,792	-295	-168	-104	-33	-66	-544	**-4,420**
Fair value of plan assets	799	1,435	285	-	80	-	48	290	**2,937**
Defined benefit liability	-619	-357	-10	-168	-24	-33	-18	-254	**-1,483**
Less disallowed assets due to asset ceiling	–	–	–	–	–	–	–	–	**–**
(-) liability/(+) asset	-619	-357	-10	-168	-24	-33	-18	-254	**-1,483**
Net plan cost	**-41**	**-61**	**-10**	**-6**	**-4**	**-1**	**-3**	**1**	**-125**
Remeasurements (OCI)	**191**	**15**	**18**	**3**	**-2**	**0**	**0**	**9**	**234**
Sensitivity analysis*									
Discount rate decreased by 1% point	-157	-309	-66	-18	-10	–	-6	-27	**-593**
Life expectancy increased by 1 year	-48	-65	-10	-4	–	–	-5	-6	**-138**
Expected average retirement age decreased by 1 year	-22	0	-1	0	0	–	0	-3	**-26**
Claim rates under medical plans increased by 1 % point	-66	–	–	–	–	–	–	0	**-66**
Expected rate of salary increases increased by 1% point	0	-19	-18	–	-4	–	-13	-20	**-74**
Medical costs increased by 1% point	-66	–	–	–	–	–	–	-1	**-67**
Index for future compensation increases increased by 1% point	0	-42	0	-16	-10	–	0	-10	**-78**
Cost for actuarial services	**-1**	**0**	**0**	**0**	**0**	**0**	**0**	**-1**	**-2**
Number of participants in the plans at December 31									
Current employees (active members)	724	0	111	11	24	–	28	2,685	**3,583**
Current employees (only vested value for closed plans)	36	134	–	–	–	252	–	12	**434**
Former employees that are not yet pensioners	278	529	193	14	–	–	44	4	**1,062**
Pensioners	1,891	603	65	329	41	–	–	124	**3,053**
Total	**2,929**	**1,266**	**369**	**354**	**65**	**252**	**72**	**2,825**	**8,132**
Remaining service period									
Average remaining service period for active members (years)	9	11	22	3	10	–	17	10	**10**

* How much would the present value of the defined benefit obligation at December 31 increase if the (all other things being equal):

Note 27. Other provisions

Movement schedule

Consolidated

SEK millions	January 1	Translation difference	Acquired	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	December 31
2012							
Claims & warranty	1,176	-28	1	503	-382	-114	1,156
Deferred costs	192	-6	–	50	-35	-34	167
Restructuring	220	-2	–	100	-106	-21	191
Onerous contracts	66	-2	–	27	-15	-10	66
Litigations	167	-3	–	45	-21	-1	187
Other	311	-9	–	151	-130	-14	309
Total	**2,132**	**-50**	**1**	**876**	**-689**	**-194**	**2,076**
Of which:							
current	1,612						1,603
non-current	520						473
2013							
Claims & warranty	1,156	-32	1	413	-369	-94	1,075
Deferred costs	167	4	–	61	-24	-18	190
Restructuring	191	1	–	3	-57	-31	107
Onerous contracts	66	-1	–	46	-19	-7	85
Litigations	187	-2	–	28	-6	-2	205
Other	309	-16	2	175	-128	-34	308
Total	**2,076**	**-46**	**3**	**726**	**-603**	**-186**	**1,970**
Of which:							
current	1,603						1,539
non-current	473						431

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 180 (320) 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 28. Borrowings and net debt

Net debt

Consolidated

SEK millions	2013	2012
Banking syndicate	704	1,784
Swedish Export Credit	1,793	1,723
European Investment Bank	1,165	1,120
Other credit institutions	200	662
Private placement	716	714
Capitalised financial leases	84	97
Interest-bearing pension liabilities	0	1
Total debt	4,662	6,101
Cash, bank and current deposits	-2,065	-1,831
Net debt	**2,597**	**4,270**

Cash, bank and current deposits include bank and other deposits in the previously publicly listed subsidiary Alfa Laval (India) Ltd of SEK 275 (174) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 98.2 (97.5) percent.

The loans from credit institutions and the private placement are distributed among currencies as follows:

Maturity of loans by currency

Consolidated

	Current		Non-current	
SEK millions	2013	2012	2013	2012
Currency:				
BRL	5	12	–	–
CNY	–	4	–	–
DKK	–	1	8	11
EUR	954	393	2,257	3,042
INR	5	11	–	–
SEK	6	95	–	–
USD	79	94	1,264	2,340
Other	0	0	–	–
Total	**1,049**	**610**	**3,529**	**5,393**
Of which, not due within five years:			2,062	1,981

The maturity structure of the loans is presented in the bar chart in the section "Liquidity risk and refinancing risk" under Financial risks.

Loans with floating interest rate

Loan from credit institutions

Alfa Laval has a senior credit facility of EUR 301 million and USD 420 million, corresponding to SEK 5,437 million with a banking syndicate. At December 31, 2013 SEK 704 million of the facility was utilised. The facility matures in April 2017.

The interest is based on applicable IBOR plus a mark up based on the relation between net debt and EBITDA and how much of the facility that is utilised.

At year end the mark up is 55 (55) basis points.

In connection with the acquisition of Tranter Alfa Laval signed a bilateral term loan with SHB of EUR 25 million. The loan was repaid on the maturity date at December 30, 2013.

The transaction costs in connection with raising the loans have been capitalised and are being amortised over the maturity of the loans. At the end of the year the capitalised amount was SEK 17 (17) million. The current year's cost for the fee amortisation is SEK -5 (-4) million.

Bilateral term loans with other lenders

Alfa Laval has a bilateral term loan from Swedish Export Credit split on one loan of EUR 100 million that matures in June 2014 and one loan of EUR 100 million that matures in June 2021, corresponding to SEK 1,793 million in total. The loans accrue interest at floating rate based on IBOR plus a mark up of 55 basis points and 95 basis points respectively.

Alfa Laval also has a bilateral term loan from the European Investment Bank of EUR 130 million, corresponding to SEK 1,165 million. The loan matures in March 2018. The loan accrues interest at floating rate based on IBOR plus a mark up of 70 basis points. In December 2013 Alfa Laval has made an agreement with the European Investment Bank of a loan facility of EUR 115 million with a duration of seven years. This loan has not been utilised at December 31, 2013.

Interest level of loans with floating interest rate

The senior credit facility and the bilateral term loans accrue interest at floating rate. At the end of 2013 the loans were accruing interest in the range of 0.76 % – 1.32 % (0.74 % – 1.27 %). The average interest rate at the end of 2013 was 2.04 (1.74) percent. The Group has chosen to hedge 53 (36) percent of the loans to fixed interest rate, with a duration of 19.0 (26.3) months. The average interest and currency duration including derivatives is 12.6 (12.8) months at the end of 2013.

Loans with fixed rate

Private placement

In 2006 Alfa Laval made a private placement in the U.S. The offer was over-subscribed and was closed at USD 110 million, corresponding to SEK 716 million. The loan matures in April 2016. The interest was based on U.S. Treasury bills plus a mark-up of 95 basis points, which gave a fixed interest of 5.75 percent. The loan was raised on April 27, 2006.

The transaction costs in connection with raising the loan have been capitalised and are being amortised over the maturity of the loan. At the end of the year the capitalised amount was SEK 1 (1) million. The current year's cost for the fee amortisation is SEK -0 (-0) million.

Financial covenants

The syndicated loan and the bilateral term loans are linked to three financial covenants that must be fulfilled throughout the life of the loans. These covenants refer to the relationship between net debt and EBITDA and between EBITDA and total interest expense as well as the debt ratio.

The private placement is linked to two financial covenants that must be fulfilled throughout the life of the loan. These covenants refer to the relationship between net debt and EBITDA and between EBITDA and total interest expense.

If the covenants are not fulfilled, the lenders are entitled to demand immediate repayment of the loans, provided that the breach is not temporary. Alfa Laval has fulfilled the covenants with a good margin ever since the loans were raised.

Note 29. Other current liabilities

Split by type

Consolidated

SEK millions	2013	2012
Financial lessee payable	84	97
Other non-interest bearing liabilities	1,448	1,284
Total	**1 532**	**1 381**

Note 30. Accrued costs and prepaid income

Split by type and maturity

Consolidated

SEK millions	2013	2012 *
Accruals for social security	290	272
Reserve for severance pay	139	139
Accrued interest expenses	12	13
Other accrued expenses	1,273	1,228
Prepaid income	8	19
Total	**1,722**	**1,671**
Of which, not due within one year:		
Accruals for social security	30	29
Reserve for severance pay	96	97
Other accrued expenses	2	2
Total	**128**	**128**

* Restated to the new IAS 19.

Note 31. Pledged assets and contingent liabilities

Split by type

Consolidated

SEK millions	2013	2012
Pledged assets		
Other pledges and similar commitments	17	10
Total	**17**	**10**
Contingent liabilities		
Discounted bills	31	38
Performance guarantees	1,429	1,338
For joint ventures	34	33
Other contingent liabilities	456	606
Total	**1,950**	**2,015**

As of December 31, 2013 the Group had sold receivables with recourse totalling SEK 31 (38) 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 32. Transactions with related party

Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with 4.8 (3.3) 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 was prolonged by two years from December 31, 2012. It 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 rents premises to DeLaval in Russia. The total rent income for this amounts to SEK 2 (2) million.

The Board of Directors for Alfa Laval AB 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	2013	2012
Receivables:		
Accounts receivable	126	140
Other receivables	0	3
Liabilities:		
Accounts payable	0	0
Other liabilities	5	16

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	2013	2012
Net sales	1,441	974
Other operating income	2	2

Note 33. Interests in joint ventures

Alfa Laval owns 50 percent in three different joint ventures: Rolls Laval Heat Exchangers Ltd with Rolls Royce as partner, Alfdex AB with Haldex as partner and AlfaWall AB with Wallenius as partner.

These joint ventures are part of the consolidated financial position with the following assets and liabilities and of the consolidated comprehensive income with the following revenues and expenses:

Assets/liabilities

Consolidated		
SEK millions	2013	2012
Current assets	55	54
Non-current assets	11	11
Current liabilities	28	30
Non-current liabilities	11	8

Revenues/expenses

Consolidated		
SEK millions	2013	2012
Net sales	133	131
Cost of goods sold	-81	-83
Other operating income	26	29
Other operating costs	-61	-57
Financial net	0	0
Taxes	-4	-5
Net income	**13**	**15**

Note 34. Work in progress on plant projects

Impact of percentage of completion method

Consolidated		
SEK millions	2013	2012
Result items		
Amount of recognised project sales revenue	2,056	2,024
Work performed on ongoing projects		
Aggregate amount of costs incurred and recognised profits (less recognised losses)	2,172	2,364
Assets		
Retentions	52	72
Gross amount due from customers for work in progress	472	392
Liabilities		
Advances received	1,014	705
Gross amount due to customers for work in progress	222	175

Note 35. Leasing

Alfa Laval has entered into non-cancellable operating leases mainly relating to premises and finance lease agreements regarding machinery and equipment with leasing periods of 1-20 years. The leasing fees for non-cancellable operating leases for premises were SEK 345 (326) million. During the year, the Group has entered into finance leases with a capitalised value of SEK - (-) million. See Note 18 for information on the capitalised value of finance leases.

The future minimum leasing fees concerning non-cancellable operating leases, distributed on maturity dates, amount to:

Future minimum leasing fees for operating leases

Consolidated		
SEK millions	2013	2012
Maturity in year:		
2012	N/A	N/A
2013	N/A	312
2014	281	250
2015	239	209
2016	192	139
2017	135	114
2018	104	N/A
Later	211	157
Total	**1,162**	**1,181**

The future minimum leasing fees concerning financial leasing agreements and their net present value, distributed on maturity dates, amount to:

Financial leases

Consolidated				
	Future minimum leasing fees for financial leases		Present value of financial leases	
SEK millions	2013	2012	2013	2012
Maturity in year:				
2012	N/A	N/A	N/A	N/A
2013	N/A	17	N/A	16
2014	16	15	16	15
2015	15	14	14	13
2016	13	13	13	12
2017	11	10	10	10
2018	10	N/A	9	N/A
Later	19	28	17	24
Total	**84**	**97**	**79**	**90**

Proposed disposition of earnings

The unrestricted equity in Alfa Laval AB (publ) is SEK:	
Profit brought forward	6,817,374,353
Net income 2013	2,435,285,006
	9,252,659,359

The Board of Directors propose a dividend of SEK 3.75 (3.50) per share corresponding to SEK 1,572,961,181 (1,468,097,102) and that the remaining income of SEK 7,679,698,178 (6,817,374,353) be carried forward.

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, February 27, 2014

Anders Narvinger
Chairman

Gunilla Berg
Director

Arne Frank
Director

Björn Hägglund
Director

Bror García Lantz
Employee representative

Ulla Litzén
Director

Jan Nilsson
Employee representative

Susanna Holmqvist Norrby
Employee representative

Finn Rausing
Director

Jörn Rausing
Director

Ulf Wiinberg
Director

Lars Renström
President and CEO

Our Auditors' Report concerning this Annual Report has been issued on March 3, 2014.

Staffan Landén
Authorised Public Accountant

Johan Thuresson
Authorised Public Accountant

Auditor's report

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

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Alfa Laval AB (publ) for the year 2013. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 59–135.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director 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.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 2013 and of its financial performance and its cash flows 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 2013 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, 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 annual meeting of shareholders adopt the statement of income and statement of financial position for the parent company and statement of comprehensive income and statement of financial position for the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Alfa Laval AB (publ) for the year 2013.

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, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

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.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated 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.

Lund March 3, 2014

Staffan Landén
Authorized Public Accountant

Johan Thuresson
Authorized Public Accountant

Ten-year overview

Ten-year overview

Consolidated

SEK millions, unless otherwise stated	2013	2012 *	2011	2010	2009	2008	2007	2006	2005	2004 **
Profit and loss										
Net sales	29,934	29,813	28,652	24,720	26,039	27,850	24,849	19,802	16,330	14,986
Comparison distortion items	-	-51	-170	90	-225	-168	54	-120	-73	37
Operating income	4,353	4,396	4,691	4,401	4,030	5,736	4,691	2,552	1,377	1,438
Financial net	-181	133	-15	-37	-270	-395	-134	-177	-278	-177
Result after financial items	4,172	4,529	4,676	4,364	3,760	5,341	4,557	2,375	1,099	1,261
Taxes	-1,132	-1,306	-1,425	-1,248	-1,023	-1,534	-1,377	-650	-171	-421
Net income for the year	**3,040**	**3,223**	**3,251**	**3,116**	**2,737**	**3,807**	**3,180**	**1,725**	**928**	**840**
Financial position										
Goodwill	10,061	9,792	9,543	5,952	6,143	5,383	4,459	3,706	3,531	2,978
Other intangible assets	3,582	3,807	3,502	2,581	2,490	1,890	1,275	1,191	1,067	924
Property, plant and equipment	3,796	3,823	3,936	3,512	3,548	3,546	2,824	2,514	2,553	2,480
Financial long-term assets	1,420	1,509	1,664	1,568	1,542	1,376	1,128	784	676	601
Inventories	6,319	6,176	6,148	4,769	4,485	5,972	5,086	3,793	3,091	2,453
Current receivables	7,695	8,050	7,663	6,884	6,584	9,238	7,420	5,987	4,467	3,976
Current deposits	611	427	483	575	302	544	190	229	342	257
Cash and bank	1,454	1,404	1,564	1,328	1,112	1,083	856	546	479	415
TOTAL ASSETS	**34,938**	**34,988**	**34,503**	**27,169**	**26,206**	**29,032**	**23,238**	**18,750**	**16,206**	**14,084**
Equity	16,162	14,453	15,144	13,582	12,229	10,493	7,937	6,831	5,811	5,269
Provisions for pensions etc.	1,494	1,727	852	847	920	990	877	941	903	789
Provisions for taxes	1,761	1,932	1,930	1,617	1,390	1,161	1,090	949	767	760
Other provisions	1,970	2,076	2,132	2,128	2,365	2,252	1,810	1,281	957	948
Non-current liabilities	3,529	5,393	5,060	1,041	1,626	3,394	3,068	2,006	2,702	2,307
Current liabilities	10,022	9,407	9,385	7,954	7,676	10,742	8,456	6,742	5,066	4,011
TOTAL EQUITY & LIABILITIES	**34,938**	**34,988**	**34,503**	**27,169**	**26,206**	**29,032**	**23,238**	**18,750**	**16,206**	**14,084**

* Restated to the new IAS 19. ** Restated to IFRS.

Changes in accounting standards

A reader of the ten-year overview should observe that accounting standards have changed repeatedly over this period of time.

All listed companies within the European Union were obliged to change to IFRS as of January 1, 2005. International Financial Reporting Standards (IFRS) are issued by the International Accounting Standards Board (IASB).

Alfa Laval was a first time applicant under IFRS 1 in 2005. IFRS 1 covered the transitional provisions for the implementation of IFRS. The adoption to IFRS was however already in place since Alfa Laval had implemented all relevant IAS standards since year 2000, except IAS 39 that was implemented as of January 1, 2005.

In 2013 the revised IAS 19 "Employee Benefits" has been implemented as per January 1, 2012, which has meant a restatement of the comparison figures for 2012.

Ten-year overview

Consolidated

SEK millions, unless otherwise stated	2013	2012 *	2011	2010	2009	2008	2007	2006	2005	2004 **
Key ratios										
Orders received	30,335	30,339	28,671	23,869	21,539	27,464	27,553	24,018	18,516	15,740
Order backlog at year end	14,568	14,468	13,736	11,552	11,906	14,310	14,730	12,359	7,497	4,763
EBITA	4,914	4,883	5,117	4,772	4,360	5,992	5,034	2,891	1,692	1,732
EBITDA	5,363	5,330	5,566	5,197	4,751	6,296	5,299	3,153	1,957	1,993
EBITA-margin %	16.4%	16.4%	17.9%	19.3%	16.7%	21.5%	20.3%	14.6%	10.4%	11.6%
EBITDA-margin %	17.9%	17.9%	19.4%	21.0%	18.2%	22.6%	21.3%	15.9%	12.0%	13.3%
Adjusted EBITA	4,914	4,934	5,287	4,682	4,585	6,160	4,980	3,010	1,765	1,695
Adjusted EBITDA	5,363	5,381	5,736	5,107	4,976	6,464	5,245	3,273	2,030	1,956
Adjusted EBITA-margin %	16.4%	16.5%	18.5%	18.9%	17.6%	22.1%	20.0%	15.2%	10.8%	11.3%
Adjusted EBITDA-margin %	17.9%	18.0%	20.0%	20.7%	19.1%	23.2%	21.1%	16.5%	12.4%	13.1%
Profit margin %	13.9%	15.2%	16.3%	17.7%	14.4%	19.2%	18.3%	12.0%	6.7%	8.4%
Excl. goodwill and step-up values:										
Capital turnover rate, times	6.4	6.7	6.3	5.6	5.2	5.6	6.4	6.3	5.5	5.3
Capital employed	4,645	4,430	4,560	4,399	5,052	4,973	3,863	3,137	2,958	2,822
Return on capital employed %	105.8%	110.2%	112.2%	108.5%	86.3%	120.5%	130.3%	92.2%	57.2%	61.4%
Incl. goodwill and step-up values:										
Capital turnover rate, times	1.6	1.7	1.8	1.9	2.0	2.5	2.7	2.5	2.2	2.0
Capital employed	18,586	17,833	16,324	12,752	12,976	11,144	9,289	8,062	7,470	7,317
Return on capital employed %	26.4%	27.4%	31.3%	37.4%	33.6%	53.8%	54.2%	35.9%	22.7%	23.7%
Return on equity %	20.4%	22.9%	22.9%	24.4%	24.5%	42.8%	44.1%	25.3%	16.0%	15.9%
Solidity %	46.3%	41.3%	43.9%	50.0%	46.7%	36.1%	34.2%	36.4%	35.9%	37.4%
Net debt	2,597	4,270	3,264	-551	533	2,074	2,397	1,478	2,013	1,884
Net debt to EBITDA, times	0.48	0.80	0.59	-0.11	0.11	0.33	0.45	0.47	1.03	0.95
Debt ratio, times	0.16	0.30	0.22	-0.04	0.04	0.20	0.30	0.22	0.35	0.36
Interest coverage ratio, times	22.2	23.2	28.6	35.9	15.2	26.2	23.7	14.4	6.9	7.4
Cash flow from:										
operating activities	4,228	3,586	3,429	4,098	5,347	4,062	3,264	2,619	1,617	1,203
investing activities	-953	-3,260	-5,497	-1,417	-2,620	-1,333	-1,676	-1,578	-665	36
financing activities	-3,191	-407	2,317	-2,431	-2,667	-2,599	-1,291	-935	-973	-1,353
Investments	495	531	555	429	451	747	556	373	324	388
Average number of employees	16,282	16,060	14,667	12,078	11,773	11,821	10,804	9,923	9,524	9,400
Earnings per share, SEK ***	7.22	7.64	7.68	7.34	6.42	8.83	7.12	3.78	1.98	1.78
Free cash flow per share, SEK ***	7.81	0.78	-4.93	6.38	6.46	6.38	3.60	2.33	2.13	2.78

* Restated to the new IAS 19. ** Restated to IFRS. *** The figures for 2008 until 2004 have been recalculated due do the 4:1 split.

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Production: Alfa Laval AB / Bysted AB
Prepress and printing: JMS Mediasystem
Translation: The Bugli Company

Definitions

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.

EBITA
"Earnings Before Interest, Taxes and Amortisation" or 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.

EBITDA
"Earnings Before Interest, Taxes, Depreciation and Amortisation" or operating income before depreciation and amortisation of step-up values. This measure of result is fully comparable over time independent of the financing costs and the depreciation and amortisation of step-up values that from time to time burden the Group.

EBITA-margin %
Operating income before amortisation of step-up values (EBITA) in relation to net sales, expressed in percent.

EBITDA-margin %
Operating income before depreciation and amortisation of step-up values (EBITDA) in relation to net sales, expressed in percent.

Adjusted EBITA
Same as EBITA, but adjusted for comparison distortion items.

Adjusted EBITDA
Same as EBITDA, but adjusted for comparison distortion items.

Adjusted EBITA-margin %
Same as EBITA-margin, but adjusted for comparison distortion items.

Adjusted EBITDA-margin %
Same as EBITDA-margin, but adjusted for comparison distortion items.

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 segments concerning taxes, deferred taxes and pensions.

Return on capital employed %
EBITA in relation to average capital employed, expressed in percent. Shown excluding and including goodwill and step-up values and the corresponding deferred tax liability.

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.

Net debt
Interest-bearing liabilities including interest-bearing pension liabilities and capitalised finance leases less liquid funds.

Net debt to EBITDA, times
Net debt in relation to EBITDA is one of the covenants of Alfa Laval's syndicated loan and an important key figure when reviewing the proposed dividend.

Debt ratio, times
Net debt in relation to equity, expressed as a multiple of the equity.

Interest coverage ratio, times
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 distorting are excluded from the calculation.

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 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 the cash flow impact of the Group's loans in terms of interest payments and amortisation.

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 OMX 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 during 2014

Alfa Laval will publish quarterly reports on the following dates in 2014:

Year-end report 2013	February 5
First-quarter report	April 28
Second-quarter report	July 17
Third-quarter report	October 28

Shareholder information

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Annual General Meeting 2014

The Annual General Meeting of Alfa Laval AB (publ) will be held on Monday, April 28, 2014 at 4:00 p.m. at Färs & Frosta Sparbank Arena, Klostergården's sports area, Stattenavägen, in Lund. Light refreshments will be served after the Meeting. 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 will be sent to them by mail. The following information concerning the Meeting does not constitute legal notice.

Notification of participation

Shareholders who wish to participate in the Meeting and be entitled to vote must be entered in the share register maintained by Euroclear AB not later than Tuesday, April 22, 2014, and register their intention to participate, along with any assistants, not later than Tuesday, April 22, 2014 at 12:00 noon. Shareholders whose shares are held in trust must temporarily re-register their shares in their own names not later than April 22. Shareholders must request such registration from the trustee a few working days prior to the deadline.

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
- Fax: +46 (0)46 36 71 87
- Website: www.alfalaval.com
- Telephone: +46 (0)46 36 74 00 or +46 (0)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

1:30 p.m.	Bus departs from Färs & Frosta Sparbank Arena for Alfa Laval's production unit for heat exchangers in Lund
3:30 p.m.	Registration starts
4:00 p.m.	Start of Meeting

Tour of production facility in Lund

Prior to the Annual General Meeting, participants will have an opportunity to view the production of plate heat exchangers at the plant in Lund. The tour will begin with assembly at Färs & Frosta Sparbank Arena, Klostergården's sports area, Stattenavägen in Lund not later than 1:30 p.m. Buses will be provided for transportation to the plant and back to the Meeting venue. Registration for the tour must be made in conjunction with registration for participation in the Annual General Meeting. Please note that the number of participants is limited.

Dividend

The Board of Directors and the President propose to the Annual General Meeting that a dividend of SEK 3.75 per share be paid. The proposed record date for this dividend is Friday, May 2, 2014. If the Meeting approves the proposal, the dividend is expected to be distributed on Wednesday, May 7, 2014. However, the record date and dividend payment date may be postponed due to the technical procedures required for executing the payment.

Alfa Laval in brief

Alfa Laval is a leading global provider of specialized products and engineered solutions.

The company's equipment, systems and services are dedicated to helping customers optimize the performance of their processes. Time and time again.

Alfa Laval helps customers to heat, cool, separate and transport products such as oil, water, chemicals, beverages, foodstuffs, starch and pharmaceuticals.

Alfa Laval's worldwide organization works closely with customers in 100 countries to help optimize their processes.

More information on the Internet

Alfa Laval's website is continuously updated with new information, including contact details for all countries.

Read more at www.alfalaval.com and www.alfalaval.com/investors

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