

Annual Report 2020

Preserving solar energy
to brighten gloomy days



Contents

ABOUT ALFA LAVAL

Alfa Laval in brief	3
President's comments	6
2020 in brief	8
Purpose, business concept and goals	10
Strategic priorities	12
Customers	14
Products	16
Service	18
Key technologies	20
Heat transfer	21
Separation	22
Fluid handling	23
Division overview	24
Food & Water	26
Energy	32
Marine	38
Operations	44
Employees	46
Sustainability and reporting	48
UN Sustainable Development Goals and Alfa Laval	51
The share	52

CORPORATE GOVERNANCE

Introduction by the Chairman of the Board	56
Corporate Governance Report 2020	57
Board of Directors and auditors	64
President and Group management	66
Board of Directors' report on internal control	68
Auditor's statement on the Corporate Governance Report	70

FINANCIAL STATEMENTS

Board of Directors' Report	72
Consolidated cash flows	86
Comments to the consolidated cash flows	87
Consolidated comprehensive income	88
Comments to the consolidated comprehensive income	89
Consolidated financial position	92
Comments on the consolidated financial position	94
Changes in consolidated equity	94
Comments on changes in consolidated equity	95
Parent company cash flows	96
Parent company income	96
Parent company financial position	97
Changes in parent company equity	98
Notes to the financial statements	99
Accounting principles	99
Objectives, policies and processes for managing capital	107
Financial risks	108
Operational risks	112
Notes	118
Auditor's report	152
Ten-year overview	156
Definitions	158
Financial information	159
Annual General Meeting	159

Alfa Laval

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



What?

Heat transfer

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

Separation

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

Fluid handling

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



For whom?

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



How?

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



Where?

Alfa Laval's products, systems and services are sold in more than 100 countries. More than 110 service centers deliver services in over 160 countries. This means that Alfa Laval is close to its customers, ready to help at a moment's notice when the need arises.



Sustainability?

Alfa Laval is helping to achieve 15 of the UN's Sustainable Development Goals through products and solutions that improve energy efficiency, reduce emissions, purify water, minimize waste and lead to the efficient use of raw materials.



Solar and wind

Two renewable sources of energy that bring hope of a brighter future. They reduce the carbon footprint dramatically and are expected to account for half the world's electricity generation in ten years' time. There is only one big problem: when the sun is not shining and the wind does not blow, no power is generated. Unless the energy can be stored effectively on a large scale. As part-owner of a new company, Alfa Laval's knowledge and expertise is playing an important role in turning this challenge into reality.

Our unique and specially designed heat exchangers convert electrical energy from solar and wind plants into thermal energy. The heat is then stored and preserved in gigantic bays of molten salt – like a natural battery – waiting to be awakened and transformed back into electricity when needed in the grid. So, even on grey days, the forecast looks bright.

President's comments

2020 was a remarkable year in many ways. We navigated our company in unprecedented circumstances while seeing many global transformational trends accelerating, with the sustainability agenda continuing to gain momentum and high pace in the digital transformation.

Alfa Laval performed well in 2020 and we remain fully committed to our long-term strategy while leveraging the changing market conditions. Increased investments in our technology leadership, a stronger focus on expanding the service offering, and the development of a more customer-oriented culture with faster decision making continue to be our key strategic ambitions.

Strong global trends driving demand Sustainability

We all need to gradually change our way of life for the sake of our planet and future generations. To Alfa Laval, sustainability is both a necessity and a business opportunity and our technologies promote a more responsible use of natural resources.

The most tangible change related to the environmental trends was seen in the Energy division. The division's heat transfer technology is critical in driving energy efficiency in a wide range of applications. Energy-efficient solutions for heat pumps and reducing the energy consumption in energy intensive data centers are just two applications that are growing in importance. The increased need for renewable energy sources drives a long-term demand for radically improved energy storage solutions. Alfa Laval has continued to invest heavily in a new technology for thermal energy storage and the market for larger scale thermal energy storage is expected to gain momentum over the next three years. Finally, the importance of hydrogen as a fuel became evident in 2020 and is an important component in reaching the Paris agreement. Investments into the global

infrastructure for hydrogen are expected to greatly increase over the next ten years and Alfa Laval intends to play an important role in this transition. During 2020, we increased our investments into fuel cells to take an early position in this market.

After many years of investments in new product platforms and a more focused sales organisation, the results were evident in the Food & Water division. While most of the traditional applications for the division are growing in line with the growth of the global middle class, the division is also adjusting to significant changes in consumer behaviour. Investments into plant-based proteins as well as insect-based proteins are increasing. Alfa Laval's extraction technologies, as well as other process equipment, are needed for cost and energy efficient production of these proteins and have continued to see good momentum during 2020.

Sustainability is a key focus also in the Marine division. From a volume perspective, the applications for cleaning ballast water and exhaust gases, PureBallast and PureSOX, dominated the portfolio. New marine fuels to reduce the CO₂ impact of world trade will continue to drive technology and new product offerings for many years to come. LNG as a fuel was one of the fuel initiatives with most traction in 2020. An important step in making LNG a climate positive fuel in the marine industry was the launch of PureCool a new technology to reduce the problem of methane-slip in LNG applications.

Digitalization

During the first quarter in 2020 Alfa Laval had to adjust the global workforce to start working remotely. More than 50 percent of the white-collar employees have worked from home since then. Although the changes posed challenges to the organisation, the people, technology and infrastructure was already in place to manage the situation and secure business continuity.

Our customers also adjusted quickly to digital interaction. The most important area of development was in service, which historically has required physical interaction with the customers and the equipment. Our service organisation had already developed the required tools for connected equipment and remote diagnostics. The number of remote diagnostics and service hours grew from essentially zero in 2019, to more than 10,000 service hours in 2020. The change to digital service is here to stay and will continue to grow in years to come, and Alfa Laval is committing to developing and growing in this area going forward.

Business performance

In a year of volatility caused by the COVID-19 pandemic, Alfa Laval proved resilient and showed a good ability to act fast. In all, order intake declined by 10 percent compared to 2019 and amounted to 41 BSEK and total invoicing was 42 BSEK, a decline of 11 percent compared to previous year.

Despite lower volumes, profitability remained on a high level at 17.4 percent, essentially unchanged compared to 2019. The strong operating margin was supported by our well diversified portfolio and aftersales exposure, but also a result of the cost savings program launched in February focusing on short-term savings with maximum flexibility. In total, the program reduced fixed costs with 700 MSEK compared to 2019. At the end of 2020, a restructuring program was announced with the objective to adjust certain businesses in the Marine and Oil & Gas sectors to more structural changes in demand. The program is estimated to generate annual savings of approximately 300 MSEK with full effect from 2022.

Finally, it has been a challenging year from an operational perspective. I would like to express my gratitude to both our suppliers and our customers for being able to quickly adapt to difficult circumstances. Despite all the challenges the industrial supply chains remained intact during 2020. May I also express my sincere gratitude to all our committed employees for a job well done in a challenging 2020.

Lund in February 2021

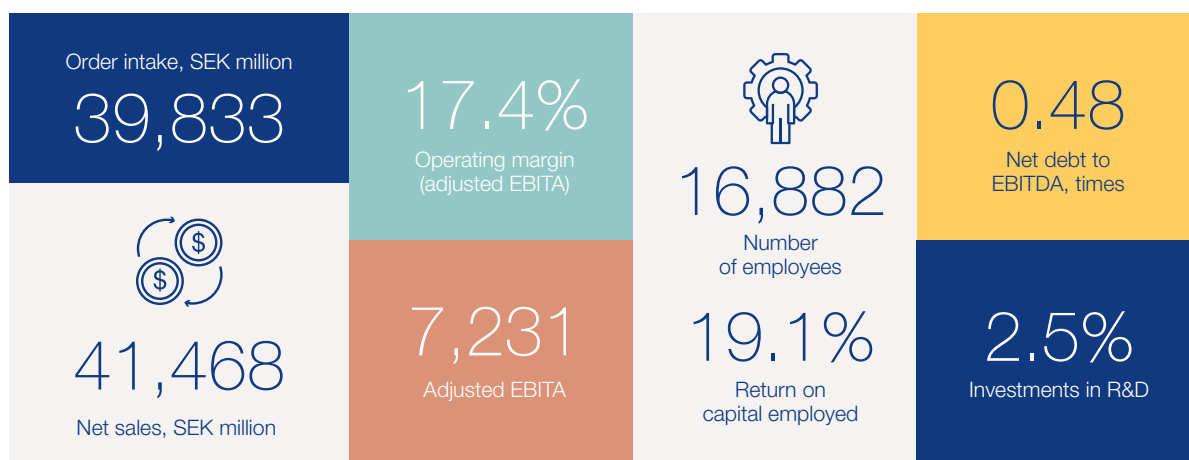


Tom Erixon
President & CEO

“Alfa Laval performed well in 2020 and we remain fully committed to our long-term strategy while leveraging the changing market conditions. ”



2020 in brief



Amounts in SEK million unless otherwise stated	+/- % ⁹⁾	2020	2019	2018	2017	2016
Order intake	-10	39,833	44,119	45,005	36,628	32,060
Net sales	-11	41,468	46,517	40,666	35,314	35,634
Adjusted EBITDA ¹⁾	-8	8,365	9,062	7,344	6,239	6,196
Adjusted EBITA ²⁾	-9	7,231	7,989	6,718	5,610	5,553
Operating margin (adjusted EBITA ²⁾ , %		17.4	17.2	16.5	15.9	15.6
Profit after financial items	-31	4,977	7,221	5,896	4,371	3,325
Return on capital employed, %		19.1	23.0	22.4	17.7	15.3
Return on shareholders' equity, %		12.7	21.3	20.3	13.9	11.8
Earnings per share, SEK	-35	8.47	13.08	10.77	7.09	5.46
Dividend per share, SEK		5.50 ³⁾	0	5.00	4.25	4.25
Equity per share, SEK	5	69.31	66.15	56.26	48.87	48.34
Free cash flow per share, SEK ⁴⁾	59	15.89	10.00	8.56	8.92	9.97
Equity ratio, %	59	47.8	43.1	40.6	39.0	38.0
Net debt to EBITDA, times		0.48	0.88	0.93	1.31	1.81
Number of employees ⁵⁾	-4	16,882	17,497	17,228	16,367	16,941

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

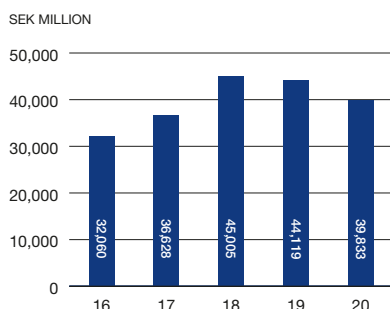
²⁾ Adjusted EBITA – Operating income before amortization of step-up values, adjusted for items affecting comparability.

³⁾ Board proposal to the Annual General Meeting.

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

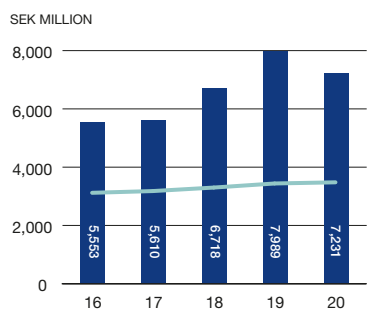
⁵⁾ Number of employees at year-end.

⁹⁾ Percentage change between 2019 and 2020.



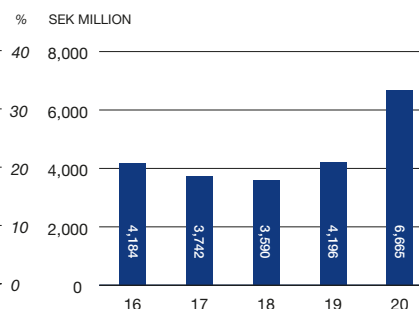
Order intake

Order intake amounted to SEK 39,833 million in 2020, down 10 percent compared to 2019. Excluding exchange rate variations, order intake declined 6 percent.



Adjusted EBITA

Adjusted EBITA amounted to SEK 7,231 million. The adjusted EBITA margin was 17.4 percent.



Free cash flow

Alfa Laval generated a free cash flow of SEK 6,665 million (4,196) in 2020.

Q1

11,877

Order intake,
SEK million

10,590

Net sales,
SEK million

1,750

Adjusted EBITA,
SEK million

16.5

Operating margin, %

- Strong growth in new energy-efficient solutions
- Launch of short-term cost-reduction program to address the negative effects of COVID-19
- Operational adaptations in production and the supply chain

Q2

9,749

Order intake,
SEK million

10,455

Net sales,
SEK million

1,802

Adjusted EBITA,
SEK million

17.2

Operating margin, %

- Order intake in line with last year despite a challenging quarter due to COVID-19
- Strong cash flow from operating activities
- Launch of Alfa Laval CultureOne™, a unique separation system for single-use biopharmaceutical processing

Q3

8,935

Order intake,
SEK million

9,728

Net sales,
SEK million

1,710

Adjusted EBITA,
SEK million

17.6

Operating margin, %

- Alfa Laval presented a public tender offer of EUR 11.50 per share for all of the shares in Neles
- Strong growth in Food & Water
- Positive effects from short-term cost-reduction program

Q4

9,272

Order intake,
SEK million

10,695

Net sales,
SEK million

1,969

Adjusted EBITA,
SEK million

18.4

Operating margin, %

- Launch of global restructuring program
- Stable demand and improved profitability
- The board proposes a dividend of SEK 5.50 for 2020 and a three-year share buy-back program of up to 5 percent of the issued shares per year

Our Purpose

Our purpose provides the motivational force in our daily activities. Dedicated to outstanding customer service, an inspiring and embracing workplace, and with sustainability in our genetic code, we define our purpose as *accelerating success for our customers, people and planet.*

Business concept

Based on its three key technologies – heat transfer, separation and fluid handling – Alfa Laval offers products and solutions that are in line with its business concept: “To 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.

Financial goals

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

5%

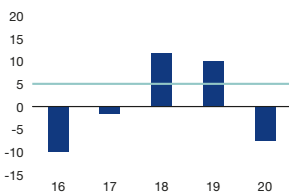
Growth

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

Outcome 2020

-7.5%*

* Excluding exchange rate variations



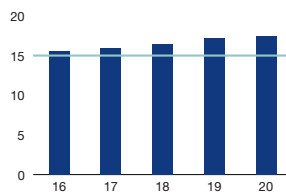
15%

Profitability

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

Outcome 2020

17.4%*



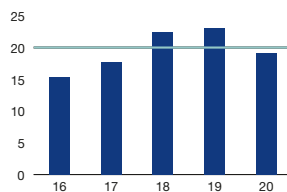
20%

Capital utilization

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

Outcome 2020

19.1%*



Financial benchmark values

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

<2.0

Net debt in relation to EBITDA

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

2%

Investments

The long-term benchmark value has been, and will continue to be, for 2 percent of sales to go to investments. This level creates the necessary scope for replacement investments as well as certain capacity expansions in order to match the organic growth of the Group's key products.

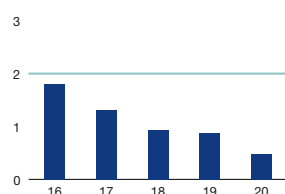
10%

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 26 percent of earnings before tax.

Outcome 2020

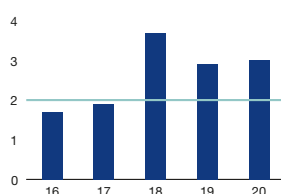
0.48



Outcome 2020

3.0%

* As a percentage of sales

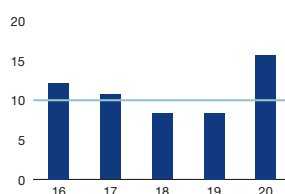


Outcome 2020

15.7%**

* As a percentage of sales

** Including investments in fixed assets



Sustainability goals

In addition to its financial goals, Alfa Laval also has a number of sustainability goals. These reflect the company's ambitions with respect to the environment, health and safety. Among other areas, these targets encompass: a reduction in the number of workplace accidents, increased energy efficiency, a reduction in water consumption and a reduction in greenhouse gas emissions.



Read more about Alfa Laval's sustainability goals on page 49. For more information about Alfa Laval's sustainability work, refer to the Sustainability Report available at: www.alfalaval.com



Strategic priorities

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

Customers

14

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



Products

16

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



Service

18

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



Customers

Alfa Laval strives to offer customers the best overall experience, from initial contact to service. Products and total solutions are developed based on the customer's needs, which creates added value as well as favorable conditions for long-term relationships and new business opportunities.

Alfa Laval endeavors to optimize its customers' processes. Naturally, the company's products are central in this. But customers tend to weigh other criteria as well when they evaluate their overall experience with a supplier. They look at the product's quality and efficiency, of course, but also at the seller's service and knowledge, how easy they are to reach and how quickly they respond with answers to any questions. They evaluate how helpful the supplier can be if something happens and they need to order spare parts and service. They also look at how punctual the supplier's deliveries are and, in many cases, even at the supplier's sustainability work, to name a few examples.

Alfa Laval endeavors to be a company that is easy to do business with. By meeting the customer's expectations and needs, from the initial contact through the sales process to delivery and even in the aftermarket, the conditions are created for a positive customer experience. This makes it more likely that Alfa Laval will become their first choice for their next procurement.

Alfa Laval works on a broad scale to simplify customer collaboration. One aspect of this involves an organizational structure created to ensure short decision-making paths and thus faster customer contacts. Another involves the establishment of three standardized business models to address customers' differing needs, challenges and purchasing processes.

1. Standard – sale of standardized components through channels and online, with a focus on easy accessibility and lead times.
2. Configured – standardized components with standard configuration formats for adaptation to specific applications, capacities, etc.
3. Project – customized systems and solutions for customers with specific requirements.

+10,000

Hours, remote service.

+450%

Artificial Intelligence (AI) troubleshooting.

+300%

Connected assets.

There are also other ways to make things easier for customers. Alfa Laval therefore works actively to improve and develop its digital platforms, everything from the company's website and e-commerce platform to marketing initiatives and social media. The goal is to reach the customer early in the decision-making process, help them find Alfa Laval's website, make it easier for them to find what they need there and even offer them a way of configuring as well as ordering products online. Purchasing patterns change and it is essential to keep up.

Existing plans to introduce digitized processes were expedited to counteract the effects of shutdowns and physical distancing measures related to COVID-19. During the first half of the year, Alfa Laval accelerated the introduction of a digital platform to support customers with remote services. The platform enables service technicians at the customer's facility to create a video link to use "merged reality" to facilitate efficient remote control.

Thanks to the digital platform and a new work method, Alfa Laval improved access to its product and application experts and reduced wait times for service technicians when it comes to addressing customers' issues. The platform also helps Alfa Laval meet its goal of offering customer-oriented solutions, even when travel restrictions make it difficult, or even impossible, to deploy service technicians to customers' facilities. At year-end, product and application experts had logged over 10,000 hours of remote service to maintain customer processes.





Driven by development

A constant focus on R&D is and always has been essential for Alfa Laval. This is, without a doubt, the most important condition for the company to be able to deliver products and solutions of the highest quality to industries around the world. The goal is clear: remain a market leader in heat transfer, separation and fluid handling.

The company's growth rate and the tempo of its product launches are constantly accelerating, and major initiatives have been undertaken in the last few years. The most important of these were the launch of two new platforms for separators and heat exchangers and the development and implementation of several digital solutions.

These changes were made possible in large part due to a comprehensive analysis of the entire Group in 2016. Everything from the company's R&D processes to the product range and marketing were put under the microscope and reviewed. The company's services offering and, not least, the rate and scope of digitization were also enhanced. Challenging and further developing the offering is an ongoing process, which will continue throughout all areas to ensure the company's competitiveness.

Life cycle analyses can help the company define and implement methods that also take environmental aspects into consideration during the development and design of key technologies. The ambition is that every new product, in addition to being more efficient, should have a smaller impact on the environment than the product it replaces. It is not only about the product's own life cycle, however – it is also about developing a product or solution that can help make the customer's processes more resource efficient.

The rate of product launches has increased over the past few years. Between product improvements, upgrades and entirely

new products, Alfa Laval launches approximately 100 products annually, which is the equivalent of around two products per week. The focus is on delivering products and services that can provide improvements for the customer, whether in terms of energy efficiency or the ability to digitally monitor product performance.

A competence center for tomorrow's solutions

During the last few years, Alfa Laval has established international competence and test centers in different key areas. There is a center for high-speed separators in Tumba, Sweden as well as several facilities in Denmark: a center for the next generation of decanters and digital solutions in Søborg, a center for the development of marine solutions in Aalborg and a center for membrane filtration in Nakskov. In 2020, the Hygienic Fluid Handling Business Unit opened a major technology-specific application and test center in Kolding, Denmark.

In addition to competence centers, Alfa Laval has different product-based business centers. Each center focuses on a specific product portfolio, such as compact heat exchangers, fluid handling products or boilers. These centers are responsible for R&D as well as further developing existing product platforms. They are also responsible for product strategies, pricing, sales tools and training as well as follow-up and evaluation of product launches. Product and business development takes place every day of the year at Alfa Laval.

2.5%

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

Approximately 2.5 percent of Alfa Laval's annual sales are invested in R&D. It is therefore of the utmost importance that we protect the products that are the final result of these development efforts and investments. When a new product, design or function is ready, Alfa Laval's patent department steps in. Every year, the patent department handles a large number of internal reports on new inventions, of which approximately 35–70 lead to new patent applications. The patent department also deals with trademark registrations and investigations as well as monitoring and handling patent infringements.

Continuously developing the operations

For Alfa Laval, working with development is about much more than the concept of "R&D". Development is continuous and permeates all areas of the operations, allowing the company to lead the way in a changing world. Work related to the supply chain is handled by Operations Development. This organization makes sustainable improvements across the entire chain, from procurement and production to distribution and logistics, which encompasses further developing the procurement process and investigating, developing and evaluating new production technology within the framework of Industry 4.0. During the year, a pilot project was established for additive manufacturing: 3D printing of product components.

Operations Development has employees at major production facilities spread around the globe. Everything they do is about change, big and small. The goal of their work is to find solutions that strengthen the company's competitiveness. The unit manages hundreds of projects every year.

Another unit that also works with development is Corporate Development. They work according to a strategic, long-term view of technical development in possible future growth areas and new market concepts. They also support long-term activities carried out in the company's various functions, and investigate and analyze different possibilities when it comes to new technologies or areas that could present future challenges or opportunities.

35–70

Every year, the patent department handles a large number of internal reports on new inventions, of which approximately 35–70 lead to new patent applications.

100

Approximately 100 new products are launched every year.



Alfa Laval has long supplied large heat recovery systems to the marine industry. The newly developed unit – Alfa Laval Micro – is smaller in size and specifically developed for land-based applications, and can increase the electricity production of a power plant by 6–8 percent.



Digitized and data-based service improves the customer experience

During 2020, Alfa Laval continued to transform its sales of service and spare parts as well as its customer service in line with its strategy to make them more digitized and data-based. The ultimate goal of transforming the service business is for Alfa Laval to be able to fully leverage its installed base, improve and expand the customer base and simultaneously improve the customer experience, thereby supporting Alfa Laval's brand.

The transformation of Alfa Laval Service got off to a good start in 2020. A combination of more digitized services and the ongoing restructuring of in-person service points closer to the installed base continued throughout the year in an effort to increase the company's physical and digital proximity to customers.

As a part of the restructuring of the company's global organization, Alfa Laval continued to invest time and money in improving its proximity to its installed base. Several projects were started in the effort to achieve the right balance between, on the one hand, small local service centers for standard services and, on the other, advanced service centers with leading technology to facilitate all kinds of services, repairs and complete renovations.

During the year, Alfa Laval launched a Group-wide transition of its service technician team to continuously improve accessibility and skills and to reduce wait times for addressing customers' issues and service needs. By providing service technicians with access to new digital processes and recruiting additional service technicians during 2020, Alfa Laval was able to further improve its proximity to customers as well as the customer experience. A process was also initiated for competence development plans to increase the service technicians' digital and electronics expertise in order to handle new demands from customers in pace with Alfa Laval's increasingly digitized product portfolio and an overall increased use of the Internet of Things (IoT).

At the same time, sales forces across all of Alfa Laval have implemented a clearer strategic and data-based focus on retaining and developing the existing and future customer base. At the end of the first quarter, locally adapted strategies to capitalize on the data in Asia started to yield results, while the sales forces in other regions adopted similar customized strategies during the rest of

the year. The introduction of a global dashboard for the installed base led to new insights into customers' service needs, which enable the service sales force to proactively contact customers with offers of preventive services before the customers realize they need them.

To further support the service business, Alfa Laval is continuously expanding the number of service agreements with customers at each new sale. The primary goal is to leverage the full value of each new equipment sale and demonstrate the cost benefits of owning Alfa Laval's equipment. The secondary goal is to offer customers the advantages of preventive maintenance and connected service solutions, and the effect they have when it comes to continuously improving processes and minimizing unplanned stoppages. A campaign across the entire organization to sell more service agreements led to a 25 percent increase compared to 2019.

When it comes to selling spare parts, offering times, the availability of spare parts and accurate estimates of delivery times remain important factors, since these have a direct impact on the customer's ability to maintain processes without stoppages involving Alfa Laval's equipment. Despite shutdowns in several countries, Alfa Laval's distribution center was able to maintain operations and delivered to customers with only limited disruptions.

Intensified efforts and strategic initiatives to transform Alfa Laval's services businesses, combined with the dedication of the company's employees, successfully mitigated the effects of an overall uncertain 2020.

700

service technicians in total.

+84%

Data driven sales – Users.

25%

more service agreements.

+125%

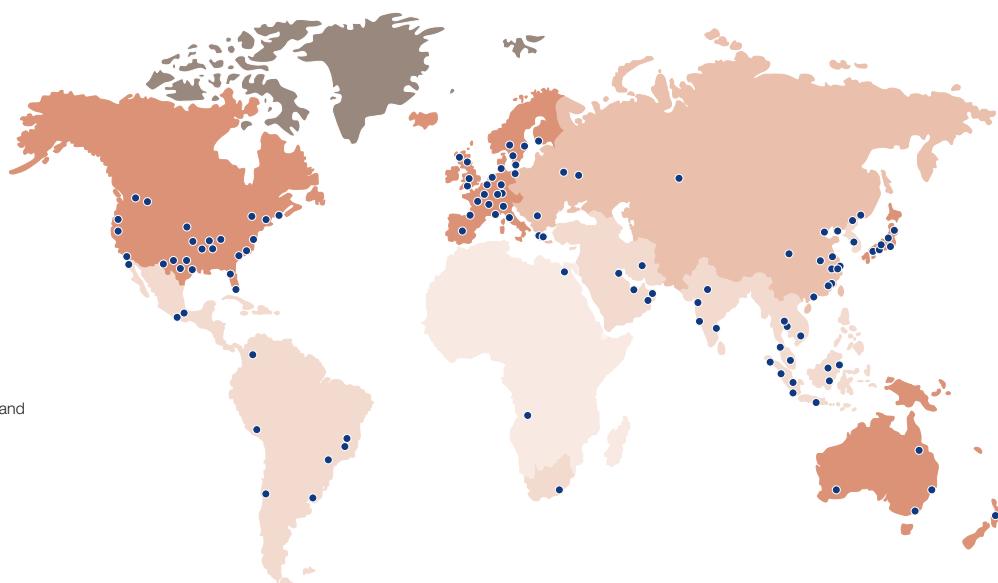
Data driven sales – Sessions.

Service centers

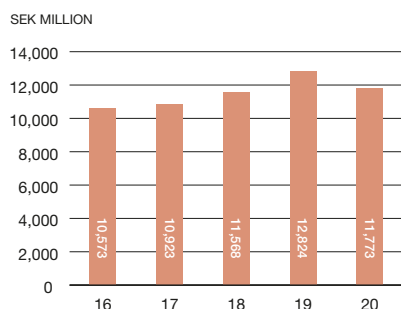
>100

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

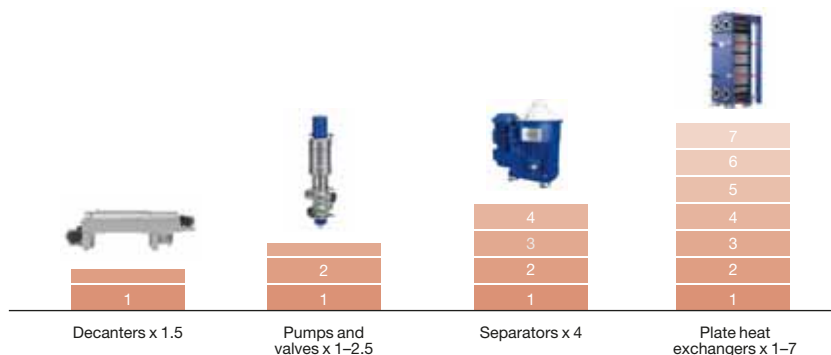
- Service centers.
- Large and mature installed base that needs to be maintained and renewed.
- A combination of fast-growing markets and established niche applications.
- Installed base that is growing rapidly.



Service Order intake, SEK million



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



World-leading in three key technologies

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

Heat transfer

Heating and cooling are basic needs for both the individual and most industrial processes. There is a large number of industries today in which heat transfer solutions are required for heating, cooling, ventilation, evaporation and/or condensation. All of this can be achieved efficiently using a heat exchanger. Therefore, heat transfer products from Alfa Laval are now found in numerous areas – within everything from food production and petrochemicals to the creation of a pleasant indoor climate or hot tap water in private households, to name only a few examples.

The key word is efficiency

Heat exchangers transfer heat or cooling, often from one liquid to another. The main product in Alfa Laval's offering – the compact plate heat exchanger – is more efficient than alternative technologies, allowing it to play a crucial role in boosting the overall efficiency of the customer's manufacturing process. Energy efficiency reduces not only costs but also the impact on the environment. Plate heat exchangers are made up of a series of plates assembled closely to each other. Between these plates run two channels containing media at different temperatures – often liquids. These flow on either side of the thin plates and in opposite directions to each other, resulting in a transfer of heating or cooling.

A complete offering

There are different types of plate heat exchangers – gasketed, brazed and welded – each designed to withstand different pressure and temperature levels. With the industry's broadest product portfolio, Alfa Laval offers efficient, compact products – that are easy to service and maintain – for nearly all industries worldwide.

Business units with heat transfer products in their range

ENERGY DIVISION

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

FOOD & WATER DIVISION

- Food Heat Transfer
- Food Systems

MARINE DIVISION

- Marine Separation & Heat Transfer Equipment
- Boiler Systems
- Gas Systems

Competitors

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

Market position

1

30–35 percent of the world market.

Sales

40%

Share of Group sales.



Separation

Separation is the technology that represents the origin of the Alfa Laval we see today. The business began in 1883, based solely on separation, and this technology remains a core feature to this day. With precision and a high degree of reliability, liquids, solid particles and gases are separated from one another, which is a requirement in a large number of industries.

High-speed separators and decanter centrifuges

Alfa Laval's separation products are dominated by high-speed separators and decanter centrifuges. Separators have high rotation speeds, are generally mounted vertically and can separate small particles from liquids and gases. Decanter centrifuges are normally mounted horizontally, operate at lower speeds and are used to separate larger particles from liquids. They are used, for example, in the dewatering of sludge in wastewater treatment plants. Other separation products include membrane filters, which are the established solution for separating very small particles, and belt filter presses, which are used for mechanical dewatering, mainly of municipal wastewater.

Key role in a number of processes

Separators and decanter centrifuges play a crucial role in numerous industrial processes, such as:

- food, pharmaceutical, bioengineering, chemical and petrochemical processes.
- extraction and production of crude oil, and treatment and recovery of drilling mud.
- handling and treatment of fuel and lubricants aboard vessels and at diesel/gas power plants.
- dewatering of sludge and treatment of process water in private and municipal facilities.

Business units with separation products in their range

ENERGY DIVISION

- Energy Separation

FOOD & WATER DIVISION

- High Speed Separators
- Decanters
- Food Systems





MARINE DIVISION

- Marine Separation & Heat Transfer Equipment





Competitors

Separators

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

Decanters

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

Market position

1

25–30 percent of the world market.

Sales

17%

Share of Group sales.

Fluid handling

The transportation and regulation of fluids in an efficient and safe manner is crucial to many industries. Alfa Laval focuses on fluid handling products, such as pumps and valves, for industries with stringent hygiene requirements and on pumping systems for the marine industry and the offshore market.

Efficient and precise

The company's pumps, valves and installation material are used in production processes with strict hygiene requirements, such as the production of beverages, dairy products, food and pharmaceuticals.

Pumps drive the flow of liquids, while valves are used to guide 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. The offering also includes hygienic tank equipment ranging from mixers to cleaning equipment. Mixers can be used to mix both high and low-viscosity fluids, such as milk, wine, juice, yoghurt, desserts and fruit drinks.

For the marine sector, Alfa Laval offers submerged, hydraulic pumping systems for product and chemical tankers. These systems enable safe and flexible load handling, which results in less time in port and fewer journeys without commercial loads. For the offshore industry, the offering includes pumping systems for collecting sea water for various onboard applications, water injection in drill holes and fire extinguishing, which contribute to safe and efficient operation.

Business units with fluid handling products in their range

FOOD & WATER DIVISION

- Food Systems
- Hygienic Fluid Handling

MARINE DIVISION

- Pumping Systems

Competitors

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

Market position

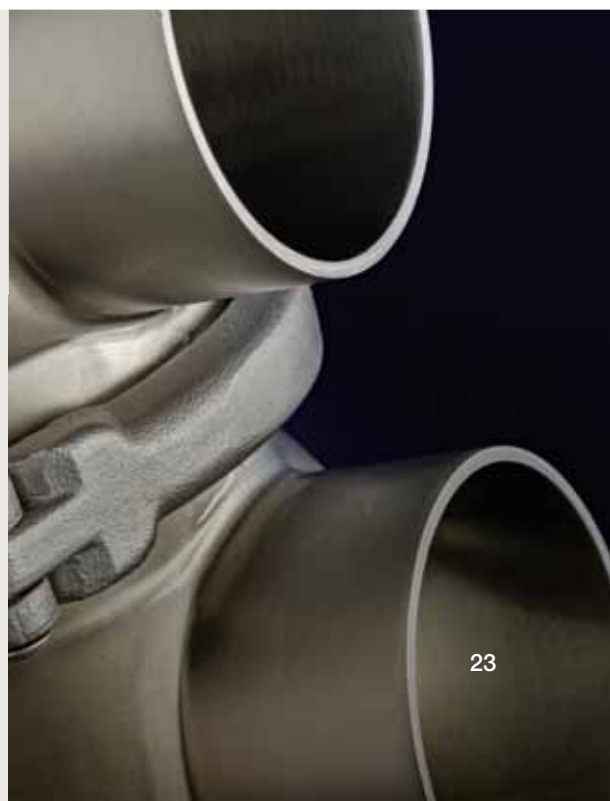
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10–15 percent of the world market.

Sales

22%

Share of Group sales.





Three industry-based divisions and a shared supply chain

Realizing Alfa Laval's business concept – “to optimize the performance of our customers' processes, time and time again” – requires a solid product offering, high technological competence and a structure that is fast moving and has a high level of insight into the customers' needs, purchasing behavior and processes. Accordingly, Alfa Laval has established three industry-based sales divisions: Food & Water, Energy and Marine, which are supported by Operations, the Group's shared supply organization with responsibility for procurement, manufacturing and distribution.

Food & Water

The division targets customers in industries such as: food, pharmaceuticals, biotech, vegetable oils, breweries, dairy and personal care products. In addition, it focuses on public and industrial water treatment as well as wastewater and waste treatment.



Share of Group order intake



Aftermarket's share of the division

17.7%

Operating margin



Energy

Energy efficiency is a focus area in order to help customers to reduce their energy consumption, which is beneficial both from a financial and environmental point of view. The division has customers in heating, ventilation and cooling, oil and gas extraction, refineries, petrochemicals and power generation.



Share of Group order intake



Aftermarket's share of the division

15.4%

Operating margin



Marine

The division's customers include shipowners, ship yards, manufacturers of diesel and gas engines and companies that specialize in offshore extraction of oil and gas.



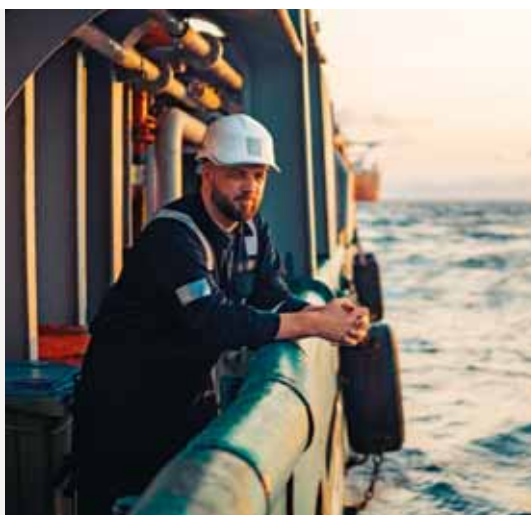
Share of Group order intake



Aftermarket's share of the division

17.4%

Operating margin



Operations

Operations is responsible for the Group's production-related procurement, manufacturing, distribution and logistics. This centralized, coordinated and global supply chain creates the necessary prerequisites to ensure reliable access to the company's products worldwide.





Food & Water



The year in brief

Nish Patel
President, Food & Water Division

The division maintained a solid business level in 2020, despite uncertain macroeconomic conditions following COVID-19. However, business was conducted in a more digital way, which helped us to make further progress on our digitization journey. The division reached the end of the first strategy period since the launch of the new organization in 2017, with several strategic goals achieved:

Product launches continued at a rapid pace in 2020, carried out across the technological platforms within separation, decaners and high-speed separators (HSS) as well as fluid handling. Connectivity is now available for a significant portion of all new equipment sold, allowing for easier and more efficient future service and monitoring. One major breakthrough achieved by the division was the launch of the new single-use, high-speed separator CultureOne. The technology, which allows the HSS insert to be both replaced and recycled, was developed for the pharma and biotech industry to ensure compliance with strict hygienic requirements. Another milestone was achieved in the area of hydrogenated vegetable oil (HVO) and biodiesel, where Alfa Laval's technology helps to reduce the consumption of fossil fuel and supports the company's sustainability targets.

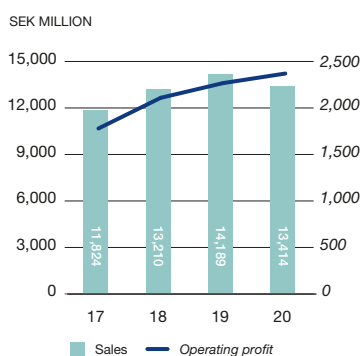
Customer-centricity is our number one focus area, and close customer cooperation around innovation is also key. The Hygienic Fluid Handling

Business Unit opened the division's second major technology-specific application and test center in Kolding, Denmark. Here, customers will have the opportunity to test their food or pharma end-products on Alfa Laval fluid handling equipment under everyday conditions in order to validate their performance, optimize their processes and drive innovation.

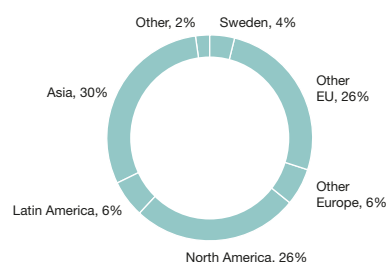
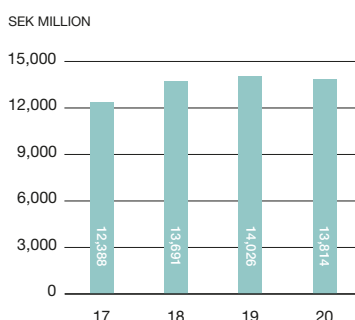
The division's diligent work to further expand its network of sales channels – meaning distributors and integrators – continued to pay off. New means of marketing have been added and made even more accessible through existing, well-functioning e-business and online tools, all to improve customer interaction through enhancements in speed and simplicity, thereby improving the customer experience.

More service contracts are now being signed in connection with new equipment. The share of connected products has further increased, creating an even bigger opportunity for after-sales and service, and enabling preventive maintenance and uptime to be optimized. Remote guidance, a tool developed to mitigate restrictions with respect to physical access to customer sites during the pandemic, proved to be a valuable contributor to service growth.

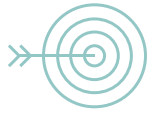
Sales and operating profit



Order intake



The Food & Water business



Target industries

The division targets customers in industries such as food, pharmaceuticals, biotech, vegetable oils, breweries, dairy and personal care products, to name a few examples. It also focuses on public and industrial water treatment as well as wastewater and waste treatment.



Offering

Alfa Laval's three key technologies are all included in the offering. This encompasses different types of heat transfer and separation products as well as fluid handling equipment such as pumps and valves.



Way to market

The division's business comprises sales of components, configured products and projects. This means that in addition to direct customer sales, the division also reaches end customers via system builders, contractors, retailers, agents and distributors.

Business units

The division has five technology-based units. These units have full profit and loss responsibility and are responsible for driving the global business for a defined group of products, covering everything from product development to marketing, sales and service.



Share of division's order intake

High Speed Separators

High-speed separators for breweries, dairies and vegetable oil refineries as well as for applications in pharmaceuticals, biotech, ethanol, starch and sugar.



Share of division's order intake

Food Systems

This unit integrates Alfa Laval's core technologies into process solutions for the food sector, especially targeting breweries, vegetable oils, meat and fish processing, fruit and vegetable processing as well as fermentation and starch and sugar processing.



Share of division's order intake

Hygienic Fluid Handling

Component sales of pumps, valves, installation material and tank equipment for hygienic applications in the food and pharmaceutical industry.



Share of division's order intake

Food Heat Transfer

Provider of gasketed, tubular, brazed, welded and scraped-surface heat exchangers – to name a few examples – to a wide range of industries such as food, breweries, dairies, pharmaceuticals, ethanol, sugar and starch.



Share of division's order intake

Decaners

Decanter centrifuges, presses, filters and membranes as components or modules for food or life science applications as well as waste management such as dewatering of sludge in municipal wastewater treatment plants, or water treatment for industrial wastewater.

Structural growth drivers

Food

A growing number of people are joining the middle class, urbanization is continuing at an undiminished rate and women now account for a higher percentage of the workforce. This is contributing to growing demand for ready-made food and the development of more efficient supply chains with the capacity to reduce waste.

Alfa Laval's history began in 1883 with the development of a separator for separating cream from milk. Since then, the company's offering for hygienic applications in the food industry has been expanded to include heat exchangers, pumps and valves. These products meet the strictest hygiene requirements and can help to optimize the use of raw materials. Alfa Laval can also help to reduce waste by offering cooling solutions for transport and storage.



Environment

Human impact on the environment is coming under greater scrutiny, resulting in new, increasingly stringent laws. In parallel with this, a sustainability mindset has also evolved and is encouraging companies to voluntarily take steps that contribute to environmental improvements.

Alfa Laval has a wide range of products for managing various environmental problems. The Food & Water division offering includes decanter centrifuges to dewater sludge in municipal wastewater treatment plants and they are also involved in handling industrial waste and water. Within food manufacturing, Alfa Laval offers processes and solutions that can reduce waste by increasing the yield.

Major end markets



Dairies

Hygienic products for dairy processes – everything from treating whey, milk and cream to the production of ice cream, cheese, sour cream or yogurt. Includes separators, heat exchangers, tank cleaning equipment, membranes, pumps and valves.

24%

Share of division's order intake



Water and waste management

Products and solutions for municipal wastewater management and for treating industrial water and waste. The offering includes decanter centrifuges, belt filter presses, spiral heat exchangers, shell-and-tube heat exchangers and membrane bioreactors.

11%

Share of division's order intake



Ethanol, starch and sugar

Separators, decanter centrifuges, heat exchangers and evaporation systems are used in the production of starch and sugar, which are the raw materials for ethanol production.

9%

Share of division's order intake



Protein

Products used to recycle protein, fats and oils from residual vegetable and animal products for the production of everything from gelatin, fish oil and fish meal to bone meal, surimi and animal feed. The portfolio includes separators, decanter centrifuges, evaporation systems, membranes, heat exchangers and boilers.

6%

Share of division's order intake



Breweries

Products for all steps of the brewing process, from production of mash and wort to fermentation, filtration and pasteurization. The range includes separators, membranes, decanter centrifuges, mixing equipment, plate heat exchangers, pumps, valves, run-off water systems and pasteurizing modules.

7%

Share of division's order intake



Pharmaceuticals and biotech

Pumps, valves, separators, membranes, decanter centrifuges, tank cleaning equipment and heat exchangers suitable for use in the production of liquid or solid medicine, vaccines, creams or ointments – processes that are very demanding in terms of hygiene.

10%

Share of division's order intake



Edible oils

Separators, decanter centrifuges, heat exchangers and pumps are some of the products offered for the production of oils from rapeseed, olive, soy beans or fish, oils that need to be treated to meet customer demands regarding color, taste and nutrition.

11%

Share of division's order intake



Other (also referred to as "Prep. Food & Beverage" in the Group's financial reporting)

All of the end markets mentioned above are included in this category. A large share of sales is difficult to allocate to a specific end market since these sales are carried out through various channels (distributors, retailers, agents, etc.). This share of sales is summarized and presented here as "Other."

20%

Share of division's order intake

Other: 2%

SUSTAINABILITY

Processes make it possible to utilize the entire fish

The earth's population is increasing at an undiminished rate and is expected to reach nine billion people by 2050. Food production that is both efficient and sustainable is essential for responsible resource management. One company that truly takes this seriously is Pelagia in Norway, a world-leading company specializing in pelagic fish products. In their facility in Måløy, Norway, Pelagia uses 100 percent of the mackerel they fish, which in addition to fillets become fish meal, oils and protein. Everything is used to produce food and nutrition for human consumption, resulting in no food waste. In the process of extracting these high-quality fish products, Pelagia uses various Alfa Laval equipment, including pumps, valves, heat exchangers, high-speed separators and decanters. Alfa Laval is also responsible for service and maintenance of several process lines at their facilities along the Norwegian and UK coasts. The company's service organization works closely with Pelagia's operating engineers, thereby ensuring that the process lines run optimally and that a high level of product quality is maintained. The proximity of service and spare parts is essential, since the pelagic season is short, and downtime or disturbances would have severe consequences for Pelagia. The factories, dubbed "The Promise to the Sea," is an expression of Pelagia's ambition to produce food as sustainably as possible and with great respect for the fish and the ocean.



INNOVATION

Additional innovation center strengthens focus on development

Vegetarian products, vegan cooking, alcohol-free beer and flavorful oils are just a few examples of how trends and taste preferences steer the daily operations of food producers. Changing consumer trends fuel demand for new food products, which in turn creates a need for flexible processing equipment. Food producers are also always looking for more efficient and sustainable processes to get more out of their raw materials while saving water and energy. Simply put, the food industry depends on innovation. Alfa Laval works close to its customers – the food producers themselves – and helps them make their processes more sustainable while adapting and optimizing them in the face of new conditions and needs. All of this requires a responsive and flexible approach as well as R&D that enables a product program that reflects current and future needs. To increase the development rate of new fluid handling products and solutions for the food and pharmaceutical industries, Alfa Laval opened its third innovation center for food and water applications in Denmark during the year, this time in Kolding, Jylland. (There are already similar test centers for decanters in Søborg and for membrane filtration in Nakskov.) The new 1,600-square-meter center in Kolding will become a global test facility for new products where customers will also be able to study the performance of Alfa Laval's equipment under real operating conditions. It will further strengthen Alfa Laval's global position in food and pharmaceuticals, which is an important growth area for the company.



Energy



The year in brief

Susanne Pahlén Åklundh
President, Energy Division

As a result of COVID-19 and falling oil prices, the division had a lower order intake in 2020 compared to last year. Trends were negative in most of the major industries in which we operate. Naturally, the slowdown was larger among oil and gas customers, while sales remained stable in industries such as HVAC and Refrigeration, which meant that brazed heat exchangers were the part of the division that performed the best during the year.

Continued investments in energy efficiency within the refinery and petrochemical industry helped generate several major orders for welded heat exchangers throughout the year, which has dampened the effect of COVID-19.

The division continued to invest in increased capacity in existing production units, and in the construction of an entirely new, state-

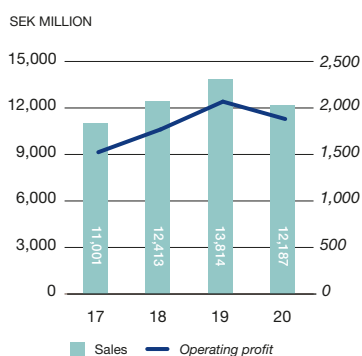
of-the-art production facility in Italy. The new facility will allow us to better meet the growing demand from HVAC customers.

An entirely new product platform for gasketed heat exchangers entered the next phase and generated a steadily increasing order intake.

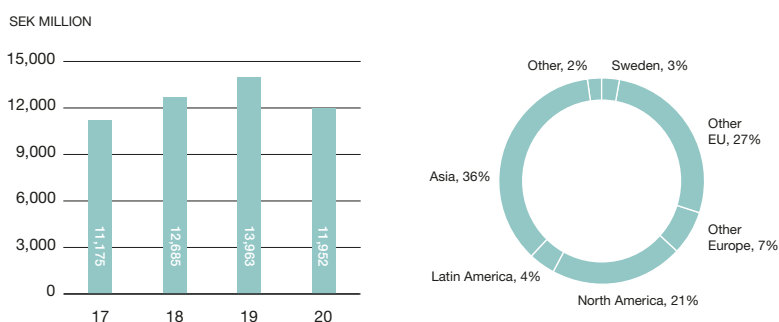
Sales via digital channels also performed well during the year. E-commerce and online advisory services are becoming even more important competitive factors, and Alfa Laval continued its work to make more products accessible via global e-commerce solutions.

Service was negatively affected by employees' inability to access some of our customers' production facilities due to the risk of infection.

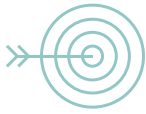
Sales and operating profit



Order intake



The Energy business



Target industries

The division targets customers in markets such as: oil and gas extraction, oil and gas processing and transport, refineries, petrochemicals and power generation. The division also works with construction-related applications, such as heating, ventilation and cooling, and has an offering for customers in the mining and metal industries and lighter industries, to name a few examples. Energy efficiency is a focus area in which the division helps its customers to reduce their energy consumption, which is beneficial both from a financial and environmental point of view.



Offering

Heat transfer is the main technology offered, comprising everything from gasketed plate heat exchangers for gentler applications to different types of welded heat exchangers for more demanding applications. Separation technology is the other main technology offered – both high-speed separators and decanter centrifuges.



Way to market

The Energy division's business comprises sales of components, configured products and projects. This means that in addition to direct customer sales, the division also reaches customers via system builders, contractors, retailers, agents and distributors.

Business units

The division has four technology-based business units. These units have full profit and loss responsibility and are in charge of driving the global business for a defined group of products, covering everything from product development to marketing, sales and service.



Share of division's order intake

Brazed & Fusion Bonded Heat Exchangers

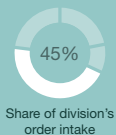
A majority of this business goes to applications within HVAC such as heating, ventilation, air conditioning and cooling. This unit is largely driven by energy efficiency, transformation from fossil heating and new sustainable refrigerants. Part of the business targets applications for engines, such as cooling of engines on off-road vehicles or leisure boats, as well as cooling and cleaning of liquids in the light manufacturing industry.



Share of division's order intake

Energy Separation

The business unit delivers separation solutions for the process industry and the circular economy, with a focus on purification and recycling of industrial process flows and residual streams, production of green chemicals and bio-fuels. The offer mainly consists of high-speed separators, decanter centrifuges, evaporation solutions and fresh water generators.



Share of division's order intake

Gasketed Plate Heat Exchangers

While this business unit is responsible for supporting all three divisions and thus has an extremely wide product range, its focus in the Energy division is on supplying gasketed plate heat exchangers for HVAC, cooling, engine cooling, chemical processing, oil production and power generation.



Share of division's order intake

Welded Heat Exchangers

All types of welded heat exchangers such as compact plate heat exchangers, spiral heat exchangers, tube heat exchangers and special air coolers. They are mainly delivered to process applications with high pressures and temperatures in refining, petrochemicals and gas processing where the customer has high demands on operational reliability, energy efficiency and CO₂ reduction.



Structural growth drivers

Energy

The world's energy needs are continuing to intensify – at a faster rate in some areas of the world than others. There are two ways to handle this challenge: increase the total energy production and make greater use of technologies that enable more efficient use or recycling of the energy generated.

With its compact heat exchangers at the heart of its solutions, Alfa Laval's products play an important role in the efforts to make the world's industrial processes more energy efficient. The offering encompasses products and solutions for oil and gas extraction, power production, renewable fuels, refinement and much more.

Environment

Human impact on the environment is coming under greater scrutiny, resulting in new, increasingly stringent laws. In parallel with this, a sustainability mindset has also evolved and is encouraging companies to voluntarily take steps that contribute to environmental improvements.

Alfa Laval has a wide range of products for managing various environmental problems. The Energy division's efficient heat exchangers and its focus on recovering waste heat create an opportunity for substantial energy savings and a reduction in CO₂ emissions for the customer.



Major end markets



HVAC

Alfa Laval's heat exchangers help create a comfortable indoor climate in houses, warehouses, public buildings, hotels, office complexes and athletic facilities all over the world. They can also be used in data centers and for cold storage. They are even used within district heating and cooling systems and to heat tap water for both single- and multi-family residences.

27%

Share of division's order intake



Oil and gas

Includes drilling, processing, production and transportation of oil and gas. Within drilling, Alfa Laval offers heat exchangers and decanter centrifuges for mixing, cooling and cleaning drilling mud. Alfa Laval's products can be used in some 40 applications within oil and gas processing/production/transportation. Products are also offered for efficient waste management.

13%

Share of division's order intake



Petrochemicals

The range includes plate heat exchangers and shell-and-tube heat exchangers for use in a number of processes connected to the production of organic base chemicals, fine chemicals, intermediate petrochemicals, polymers and fibers.

13%

Share of division's order intake



Manufacturing industry/metal working

Alfa Laval offers heat exchangers and separators for heating/cooling and cleaning industrial fluids within metal working. They can also be used to cool and/or filter hydraulic oil and lube oil.

13%

Share of division's order intake



Refineries

In a refinery, crude oil is divided into different components that are then refined to useful products like naphtha, heating oil, aircraft fuel and diesel. Alfa Laval's heat exchangers are designed to withstand the high pressure and temperatures in the different processes at a refinery.

8%

Share of division's order intake



Refrigeration

Encompasses everything from industrial deep freezing and cold storage to cooling ice rinks. The offering for the food industry includes air-cooled and plate heat exchangers for cooling slaughterhouses, spaces for handling fish and meat, for storing fresh goods and for cooling or heating greenhouses.

7%

Share of division's order intake



Power generation

Alfa Laval's heat exchangers, separators, filters and boilers can be used in a number of processes in the power sector – regardless of which energy source is used to generate the electricity. They can even be used in capturing and storing carbon dioxide, or for storing concentrated solar energy.

7%

Share of division's order intake



Inorganic chemicals

Equipment for heat transfer, separation, condensation and evaporation applications for producing inorganic base chemicals like hydrogen peroxide, caustic soda, sulphuric acid and soda ash.

6%

Share of division's order intake

Other: 6%

SUSTAINABILITY

Waste heat from data centers warms homes

YouTube, e-mails, streaming services...our digital lives rely on powerful servers that manage all of the data transmitted around the world. Placed in large data centers, these servers generate a lot of heat that needs to be removed so that the servers function optimally and without interruption. Alfa Laval has heat exchangers that efficiently cool these servers to the right temperature. Not only that, they can also handle the waste heat generated and convert it to district heating that can then be used to warm homes. Smart and sustainable. Today, waste heat from only 20 percent of our data centers is handled this way. In other words, there is great potential for waste heat solutions. Calculations show that by 2030 if all data centers would recover the waste heat from the servers it could save 3,000 TWh, which corresponds to heating 300 million European homes. The Nordic region is well suited for these waste heat solutions, since we have infrastructure in place in the form of an expanded district heating network and solutions are already installed in several places. One example is a data center in Denmark, where Alfa Laval's heat exchangers convert all of the 100,000 MWh of waste heat generated annually to warm 6,900 households in the region. The most sustainable heat source is the heat that is already available. The only challenge is using it correctly.



INNOVATION

Ground-breaking experiment to study stainless steel

Stainless steel is an essential material in many of Alfa Laval's products: separators, fluid handling equipment and, not least, heat exchangers. The plates in a heat exchanger must be able to withstand the intense pressure of the liquids that are cooled and heated, and the thin coating of oxide on stainless steel that protects against corrosion is essential for the heat exchanger's durability. It goes without saying that the more we know about how this oxide behaves at different temperatures, the more efficiently we can conduct research and product development. That is why during the year, Alfa Laval conducted a unique and ground-breaking experiment – together with senior researchers at Lund University – at MAX IV in Lund, Sweden, which is the world's most modern synchrotron radiation facility, using the most intense radiation ever generated. At this facility, researchers can study atoms and molecules with a diameter of only a few tenths of a nanometer, providing entirely new knowledge about the world and how it works. And how long is a nanometer? Well, take a strand of hair and slice it lengthwise into 30,000 pieces...each of these layers would be as thick as the oxide that Alfa Laval studied in the experiment. For the first time ever, the thin oxide layer could be photographed at high temperatures, thanks to the microscope's extremely high resolution. The study provided valuable information about the material, and the results are now being analyzed and used in Alfa Laval's product development, all for the sake of ensuring the company's future competitiveness.



Marine



The year in brief

Sameer Kalra
President, Marine Division

2020 began with expectations of growth in the marine market, and the first quarter got off to a strong start. However, the macro-economic trend, primarily driven by the COVID-19 pandemic, had a negative effect on demand starting in the second quarter. At the same time, the organization handled the rapid changes well, without disruptions to the supplier chain or deliveries to customers.

The division was primarily affected by two major events in 2020: COVID-19 and low oil prices. Travel restrictions affected portions of new sales and aftermarket transactions due to fewer opportunities to board vessels. During the autumn and winter, there were more opportunities to provide service and demand began to gradually recover. The difference in price between heavy fuel oil and fuel with a low sulphur content reduced drastically when the price of oil fell during the first four months of the year. This led to reduced demand for exhaust gas cleaning systems in 2020. The low price of oil also had a negative impact on demand in offshore, primarily towards the end of the year. However, demand for ballast water treatment systems remained healthy. As of 2019, legislation based on the International Maritime Organization (IMO) convention stipulates that vessels already in use will need to install ballast water treatment systems by 2024.

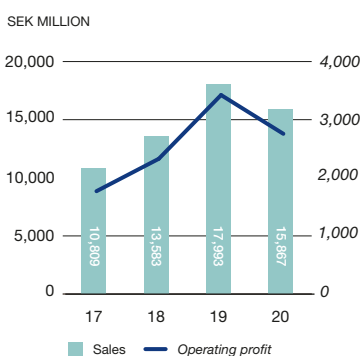
Vessel contracting has remained at relatively low levels for several years, and this trend continued in 2020. Uncertainty increased

dramatically due to the pandemic and the deteriorating economic outlook, which meant shipping companies delayed ordering new vessels. The low level of vessel contracting had a negative impact on Alfa Laval's order intake, but this was mitigated somewhat by the favorable mix of contracted vessels.

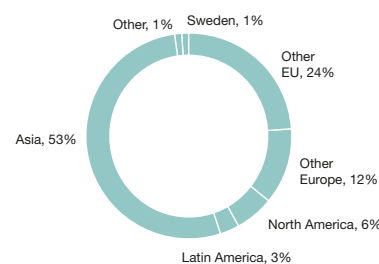
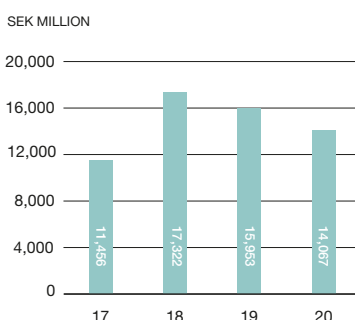
Alfa Laval has continued to develop its service offering and, over the last few years, has dramatically increased the number of trained service technicians. The company's strong geographic reach also made it possible to maintain good availability, despite the difficulties with traveling during the pandemic. At the same time, the challenges of COVID-19 also led to increased demand for connected solutions, remote support and service agreements, primarily within environmental products.

The marine industry is working to develop a joint solution for the phase-out of fossil fuel, and this discussion gained further traction in 2020. There is as of yet no consensus, but most expect a period of transition fuel with lower carbon emissions. Alfa Laval aims to be a driving force in this transition and expects that this will fuel demand for the company's energy-efficient solutions. Alfa Laval looks forward to contributing to a more environmentally friendly marine industry in the future, and our work to stay at the cutting edge continued in 2020.

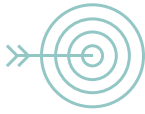
Sales and operating profit



Order intake



The Marine business



Target industries

The division's customers include ship-owners, ship yards, manufacturers of diesel and gas engines and companies that specialize in offshore extraction of oil and gas.



Offering

The offering includes heat transfer equipment, high-speed separators and pumping systems as well as different environmental products such as ballast water treatment systems.



Way to market

The division's sales force targets customers directly. Its customers are well defined and limited in number – so a direct approach is possible with a limited sales force.

Business units

The division has four technology-based business units. These units have full profit and loss responsibility and are responsible for driving the global business for a defined group of products, covering everything from product development to marketing, sales and service.



Share of division's order intake

Pumping Systems

Cargo pumping systems for product and chemical tankers and pumping systems for utilities and safety applications on board offshore platforms.



Share of division's order intake

Gas Systems

The unit supplies inert gas systems and exhaust gas scrubbers to customers in the marine industry.



Share of division's order intake

Boiler Systems

Boilers, heat recovery systems, gas combustion units and thermal fluid systems primarily for the marine sector but also for engine-generated power and industrial applications on land.



Share of division's order intake

Marine Separation & Heat Transfer Equipment

High-speed separators, heat exchangers, ballast water treatment systems and filters are some of the products that this unit offers to the marine industry and diesel and gas-engine manufacturers.

Structural growth drivers



International trade – globalization

Global trade helps to connect a world where raw materials are extracted in one country and processed in another, after which the end products are transported to customers across the globe. Shipping is the most efficient – and at the same time economical – transport solution, which is why approximately 90 percent of commercial tonnage is now shipped by sea.

Alfa Laval has delivered equipment to the marine industry since 1917. It started in the engine room with separators for cleaning lube oil and has since grown to include everything from heat exchangers for generating fresh water to pumping systems for efficient loading and unloading.

Environment

Human impact on the environment is coming under greater scrutiny, resulting in new, increasingly stringent laws. In parallel with this, a sustainability mindset has also evolved and is encouraging companies to voluntarily take steps that contribute to environmental improvements.

Alfa Laval's Marine division offers a number of solutions that reduce the impact on the environment, such as systems for treating ballast water, lowering the sulphur content in ships' exhaust or cleaning the bilge water on board.



Major end markets



Shipbuilding and maritime transport

Alfa Laval has a broad offering of products and systems for installation onboard vessels. The offering includes systems for cleaning and treating fuel, pumping systems for loading and unloading, boilers, fresh water generators, inert gas systems, systems for treating lubricants and tank cleaning equipment.

76%

Share of division's order intake



Offshore

The offering for oil and gas platforms includes pumping systems for fire extinguishing or to pump sea water for different onboard applications, inert gas systems and emergency power generators.

15%

Share of division's order intake



Engine power

Engine-generated power is used in places that are not connected to the power grid. It is also used for back-up power during blackouts, to manage peaks in demand when the power grid is not enough or as a supplement for solar or wind energy. Alfa Laval offers modules for fire extinguishing, separators for cleaning crank case gases, and heat exchangers for different cooling applications.

8%

Share of division's order intake

Other: 1%

SUSTAINABILITY

Marine environmental products contribute to sustainable maritime transport

In the last few years, the marine industry has undergone major changes, not least within sustainability. New rules and ordinances from the IMO have entered into force and limited hazardous emissions to both air and water. Today, there are clear benchmark values for matters such as ballast water treatment, waste water treatment and the sulphur content of exhaust gas from vessels. These new environmental rules have also accelerated the industry's conversion to new kinds of fuels. Over the next 30 years, the shipping industry's fuel mix is expected to transition from being almost entirely oil-dominated to a mix of low-carbon or carbon-free fuel. During the transition period away from carbon fuel, liquid natural gas (LNG) will be an important fuel. But this will also give rise to an emissions source that previously went unnoticed, namely methane – the small portion of methane that is released through the engine when burning LNG. Even if LNG emits less carbon dioxide than other fossil fuels, methane has a greater impact on global warming. There are currently no rules for methane emissions, but the problem needs to be addressed since the marine industry's goal is to reduce its greenhouse gas emissions by half by 2050. That is why Alfa Laval has launched a new marine environmental system, Alfa Laval PureCool, which when combined with WinGD's iCER technology reduces methane emissions from vessels' gas engines and ensures more sustainable operation. The new PureCool system is the latest addition to Alfa Laval's comprehensive portfolio of marine environmental products, which help shipping companies comply with regulations and protect our marine environment.



INNOVATION

Eyes on the future – increased test capacity for biofuel

The IMO's goal is to reduce the marine industry's emissions of greenhouse gases by half by 2050. New, more environmentally friendly types of fuel like LNG and biofuel are gradually starting to replace traditional heavy diesel oil. This transformation means that shipping companies need to adapt their vessels' machine rooms and engines to new conditions. It goes without saying that it is of the utmost importance that the installed products should be tested and approved – and, moreover, be adapted to the vessels' particular conditions to the greatest extent possible. At Alfa Laval's marine test and training center in Aalborg, Denmark, customers can be a part of testing and evaluating Alfa Laval's equipment in conditions that closely resemble real life. The 2,800-square-meter facility is essentially a vessel engine on land, equipped to handle fuel like oil and gas. This is where new products for the marine industry are developed, tested and optimized. After opening the testing facility in 2014, Alfa Laval has regularly expanded it. The latest additions are two 25 m³ stainless steel tanks that were installed to test biofuel. These will doubtless play a major role in helping the marine industry reach the IMO's climate goals. Biofuels have varying characteristics since they come from different sources. That is why being able to study how engines and processes work with different types of biofuel is important for Alfa Laval's future product development and optimization. The company will now have the opportunity to acquire this unique knowledge, which will provide competitive advantages in the future.



Operations

Strong production and supplier structure



Mikael Tydén
President, Operations

Operations is Alfa Laval's group-wide organization that handles the group's purchasing and manufacturing and its logistics and distribution. Operations also pursues strategic activities in the production chain, such as optimizing the overall manufacturing footprint, automation and digitization and sustainability matters.

Manufacturing

Alfa Laval's production structure is based on its three key technologies and organized to provide the most even capacity utilization possible across its production units. Products are sold within all divisions and are therefore ultimately found in a number of different application areas and processes. A common technological foundation makes it possible to consolidate production to shared units – regardless of whether the individual products are for customers in Marine, Food & Water or Energy.

At year-end 2019, Alfa Laval had 37 major manufacturing units, spread across Europe, Asia, the US and Latin America. During the year, Operations experienced rapid fluctuations in order intake and deliveries, which was a challenge in itself. On top of this, the organization continued to implement selective capacity expansions in

certain areas while efforts to concentrate certain manufacturing to fewer sites were completed. In 2020, two major production facilities were closed: one unit in Søborg, Denmark and another in Sarole, India. A distribution unit in Mumbai was consolidated with a production facility in Pune, India. In early 2020, Alfa Laval moved to an entirely new factory in Qingdao, China. This is the world's largest, most state-of-the-art factory for manufacturing of products such as boilers. From a short-term perspective – that is, in the division's daily work – the focus was on sustainability, lead times, quality, productivity and cost. From a long-term perspective, the focus was on strengthening the manufacturing process by ensuring the right competence is in place, investing in new production technologies, assessing opportunities related to automation, digitization and 3D printing, and ensuring that the results lead to improvements in health, safety and the environment.

Procurement

The procurement organization handles all of Alfa Laval's needs for direct as well as indirect materials, for all factories and distribution centers. The largest item in the cost of goods sold is direct materials – accounting for a full 70 percent – and any improvements possible within this area are therefore extremely valuable. The organization handles procurement of a variety of goods and raw materials, such as aluminum, stainless steel, titanium, cast metal, forged iron, machinery, electrical equipment and fasteners, to name a few examples. It is also responsible for the purchase of goods outside the manufacturing process, such as software, consulting services, hardware, telecommunications and company cars.

When it comes to procurement, there are many parameters to take into consideration. Cost is a factor, but it is one of many. It must be weighed against quality, dependability, delivery capacity and reliability; at the same time, the supplier needs to meet Alfa Laval's Business Principles concerning the environment, health and safety. Alfa Laval has a platform for auditing suppliers, which simplifies assessments so that comparable results are obtained.

Alfa Laval's shared supply chain is a strength. The company can consolidate the demand for metals and other products/goods for all production units, achieve economies of scale and gain leverage in negotiations right from the start. At the same time, the right work method can generate considerable savings. Training and process development are carried out on an ongoing basis to ensure a uniform and structured work method, regardless of where in the world the buyer is located. This includes incorporating an ever-larger portion of the total procurement volumes into global contracts, which reduces the number of suppliers, reduces costs and minimizes complexity.

Procurement also manages the development of existing and new suppliers in order to optimize Alfa Laval's current value chains and future needs through cooperative projects and product development. These factors must be weighed against the supplier's technical ability, quality, dependability, delivery capacity and reliability; at the same time, the supplier needs to meet Alfa Laval's Business Principles concerning the environment, health and safety.

Distribution and logistics

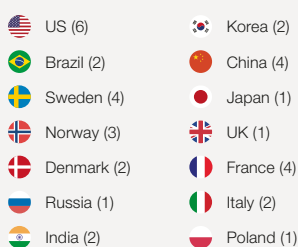
Logistics and the distribution of components, spare parts and new products include everything from order handling and inventory management to stock picking, delivery and invoicing. It is not enough for a product to be of high quality and in line with specifications – it must also reach the recipient at the right time, in a secure way and with as little impact on the environment as possible. Alfa Laval has eight distribution centers, spread over Europe, Asia and North America. They process over 1.2 million order lines every year. Distribution and logistics is also responsible for Alfa Laval's overall transport needs.

Consolidating transportation needs provides economies of scale, from both a cost and quality perspective. But costs are only one parameter that must be considered. The environment is another important component. Alfa Laval actively works to reduce the company's freight-related CO₂ emissions. In 2020, Alfa Laval continued to implement a new transportation management system according to plan, which will enable customers to better track their deliveries from Alfa Laval.

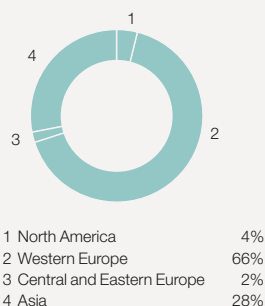
During 2020, Alfa Laval's deliveries to most end markets increased considerably, particularly towards the end of the year. Despite its high volumes, Alfa Laval kept the share of air freight in line with 2019. At the end of the year, 68 percent had been shipped by road, 24 percent by sea and 6 percent by air.

Production units

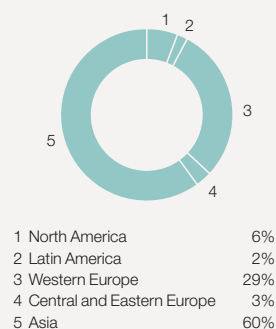
Alfa Laval's production includes 35 major manufacturing units:



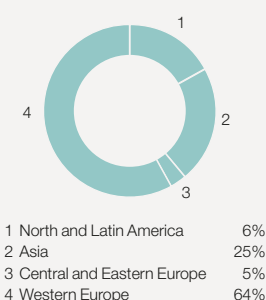
Investments by geographic market, %



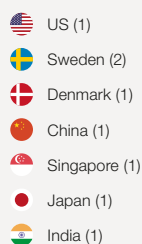
Geographic distribution of the number of directly worked hours in production, %



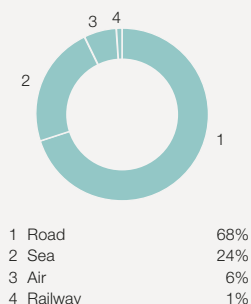
Procurement by geographic market, %



Distribution centers, Operations



Transport 2020



An attractive workplace

Alfa Laval's employees are the company's most important resource. Creating a secure, inspiring work environment is therefore a top priority, as is forming a culture that can both attract and retain talent and allow people to thrive. Succeeding with this task requires a great deal of sensitivity to everyone's individual conditions and needs.

Creating workplaces that are inclusive and free from discrimination, where employees feel secure and confident, is essential. It is also a given at Alfa Laval that employees have opportunities to develop, so as to meet the challenges of today and of the future. Alfa Laval's employees can also be proud that their individual work contributes to a more sustainable future as the company works with continuous improvements throughout the value chain, from material production to production and final delivery. This can be achieved through solutions that clean water, minimize waste, use natural resources efficiently or enhance energy use efficiency.

Health and safety

Since Alfa Laval's employees are the foundation of the company's success, ensuring their health and safety is only natural. Alfa Laval works continuously to create a healthy, safe and attractive work environment for its employees as well as its contractors, customers and visitors. The company strives to be a workplace that is free from accidents and work-related illnesses.

Comprehensive work is therefore conducted in the line organization to ensure that the work environment is designed to minimize these risks. Safety issues have also been thoroughly integrated into the company's production management system to make safety an even larger part of the daily operations. The overall work follows global and local procedures developed to ensure that safety is incorporated into the company's day-to-day work. In addition to procedures and various other tools such as risk analyses and incident investigations, training is provided for employees. The human factor is the most common cause of accidents, which means that individual behavior is a key factor in the effort to eliminate risks.

In 2020, Alfa Laval continued the health and safety program implemented in 2019, which focuses on leadership, training and communication and is intended to further strengthen the safety culture. During the year, all of Alfa Laval's facilities received information and training in step 1 of the program in order to best communicate the message across the organization and ensure every employee's understanding and commitment. In addition, each unit is working to establish a skilled and educated organization that works actively and preventively to maintain a safe and healthy workplace.

Diversity that enriches

Alfa Laval is an international company with Scandinavian roots and a global organization that serves customers in approximately 100 countries. Diverse nationalities among the company's employees are therefore a natural part of its operations.

But diversity is about so much more than this. It is about bringing together individuals who are different, who think differently and contribute different perspectives – or who are of different genders, ages, and have different experiences. This diversity is something the company strives for. It provides an important base for insights and flexibility, and makes it possible to change together, based on the growth drivers that characterize the business.

With an explicit focus on diversity, all employees must feel they are treated on equal terms and that they have career paths open and available to them. This is one of the reasons that Alfa Laval works with open internal recruiting. All available positions are published on the company's intranet and all employees are welcome to apply.

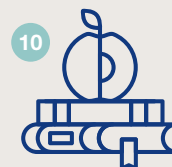
Employee training and development – 70-20-10



70 percent is to come from the challenges faced during the course of the individual's day-to-day work.



20 percent is to come from various types of developmental relationships, meaning what the individual learns from managers, more experienced colleagues or mentors.



10 percent of what an individual learns is to come from formal training programs, either online or in a classroom setting.



By combining an open recruitment process with an explicit focus on performance, Alfa Laval aims to create an inclusive work environment with equal opportunities for development. The hope is that this will encourage mobility and help the company retain employees with a high level of competence. An inclusive work environment that stimulates the individual's development is a key step in reaching Alfa Laval's overall goals.

Development and training – the basis for success

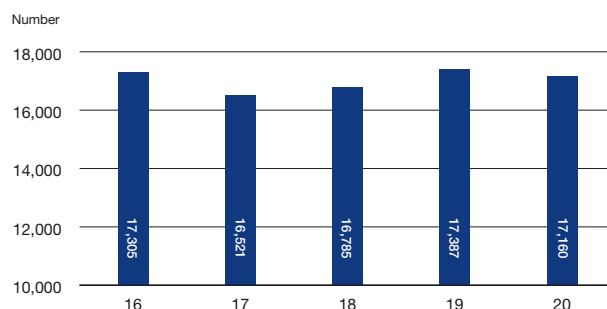
Development in the sense of R&D is essential for Alfa Laval's success, yesterday as well as today. But R&D is driven by people, and without their individual abilities, curiosity and insight, the company cannot advance. To keep moving forward, the individuals who are to develop the business must therefore be given their own development opportunities. In this context, we are no longer talking only about R&D, but rather about employee development within all areas of Alfa Laval's operations, at all levels.

Change is a constant in society and in business. Customers want new and even more efficient products, and there are always new rules and conditions. All of this imposes demands on Alfa Laval and its employees. To succeed, Alfa Laval needs to stay one step ahead, and this can only be achieved when people can lift their gaze and think differently, when they thrive in their tasks and have the tools they need to succeed in their work.

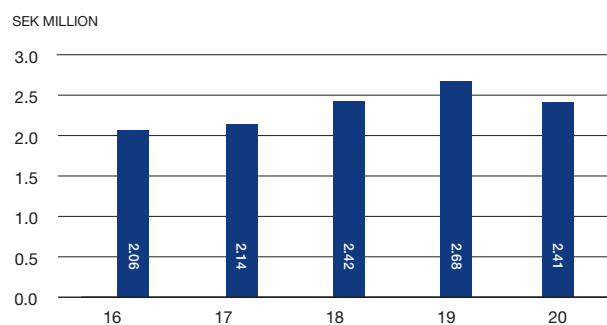
In spring 2020, Alfa Laval launched a new digital training portal, which simplifies planning and follow-up of training modules for individual employees. The portal is also used to offer customers and partners customized training, which strengthens Alfa Laval's offering and competitiveness.

Alfa Laval offers a broad range of training opportunities, some of which are managed locally, while others are part of a central program. Many of the company's courses are internet-based (e-learning). These can be completed in groups in real time or individually at a pace and time that best suits the employee. The course offering is continuously developed to meet the needs of both the employees and the company. In 2020, employees were offered e-learning focused on the basics of digitization in our society and what it entails. The goal of our digital transformation is to foster a shared understanding and knowledge base that will serve as the starting point of our continued work.

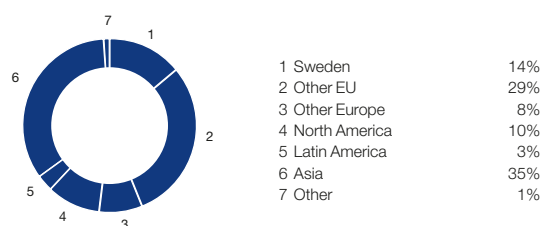
Average number of employees



Sales per employee



Employees by region





Sustainability builds on continuous improvement and collaboration

Sustainability begins at home, by Alfa Laval conducting its own operations ethically, and according to prevailing social and environmental legislation. Alfa Laval's four business principles help by providing clear guidelines for how they are to be continuously implemented, monitored and documented.

Alfa Laval's business principles

Alfa Laval's four business principles are aimed at continuously improving Alfa Laval's social, environmental and ethical work as well as maintaining its internal and external transparency. Alfa Laval's business principles incorporate the "Protect, Respect and Remedy" framework introduced in the UN Guiding Principles on Business and Human Rights as well as the OECD Guidelines for Multinational Enterprises.

1. Social responsibility – respect for human rights is fundamental

One of our foremost priorities is to prevent the occurrence of workplace accidents. The company has a vision of a workplace that is free from accidents and work-related illnesses.

2. Business integrity – high ethical standards guide our conduct

The foundation for this principle is that the company is to comply with the laws in effect where we operate. The principle covers such areas as anti-bribery and anti-corruption (ABAC) efforts.

3. The environment – we optimize the use of natural resources

It is important that our production and service operations continuously improve from an environmental perspective and also in minimizing risks. Alfa Laval sets clear goals regarding energy and water con-

sumption, climate impact, chemical use and waste management. An area that is equally as important as Alfa Laval's internal work – and offers infinitely greater potential – is the provision of products, services and solutions that can optimize our customers' use of natural resources.

4. Transparency – our commitment to open dialogue builds trust

Alfa Laval's ambition is to build trust through open dialogue with various stakeholders, for example, by addressing the opportunities and challenges within the area of sustainability. Read more about our stakeholder dialogue and materiality analysis in our separate Sustainability Report.

Sustainability as a business opportunity

















Alfa Laval's products and solutions make it possible for customers to solve their environmental challenges and reach their own sustainability goals. This achieved through solutions that clean and/or reuse water, improve energy efficiency or ensure that industrial processes are more resource efficient. This way sustainability becomes a "win-win" for all parties: more efficient and sustainable processes lead to increased profitability for customers while creating a better environment for all of us.

Read more

Note that Alfa Laval publishes a separate Sustainability Report that complies with Swedish legal requirements, the Global Reporting Initiative and the UN Global Compact. The report is available in English: www.alfalaval.com/about-us/sustainability

Sustainability targets

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

Environmental targets	Environmental targets 2020 (base year 2015)	Progress	Environmental targets 2023 (base year 2020)	Ambition 2030
 CO ₂ Carbon emissions	Reduce carbon emissions by 15%		50% reduction scope 1 & 2 emissions	Carbon neutral across the value chain
 Energy efficiency	Reduce energy consumption by 10%		Improve energy efficiency (MWh/Direct hours) by 5%	Continuously improve energy efficiency in production, service and products
 Water consumption	Reduce water consumption in water scarce areas by 10%		Reduce water consumption in water scarce areas by 5%	100% recirculation of water in all production and service sites in water scarce areas
 Waste	Recycle 85% of waste		Maintain 85% recycling of waste	Zero waste to landfill
 Chemicals	No hazardous chemicals used		No hazardous chemicals used	No hazardous chemicals used
Social targets	Targets ahead of 2020	Progress	Social targets post 2020	
 Safety	Reduce Lost Time Injuries by 30% (base year 2017)		2023: 30% reduction of Lost Time Injury Frequency Rate (base year 2020)	
 Inclusion & Diversity	Increase the proportion of women in the company as a whole and also in leading positions year-on-year		By 2025: <ul style="list-style-type: none"> • 35% females in our total workforce • 25% female leaders • less than 70% homogeneity (gender & nationalities) in our senior management teams 	
Integrity targets	Targets ahead of 2020	Progress	Integrity targets post 2020	
 Anti-Bribery Anti-Corruption	100% white collar employees trained		100% of all employees have gone through ABAC training every two years	



Goal achieved



Progress made but goal not fully achieved

Alfa Laval and climate:

Energy efficiency and collaboration are key

Energy efficiency is one of the main contributors to reaching the Paris Agreement. Energy efficiency can deliver more than 40 percent of the greenhouse gas emissions savings over the next 20 years according to IEA, whereof 50 percent of the energy efficiency saving comes from the industry sector and 30 percent from buildings.

Efficiency can either be achieved by implementing innovative technology that reduces the energy consumption compared to existing/traditional solutions – or by adding technology to existing processes that capture and reuse waste heat for other purposes. Alfa Laval has solutions for both energy savings and reuse. Alfa Laval heat exchangers are 20 to 50 percent more efficient than traditional (shell&tube) technology

There is still a significant untapped potential in energy efficiency to save energy and reduce carbon emissions. Alfa Laval has the technologies to improve energy efficiency in various industrial processes. The technologies and solutions are proven, affordable and available.

Climate change has been an area of high focus and importance to Alfa Laval's agenda for many years. Alfa Laval has worked to achieve its emission targets for 2020 which was to reduce carbon emissions by 15% and reduce energy use by 10% compared with base year 2015.

The new target is to become carbon neutral by 2030 across the value chain. To achieve this ambition, Alfa Laval will set up targets on a three-year basis to align with the company's business targets. The targets for 2023 are to reduce Scope 1 and Scope 2 emissions by 50% with baseline 2020. Alfa Laval has also deepened its analysis of scope 3 emissions and as these represent more than 40% of the emissions, focus will shift towards these emissions and how to reduce them going forward.

Achieving carbon neutrality across the value chain will require partnerships. One example is to ensure reduction of emissions from steel production, where Alfa Laval will have to partner with suppliers and other industries to speed up the transition to low emitting production processes.

Alfa Laval therefore decided to join the 1.5 Business Playbook during 2020. Alfa Laval will continue to expand collaboration with other companies, customers and partners, in society and business to support the implementation of energy efficient solutions – and thereby contribute to reaching the 1.5C scenario set in the Paris Agreement.

Scope 1: Covers direct emissions from owned or controlled sources

Scope 2: Indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by Alfa Laval

Scope 3: Includes all other indirect emissions that occur in Alfa Laval's value chain

25 MILLION TONS YEARLY

Every year, Alfa Laval heat exchangers installed in energy efficiency applications save 50GW which corresponds to the energy needed to heat up 10 million homes in Europe. The energy savings also reduce the carbon emissions by 25 million tons (yearly) which is slightly more than the emissions from the city of Paris.



We support the UN's Sustainable Development Goals

The UN has developed 17 Sustainable Development Goals that are to be achieved by 2030 – goals that world leaders have committed to achieving. Alfa Laval supports 15 of the 17 goals.



Enabling change

Zero hunger
Alfa Laval's products and solutions contribute to hygienic and safe food manufacturing. They can also improve shelf life and reduce waste in the manufacturing process.

Good health and well-being
Alfa Laval delivers equipment that contributes to safe and resource-efficient processes in the pharmaceutical industry.

Clean water and sanitation
Alfa Laval has a wide offering for wastewater treatment. The portfolio also includes fresh water generators. Alfa Laval can thus contribute to improving access to clean water and fresh water.

Affordable and clean energy
Alfa Laval's products are involved in renewable production processes. They can also store heat generated by the sun, enabling electricity generation even after the sun has set.

Industry, innovation and infrastructure
Alfa Laval continuously invests in R&D. The pace has increased over the past few years, which is expected to result in a range of new products – among them new, even more energy-efficient heat exchangers.

Sustainable cities and communities
Alfa Laval contributes to energy-efficient heating and cooling. This includes systems for the reuse of waste heat which, through a district heating grid, can contribute to heating whole cities.

Responsible consumption and production
Alfa Laval's goal is that every new product should have a smaller environmental impact – from a life cycle perspective – than the product it replaces.

Climate action
Alfa Laval's heat exchangers can improve energy efficiency in customers' processes, reducing the need for fossil fuels and helping to lower CO₂ emissions.

Life below water
Alfa Laval offers its marine customers a range of products within energy and the environment. One example is PureBallast – a system which prevents organisms that travel along with ballast water from being released in areas where they lack natural enemies and hence could damage ecosystems.

Life on land
Alfa Laval's innovative technologies can contribute to optimizing resource efficiency. They can also reduce the impact on different ecosystems and cut greenhouse gas emissions. One concrete example of how Alfa Laval's equipment can contribute is a cooling solution to protect the world's largest seed collection, providing a backup in case a natural catastrophe, climate change or war should deplete earth's crop diversity.

Partnerships for the goals
Alfa Laval has been a signatory of the UN Global Compact since 2011. This is a voluntary initiative, where members commit to implementing the UN's sustainability principles.

Contributing to progress

Quality education
Alfa Laval is committed to ensure competence development in our own business. We also support charities and volunteering projects related to child education across the globe.

Gender equality
Diversity and inclusion are key priorities for Alfa Laval and the aim is that the composition of employees reflects the geographic markets where we operate.

Decent work and economic growth
Alfa Laval's Business Principles require decent working conditions. Working conditions and safety are a highly prioritized area both in our own operations and in the demands we set on our suppliers.

Peace, justice and strong institutions
Alfa Laval has a zero-tolerance approach to bribery and corruption. Our programme builds on the six steps outlined in the UK Bribery Act and is based on a "prevent, detect and correct" methodology.

Alfa Laval's share during 2020

Alfa Laval's share displayed a negative trend in 2020. A share price of SEK 226.3 (235.90) was quoted at the close of the final trading day of the year, down SEK 9.6, corresponding to 4.1 percent. OMX Stockholm Industrials, the sector index for industrial shares in which Alfa Laval is listed, rose 12.9 percent in 2020. The Stockholm Stock Exchange as a whole rose 13.4 percent in 2020. The highest closing price for the share was SEK 257.2, quoted on February 12. The lowest closing price was SEK 149.6, quoted on March 23. Alfa Laval's market capitalization at year-end was SEK 94.9 billion (98.9). The Alfa Laval share is listed on Nasdaq Stockholm and is included in the large cap segment in Stockholm and the Nordic region as well as OMXS30, which includes 30 companies with the most-traded shares in Stockholm.

Strong long-term return

Since Alfa Laval was re-listed on the Stockholm Stock Exchange on May 17, 2002, the company's share, including reinvested dividends, has generated a return of 1,537 percent. Measured over the full listing period, this corresponds to an average annual effective return of 16 percent, compared with an annual effective return of 11 percent for the Stockholm Stock Exchange (SIX Return Index) during the same period.

Share turnover

Alfa Laval's share is not traded exclusively on Nasdaq Stockholm, but also on CBOE Global Markets, the London Stock Exchange and Aquis, to name a few examples of major alternative marketplaces. In 2020, the Stockholm Stock Exchange accounted for 36.7 percent (31.7) of all trading in the share. Trading on CBOE Global Markets accounted for the largest share at 45.2 percent (48.3). The liquidity of the Alfa Laval share is favorable and declined slightly in 2020 to 784 (829.4) million shares, while trading in the share corresponded to a combined value of SEK 158.48 billion (170.46), including all marketplaces. This corresponded to a somewhat lower share turnover rate in 2020 of 1.9 (2.0) times the total number of shares outstanding. In 2020, the average number of transactions completed in Alfa Laval shares increased to 9,892 (8,430) per trading day.

Dividend policy

The Board of Directors' goal is to regularly propose a dividend that reflects the Group's performance, financial status, and current and expected capital requirements. Taking into account the Group's cash-generating capacity, the goal is to pay a dividend of between 40 and 50 percent of net profit over a business cycle. In order to further strengthen the company with respect to the negative short and medium-term financial effects of COVID-19, Alfa Laval's Board of Directors withdrew the previously proposed dividend for 2019 of SEK 5.50 per share. For 2020, the Board proposes that the Annual General Meeting approve a dividend of SEK 5.50 (0.00). The proposed dividend corresponds to 54.3 percent (0.0) of earnings per share, adjusted for surplus values.

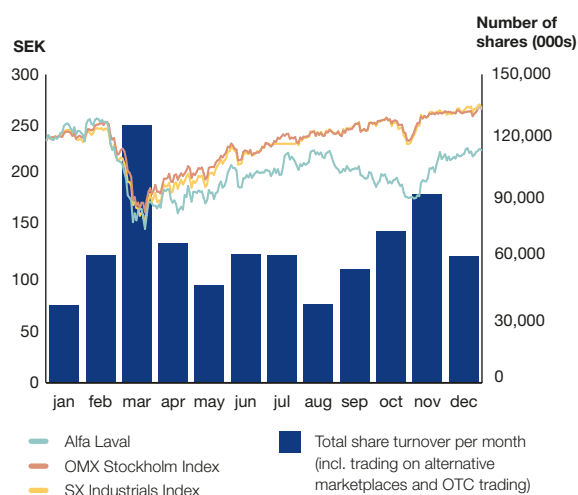
Share capital

The par value at year-end was SEK 2.66 (2.66) 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. The total number of shares during the year was unchanged at 419,456,315.

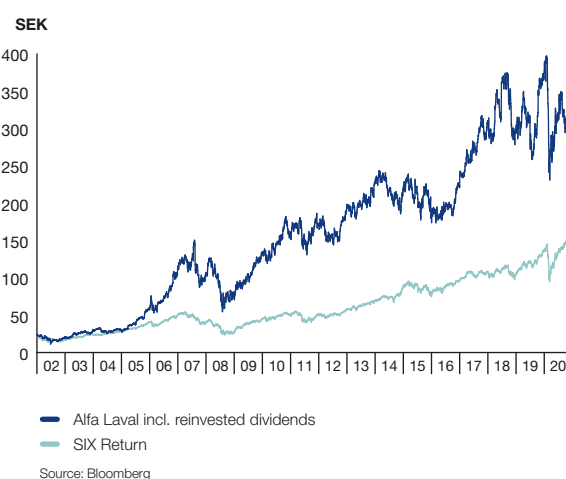
Shareholders

At year-end 2020, Alfa Laval had 43,417 (41,147) shareholders, corresponding to an increase of 2,270 (6,967) shareholders. The ten largest shareholders controlled 49.7 percent (51.7) of the shares, excluding nominee-registered shares. The single largest shareholder was Tetra Laval International SA, whose holding at December 31, 2020 was unchanged at 29.1 percent. SPP Fonder was no longer among the ten largest shareholders at year-end, while Första AP fonden (the First Swedish National Pension Fund) became the eighth largest shareholder in 2020.

Price trend, January 1 – December 31, 2020



Total return, May 17, 2002 – December 31, 2020



Ownership distribution by size at December 31, 2020

	No. of shareholders	No. of shareholders, %	No. of shares	Holding, %
1 – 500	33,936	78.3%	4,318,408	1.0%
501 – 1,000	4,276	9.9%	3,485,710	0.8%
1,001 – 5,000	3,923	9.1%	8,836,881	2.1%
5,001 – 10,000	526	1.2%	3,916,529	0.9%
10,001 – 15,000	154	0.4%	1,918,148	0.5%
15,001 – 20,000	84	0.2%	1,544,292	0.4%
20,001 –	435	1.0%	395,436,347	94.3%
Total	43,334		419,456,315	

Source: Euroclear

Data per share

	2020	2019	2018	2017	2016
Share price at year-end, SEK	226,3	235.90	189.65	193.80	150.80
Highest paid, SEK	257,2	242.40	248.10	213.90	154.40
Lowest paid, SEK	149,6	165.05	188.50	152.60	121.30
Shareholders' equity, SEK	69,31	66.15	56.26	48.87	48.34
Earnings per share	8,47	13.08	10.77	7.09	5.46
Dividend, SEK	5,50 ¹⁾	0*	5.00	4.25	4.25
Free cash flow, SEK ²⁾	15,89	10.00	8.56	8.92	9.97
Price change during the year, %	-4,1	24.4	-2.1	29	-3
Dividend as % of EPS, %	64,9	42.0	46.4	59.9	77.8
Direct return, % ³⁾	2,4	2.3	2.6	2.2	2.8
Share price/shareholders' equity, multiple	3,3	3.6	3.4	4.0	3.1
P/E ratio ⁴⁾	27	18	18	27	28
No. of shareholders	43 334	41.147	34.180	32.967	35.840

Source: OMX Nasdaq, Euroclear, Alfa Laval

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

Ownership categories at December 31, 2020

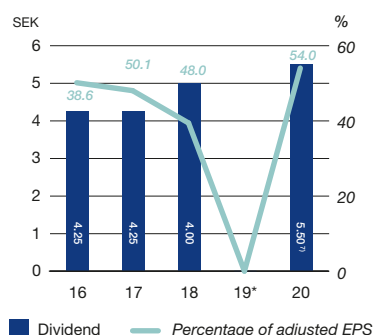
	No. of shares	Holding, %
Financial companies	91,204,734	21.7%
Other financial companies	168,917	0.0%
Social insurance funds	8,110,132	1.9%
Government	259,453	0.1%
Municipal sector	28,682	0.0%
Trade organizations	4,023,903	1.0%
Other Swedish legal entities	6,044,800	1.4%
Shareholders domiciled abroad (legal entities and individuals)	287,312,514	68.5%
Swedish individuals	20,839,602	5.0%
Uncategorized legal entities	1,463,578	0.3%

Source: Euroclear

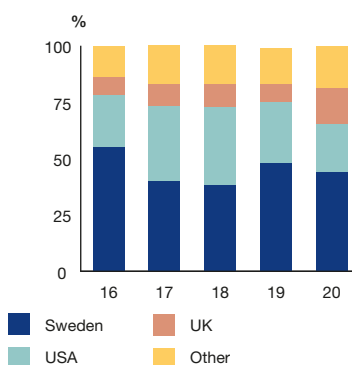
Ten largest shareholders at December 31, 2020⁵⁾

	No. of shares	Capital/voting rights, %	Change in holding in 2019, percentage points
Tetra Laval International SA	122,037,736	29.1	0.0
Alecta	24,312,464	5.8	0.2
AMF Insurance and Funds	15,377,737	3.7	-1.6
Swedbank Robur Funds	11,883,626	2.8	-1.6
CBNY Norges Bank	9,637,816	2.3	-0.3
SEB Investment Management	7,521,072	1.8	-0.3
Handelsbanken Funds	7,032,268	1.7	0.5
Första AP fonden	3,742,815	0.9	0.5
Folksam	3,648,365	0.9	0.0
Livförsäkringsbolaget Skandia	3,125,758	0.8	0.2
Total ten largest shareholders	208,319,657	49.8	-2.4

Source: Euroclear

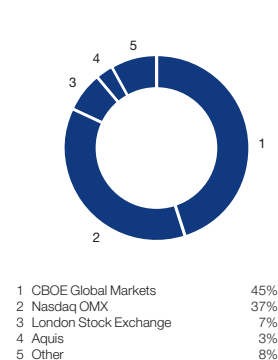
⁵⁾ The table is adjusted for nominee-registered shares.Dividend and percentage of adjusted EPS⁶⁾⁶⁾ Adjusted for step up amortization net of taxes.⁷⁾ Board motion to the Annual General Meeting.

Source: Alfa Laval

Geographic distribution of the free float, % of capital and voting rights⁸⁾⁸⁾ Excluding Tetra Laval International SA (Switzerland) 29.1%.

Source: Euroclear

Share turnover on various marketplaces 2020



Source: Fidessa

* Cancelled dividend due to uncertain market conditions as a result of COVID-19 pandemic.



Contents

– Corporate Governance Report

Introduction by the Chairman of the Board	56
Corporate Governance Report 2020	57
Share and ownership structure	58
Annual General Meeting	58
Annual General Meeting for the 2019 fiscal year	58
Nominating Committee	60
Board of Directors	61
Committees	63
The company's auditors	63
Remuneration to auditors	63
Board of Directors and auditors	64
President and Group management	66
Areas of responsibility	66
Remuneration to senior executives	66
Operational control	67
Group management meetings in 2020	68
Board of Directors' report on internal control	68
Control environment	68
Risk assessment	68
Control structures	68
Information and communication	69
Follow-up	69
Auditor's statement on the Corporate Governance Report	70



Introduction by the Chairman of the Board

Alfa Laval

Little did I know, entering my first year as Chairman of the Alfa Laval Board, what a different and challenging year this would be. By early 2020 employees all over the world were forced to contend with a new normal; lockdowns, travel bans and challenges of different kinds. Despite this Alfa Laval remained resilient and adjusted rapidly to the new situation while maintaining employee's safety and customers business continuity in focus. During the year, I have been impressed to see the strong drive on customer focus and the competence and technology skills that the organization possesses.

Alfa Laval's innovative technologies are dedicated to purifying, refining, and reusing materials, promoting more responsible use of natural resources. They contribute to improved energy efficiency and heat recovery, better water treatment, and reduced emissions. Alfa Laval is thereby, not only accelerating success for its customers, but also for people and the planet, making the world a better place.

The Board of Directors is responsible for the organization and management of the Group and for creating the conditions for long-term profitable growth with the best interest of the company and owners in mind. This is done by regularly assessing the Group's financial situation and the companies financial, legal, social, and environmental risks, ensuring that the organization is designed for satisfactory control.

We are committed to building a better future for our customers and the Board is fully supportive of the company's relentless focus on developing and improving its product portfolio with the aim of staying ahead and securing long-term value creation in the years ahead.

The year in brief

2020 has been a year like no other. It has been a year of unprecedented challenges, but also a year that offered opportunities.

In 2020, Alfa Laval continued to transform its sales of service and spare parts as well as its customer service in line with its strategy to make them more digitized and data based. Initiatives like digi-

talization, including connected equipment and remote diagnostics, were accelerated to better service and support many of our customers during a difficult year.

The ultimate goal of transforming the service business is for Alfa Laval to be able to fully leverage its installed base, improve and expand the customer base and simultaneously improve the customer experience, thereby supporting the Alfa Laval brand.

The Board continued to focus on key initiatives implemented within the framework of the company's strategic priorities to reach its growth, profitability, and capital utilization goals. Our efforts to develop products and systems for a changing world, with new demands and needs concerning energy supply, energy utilization and food production as well as changing regulations, continued.

Product launches across the various technological platforms continued at a rapid pace while the company worked on adjusting its existing manufacturing capacity to meet changing demands. This was done while accelerating connectivity, rolling out of e-commerce solutions, and handling the rapid changes without disruptions in the supplier chain or deliveries to customers.

All in all, despite a challenging 2020, Alfa Laval performed well. While volumes were lower, profitability remained at a high level and a strong cash flow put us in a good position going forward.

I would like to take this opportunity to thank my fellow Board members for good cooperation, constructive contributions and engaged work. I would also like to thank the Alfa Laval management and all its employees for exceptional work during a challenging year.

Lund, February 2021

Dennis Jönsson
Chairman of the Board

Corporate Governance Report 2020

Alfa Laval offers efficient and environmentally responsible products and solutions in the areas of heat transfer, separation and fluid handling. The business is driven by clear goals for growth, profitability and returns, at the same time as there are distinct requirements on Alfa Laval to act in a manner that is sustainable from a long-term perspective for its shareholders, employees, customers, suppliers and other stakeholders.

The framework for the company's corporate governance is based on various laws and regulations, such as the Swedish Companies Act, the Swedish Annual Accounts Act, the rules of the stock exchange and the Swedish Corporate Governance Code (the "Code"). These are supplemented by the company's business principles regarding the environment, human rights, ethics and transparency. The company's control is also subject to internal regulations, including governing documents with 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. This Corporate Governance Report aims to describe the guidelines that are in place, the division of responsibility within the company and the interaction between the Annual General Meeting, the Board of Directors and the President. The Report was reviewed by the company's auditors.



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 company is listed on Nasdaq Stockholm AB. 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 a General Meeting. Nor do they include any specific rules regarding the appointment and dismissal of Board members or changes in the Articles of Association.



Alfa Laval's currently prevailing Articles of Association were adopted at the Annual General Meeting on April 23, 2020 and are available in their entirety on www.alfalaval.com

Share and ownership structure

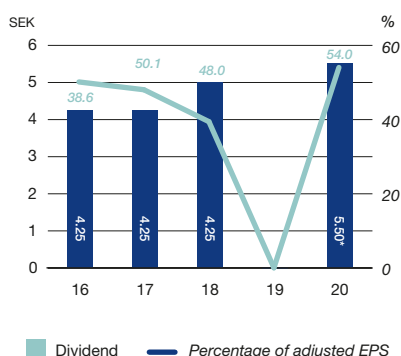
At December 31, 2020, Alfa Laval had 419,456,315 shares outstanding, allocated among 43,417 shareholders according to Euroclear Sweden's share register. Alfa Laval has only one class of shares and each share corresponds to one vote. Tetra Laval International SA was the largest owner, with 29.1 percent 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 Alecta with 5.8 percent, followed by AMF with a holding of 3.7 percent. Legal entities accounted for slightly more than 95 percent of the holdings, while individuals accounted for the remainder. From a geographic perspective, the following five countries represented a total of 93.0 percent of the shareholdings: Sweden, Switzerland, the US, the UK and Luxembourg. For more information about Alfa Laval's share, share performance and ownership structure, refer to the Share section on pages 52–53.



Annual General Meeting

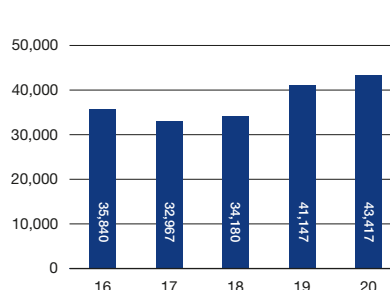
The Annual General Meeting is the company's highest decision-making body in which all shareholders are entitled to participate and each share entitles its holder to one vote. The majority of motions addressed at the Annual General Meeting are decided by a simple majority. However, certain points sometimes require a qualified majority, for example, amendments to 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 in Lund. The date and location are announced not later than in conjunction with the publication of the interim report for the third quarter. To be entitled to participate and vote in the Annual General Meeting, shareholders must be registered in the share 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 Group management. The company's auditors are always present.

Dividend and percentage of adjusted EPS**



* Board motion to the Annual General Meeting.
** Adjusted for step up amortization net of taxes.

Total number of shareholders



Ownership categories at December 31, 2020

	No. of shares	Holding, %
Financial companies	91,204,734	21.7%
Other financial companies	168,917	0.0%
Social insurance funds	8,110,132	1.9%
Government	259,453	0.1%
Municipal sector	28,682	0.0%
Trade organizations	4,023,903	1.0%
Other Swedish legal entities	6,044,800	1.4%
Shareholders domiciled abroad (legal entities and individuals)	287,312,514	68.5%
Swedish individuals	20,839,602	5.0%
Uncategorized legal entities	1,463,578	0.3%

Source: Euroclear

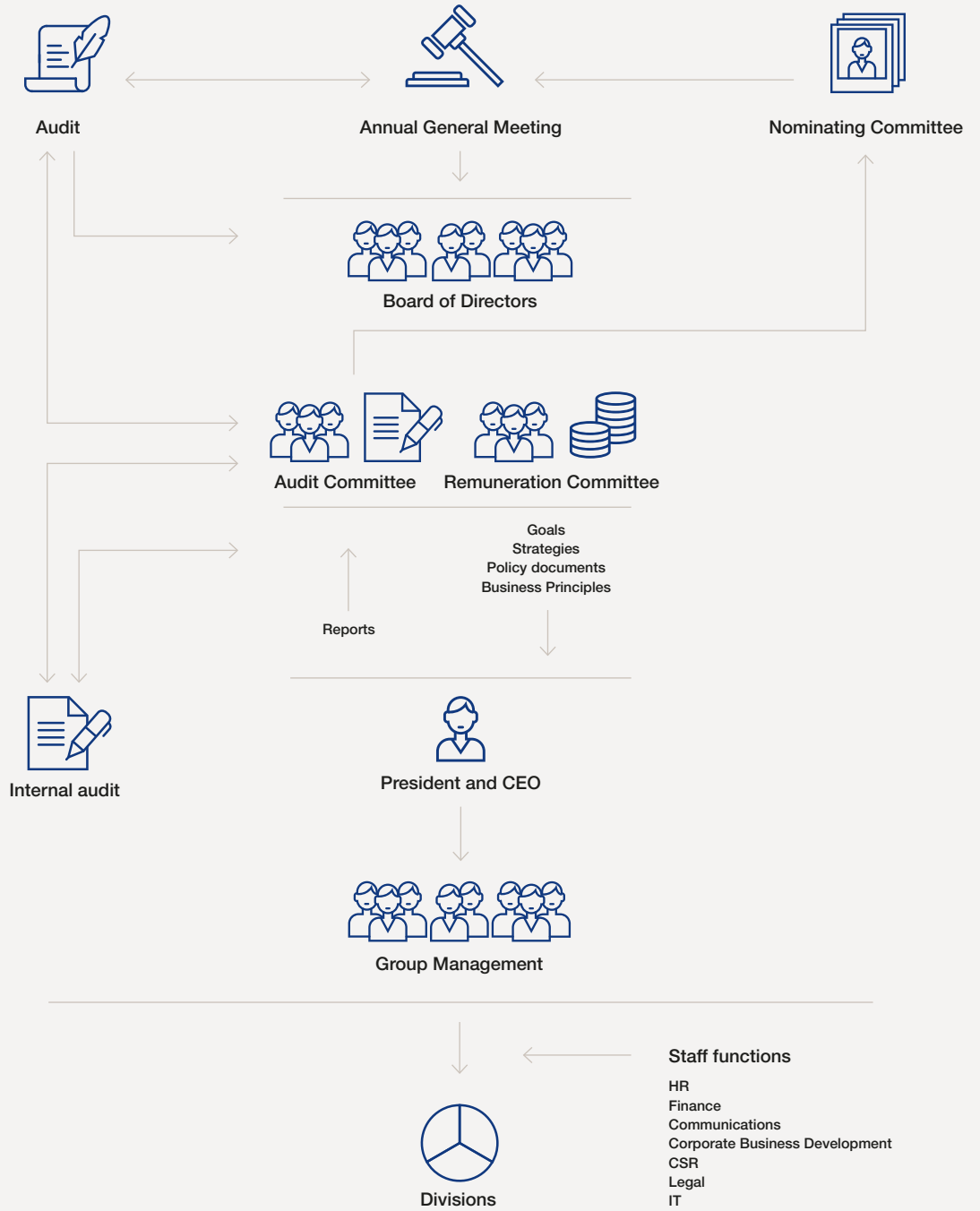
Ten largest shareholders at December 31, 2020*

	No. of shares	Capital/voting rights, %	Change in holding in 2020, percentage points
Tetra Laval International SA	122,037,736	29.1	0.0
Alecta	24,312,464	5.8	0.2
AMF Insurance and Funds	15,377,737	3.7	-1.6
Swedbank Robur Funds	11,883,626	2.8	-1.6
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Första AP fonden	3,742,815	0.9	0.5
Folksam	3,648,365	0.9	0.0
Livförsäkringsbolaget Skandia	3,125,758	0.8	0.2
Total ten largest shareholders	208,319,657	49.8	-2.4

Source: Euroclear

* The table is adjusted for nominee-registered shares.

Corporate governance



Annual General Meeting for the 2020 fiscal year

The Annual General Meeting of Alfa Laval AB (publ) will be held on Tuesday, April 27, 2021, at 4:00 p.m.

In accordance with the company's Articles of Association, notice of the Annual General Meeting will be inserted as an announcement in the Swedish Official Gazette and on the company's website not more than six and not less than four weeks prior to the Meeting. An announcement that notification has been issued will be placed in Dagens Nyheter. As a service to existing shareholders, information about the Annual General Meeting can also be sent to them by mail.

Annual General Meeting for the 2019 fiscal year

The Annual General Meeting for the 2019 fiscal year was held at Scandic Star in Lund on April 23, 2020. As a result of the restrictions taken to reduce the risk of spreading COVID-19, a very limited number of people participated in the Meeting and Anders Narvinger, Chairman of the Board, and Finn Rausing, Chairman of the Nominating Committee, participated via phone. Other Board members, proposed new members and other members of the Nominating Committee also participated via phone. A total of 20 people were present at the Annual General Meeting, including shareholders, proxies, assistants, guests and officials. In conjunction with the Annual General Meeting, Alfa Laval's owners were given the option of early voting by mail. The total number of votes represented at the Meeting corresponded to 31 percent of the total number of votes in the company. Attorney Erik Sjöman was elected as the Meeting Chairman. The minutes from the Annual General Meeting, and all other information related to the Meeting, are available at www.alfalaval.com/investors/corporate-governance/.

The resolutions passed at the Meeting included the following:

– A resolution was passed to adopt the income statement and balance sheet as well as the consolidated income statement and consolidated balance sheet and to discharge the Board of Directors and President from liability.

– A resolution was passed that no dividend be paid for 2019 and that the company's profits be carried forward.

– A resolution was passed that the number of Board members appointed by the Meeting is to amount to eight, with no deputies.

– A resolution was passed that fees paid to non-executive Board members elected by the Meeting remain unchanged at SEK 5,845,000. In addition, fees for work on the Board's committees are to remain unchanged.

– A resolution was passed to re-elect Board members Finn Rausing, Jörn Rausing, Ulf Wiinberg, Henrik Lange, Heléne Mellquist and Maria Moræus Hanssen. Dennis Jönsson and Ray Mauritsson were elected as new Board members. Anders Narvinger and Anna Ohlsson Leijon declined re-election.

It was resolved that Dennis Jönsson be elected as the new Chairman of the Board.

– A resolution was passed in favor of the Nominating Committee's proposal, resulting in the re-election of Authorized Public Accountants Staffan Landén and Karoline Tedevall as the company's auditors. Authorized Public Accountants Henrik Jonzén and Andreas Mast were also elected as the company's deputy auditors.

– A resolution was passed in favor of the

Board's proposed guidelines for remuneration to senior executives.

– A resolution was passed in favor of the Board's proposed changes to Alfa Laval AB's Articles of Association.



Nominating Committee

Work of the Nominating Committee

The Nominating Committee, which comprises representatives of the largest shareholders, is responsible for preparing and submitting motions regarding candidates for Board members and, if applicable, auditors. The supporting documentation utilized for the Committee's 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. The Nominating Committee is also responsible for submitting motions in respect of remuneration to members of the Board and its committees.

Composition for the 2021 Annual General Meeting

The composition of the Nominating Committee is determined in accordance with the process approved by the Annual General Meeting. The Chairman of the Board contacts representatives of the institutions which, as of the end of August,

Composition of the Nominating Committee ahead of the Annual General Meeting for the 2020 fiscal year

Name	Representing	Shareholding in Alfa Laval, %*
Jörn Rausing	Tetra Laval International SA	29.2
Ramsay Brufer	Alecta Pensionsförsäkring	5.6
Anders Oscarsson	AMF Insurance and Funds	4.4
Jan Andersson	Swedbank Robur Funds	3.3
Per Trygg	SEB Funds	1.8

*As of August 31, 2020.

Proposals to the Nominating Committee

Shareholders wishing to submit proposals to the Nominating Committee prior to the Annual General Meeting were able to contact Alfa Laval's Board Chairman Dennis Jönsson, or one of the owner representatives. Contact could also take place directly via e-mail at valberedningen@alfalaval.com. The final day for submitting matters to be addressed by the Annual General Meeting was March 9, 2021.

are among the largest shareholders and requests that they each appoint one member. The composition is then announced in a press release, in the third-quarter interim report and on Alfa Laval's website. Ahead of the 2021 Annual General Meeting, the composition of the Nominating Committee was announced on September 28, 2020. It was also included in Alfa Laval's third-quarter interim report, which was published on October 22, 2020. The Nominating Committee for the Annual General Meeting for the 2020 fiscal year comprised the following individuals: Jörn Rausing (Tetra Laval International SA), Ramsay Brufer (Alecta Pensionsförsäkring), Anders Oscarsson (AMF Insurance and Funds), Jan Andersson (Swedbank Robur Funds) and Per Trygg (SEB Funds). The holdings of the Nominating Committee represented 44.2 percent of the number of shares outstanding at August 31, 2020.

Chairman of the Board Dennis Jönsson was elected as a member, Alfa Laval's General Counsel and Board secretary Emma Adlerton was elected as secretary and Jörn Rausing was elected as Chairman of the Nominating Committee. Due to Jörn Rausing's position as a Board member, his role as Chairman is a deviation from the Code. The reason for this deviation is that the Nominating Committee deemed Jörn Rausing to be particularly well suited to lead the work of the Committee and obtain the best possible results for the company's owners.

Proposals to the Nominating Committee

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Work of the Nominating Committee ahead of the 2020 Annual General Meeting

The Nominating Committee held four minutes meetings ahead of the Annual General Meeting that took place in April 2020 for the 2019 fiscal year. The Nominating Committee also conducted discussions by phone and e-mail. The meetings covered an evaluation of the Board's composition, an assessment of the potential future competence requirements of the Board and an evalu-

ation of candidates for the Board's coming term. As a basis for its work, the Nominating Committee used an internal evaluation of the work of the Board that was conducted by the Chairman of the Board.

The reasoned statement of the Nominating Committee ahead of the 2020 Annual General Meeting stated that the Nominating Committee had applied Rule 4.1 of the Swedish Corporate Governance Code ("the Code") as its diversity policy when preparing its motion to the Board. The aim of the policy is to ensure that the composition of the Board of Directors is appropriate to the company's operations, phase of development and other relevant circumstances, and that it is characterized by diversity and breadth of qualifications, experience and background, and that an even gender balance is sought after.

Ahead of the 2020 Annual General Meeting, the Nominating Committee was tasked with preparing proposals for a new Chairman and another new member of Alfa Laval's Board of Directors. In its work, the Nominating Committee focused particularly on identifying and proposing Board members who together would represent a broad range of industrial experience and experience in development areas relevant to Alfa Laval. For the role of Chairman, the Nominating Committee's goal was to find a candidate with comprehensive experience in leading international companies similar to Alfa Laval. The Nominating

Committee's efforts resulted in the Annual General Meeting appointing Dennis Jönsson as Chairman and Board member and electing Ray Mauritsson as a new Board member.

Over the last few years, the Nominating Committee has aimed for an even distribution of gender on the Board, in accordance with the benchmark level stipulated in the Swedish Corporate Governance Board. The current Board consists of two women and six men, which represents a share of 25 percent women. This is less than ideal and the issue will continue to receive careful scrutiny.

At the 2020 Annual General Meeting, Anders Narvinger was thanked for his time as Chairman of the Board.



Board of Directors

Work and responsibilities

The Board administers the company on behalf of the shareholders and thus bears the ultimate responsibility for the organization and administration of the company. The work and responsibilities of the Board are governed by the Swedish Companies Act, the Swedish Board Representation (Private Sector Employees) Act, Alfa Laval's Articles of Association, the Board's

Remuneration of Board members and attendance at Board meetings

	Name	Present	Remuneration*
Appointed by the AGM	Anders Narvinger **	● 5	-
	Dennis Jönsson***	● 10	1,750,000
	Henrik Lange	15	585,000
	Ulf Wiinberg	15	585,000
	Finn Rausing	15	585,000
	Jörn Rausing	14	585,000
	Anna Ohlsson-Leijon**	4	-
	Heléne Mellquist	12	585,000
	Ray Mauritsson***	10	585,000
	María Moreaus Hanssen	15	585,000
Employee representatives	Bror García Lantz	15	-
	Susanne Jonsson	15	-
	Henrik Nielsen	15	-
	Total	15	5,845,000

● Chairman *The remuneration recognised pertains to the period between two AGMs

Declined re-election at the AGM *Appointed after the AGM

own formal work plan, Nasdaq's Rule Book for Issuers and the Code. The Board establishes and evaluates Alfa Laval's overall long-term objectives and strategies. This 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 is also responsible for Alfa Laval's business principles, which determine how the company and its employees are to conduct themselves in society, taking into consideration the environment, ethics, social responsibility and transparency. The Board is responsible for the Corporate Governance Report. The Board is also responsible for ensuring that processes are in place for monitoring compliance with relevant laws and rules. The Board appoints, evaluates and dismisses the company's President, establishes the instructions for the President with respect to the Group's daily operations and approves the President's commitments outside the company. Through the Audit Committee, the Board procures auditing services, maintains ongoing contact with the company's auditors and works to ensure that a sound internal control function and formalized procedures are in place to enable monitoring and assessment of the company's financial situation. Through the Remuneration Committee, the Board also 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 the 2020 Annual General Meeting, eight members were elected, and no deputies. The members are elected annually for the period until the conclusion of the next Annual General Meeting and are 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. Additionally, 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, as does its General Counsel, who serves as Board secretary. For more information about the goals regarding Board composition, refer to "Work of the Nominating Committee ahead of the 2020 Annual General Meeting" on page 91.

Independence of Board members

All members of the Alfa Laval Board elected by the Annual General Meeting are considered independent of the company and its management. All members are also considered independent of the company's major shareholders, except Finn Rausing, Jörn Rausing and Dennis Jönsson, who cannot be considered independent due to their relationship with Tetra Laval International SA, which owned 29.1 percent of the shares in the company as of December 31, 2020.

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. 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 separate instructions 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 2020

The Board held 15 meetings in 2020, including eight ordinary and seven extraordinary meetings. 11 meetings were held by phone, while the other meetings were held in Lund and Stockholm in Sweden. The company's President prepares an agenda for each meeting in consultation with the Chairman of the Board. Normal agenda items include health and safety, earnings results, order trends, investments, sustainability and acquisitions. In addition to these, much time was spent discussing the COVID-19 situation, the tender offer for Neles and adapting the organization to a changing market. The Board also focused on reviewing personnel issues.

Board training

All new Board members undergo an extensive introduction program. In addition, a combined training course and field trip takes place each year. However, due to COVID-19, the trip was canceled.

Evaluation of the Board's work

The Chairman of the Board ensures that an annual evaluation is conducted of the work of the Board. The evaluation focuses on work methods and work climate as well as its access to and the need for particular Board competence in order to lay the foundation for a well-functioning and efficient Board. External resources are brought in at regular intervals to evaluate the work of the Board. Regardless of whether it is conducted internally or externally, the evaluation forms a foundation for the Nominating Committee's work related to the nomination of Board members and proposed remuneration levels. In 2020, the evaluation was conducted by the Chairman of Board through an external evaluation and discussions with the Board members. The evaluation followed a clear structure based on standard models. The results were reported to the Board and communicated to the Nominating Committee.

Responsibilities of the Chairman of the Board

The Chairman of the Board directs the work of the Board in a manner that ensures it complies with prevailing laws and regulations, the Code and the Board's formal work plan. The Chairman must ensure that the work is well organized and conducted efficiently, and that the Board fulfills its tasks. In dialogue with the company's President, the Chairman monitors operational developments and is responsible for ensuring that the other members continuously receive all information necessary for the work of the Board to be performed in the most effective manner. Together with the company's President, the Chairman also approves the proposed agenda for Board meetings. The Chairman is responsible for ensuring that new Board members receive an introduction to the company and any other training agreed on by the Chairman and the individual member within six months from the member's election. In addition to being responsible for evaluating the Board's work, the Chairman also participates in evaluation and development matters with respect to the Group's senior executives. The Chairman ensures that the Board's decisions are executed and represents the company in ownership issues.

Audit Committee: fees and attendance

Name	Present	Remuneration
Anna Ohlsson-Leijon**	● 2	–
Henrik Lange	● 6	200,000
Heléne Mellquist	6	125,000
Dennis Jönsson*	4	125,000
Total	6	450,000

● Chairman

*Appointed after the AGM **Declined re-election at the AGM

Remuneration of 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

The Audit Committee ensures compliance with the principles for financial reporting and internal control. The Committee formulates guidelines for the company's financial reporting and follow-up, and has the right to determine the focus of the internal audit. The Committee examines the procedures for reporting and financial controls as well as the work, qualifications and independence of the external auditors. The Committee also follows up the effectiveness of the internal control systems and reviews the company's financial reports. For further information regarding the responsibilities of the Audit Committee, refer to "The Board of Directors' report on internal control" on page 68.

Members and meetings in 2020

Members are appointed annually at the Board's statutory meeting. In 2020, the Committee comprised Henrik Lange (Chairman), Dennis Jönsson and Heléne Mellquist with the Group Controller serving as secretary. Six digital meetings were held during the year. The company's Chief Financial Officer, the Head of the Internal Audit Function and the company's auditors also attend the Committee's meetings. The meetings addressed the following:

- financial reports and debriefing from the external auditors,
- Group provisions and allocations,
- planning external and internal audits,
- internal control processes,
- closing down the company's reinsurance company,
- the financial policy and capital structure strategy as well as the company's enterprise risk management plan, and
- reviewing the outcome of the self-assessment of managers in the Group regarding internal control points.

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 and Group management. The Committee is responsible for preparing the Executive Remuneration Policy to senior executives to be resolved on by the Annual General Meeting and for submitting motions to the Board of Directors regarding the report on remuneration paid and outstanding, which is to be prepared by the Board each fiscal year and be presented to the Annual General Meeting for approval. In addition, the Committee submits proposals to the Board on matters regarding salary and employment terms for the President and for senior executives who report directly to the President.

Members and meetings in 2020

The Remuneration Committee is appointed annually at the Board's statutory meeting. The Committee held two meetings in 2020. At the first meeting in February 2020, the Committee comprised Anders Narvinger (Chairman), Jörn Rausing and Ulf Wiinberg. At the second meeting in December 2020, the Committee comprised Dennis Jönsson (Chairman), Jörn Rausing and Ulf Wiinberg. 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. During the year, the Remuneration Committee proposed, among other things:

- The executive remuneration policy according to Chapter 7 and 8 of the Swedish Companies Act (Sw. Aktiebolagslagen)
- The goals for the short-term incentive (STI) and long-term incentive (LTI) plans.
- Defined benefits pension plan obligations was also discussed.



The company's auditors

The auditors comprise a supervisory body appointed by the Annual General Meeting. The 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 results of the audit – the Audit Report – are communicated to shareholders in the Annual Report and at the Annual General Meeting. In addition, the auditors present a statement regarding the 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, 2020, Authorized Public Accountants Staffan Landén and Karoline Tedeval were elected as the company's auditors. Henrik Jonzén and Andreas Mast were elected as deputy auditors. According to Alfa Laval's assessment, none of these auditors has any relationship to Alfa Laval, or any company related to Alfa Laval, that could affect their independent status. In 2020, the entire Board received a report from the company's external auditors on one occasion. On this occasion, the Board met with the auditors without the CEO or anyone from Group management being present. The Audit Committee received separate reports on six occasions.

Remuneration to auditors

Refer to Note 7 on page 123.

Remuneration Committee: fees and attendance

Name	Present	Remuneration
Anders Narvinger*	● 1	–
Dennis Jönsson**	● 1	50,000
Jörn Rausing	2	50,000
Ulf Wiinberg	2	50,000
Total	2	150,000

● Chairman

*Declined re-election at the AGM **Appointed after the AGM

Board of Directors and auditors

Appointed by the Annual General Meeting



Dennis Jönsson
Chairman since 2020.

Born: 1956.

Formerly President and CEO of Tetra Pak.

Education: BSc. Econ from Stockholm University.

Independent of the company.

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



Ulf Wiinberg
Board member since 2013.

Born: 1958

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

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

Board member: UCB Pharma and Agenus Inc.

Independent of the company and major shareholders.

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



Henrik Lange
Board member since 2018.

Born: 1961

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

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

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

Independent of the company and major shareholders.

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



Heléne Mellquist
Board member since 2019.

Born: 1964

CEO of Volvo Penta.

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

Board member: Thule Group AB.

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

Independent of the company and major shareholders.

Number of shares in Alfa Laval:
-



Finn Rausing
Board member since 2000.

Born: 1955

Education: B.L., MBA from INSEAD.

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

Independent of the company.

Number of shares in Alfa Laval:
-



Jörn Rausing
Board member since 2000.

Born: 1960

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

Education: BSc. Econ.

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

Independent of the company.

Number of shares in Alfa Laval:
-



Maria Moraeus Hanssen
Board member since 2019.

Born: 1965

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

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

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

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

Independent of the company and major shareholders.

Number of shares in Alfa Laval:
-



Ray Mauritsson
Board member since 2020.

Born: 1962

President and CEO, Axis AB.

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

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

Independent of the company and of major shareholders.

Number of shares in Alfa Laval:
-

Employee representatives



Henrik Nielsen
Employee representative since 2015.

Born: 1968

Employed by Alfa Laval since 1994.

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

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



Susanne Jonsson
Employee representative since 2016.

Born: 1965

Employed by Alfa Laval since 2008.

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

Number of shares in Alfa Laval:
-



Bror García Lantz
Employee representative since 2012.

Born: 1965

Employed by Alfa Laval since 1990.

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

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

Deputy employee representatives

Leif Norkvist
Deputy member since 2009.

Born: 1961

Employed by Alfa Laval since 1993.

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

Stefan Sandell
Deputy member since 2005.

Born: 1971

Employed by Alfa Laval since 1989.

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

Johnny Hultén
Deputy member since 2017.

Born: 1961

Employed by Alfa Laval since 1977.

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

Auditors

Staffan Landén
Authorized Public Accountant, EY.

Born: 1963

Company auditor since 2018.

Karoline Tedevall
Authorized Public Accountant, EY.

Born: 1978

Company auditor since 2018.

Deputy Auditors

Henrik Jonzén
Authorized Public Accountant, EY.

Born: 1977

Deputy auditor since 2018.

Andreas Mast
Authorized Public Accountant, EY.

Born: 1979

Deputy auditor since 2020.

*Holdings at December 31, 2020. **Holdings at December 31, 2019.

President and Group management



Tom Erixon
President and CEO.

Born: 1960

CEO since March 1, 2016.

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

Board member: Boliden AB.

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

Number of shares in Alfa Laval:
101,200* (81,200**)



Jan Allde
Chief Financial Officer.

Born: 1967

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

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

Education: BSc. Econ from Stockholm University.

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



Pascale Gimenez
Senior Vice President,
Human Resources.

Born: 1966

Employed by Alfa Laval since August 1, 2018.

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

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

Number of shares in Alfa Laval:
-



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

Born: 1973

Employed by Alfa Laval since 2008.

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

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

Number of shares in Alfa Laval:
1,000*



Mikael Tydén
President, Operations Division.

Born: 1967

Employed by Alfa Laval since 1995.

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

Education: Ms. Mech. Eng.

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

*Holdings at December 31, 2020. **Holdings at December 31, 2019.

Areas of responsibility

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

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

The remuneration principles for the President and other members of Group management are determined by the Annual General Meeting. For additional information, refer to pages 121–123 and 149–151.



Joakim Vilson
Senior Vice President,
Global Sales & Service.

Born: 1965

Employed by Alfa Laval since 1990.

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

Education: BSc. Eng.

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



Susanne Pahlén Åklundh
President, Energy Division.

Born: 1960

Employed by Alfa Laval since 1983.

President of the Energy Division since 2017. Former positions include President of the Equipment Division, Head of Mid Europe and Nordic, and Head of the Process Industry segment.

Board member: Trelleborg AB.

Education: BSc. Eng.

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



Nish Patel
President, Food & Water Division.

Born: 1962

Employed by Alfa Laval since 1984.

Former positions include Executive Vice President in charge of the Western Europe and North America Regions, and Head of India and the UK.

Education: BSc. Eng.

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



Sameer Kalra
President, Marine Division.

Born: 1962

Employed by Alfa Laval since 2011.

Previously Head of the Pumping Systems and Offshore business units.

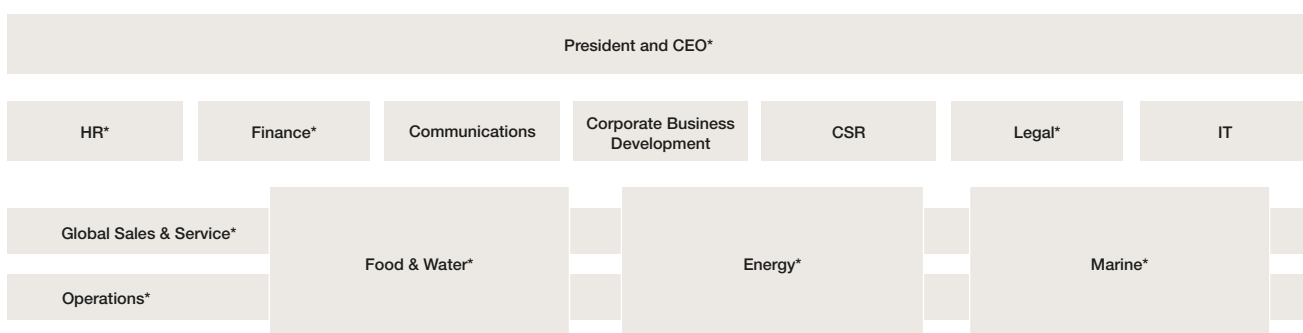
Education: Marine engineer and MBA.

Number of shares in Alfa Laval: –

*Holdings at December 31, 2020. **Holdings at December 31, 2019.

Operational control

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



*Members of Group management

Group management meetings in 2020

Group management held eight scheduled meetings in 2020 during which minutes were taken. In addition, quarterly reviews were performed to discuss the business developments in the divisions and regions. These reviews addressed the business climate, earnings, earnings projections for the next 12 months and specific issues affecting the respective business areas. Separate strategy meetings were also held to address, among other areas, management's proposals concerning the future direction with regard to organic growth and growth through acquisitions. In 2020, Group management meetings concentrated on addressing the effects of COVID-19, risks and opportunities in individual business units, products,

application areas and geographic regions as well as the consequences for the supply chain. Group management also addressed research, development and product launches as well as the company's strategies and the future direction of the individual divisions. Additional topics of discussion included structures concerning processes, system support and the service business as well as opportunities within digital market communications and the development of solutions for electronic development and control of the company's products. Sustainability was also discussed during the meetings, with a focus on health and safety.

Board of Directors' report on internal control

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

Control environment

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

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

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

The Committee examines procedures for reporting and financial controls as well as addressing the company's financial reports. It also monitors, evaluates and discusses significant issues related to accounting and financial reporting. The Committee evaluates and manages information pertaining to disputes and potential improprieties, and assists management with identifying and evaluating mainly financial and similar risks that are relevant to the operations in order

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

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

The President is subject to instructions issued by the Board and is responsible for ensuring an effective control environment. The President is also responsible for the ongoing control work and for ensuring that the company's accounting complies with

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

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

The internal auditors review and implement improvements to the internal control function, conduct internal audits – which are reported to the Audit Committee – and propose plans for the coming six to eight months. The internal auditors also issue reports from individual audits to the appropriate members of Group management. Procedures are in place for performing regular reviews of the agreed actions to guarantee that specific actions are taken following the internal audit. These are based on an agreed schedule set with the party responsible for the individual activities. The Internal Audit Function comprises four internal auditors, internal specialist resources and external auditors. Internal audits encompass a broad spectrum of functions and issues determined by the Board. The areas audited include: compliance with the systems, guidelines, policies and processes established for the Group's business operations; the existence of systems to ensure that financial transactions are carried out, archived and reported in an accurate and lawful manner; and opportunities to improve management control, the company's profitability and the organization, which may be identified during audits. In 2020, 35 internal audits were performed.

Risk assessment

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

Control structures

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

Information and communication

The company's regulations, guidelines and manuals are communicated through several internal channels and the efficiency of this communication is monitored on an ongoing basis. There are formal and informal information channels that enable employees to communicate important information to relevant recipients and ultimately, if necessary,

to the Board of Directors. Clear guidelines have also been established for external communications, the aim of which is to provide the most accurate and relevant overview possible while at the same time ensuring that all obligations are met.

Follow-up

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

Alfa Laval has implemented a management testing process for key internal controls over business processes in the company. The managers and key employees evaluated their compliance through a control self-assessment test for important internal controls in these business processes and will perform this on an annual basis. Based on the results, the internal controls framework will be strengthened and assist in risk-based valuation of the business processes at Alfa Laval.

Lund, February 2021

Board of Directors

Auditor's report on the corporate governance statement

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

Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the year 2020 on pages 55–69 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

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

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

Opinions

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

Lund 9 March 2021

Staffan Landén
Authorized Public Accountant
Ernst & Young AB

Karoline Tedevall
Authorized Public Accountant
Ernst & Young AB

Financial statements

Board of Directors' Report	72
Consolidated cash flows	86
Comments to the consolidated cash flows	87
Consolidated comprehensive income	88
Comments to the consolidated comprehensive income	89
Consolidated financial position	92
Comments on the consolidated financial position	94
Changes in consolidated equity	94
Comments on changes in consolidated equity	95
Parent company cash flows	96
Parent company income	96
Parent company financial position	97
Changes in parent company equity	98
Notes to the financial statements	99
Accounting principles	99
Objectives, policies and processes for managing capital	107
Financial risks	108
Operational risks	112
Notes	118
Auditor's report	152
Ten-year overview	156
Definitions	158

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, 2020 to December 31, 2020.

The information in this annual report is such information that Alfa Laval AB (publ) must publish in accordance with the Securities Market Act. The information was made public by publishing the annual report on Alfa Laval's website on March 31, 2021 at 10.00 CET.

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

Financial statements

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

The Corporate Governance Report, which also has been reviewed by the auditors, is to be found on page 55.

The company's statutory sustainability report 2020 is found in the Sustainability Report together with the risk section of the annual report. These two reports constitute the statutory sustainability report for the parent company and the consolidated Group. Acquisitions must within three years report sustainability data according to the Group's routines for sustainability reporting. The separate Sustainability Report was published at the same time as the annual report and is to be found on Alfa Laval's website Alfa Laval – Sustainability Reports.

Ownership and legal structure

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

The company had 43,417 (41,147) shareholders on December 31, 2020. The largest owner is Tetra Laval International SA, Switzerland, who owns 29.1 (29.1) percent. Next to the largest owner, there are nine institutional investors with ownership in the range of 5.8 to 0.7 percent. These ten largest shareholders owned 49.7 (51.7) 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 "Energy", "Food & Water" and "Marine" that sell to external customers and are responsible for the manufacturing of the products and one division "Operations & Other" covering procurement and logistics as well as corporate overhead and non-core businesses. These four divisions constitute Alfa Laval's four operating segments. The former "Greenhouse" Division ceased to exist as per the end of 2019 when the last operations were divested.

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

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

Units: Boiler Systems, Gas Systems, Marine Separation & Heat Transfer Equipment and Pumping Systems.

Material factors of risk and uncertainty

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

Acquisition of businesses

On December 31, 2020 Alfa Laval has acquired Sandymount, a US-based beverage technology company with a unique and patented membrane technology to concentrate beer. The technology in combination with Alfa Laval's extensive product range, will open up interesting business opportunities for the company and enable a more sustainable beer-delivery supply chain. Sandymount's patented membrane technology, Revos™, in combination with Alfa Laval's extensive product range for beer production, will enable beer producers to deliver high quality beer in concentrated form. The solution addresses the transportation inefficiencies in beer supply where beer remains one of the few water-laden products distributed as a 'mostly water' from producer to consumer. The newly acquired company will be integrated into the Business Unit Food Systems in the Food & Water Division.

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

On December 18, 2018 Alfa Laval announced that it has signed an agreement to acquire Airec – a Malmö, Sweden-based innovation company with patented technology for dimple asymmetry heat exchangers. The new company will be integrated into the Brazed & Fusion Bonded Heat Exchangers unit of the Energy Division. The acquired technology represents untapped opportunities in combination with Alfa Laval's existing heat transfer know-how, manufacturing footprint and global market presence. The transaction was closed on January 2, 2019.

Divestment of businesses

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

On December 12, 2018 Alfa Laval announced that it had signed an agreement to sell part of its air heat exchanger business related to commercial/industrial air heat exchangers in the Greenhouse division to the LU-VE Group. The transaction was closed on May 1, 2019. The divestment resulted in a gain of SEK 260 million that was reported as a comparison distortion item.

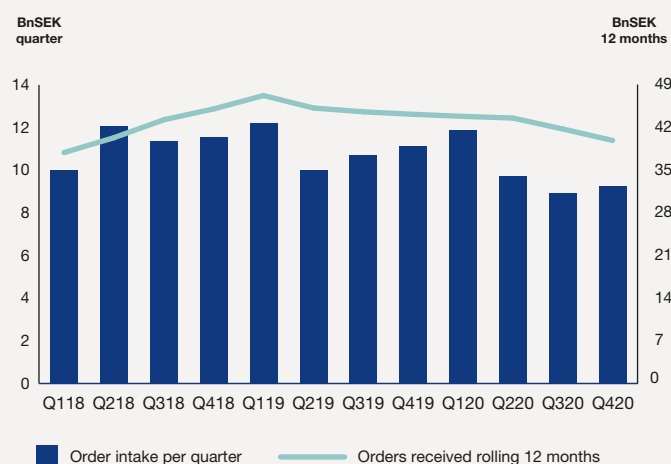
The last remaining Greenhouse operation shell-and-tube Sarasota, also known as Alfa Laval Champ, was sold to Thermal Solutions Manufacturing on December 31, 2019. The divestment resulted in a loss of SEK -71 million that was reported as a comparison distortion item.

Sale of real estate

During 2020 a few minor properties in different countries have been sold for SEK 7 (0) million with a realised result of SEK -0 (-4) million, which has been reported in other operating costs/income.

A small property in France is empty and has been for sale for several years. It is not expected to be sold within the next year. Five properties in India are for sale and are expected to be sold within the next year. The latter have therefore been classified as current assets held for sale with SEK 55 (-) million. The fair value of the properties for sale exceeds the book value by approximately SEK 24 (2) million.

Orders received



Orders received amounted to SEK 39,833 (44,119) million during 2020.

Order bridge

Consolidated		
SEK millions/%	2020	2019
Order intake last year	44,119	45,005
Organic ¹⁾	-5.8%	-3.6%
Structural ¹⁾	-0.2%	-2.1%
Currency	-3.7%	3.7%
Total	-9.7%	-2.0%
Order intake current year	39,833	44,119

¹⁾ Change excluding currency effects.

Orders received from the aftermarket Service constituted 29.6 (29.1) percent of the Group's total orders received for 2020.

Order bridge Service

Consolidated		
SEK millions/%	2020	2019
Order intake last year	12,824	11,568
Organic ¹⁾	-4.4%	6.6%
Structural ¹⁾	-0.1%	-0.4%
Currency	-3.7%	4.7%
Total	-8.2%	10.9%
Order intake current year	11,773	12,824

¹⁾ Change excluding currency effects.

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

Large orders

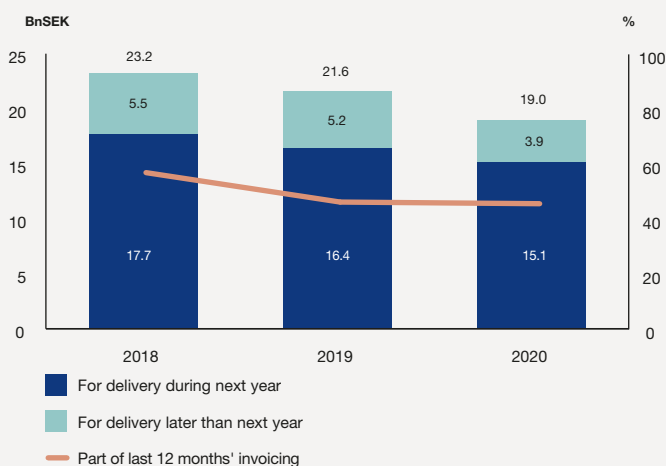
Large orders are orders with a value over EUR 5 million. The volume of large orders is an important indicator of the demand situation and is therefore monitored separately within Alfa Laval. A large volume of large orders normally also means a good load in the factories. During 2020 Alfa Laval has received the following large orders:

Large orders (>EUR 5 million)

Division	Business Unit Scope of supply	Order received in	Delivery date	Order amount	Total per Business Unit	
					2020	2019
				SEK millions		
Energy						
Welded Heat Exchangers						
	Alfa Laval Packinox heat exchangers to a petrochemical plant in China.	Q1	2020	60		
	Compact heat exchangers to a refinery and petrochemical plant in China.*	Q2	2021	76		
	Air cooler systems to a gas processing plant in the U.S.	Q2	2021	160		
	Alfa Laval OLMI heat exchangers to a gas compression plant in Algeria.	Q3	2021	75		
	Alfa Laval Packinox heat exchangers to a petrochemical plant in China and a refinery in Mexico.	Q3	2021/2022	130	501	950
Gasketed Plate Heat Exchangers						
	Compact heat exchangers to a refinery and petrochemical plant in China.*	Q2	2021	19	19	–
Food & Water						
Decaners						
	Decaners to a wastewater treatment plant in Singapore.	Q4	2022	75	75	225
Food Systems						
	A process line to be installed in a new St1 biorefinery in Sweden.	Q1	2020	60		
	Processing line to HollyFrontier Corporation for production of renewable diesel in the US.	Q4	2021	130	190	170
Marine						
Boiler Systems						
					–	155
Pumping Systems						
	Framo pumping systems to two customers in China and Singapore.	Q1	2020/2021	170		
	Framo pumping systems to an FPSO** vessel to be built in China.	Q2	2021	130		
	Framo pumping systems for two FPSO** vessels outside Brazil.	Q3	2021	155		
	Framo pumping systems for three FPSO** vessels to be built in China.	Q3	2021	275	730	165
Total					1,515	1,665

*One order split on two Business Units. ** FPSO = Floating Production, Storage and Offloading.

Order Backlog December 31



Excluding currency effects and adjusted for acquisition and divestment of businesses the order backlog was 7.6 percent lower than the order backlog at the end of 2019.

Net sales

Net sales amounted to SEK 41,468 (46,517) million during 2020.

Sales bridge

Consolidated		
SEK millions/%	2020	2019
Net sales last year	46,517	40,666
Organic ¹⁾	-6.6%	12.5%
Structural ¹⁾	-0.9%	-2.4%
Currency	-3.4%	4.3%
Total	-10.9%	14.4%
Net sales current year	41,468	46,517

¹⁾ Change excluding currency effects.

Net invoicing relating to Service constituted 28.7 (26.9) percent of the Group's total net invoicing for 2020.

Sales bridge Service

Consolidated		
SEK millions/%	2020	2019
Net sales last year	12,544	11,493
Organic ¹⁾	-1.3%	4.8%
Structural ¹⁾	-0.2%	-0.3%
Currency	-3.6%	4.6%
Total	-5.1%	9.1%
Net sales current year	11,898	12,544

¹⁾ Change excluding currency effects.

Operating segments

Organisational change

As of January 1, 2020, the product groups within Operations have been moved over to the Business Units within the Divisions. This gives the Business Units a clearer financial consolidation as a part of a more decentralised business organisation. Due to this the comparison figures for previous periods have been restated, which has impacted depreciation and amortisation, investments, assets, liabilities and number of employees by division. Remaining in Operations is procurement, logistics, distribution and production development.

The depreciation and amortisation that have been moved from Operations to the Divisions in the comparison periods have not impacted the operating income in the Divisions.

Operating segments

Energy Division

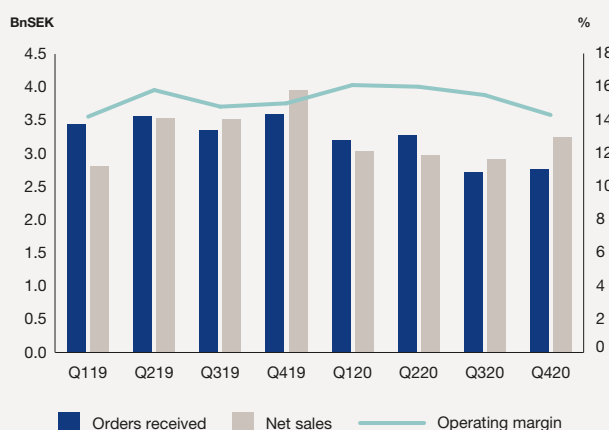
The division targets customers in HVAC and refrigeration markets as well as process industries such as chemicals, petrochemical industry and the oil & gas industry. Focus is on increased energy efficiency, waste heat recovery and sustainable solutions.

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

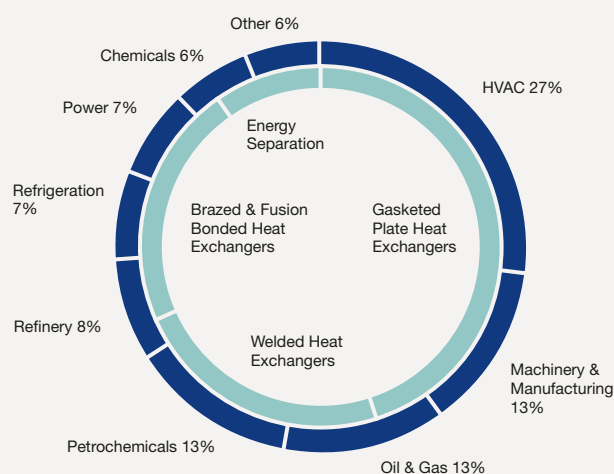
Energy Division		
Consolidated		
SEK millions	2020	2019
Orders received	11,952	13,963
Order backlog*	4,740	5,214
Net sales	12,187	13,814
Operating income**	1,882	2,069
Operating margin***	15.4%	15.0%
Depreciation and amortisation	452	467
Investments****	352	453
Assets*	12,726	14,570
Liabilities*	5,574	5,890
Number of employees*	5,111	5,365

* At the end of the period. ** In management accounts. *** Operating income in relation to net sales. **** Excluding new leases. Comparison figures for last year have been restated due to the organisational change described above.

Quarterly development



Order intake 2020 split per end market/business unit



Order intake

Order bridge		
Consolidated		
SEK millions/%	2020	2019
Order intake last year	13,963	12,685
Organic ¹⁾	-11.5%	5.4%
Structural ¹⁾	0.0%	0.1%
Currency	-2.9%	4.6%
Total	-14.4%	10.1%
Order intake current year	11,952	13,963

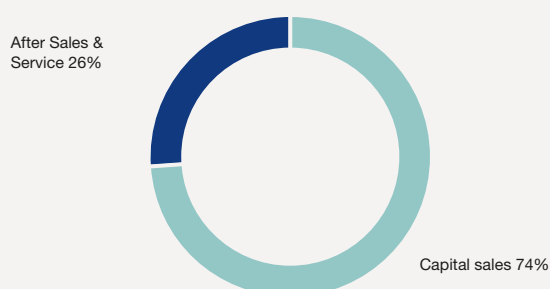
¹⁾ Change excluding currency effects.

The Energy Division's overall order volumes declined compared to last year.

The main reason for the decline is lower investments by customers active in the hydrocarbon chain. The customers were hit by over-capacity and lower demand for oil due to the COVID-19 pandemic and in addition by the lower oil price. For the remaining industries, that together makes up approximately two thirds of the volume, order intake was flat. Sectors that did grow in the year was refrigeration and power. The drop in order intake was higher in geographies that have a large industrial sector that is based on the hydrocarbon chain, like North America, Russia and the Middle East.

Lockdowns and low activity have reduced the order intake for service during 2020. The industries behind the lower order intake for service were also to be found in the hydrocarbon chain. In other process industries and light industries, the order intake for service was flat.

Order intake 2020 split on:



Net sales

Sales bridge		
Consolidated		
SEK millions/%	2020	2019
Net sales last year	13,814	12,413
Organic ¹⁾	-8.9%	6.4%
Structural ¹⁾	0.0%	0.1%
Currency	-2.9%	4.8%
Total	-11.8%	11.3%
Net sales current year	12,187	13,814

¹⁾ Change excluding currency effects.

The decrease in net invoicing during the year was due to lower deliveries to oil and gas customers.

Operating income

Income bridge		
Consolidated		
SEK millions	2020	2019
Operating income last year	2,069	1,770
Volume ¹⁾	-407	257
Mix ¹⁾	114	160
Costs ¹⁾	143	-182
Currency	-37	64
Operating income current year	1,882	2,069

¹⁾ Change excluding currency effects.

The drop in net sales has partly been compensated for by a positive mix and lower overhead costs. The latter following the cost reduction programme and low travel activities. Currency effects had a negative impact on the result.

Operating segments

Food & Water Division

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

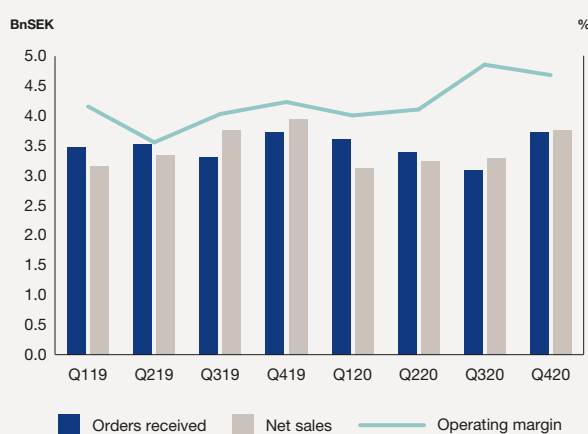
The Food & Water Division consists of five Business Units: Decanters, Food Heat Transfer, Food Systems, Hygienic Fluid Handling and High Speed Separators.

Food & Water Division

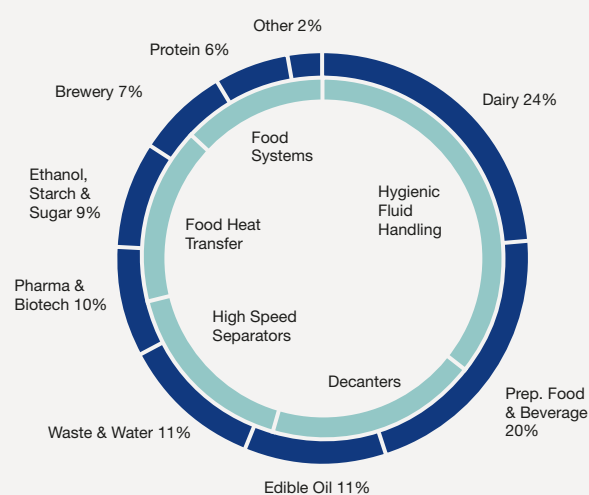
Consolidated		
SEK millions	2020	2019
Orders received	13,814	14,026
Order backlog*	5,056	4,894
Net sales	13,414	14,189
Operating income**	2,371	2,268
Operating margin***	17.7%	16.0%
Depreciation and amortisation	384	385
Investments****	295	288
Assets*	11,226	12,522
Liabilities*	5,184	5,088
Number of employees*	6,215	6,410

* At the end of the period. ** In management accounts. *** Operating income in relation to net sales. **** Excluding new leases. Comparison figures for last year have been restated due to the organisational change described above.

Quarterly development



Order intake 2020 split per end market/business unit



Order intake

Order bridge		
Consolidated		
SEK millions/%	2020	2019
Order intake last year	14,026	13,691
Organic ¹⁾	2.7%	-1.8%
Structural ¹⁾	0.0%	-
Currency	-4.2%	4.2%
Total	-1.5%	2.4%
Order intake current year	13,814	14,026

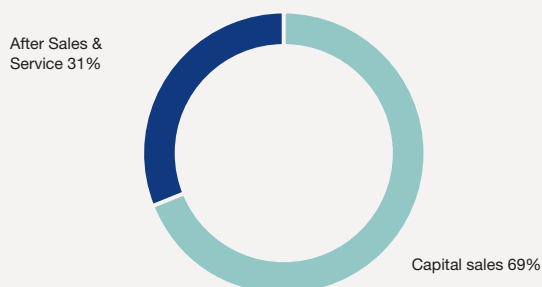
¹⁾ Change excluding currency effects.

Excluding currency effects, the division's order intake increased slightly compared to last year, despite a certain reluctance among customers to push through decisions on larger, often capacity related, investments during the pandemic. Geographically, Latin America showed solid growth and Asia was up, not least driven by strong growth in China. Eastern Europe showed growth across most countries.

The pharma and biotech market grew strongly, partly as a result of the pandemic, where nations and pharma and biotech companies reassessed their supply chains to mitigate any future vulnerability. The waste & water sector stayed flat after a very strong 2019 that included some very large orders. Order intake from the edible oil industry grew, even though low commodity prices to a certain extent impacted the tendency to invest during the pandemic. However, a breakthrough order in the USA with the new HVO (Hydrotreated Vegetable Oil) technology for biodiesel, laid the foundation for a new interesting market. Order intake for dairy grew slightly and activity level and sentiment remained positive in the industry, which combined with increased sales activities via more channels contributed positively. The brewery sector came in slightly below last year, being one of the most negatively impacted industry sectors in the pandemic. Demand in ethanol, starch & sugar contracted slightly compared to last year where predominantly the ethanol market in North America was impacted by low crude oil prices, with demand for alternative fuels getting lower. Protein applications grew strongly, with more extended by-product utilization and with opportunities in a changing food market with new sources of protein. For the more wider application area prepared food and beverage, the order intake was marginally below last year.

Demand in service increased compared to last year. Parts sales saw a good growth, but also service offerings grew, despite access restrictions to customer sites being a constraint during the pandemic, something partly mitigated with new remote guidance tools.

Order intake 2020 split on:



Net sales

Sales bridge		
Consolidated		
SEK millions/%	2020	2019
Net sales last year	14,189	13,210
Organic ¹⁾	-1.7%	2.9%
Structural ¹⁾	0.0%	-
Currency	-3.8%	4.5%
Total	-5.5%	7.4%
Net sales current year	13,414	14,189

¹⁾ Change excluding currency effects.

Net sales contracted slightly compared to last year, mainly related to the base business*, whereas net sales for service increased somewhat.

Operating income

Income bridge		
Consolidated		
SEK millions	2020	2019
Operating income last year	2,268	2,110
Volume ¹⁾	-99	134
Mix ¹⁾	172	3
Costs ¹⁾	94	-67
Currency	-64	88
Operating income current year	2,371	2,268

¹⁾ Change excluding currency effects.

Operating income increased compared to last year, despite a slight contraction in net sales. A favourable mix more than mitigated the drop in net sales. A positive cost development, not least from the savings programme initiated to counter the expected impact of the pandemic, also contributed positively. The currency effect was negative due to the strengthening of the Swedish krona.

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

Operating segments

Marine Division

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

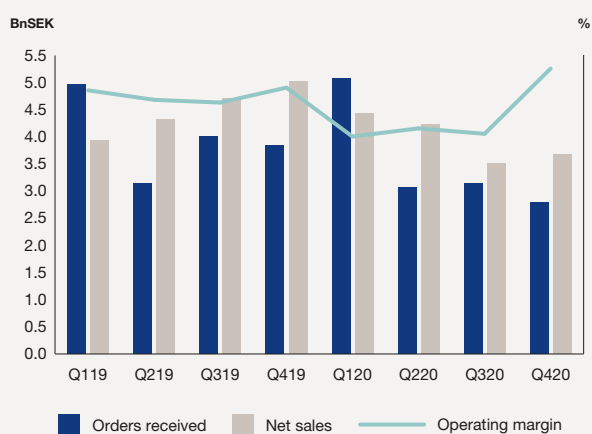
The Marine Division consists of four Business Units: Boiler Systems, Gas Systems, Marine Separation & Heat Transfer Equipment and Pumping Systems.

Marine Division

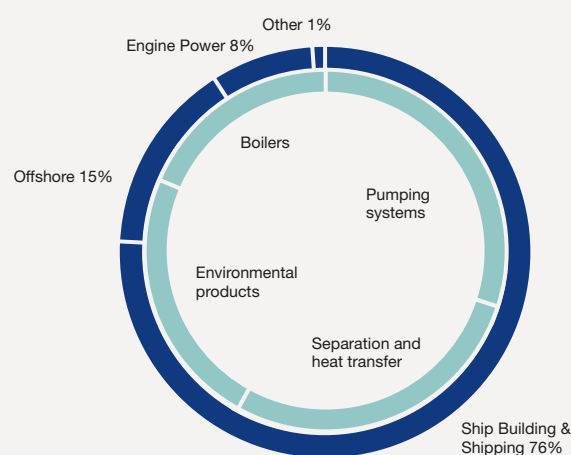
Consolidated		
SEK millions	2020	2019
Orders received	14,067	15,953
Order backlog*	9,173	11,443
Net sales	15,867	17,993
Operating income**	2,758	3,425
Operating margin***	17.4%	19.0%
Depreciation and amortisation	814	884
Investments****	137	177
Assets*	24,086	27,796
Liabilities*	6,695	8,481
Number of employees*	4,489	4,702

* At the end of the period. ** In management accounts. *** Operating income in relation to net sales. **** Excluding new leases. Comparison figures for last year have been restated due to the organisational change described above.

Quarterly development



Order intake 2020 split per end market/business unit



Order intake

Order bridge		
Consolidated		
SEK millions/%	2020	2019
Order intake last year	15,953	17,322
Organic ¹⁾	-7.7%	-10.7%
Structural ¹⁾	–	–
Currency	-4.1%	2.8%
Total	-11.8%	-7.9%
Order intake current year	14,067	15,953

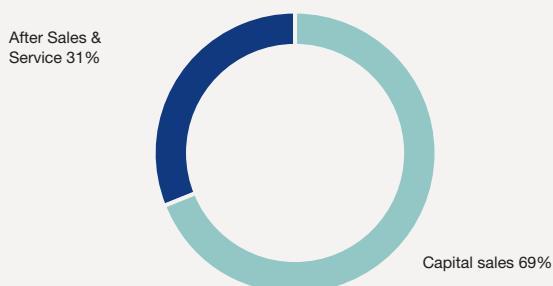
¹⁾ Change excluding currency effects.

Order intake declined compared to last year due to lower demand for all product areas except ballast water and pumping systems.

Order intake for Alfa Laval PureSOx decreased significantly compared to last year. The uncertainty in the marine industry market after the first quarter contributed to a generally lower market demand for scrubber technologies. Demand for PureBallast was, on the other hand, unchanged compared to last year. General demand for equipment tied to the building of new vessels was on a lower level than last year with fewer vessels being contracted in the year. Boilers, inert gas systems, heat exchangers, separators and freshwater generators recorded a lower demand, whereas demand for pumping systems increased compared to last year, mainly due to a large number of offshore orders. Products going into the onshore engine power applications saw a lower demand than last year.

Order intake for service developed overall negatively despite an increased demand from the growing installed base of environmental products. A lower level of vessel utilization and travel restrictions for onboard service resulted in a lower demand for mainly repairs and field service, while sales of spare parts were stable.

Order intake 2020 split on:



Net sales

Sales bridge		
Consolidated		
SEK millions/%	2020	2019
Net sales last year	17,993	13,583
Organic ¹⁾	-8.4%	28.5%
Structural ¹⁾	–	–
Currency	-3.4%	4.0%
Total	-11.8%	32.5%
Net sales current year	15,867	17,993

¹⁾ Change excluding currency effects.

Net sales were lower than last year due to a lower level of deliveries across most product groups, except mainly ballast water systems. In addition, the decline in service for the last three quarters of the year resulted in lower service revenues.

Operating income

Income bridge		
Consolidated		
SEK millions	2020	2019
Operating income last year	3,425	2,328
Volume ¹⁾	-480	1,273
Mix ¹⁾	-142	110
Costs ¹⁾	62	-344
Currency	-107	58
Operating income current year	2,758	3,425

¹⁾ Change excluding currency effects.

The operating income declined compared to last year. This was mainly driven by a lower sales volume in both capital goods and service and a negative mix effect from an unfavourable product mix in capital sales and decreased service sales. Overhead costs decreased compared to last year due to the cost reduction programme and decreased travelling, slightly mitigated by increased royalty payments for PureBallast.

Greenhouse Division

At the end of December 2019 all parts of the division had been divested. In 2020 Greenhouse has thus ceased to exist. The historical figures are shown below.

Greenhouse Division	
Consolidated	
SEK millions	2019
Orders received	105
Order backlog*	0
Net sales	444
Operating income**	-30
Operating margin***	-6.8%
Depreciation and amortisation	8
Investments****	5
Assets*	39
Liabilities*	71
Number of employees*	33

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

Operations & Other

Operations and Other covers procurement and logistics as well as corporate overhead and non-core businesses.

Operations & Other		
Consolidated		
SEK millions	2020	2019
Orders received	0	72
Order backlog*	0	0
Net sales	0	77
Operating income**	-629	-742
Depreciation and amortisation	339	309
Investments***	448	414
Assets*	1,276	1,613
Liabilities*	522	564
Number of employees*	1,069	987

* At the end of the period. ** In management accounts. *** Excluding new leases.

The improved operating income during 2020 is mainly due to the COVID-19 cost reduction program.

The order intake and net sales 2019 for Operations and Other was relating to contract manufacturing of shell and tube heat exchangers for BITZER after the sale of the business to BITZER.

Information about geographical areas

All comments are excluding currency effects.

Western Europe including Nordic

The region showed a lower order intake than last year, mainly due to the weak development in large orders. Energy grew in Nordic and Food & Water experienced a good growth in Mid Europe, Iberica and in the United Kingdom. Marine had a strong development in pumping systems in Nordic and Benelux.

Central and Eastern Europe

The order intake contracted compared to last year, when several large orders were received in Energy in Russia. All three divisions showed strong growth in the base business*.

North America

The order intake for the region decreased compared to last year. Energy was affected from the decline of the oil and gas, and refinery industries following the drop in the oil price. Food & Water did well in pharma & biotech, edible oil and brewery. Marine received less orders from cruise ships influenced by travel restrictions.

Latin America

The growth in Latin America was good throughout the region across the three divisions. Energy grew in Argentina, Chile, Peru and Mexico. Food & Water developed strongly in almost all countries in the region. The growth in Marine was driven by Brazil, Venezuela, Colombia and Panama. The order intake for service displayed good growth.

Asia

The region grew compared to last year, influenced by Food & Water and Marine. The order intake in China was flat, but with good growth for Food & Water and Energy. South Korea, Malaysia, Singapore and Vietnam grew strongly, while Middle East, India and Indonesia decreased their order intake due to oil & gas, refinery & offshore. China and South Korea showed good growth in PureSOx.

Africa and Oceania

The growth in the region was driven by Australia in Food & Water and Marine. Energy had good growth in metal and chemicals in Oceania and petrochemicals in Africa. Food & Water grew in brewery, dairy and protein. Marine had a good development in Australia and Africa from pumping systems.

Personnel

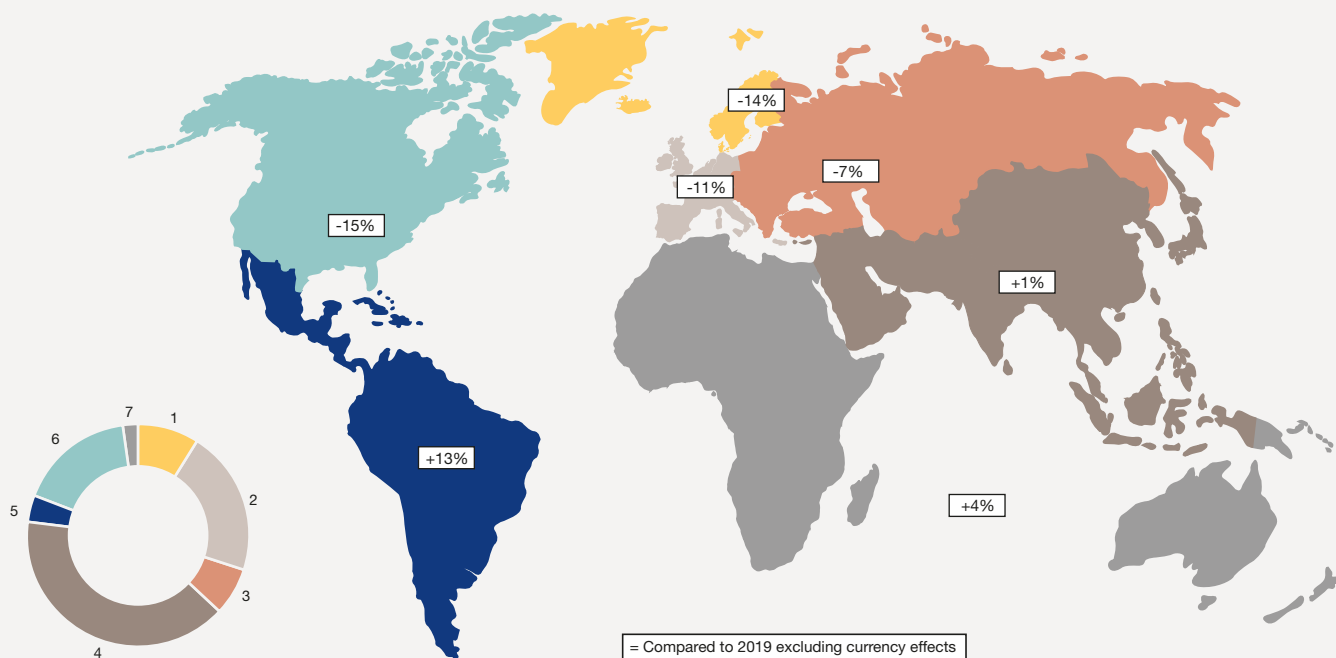
The parent company does not have any employees.

The Group has on average had 17,160 (17,387) employees. At the end of December 2020, the Group had 16,882 (17,497) employees. The employee turnover rate excluding temporary employees for 2020 is 7.5 (9.3) percent. The highest employee turnover rate in 2020 is found in management & administration and in manufacturing, logistics & procurement.

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

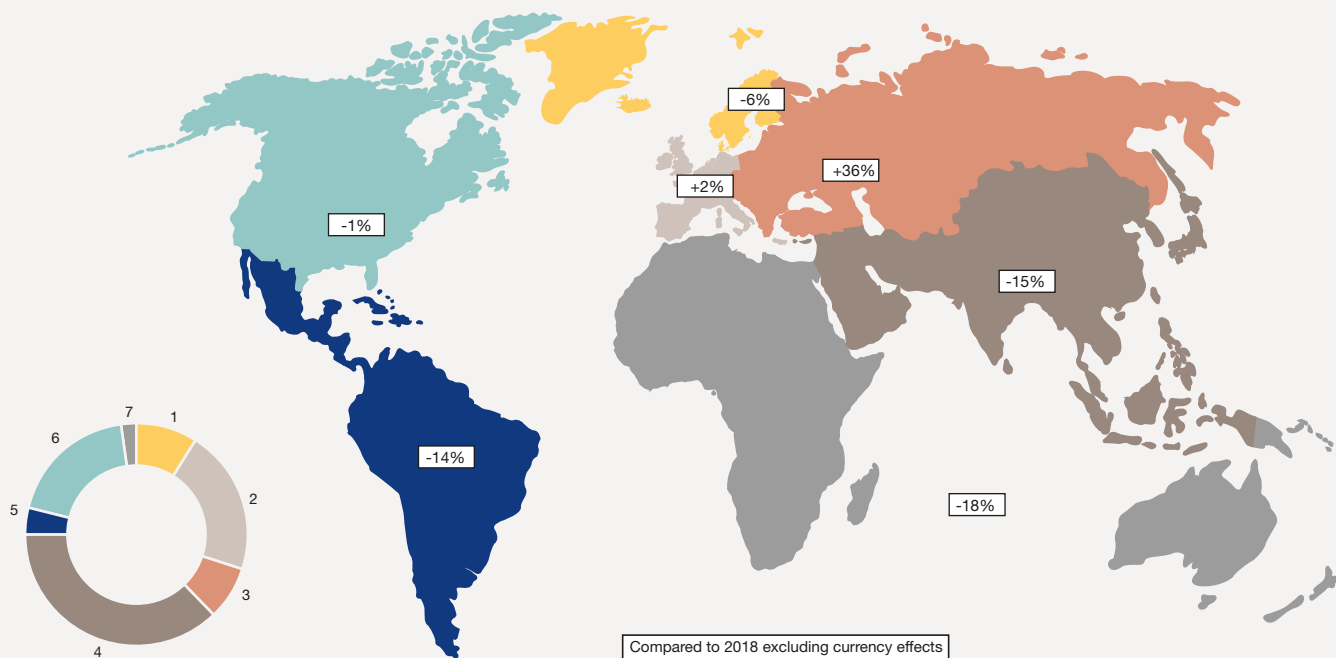
* Base business and base orders refer to orders with an order value of less than EUR 0.5 million.

Orders received 2020



1 Nordic	9%
2 Western Europe	21%
3 Central- & Eastern Europe	7%
4 Asia	40%
5 Latin America	4%
6 North America	17%
7 Africa & Oceania	2%

Orders received 2019



1 Nordic	9%
2 Western Europe	21%
3 Central- & Eastern Europe	8%
4 Asia	37%
5 Latin America	4%
6 North America	19%
7 Africa & Oceania	2%

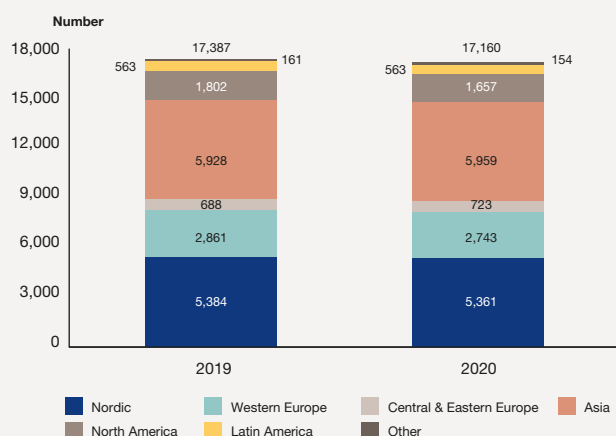
All training programmes and development projects are performed within the Alfa Laval Academy framework, to ensure they follow the Alfa Laval Learning Principles. Further examples of such training programmes are Challenger (for young talents with international leadership potential), Impact (for women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

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

Alfa Laval is 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.

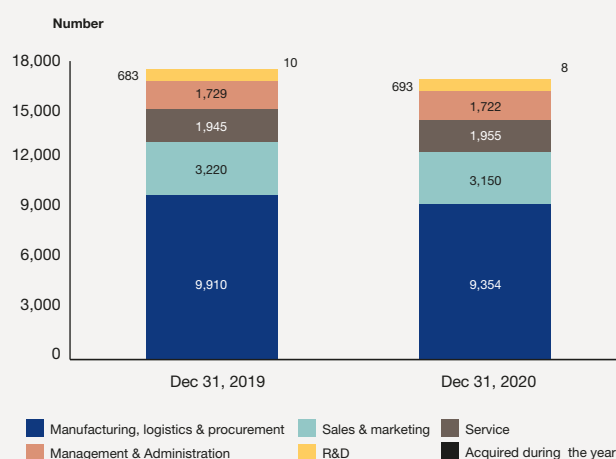
The distribution of the number of employees by region is:

Average number of employees – by region



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

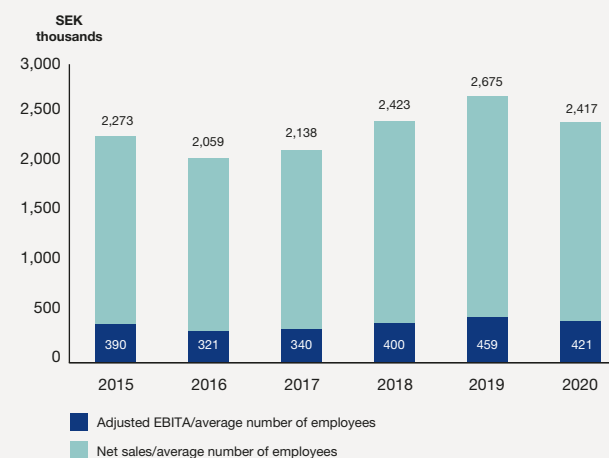
Employees – by category



The personnel categories have been slightly redefined in 2020 so the comparison figures for 2019 have been changed correspondingly.

The productivity by employee has developed as follows:

Employees – Productivity development



The outcome for 2015 was affected by the weakening of the Swedish krona and the acquisition of Frank Mohn. The outcome for 2016 was affected by the receding demand, mitigated by the continued weakening of the Swedish krona. The improvement for 2017 is entirely explained by the change programme that was launched during the autumn 2016. This also affects the outcome for 2018 and 2019 but reinforced by the stronger demand within primarily environmental products and the weakening of the Swedish krona. The deterioration during 2020 is explained by the consequences of the COVID-19 pandemic and the stronger Swedish krona.

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

Remuneration policy for executive officers

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

The Board of Directors decided in 2020 to implement step three of the modified cash based long-term incentive programme for maximum 95 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The outcome of the modified programme depends on how the adjusted EBITA margin and the net sales growth have developed during a three-year period, with a 50/50 weight between the targets. This means that there will be no award during the first two years since it is first in year three that it can be determined to what extent the targets have been achieved. Maximum outcome is awarded when the targets are exceeded. The remuneration from the modified long-term incentive programme can constitute maximum 25, 40 or 50 percent of the fixed remuneration depending on position. Payment to the participants in the programme is made after year three and only provided that they are still employed at the date of payment.

Research and development

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

The costs for research and development have amounted to SEK 1,039 (1,086) million, corresponding to 2.5 (2.3) percent of net sales. Excluding currency effects and acquisition/divestment of businesses,

the costs for research and development have decreased by 2.4 percent compared to last year.

Ethics and social responsibility

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

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

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

Environment

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

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

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

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

Consequences of COVID-19

Alfa Laval has implemented a broad cost reduction program with the objective of reducing fixed costs with SEK 1 billion on a 12-month running basis. The program is well on track and the first financial effects became visible as of April. An important part of the cost reduction program is related to the flexibility of various working hour reduction schemes in countries like Italy, Germany, France and Sweden. In Sweden specifically, the company has reduced the working time with 40 percent for approximately 800 white-collar employees, between May and August. The received support for reduced working hours in Sweden has however not been reported in the P&L but has instead been balanced due to the uncertainty around the conditions for the support. See Note 38 for further information.

The Board of Directors withdrew the dividend proposal for 2019 as a measure to preserve cash.

In a press release on March 17, Alfa Laval expressed concerns regarding the business climate from the second quarter 2020 and onwards due to the negative effects of the COVID-19 pandemic.

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

Alfa Laval has a global footprint with 39 major manufacturing units across Europe, Asia, the US and Latin America. The company is a supplier to critical infrastructure industries and has permission to continue production in countries with restrictions and lockdowns.

The company has well-established business continuity plans and a global supply chain with alternative sourcing solutions for most products and services and close collaboration with key suppliers. Sourcing shortages for components due to lockdowns have not been a critical problem during the year.

Asbestos-related lawsuits

The Alfa Laval Group was as of December 31, 2020, named as a co-defendant in a total of 623 asbestos-related lawsuits with a total of approximately 623 plaintiffs. Alfa Laval strongly believes the claims against the Group are without merit and intends to vigorously contest each lawsuit.

Based on current information and Alfa Laval's understanding of these lawsuits, Alfa Laval continues to believe that these lawsuits will not have a material adverse effect on the Group's financial condition or results of operation.

Result for the parent company

The parent company's result after financial items for the full year 2020 was SEK 404 (604) million, out of which dividends from subsidiaries SEK 413 (633) million, net interests SEK -0 (0) million, realised and unrealised exchange rate gains and losses SEK -0 (1) million, costs related to the listing SEK -4 (-4) million, fees to the Board SEK -8 (-8) million, cost for annual report and annual general meeting SEK -2 (-2) million and other operating income and operating costs the remaining SEK 5 (-16) million. Change of tax allocation reserve has been made with SEK 205 (-293) million. Group contributions amount to SEK 79 (2,142) million. Tax on this year's result amount to SEK -64 (-395) million. Net income for the year was SEK 624 (2,058) million.

Unrestricted equity for the parent company

The unrestricted equity of Alfa Laval AB (publ) was SEK 10,518 (9,893) million.

Proposed disposition of earnings

The Board of Directors propose a dividend of SEK 5.50 (-) per share corresponding to SEK 2,307 (-) million and that the remaining income available for distribution in Alfa Laval AB (publ) of SEK 8,211 (9,893) million be carried forward, see Note 40.

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

Proposed share buy-back program

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

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.

Outlook for the first quarter

In the fourth quarter and full year 2020 report issued on February 3, 2021 the President and Chief Executive Officer Tom Erixon stated: "We expect demand in the first quarter to be about the same as in the fourth quarter."

Earlier published outlook (October 22, 2020): "We expect demand in the fourth quarter to be somewhat higher than in the third quarter."

Date for the next financial reports 2021

Alfa Laval will publish financial reports at the following dates:

Interim report for the first quarter	April 27
Interim report for the second quarter	July 20
Interim report for the third quarter	October 28

Consolidated cash flows

Consolidated cash flows			
SEK millions	Note	2020	2019
Operating activities			
Operating income		5,580	7,198
Adjustment for depreciation, amortisation and write down		2,349	2,053
Adjustment for other non-cash items		397	141
		8,326	9,392
Taxes paid		-1,537	-1,901
		6,789	7,491
Changes in working capital:			
Increase(-)/decrease(+) of receivables		1,409	-1,394
Increase(-)/decrease(+) of inventories		126	-617
Increase(+)/decrease(-) of liabilities		-580	-84
Increase(+)/decrease(-) of provisions		-21	-173
Increase(-)/decrease(+) in working capital		934	-2,268
		7,723	5,223
Investing activities			
Investments in fixed assets (Capex)		-1,232	-1,337
Divestment of fixed assets		119	7
Acquisition of businesses	17	-70	-61
Divestment of businesses		125	364
		-1,058	-1,027
Financing activities			
Received interests and dividends		76	120
Paid interests		-260	-281
Realised financial exchange gains		92	239
Realised financial exchange losses		-524	-499
Dividends to owners of the parent		-	-2,097
Dividends to non-controlling interests		0	0
Increase(-) of financial assets		-3,460	-283
Decrease(+) of financial assets		0	0
Increase of loans		2,000	3,155
Amortisation of loans		-4,841	-3,299
		-6,917	-2,945
Cash flow for the year			
		-252	1,251
Cash and cash equivalents at the beginning of the year		5,594	4,295
Translation difference in cash and cash equivalents		-192	48
Cash and cash equivalents at the end of the year	26	5,150	5,594
Free cash flow per share (SEK) *		15.89	10.00
Capex in relation to net sales		3.0%	2.9%
Average number of shares		419,456,315	419,456,315

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

Comments to the consolidated cash flows

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

Cash flows from operating activities

The increase in cash flows from operating activities in 2020 is explained by:

- + a large decrease in working capital and
- + lower tax payments linked to the lower taxable income,
- mitigated by lower operating income before depreciation and amortisation.

Cash and cash equivalents

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

Cash flow

Cash flow from operating and investing activities amounted to SEK 6,665 (4,196) million during 2020. Out of this, acquisitions of businesses were SEK -70 (-61) million whereas divestments generated cash of SEK 125 (364) 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 decreased by SEK 934 million during 2020. During 2019 it instead increased by SEK 2,268.

Investments

Investments in property, plant and equipment amounted to SEK 1,232 (1,337) million during 2020.

A number of structural changes within the continued Footprint programme in the form of new or improved buildings including move of production and productivity increasing investments for improved cost and availability have been completed during the year, among others in Pune in India, Kolding in Denmark and an entire new production facility for brazed heat exchangers in San Bonifacio in Italy. Examples of investments made for the individual product groups are as follows:

Heat exchangers

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

High speed separators

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

Decaners

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

Pumps and valves

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

Depreciations

Depreciation, excluding allocated step-up values, amounted to SEK 1,134 (1,073) million during the year.

Acquisitions and disposals

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

Free cash flow per share

The free cash flow per share is SEK 15.89 (10.00).

Consolidated comprehensive income

Consolidated comprehensive income			
SEK millions	Note	2020	2019
Net sales	1, 2, 3, 4, 36	41,468	46,517
Cost of goods sold	9	-27,210	-30,734
Gross profit		14,258	15,783
Sales costs	5, 6, 9	-4,125	-4,802
Administration costs	5, 6, 7, 9	-1,834	-2,092
Research and development costs	9	-1,039	-1,086
Other operating income	8	819	1,174
Other operating costs	8, 9	-2,521	-1,799
Share of result in joint ventures	34	22	20
Operating income		5,580	7,198
Dividends and other financial income and costs	10	26	32
Interest income and financial exchange rate gains	11	220	377
Interest expense and financial exchange rate losses	11	-849	-386
Result after financial items		4,977	7,221
Tax on this year's result	16	-1,372	-1,676
Other taxes	16	-25	-37
Net income for the year		3,580	5,508
Other comprehensive income:			
Items that will subsequently be reclassified to net income			
Cash flow hedges		744	307
Market valuation of external shares		-125	0
Translation difference		-2,454	632
Deferred tax on other comprehensive income	16	-76	-75
Sum		-1,911	864
Items that will subsequently not be reclassified to net income			
Revaluations of defined benefit obligations		-432	-138
Deferred tax on other comprehensive income	16	87	11
Sum		-345	-127
Comprehensive income for the year		1,324	6,245
Net income attributable to:			
Owners of the parent		3,553	5,486
Non-controlling interests		27	22
Earnings per share (SEK)		8.47	13.08
Average number of shares		419,456,315	419,456,315
Comprehensive income attributable to:			
Owners of the parent		1,308	6,220
Non-controlling interests		16	25

Comments to the consolidated comprehensive income

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

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

Income analysis		
Consolidated		
SEK millions	2020	2019
Net sales	41,468	46,517
Adjusted gross profit *	15,113	16,763
- adjusted gross margin (%) *	36.4	36.0
Expenses **	-6,748	-7,701
- in % of net sales	16.3	16.6
Adjusted EBITDA *	8,365	9,062
- adjusted EBITDA margin (%) *	20.2	19.5
Depreciation	-1,134	-1,073
Adjusted EBITA *	7,231	7,989
- adjusted EBITA margin (%) *	17.4	17.2
Amortisation of step-up values	-855	-980
Comparison distortion items	-796	189
Operating income	5,580	7,198

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

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

Sales and administration expenses amounted to SEK 5,959 (6,894) million, which corresponded to 14.4 (14.8) percent of net sales. Excluding currency effects and acquisition/divestment of businesses, sales and administration expenses were 10.4 percent lower than last year.

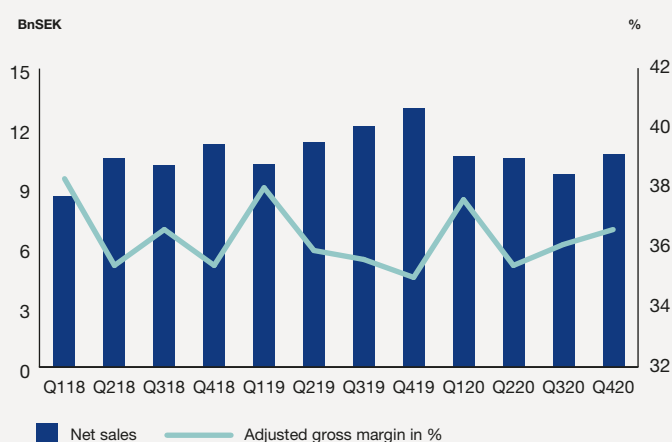
The costs for research and development have amounted to SEK 1,039 (1,086) million, corresponding to 2.5 (2.3) percent of net sales. Excluding currency effects and acquisition/divestment of businesses, the costs for research and development have decreased by 2.4 percent compared to last year.

Earnings per share was SEK 8.47 (13.08) for 2020. The corresponding figure excluding amortisation of step-up values and the corresponding tax, was SEK 10.12 (14.96).

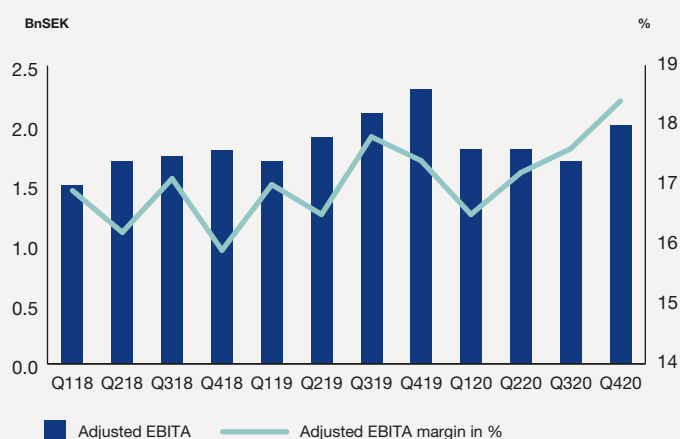
Compared with last year Alfa Laval has been affected during 2020 by exchange rate differences, both through translation differences and through the net exposure when trading in foreign currencies. The effect on adjusted EBITA has been calculated to totally about SEK 180 (430) million for 2020 compared 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 margin



Adjusted EBITA



Comparison distortion items

Consolidated		
SEK millions	2020	2019
Other operating income		
Comparison distortion items:		
- Realised gain on sale of businesses	-	260
Other operating costs		
Comparison distortion items:		
- Realised loss on sale of businesses	-55	-71
- Write down of goodwill	-360	-
- Restructuring costs	-381	-
Net comparison distortion items	-796	189

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

The write down of goodwill and the restructuring costs are part of the programme for adapting the organisation to changing market fundamentals that was announced on December 16, 2020. The program is mainly addressing structural imbalances in specific parts of the oil & gas business as well as parts of the Marine business. In addition, the program will further drive the competence shift required in light of the accelerated pace of digitalization. The write down of goodwill concerns oil & gas related businesses. The total restructuring cost is expected to amount to approximately SEK 850 million, out of which the remaining part is expected to be charged in the second quarter of 2021. Approximately 600 employees mainly in Europe and North America will be affected by the program. The program will generate annual savings of around SEK 300 million, with full effect expected from mid-2022.

The realised gain in 2019 was related to the divestments of part of the air heat exchanger business related to commercial/industrial air heat exchangers in the Greenhouse division to the LU-VE Group. The realised loss in 2019 was relating to a realised loss from the divestments of the last remaining Greenhouse operation shell-and-tube Sarasota, also known as Alfa Laval Champ, to Thermal Solutions Manufacturing.

Consolidated financial net and taxes

The financial net for 2020 was SEK -191 (-172) million, excluding realised and unrealised exchange rate losses and gains. The main elements of costs were interest on the debt to the banking syndicate of SEK -5 (-3) million, interest on the bilateral term loans of SEK -34 (-48) million, interest on the corporate bonds of SEK -82 (-86) million and a net of dividends, changes in fair value and other interest income and interest costs of SEK -70 (-35) million.

The net of realised and unrealised exchange rate differences was SEK -412 (195) million.

The tax on the result after financial items was SEK -1,397 (-1,713) million in 2020.

Accumulated translation differences *

Consolidated

SEK millions

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

* 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	2020	2019
Non-current assets			
Intangible assets			
	17, 18		
Patents and unpatented know-how		776	1,104
Trademarks		1,301	1,954
Licenses, renting rights and similar rights		20	23
Internally generated intangible assets		107	53
Goodwill		19,080	21,112
		21,284	24,246
Property, plant and equipment			
	17, 19		
Real estate		2,878	2,948
Machinery and other technical installations		2,229	2,137
Equipment, tools and installations		801	670
Construction in progress and advances to suppliers concerning property, plant and equipment		261	505
Right-of-use assets		2,152	2,683
		8,321	8,943
Other non-current assets			
Other long-term securities	13, 14, 20	1,575	141
Pension assets	27	70	70
Derivative assets	13, 14, 15	196	69
Deferred tax assets	16	1,792	1,801
		3,633	2,081
Total non-current assets		33,238	35,270
Current assets			
Inventories			
	21	9,223	10,077
Assets held for sale			
	19	55	–
Current receivables			
Accounts receivable	13, 22, 36	5,834	7,460
Current tax assets		521	459
Other receivables	13, 23	3,213	4,019
Prepaid costs and accrued income	13, 24	419	451
Derivative assets	13, 14, 15	589	193
		10,576	12,582
Current deposits			
Other current deposits	13, 25	2,618	873
Cash and cash equivalents			
	13, 26	5,150	5,594
Total current assets		27,622	29,126
TOTAL ASSETS		60,860	64,396

Consolidated financial position, continued			
EQUITY AND LIABILITIES			
SEK millions	Note	2020	2019
Equity			
Attributable to owners of the parent			
Share capital		1,117	1,117
Other contributed capital		2,770	2,770
Other reserves		-3,803	-1,558
Retained earnings		28,824	25,271
		28,908	27,600
Attributable to non-controlling interests	12	163	147
Total equity		29,071	27,747
Non-current liabilities			
Liabilities to credit institutions etc	13, 29	8,043	10,600
Lease liabilities	13, 35	1,573	1,890
Provisions for pensions and similar commitments	27	2,494	2,321
Provision for deferred tax	16	1,553	1,662
Other provisions	28	681	639
Derivative liabilities	13, 14, 15	5	42
Total non-current liabilities		14,349	17,154
Current liabilities			
Other current liabilities			
Liabilities to credit institutions etc	13, 29	1,125	1,422
Advances from customers		4,381	4,269
Accounts payable	13	2,526	3,311
Notes payable	13	232	128
Current tax liabilities		919	947
Lease liabilities	13, 35	662	730
Other liabilities	13, 30	3,577	4,219
Other provisions	28	1,757	1,863
Accrued costs and prepaid income	13, 31	2,153	2,298
Derivative liabilities	13, 14, 15	108	308
		17,440	19,495
Total current liabilities		17,440	19,495
Total liabilities		31,789	36,649
TOTAL EQUITY AND LIABILITIES		60,860	64,396

Comments on the consolidated financial position

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

Capital employed

The average capital employed including goodwill and step-up values amounted to SEK 33,678 (35,550) million during the year.

Return on capital employed

The return on average capital employed including goodwill and step-up values amounted to 19.1 (23.0) percent during the year.

Capital turnover rate

The capital turnover rate calculated on the average capital employed including goodwill and step-up values amounted to 1.2 (1.3) times for the year.

Return on equity

Net income in relation to the average equity was 12.7 (21.3) percent during the year.

Solidity

The solidity, that is the equity in relation to total assets, was 47.8 (43.1) percent at the end of the year.

Net debt

The net debt was SEK 3,635 (8,175) million at the end of the year.

Net debt to EBITDA

Net debt in relation to EBITDA was 0.48 (0.88) times at the end of December.

Debt ratio

The debt ratio, that is the net debt in relation to equity, was 0.13 (0.29) times at the end of December.

Changes in consolidated equity

Attributable to:	Owners of the parent								Non-controlling interests			Total
	Share capital	Other contributed capital	Cash flow hedges	Market valuation of external shares	Translation differences	Revaluations	Retained earnings	Subtotal	Translation differences	Retained earnings	Subtotal	
SEK millions												
As of December 31, 2018	1,117	2,770	-333	2	-705	-1,256	21,882	23,477	15	107	122	23,599
2019												
Comprehensive income												
Net income	-	-	-	-	-	-	5,486	5,486	-	22	22	5,508
Other comprehensive income	-	-	238	0	623	-127	-	734	3	-	3	737
Comprehensive income	-	-	238	0	623	-127	5,486	6,220	3	22	25	6,245
Transactions with shareholders												
Dividends to owners of the parent	-	-	-	-	-	-	-2,097	-2,097	-	-	-	-2,097
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	0	0	0
As of December 31, 2019	1,117	2,770	-95	2	-82	-1,383	25,271	27,600	18	129	147	27,747
2020												
Comprehensive income												
Net income	-	-	-	-	-	-	3,553	3,553	-	27	27	3,580
Other comprehensive income	-	-	590	-125	-2,365	-345	-	-2,245	-11	-	-11	-2,256
Comprehensive income	-	-	590	-125	-2,365	-345	3,553	1,308	-11	27	16	1,324
Transactions with shareholders												
Dividends to owners of the parent	-	-	-	-	-	-	-	-	-	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	0	0	0
As of December 31, 2020	1,117	2,770	495	-123	-2,447	-1,728	28,824	28,908	7	156	163	29,071

Specification of changes in number of shares and share capital

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

Comments on changes in consolidated equity

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

At January 1, 2020 the share capital of SEK 1,116,719,930 was divided into 419,456,315 shares. Since then no changes have been made.

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

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

No restrictions exist in how many votes that each shareholder can represent at a

general meeting of shareholders. The company has no knowledge of any agreements between shareholders that would limit the negotiability of their shares.

The articles of association stipulate that members of the Board are elected at the Annual General Meeting. Election or discharge of members of the Board is otherwise regulated by the provisions in the Swedish Companies Act and the Swedish Corporate Governance Code. According to the Companies Act changes in the articles of association are decided at general meetings of shareholders.

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

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

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

Parent company cash flows

Parent company cash flows		
SEK millions	2020	2019
Cash flow from operating activities		
Operating income	-9	-30
Taxes paid	-71	-461
	-80	-491
Changes in working capital:		
Increase(-)/decrease(+) of receivables	-2,470	-863
Increase(+)/decrease(-) of liabilities	-5	8
Increase(-)/decrease(+) in working capital	-2,475	-855
	-2,555	-1,346
Cash flow from investing activities		
Investment in subsidiaries	-	-
	-	-
Cash flow from financing activities		
Received interests	0	0
Received dividends from subsidiaries	413	633
Paid dividends	-	-2,097
Received group contribution	2,142	2,825
Paid group contribution	0	-15
	2,555	1,346
Cash flow for the year		
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	-

Parent company income

Parent company income *			
SEK millions	Note	2020	2019
Administration costs		-14	-14
Other operating income		5	0
Other operating costs		0	-16
Operating income		-9	-30
Dividends from subsidiaries		413	633
Interest income and similar result items	11	0	1
Interest expenses and similar result items	11	0	0
Result after financial items		404	604
Change of tax allocation reserve		205	-293
Group contributions		79	2,142
Result before tax		688	2,453
Tax on this year's result		-64	-395
Net income for the year		624	2,058

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

Parent company financial position

Parent company financial position			
SEK millions	Note	2020	2019
ASSETS			
Non-current assets			
Financial non-current assets			
Shares in group companies	20	4,669	4,669
Current assets			
Current receivables			
Receivables on group companies		10,704	10,292
Other receivables		3	4
		10,707	10,296
Cash and cash equivalents			
		-	-
Total current assets		10,707	10,296
TOTAL ASSETS		15,376	14,965
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		9,893	7,835
Net income for the year		624	2,058
		10,518	9,893
Total equity		12,905	12,280
Untaxed reserves			
Tax allocation reserve, taxation 2015		-	304
Tax allocation reserve, taxation 2016		68	68
Tax allocation reserve, taxation 2017		578	578
Tax allocation reserve, taxation 2018		391	391
Tax allocation reserve, taxation 2019		698	698
Tax allocation reserve, taxation 2020		613	613
Tax allocation reserve, taxation 2021		99	-
		2,447	2,652
Current liabilities			
Liabilities to group companies		15	20
Accounts payable		3	1
Current tax liabilities		3	10
Other liabilities		3	2
		24	33
TOTAL EQUITY AND LIABILITIES		15,376	14,965

Changes in parent company equity

Changes in parent company equity				
SEK millions	Share capital	Statutory reserve	Unrestricted equity	Total
As of December 31, 2018	1,117	1,270	9,932	12,319
2019				
Comprehensive income				
Net income	–	–	2,058	2,058
	–	–	2,058	2,058
Transactions with shareholders				
Dividends	–	–	-2,097	-2,097
As of December 31, 2019	1,117	1,270	9,893	12,280
2020				
Comprehensive income				
Net income	–	–	624	624
	–	–	624	624
Transactions with shareholders				
Dividends	–	–	–	–
As of December 31, 2020	1,117	1,270	10,518	12,905

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

Notes to the financial statements

Accounting principles

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

Basis of preparation

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

Statement of compliance

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

The accounting and valuation principles of the parent company comply with the Swedish Annual Accounts Act and the recommendation RFR 2 "Accounting for legal entities" issued by the Council for Financial Reporting in Sweden.

Changed/implemented accounting principles

The company has chosen to only comment the changed accounting principles that are relevant for the company's financial reporting.

During 2019 IFRS 16 was implemented. IFRS 16 "Leases" covers the recognition, measurement, presentation and disclosure of leases by both lessors and lessees. IFRS 16 replaced IAS 17 "Leases".

For lessees the former classification in operational and financial leases disappeared and was replaced by a model where assets and liabilities for all leasing contracts must be recognised in the balance sheet. For leasing contracts where the contract period is maximum 12 months or the leased asset is of low value, there is an option to apply a practical expedient, which Alfa Laval decided to use.

With reference to the materiality rules in IAS 8.8, Alfa Laval chose to apply the new rules for leases concerning buildings and land, company cars and other vehicles, forklifts, large servers and large printers. The present value for other leases is estimated to be non-material.

For lessors the rules in IAS 17 are basically kept why a classification into operational and financial leases like the former should be done also going forward.

Lease contracts can include both a leasing part and a service part. According to IFRS 16, the company in these cases can choose to separate them from each other and thus only recognise the leasing part in the balance sheet or capitalise the entire contract. The choice impacts by which amount the balance sheet will increase in the end. Alfa Laval has chosen to exclude the service part from the new leasing accounting and it is instead expensed as before.

Alfa Laval applied the standard retrospectively with the cumulative effect of the initial application recognised as an adjustment to the opening balance of right-of-use assets and lease liabilities at January 1, 2019, where the right-of-use assets were reported at the same amount as the related lease liabilities. In connection with the transition a practical expedient was applied that means that the new leasing definition is only applied on new lease contracts instead of on all leasing contracts.

Right-of use assets and lease liabilities increased by SEK 2,766 million as per January 1, 2019 due to the initial application of IFRS 16 Leases.

IFRS 16 means that the amount of disclosures concerning leases has increased.

During 2019 IFRIC 23 was implemented. IFRIC 23 "Uncertainty over Income Tax Treatments" clarifies how to treat uncertain tax positions and meant no change in the company's treatment of this.

Alternative Performance Measures

In the annual report, alternative performance measures are used. See page 158 for definitions. Alfa Laval follows the Guidelines on Alternative Performance Measures issued by ESMA (European Securities and Markets Authority).

Critical accounting principles

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

since this could trigger a substantial impairment write down of the goodwill according to IAS 36 "Impairment of Assets". Such a write down will affect net income and thereby the financial position of the Group. The reported goodwill is SEK 19,080 (21,112) million at the end of the year. No intangible assets with indefinite useful life other than goodwill exist.

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

The Group's reporting of provisions according to IAS 37 means that SEK 2,438 (2,502) million is reported as other provisions. This constitutes 4.0 (3.9) 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.

Key sources of estimation uncertainty

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

Judgements

In applying the accounting policies Management has made various judgements, apart from those involving estimations, that can

significantly affect the amounts recognised in the financial statements. These judgements mainly relate to:

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

Associates

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

Borrowing costs

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

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

Business combinations – consolidation principles

The consolidated financial statements have been prepared according to IFRS 3 "Business Combinations" and IFRS 10 "Consolidated financial statements".

An entity shall be consolidated if a decisive influence is present. Control (decisive influence) is present when Alfa Laval has:

- power over the investee, which is described as having rights to direct the activities that significantly affect the investee's returns;
- exposure or rights to variable returns from the involvement in the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

A decisive influence does not need to arise purely through ownership of shares (voting rights). An investor can have a decisive influence over another entity without holding the majority of the shares. An entity must be consolidated until the day the control ceases, even if the control is present only during a limited period.

The consolidated financial statements include the parent company Alfa Laval AB

(publ) and the subsidiaries in which it has a decisive influence.

The statement on consolidated financial position has been prepared in accordance with the purchase method, which means that the book value of shares in the subsidiaries is eliminated from the reported equity in the subsidiaries at the time of their acquisition. This means that the equity in the subsidiaries at the time of acquisition is not included in the consolidated equity.

The difference between the purchase price paid and the net assets of the acquired companies is allocated to the step-up values related to each type of asset, with any remainder accounted for as goodwill.

During the first 12 months after the acquisition the value of the goodwill is often preliminary. The reason to this is that experience has shown that there is some uncertainty linked to the different components of the purchase price allocation concerning:

- primarily the calculation of the allocation to different intangible step-up values, that are dependent on different judgemental questions and estimations;
- the calculation of tangible step-up values, that are dependent on external market valuations, which can extend in time before they can be finalised;
- adjustments of the purchase price contingent on contractual terms, that are dependent on the final size of the operating capital at the acquisition date, once this has been audited and the outcome has been approved by the parties; and
- the final value of the acquired equity, which is also dependent on the audit of the acquired closing balance sheet.

Since the goodwill is a residual that emerges once all other parameters in the purchase price allocation have been established, it will be preliminary and open for changes until all other values are final.

At acquisitions where there is a goodwill it should be stated what the goodwill is relating to. Since goodwill by definition is a residual this is not always that easy. Generally speaking, the goodwill is usually relating to estimated synergies in procurement, logistics and corporate overheads. It can also be claimed that the goodwill is relating to the acquired entity's ability to over time recreate its intangible assets. Since the value of the intangible assets at the time of acquisition only can be calculated on the assets that exist then, no value can be attached to the patents etc. that the operations manage to create in the future partially as a replacement for the current ones and these are therefore referred to goodwill.

Goodwill and intangible assets with in-

definite useful life are not amortised. These assets are instead tested for impairment both annually and when there is an indication. The impairment test is made according to IAS 36 "Impairment on assets".

Transaction costs are reported in net income. If the value of an additional purchase price is changed the change is reported in net income. In business combinations achieved in stages the goodwill is calculated and valued when the acquirer obtains control over a business. If the acquirer previously has reported an equity interest in the company the accumulated change in value of the holding is recognised in net income at the acquisition date. Changes in holdings in subsidiaries, where the majority owner does not lose its decisive influence, are reported in equity. This means that these transactions no longer will generate goodwill or lead to any gains or losses. In addition, the transaction will result in a transfer between owners of the parent and non-controlling interests in equity. If the non-controlling interest's share of reported losses is higher than its reported share of the equity, a negative non-controlling interest is reported.

Comparison distortion items

Items that do not have any link to the normal operations of the Group or that are of a non-recurring nature are classified as comparison distortion items. In the consolidated comprehensive income statement these are reported gross as a part of the most concerned lines but are specified separately in Note 8. To report these together with other items in the consolidated comprehensive income statement without this separate reporting in a note would have given a comparison distortion effect that would have made it difficult to judge the development of the ordinary operations for an outside viewer. Comparison distortion items affecting operating income are reported as a part of operating income, while comparison distortion items affecting the result after financial items are reported as a part of the financial net.

Comprehensive income

Alfa Laval has chosen to report the items in other comprehensive income as a part of one statement over comprehensive income instead of reporting the result down to net income for the year in one statement and the result below this down to comprehensive income in a separate statement.

Other comprehensive income is referring to items that are not transactions with shareholders and relates to for instance cash flow hedges, market valuation of external shares, translation differences and revaluations and deferred tax related to these.

Disclosures of interest in other entities

Information about interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities must be disclosed in accordance with IFRS 12 "Disclosures of interest in other entities". The purpose with these disclosures is to enable the users of the financial reports to understand:

- the composition of the group;
- the effect of the interests on the financial statements; and
- any risks with the current interests.

Substantial qualitative and quantitative disclosures must be made of each interest. The disclosure requirements include the following:

- Financial information regarding subsidiaries with a considerable part of non-controlling interests.
- Disclosures on the 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 relating to the company's shares

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

Employee benefits

Employee benefits are reported according to IAS 19 "Employee Benefits".

The present value of the benefit obligations in the defined benefit plans is decided through yearly actuarial calculations made by independent actuaries. The plan assets are valued at fair value. The net plan asset or liability is arrived at in the following way.

- | | |
|---|--|
| + | the present value of the defined benefit obligation at December 31 |
| - | the fair value of the plan assets at December 31 |
| = | a net liability if positive / a net asset if negative |

If the calculation per plan gives a negative amount, thus resulting in an asset, the amount to be recognised as an asset for

this particular plan is the lower of the two following figures:

- The above net negative amount.
- The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. This is referred to as the asset ceiling.

The items that relate to the vesting of defined benefit pensions and gains and losses that arise when settling a pension liability and the financial net concerning the defined benefit plan are reported in the income statement above net income. Past service costs are recognised in the income statement already when the plan is amended or curtailed.

Actuarial gains and losses are accounted for currently in other comprehensive income. Changes in the obligations that relate to changes in actuarial assumptions are accounted for in other comprehensive income. None of these actuarial items will ever be reported in operating income but will instead remain in other comprehensive income.

The return on plan assets is calculated with the same interest rate as the discount rate. The difference between the actual return on plan assets and the interest income in the previous sentence is reported in other comprehensive income.

The plan assets are specified on different types of assets.

Sensitivity analysis must be made concerning reasonable changes in all assumptions made when calculating the pension liability.

The difference between short and long-term remunerations focuses on when the commitment is expected to be settled rather than the link to the employee's vesting of the commitment.

Termination benefits are accounted for at the earliest of the following - the time when the benefit offer cannot be withdrawn, alternatively in accordance with IAS 37 as a part of for instance restructuring the operations.

For Swedish entities the actuarial calculations also include future payments of special salary tax. The Swedish tax on returns from pension funds is reported currently as a cost in the profit and loss and are not included in the actuarial calculation for defined benefit pension plans.

The discount rate used to calculate the obligations is determined based on the market yields in each country at the closing date on high quality corporate bonds with a term that is consistent with the estimated term of the obligations. In countries that lack a deep market in such bonds the country's government bonds are used instead.

The costs for defined contribution plans are reported in Note 6.

The Swedish ITP plan is a multi-employer plan insured by Alecta. It is a defined benefit plan, but since the plan assets and liabilities cannot be allocated on each employer it is reported as a defined contribution plan according to item 30 in IAS 19. The construction of the plan does not enable Alecta to provide each employer with its share of the assets and liabilities or the information to be disclosed. The cost for the plan is reported together with the costs for other defined contribution plans in Note 6. Alecta reported a collective consolidation level at December 31, 2020 of 148 (148) percent. The collective consolidation level is defined as the fair value of Alecta's plan assets in percent of the insured pension commitments calculated according to Alecta's actuarial assumptions, which are not in accordance with IAS 19. Such a surplus can be distributed among the employers or the beneficiaries, but there is no agreement concerning this that enables the company to report a receivable on Alecta.

Events after the closing date

Events after the closing date are reported according to IAS 10 and the Swedish Annual Accounts Act in the notes.

Fair value measurement

IFRS 13 "Fair Value Measurement" describes how a fair value is established when such value is to be or may be used in accordance with each IFRS standard. In accordance with IFRS a fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

The standard presents elucidations on the fair value concept including the following areas:

- Concepts such as "highest and best use" and "valuation premise" are described. These are only applicable on non-financial assets.
- Market participants are assumed to act in a way that maximizes the value for all involved parties in situations where there is no guidance concerning the calculation of fair value in individual IFRS standards.
- The effect of so-called block discounts (large position in relation to the market) may never be included in the calculation of fair value.
- Deciding fair value when the market activity is falling.

Disclosures must be made to explain what valuation models that are used and what information that is used in these models and which effects the valuation has caused in the result.

Financial instruments

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

- IFRS 9 "Financial Instruments";
- IAS 32 "Financial Instruments: Presentation";
- IFRS 7 "Financial Instruments: Disclosures"; and
- IFRS 13 "Fair Value Measurement".

IFRS 9 means that the company's business model and the characteristics of the asset influence the classification and measurement of financial assets.

Debt instruments are all financial instruments except derivatives and shares. The company's purpose with holding a debt instrument is called its business model. Depending on what business model a company is using for managing its debt instruments the accounting treatment is different. The following business models exist in IFRS 9:

- Held to collect – the debt instrument is held to maturity to collect the contracted cash flows (interest and principal).
- Trading – the company trades with the debt instruments.
- Mixed model – a mix of the two above models.

Alfa Laval business model for managing its debt instruments is "Held to collect". This classification does not mean that we occasionally cannot sell debt instruments before maturity even for large amounts or that we regularly cannot sell many small debt instruments before maturity.

IFRS 9 means that financial derivatives, holdings of bonds and external shares are adjusted to fair value. IFRS 7 contains expanded disclosure requirements related to the significance of financial instruments for the company's financial position and performance and the nature and extent of risks arising from financial instruments.

IFRS 13 describes how a fair value is established when such value is to be or may be used in accordance with each IFRS standard. Disclosures must be made to explain what valuation models that are used and what information that is used in these models and which effects the valuation has caused in the result.

Both IFRS 9 and IFRS 7 formally contain a considerable amount of information that should be presented. According to IFRS 7.B3 the company however should decide how much detail it provides in order not to overburden the financial statements with excessive details.

Both financial assets and financial liabilities are classified into three different portfolios:

- Valued at fair value through profit or loss;
- Valued at fair value through other comprehensive income and
- Valued at amortised cost.

The classification into different portfolios reflects the valuation of the instruments, i.e. if the instrument is valued at fair value or amortised cost and also where in the statement of consolidated comprehensive income that the valuation to fair value is reported.

The amortised cost is normally equal to the amount recognised upon initial recognition, less any principal repayments and plus or minus any effective interest adjustments.

Prepaid costs, prepaid income and advances from customers are not defined as financial instruments since they will not result in future cash flows.

Disclosures must be made on the methods and, when a valuation technique is used, the assumptions applied in determining the fair value of each class of financial assets and liabilities. The methods are to be classified in a hierarchy of three levels:

1. Quoted prices in active markets;
2. Other inputs than quoted prices that are directly observable (prices) or indirectly observable (derived from prices); and
3. Unobservable market data.

The fair values of holdings of bonds are arrived at using market prices according to level 1. The effect of the measurement at fair value is reported in net income. The fair value adjustment of these instruments is reflected directly on the item bonds in the statement of financial position.

The fair values of shares in external companies are arrived at using market prices according to level 1 or other inputs according to level 2. The effect of the measurement at fair value is reported in other comprehensive income. The fair value adjustment of these instruments is reflected directly on the item other long-term securities in the statement of financial position.

The fair values of the Group's currency forward contracts, currency options, interest-rate swaps, metal forward contracts and electricity futures are arrived at using market prices according to level 1. The fair value changes are arrived at by comparing the conditions of the derivative entered into with the market price for the same instrument at the closing date and with the same maturity date. The effect of the measurement at fair value is reported in other comprehensive income if the derivative constitutes an effective cash flow hedge and otherwise on

the concerned line above net income. The fair value adjustment of these instruments is reported as derivative assets or derivative liabilities in the statement of financial position.

For each class of financial instruments disclosures shall be made on credit risk and an analysis of financial assets that are past due or impaired. Within Alfa Laval credit risk is in reality mainly related to accounts receivable. The disclosures just mentioned are therefore to be found in Note 22.

IFRS 9 has a model for expected credit losses. It is a three steps model that reflects changes in the credit risk. The steps are:

1. Recorded at inception (normally an historical experience-based percentage);
2. For credit risks that have increased significantly since initial recognition (the credit risk has increased significantly if the receivable is more than 30 days overdue; otherwise based on indications of the customer having payment difficulties or financial weakness); and
3. Related to objective evidence of impairment (incurred losses).

The model results in a provision for bad debts. Only at a final loss the receivable is written off.

Government grants

Government grants are recognised in profit and loss over the same periods as the costs the grants are intended to compensate for. The grants are recognised in the income statement as a deduction of these costs.

Group contributions to and from the parent company

The parent company is accounting for group contributions according to the alternative rule in RFR 2 issued by the Council for Financial Reporting in Sweden. This means that both received and given group contributions are reported as appropriations in the income statement.

Hedge accounting

Alfa Laval only applies two types of hedge accounting: cash flow hedges and hedges of net investments in foreign operations.

Cash flow hedges

Alfa Laval has implemented documentation requirements to qualify for hedge accounting on derivative financial instruments.

The effect of the fair value adjustment of derivatives is reported as a part of other comprehensive income for the derivatives where hedge accounting is made (according to the cash flow hedging method) and above net income only when the underlying transaction has been realised. Hedge accounting requires the derivative to be

appropriate and expected to be effective regarding the identified risks.

For the derivatives where hedge accounting is not made the fair value valuation is reported above net income. The fair value adjustment of derivatives is reported separately from the underlying instrument as a separate item called derivative assets/derivative liabilities in the statement of financial position.

Hedges of net investments in foreign operations

In order to finance acquisitions of foreign operations loans are raised, if possible, in the same currency as the net investment. The loans thereby constitute a hedge of the net investment in each currency. Exchange rate differences relating to these loans are therefore booked to other comprehensive income.

Income Taxes

Income taxes are reported in accordance with IAS 12 "Income Taxes".

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. Current tax liabilities (receivables) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the closing date. In essence, this means that current tax is calculated according to the rules that apply in the countries where the profit was generated.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax liabilities are recognised for all taxable temporary differences, except for goodwill.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of: (a) deductible temporary differences; (b) the carry-forward of unused tax losses; and (c) the carry-forward of unused tax credits. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable (>50 percent) that taxable profit will be available against which the deductible temporary difference can be utilised. Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable (>50 percent) that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the closing date.

If it is no longer probable that sufficient taxable profits will be available against which a deferred tax asset can be utilised, then the deferred tax asset is reduced accordingly.

Inventories

The Group's inventory has been accounted for after elimination of inter-company gains. The inventory has been valued according to the "First-In-First-Out" (FIFO) method at the lowest of cost or net realisable value, taking into account obsolescence.

This means that raw material and purchased components normally are valued at the acquisition cost, unless the market price has fallen. Work in progress is valued at the sum of direct material and direct labour costs with a mark-up for the product's share in capital costs in the manufacturing and other indirect manufacturing costs based on a forecasted assumption on the capacity utilisation in the factory. Finished goods are normally valued at the delivery value (i.e. at cost) from the factory if the delivery is forthcoming. Spare parts that can be in the inventory during longer periods of time are normally valued at net realisable value.

Joint ventures

Joint ventures are consolidated according to IFRS 11 "Joint arrangements". Joint arrangements are defined as a contractual arrangement where two or more parties have a joint decisive influence.

It is crucial to be able to judge whether a party has control over another party, that is decisive influence or if it rather is a substantial or common influence. If it is the latter, then it is a so-called joint arrangement, which could be either:

- a joint operation; or
- a joint venture.

Jointly owned assets and joint activities are called joint operations. Each owner or party accounts for his share of assets, liabilities, revenues and costs.

Joint ventures are consolidated according to the equity method. This means that the interest is accounted for on one line in the consolidated statement of financial position and that the share of the result is accounted for on one line in the consolidated statement of comprehensive income. It is the net income in the joint ventures that is booked into one line in the operating income. The counter entry is an increase or decrease of the value of shares in joint ventures. Received dividends reduce the value of the shares in joint ventures. The sales volume and other result items and the balance items in the joint ventures will no longer be reported in the statements over consolidated comprehensive income and

consolidated financial position in any of the two owner companies.

Leasing

Leasing is accounted for according to IFRS 16 "Leases", which covers the recognition, measurement, presentation and disclosure of leases by both lessors and lessees.

In connection with the transition a practical expedient has been applied that means that the new leasing definition is only applied on new lease contracts instead of on all leasing contracts.

Alfa Laval has decided to apply a practical expedient for leasing contracts where the contract period is maximum 12 months or the leased asset is of low value. With reference to the materiality rules in IAS 8.8, Alfa Laval has chosen to apply IFRS 16 for leases concerning buildings and land, company cars and other vehicles, forklifts, large servers and large printers. The present value for other leases is estimated to be non-material. The leasing fees for these leases are expensed as incurred.

Lease contracts can include both a leasing part and a service part. According to IFRS 16, the company in these cases can choose to separate them from each other and thus only recognise the leasing part in the balance sheet or capitalise the entire contract. Alfa Laval has chosen to exclude the service part from the lease accounting and it is instead expensed as before.

When Alfa Laval is the lessee, leased assets are accounted for as right-of-use assets and a corresponding financial payable to the lessor in the statement on financial position. The leasing fee to the lessor is accounted for as financial cost calculated as interest on the outstanding payable and as amortisation of the payable. The right-of-use asset is depreciated according to plan in the same manner as for purchased assets.

For lessors a classification into operational and financial leases is made exactly as under IAS 17. When Alfa Laval is the lessor, leased assets that are classified as financial leases are accounted for as a financial receivable from the lessee in the statement on financial position. The leasing fee received from the lessee is accounted for as financial income calculated as interest on the outstanding receivable and as amortisation of the receivable.

IFRS 16 contains a number of disclosures requirements.

Levies

Levies relate to levies/taxes that governmental or corresponding bodies are charging companies in accordance with laws or regulations with exception of income taxes, penalties and fines. IFRIC 21 "Levies" is an interpretation that clarifies when a liability

for levies is to be accounted for. The obligating event that gives rise to the reporting of a liability is the activity that triggers the payment of the levy. IFRIC 21 only treats the accounting for the liability side and not whether the debit side is a cost or an asset. One example of a levy is the Swedish real estate tax, which is levied on the owner of a property at January 1. At inception of the year the liability is booked and a corresponding prepaid cost, which is then phased as a cost over the year.

Non-current assets (tangible and intangible)

Assets have been accounted for at cost, net after deduction of accumulated depreciation according to plan. Depreciation according to plan is based on the assets' acquisition values and is calculated according to the estimated useful life of the assets.

The following useful lives have been used:

<i>Tangible:</i>	
Computer programs, computers	3.3 years
Office equipment	4 years
Vehicles	5 years
Machinery and equipment	7–14 years
Land improvements	20 years
Buildings	25–33 years
Right-of-use assets	depends on the lease term
<i>Intangible:</i>	
Patents and unpatented know-how	10–20 years
Trademarks	10–20 years
Licenses, renting rights and similar rights	10–20 years
Internally generated intangible assets	5 years

The depreciation is made according to the straight-line method.

Any additions to the purchase price in connection with investments in non-current assets or acquisitions of businesses are amortised over the same period as the original purchase price. This means that the time when the asset is fully depreciated is identical regardless of when payments are made. This is a reflection of the fact that the estimated useful life of the asset is the same.

Upon sale or scrapping of assets, the results are calculated in relation to the net book value after depreciation according to plan. The result on sales is included in operating income.

Impairment of assets

When there are indications that the value of a tangible asset or an intangible asset with a definite useful life has decreased, there is

a valuation made if it must be written down according to IAS 36 "Impairment of Assets". If the reported value is higher than the recoverable amount, a write down is made that burdens net income. When assets are up for sale, for instance items of real estate, a clear indication of the recoverable amount is received that can trigger a write down.

Goodwill and intangible assets with indefinite useful life are not amortised. These assets are instead tested for impairment both annually and when there is an indication. The impairment test is made according to IAS 36 "Impairment 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 three business divisions "Energy", "Food & Water" and "Marine" have been identified as the cash-generating units within Alfa Laval. Technically a recently acquired business activity could be followed independently during an initial period, but acquired businesses are normally integrated into the divisions at a fast rate. This means that the independent traceability is lost fairly soon and then any independent measurement and testing becomes impracticable. The net present value is based on the projected EBITDA figures for the next five years, less projected investments and changes in operating capital during the same period and thereafter the perceived expected average industry growth rate. The used discount rate is the pre-tax weighted average cost of capital (WACC).

Non-current assets and disposal groups held for sale and discontinued operations

The Group is applying IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". IFRS 5 specifies the accounting for assets and disposal groups held for sale and the disclosures to be made for discontinued operations.

Assets and disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell, except for deferred tax items and defined benefit obligations. No depreciation of such assets is made. An asset or disposal group held for sale is an asset whose carrying amount will be recovered basically through a sale rather than through continuing use. It must be available for immediate sale in its current condition. The sale must be highly probable, that is a decision must have been made and an active sales effort

must have been initiated. The sale must be expected to be finalised within one year. Non-current assets are reclassified to current assets and presented separately in the statement on financial position. All assets and liabilities relating to disposal groups are presented separately in the statement of financial position.

Objectives, policies and processes for managing capital

IAS 1 "Presentation of Financial Statements" paragraphs 134 and 135 contain disclosure requirements on the company's objectives, policies and processes for managing capital. This information is disclosed in a separate section after the description of the accounting principles.

Other operating income and other operating costs

Other operating income relates to for instance commission, royalty and license income. Other operating costs refer mainly to restructuring costs and royalty costs.

Comparison distortion items that affect the operating income are reported in other operating income and other operating costs.

Provisions

The Group is applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" for the reporting of provisions, contingent liabilities and contingent assets.

A provision is recognised when and only when:

- there is a present legal or constructive obligation as a result of past events;
- it is probable that a cost will be incurred in settling the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the cost required to settle the present obligation at the closing date.

In measuring the provision:

- risks and uncertainties are taken into account;
- the provisions are discounted, where the effect of the time value of money is material. When discounting is used, the increase of the provision over time is recognised as an interest cost;
- future events, such as changes in law and technology, are taken into account where there is sufficient objective evidence that they will occur; and
- gains from the expected disposal of assets are not taken into account, even if the

expected disposal is closely linked to the event giving rise to the provision.

If a reimbursement of some or all of the costs to settle a provision is expected (e.g. through insurance contracts, indemnity clauses or supplier's warranties), the reimbursement is recognised:

- when and only when, it is virtually certain that the reimbursement will be received if the obligation is settled. The amount recognised for the reimbursement must not exceed the amount of the provision; and
- as a separate asset (gross). In the consolidated comprehensive income statement, however, the income related to the reimbursement is netted against the cost for the provision.

Provisions are reviewed at each closing date and adjusted to reflect the current best estimate. If it is no longer probable that a payment to settle the obligation will be incurred, the provision is reversed.

A provision must only be used for the purpose it was originally recognised for. Provisions are not recognised for future operating losses. An expectation of future operating losses is though an indication that certain assets of the operation may be impaired. If a contract is onerous, the present obligation under the contract is recognised and measured as a provision, once the assets used in order to finalize the contract have been tested for impairment.

A provision for restructuring costs is recognised only when the general recognition criteria are met. A constructive obligation to restructure arises only when there is:

- a detailed formal plan for the restructuring, identifying at least:
 - a) the business or part of a business concerned;
 - b) the principal locations affected;
 - c) the location, function and approximate number of employees who will be compensated for terminating their services;
 - d) the costs that will be undertaken; and
 - e) when the plan will be implemented; and
- a valid expectation in those affected that the restructuring will be carried out.

A management or board decision to restructure does not give rise to a constructive obligation at the closing date unless the company has, before the closing date:

- started to implement the restructuring plan; or

- communicated the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the restructuring will happen.

When a restructuring involves the sale of an operation, no obligation arises for the sale until the company is committed to the sale, i.e. through a binding sales agreement.

A restructuring provision only includes the direct costs arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the company.

Research and development

Research costs are charged to the result in the year in which they are incurred.

Development costs are charged to the result in the year in which they are incurred provided that they do not fulfil the conditions for instead being capitalised according to IAS 38 "Intangible Assets".

Revenue recognition

Revenue from contracts with customers and revenues from leasing are reported as "Net sales" in the statement of consolidated comprehensive income. "Net sales" are referring to sales value less sales taxes, cancellations and discounts. Contracts with customers relate to sale of goods, services and projects.

IFRS 15 "Revenue from Contracts with Customers" covers how revenue recognition on contracts with customers shall be made. Revenue recognition is based on five steps:

1. Identify the contract with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognise revenue when the entity satisfies a performance obligation.

A performance obligation is a promise in a contract with a customer to transfer to the customer either:

- a good or service (or a bundle of goods or services) that is distinct; or
- a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Two or more contracts entered into at or near the same time with the same customer are accounted for as a single contract if:

- the contracts are negotiated as a package; and/or
- the amount of consideration to be paid in the contracts are linked to each other; and/or
- the goods or services in the contracts are a single performance obligation.

A contract modification is treated as a separate contract if added products or services:

- are distinct; and
- have a stand-alone selling price.

Alfa Laval shall recognise the revenue when the performance obligation has been satisfied by transferring control over a promised good or service to the customer.

Performance obligations can be satisfied either over time or at a point in time.

Alfa Laval transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by Alfa Laval's performance as Alfa Laval performs. This is normally the case for Alfa Laval's service offerings;
- Alfa Laval creates or enhances an asset that the customer controls as the asset is created or enhanced. This is normally the case when Alfa Laval performs the work at the customer's premises, which mainly relates to installation/commissioning; or
- Alfa Laval's performance does not create an asset with an alternative use to Alfa Laval and Alfa Laval has an enforceable right to payment for performance completed to date.

Alternative use to Alfa Laval means if Alfa Laval can sell the equipment to another customer. The number of engineering hours spent by Alfa Laval on making a product or process solution customer specific with a unique configuration is a good indication of whether there is an alternative use to Alfa Laval or not. As a practical expedient, only orders of more than EUR 1 million and with more than 200 engineering hours are recognised over time.

In order to establish the performance over time an output or input method is used. In Alfa Laval output methods are more applicable to service and component deliveries, whereas input methods are more applicable to projects and module sales. Depending on the nature of the project, the following methods are used:

Input methods:

- The proportion that the project costs incurred for work performed to date bear to the estimated total project costs.
- Surveys of work performed.

Considering the type of projects that Alfa Laval companies are involved in, the first method is usually the preferred.

Output methods:

- Completion of a physical proportion of the performance obligations.

If a performance obligation is not satisfied over time it is satisfied at a point in time. To establish the point in time when the customer obtains control of a promised asset and Alfa Laval satisfies a performance obligation, the following control criteria must be considered:

- Alfa Laval has a present right to payment for the asset.
- The customer has legal title to the asset.
- The customer has physical possession of the asset.
- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.

Alfa Laval uses a variety of delivery terms depending on the customers preference, including Ex Works. Alfa Laval's preference is to use DAP (Delivered At Place) or DDP (Delivered Duty Paid) since these gives Alfa Laval better control that the customer really receives the goods in working order.

It is common that Alfa Laval provides a warranty in connection with the sale. The nature of the warranty can vary significantly across contracts. Normally warranties provide a customer with assurance that the related product will function as the parties intended according to the agreed-upon specifications. This is an assurance-type warranty. Alfa Laval's warranties normally cover a 12 months' period and are accounted for as a provision.

IFRS 15 contains a number of disclosures requirements.

Operating segments

IFRS 8 means that the reporting of operating segments must be made according to how the chief operating decision maker monitors the operations, which may deviate from IFRS. Furthermore, information according to IFRS for the company as a whole must

be given about products and services as well as geographical areas and information about major customers.

The difference between the operating income for the operating segments and the operating income according to IFRS for the company as a whole is explained by two reconciliation items.

Alfa Laval's operating segments are the divisions. The chief operating decision maker within Alfa Laval is its Board of Directors.

Transactions in foreign currencies

Receivables and liabilities denominated in foreign currencies have been valued at year-end rates of exchange.

Within the Group, exchange gains and losses on loans denominated in foreign currencies that finance acquisitions of foreign subsidiaries are transferred to other comprehensive income as foreign currency translation adjustments if the loans act as a hedge to the acquired net assets. There they offset the translation adjustments resulting from the consolidation of the foreign subsidiaries. In the parent company, these exchange differences are reported above net income.

IAS 21 "The Effects of Changes in Foreign Exchange Rates" covers among other things the existence of functional currencies. Almost all of Alfa Laval's subsidiaries are affected by changes in foreign exchange rates for their procurement within the Group. They do however usually sell in their local currency and they have more or less all of their non-product related costs and their personnel related costs in their local currency. This means that none of Alfa Laval's subsidiaries qualify for the use of another functional currency than the local currency, with the following exception. Subsidiaries in highly inflationary countries report their closings in the functional hard currency that is valid in each country, which in all cases is USD. During 2020 Venezuela is regarded as a highly inflationary country.

In the consolidation, the foreign subsidiaries have been translated using the current method. This means that assets and liabilities are translated at closing exchange rates and income and expenses are translated at the year's average exchange rate. The translation difference that arises is a result of the fact that net assets in foreign companies are translated at one rate at the beginning of the year and another at year-end and that the result is translated at average rate. The translation differences are part of other comprehensive income.

Recently issued accounting pronouncements

International Accounting Standards Board (IASB) has not issued any new or revised accounting pronouncements, which may be applicable on Alfa Laval and are effective for fiscal years beginning on or after January 1, 2021.

International Accounting Standards Board (IASB) has not issued any financial reporting interpretation developed by the International Financial Reporting Interpretations Committee (IFRIC), which may be applicable on Alfa Laval and are effective for fiscal years beginning on or after January 1, 2021.

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 2020 the managed capital was SEK 32,706 (35,922) million.

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern and provide an adequate return for shareholders and benefits for other stakeholders.

When managing the capital, the Group monitors several measures including:

Measure	Goal	Target standard	Target not set	Outcome		Average over last		
				2020	2019	3 years	5 years	8 years
				Invoicing growth per year	≥5% *			-10.9%
Adjusted EBITA margin **	15% *			17.4%	17.2%	17.0%	16.5%	16.6%
Return on capital employed **	≥20%			19.1%	23.0%	21.5%	19.5%	20.7%
Net debt to EBITDA **		≤2.0		0.48	0.88	0.76	1.08	1.24
Cash flow from operating activities including investments in fixed assets ***		10%		15.7%	8.4%	10.8%	11.1%	10.2%
Investments ***		2.0%		3.0%	2.9%	3.2%	2.7%	2.3%
Return on equity			X	12.7%	21.3%	18.1%	16.0%	17.2%
Solidity			X	47.8%	43.1%	43.8%	41.7%	40.1%
Debt ratio **			X	0.13	0.29	0.24	0.32	0.41
Interest coverage ratio **			X	27.3	32.8	33.1	30.5	26.9
Credit rating			X	BBB+	BBB+			

* Average over a business cycle. ** Alternative performance measures. *** In % of sales.

These measures are connected to each other as communicating vessels. This means that if actions are taken that primarily aim at a certain measure, they will also have an impact on other measures to a varying degree. It is therefore important to consider the whole picture.

In order to maintain a good capital structure, the Group may for instance raise new loans or amortise on existing loans, adjust the amount of dividends paid to shareholders, return capital to shareholders, repurchase own shares, issue new shares or sell assets.

As examples on the Group's active work with managing its capital the following can be mentioned:

– Alfa Laval entered into a bilateral term loan facility agreement of SEK 2,000 million with SEB and Nordea on June 12, 2020. The loan was raised on June 23, 2020 and maturing on December 12, 2021 but was repaid already on December 23, 2020.

- A new senior credit facility of EUR 900 million with an extended banking syndicate from April 17, 2020.
- Two tranches of corporate bonds totalling EUR 800 million were issued in September 2014 and June 2019.
- A commercial paper programme of nominally SEK 2,000 million with a duration of 1–12 months was started in the spring 2014.
- The bilateral term loan of EUR 100 million from Swedish Export Credit from June 2011.
- The loan from the European Investment Bank of EUR 115 million maturing in June 2021 that was repaid already at March 4, 2020.

Risks

Risks are divided into financial risks and operational risks, which are described below.

In order to handle and minimise the risks, Alfa Laval has established a comprehensive set of Group wide policies and an internal control framework. To support the work with internal control an extensive set of minimum internal controls has been established.

During the year, managers and other key personnel have made a self assessment based on a selection of the most important minimum internal controls.

Internal control is monitored by both internal audit and by the external auditors.

Financial risks

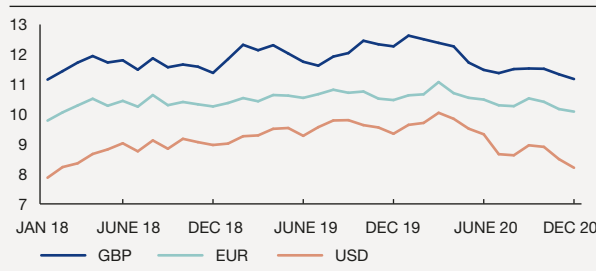
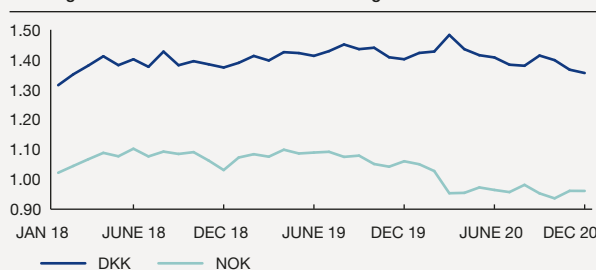

Financial risks are referring to financial instruments.

Financial instruments

Alfa Laval has the following financial instruments: cash and cash equivalents, deposits, trade receivables, bank loans, trade payables and a limited number of derivative instruments to hedge primarily currency rates or interests, but also the price of metals and electricity. These include currency forward contracts, currency options, interest-rate swaps, metal forward contracts and electricity futures. See Notes 13 and 14 for more information on these financial instruments.

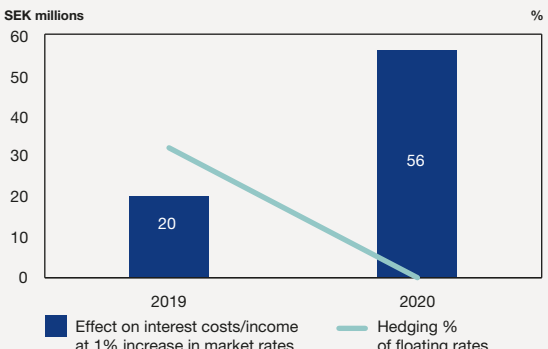
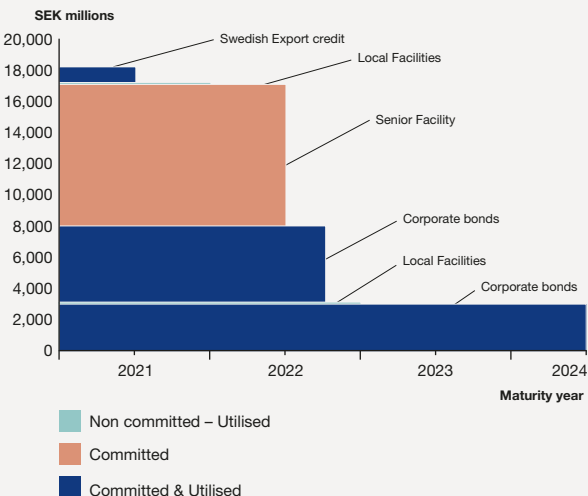
Treasury policy

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

Risk	Explanation	Mitigation
Financial risks		
Price risk	There are three different types of price risks: currency risk, interest risk and market risk. See below.	
Currency risk	<p>Due to the Alfa Laval Group's international business activities and geographical spread the Group is exposed to currency risks. The exchange rate movements in the major currencies for the Group during the last years are presented below (SEK/foreign currency):</p> <p>Exchange rate fluctuations – UK pounds, Euro, US dollars</p>  <p>Exchange rate fluctuations – Danish and Norwegian kroner</p>  <p>Exchange rate fluctuations – Japanese yen, Korean won</p> 	

Risk	Explanation	Mitigation																																																						
Transaction exposure	<p>Currency risk is divided into transaction exposure and translation exposure.</p> <p>Transaction exposure relates to currency risks that arise due to exchange rate fluctuations that affect the currency flows that are generated by the business activities.</p> <p>During 2020 Alfa Laval's sales to countries outside Sweden amounted to 97.6 (97.9) percent of total sales.</p> <p>The Group's net transaction exposure at December 31, 2020 in the most important currencies before and after derivatives for the coming 12 months amounts to:</p> <p>Net transaction exposure per currency pair at December 31, 2020 for the coming 12 months</p>	<p>Alfa Laval's local sales companies normally sell in domestic currency to local end customers and have their local cost base in local currency. Exports from production and logistical centres to other Group companies are invoiced in the exporting companies' domestic currencies, except for Sweden, Denmark and the UK where the exports are denominated in EUR.</p> <p>The Group is principally exposed to currency risk from potential changes in contracted and projected flows of payments and receipts. The objective of foreign exchange risk management is to reduce the impact of foreign exchange movements on the Group's income and financial position.</p> <p>The Group normally has natural risk coverage through sales as well as costs in local currencies. The treasury policy states that the local companies are responsible for identifying and hedging exchange rate exposures on all commercial flows via Alfa Laval Treasury International.</p> <p>Transaction exposure from firm committed orders shall be hedged to 100 percent when the value of the net exposure exceeds EUR 200,000. Furthermore, companies with yearly net exposure exceeding EUR 1,000,000 must hedge at least 50 percent of the next 12 months net exposure concerning all uncommitted flows and committed flows below EUR 200,000. The total hedge must never exceed 100 percent. Longer hedging contracts of 13–24 months for uncommitted exposures require special approval.</p> <p>Alfa Laval Treasury International can add to or reduce the total hedging initiated by the local companies in the currencies that Alfa Laval has commercial exposure up to but not exceeding 100 percent and down to but not below 50 percent of the commercial exposure for each currency in a given time period.</p>																																																						
	<p>The positive bars are a reflection of:</p> <ul style="list-style-type: none"> – subsidiaries in Sweden and Denmark exporting in EUR; – subsidiaries in Norway exporting mainly in USD but also in JPY; and – subsidiaries in China exporting in EUR. <p>The negative bars are a reflection of subsidiaries in the U.S. and Japan importing in EUR.</p> <p>Currency contracts for projected flows are entered into continuously during the year. For contract-based exposures the derivatives follow the duration of the underlying contract. This means that the company experiences the effects from the market currency rate movements with a varying degree of delay.</p> <p>If the currency rates between SEK and the most important foreign currencies are changed by +/- 10 % it has the following effect on operating income, if no hedging measures are taken:</p> <p>Effect on operating income by exchange rate fluctuations excluding hedging measures</p> <table border="1"> <thead> <tr> <th colspan="5">Consolidated</th> </tr> <tr> <th>SEK millions</th> <th colspan="2">2020</th> <th colspan="2">2019</th> </tr> <tr> <th>Exchange rate change against SEK</th> <th>+ 10%</th> <th>- 10%</th> <th>+ 10%</th> <th>- 10%</th> </tr> </thead> <tbody> <tr> <td>USD</td> <td>478</td> <td>-478</td> <td>567</td> <td>-567</td> </tr> <tr> <td>EUR</td> <td>221</td> <td>-221</td> <td>276</td> <td>-276</td> </tr> <tr> <td>CNY</td> <td>99</td> <td>-99</td> <td>141</td> <td>-141</td> </tr> <tr> <td>NOK</td> <td>-258</td> <td>258</td> <td>-269</td> <td>269</td> </tr> <tr> <td>DKK</td> <td>-168</td> <td>168</td> <td>-200</td> <td>200</td> </tr> <tr> <td>JPY</td> <td>27</td> <td>-27</td> <td>41</td> <td>-41</td> </tr> <tr> <td>Other</td> <td>-52</td> <td>52</td> <td>-54</td> <td>54</td> </tr> <tr> <td>Total</td> <td>347</td> <td>-347</td> <td>502</td> <td>-502</td> </tr> </tbody> </table>	Consolidated					SEK millions	2020		2019		Exchange rate change against SEK	+ 10%	- 10%	+ 10%	- 10%	USD	478	-478	567	-567	EUR	221	-221	276	-276	CNY	99	-99	141	-141	NOK	-258	258	-269	269	DKK	-168	168	-200	200	JPY	27	-27	41	-41	Other	-52	52	-54	54	Total	347	-347	502	-502
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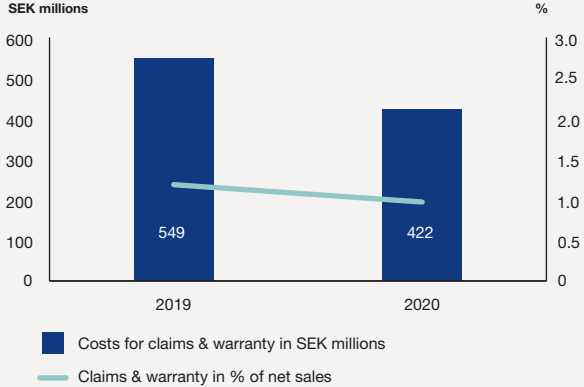
Risk	Explanation	Mitigation																																																																																																																			
	<p>Outstanding currency forward contracts and currency options for the Group amounted to the following at the end of the year:</p> <p>Outstanding currency forward contracts and currency options</p> <table border="1"> <thead> <tr> <th colspan="5">Consolidated</th> </tr> <tr> <th>Millions</th> <th colspan="2">2020</th> <th colspan="2">2019</th> </tr> <tr> <th></th> <th>Original currency</th> <th>SEK</th> <th>Original currency</th> <th>SEK</th> </tr> </thead> <tbody> <tr> <td>Outflows:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>USD</td> <td>-752</td> <td>-6,173</td> <td>-761</td> <td>-7,116</td> </tr> <tr> <td>EUR</td> <td>-287</td> <td>-2,899</td> <td>-532</td> <td>-5,569</td> </tr> <tr> <td>JPY</td> <td>-5,165</td> <td>-411</td> <td>-7,193</td> <td>-619</td> </tr> <tr> <td>SGD</td> <td>-7</td> <td>-45</td> <td>-</td> <td>-</td> </tr> <tr> <td>CAD</td> <td>-5</td> <td>-33</td> <td>-9</td> <td>-67</td> </tr> <tr> <td>AUD</td> <td>-4</td> <td>-26</td> <td>-</td> <td>-</td> </tr> <tr> <td>NZD</td> <td>-3</td> <td>-17</td> <td>-3</td> <td>-22</td> </tr> <tr> <td>RON</td> <td>-</td> <td>-</td> <td>-1</td> <td>-1</td> </tr> <tr> <td>Total</td> <td></td> <td>-9,604</td> <td></td> <td>-13,394</td> </tr> <tr> <td>Inflows:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>NOK</td> <td>4,859</td> <td>4,671</td> <td>5,503</td> <td>5,834</td> </tr> <tr> <td>SEK</td> <td>3,653</td> <td>3,653</td> <td>5,059</td> <td>5,059</td> </tr> <tr> <td>CNY</td> <td>1,295</td> <td>1,628</td> <td>1,611</td> <td>2,158</td> </tr> <tr> <td>DKK</td> <td>456</td> <td>618</td> <td>400</td> <td>561</td> </tr> <tr> <td>GBP</td> <td>6</td> <td>71</td> <td>13</td> <td>156</td> </tr> <tr> <td>SGD</td> <td>-</td> <td>-</td> <td>2</td> <td>15</td> </tr> <tr> <td>AUD</td> <td>-</td> <td>-</td> <td>10</td> <td>67</td> </tr> <tr> <td>RUB</td> <td>-</td> <td>-</td> <td>316</td> <td>48</td> </tr> <tr> <td>Total</td> <td></td> <td>10,641</td> <td></td> <td>13,898</td> </tr> </tbody> </table>	Consolidated					Millions	2020		2019			Original currency	SEK	Original currency	SEK	Outflows:					USD	-752	-6,173	-761	-7,116	EUR	-287	-2,899	-532	-5,569	JPY	-5,165	-411	-7,193	-619	SGD	-7	-45	-	-	CAD	-5	-33	-9	-67	AUD	-4	-26	-	-	NZD	-3	-17	-3	-22	RON	-	-	-1	-1	Total		-9,604		-13,394	Inflows:					NOK	4,859	4,671	5,503	5,834	SEK	3,653	3,653	5,059	5,059	CNY	1,295	1,628	1,611	2,158	DKK	456	618	400	561	GBP	6	71	13	156	SGD	-	-	2	15	AUD	-	-	10	67	RUB	-	-	316	48	Total		10,641		13,898	
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Translation exposure	<p>Translation exposure relates to the currency risks that arise due to the translation of the subsidiaries' statements on financial position from local currency to SEK.</p> <p>When the subsidiaries' statements of financial position in local currency are translated into SEK a translation difference arises that is due to the current year being translated at a different closing rate than last year and that the comprehensive income statement is translated at the average rate during the year whereas the statement of financial position is translated at the closing rate at December 31. The translation differences are reported against other comprehensive income. The translation exposure consists of the risk that the translation difference represents in terms of impact on comprehensive income. The risk is largest for the currencies where the Group has the largest net assets and where the exchange rate movements against SEK are largest. The Group's net assets or liabilities for the major currencies are distributed as follows:</p> <p>Net assets and liabilities by currency</p> <table border="1"> <caption>Net assets and liabilities by currency (SEK millions)</caption> <thead> <tr> <th>Currency</th> <th>Net assets</th> <th>Net liabilities</th> </tr> </thead> <tbody> <tr><td>NOK</td><td>15,000</td><td>0</td></tr> <tr><td>SEK</td><td>6,000</td><td>0</td></tr> <tr><td>CNY</td><td>3,000</td><td>0</td></tr> <tr><td>INR</td><td>1,500</td><td>0</td></tr> <tr><td>EUR/DKK</td><td>1,000</td><td>0</td></tr> <tr><td>JPY</td><td>500</td><td>0</td></tr> <tr><td>PLN</td><td>500</td><td>0</td></tr> <tr><td>BRL</td><td>500</td><td>0</td></tr> <tr><td>HKD</td><td>500</td><td>0</td></tr> <tr><td>KRW</td><td>500</td><td>0</td></tr> <tr><td>CAD</td><td>500</td><td>0</td></tr> <tr><td>Other</td><td>500</td><td>0</td></tr> <tr><td>USD</td><td>0</td><td>1,000</td></tr> </tbody> </table> <p>The assets and liabilities in EUR and DKK are seen together since the rate for DKK is fixed against the EUR.</p>	Currency	Net assets	Net liabilities	NOK	15,000	0	SEK	6,000	0	CNY	3,000	0	INR	1,500	0	EUR/DKK	1,000	0	JPY	500	0	PLN	500	0	BRL	500	0	HKD	500	0	KRW	500	0	CAD	500	0	Other	500	0	USD	0	1,000	<p>The translation differences are a central responsibility and are managed by distributing the loans on different currencies based on the net assets in each currency and through cross currency swaps. Loans taken in the same currency as there are net assets in the Group, decrease these net assets and thereby decrease the translation exposure.</p> <p>These hedges of net investments in foreign operations work in the following way. Exchange gains and losses on loans denominated in foreign currencies that finance acquisitions of foreign subsidiaries are reported as a part of other comprehensive income if the loans act as a hedge to the acquired net assets. In other comprehensive income they offset the translation adjustments resulting from the consolidation of the foreign subsidiaries. In the Group, net exchange differences of SEK 313 (-288) million relating to debts in foreign currencies have been charged to other comprehensive income as hedges of net investments in foreign operations. The loans that hedge net investments in foreign operations are denominated in EUR and USD since these foreign currencies have the largest impact on the statement of financial position. Since the Group uses part of its cash flows to amortise the loans in order to improve the financial net, the extent of this hedge tends to decrease over time. A change in the net assets of the foreign subsidiary over time can have the same effect.</p>																																																																									
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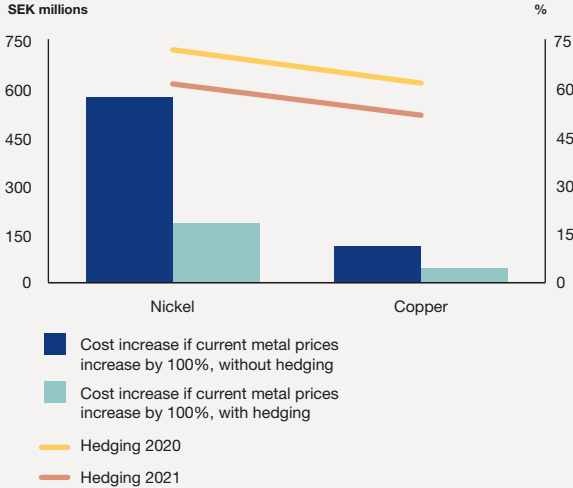



Risk	Explanation	Mitigation																				
<p>Interest risk</p>	<p>By interest risk is meant how changes in the interest level affect the financial net of the Group and how the value of financial instruments vary due to changes in market interest rates.</p> <p>At December 31, 2020, the total debt portfolio of SEK 9,168 (12,022) million was split on loans with fixed interest of SEK 8,040 (8,335) and loans with floating interest rates of SEK 1,128 (3,687) million.</p> <p>The average interest and currency duration for all loans including derivatives was 26.1 (30.1) months at the end of 2020.</p> <p>Calculated on an overall increase of market rates by 100 basis points (1 percentage unit), the interest net of the Group would change according to the bar chart below. The reason why it is an income is that large parts of the cash and cash equivalents and the current deposits have floating interest rates.</p> <p>Interest sensitivity analysis versus hedging % of floating rates</p>  <table border="1"> <caption>Interest sensitivity analysis versus hedging % of floating rates</caption> <thead> <tr> <th>Year</th> <th>Effect on interest costs/income at 1% increase in market rates (SEK millions)</th> <th>Hedging % of floating rates (%)</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>20</td> <td>15</td> </tr> <tr> <td>2020</td> <td>56</td> <td>0</td> </tr> </tbody> </table>	Year	Effect on interest costs/income at 1% increase in market rates (SEK millions)	Hedging % of floating rates (%)	2019	20	15	2020	56	0	<p>The Group attempts to manage the interest risk by:</p> <ul style="list-style-type: none"> – seeking a balance between floating and fixed interest rates in the debt portfolio and – using derivative financial instruments such as interest rate swaps. <p>The high portion of loans with fixed interest rate at December 31, 2020 meant a low interest risk. The treasury policy states that:</p> <ul style="list-style-type: none"> – the interest rate risk is measured separately for each main currency and for the total debt; and – the average interest duration for the total portfolio should be between 6 and 36 months. <p>The senior credit facility and the bilateral term loans accrue interest at floating rate. At the end of 2020 the only remaining loan was accruing interest at 0.43 %. The corresponding figure for 2019 was a range of 0.10 % – 2.73 %. The average interest rate at the end of 2020 was 0.43 (1.25) percent.</p> <p>The interest for the loan with floating interest rates was fixed at December 15, 2020 for the remaining term, which is the reason why no loans with floating interest rates were hedged to fixed interest rate at December 31, 2020. At December 31, 2019, 16 percent of the loans with floating interest rate were hedged to fixed interest rate, with a duration of 3.0 months. The duration was shorter than 6 months both in 2020 and 2019 due to the upcoming maturity of loans.</p>											
Year	Effect on interest costs/income at 1% increase in market rates (SEK millions)	Hedging % of floating rates (%)																				
2019	20	15																				
2020	56	0																				
<p>Market risk</p>	<p>Market risk is defined as the risk for changes in the value of a financial instrument due to changed market prices. This applies only to financial instruments that are listed or otherwise traded, which for Alfa Laval concern bonds and other securities and other long-term securities totalling SEK 2,941 (732) million.</p>	<p>The market risk for these is perceived as low. For other financial instruments, the price risk only consists of currency risk and interest risk.</p>																				
<p>Liquidity risk and refinancing risk</p>	<p>Liquidity risk is defined as the risk that the Group would incur increased costs due to lack of liquid funds.</p> <p>Refinancing risk is defined as the risk that the refinancing of maturing loans becomes difficult or costly.</p> <p>In summary the maturity structure of the loans and the loan facilities is as follows:</p> <p>Maturity structure of Group funding</p>  <table border="1"> <caption>Maturity structure of Group funding</caption> <thead> <tr> <th>Maturity year</th> <th>Non committed – Utilised (SEK millions)</th> <th>Committed (SEK millions)</th> <th>Committed & Utilised (SEK millions)</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>~1,000</td> <td>~17,000</td> <td>~18,000</td> </tr> <tr> <td>2022</td> <td>~1,000</td> <td>~17,000</td> <td>~18,000</td> </tr> <tr> <td>2023</td> <td>~1,000</td> <td>~17,000</td> <td>~18,000</td> </tr> <tr> <td>2024</td> <td>~1,000</td> <td>~17,000</td> <td>~18,000</td> </tr> </tbody> </table>	Maturity year	Non committed – Utilised (SEK millions)	Committed (SEK millions)	Committed & Utilised (SEK millions)	2021	~1,000	~17,000	~18,000	2022	~1,000	~17,000	~18,000	2023	~1,000	~17,000	~18,000	2024	~1,000	~17,000	~18,000	<p>Alfa Laval Treasury International is responsible for ensuring that:</p> <ul style="list-style-type: none"> – the Group has a sufficient liquidity reserve, including cash & bank, short-term investments and unutilized committed credit facilities, – maximum 50 percent of the outstanding debt matures within the coming 12 month period and – the remaining average credit duration of the total debt portfolio exceeds 2 years. <p>The loans of the Group are mainly long-term and only mature when the agreed loan period expires. Since the maturity of the loans is distributed over time the refinancing risk is reduced.</p> <p>As of April 17, 2020, Alfa Laval has a new senior credit facility with an extended banking syndicate of EUR 900 million corresponding to SEK 9,077 million at December 31, 2020. The facility was not utilised at December 31, 2020. It matures in June 2022.</p> <p>The commercial paper programme of SEK 2,000 million was not utilised at December 31, 2020.</p> <p>The corporate bonds are listed on the Irish stock exchange and consist of one tranche of EUR 500 million that matures in September 2022 and one tranche of EUR 300 million that matures in June 2024, corresponding to SEK 8,040 million in total.</p> <p>Alfa Laval has a bilateral term loan with Swedish Export Credit of EUR 100 million that matures in June 2021, corresponding to SEK 1,008 million. The loan of USD 136 million that matured on June 23, 2020 has been repaid.</p> <p>The bilateral term loan of SEK 2,000 million with SEB and Nordea maturing in December 2021 was repaid already at December 23, 2020.</p> <p>The loan from the European Investment Bank of EUR 115 million maturing in June 2021 was repaid already at March 4, 2020.</p>
Maturity year	Non committed – Utilised (SEK millions)	Committed (SEK millions)	Committed & Utilised (SEK millions)																			
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Risk	Explanation	Mitigation
Cash flow risk	Cash flow risk is defined as the risk that the size of future cash flows linked to financial instruments is fluctuating.	This risk is mostly linked to changed interest and currency rates. To the extent that this is perceived as a problem, different derivative instruments are used to fix rates. See description of exposure and hedging measures under interest and currency risks. Maturity analyses of the contractual undiscounted cash flows for loans (including interests) are shown in Note 29 and for currency derivatives, interest derivatives, metal futures and electricity futures in Note 15.
Counterpart risk	Counterpart risk is defined as the risk that the counterpart is not able to fulfill its contractual obligations. Financial instruments that potentially subject the Group to significant concentrations of credit risk consist principally of cash and cash equivalents, deposits and derivatives.	The Group has a bank strategy with the objective to establish, maintain and develop strong bank relations at Group level. This in order to provide the Group with long-term banking support, a relevant product range and geographical coverage. The banks at Group level must have a credit rating from two rating institutions of minimum A. The Group maintains cash and cash equivalents and current and non-current investments with various financial institutions approved by the Group. These financial institutions are located in major countries throughout the world and the Group's policy is designed to limit exposures to any one institution. The risk for a 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 counterpart. Furthermore, the Group has entered into ISDA agreements (International Swaps and Derivatives Association) with the counterparts in order to be able to offset assets and liabilities in case of a counterparty default. Alfa Laval has never encountered a counterparty default, which means that such an offset never has been made. 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.

Operational risks

Risk	Explanation	Mitigation															
Business risks																	
Credit risk/Risk for bad debts	<p>The risk that the customer cannot pay for delivered goods due to financial difficulties.</p> <p>The amount of accounts receivable being overdue is an indication of the risk the company runs for ending up in a bad debt situation.</p> <p>The Group's costs for bad debts and the overdues in percent of accounts receivable are presented in the following graph.</p> <p>Costs for bad debts / overdues in % of accounts receivable</p> <table border="1"> <caption>Costs for bad debts / overdues in % of accounts receivable</caption> <thead> <tr> <th>Year</th> <th>Costs for bad debts in SEK millions</th> <th>≤ 30 days (%)</th> <th>> 30 days but ≤ 90 days (%)</th> <th>> 90 days (%)</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>113</td> <td>~10</td> <td>~7</td> <td>~8</td> </tr> <tr> <td>2020</td> <td>33</td> <td>~9</td> <td>~6</td> <td>~7</td> </tr> </tbody> </table>	Year	Costs for bad debts in SEK millions	≤ 30 days (%)	> 30 days but ≤ 90 days (%)	> 90 days (%)	2019	113	~10	~7	~8	2020	33	~9	~6	~7	<p>Alfa Laval has established a Group Credit Policy to manage and mitigate the credit risk.</p> <p>The Group sells to a large number of customers in countries all over the world. That some of these customers from time to time face payment problems or go bankrupt is unfortunately part of reality in an operation of Alfa Laval's magnitude. All customers except Tetra Laval represent less than 1 percent of net sales and thereby represent a limited risk. Alfa Laval regularly collects credit information on new customers and, if needed, on old customers. Earlier payment habits have an impact on the acceptance of new orders. On markets with political or financial risks, the Group strives to attain credit insurance solutions.</p> <p>Accounts receivable constitutes the single largest financial asset according to Note 13. With reference to the above description it is management's opinion that there is no material concentration of risk in this financial asset.</p>
Year	Costs for bad debts in SEK millions	≤ 30 days (%)	> 30 days but ≤ 90 days (%)	> 90 days (%)													
2019	113	~10	~7	~8													
2020	33	~9	~6	~7													

Risk	Explanation	Mitigation									
Risk for claims	<p>The risk for the costs Alfa Laval would incur to rectify faults in products or systems and possible costs for penalties.</p> <p>The Group's net claim costs and their relation to net sales are found in the following graph.</p> <p>Claim costs in SEK millions and in % of net sales</p>  <table border="1" data-bbox="368 479 954 864"> <thead> <tr> <th>Year</th> <th>Costs for claims & warranty in SEK millions</th> <th>Claims & warranty in % of net sales</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>549</td> <td>1.5</td> </tr> <tr> <td>2020</td> <td>422</td> <td>1.0</td> </tr> </tbody> </table>	Year	Costs for claims & warranty in SEK millions	Claims & warranty in % of net sales	2019	549	1.5	2020	422	1.0	<p>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.</p>
Year	Costs for claims & warranty in SEK millions	Claims & warranty in % of net sales									
2019	549	1.5									
2020	422	1.0									
Economic risk <i>Competition</i>	<p>The Group operates in competitive markets, which can impact the company's development negatively.</p>	<p>In order to address this competition, the Group has for instance:</p> <ul style="list-style-type: none"> – organized the operations into divisions based on business units in order to get a customer focused market penetration; – a strategy for acquisition of businesses in order to for instance reinforce the presence on certain markets or widen the Group's product offering; – worked with creating a competitive cost level based on its international presence; and – worked with securing the availability of strategic metals and components in order to maintain the ability to deliver. 									
<i>Business climate</i>	<p>In an overall economic downturn, the Group tends to be affected with a delay of six to twelve months depending on business division. The same applies with an economic upturn.</p>	<p>The fact that the Group is operating on a large number of geographical markets and within a wide range of business units means a diversification that limits the effects of fluctuations in the business climate. Historically, fluctuations in the business climate have not generated decreases in orders received by more than approximately 10–15 percent. The downturn in the business climate in 2009 and 2010 however meant a considerably larger decline in order intake. This was partly due to the fact that the decline happened abruptly from a very high level of demand that was the culmination of a long-lasting boom and that the price level in connection with this peak was inflated by substantial increases in raw material prices.</p>									
<i>Pandemics</i>	<p>The outbreak of the COVID-19 pandemic proved to have a large impact on the world economy and the international business climate. Lockdowns in many regions within countries or in entire countries have during certain periods limited Alfa Laval's ability to visit potential customers and perform service on site at customers but has only to a limited extent impacted the company's supply chain and ability to manufacture products.</p> <p>Future pandemics can, depending on the rate of the spread of the infection and the risk for severe illness and death have smaller or larger consequences than COVID-19.</p>	<p>Global and local crisis management work and obedience to advice, instructions and rules from authorities are important to be able to short and long term handle the consequences of the pandemic.</p> <p>Cost reduction programmes and the flexibility in different national work time reduction schemes are important components to reduce costs to match the declining revenues.</p> <p>Employees outside the manufacturing have to a large extent been able to work from home. Travelling has been severely restricted and has to a large extent been replaced by digital meetings.</p>									

Risk	Explanation	Mitigation
<p>Commodity prices</p>	<p>The Group depends on deliveries of stainless steel, carbon steel, copper and titanium etc and on electricity for the manufacture of products. The prices in some of these markets are volatile and the supply of titanium has occasionally been limited. There are a limited number of possible suppliers of titanium. The risk for severely increased prices or limited supply constitutes serious risks for the operations. The possibilities to pass on higher input prices to an end customer vary from time to time and between different markets depending on the competition.</p> <p>The below graph below shows how much of the purchases of nickel and copper that have been hedged during 2020 and how much of the expected purchases during 2021 that were hedged at the end of 2020. The graph also presents to what extent the Group's costs for these purchases during 2021 would be affected if the prices would double from the level at December 31, 2020.</p> <p>Sensitivity analysis and metal price hedging</p>  <p>Nickel</p>  <p>Copper</p>  <p>Aluminium</p> 	<p>The Group is addressing this risk by securing long-term supply commitments and through fixed prices from the suppliers during six to twelve months and through derivatives for metals and electricity.</p> <p>For metals:</p> <ul style="list-style-type: none"> – The exposures for the coming 12 months of expected flows must be hedged between 30–70 percent. – In certain situations, exposures beyond 12 months can also be hedged. <p>For electricity the coming 12 months' expected exposure shall be hedged between 30–90 percent and the coming 13–24 months can be hedged up to 80 percent.</p> <p>During periods of large price increases the customer price on titanium products has been linked to Alfa Laval's procurement costs for titanium. Primarily in the period 2007 to 2011 the Group 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.</p> <p>The Group uses metal futures to secure the price on strategic metals.</p>

Risk	Explanation	Mitigation
Legal and compliance risks		
Non-compliance with socioeconomic or environmental legislation	Alfa Laval's global and diversified business means that the Group is required to adhere to a variety of laws and regulations. Failure to meet socio-economic or environmental requirements could lead to legal and financial consequences, and negatively impact the company's reputation.	Policies, procedures and training programmes are in place to ensure that legal risks relating to its business activities are identified and that decisions are made on the appropriate level in the organisation. The legal counsel supports the business in identifying and handling these legal risks. A whistle-blowing system is in place where employees can report any breaches of laws or Alfa Laval policies anonymously without repercussions.
Bribery and corruption	If Alfa Laval employees fail to comply with anti-bribery and anti-corruption laws, this could potentially lead to loss of business, financial penalties and reputational damage.	The Alfa Laval Anti-Bribery and Anti-Corruption Policy is applicable to all employees within the Group. The policy sets procedures for preventing, detecting, reporting and investigating acts of bribery and corruption. Training is a focus area to ensure an understanding of the risks associated with improper behaviour in this area.
Material source or type	Alfa Laval uses metals that may originate from areas classified as "conflict areas". We manufacture products for customers with specific demands due to industry standards, for example marine, food and pharmaceutical customers.	Alfa Laval supports the US Securities and Exchange Commission's rules and other initiatives concerning conflict minerals. Alfa Laval established a Conflict Minerals Policy in 2013. Due diligence is conducted in our supply chain to minimise the risk that minerals originate from conflict areas (especially in the Democratic Republic of Congo). Alfa Laval's Supplier Risk & Compliance unit has processes in place to identify risks and monitor potential high-risk suppliers. The Alfa Laval Regulatory Operations unit monitors emerging legislation to ensure adherence in prioritized areas.
Unfair competition and antitrust	Infringements of applicable competition rules may result in Alfa Laval having to pay fines and losing goodwill.	The Fair Competition Policy provides guidelines to assist employees with how to adhere to competition law/antitrust laws, rules and regulation. Employees working with sales or purchasing are obliged to comply with this policy.
Export control and trade sanction regulations	Breach of export control and trade sanction regulations can lead to a denial of trade privileges, criminal proceedings and reputational damage.	The Alfa Laval Export Control Policy establishes rules for Group-wide handling of the relevant export control regulations, adherence to applicable trade sanctions and it ensures that no products or services supplied by Alfa Laval are used in relation to weapons of mass destruction.
Risk for and in connection with litigations	This risk for the costs the Group may incur in managing litigations, costs in connection with settlements and costs for imposed penalties. The Group is involved in a few litigations, mainly with customers.	Any estimated loss risks are provided for.
Asbestos-related lawsuits	The Alfa Laval Group was as of December 31, 2020, named as a co-defendant in a total of 623 asbestos-related lawsuits with a total of approximately 623 plaintiffs.	Alfa Laval strongly believes the claims against the Group are without merit and intends to vigorously contest each lawsuit. Based on current information and Alfa Laval's understanding of these lawsuits, Alfa Laval continues to believe that these lawsuits will not have a material adverse effect on the Group's financial condition or results of operation.
Supply chain risks		
Business Principles deviation in the supply chain	Deviations could have an adverse impact on people, the environment and society that could damage the company's reputation.	Alfa Laval works to have a supply chain that follows laws and the company's business principles. All suppliers sign contracts where they agree to abide by the Alfa Laval Business Principles. Suppliers are assessed based on a risk analysis (country/process) and high-risk suppliers are regularly audited. All employees within the procurement organisation and many suppliers are trained in all areas that are covered by the business principles.
Human Rights breaches	The risk that the human rights of individuals linked to Alfa Laval are violated. For example, child labour, forced labour and freedom of association.	Alfa Laval's Business Principles build on the UN Global Compact, the OECD Guidelines for multinational enterprises, the UN Guiding Principles for Business and Human Rights and incorporate the UK Modern Slavery Act. Suppliers sign off on these business principles in their contracts with Alfa Laval. High-risk suppliers are also audited that they follow the business principles.

Risk	Explanation	Mitigation
Production or product related risks		
Risk connected to technical development	The risk that a competitor develops a new technical solution that makes Alfa Laval's products technically obsolete and therefore difficult to sell.	Alfa Laval makes a deliberate investment in research and development aiming at being in the absolute frontline of technical development.
Risk for technically related damages	The risk for the costs Alfa Laval may incur in connection with a product delivered by the Group breaking down and causing damages to life and property. The main risk in this context concerns high-speed separators, due to the large forces that are involved when the bowl in the separator spins with a very high number of revolutions. In a breakdown the damages can be extensive.	Alfa Laval makes extensive testing and has an ISO certified quality assurance. The Group has product liability insurance. The number of damages is low and few damages have occurred historically.
Health & Safety	Health and safety risks such as occupational diseases and accidents. The risk that an employee is injured or killed in a workplace accident.	The Alfa Laval Occupational Health & Safety (OHS) Policy guides the work together with our OHS Manual. The purpose with these is to safeguard a healthy and safe working environment by preventing accidents, occupational diseases and other health risks. We have a process to continuously monitor high-risk areas in our operations, train employees and enforce changes.
Environmental risks		
Major environmental incident at a site	An incident that causes a significant environmental damage could lead to long-term environmental impact, negative impact on people, fines and reputational damage to the company.	The Alfa Laval Environmental Policy is applicable to the entire Alfa Laval Group. Environmental performance is monitored and measured through Environmental Management Systems. The large sites are ISO 14001 certified. Smaller sites work according to Environmental Management Systems where risks are identified, and effective countermeasures are implemented.
Use of hazardous chemicals	Using hazardous chemicals could lead to severe illness or have a serious negative impact on our environment or society.	The Alfa Laval Group Black and Grey Chemicals List is the primary tool to control the use of chemical substances. This list compiles substances that are classified as banned, very high concern or concern. The list is based on EU legislations, such as REACH and RoHS, and global agreements such as for example POPs and IMO. The list is updated each year to reflect any legislative changes.
Climate and water	Climate change could lead to increased costs and constrain production. Water scarcity in the supply chain or at our sites can constrain production. Cost of energy or carbon emissions can increase due to climate legislation.	Alfa Laval does not use significant amounts of energy in its production. To continuously improve, we have targets to both increase energy efficiency and to reduce carbon emissions. Alfa Laval production is not water intensive and most water facilities are closed loop. The Environmental Strategy for 2020 includes targets for all three areas. Read more in the Environment chapter in Alfa Laval's Sustainability Report.
IT related risks		
Loss of intellectual property, financial or personal data	Loss of intellectual property, financial or personal data due to for instance unauthorized access to Alfa Laval's computer systems.	Alfa Laval holds compulsory trainings on information security awareness. Policies describe what is confidential information and how the information should be classified. Alfa Laval's IT agreements contain the necessary Information Security components. Information security is also monitored in our project model – feasibility, pre-study and project. A template is also sent at an early stage to all potential suppliers to identify if there are any possible infringements of information security.

Risk	Explanation	Mitigation
Human capital risks		
Risk connected to attracting and retaining talents	Companies that do not succeed in attracting and retaining talents risk experiencing an inferior development compared to companies that succeed with this.	To offer interesting positions, personal and professional development, a good working environment and competitive compensation and benefits are prioritized areas within Alfa Laval.
Other risks		
Business interruption risks	<p>The risk that single units or functions within the Group can be hit by business interruption due to:</p> <ul style="list-style-type: none"> – strikes and other labour market conflicts; – fires, natural catastrophes etc; – computer access violations, lack of backups etc.; and – corresponding problems at major sub-suppliers. 	<p>Alfa Laval has a well-developed dialog with the local unions, which reduces the risk for conflicts and strikes where Alfa Laval is directly involved. It is however more difficult to protect the company against conflicts in other parts of the labour market, for instance within transportation.</p> <p>Alfa Laval is minimizing the following two risks through an active preventive work at each site in line with the developed global policies in each area under supervision of manufacturing management, the Group's Risk Management function, Real Estate Management, IT and HR.</p> <p>Problems at major sub-suppliers are minimized by Alfa Laval trying to use several suppliers of input goods that when needed can cover up for a drop in production somewhere else. The wish for long-term and competitive delivery agreements however puts restrictions on the level of flexibility that can be achieved. When there is a shortage the total supply may be too limited to allow exchangeability.</p> <p>HPR stands for "Highly Protected Risk" and is the insurance industry's highest rating for risk quality. This rating is reserved for those commercial properties where the exposure for physical damages is reduced to a minimum considering building construction, operations and local conditions. HPR means that all physical risks in and around the facility are documented and that these are kept within certain limits. Alfa Laval's production facility in Lund in Sweden, which is the Group's largest and most important facility is HPR classified, as well as the production facilities in Chesapeake and Newburyport in the U.S. A number of other key production facilities are being evaluated and may eventually become HPR classified.</p> <p>An HPR classification means that the facility has state of the art fire and machinery protection systems and that the responsible personnel has adequate security routines to make sure that these protection systems are maintained and in function. In addition, known possible sources of ignition are under strict control to prevent a fire from starting. For an HPR facility the risk for a physical damage is brought to a minimum, which minimises the risk for business interruption that could have extensive consequences for Alfa Laval and its customers. For other production facilities, not HPR classified, the aim is also to reduce the risk for damage and business interruption to a minimum by keeping, among other things, ignition sources under strict control. Loss prevention visits are conducted according to a schedule based on size and importance for Alfa Laval.</p>
Political risk	The risk that the authorities, in the countries where the Group is operating, by political decisions or administration make continued operations difficult, expensive or impossible for the Group.	The Group is mainly operating in countries where the political risk is considered to be negligible or minor. The operations that are performed in countries where the political risk is deemed to be higher are not material.
Insurance risks	These risks refer to the costs that Alfa Laval may incur due to an inadequate insurance coverage for property, business interruption, liability, transport, life and pensions.	The Group strives to maintain an insurance coverage that keeps the risk level at an acceptable level for a Group of Alfa Laval's size and still is cost efficient. At the same time a continuous work is going on to minimise the risks in the operations through proactive measures.
Risks connected to credit terms	The limited freedom of action that can be imposed on the Group through restrictions connected to credit terms in loan agreements.	Alfa Laval's strong solidity and profitability limits this risk.

Notes

Note 1. Operating segments

Alfa Laval's business is divided into three Business Divisions "Energy", "Food & Water" and "Marine" that sell to external customers and are responsible for the manufacturing of the products and one division "Operations & Other" covering procurement and logistics as well as corporate overhead and non-core businesses. These four divisions constitute Alfa Laval's four operating segments. The former "Greenhouse" Division ceased to exist as per the end of 2019 when the last operations were divested.

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

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

The operating segments are only responsible for the result down to and including operating income excluding comparison distortion items and for the operating capital they are managing. This means that financial assets and liabilities, pension assets, provisions for pensions and similar commitments and current and deferred tax assets and liabilities are a Corporate responsibility and not an operating segment responsibility. This also means that the financial net and income taxes are a Corporate responsibility and not an operating segment responsibility.

The operating segments are only measured based on their transactions with external parties.

Organisational change

As of January 1, 2020, the product groups within Operations have been moved over to the Business Units within the Divisions. This gives the Business Units a clearer financial consolidation as a part of a more decentralised business organisation. Due to this the comparison figures for previous periods have been restated, which has impacted depreciation and amortisation, investments, assets, liabilities and number of employees by division. Remaining in Operations is procurement, logistics, distribution and production development.

The depreciation and amortisation that have been moved from Operations to the Divisions in the comparison periods have not impacted the operating income in the Divisions.

Orders received

Consolidated		
SEK millions	2020	2019
Energy	11,952	13,963
Food & Water	13,814	14,026
Marine	14,067	15,953
Greenhouse	-	105
Operations & Other	0	72
Total	39,833	44,119

Order backlog

Consolidated		
SEK millions	2020	2019
Energy	4,740	5,214
Food & Water	5,056	4,894
Marine	9,173	11,443
Greenhouse	-	0
Operations & Other	0	0
Total	18,969	21,551

Net sales

Consolidated		
SEK millions	2020	2019
Energy	12,187	13,814
Food & Water	13,414	14,189
Marine	15,867	17,993
Greenhouse	-	444
Operations & Other	0	77
Total	41,468	46,517

Operating income in management accounts

Consolidated		
SEK millions	2020	2019
Energy	1,882	2,069
Food & Water	2,371	2,268
Marine	2,758	3,425
Greenhouse	-	-30
Operations & Other	-629	-742
Total	6,382	6,990
Reconciliation with Group total:		
Comparison distortion items	-796	189
Consolidation adjustments *	-6	19
Total operating income	5,580	7,198
Financial net	-603	23
Result after financial items	4,977	7,221

* Difference between management accounts and IFRS.

Operating income in management accounts is very close to operating income under IFRS. There are only two differences. Operating income in management accounts does not include comparison distortion items nor all the consolidation adjustments that are made in the official accounts.

Assets / Liabilities

Consolidated	Assets		Liabilities	
	2020	2019 *	2020	2019 *
SEK millions				
Energy	12,726	14,570	5,574	5,890
Food & Water	11,226	12,522	5,184	5,088
Marine	24,086	27,796	6,695	8,481
Greenhouse	-	39	-	71
Operations & Other	1,276	1,613	522	564
Subtotal	49,314	56,540	17,975	20,094
Corporate	11,546	7,856	13,814	16,555
Total	60,860	64,396	31,789	36,649

* Restated due to the organisational change described earlier in the note.

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

Investments

Consolidated		
SEK millions	2020	2019 *
Energy	352	453
Food & Water	295	288
Marine	137	177
Greenhouse	-	5
Operations & Other	448	414
Total	1,232	1,337

* Restated due to the organisational change described earlier in the note.

Depreciation

Consolidated		
SEK millions	2020	2019 *
Energy	452	467
Food & Water	384	385
Marine	814	884
Greenhouse	-	8
Operations & Other	339	309
Total	1,989	2,053

* Restated due to the organisational change described earlier in the note.

Note 2. Information about geographical areas

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

Net sales				
Consolidated				
	2020		2019	
	SEK millions	%	SEK millions	%
To customers in:				
Sweden	989	2.4	981	2.1
Other EU	11,205	27.0	11,811	25.4
Other Europe	3,247	7.8	3,356	7.2
USA	5,923	14.3	7,390	15.9
Other North America	946	2.3	1,062	2.3
Latin America	1,630	3.9	2,060	4.4
Africa	418	1.0	490	1.1
China	6,180	15.0	6,582	14.1
South Korea	3,456	8.3	4,210	9.1
Other Asia	6,984	16.8	8,112	17.4
Oceania	490	1.2	463	1.0
Total	41,468	100.0	46,517	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				
	2020		2019	
	SEK millions	%	SEK millions	%
Sweden	2,344	7.1	2,207	6.3
Denmark	4,806	14.4	5,044	14.3
Other EU	4,046	12.2	4,209	11.9
Norway	11,172	33.6	12,847	36.4
Other Europe	117	0.4	137	0.4
USA	3,343	10.1	4,468	12.7
Other North America	130	0.4	150	0.4
Latin America	202	0.6	313	0.9
Africa	9	0.0	12	0.0
Asia	3,523	10.6	3,741	10.6
Oceania	110	0.3	130	0.4
Subtotal	29,802	89.7	33,258	94.3
Other long-term securities	1,575	4.7	141	0.4
Pension assets	70	0.2	70	0.2
Deferred tax asset	1,791	5.4	1,801	5.1
Total	33,238	100.0	35,270	100.0

Investments				
Consolidated				
	2020		2019	
	SEK millions	%	SEK millions	%
Sweden	184	14.9	228	17.1
Denmark	135	11.0	116	8.7
Italy	298	24.2	98	7.3
Other EU	74	6.0	133	10.0
Other Europe	84	6.8	67	5.0
USA	69	5.6	242	18.1
Other North America	2	0.2	3	0.2
Latin America	7	0.6	20	1.5
Africa	0	0.0	1	0.1
China	254	20.6	324	24.2
Other Asia	122	9.9	100	7.5
Oceania	3	0.2	5	0.3
Total	1,232	100.0	1,337	100.0

Note 3. Information about products and services

Net sales by product/service		
Consolidated		
SEK millions	2020	2019
Own products within:		
Separation	7,116	7,677
Heat transfer	16,439	18,694
Fluid handling	9,156	10,361
Marine environmental	5,170	5,802
Other	1	78
Associated products	1,338	1,569
Services	2,248	2,336
Total	41,468	46,517

The split of own products within separation, heat transfer and fluid handling is a reflection of the current three main technologies. Marine environmental is a new large product area basically outside the main technologies. Other is own products outside these four product areas. 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 4.7 (5.4) percent of net sales. See Note 33 for more information.

Note 5. Employees

Average number of employees – total				
Consolidated				
	Number of female employees		Total number of employees	
	2020	2019	2020	2019
Parent company	–	–	–	–
Subsidiaries in Sweden (8)	576	579	2,392	2,385
Total in Sweden (8)	576	579	2,392	2,385
Total abroad (122)	3,017	2,958	14,768	15,002
Total (130)	3,593	3,537	17,160	17,387

The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2020.

Average number of employees – in Sweden by municipality		
Consolidated		
	2020	2019
Botkyrka	575	546
Eskilstuna	232	231
Lund	1,155	1,172
Ronneby	275	281
Vänersborg	98	100
Other *	57	55
Total	2,392	2,385

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

Average number of employees – by country/district

Consolidated				
	Number of female employees		Total number of employees	
	2020	2019	2020	2019
Argentina	11	12	38	38
Australia	21	20	89	101
Belgium	2	2	22	24
Brazil	57	56	372	374
Bulgaria	1	1	5	5
Chile	5	6	27	29
Colombia	16	16	38	33
Denmark	443	430	1,763	1,778
Philippines	7	6	17	18
Finland	28	34	114	160
France	169	166	817	816
United Arab Emirates	22	22	109	105
Greece	8	8	27	24
Hong Kong	3	3	14	13
India	78	71	1,292	1,301
Indonesia	20	18	84	82
Iran	–	0	1	5
Italy	165	176	737	831
Japan	59	58	250	241
Canada	18	20	94	95
China	707	693	3,354	3,343
Korea	50	53	305	309
Latvia	6	6	9	9
Malaysia	44	42	124	119
Mexico	12	11	50	49
Netherlands	96	90	442	449
Norway	210	193	1,092	1,061
New Zealand	2	2	18	17
Panama	6	8	17	18
Peru	5	5	21	22
Poland	80	53	348	306
Portugal	4	4	8	9
Qatar	–	–	9	9
Romania	2	2	9	9
Russia	88	99	215	231
Saudi Arabia	–	–	39	37
Switzerland	3	3	12	12
Singapore	64	63	237	230
Slovakia	1	1	8	7
Slovenia	4	3	17	15
Spain	27	25	103	102
UK	42	45	288	306
Sweden	576	579	2,392	2,385
South Africa	15	12	47	43
Taiwan	17	16	44	42
Thailand	17	18	59	56
Czech Republic	6	6	28	29
Turkey	15	11	61	52
Germany	62	62	270	271
Ukraine	3	5	11	13
Hungary	3	3	12	12
USA	286	292	1,563	1,707
Vietnam	4	4	21	18
Austria	3	3	17	17
Total	3,593	3,537	17,160	17,387

Gender distribution

Consolidated						
	2020			2019		
	Total number	Male %	Female %	Total number	Male %	Female %
Board members (excluding deputies)	11	72.7	27.3	11	63.6	36.4
President and other executive officers	10	70.0	30.0	9	77.8	22.2
Managers in Sweden	293	75.4	24.6	289	76.1	23.9
Managers outside Sweden	2,339	81.9	18.1	2,272	82.7	17.3
Managers total	2,632	81.2	18.8	2,561	82.0	18.0
Employees in Sweden	2,392	75.9	24.1	2,385	75.7	24.3
Employees outside Sweden	14,768	79.6	20.4	15,002	80.3	19.7
Employees total	17,160	79.1	20.9	17,387	79.7	20.3

Note 6. Salaries and remunerations

Salaries and remunerations – total		
Consolidated		
SEK millions	2020	2019
Board of Directors, Presidents and Vice Presidents	275	281
- out of which, variable	48	69
Other	8,097	8,618
Total salaries and remunerations	8,372	8,899
Social security costs	1,359	1,470
Pension costs, defined benefit plans	96	109
Pension costs, defined contribution plans	592	606
Total personnel costs	10,419	11,084

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 33 (31) million and SEK 276 (286) million respectively. SEK 82 (87) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Equity compensation benefits

During the period 2019 to 2020 no equity related benefits existed within Alfa Laval.

Variable remunerations

All employees have either a fixed salary or a fixed base salary. For certain personnel categories the remuneration package also includes a variable element. This relates to personnel categories where it is customary or part of a market offer to pay a variable part. Variable remunerations are most common in sales related jobs and on higher managerial positions. Normally the variable part constitutes a minor part of the total remuneration package.

Cash-based long-term incentive programme

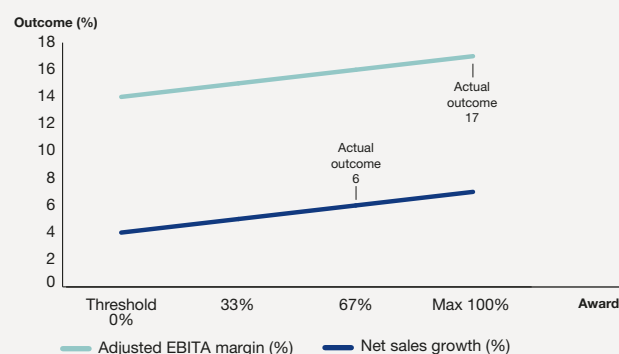
The Board of Directors decided in 2020 to implement step three of the modified cash based long-term incentive programme for maximum 95 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The Annual General Meetings 2018 and 2019 decided to implement step one and two of the programme for the same target group. The outcome of the modified programme depends on how the adjusted EBITA margin and the net sales growth have developed during the three-year period, with a 50/50 weight between the targets. This means that there will be no award during the first two years since it is first in year three that it can be determined to what extent the targets have been achieved. Maximum outcome is awarded when the targets are exceeded. The remuneration from the modified long-term incentive programme can constitute maximum 25, 40 or 50 percent of the fixed remuneration depending on position. Payment to the participants in the

programme is made after year three and only provided that they are still employed at the date of payment (except in case of termination of employment due to retirement, death or disability). If the employee resigns or is dismissed before the end of the three-year period, the employee will not be entitled to any pay-out. If the employee moves to a position that is not eligible for this programme, a pro-rata payment will be made after the end of the three year period. Paid remunerations from the long-term incentive programme do normally not affect the pensionable income or the holiday pay.

In 2020 step one, two and three of the modified programme were running in parallel.

The outcome of step one covering the period January 1, 2018 – December 31, 2020 was:

Long-term incentive plan 2018–2020



The performance targets, the actual outcome and the resulting award were:

Long-term incentive plan 2018–2020								
Consolidated								
	Performance targets		Outcome				Award* in %	
	Threshold	Maximum	2018	2019	2020	Average		
Adjusted EBITA margin (%)	14.0	17.0	16.5	17.2	17.4	17.0	100.00	
Net sales growth (%)	4	7	15	14	-11	6	66.67	
If achieved the award is (%)	0	100						* To be paid in 2021.

There are three opportunity levels in the plan and the award per opportunity level and the total cost for the plan was:

Long-term incentive plan 2018-2020				
Consolidated				
Award	Outcome per maximum opportunity			Total cost SEK millions
	25%	40%	50%	
	20.83%	33.33%	41.67%	42

The Annual General Meeting 2017 decided to implement step seven of a cash-based long-term incentive programme for maximum 85 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. Step seven covered the period January 1, 2017 – December 31, 2019. The outcome during the three year period in percent of maximum outcome was 100 percent and the award of SEK 27 million was paid during 2020.

Remuneration policy for executive officers

The remuneration policy for executive officers is established by the Annual General Meeting. The complete policy is found in Note 37.

The remunerations to the Chief Executive Officer/Managing Director are decided by the Board of Directors based on proposals from the Remuneration Committee according to the guidelines established by the Annual General Meeting. The remunerations to the other members of Group Management are decided by the Remuneration Committee according to the same guidelines. The principle used when deciding the remunerations to executive officers is to offer a competitive remuneration where the remuneration package is mainly based on a fixed monthly salary, with an option for a company car and in addition to that a variable remuneration of up to 40 percent of the salary (managing director up to 60 percent of the salary). The outcome of the variable remuneration depends on the level of fulfilment of the established mainly financial targets and to a limited extent also qualitative objectives. The guidelines for pension, termination and severance pay differ between the Chief Executive Officer/Managing Director and the other executive officers, see the below table.

The Annual General Meeting 2017 decided to implement step seven of a cash-based long-term incentive programme for maximum 85 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers.

The Board of Directors decided in 2020 to implement step three of the modified cash based long-term incentive programme for maximum 95 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The Annual General Meetings 2018 and 2019 decided to implement step one and two of the programme for the same target group. The outcome of the modified programme depends on how the adjusted EBITA margin and the net sales growth have developed during a three-year period, with a 50/50 weight between the targets. This means that there will be no award during the first two years since it is first in year three that it can be determined to what extent the targets have been achieved. Maximum outcome is awarded when the targets are exceeded. The remuneration from the modified long-term incentive programme can constitute maximum 25, 40 or 50 percent of the fixed remuneration depending on position. Payment to the participants in the programme is made after year three and only provided that they are still employed at the date of payment.

Salaries and remunerations to Group Management

Consolidated	Group Management			
	Chief Executive Officer/President		Other executive officers	
	Tom Erixon			
SEK thousands	2020	2019	2020	2019
Salary and remunerations				
Fixed remuneration				
Base salary	14,000	11,250	31,254	29,126
Voluntary salary reduction due to COVID-19	-1,167	-	-1,119	-
Other benefits ¹⁾	545	374	1,364	4,228
Variable remuneration ²⁾				
Variable salary	4,905	6,300	6,926	9,407
Cash-based long-term incentive programme	5,063	2,944	6,900	5,027
Total salary and remuneration	23,346	20,868	45,325	47,788
Pension costs				
Retirement and survivors' pension ³⁾	7,015	5,649	14,649	13,114
Life, disability and health care insurance ⁴⁾	48	75	399	393
Total pension costs	7,063	5,724	15,048	13,507
Total remuneration	30,409	26,592	60,373	61,295
Proportion of fixed and variable remuneration				
Fixed remuneration including fixed pension costs	67%	65%	71%	71%
Variable remuneration including variable pension costs	33%	35%	29%	29%
Number of other executive officers at year end			9	8
Variable salary (STI)				
Included	Yes		Yes	
Un-guaranteed target of base salary	30%		Not set	
Maximum of base salary	60%		40%	
Cash-based long-term incentive programme (LTIP)				
Included	Yes		Yes	
Current year award ⁵⁾	5,834	1,688	9,457	1,933
Vested unpaid awards at December 31	5,834	5,063	9,457	5,799
Commitment for early retirement ⁶⁾	No		Yes	
Commitment for severance pay	Yes ⁷⁾		Yes ⁸⁾	
Commitment for retirement and survivors' pension	⁹⁾		¹⁰⁾	

¹⁾ Value of company car, housing benefit, taxable daily allowances, holiday pay and payment for vacation taken in cash.

²⁾ Refers to what was paid during the year.

³⁾ Defined contribution based.

⁴⁾ Defined benefit based.

⁵⁾ Based on current base salary.

⁶⁾ From the age of 62. A defined contribution solution for early retirement with a premium of 15 percent of the pensionable salary.

⁷⁾ If Alfa Laval terminates his employment before the age of 61, he will receive 24 months' remuneration, between 61 and 62 he will receive 12 months' remuneration and from 62 he will receive 6 months' remuneration.

⁸⁾ Maximum 2 years' salary. The commitments define the conditions that must be fulfilled in order for them to become valid.

⁹⁾ Is not included in the ITP plan. He has a defined contribution benefit comprising 50 percent of the base salary. In addition, he may exchange salary and variable remunerations for a temporary old age and family pension.

¹⁰⁾ For salaries above 30 base amounts there is a defined contribution pension solution with a premium of 30 percent of the pensionable salary above 30 base amounts. Until May 1, 2012 the executive officers also had a special family pension that represented a supplement between the old age pension and the family pension according to ITP. For the persons that were executive officers on May 1, 2012 the special family pension has been converted to a premium based supplementary retirement pension based on the premium level in December 2011. In addition, they may exchange salary and variable remunerations for a temporary old age and family pension.

During 2019 one of the other executive officers in Group Management retired i.e. Peter Leifland as of May 1, 2019. His costs for 2019 are included in the above table.

Board of Directors

For 2020, the Board of Directors receive a total fixed remuneration of SEK 6,445 (6,445) thousand, which is distributed among the members elected at the Annual General Meeting that are not employed by the company. These Directors do not receive any variable remuneration.

Remunerations to Board members *

Consolidated			
SEK thousands	2020	2019	
Fees by function:			
Chairman of the Board	1,750	1,750	
Other members of the Board	585	585	
Supplement to:			
Chairman of the Audit Committee	200	200	
Other members of the Audit Committee	125	125	
Chairman of the remuneration committee	50	50	
Other members of the remuneration committee	50	50	
Fees by name:			
Dennis Jönsson	Chairman	1,925	-
Anders Narvinger	Chairman	-	1,800
Henrik Lange	Member	785	710
Ray Mauritsson	Member	585	-
Heléne Mellquist	Member	710	710
Maria Moræus Hanssen	Member	585	585
Anna Ohlsson-Leijon	Member	-	785
Finn Rausing	Member	585	585
Jörn Rausing	Member	635	635
Ulf Wiinberg	Member	635	635
Total		6,445	6,445

* Elected at the Annual General Meeting and not employed by the company.

The reported remunerations refer to the period between two Annual General Meetings.

The Chairman of the Board does not have any agreement on future retirement or severance pay with Alfa Laval.

The audit committee and the remuneration committee have had the following members during the last two years:

	2020	2019
Audit Committee:		
Chairman	Henrik Lange	Anna Ohlsson-Leijon
Other member	Dennis Jönsson	Henrik Lange
Other member	Heléne Mellquist	Heléne Mellquist
Remuneration committee:		
Chairman	Dennis Jönsson	Anders Narvinger
Other member	Ulf Wiinberg	Ulf Wiinberg
Other member	Jörn Rausing	Jörn Rausing

The members of the committees are appointed at the constituent meeting of the Board of Directors directly after the Annual General Meeting.

Note 7. Information on auditors and auditors' fee

The line "Group auditors" in the below table is referring to the auditors elected at Annual General Meeting of Alfa Laval AB (publ). The Annual General Meetings 2019 and 2020 decided to elect EY as the Group's auditors for the coming year.

Fees and expense compensation

Consolidated			
SEK millions	2020	2019	
Audit engagements			
Group auditors	39	39	
Other audit firms	0	0	
Total	39	39	
Audit related services			
Group auditors	2	1	
Other audit firms	2	1	
Total	4	2	
Tax services			
Group auditors	8	8	
Other audit firms	10	13	
Total	18	21	
Other services			
Group auditors	1	2	
Other audit firms	8	17	
Total	9	19	
Expenses			
Group auditors	0	1	
Other audit firms	0	0	
Total	0	1	
Total			
Group auditors	50	51	
Other audit firms	20	31	
Total	70	82	

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

Consolidated			
SEK millions	2020	2019	
Comparison distortion items			
Other operating income			
Comparison distortion items:			
- Realised gain on sale of businesses	-	260	
Other operating costs			
Comparison distortion items:			
- Realised loss on sale of businesses	-55	-71	
- Write down of goodwill	-360	-	
- Restructuring costs	-381	-	
Net comparison distortion items	-796	189	

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

The write down of goodwill and the restructuring costs are part of the programme for adapting the organisation to changing market fundamentals that was announced on December 16, 2020. The program is mainly addressing structural imbalances in specific parts of the oil & gas business as well as parts of the Marine business. In addition, the program will further drive the competence shift required in light of the accelerated pace of digitalization. The write down of goodwill concerns oil & gas related businesses. The total restructuring cost is expected to amount to approximately SEK 850 million, out of which the remaining part is expected to be charged in the second quarter of 2021. Approximately 600 employees mainly in Europe and North America will be affected by the program. The program will generate annual savings of around SEK 300 million, with full effect expected from mid-2022.

The realised gain in 2019 was related to the divestments of part of the air heat exchanger business related to commercial/industrial air heat exchangers in the Greenhouse division to the LU-VE Group. The realised loss in 2019 was relating to a realised loss from the divestments of the last remaining Greenhouse operation shell-and-tube Sarasota, also known as Alfa Laval Champ, to Thermal Solutions Manufacturing.

Note 9. Depreciation and amortisation

Split by function		
Consolidated		
SEK millions	2020	2019
Cost of goods sold	-1,484	-1,556
Sales	-151	-150
Administration	-216	-221
Research and development	-9	-9
Other income and costs	-129	-117
Total	-1,989	-2,053

Split by type of asset		
Consolidated		
SEK millions	2020	2019
Intangible assets		
Patents and unpatented know-how	-321	-373
Trademarks	-505	-580
Licenses, renting rights and similar rights	-5	-4
Internally generated intangible assets	-3	-1
	-834	-958
Tangible assets		
Purchased assets		
Buildings and ground installations	-212	-192
Machinery	-362	-339
Equipment	-145	-147
	-719	-678
Leased assets		
Right-of-use assets real estate	-350	-328
Righth-of-use asset machinery	-17	-21
Righth-of-use asset equipment	-69	-68
	-436	-417
Sum tangible assets	-1,155	-1,095
Total	-1,989	-2,053

Note 10. Dividends and other financial income and costs

Split by type		
Consolidated		
SEK millions	2020	2019
Dividends from other	0	0
Gain or loss on sale of marketable securities	71	7
Fair value changes in marketable securities	-45	25
Total	26	32

Note 12. Non-controlling interests

Alfa Laval has the following subsidiaries with non-controlling interests. None of these non-controlling interests are material.

Specification of subsidiaries with non-controlling interests							
SEK millions, unless otherwise stated		Non-controlling interest %		Attributable to non-controlling interest			
Company name	Country of domicile	2020	2019	Net income		Equity	
				2020	2019	2020	2019
Alfa Laval Aalborg Indústria e Comércio Ltda	Brazil	0.5	0.5	0	0	0	0
Liyang Sifang Stainless Steel Products Co., Ltd.	China	35	35	24	22	158	144
Aalborg Industries Water Treatment Pte. Ltd. *	Singapore	-	40	-	0	-	0
Ziepack SA	France	49	49	3	0	5	3
AO Alfa Laval Potok	Russia	0.0005	0.0007	0	0	0	0
Total				27	22	163	147

* Liquidated.

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

Split on type of income/expense or gain/loss		
Consolidated		
SEK millions	2020	2019
Interest income		
Leasing	0	0
Other interest	48	88
Exchange rate gains		
Unrealised	80	50
Realised	92	239
Total	220	377
Interest expenses		
Leasing	-78	-71
Other interest	-187	-221
Exchange rate losses		
Unrealised	-60	-24
Realised	-524	-70
Total	-849	-386

In the Group, reported net exchange differences of SEK 313 (-288) 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 248 (-226) million.

Split on type of income/expense or gain/loss		
Parent company		
SEK millions	2020	2019
Interest income		
External companies	-	-
Exchange rate gains		
Unrealised	0	1
Total	0	1
Interest costs		
External companies	0	0
Exchange rate losses		
Unrealised	0	0
Total	0	0

Note 13. Classification of financial assets and liabilities

Financial assets							
Consolidated							
	Valuation hierarchy level	Measured at					
		Fair value through				Amortised cost	
		Profit or loss		Other comprehensive income			
SEK millions		2020	2019	2020	2019	2020	2019
Non-current assets							
Other non-current assets							
Other long-term securities	1 and 2	–	–	1,490	78	–	–
Derivative assets	2	5	7	191	62	–	–
Current assets							
Current receivables							
Accounts receivable	*	–	–	–	–	5,834	7,460
Notes receivable	*	–	–	–	–	184	218
Other receivables	*	–	–	–	–	3,029	3,801
Accrued income	*	–	–	–	–	96	118
Derivative assets	2	94	47	495	146	–	–
Current deposits							
Deposits with banks	*	–	–	–	–	1,160	205
Bonds and other securities	1	1,447	650	–	–	–	–
Debt instruments	*	–	–	–	–	4	4
Other deposits	*	–	–	–	–	7	14
Cash and cash equivalents							
	*	–	–	–	–	5,150	5,594
Total financial assets		1,546	704	2,176	286	15,464	17,414

* Valued at amortised cost.

Valuation hierarchy level 1 is according to quoted prices in active markets for identical assets and liabilities.

Valuation hierarchy level 2 is out of directly or indirectly observable market data outside level 1.

Financial liabilities							
Consolidated							
	Valuation hierarchy level	Measured at					
		Fair value through				Amortised cost	
		Profit or loss		Other comprehensive income			
SEK millions		2020	2019	2020	2019	2020	2019
Non-current liabilities							
Liabilities to credit institutions etc	*	–	–	–	–	8,043	10,600
Lease liabilities	*	–	–	–	–	1,573	1,890
Derivative liabilities	2	1	6	4	36	–	–
Current liabilities							
Liabilities to credit institutions etc	*	–	–	–	–	1,125	1,422
Accounts payable	*	–	–	–	–	2,526	3,311
Notes payable	*	–	–	–	–	232	128
Lease liabilities	*	–	–	–	–	662	730
Other liabilities	*	–	–	–	–	3,577	4,219
Accrued costs	*	–	–	–	–	2,144	2,160
Derivative liabilities	2	50	15	58	293	–	–
Total financial liabilities		51	21	62	329	19,882	24,460

* Valued at amortised cost.

Valuation hierarchy level 1 is according to quoted prices in active markets for identical assets and liabilities.

Valuation hierarchy level 2 is out of directly or indirectly observable market data outside level 1.

Derivatives measured through other comprehensive income only relate to cash flow hedges.

All of the financial instruments above sum up either to the corresponding item in the statement on financial position or to the item specified in the notes referred to in the statement on financial position. The risks linked to these financial instruments including any concentrations of risk are presented in the sections on risks on pages 108–112.

Result of financial instruments

The result of the bonds and other current and non-current securities measured at fair value through profit or loss is found in Note 10 as fair value changes in securities.

The result of the derivative assets measured at fair value through profit or loss of SEK 53 (34) million has affected exchange gains in Note 11 with SEK 53 (34) million.

The result of financial assets measured at amortised cost is presented in Note 11 as other interest income for deposits with banks, other deposits and cash and cash equivalents. The other financial assets measured at amortised cost do not generate a result but only a cash-in of the principal amount.

The result of the derivative liabilities measured at fair value through profit or loss of SEK -4 (-2) million has affected cost of goods sold with SEK -4 (-2) million.

The result of the financial liabilities measured at amortised cost is presented in Note 11 as other interest costs for the liabilities to credit institutions etc. The other financial liabilities measured at amortised cost do not generate a result but only a cash-out of the principal amount.

The result of the derivative assets and liabilities measured at fair value through other comprehensive income is reported as part of other comprehensive income in the consolidated comprehensive income statement.

Note 14. Fair value of financial instruments

The fair value changes in shares in external companies are made under other comprehensive income and amounts to SEK -125 (0) million, see the consolidated comprehensive income statement.

The fair value changes in marketable securities are made on the line dividends and other financial income and costs in the consolidated comprehensive income statement and amounts to SEK -45 (25) million, see Note 10.

The net of derivative assets and derivative liabilities in the consolidated financial position is a net asset (net liability) of SEK 672 (-88) million, which are specified below:

Fair value of derivatives

Consolidated		Difference between contracted rate and current rate	
SEK millions	Currency pairs	2020	2019
Derivative assets/liabilities			
Foreign exchange forward contracts:			
	EUR USD	77	-20
	EUR SEK	197	20
	EUR AUD	-1	0
	EUR CAD	1	-1
	EUR CNY	8	47
	EUR DKK	0	-1
	EUR GBP	1	1
	EUR JPY	1	5
	EUR SGD	0	-1
	USD CAD	-1	-1
	USD DKK	37	-21
	USD SEK	1	0
	USD SGD	1	1
	DKK NOK	2	15
	DKK SEK	2	1
	NOK EUR	-7	0
	NOK SEK	-	4
	NOK USD	271	-152
	CNY JPY	1	0
	CNY SEK	-19	-1
	CNY USD	13	4
	GBP SEK	-	-2
	JPY NOK	16	-8
	RUB SEK	-	2
	Other Other	2	0
Subtotal		603	-108
Currency options		18	7
Interest Rate Swaps		-	-1
Metal forward contacts		55	15
Electricity futures		-4	-1
Total, corresponding to a net derivative asset (+) or liability (-)		672	-88

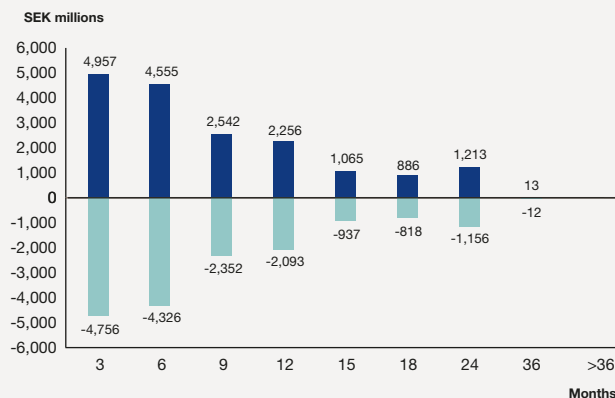
For currency options and electricity futures hedge accounting has not been applied. For foreign exchange forward contracts, interest rate swaps and metal forward contracts hedge accounting has been applied when the conditions for hedge accounting have been fulfilled.

The fair value adjustment of derivatives is made through other comprehensive income if hedge accounting can be applied and the derivatives are effective. In all other cases the fair value adjustment is made above net income. The corresponding entries are made on derivative assets and liabilities and not on the underlying financial instruments in the statement on financial position.

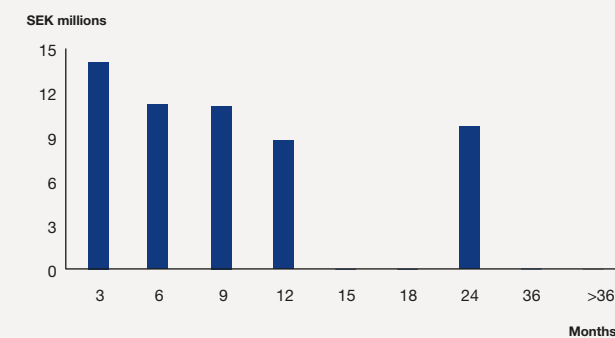
Note 15. Maturity analysis of derivatives

The future undiscounted cash flows for the different types of derivatives are shown in the following three graphs:

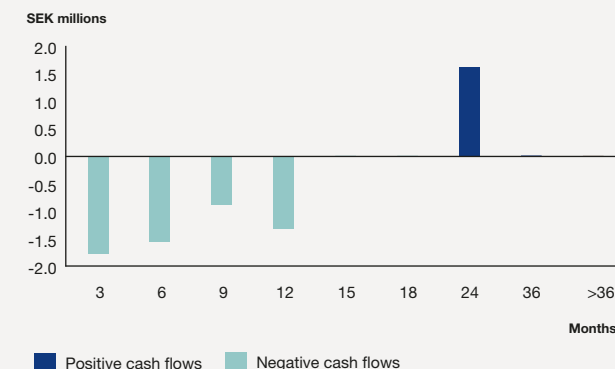
Maturity analysis for currency derivatives



Maturity analysis for metal derivatives



Maturity analysis for electricity futures



Note 16. Current and deferred taxes

Tax on this year's net income and other taxes		
Consolidated		
SEK millions	2020	2019
Major components of the Group's tax cost		
Current tax cost	-1,598	-1,859
Adjustment for current taxes on prior periods	-92	-12
Deferred tax costs/income on changes in temporary differences	345	196
Deferred tax costs/income on changes in tax rates or new taxes	26	2
Previously unrecognised tax assets related to tax losses and tax credits	0	0
Previously unrecognised deferred tax assets related to tax losses, tax credits and temporary differences	23	0
Deferred tax cost from the write down or reversal of a previous write down of a deferred tax asset	-35	-3
Dividend distribution tax	-41	0
Other taxes	-25	-37
Total tax cost	-1,397	-1,713

Other taxes are mainly referring to wealth tax.

Tax on this year's other comprehensive income		
Consolidated		
SEK millions	2020	2019
Major components of the Group's tax cost		
Deferred tax on:		
Cash flow hedges	-154	-68
Market valuation of external shares	0	0
Translation difference	78	-7
Revaluations of defined benefit obligations	87	11
Total tax cost	11	-64

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	2020	2019
Result after financial items	4,977	7,221
Tax according to applicable tax rates	-1,263	-1,803
Tax effect of:		
Non-deductible costs	-318	-26
Non-taxable income	148	124
Differences between reported official depreciation and depreciation according to tax rules	5	3
Differences between reported other official appropriations and other appropriations according to tax rules	-18	29
Tax losses and tax credits	30	11
Adjustment for current tax on prior periods	59	-11
Adjustment deferred tax	26	-3
Dividend distribution tax	-41	0
Other	-25	-37
Total tax costs	-1,397	-1,713

Alfa Laval has provisions for uncertain tax positions and they are booked as a part of current tax liabilities when for instance a local tax audit or a taxation decision indicate an increased tax burden and the company makes the judgement that the tax authority wholly or partially can gain success in the future litigation.

Temporary differences exist when there is a difference between the book value and the tax base of assets and liabilities. The Group's temporary differences have resulted in a deferred tax asset or a deferred tax liability relating to the following assets and liabilities:

Deferred tax assets and liabilities				
Consolidated				
SEK millions	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Relating to:				
Intangible non-current assets	13	660	7	771
Tangible non-current assets	61	158	56	194
Inventory	146	33	157	43
Other current assets	3	16	6	16
Financial assets	5	137	36	46
Short term liabilities	1,596	10	1,674	33
Tax losses and tax credits *	22	15	5	-
Other	23	601	3	702
Subtotal	1,869	1,630	1,944	1,805
Possible to net	-77	-77	-143	-143
Total deferred taxes	1,792	1,553	1,801	1,662

* The Group has reported a deferred tax asset on unused tax losses and tax grants of SEK 140 (16) 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 416 (743) million that have not resulted in corresponding deferred tax assets, since these are not likely to be used. The temporary differences are mainly relating to pensions, where the date of payment is so far into the future that considering discounting and uncertainty concerning future profit levels no asset is deemed to exist. The unused tax losses and tax grants are essentially not restricted in time, but the tax losses that can be utilised per year can be restricted to a certain proportion of the taxable result.

The nominal tax rate has changed in the following countries between 2019 and 2020 or will change during 2021.

Tax rates by country			
Consolidated			
Percent	2021	2020	2019
Belgium	25.0	29.0	29.0
Colombia	31.0	33.0	33.0
France	28.0	28.0	32.0
Greece	24.0	24.0	29.0
Sweden	20.6	21.4	21.4

The tax rates for 2020 and 2019 have been used to calculate the actual tax each year, while the tax rates for 2021 and 2020 have been used to calculate the deferred tax for 2020 and 2019 respectively.

The Group's normal effective tax rate is approximately 26 (26) percent based on taxable result, and it is calculated as a weighted average based on each subsidiary's part of the result before tax. One-time items can however increase or decrease the tax rate for an individual year.

The total tax cost for 2020 has been increased by the following non-recurring items:

- the tax effect of SEK 141 million in total from non deductible write downs on financial non-current assets and goodwill and
- withholding tax of SEK 38 million on dividends from India.

Tax cost per country/district

Consolidated						
SEK millions (unless otherwise stated)	2020			2019		
	Earnings before tax and received dividends	Tax cost	Tax percentage (%)	Earnings before tax and received dividends	Tax cost	Tax percentage (%)
Top ten countries/districts						
China	1,209	-276	22.8%	1,263	-330	26.1%
Norway	1,241	-271	21.8%	1,680	-370	22.0%
Sweden	716	-183	25.6%	2,050	-401	19.6%
Netherlands	508	-178	35.1%	1,090	-289	26.5%
Denmark	404	-84	20.9%	415	-98	23.7%
India	285	-69	24.2%	425	-138	32.5%
Japan	217	-66	30.4%	165	-61	37.1%
France	112	-49	43.9%	251	-88	35.1%
Brazil	144	-49	33.8%	134	-41	30.6%
Hong Kong	65	-42	64.7%	53	-28	53.0%
Total top ten countries/districts	4,901	-1,267	25.9%	7,526	-1,844	24.5%
Other countries/districts						
With a positive result	1,057	-172	16.2%	1,165	-277	23.7%
With losses	-353	-24	6.7%	-375	-14	3.7%
Total all countries/districts	5,605	-1,463	26.1%	8,316	-2,135	25.7%
Consolidation entries						
Elimination of appropriations	-50	11	22.0%	-519	110	21.2%
Amortisation of step-up values	-855	195	22.8%	-980	190	19.4%
Write down of goodwill	-360	-	-	-	-	N/A
Central provisions and consolidation adjustments	637	-140	22.0%	404	122	-30.2%
Total	4,977	-1,397	28.1%	7,221	-1,713	23.7%

The above table presents the earnings before tax and received dividends, the tax cost and the tax percentage per country for the top ten countries/districts separately and the others grouped under profit generating and loss-making respectively and the consolidation entries in order to arrive at the total. The local results include appropriations. The reason why the result is before received dividends is that these mostly are non-taxable. The top ten countries/districts are defined as the ten countries/districts with the highest tax cost in 2020. The comparison figures 2019 are for these ten countries/districts, although they might not have been among the ten countries/districts with highest tax cost also in 2019.

Observe that individual companies in the top ten countries/districts and in the group with a positive result can report losses. The group with losses can contain individual companies with profits. Also observe that the presented result is without correction for any non-deductible costs and non-taxable revenues outside received tax free dividends.

Companies with losses in countries/districts without tax pooling might have unused tax losses that have not resulted in a corresponding deferred tax asset, since these are not likely to be used. The lack of such a deferred tax income in these cases has an impact on the tax percentage in the concerned countries/districts.

Note 17. Goodwill and step-up values – acquisition of businesses

The allocation of step-up values to tangible and intangible assets and the residual goodwill in effect means that all acquisitions are valued at market. In order to separate out this valuation effect Alfa Laval focuses on EBITA, where any amortisation of step-up values is excluded. The development of these step-up values and any goodwill is shown in the table below.

Movement schedule

Consolidated							
SEK millions	Opening balance 2020	Acquisitions	Sold	Write down	Planned depreciation/amortisation	Translation difference	Closing balance 2020
Buildings	256	-	-	-	-33	-15	208
Land and land improvements	-72	-	-	-	-	12	-60
Patents and unpatented know-how	1,078	41	-	-	-317	-85	717
Trademarks	1,954	10	-	-	-505	-158	1,301
Subtotal step-up values	3,216	51	-	-	-855	-246	2,166
Goodwill	21,112	18	-50	-360	-	-1,640	19,080
Total	24,328	69	-50	-360	-855	-1,886	21,246

During 2020 the Group has not recorded any impairment losses related to step-up values.

There is no deferred tax liability calculated on the goodwill. The deferred tax liability on the other step-up values is SEK 398 (595) million.

For assets sold, net gains or losses are recognised on the cost basis including any related step-up value.

The next table shows each acquisition separately. Any later adjustments to the allocations are referred to the original year of the acquisition. The figures for the allocations are based on the prevailing rates at the time the transactions took place and any change in exchange rates until December 31, 2020 is shown as a translation difference. The corresponding presentation by asset type is found in Notes 18 and 19.

Acquisition of businesses since 2000

Consolidated

SEK millions										
Year	Businesses	Buildings	Land and land improvements	Inventory	Patents and unpatented know-how	Trademarks	Other	Total step-up values	Goodwill	Total
2000	Alfa Laval Holding	1,058	-228	340	1,280	461	1,112	4,023	3,683	7,706
2002	Danish Separation Systems	-	-	-	-	-	-	-	118	118
2003	Toftejorg	1	-	-	-	-	-	1	35	36
2005	Packinox	-	-	6	99	183	-	288	253	541
2006	Tranter	17	-	6	180	265	-	468	530	998
2007	AGC Engineering	-	-	-	-	12	-	12	20	32
	Helpman	9	8	-	36	-	-	53	4	57
	Public offer Alfa Laval (India)	-	-	-	-	-	-	-	441	441
	DSO Fluid Handling	-	-	-	-	39	-	39	42	81
	Fincoil	-	-	-	233	-	-	233	241	474
2008	Hoyer 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
	Champ Products	-	-	-	15	14	-	29	2	31
2010	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
	Olm	-	-	37	58	32	-	127	-	127
	Service company in the U.S.	-	-	-	-	150	-	150	126	276
2011	Aalborg Industries	248	-	-	430	860	-	1,538	3,630	5,168
	Vortex Systems	-	-	-	148	-	-	148	225	373
2012	Ashbrook Simon-Hartley	-	-	-	86	-	-	86	55	141
	Gamajet Cleaning Systems	-	-	-	47	-	-	47	37	84
	Air Cooled Exchangers (ACE)	-	-	-	585	-	-	585	346	931
	Niagara Blower Company	-	-	-	202	-	-	202	203	405
2014	Frank Mohn AS	-	-	38	1,160	3,793	-	4,991	9,831	14,822
	CorHex Corp	-	-	-	15	-	-	15	-	15
2015	Aftermarket company (separation)	-	-	-	-	32	-	32	24	56
	K-Bar Parts LLC	-	-	-	-	16	-	16	-	16
2019	Airec	-	-	-	60	-	-	60	22	82
2020	WCR Benelux	-	-	-	-	10	-	10	3	13
	Sandymount	-	-	-	41	-	-	41	15	56
Accumulated during the period										
	Realised	-542	122	-435	-	-	-123	-978	-50	-1,028
	Write down	-6	-9	-	-89	-5	-	-109	-941	-1,050
	Planned depreciation/amortisation	-569	-	-	-4,943	-5,224	-993	-11,729	-612	-12,341
	Translation difference	-8	47	1	280	-210	4	114	-697	-583
	Closing balance	208	-60	-	717	1,301	-	2,166	19,080	21,246

The acquisition of the Alfa Laval Holding AB group in connection with the acquisition by Industri Kapital of the Alfa Laval Group from Tetra Laval on August 24, 2000 is shown on the first row.

"Other" relates to step-up values from 2000 for "Machinery" of SEK 548 million and "Equipment" of SEK 452 million that have been fully depreciated or realised, for "Research and development" of SEK 54 million and "Capital gain (Industrial Flow)" of SEK 42 million that have been fully realised and for "Construction in process" of SEK 16 million that has been transferred to "Machinery".

Acquisition of businesses

During 2020

On December 31, 2020 Alfa Laval has acquired Sandymount, a US-based beverage technology company with a unique and patented membrane technology to concentrate beer. The technology in combination with Alfa Laval's extensive product range, will open up interesting business opportunities for the company and enable a more sustainable beer-delivery supply chain. Sandymount's patented membrane technology, Revos™, in combination with Alfa Laval's extensive product range for beer production, will enable beer producers to deliver high quality beer in concentrated form. The solution addresses the transportation inefficiencies in beer supply where beer remains one of the few water-laden products distributed as a 'mostly water' from producer to consumer. The newly acquired company will be integrated into the Business Unit Food Systems in the Food & Water Division.

The purchase price is SEK 49 million, out of which all 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 3 million, which is reported as other operating costs. Liquid assets of SEK 0 million in the acquired company were taken over. The impact on the cash flow is thus SEK -52 million. Out of the difference between the purchase price paid and the net assets acquired SEK 41 million is allocated to patents and un-patented know-how, while the residual SEK 15 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 - million in orders received, SEK - million in invoicing and SEK - million in adjusted EBITA to Alfa Laval. If the company had been acquired at January 1, 2020 the corresponding figures would have been SEK - million, SEK - million and SEK -10 million respectively. At the end of December 2020, the company had 2 employees.

A smaller operation, WCR Benelux BV in the Netherlands, was acquired on July 1, 2020. The purchase price is SEK 13 million, out of which SEK 10 million has been paid in cash and SEK 3 million is retained for a period of up to 1 year. The retained part of the purchase price is contingent on certain warranties in the contract not being triggered. The probable outcome is SEK 3 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 1 million in the acquired company were taken over. The impact on the cash flow is thus SEK -10 million. Out of the difference between the purchase price paid and the net assets acquired SEK 10 million is allocated to the WCR trademark, while the residual SEK 3 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 the trademark is amortised over 10 years. From the date of the acquisition the company has added SEK 11 million in orders received, SEK 8 million in invoicing and SEK -0 million in adjusted EBITA to Alfa Laval. If the company had been acquired at January 1, 2020 the corresponding figures would have been SEK 16 million, SEK 14 million and SEK -1 million respectively. At the end of December 2020, the company had 6 employees.

All acquired assets and liabilities were reported according to IFRS at the time of the acquisitions.

During 2019

On December 18, 2018 Alfa Laval announced that it has signed an agreement to acquire Airec – a Malmö, Sweden-based innovation company with patented technology for dimple asymmetry heat exchangers. The new company will be integrated into the Brazed & Fusion Bonded Heat Exchangers unit of the Energy Division. The acquired technology represents untapped opportunities in combination with Alfa Laval's existing heat transfer know-how, manufacturing footprint and global market presence. The transaction was closed on January 2, 2019.

The purchase price is SEK 100 million, out of which SEK 60 million has been paid in cash and SEK 40 million is retained for a period of 1-2 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 40 million, but the probable outcome is SEK 20 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. The impact on the cash flow is thus SEK

-61 million. Out of the difference between the purchase price paid and the net assets acquired SEK 60 million is allocated to patents and un-patented know-how, while the residual SEK 22 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 has been finalised in 2020. 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 13 million in orders received and SEK 11 million in invoicing to Alfa Laval. At the end of December 2019, the number of employees was 10.

All acquired assets and liabilities were reported according to IFRS at the time of the acquisitions.

Impairment testing

Prior to a possible divestment, closure or restructuring an impairment test has been made during 2020 concerning certain oil & gas related businesses, which showed a need to write down the entire goodwill for these businesses. Write down of goodwill has thus been made with SEK -360 million, which is reported as a comparison distortion item among other operating costs. The write down of goodwill and the restructuring costs are part of the programme for adapting the organisation to changing market fundamentals that was announced on December 16, 2020. The program is mainly addressing structural imbalances in specific parts of the oil & gas business as well as parts of the Marine business.

In addition, an impairment test has been performed at the end of 2020 indicating that there is not any need to further write down the goodwill.

Three of Alfa Laval's operating segments, the three business divisions "Energy", "Food & Water" and "Marine" have been identified as the cash-generating units within Alfa Laval. Technically a recently acquired business activity could be followed independently during an initial period, but acquired businesses are normally integrated into the divisions at a fast rate. This means that the independent traceability is lost fairly soon and then any independent measurement and testing becomes impracticable.

The recoverable amount of the cash-generating units is based on their value in use, which is established by calculating the net present value of future cash flows. The net present value is based on the projected EBITDA figures for the next five years, less projected investments and changes in operating capital during the same period and thereafter the perceived expected average industry growth rate.

This projection is based on the following components:

- The projection for 2021 is based on the Group's normal 12 month revolving "Forecast" reporting. This is based on a very large number of rather detailed assumptions throughout the organisation concerning the business cycle, volume growth, market initiatives, product mix, currency rates, cost development, cost structure, R&D etc.
- The projection for the years 2022 till 2025 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 2026 and onwards is based on the perceived expected average industry growth rate.

The assumptions used for the projections reflect past experiences or information from external sources.

The used discount rate is the pre-tax weighted average cost of capital (WACC) of 9.69 (9.19) percent.

There exists no reasonably possible change in a key assumption in the impairment test that would cause the carrying amount to exceed the recoverable amount. The reason is that the recoverable amounts with a very good margin exceed the carrying amounts. Due to this a sensitivity analysis is not presented.

Alfa Laval does not have any intangible assets with indefinite useful lives other than goodwill.

Goodwill has been allocated to the following cash-generating units:

Goodwill		
Consolidated		
SEK millions	2020	2019
Energy	2,953	3,584
Food & Water	2,371	2,637
Marine	13,756	14,891
Total	19,080	21,112

Note 18. Intangible non-current assets

Patents and unpatented know-how		
Consolidated		
SEK millions	2020	2019
Accumulated acquisition values		
Opening balance	6,393	6,171
Purchases	38	3
Acquisition of businesses	41	60
Sales/disposals	-8	-9
Translation difference	-952	168
Closing balance	5,512	6,393
Accumulated amortisation		
Opening balance	-5,289	-4,804
Sales/disposals	8	9
Reclassifications	0	0
Amortisation of step-up value	-317	-367
Amortisation for the year	-4	-6
Translation difference	866	-121
Closing balance	-4,736	-5,289
Closing balance, net book value	776	1,104
Trademarks		
Consolidated		
SEK millions	2020	2019
Accumulated acquisition values		
Opening balance	7,124	6,942
Acquisition of businesses	10	-
Divestment of businesses	-44	-
Translation difference	-591	182
Closing balance	6,499	7,124
Accumulated amortisation		
Opening balance	-5,170	-4,468
Divestment of businesses	44	-
Reclassifications	-	6
Amortisation of step-up values	-505	-580
Translation difference	433	-128
Closing balance	-5,198	-5,170
Closing balance, net book value	1,301	1,954

Licenses, renting rights and similar rights		
Consolidated		
SEK millions	2020	2019
Accumulated acquisition values		
Opening balance	210	223
Purchases	3	1
Sales/disposals	-19	-12
Reclassifications	-1	-6
Translation difference	-10	4
Closing balance	183	210
Accumulated amortisation		
Opening balance	-187	-191
Sales/disposals	19	12
Reclassifications	1	1
Amortisation for the year	-5	-4
Translation difference	9	-5
Closing balance	-163	-187
Closing balance, net book value	20	23

Internally generated intangible assets		
Consolidated		
SEK millions	2020	2019
Accumulated acquisition values		
Opening balance	54	-
Acquisition of businesses	-	5
Expenses	57	49
Translation difference	-	-
Closing balance	111	54
Accumulated amortisation		
Opening balance	-1	-
Amortisation for the year	-3	-1
Translation difference	-	-
Closing balance	-4	-1
Closing balance, net book value	107	53

Internally generated intangible assets are referring to capitalised IT costs and acquired capitalised development cost related to R&D.

Goodwill		
Consolidated		
SEK millions	2020	2019
Accumulated acquisition values		
Opening balance	22,331	21,719
Goodwill in connection with acquisition of businesses	18	22
Divestment of businesses	-50	-
Translation difference	-1,725	590
Closing balance	20,574	22,331
Accumulated amortisation		
Opening balance	-1,219	-1,182
Write down of goodwill	-360	-
Translation difference	85	-37
Closing balance	-1,494	-1,219
Closing balance, net book value	19,080	21,112

Note 19. Property, plant and equipment

Real estate		
Consolidated		
SEK millions	2020	2019
Accumulated acquisition values		
Opening balance	6,042	5,402
Purchases	261	164
Sales/disposal	-164	-29
Write down	-	-24
Reclassifications	262	368
Reclassification to assets for sale	-65	-
Translation difference	-383	161
Closing balance	5,953	6,042
Accumulated depreciation		
Opening balance	-3,094	-2,819
Sales/disposals	87	25
Reclassifications	-97	-5
Reclassification to assets for sale	10	-
Depreciation of step-up value	-33	-33
Depreciation for the year	-179	-159
Translation difference	231	-103
Closing balance	-3,075	-3,094
Closing balance, net book value	2,878	2,948

Non-current assets held for sale

Within Alfa Laval these assets are normally relating to real estate.

A small property in France is empty and has been for sale for several years. It is not expected to be sold within the next year. Five properties in India are for sale and are expected to be sold within the next year. The latter have therefore been classified as current assets held for sale with SEK 55 (-) million. The fair value of the properties for sale exceeds the book value by approximately SEK 24 (2) million.

Machinery and other technical installations

Consolidated		
SEK millions	2020	2019
Accumulated acquisition values		
Opening balance	7,813	7,219
Purchases	365	335
Sales/disposal	-389	-281
Reclassifications	304	331
Translation difference	-543	209
Closing balance	7,550	7,813
Accumulated depreciation		
Opening balance	-5,676	-5,464
Sales/disposals	346	227
Reclassifications	-8	19
Depreciation for the year	-362	-339
Write down	-1	-9
Translation difference	380	-110
Closing balance	-5,321	-5,676
Closing balance, net book value	2,229	2,137

Equipment, tools and installations

Consolidated		
SEK millions	2020	2019
Accumulated acquisition values		
Opening balance	2,906	2,811
Purchases	249	153
Sales/disposal	-115	-130
Reclassifications	69	2
Translation difference	-183	70
Closing balance	2,926	2,906
Accumulated depreciation		
Opening balance	-2,236	-2,178
Sales/disposals	103	113
Reclassifications	4	34
Depreciation for the year	-145	-147
Write down	0	0
Translation difference	149	-58
Closing balance	-2,125	-2,236
Closing balance, net book value	801	670

Construction in progress and advances to suppliers concerning property, plant and equipment

Consolidated		
SEK millions	2020	2019
Accumulated acquisition values		
Opening balance	505	634
Purchases	259	632
Reclassifications	-423	-771
Translation difference	-80	10
Closing balance	261	505
Closing balance, net book value	261	505

Right-of use asset real estate

Consolidated		
SEK millions	2020	2019
Accumulated acquisition values		
Opening balance	2,883	193
IFRS 16 adjustment	-	2,463
New or adjusted leases	130	296
Sales/disposal	-28	-24
Reclassifications	-201	-100
Translation difference	-208	55
Closing balance	2,576	2,883
Accumulated depreciation		
Opening balance	-392	-69
Sales/disposals	15	16
Reclassifications	81	4
Depreciation for the year	-350	-328
Translation difference	45	-15
Closing balance	-601	-392
Closing balance, net book value	1,975	2,491

Right-of use asset machinery		
Consolidated		
SEK millions	2020	2019
Accumulated acquisition values		
Opening balance	87	40
IFRS 16 adjustment	-	30
New or adjusted leases	15	17
Sales/disposal	-6	0
Reclassifications	-30	0
Translation difference	-8	0
Closing balance	58	87
Accumulated depreciation		
Opening balance	-59	-38
Sales/disposals	5	-
Reclassifications	32	0
Depreciation for the year	-17	-21
Translation difference	5	0
Closing balance	-34	-59
Closing balance, net book value	24	28

Right-of use asset equipment, tools and installations

Consolidated		
SEK millions	2020	2019
Accumulated acquisition values		
Opening balance	235	4
IFRS 16 adjustment	-	178
New or adjusted leases	75	62
Sales/disposal	-27	-6
Reclassifications	2	-3
Translation difference	-14	0
Closing balance	271	235
Accumulated depreciation		
Opening balance	-71	-3
Sales/disposals	22	2
Reclassifications	-6	-2
Depreciation for the year	-69	-68
Translation difference	6	0
Closing balance	-118	-71
Closing balance, net book value	153	164

Note 20. Other non-current assets

Shares in subsidiaries, joint ventures and other companies

SEK millions	Consolidated		Parent company	
	2020	2019	2020	2019
Shares in subsidiaries	-	-	4,669	4,669
Shares in joint ventures	85	63	-	-
Shares in other companies	1,490	78	-	-
Total	1,575	141	4,669	4,669

Alfa Laval does not hold any shares in unconsolidated structured entities.

The consolidated financial statements include the parent company Alfa Laval AB (publ) and the subsidiaries in which it has a decisive influence, which in all cases refer to companies where the parent company directly or indirectly had an ownership of more than 50 percent during the period. These are consolidated according to the purchase method and are referred to as subsidiaries. Most of the subsidiaries are owned to 100 percent and only 4 (5) companies have non-controlling interests, see Note 12. The subsidiaries are displayed in the table on page 134–136. Since all consolidated companies are owned to more than 50 percent there is no risk that judgments if a decisive influence exists or not at ownerships below 50 percent means that companies from time to time are included or not included in the consolidation.

Alfa Laval also has interests in 3 (3) small joint ventures, out of which one has a fully owned subsidiary, that are consolidated according to the equity method since no decisive influence exists. These are displayed in a separate table on page 136. The risks associated with joint ventures are basically business oriented and are not materially different than the risks linked to subsidiaries, with one exception. The exception relates to the risk of disagreeing with the other joint venture partner concerning for instance larger investments, financing and future direction for market penetration and product development, which could result in a sub-optimal development of the operations. Since Alfa Laval's joint ventures are of marginal significance for the Group as a total this risk is judged to be small.

The share of capital in the below tables is in all cases the same as the share of voting rights.

The below specification of shares contains some simplifications, for instance in connection with ownership in multiple layers or when the ownership is split on several owners or at cross-holdings. This is in order not to unnecessarily burden the presentation. A complete specification of shares can be ordered by contacting Alfa Laval's head office in Lund or via the Swedish Companies Registration Office (Bolagsverket).

Specification of shares in subsidiaries					
Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Alfa Laval Holding AB	556587-8062	Lund, Sweden	8,191,000	100	4,461
Alfa Laval NV		Maarsse, Netherlands	887,753	100	-
Alfa Laval Inc.		Newmarket, Canada	1,000,000	67	-
Alfa Laval S.A. DE C.V.		Tlalnepantla, Mexico	45,057,057	100	-
Alfa Laval S.A.		San Isidro, Argentina	1,223,967	95	-
Alfa Laval Ltda		Sao Paulo, Brazil	21,129,066	100	-
Framo do Brasil Ltda.		Rio de Janeiro, Brazil	14,850	4.67	-
Alfa Laval SpA		Santiago, Chile	2,735	100	-
Ashbrook Chile S.A.		Santiago, Chile	579,999	100	-
Alfa Laval S.A.		Bogota, Colombia	11,563	95	-
Alfa Laval S.A.		Lima, Peru	4,346,832	100	-
Inmobiliaria Tanguis S.A.C.		Lima, Peru	1,499	100	-
Alfa Laval Venezolana S.A.		Caracas, Venezuela	10,000	100	-
Alfa Laval Oilfield C.A.		Caracas, Venezuela	203	81	-
Alfa Laval Taiwan Ltd		Taipei, Taiwan	1,499,994	100	-
Alfa Laval (China) Ltd		Hong Kong, China	79,999	100	-
Alfa Laval (Jiangyin) Manufacturing Co Ltd		Jiang Yin, China		100	-
Alfa Laval Flow Equipment (Kunshan) Co Ltd		Jiangsu, China		30	-
Alfa Laval Flow Equipment (Kunshan) Co Ltd		Jiangsu, China		70	-
Alfa Laval (Shanghai) Technologies Co Ltd		Shanghai, China		100	-
Wuxi MCD Gasket Co Ltd		Jiang Yin, China		100	-
Tranter Heat Exchangers (Beijing) Co Ltd		Beijing, China		100	-
Liyang Sifang Stainless Steel Products Co., Ltd		Liyang City, China		65	-
Alfa Laval Iran Ltd		Teheran, Iran	32,983	100	-
Framo Korea Ltd		Busan, South Korea	5,000	25	-
Alfa Laval Philippines Inc.		Makati, Philippines	72,000	100	-
Alfa Laval Singapore Pte Ltd		Singapore	5,000,000	100	-
Alfa Laval (Thailand) Ltd		Bangkok, Thailand	1,199,999	100	-
Alfa Laval Middle East Ltd		Nicosia, Cyprus	40,000	100	-
Alfa Laval Service Operations Qatar LLC		Doha, Qatar	9,800	49	-
Alfa Laval Benelux NV/SA		Brussels, Belgium	98,284	100	-
Alfa Laval EOOD		Sofia, Bulgaria	100	100	-
Alfa Laval Slovakia S.R.O.		Bratislava, Slovakia		1	-
Alfa Laval Spol S.R.O.		Prague, Czech Republic		20	-
Alfa Laval Nordic OY		Espoo, Finland	20,000	100	-
Alfa Laval Nederland BV		Maarsse, Netherlands	10,000	100	-
Alfa Laval Benelux BV		Maarsse, Netherlands	20,000	100	-
PHE Holding AB	556306-2404	Lund, Sweden	2,500	100	-
Tranter Heat Exchangers Canada Inc.		Edmonton, Canada	100	100	-
Tranter Industria e Comércio de Equipamentos Ltda		Sao Paulo, Brazil	2,018,370	100	-
Tranter India Pvt Ltd		Pune, India	3,009,999	100	-
Alfa Laval India Pvt Ltd		Pune, India	1	0	-
Alfa Laval Korea Ltd		Seoul, South Korea	36,400	10	-
Alfa Laval Korea Holding Company Ltd		Chungnam, South Korea	13,318,600	100	-
Alfa Laval Korea Ltd		Seoul, South Korea	327,600	90	-
Alfa Laval Corhex Ltd		Daejeon, South Korea	50,000	100	-
LHE Co. Ltd		Gim Hae, South Korea	4,104,000	90	-
LHE Co. Ltd		Gim Hae, South Korea	456,000	10	-
Tranter International AB	556559-1764	Vänernsberg, Sweden	100,000	100	-
Multbran AB	556662-3988	Lund, Sweden	2,723	100	-
Alfa Laval India Pvt Ltd		Pune, India	1	0	-
Breezewind AB	556773-6532	Lund, Sweden	1,000	100	-
Alfa Laval India Pvt Ltd		Pune, India	1	0	-
Alfa Laval Corporate AB	556007-7785	Lund, Sweden	13,920,000	100	-
Alfa Laval S.A.		San Isidro, Argentina	64,419	5	-
Alfa Laval S.A.		Bogota, Colombia	609	5	-
Definox (Beijing) Stainless Steel Equipment Ltd		Beijing, China		100	-
Alfa Laval India Pvt Ltd		Pune, India	17,832,712	100	-
Tranter India Pvt Ltd		Pune, India	1	0	-
PT Alfa Laval Indonesia		Jakarta, Indonesia	16,240	100	-
Alfa Laval Malaysia Sdn Bhd		Shah Alam, Malaysia	10,000	100	-
Alfa Laval d.o.o.		Trzin, Slovenia	0	100	-
Alfa Laval Kolding A/S		Kolding, Denmark	40	100	-
Alfa Laval Nordic A/S		Rødovre, Denmark	1	100	-
Alfa Laval Copenhagen A/S		Søborg, Denmark	1	100	-
Alfa Laval Nakskov A/S		Nakskov, Denmark	242,713	100	-
Alfa Laval Aalborg A/S		Aalborg, Denmark	2,560,972	100	-

Specification of shares in subsidiaries, continued

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Alfa Laval Aalborg Indústria e Comércio Ltda		Petrópolis, Brazil	5,969,400	99.5	-
Aalborg Industries Ltda		Itu, Brazil	4,644,373	100	-
Alfa Laval Qingdao Ltd		Jiaozhou City, China		100	-
Alfa Laval Aalborg Oy		Rauma, Finland	3,000	100	-
Alfa Laval Nijmegen BV		Nijmegen, Netherlands	182	100	-
Alfa Laval Aalborg Holding Pty Ltd		North Wyong, Australia	2,875,010	100	-
Alfa Laval Aalborg Pty Ltd		North Wyong, Australia	225,000	100	-
Alfa Laval Olmi SpA		Suisio, Italy	500,000	100	-
Alfa Laval Italy Srl		Milan, Italy		33.3	-
Alfa Laval Nordic AS		Oslo, Norway	100	100	-
Framo AS		Nesttun, Norway	95,347,695	100	-
Framo do Brasil Ltda.		Rio de Janeiro, Brazil	303,002	95.33	-
Framo Shanghai Ltd.		Shanghai, China	0	100	-
Framo Korea Ltd		Busan, South Korea	15,000	75	-
Framo Singapore PTE Ltd.		Singapore	1,000,000	100	-
Framo Nederland BV		Spijkensisse, Netherlands	500	100	-
Framo Nippon KK		Tokyo, Japan	600	100	-
Framo Fusa AS		Fusa, Norway	86,236	100	-
Framo Holsnøy AS		Frekhaug, Norway	25,000	100	-
Framo Flatøy AS		Frekhaug, Norway	45,330	100	-
Framo Services AS		Nesttun, Norway	10,000	100	-
PHE Holding AS		Nesttun, Norway	45,000	100	-
Alfa Laval Nordic AB	556243-2061	Tumba, Sweden	1,000	100	-
Alfa Laval Treasury International (publ) AB	556432-2484	Lund, Sweden	50,000	100	-
Alfa Laval India Pvt Ltd		Pune, India	1	0	-
Alfa Laval Europe AB	556128-7847	Lund, Sweden	500	100	-
Alfa Laval Lund AB	556016-8642	Lund, Sweden	100	100	-
Alfa Laval India Pvt Ltd		Pune, India	1	0	-
Alfa Laval International Engineering AB	556039-8934	Lund, Sweden	4,500	100	-
Alfa Laval Tumba AB	556021-3893	Tumba, Sweden	1,000	100	-
Alfa Laval Oilfield C.A.		Caracas, Venezuela	47	19	-
AO Alfa Laval Potok		Koroljov, Russia	31,092,939	100	-
Alfa Laval Makine Sanayii ve Ticaret Ltd Sti		Istanbul, Turkey	27,001,755	99	-
Alfa Laval SIA		Riga, Latvia	125	100	-
Alfa Laval Australia Pty Ltd		Homebush, Australia	2,088,076	100	-
Alfa Laval New Zealand Pty Ltd		Hamilton, New Zealand	1,000	100	-
Alfa Laval Holding BV		Maarsse, Netherlands	60,035,631	100	-
Alfa Laval (Pty) Ltd		Isando, South Africa	2,000	100	-
Alfa Laval SA (Pty) Ltd		Isando, South Africa	100	100	-
Alfa Laval Slovakia S.R.O.		Bratislava, Slovakia		99	-
Alfa Laval Spol S.R.O.		Prague, Czech Republic		80	-
Alfa Laval Holding SAS		Saint-Priest, France	2,000,000	100	-
Alfa Laval France & North West Africa SAS		Saint-Priest, France	606,700	100	-
Alfa Laval Moatti SAS		Elancourt, France	24,000	100	-
Alfa Laval Spiral SAS		Nevers, France	79,999	100	-
MCD SAS		Guny, France	71,300	100	-
Alfa Laval Vicarb SAS		Grenoble, France	200,000	100	-
Canada Inc.		Newmarket, Canada	480,000	100	-
Alfa Laval Inc.		Newmarket, Canada	481,600	33	-
SCI du Companil		Grenoble, France	32,165	100	-
Alfa Laval Packinox SAS		Paris, France	348,115	100	-
Ziepack SA		Paris, France	37,701	51	-
Tranter SAS		Nanterre, France		100	-
Definox SAS		Clisson, France	10,000	100	-
Alfa Laval Holding GmbH		Glinde, Germany	1	100	-
Alfa Laval Mid Europe GmbH		Wiener Neudorf, Austria	1	100	-
Tranter Warmetauscher GmbH		Guntramsdorf, Austria		100	-
Alfa Laval Mid Europe GmbH		Glinde, Germany	1	100	-
Tranter GmbH		Artern, Germany	1	100	-
Alfa Laval Heat Exchanger Service GmbH		Frechen, Germany	1	100	-
Alfa Laval Mid Europe AG		Dietlikon, Switzerland	647	100	-
Alfa Laval Single Member SA		Holargos, Greece	807,000	100	-
Alfa Laval Kft		Budapest, Hungary	1	100	-
Alfa Laval SpA		Monza, Italy	1,992,276	99	-
Alfa Laval Italy Srl		Milan, Italy		66.7	-
WCR Benelux BV		Veenendahl, the Netherlands	180	100	-
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	99.999	-

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 Ltd *		Camberley, UK	11,700,000	100	–
Tranter Ltd *		Doncaster, UK	10,000	100	–
Alfa Laval Eastbourne Ltd *		Eastbourne, UK	10,000	100	–
Alfa Laval Ashbrook-Simon Hartley Ltd *		Newcastle-under-Lyme, UK	2	100	–
Alfa Laval Makine Sanayii ve Ticaret Ltd Sti		Istanbul, Turkey	1	1	–
Alfa Laval USA Inc.		Richmond, Virginia, USA	1,000	100	–
Alfa Laval US Holding Inc.		Richmond, Virginia, USA	180	100	–
Alfa Laval Inc.		Richmond, Virginia, USA	44,000	100	–
Alfa Laval Niagara Inc.		Buffalo, New York, USA	4,000,200	100	–
Framo Houston Inc.		La Porte, Texas, USA	5,000	100	–
Alfa Laval US Treasury Inc.		Richmond, Virginia, USA	1,000	100	–
DSO Fluid Handling Inc.		Ivington, 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	–
Definox Inc.		New Berlin, Wisconsin, USA	1,000	100	–
Sandymount Technologies Corporation		Woburn, Massachusetts, USA	1,000	100	–
Alfa Laval IC Disc Inc.		Richmond, Virginia, USA	1,000	100	–
Alfa Laval Försäkrings AB	516406-0682	Lund, Sweden	50,000	100	–
Alfa Laval Ltda		Sao Paulo, Brazil	2	0	–
Tranter Indústria e Comércio de Equipamentos Ltda		Sao Paulo, Brazil	1	0	–
Alfa Laval Benelux NV/SA		Brussels, Belgium	2	0	–
Alfa Laval SpA		Monza, Italy	20,124	1	–
Alfa Laval Iberia SA		Madrid, Spain	1	0.001	–
Alfa Laval Ukraine		Kiev, Ukraine		100	–
Alfa Laval India Pvt Ltd		Pune, India	1	0	–
Alfa Laval Vietnam LLC		Ho Chi Minh City, Vietnam	0	100	–
Alfa Laval KK		Tokyo, Japan	1,200,000	100	208
Total					4,669

* These five companies registered in England and Wales are exempt from the Companies Act 2006 requirements relating to the audit of their individual accounts by virtue of Section 479A of the Act as Alfa Laval AB (publ) has guaranteed the subsidiary companies under Section 479C of the Act.

Specification of shares in joint ventures

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Alfa Laval Holding AB					
Alfdex AB	556647-7278	Botkyrka, Sweden	1,000	50	66
Alfdex Kunshan Co Ltd		Kunshan, China		100	12
Alfa Laval Corporate AB					
AlfaWall AB	556723-6715	Botkyrka, Sweden	500	50	7
Alfa Laval Ltd					
Rolls Laval Heat Exchangers Ltd		Wolverhampton, UK	5,000	50	0
Total					85

Specification of shares in other companies

Company name	Domicile	Number of shares	Share of capital %	Book value SEK thousands
Alfa Laval US Holding Inc.				
Malta Inc	USA	8,000,000	13	65,665
AMI Global LLC	USA		20	28,728
Alfa Laval Aalborg Indústria e Comércio Ltda				
Tractebel	Brazil	1,268		68
Elektrobras	Brazil	7,107		92
Alfa Laval Philippines Inc.				
Philippine Long Distance Telephone	Philippines	820		14
Alfa Laval Nordic OY				
As Oy Koivulantie 7A	Finland	1		313
Helsinki Halli	Finland	4		141
Framo Nederland BV				
Triangle (Air) Freight Forwarders BV	Netherlands	12	33	2,017
Framo Flatøy AS				
Nordhordaland handverk og industrilag AS	Norway	50	4	24
Gløde AS	Norway	3	3	3
Alfa Laval Treasury International AB (publ)				
Neles Oyj	Finland	12,723,923	8.46	1,393,019
Alfa Laval Tumba AB				
Smedhålsan Ekonomisk Förening	Sweden			22
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				1,490,106

None of these other companies with a share of capital of 20 percent or more are accounted for as associates since they are dormant or have very limited activities and Alfa Laval does not have a significant influence according to IAS 28 item 6.

Note 21. Inventories

Type of inventory			
Consolidated			
SEK millions	2020	2019	
Raw materials and consumables	3,199	3,364	
Work in progress	1,866	2,535	
Finished goods & goods for resale, new sales	2,650	2,519	
Finished goods & goods for resale, spare parts	1,236	1,406	
Advance payments to suppliers	272	253	
Total	9,223	10,077	

A considerable part of the inventory for spare parts is carried at net realisable value.

Obsolescence related to inventories amounts to and has changed as follows:

Obsolescence					
Consolidated					
SEK millions	January 1	Translation difference	Write down	Reversal of previous write down	December 31
Year:					
2019	1,243	26	294	-312	1,251
2020	1,251	-89	405	-292	1,275

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 2020 amounts to SEK 571 (576) million.

Note 22. Accounts receivable

Accounts receivable with a maturity exceeding one year of SEK 122 (204) 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	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
Year:							
2019	386	10	275	-143	-162	0	366
2020	366	-32	97	-48	-64	0	319

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	2020	%	2019	%
Overdue:				
Maximum 30 days	536	9.2	837	11.2
More than 30 days but maximum 90 days	304	5.2	588	7.9
More than 90 days	425	7.3	538	7.2
Total	1,265	21.7	1,963	26.3

Provision for lifetime expected credit losses										
Consolidated										
SEK millions	Accounts and notes receivables / Other receivables		Recorded at inception		For credit risks that have increased significantly since initial recognition		Related to objective evidence of impairment		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Accounts and notes receivable										
Undue	5,041	6,039	8	5	5	7	32	31	45	43
Overdue 1-30 days	536	837	1	1	0	0	7	3	8	4
Overdue 31-60 days	181	364	-	-	4	9	3	5	7	14
Overdue 61-90 days	123	224	-	-	9	3	4	20	13	23
Overdue 91-365 days	295	372	-	-	50	64	66	45	116	109
Overdue >365 days	130	166	-	-	59	70	40	61	99	131
Total	6,306	8,002	9	6	127	153	152	165	288	324
Other receivables										
Contract assets	2,084	2,465	11	18	12	19	5	4	28	41
Financial lessor receivable	4	5	-	-	1	1	2	-	3	1
Total	2,088	2,470	11	18	13	20	7	4	31	42

Note 23. Other short-term receivables

Split on type and maturity		
Consolidated		
SEK millions	2020	2019
Notes receivable	184	218
Financial lessor receivable	4	5
Revenue recognition ahead of progress invoicing	2,056	2,424
Other receivables	969	1,372
Total	3,213	4,019
Of which, not due within one year:		
Notes receivable	0	0
Other receivables	19	24
Total	19	24

Other receivables relate to a wide range of other receivables, including balanced invoicing relating to satisfied performance obligations that have not yet been invoiced (where the revenue recognition is ahead of the progress invoicing), VAT receivables, receivables on governments for export incitements, receivables on personnel, rent receivables etc.

Note 24. Prepaid expenses and accrued income

Split on type		
Consolidated		
SEK millions	2020	2019
Prepaid expenses	323	333
Accrued income	96	118
Total	419	451

Note 25. Other current deposits

Split on type and maturity		
Consolidated		
SEK millions	2020	2019
Deposits with banks	1,160	205
Bonds and other securities	1,451	654
Other deposits	7	14
Total	2,618	873
Of which, not due within one year:		
Deposits with banks	7	8
Other deposits	0	3
Total	7	11

Note 26. Cash and cash equivalents

The item cash and cash equivalents in the statement on financial position and in the cash flow statement is mainly relating to bank deposits and liquid deposits.

Note 27. Defined benefit obligations

The Group has defined benefit commitments to employees and former employees and their survivors. The benefits are referring to old age pension, survivor's pension, disability pension, health care and severance pay.

The defined benefit plans are in place in Austria, Belgium, France, Germany, India, Indonesia, Italy, Japan, Mexico, the Netherlands, Norway, Philippines, South Africa, Sweden, Switzerland, Taiwan, the United Kingdom and the United States. Most plans have been closed for new participants and replaced by defined contribution plans for new employees. As of 2020 that also applies to the Netherlands. During 2020 the defined benefit pension plan in the US has been settled for the largest subsidiaries through purchase of annuities.

Risks

The cost for defined benefit obligations 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 IAS 19 all of these remeasurements are reported in other comprehensive income.

The following table presents how the net defined benefit liability is arrived at out of the present values of the different defined benefit plans, less the fair value of the plan assets.

Net defined benefit liability		
Consolidated		
SEK millions	2020	2019
Present value of defined benefit obligation, unfunded	-1,124	-1,177
Present value of defined benefit obligation, funded	-5,740	-6,299
Present value of defined benefit obligation at year end	-6,864	-7,476
Fair value of plan assets	4,440	5,225
Net defined benefit liability	-2,424	-2,251
Less disallowed assets due to asset ceiling	-	-
(-) liability/(+) asset at December 31	-2,424	-2,251

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	2020	2019
Net plan cost		
Current service cost	-114	-111
Net interest cost/income	-36	-55
Past service cost/income from plan amendments and curtailments and gains and losses on settlements	8	23
Net plan (-) cost/(+) income	-142	-143
Remeasurements		
Actuarial losses/gains arising from changes in demographic assumptions	-59	65
Actuarial losses/gains arising from changes in financial assumptions	-674	-505
Actuarial losses/gains arising from changes in experience	-12	25
Return on plan assets less interest on plan assets	313	277
Change in disallowed assets due to asset ceiling	-	-
Other comprehensive income (OCI)	-432	-138
Total plan cost	-574	-281

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	2020	2019
Present value of defined benefit liability at January 1	-7,476	-6,725
Translation difference	608	-333
Current service cost	-114	-111
Interest cost	-124	-185
Employee contributions	-4	-5
Actuarial losses/gains arising from changes in demographic assumptions	-59	65
Actuarial losses/gains arising from changes in financial assumptions	-674	-505
Actuarial losses/gains arising from changes in experience	-12	25
Past service cost/income from plan amendments and curtailments and gains and losses on settlements	8	23
Benefit payments	286	275
Settlement payments	697	0
(-) liability at December 31	-6,864	-7,476

The liability has the following duration and maturity:

Duration and maturity		
Consolidated		
	2020	2019
Weighted average duration of the defined benefit obligation (years)	11	13
Maturity analysis of benefit payments (non-discounted amounts) SEK millions		
maturity ≤ 1 year	206	294
maturity > 1 ≤ 5 years	1,325	1,189
maturity > 5 ≤ 10 years	1,326	1,584
maturity > 10 ≤ 20 years	2,564	2,935
maturity > 20 years	3,502	4,897

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	2020	2019
Fair value of plan assets at January 1	5,225	4,644
Translation difference	-409	242
Employer contributions	155	148
Employee contributions	4	5
Interest on plan assets	88	130
Return on plan assets less interest on plan assets	313	277
Benefit payments	-240	-221
Settlement payments	-696	0
(+) asset at December 31	4,440	5,225

The plan assets are split on the following types of assets:

Split of plan assets		
Consolidated		
SEK millions	2020	2019
Cash and cash equivalents	299	328
Equity instruments	938	976
Debt instruments	1,759	2,604
Real estate	269	243
Derivatives	17	-
Investment funds	1,158	1,074
Fair value at December 31	4,440	5,225

The plan assets are in all essentials valued at quoted market prices in active markets.

The table below presents how the net defined benefit liability has changed and the factors affecting the change.

Net defined benefit liability/asset		
Consolidated		
SEK millions	2020	2019
Defined benefit liability/asset at January 1	-2,251	-2,081
Translation difference	199	-91
Net plan cost	-142	-143
Employer contributions	155	148
Remeasurements (other comprehensive income)	-432	-138
Benefit payments, unfunded plans	46	54
Settlement payments, unfunded plans	1	0
(-) liability/(+) asset at December 31	-2,424	-2,251

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	2020	2019
Assets		
Fair value of plan assets	4,440	5,225
Less disallowed assets due to asset ceiling	-	-
	4,440	5,225
Netting	-4,370	-5,155
Assets in statement on financial position	70	70
Liabilities		
Present value of defined benefit obligation at year end	-6,864	-7,476
Netting	4,370	5,155
Provision in statement on financial position	-2,494	-2,321

The weighted averages for the more significant actuarial assumptions that have been used at the year-end are:

Actuarial assumptions		
Consolidated		
	2020	2019
Discount rate (%)	1.2	2.1
Expected average retirement age (years)	64	63
Life expectancy for a 45-year-old male (years)	82	82
Life expectancy for a 45-year-old female (years)	85	85
Claim rates under medical plans (%)	5	5
Expected rate of salary/wage increase (%)	3	3
Change in health care costs (%)	5	5
Index for future compensation increases (%)	2	2

Future contributions

Consolidated	
SEK millions	2021
Expected employer contributions to the plan for the next calendar year	-194
Expected employer contributions for the next calendar year to multi-employer plans reported as defined contribution plans	-30

The following table presents how the defined benefit pension schemes are distributed on different countries.

Regional split

Consolidated									
SEK millions unless otherwise stated	United States	United Kingdom	Netherlands	Germany	Norway	Italy	Belgium	Other	Total
Net defined benefit liability									
Present value of the defined benefit obligation, unfunded	-556	-	-	-189	-10	-15	-	-354	-1,124
Present value of the defined benefit obligation, funded	0	-3,670	-834	-	-818	-	-93	-325	-5,740
Present value of the defined benefit obligation at year end	-556	-3,670	-834	-189	-828	-15	-93	-679	-6,864
Fair value of plan assets	56	2,376	832	-	824	-	63	289	4,440
Net defined benefit liability	-500	-1,294	-2	-189	-4	-15	-30	-390	-2,424
Less disallowed assets due to asset ceiling	-	-	-	-	-	-	-	-	-
(-) liability/(+) asset	-500	-1,294	-2	-189	-4	-15	-30	-390	-2,424
Net plan cost	-41	-38	-10	-1	-11	0	-2	-39	-142
Remeasurements (OCI)	-3	-423	9	-2	-20	-	-5	12	-432
Sensitivity analysis*									
Discount rate decreased by 1% point	-64	-721	-194	-8	-113	-	-5	-95	-1,200
Life expectancy increased by 1 year	-25	-211	-35	-12	-33	-	0	-11	-327
Expected average retirement age decreased by 1 year	-5	-	-	0	0	-	1	-11	-15
Claim rates under medical plans increased by 1 % point	-8	-	-	-	-	-	-	-	-8
Expected rate of salary increases increased by 1% point	0	-59	-	-	-14	-	-10	-27	-110
Medical costs increased by 1% point	-27	-	-	-	-	-	-	-1	-28
Index for future compensation increases increased by 1% point	0	-114	-62	-20	-102	-	-	-2	-300
Cost for actuarial services	-2	-2	0	0	-1	0	0	0	-5
Number of participants in the plans at December 31									
Current employees (active members)	1,010	82	17	1	116	-	11	2,464	3,701
Current employees (only vested value for closed plans)	-	-	34	3	1	113	-	12	163
Former employees that are not yet pensioners	0	335	309	4	-	-	55	-	703
Pensioners	695	683	110	217	396	-	-	79	2,180
Total	1,705	1,100	470	225	513	113	66	2,555	6,747
Remaining service period									
Average remaining service period for active members (years)	8	9	12	4	4	-	13	8	8

* How much would the present value of the defined benefit obligation at December 31 increase if the (all other things being equal):

Note 28. Other provisions

Movement schedule						
Consolidated						
SEK millions	January 1	Translation difference	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	December 31
2019						
Claims & warranty	1,366	15	628	-470	-79	1,460
Deferred costs	129	3	108	-43	-44	153
Restructuring	358	0	89	-278	-3	166
Onerous contracts	85	0	37	-16	-7	99
Litigations	201	0	106	-107	0	200
Other	455	9	271	-304	-7	424
Total	2,594	27	1,239	-1,218	-140	2,502
Of which:						
current	1,929					1,863
non-current	665					639
2020						
Claims & warranty	1,460	-54	513	-571	-91	1,257
Deferred costs	153	-7	102	-64	-18	166
Restructuring	166	-5	321	-85	-14	383
Onerous contracts	99	-3	9	-32	-24	49
Environmental	–	–	50	–	–	50
Litigations	200	-4	12	–	-2	206
Other	424	-43	168	-208	-14	327
Total	2,502	-116	1,175	-960	-163	2,438
Of which:						
current	1,863					1,757
non-current	639					681

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 600 (95) employees.

The provision for onerous contracts is relating to orders where a negative gross margin is expected. Provisions are made as soon as a final loss on the order can be expected. This can in exceptional cases happen already at the time when the order is taken. Normally this provision is relating to larger and complex orders where the final margin is more uncertain.

The provision for litigations refers to ongoing or expected legal disputes. The provision covers expected legal costs and expected amounts for damages or settlements.

Other refers to miscellaneous provisions that do not fall within any of the above categories.

Note 29. Borrowings and net debt

Net debt		
Consolidated		
SEK millions	2020	2019
Credit institutions	120	166
Swedish Export Credit	1,008	2,318
European Investment Bank	-	1,203
Corporate bonds	8,040	8,335
Lease liabilities	2,235	2,620
Total debt	11,403	14,642
Cash and cash equivalents and current deposits	-7,768	-6,467
Net debt *	3,635	8,175

* Alternative performance measure.

The changes in the loans during the year are explained by the following table:

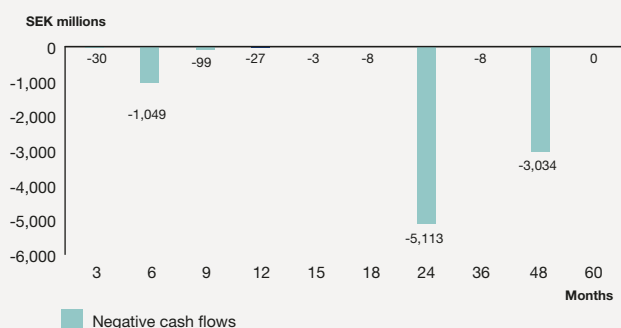
Loans				
Consolidated				
SEK millions	January 1	Cash flows	Exchange rate effects	December 31
Year:				
2019	11,863	-144	303	12,022
2020	12,022	-2,841	-13	9,168

The loans are distributed among currencies as follows:

Maturity of loans by currency				
Consolidated				
SEK millions	Current		Non-current	
	2020	2019	2020	2019
Currency:				
BRL	3	11	-	-
EUR	1,092	27	8,043	10,588
INR	8	9	-	-
PLN	22	104	-	-
SEK	-	-	-	12
USD	-	1,271	-	-
Total	1,125	1,422	8,043	10,600
Of which, not due within five years:			-	-

The maturity structure of the loans is presented in the bar chart in the section "Liquidity risk and refinancing risk" under Financial risks.

Maturity analysis for loans



Loans with floating interest rate

Loan from credit institutions

As of April 17, 2020, Alfa Laval has a new senior credit facility with an extended banking syndicate of EUR 900 million corresponding to SEK 9,077 million at December 31, 2020. The facility was not utilised at December 31, 2020. It matures in June 2022.

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 commitment fee on the un-utilised facility was 17.5 (12.2) basis points.

Bilateral term loans with other lenders

Alfa Laval has a bilateral term loan with Swedish Export Credit of EUR 100 million that matures in June 2021, corresponding to SEK 1,008 million. The loan accrues interest at floating rate based on applicable IBOR plus a mark-up of 95 basis points. The loan of USD 136 million that matured on June 23, 2020 has been repaid.

The loan from the European Investment Bank of EUR 115 million maturing in June 2021 has been repaid already on March 4, 2020.

Alfa Laval raised a bilateral term loan from SEB and Nordea on June 23, 2020 of SEK 2,000 million maturing in December 2021. The loan has been repaid already on December 23, 2020.

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 2020 the only remaining loan was accruing interest at 0.43 %. The corresponding figure for 2019 as a range of 0.10 % - 2.73 %. The average interest rate at the end of 2020 was 0.43 (1.25) percent. The interest for the loan with floating interest rates was fixed at December 15, 2020 for the remaining term, which is the reason why no loans with floating interest rates were hedged to fixed interest rate at December 31, 2020. At December 31, 2019, 16 percent of the loans with floating interest rate were hedged to fixed interest rate, with a duration of 3.0 months.

Loans with fixed rate

Corporate bonds and commercial papers

The corporate bonds are listed on the Irish stock exchange and consist of one tranche of EUR 500 million, with a fixed interest rate of 1.495 percent based on a coupon of 1.375 percent that matures in September 2022 and one tranche of EUR 300 million, with a fixed interest of 0.308 percent based on a coupon of 0.250 percent that matures in June 2024.

The commercial paper programme of SEK 2,000 million was not utilised at December 31, 2020. When utilised, the interest is fixed at inception and is based on STIBOR flat.

Transaction costs

The transaction costs in connection with raising the loans or issuing the bonds have been capitalised and are being amortised over the maturity of the loans. At the end of the year the capitalised amount was SEK 21 (20) million. The current year's cost for the fee amortisation is SEK -13 (-9) million.

Average interest and currency duration

The average interest and currency duration for all loans including derivatives is 26.1 (30.1) months at the end of 2020.

Financial covenants

The syndicated loan and the bilateral term loan with Swedish Export Credit are linked to one financial covenant that must be fulfilled throughout the life of the loans. The covenant refers to the relationship between net debt and EBITDA in combination with the current official Alfa Laval rating.

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 30. Other current liabilities

Split by type		
Consolidated		
SEK millions	2020	2019
VAT liabilities, employee withholding taxes	194	201
Progress invoicing ahead of revenue recognition	795	1,452
Other non-interest bearing liabilities	2,588	2,566
Total	3,577	4,219

Note 31. Accrued costs and prepaid income

Split by type and maturity		
Consolidated		
SEK millions	2020	2019
Accruals for social security	402	385
Reserve for severance pay	200	206
Accrued interest expenses	26	27
Other accrued expenses	1,516	1,542
Prepaid income	9	138
Total	2,153	2,298
Of which, not due within one year:		
Accruals for social security	42	37
Reserve for severance pay	120	161
Other accrued expenses	148	121
Total	310	319

Note 32. Pledged assets and contingent liabilities

Split by type		
Consolidated		
SEK millions	2020	2019
Pledged assets		
Other pledges and similar commitments	7	10
Total	7	10
Contingent liabilities		
Discounted bills	17	2
Performance guarantees	1,503	1,470
Other contingent liabilities	1,377	1,045
Total	2,897	2,517

As of December 31, 2020, the Group had sold receivables with recourse totalling SEK 17 (2) million. These are disclosed as discounted bills above. Other contingent liabilities are among other items referring to bid guarantees, payment guarantees to suppliers and retention money guarantees.

Note 33. Transactions with related party

Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with 4.7 (5.4) percent of net sales. In June 1999, Tetra Pak entered into a purchasing agreement with Alfa Laval that governs the distribution, research and development, market and sales information, use of trademarks and intellectual property. The following areas shall be agreed upon from time to time between representatives of the parties: products that are subject to the agreement, prices and discounts of such products, geographical markets and product areas where Tetra Pak is Alfa Laval's preferred distributor, the right of Tetra Pak to affix its trademarks to Alfa Laval products, sales goals for Tetra Pak in defined geographical markets, products and technologies that are the focus of joint research and development and the ownership rights of the research and development result and use of market and sales information. The agreement aims at the applications within liquid food where Tetra Pak has a natural market presence through the deliveries of packaging equipment and packaging material.

The agreement has a 12-month period of notice. The prices Tetra Pak receives are not lower than the prices Alfa Laval would obtain when selling to a comparable third party. The prices are fixed on a calendar year basis.

Alfa Laval rents premises to DeLaval in Russia. The total rent income for this amounts to SEK 1 (2) million.

The Board of Directors for Alfa Laval AB (publ) has two representatives from Tetra Laval - Jörn Rausing and Finn Rausing.

At year-end, Alfa Laval has the following balance items against companies within the Tetra Laval group (Tetra Pak and DeLaval).

Receivables on/payables to related parties		
Consolidated		
SEK millions	2020	2019
Receivables:		
Accounts receivable	159	185
Liabilities:		
Accounts payable	0	-
Other liabilities	19	6

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	2020	2019
Net sales	1,968	2,533
Other operating income	1	2

Note 34. 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 Concentric as partner and AlfaWall AB with Wallenius as partner. Alfdex AB has a fully owned subsidiary Alfdex Kunshan Co Ltd. None of these joint ventures are of material importance and for that reason no disclosures are made of each individual joint venture. Instead disclosures in aggregate are made on the carrying amount of Alfa Laval's interests in these individually immaterial joint ventures. See the below tables.

Since joint ventures as from 2014 are consolidated according to the equity method in IFRS 11 "Joint arrangements", the amounts in the following two tables are no longer part of Alfa Laval's statements over consolidated comprehensive income and consolidated financial position.

Assets/liabilities		
Joint ventures		
SEK millions	2020	2019
Current assets	179	120
Non-current assets	88	38
Current liabilities	105	73
Non-current liabilities	34	21
Contingent liabilities	35	37

Revenues/expenses		
Joint ventures		
SEK millions	2020	2019
Net sales	273	263
Cost of goods sold	-182	-182
Other operating income	95	111
Other operating costs	-156	-162
Financial net	-1	-1
Result before tax	29	29
Taxes	-7	-7
Net income	22	22
Other comprehensive income	0	-2
Comprehensive income	22	20

Instead the application of the equity method means that the net income in the joint ventures is booked into one line in the operating income. The counter entry is an increase or decrease of the value of shares in joint ventures. Received dividends reduce the value of the shares in joint ventures.

Interests in joint ventures		
Consolidated		
SEK millions	2020	2019
Comprehensive income	22	20
Received dividends	-	2
Shares in joint ventures	85	63

The effect on comprehensive income is the same as the net income.

Note 35. Leasing

Leasing disclosures		
Consolidated		
SEK millions	2020	2019
Lessee		
Financial position		
Right-of-use assets	2,152	2,683
Lease liabilities	2,235	2,620
New or adjusted leases	220	375
Income statement		
Depreciation	-436	-417
Interest cost on lease liabilities	-78	-71
Expenses		
Expense for not capitalised short-term leases	64	41
Expense for not capitalised leases of low-value assets not included in above line	7	6
Expense for not capitalised leases of low-value assets according to Alfa Lavals higher materiality thresholds not included in above lines	10	12
Expense for variable lease payments not included in lease liabilities	0	1
Cash flow		
Total cash outflow for all leases, including leases that are not capitalised, excluding non-lease components	593	536
Lessor		
Financial position		
Financial lessor receivable	4	5
Income statement		
Finance income	0	0
Income from subleasing	1	0
Income from variable lease payments not included in financial lessor receivable	0	0
Lease income from operating leases	13	1
- out of which variable lease payments not dependent on an index or a rate	0	0

The leasing periods are between 1 and 25 years. The latter figure relates to a very limited number of properties. Normally the maximum leasing period is 10 years for buildings and 3–5 years for all other assets.

The weighted average incremental borrowing rate used to discount the value of the lease liabilities during 2020 is 3.26 (2.64) percent.

Maturity analysis of lease liabilities and receivables						
Consolidated						
SEK millions	Lease payments by the lessee		Finance lease payments received by the lessor		Operating lease payments received by the lessor	
	2020	2019	2020	2019	2020	2019
Maturity in year:						
2020	N/A	444	N/A	1	N/A	4
2021	426	421	1	1	0	3
2022	395	389	1	1	0	1
2023	332	327	1	1	0	0
2024	302	297	1	1	0	0
2025	246	N/A	–	N/A	–	N/A
Later	953	1,142	–	–	–	–
Total	2,654	3,020	4	5	0	8
Unearned finance income			0	0		
Discounted unguaranteed residual value			4	5		

Note 36. Revenue recognition from contracts with customer

Revenue recognition from contracts with customers		
Consolidated		
SEK millions	2020	2019
Income statement		
Net sales from:		
Contracts with customers	41,435	46,477
Leasing	33	40
Total net sales	41,468	46,517
Net sales from contracts with customers with a contract duration of:		
≤ 1 year	36,622	42,299
> 1 year	4,813	4,178
	41,435	46,477
Performance obligations towards customers satisfied:		
at a point in time	34,141	40,477
over time	7,294	6,000
	41,435	46,477
Additional information:		
Net sales:		
included in contract liability at January 1	426	1 014
from performance obligations satisfied or partially satisfied in previous periods	209	381
Amortisation of capitalised costs to obtain or fulfil contracts with external customers	–	–
Impairment losses	–	–
Assets		
Accounts and notes receivables, contracts with external customers	5,985	7,449
Accounts and notes receivables, external, other	33	229
Contract assets	2,056	2,424
Capitalised costs to obtain a contract with a customer	–	–
Capitalised costs to fulfil a contract with a customer	–	–
Liabilities		
Contract liabilities	5,176	5,721

Net sales per Business Division, per geography and per product is shown in Note 1, 2 and 3. Since contracts with customers account for 99.9 percent of net sales and leasing less than 0.1 percent the figures are shown for total net sales in these notes and not separately for contracts with customers.

A contract asset is Alfa Laval's right to consideration in exchange for goods or services that Alfa Laval has transferred to a customer when that right is conditioned on something other than the passage of time (for example, Alfa Laval's future performance). It could be balanced invoicing relating to satisfied performance obligations that have not yet been invoiced (where the revenue recognition is ahead of the progress invoicing) and inventory linked to revenue recognised over time (like work in progress).

A contract liability is Alfa Laval's obligation to transfer goods or services to a customer for which Alfa Laval has received consideration (or the amount is due) from the customer. It could be advance payments and balanced invoicing relating to unsatisfied performance obligations that have been invoiced (where the progress invoicing is ahead of the revenue recognition).

Note 37. Remuneration policy for executive officers

The executive officers, i.e. the CEO and other members of Group Management reporting to the CEO, fall within the provisions of this policy. The policy is forward-looking, i.e. applicable to remuneration agreed, and amendments to remuneration already agreed, after adoption of the policy by the annual general meeting in April 2021. This policy does not apply to any remuneration decided or approved by the general meeting. The policy is substantially in line with the policy adopted in 2020.

A prerequisite for the successful implementation of the company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the company is able to recruit and retain qualified personnel, consequently it is necessary that the company offers market competitive remuneration.

For information regarding Alfa Laval's business strategy, please visit <http://www.alfalaval.com/investors/in-brief/#xaa>

This policy enables the company to offer the executive officers a competitive total remuneration. The remuneration shall be on market terms and may consist of the following components: fixed base salary, variable cash remuneration (including STI and LTIP), pension benefits and other benefits. The

components, their purpose and link to the company's business strategy are described below.

The decision-making process to determine, review and implement the policy

The Board of Directors has established a Committee within the Board (the Remuneration Committee), with the tasks of preparing, within the Board of Directors, the policy for remuneration for executive officers. The Board of Directors shall propose a revised policy at least every fourth year and submit it to the general meeting. The policy shall be in force until a new policy is adopted by the general meeting.

Unless otherwise stated herein, the Board of Directors shall resolve on matters regarding remuneration and employment provisions for all other executive officers. The Committee shall continuously report to the Board of Directors. The CEO and the other executive officers shall not be present when their respective remuneration terms are decided.

Additionally, the general meeting may – irrespective of this policy – resolve on, among other things, share-related or share price-related remuneration.

Fixed Base Salary

Purpose and link to strategy	Supports the attraction and retention of the best talents. Ensures competitiveness while controlling fixed costs to maximise efficiency.
Operational Details	<ul style="list-style-type: none"> – Normally reviewed annually and increases will usually be effective from 1 January or following a change in responsibilities. – The Remuneration Committee will consider, among other things, the following parameters when reviewing fixed base salary: <ul style="list-style-type: none"> – Economic and salary conditions and trends. – The individual's performance and responsibilities. – Base salaries and total remuneration at other companies that operate in the same markets, typically benchmarked against similar roles.

Variable Cash Remuneration

A portion of the total remuneration for the executive officers is linked to business performance so that total remuneration will increase or decrease in line with performance, thus promoting the company's business strategy and long-term interests.

Annual Short-Term Incentive (STI)

Purpose and link to strategy	To incentivise and create focus on the delivery of annual financial and strategic criteria.
Operational Details	<ul style="list-style-type: none"> – The performance criteria, weighting and targets are to be proposed by the Remuneration Committee annually and approved by the Board of Directors. Targets shall be set by reference to the company's operating plan and historical and projected performance. – The outcome of criteria for awarding STI is to be measured over a period of one year and depend on the degree of fulfilment of predetermined targets. – The Board of Directors shall have the possibility, under applicable law or contractual provisions, subject to the restrictions that may apply under law or contract, to reclaim in whole or in part STI paid on incorrect grounds (so-called claw-back).
Opportunity Levels	The maximum opportunity for STI can amount up to 50 percent of fixed base salary. For the CEO the maximum opportunity can amount up to 60 percent of fixed base salary. The Remuneration Committee shall have the possibility to review the opportunity levels in order to ensure market competitiveness.
Performance criteria	The STI plan awards shall be based on mainly financial criteria. The criteria shall be designed so as to contribute to the company's business strategy and long-term interests.

Long-Term Incentive Plan (LTIP)

Purpose and link to strategy	Give extra focus on the long-term value creation for the shareholders.
Operational Details	<ul style="list-style-type: none"> – An annual grant of the LTIP, with a three-year performance period, can be decided by the Board of Directors each year. – Payment to the participants of the program are made after year three, provided, that they are still employed at the date of payment. – The Board of Directors shall have the possibility, under applicable law or contractual provisions, subject to the restrictions that may apply under law or contract, to reclaim in whole or in part LTIP paid on incorrect grounds (so-called claw-back). – In the event of a restructuring of the Company or any other extraordinary event which the Remuneration Committee considers will affect the value of an award, the method of calculating the proportion of the maximum value of the award which will be paid to a Participant on vesting may be adjusted in such manner as the Remuneration Committee shall determine to be fair and reasonable.
Opportunity Levels	For executive officers the maximum opportunity for LTIP can amount up to 40 percent of fixed base salary for each three-year performance period. For the CEO the maximum opportunity can amount up to 50 percent of fixed base salary for each three-year performance period.
Performance Criteria	The performance criteria of the LTIP are to be related to financial targets over a business cycle, including but not necessarily limited to, Operating margin (adjusted EBITA margin) and Net invoicing growth. Maximum outcome is awarded when the externally communicated long-term financial targets are clearly exceeded.

For retention or recruitment purposes or extraordinary performance beyond the individual's ordinary tasks the Remuneration Committee based on proposal of CEO, may decide on a specific cash remuneration. Such remuneration may not exceed an annual amount corresponding to 40 percent of fixed annual cash salary and may not be paid more than once each year per individual.

Pension Benefits

Purpose and link to strategy	Provide competitive and cost-effective pension benefits.
Operational Details	<ul style="list-style-type: none"> – Pension benefits shall be defined contribution (premium defined) unless the individual concerned is subject to defined benefit pension under mandatory collective agreement provisions. – Variable cash remuneration shall not qualify for pension benefits unless the executive officer is part of mandatory collective agreed provisions where this is stipulated. – Early retirement may be offered selectively and only after a special decision by the Remuneration Committee, with a defined contribution early retirement scheme. – For executive officers governed by rules other than Swedish, pension benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of this policy.
Opportunity Levels	The pension premiums for defined contribution pension shall amount to not more than 50 percent of the pensionable salary (for the CEO fixed annual base salary).

Other Benefits

Purpose and link to strategy	Provide competitive and cost-effective benefits.
Operational Details	<ul style="list-style-type: none"> – Other benefits may include but is not limited to life insurance, disability insurance and health care insurance and a company car or car allowance. – For executive officers governed by rules other than Swedish, benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of this policy. – Executive officers who are international assignees (for example expatriates) to or from Sweden may receive additional remuneration and other benefits to the extent reasonable in light of the special circumstances associated with the international assignment arrangement, taking into account, to the extent possible, the overall purpose of this policy.
Opportunity Levels	Other benefits may amount to not more than 5 percent of the fixed annual cash salary and shall be set at a level which the Remuneration Committee considers to: <ul style="list-style-type: none"> – provide the relevant level of benefit depending on role and the individual circumstances, – be in line with comparable roles in companies with similar size and complexity in the local market, and – be appropriate compared to the benefits offered to the wider workforce in the local market.

Termination of employment

Details	<ul style="list-style-type: none"> – If notice of termination of employment is made by the company: <ul style="list-style-type: none"> – The notice period may not exceed twelve months. – Fixed cash salary during the period of notice and severance pay may together not exceed an amount equivalent to the fixed cash salary for two years. – When termination is made by the executive officer the period of notice may not to exceed six months without any right to severance pay. – Appropriate so-called good leaver/bad leaver principles are to be applied for STI and LTIP. – Repatriation – If the executive officer is an international assignee the company may reimburse reasonable cost for the repatriation of good leavers, taking into account, to the extent possible, the overall purpose of this policy. <p>For executive officers governed by rules other than Swedish, payments in connection with termination may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of this policy.</p>
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Salary and employment conditions for employees

In the preparation of the Board of Directors' proposal for this remuneration policy, salary and employment conditions for employees of the company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time. The development of the difference between the remuneration to executive officers and remuneration to other employees will be disclosed in the remuneration report.

Derogation from the policy

The Board of Directors may temporarily resolve to derogate from the policy, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As set out above, the Remuneration Committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the policy.

Note 38. Government grants

In 2020 Alfa Laval has received SEK 61 (-) million in government grants. These have mainly been received to cover the costs for various working hour reduction schemes linked to COVID-19 in different countries. In addition, SEK 47 million has been received as support for reduced working hours in Sweden, that has not been reported in the P&L but has instead been balanced due to the uncertainty around the conditions for the support.

Note 39. 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 27, 2021.

Note 40. Proposed disposition of earnings

The unrestricted equity in Alfa Laval AB (publ) is SEK:	
Profit brought forward	9,893,521,524
Net income 2020	624,495,774
	10,518,017,298

The Board of Directors propose a dividend of SEK 5.50 (-) per share corresponding to SEK 2,307,009,733 (-) and that the remaining income of SEK 8,211,007,565 (9,893,521,524) be carried forward.

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

True and fair view

The undersigned certify that the annual report for the Group and the Parent company has been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union, and generally accepted accounting principles respectively, and gives a true and fair view of the financial positions and results of the Group and the Parent company, and that the Board of Directors' report gives a fair review of the development of the operations, financial positions and results of the Group and the Parent company and describes substantial risks and uncertainties that the Group companies face.

Lund, March 1, 2021

Dennis Jönsson
Chairman

Maria Moræus Hanssen
Director

Susanne Jonsson
Employee representative

Henrik Lange
Director

Bror García Lantz
Employee representative

Ray Mauritsson
Director

Heléne Mellquist
Director

Henrik Nielsen
Employee representative

Finn Rausing
Director

Jörn Rausing
Director

Ulf Wiinberg
Director

Tom Erixon
President and CEO

Our Auditors' Report concerning this Annual Report has been issued on March 9, 2021.

Staffan Landén
Authorised Public Accountant

Karoline Tedevall
Authorised Public Accountant

Auditor's report

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Alfa Laval AB (publ) for the year 2020. The annual accounts and consolidated accounts of the company are included on pages 71–151 and 156–158 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2020 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the consolidated financial position and parent company income and financial position for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of intangible assets

Description

Book value of goodwill amounts to 19,080 MSEK per 31 December 2020 which corresponds to 31% of the group's total assets. The company evaluates whether the book value of goodwill exceeds its recoverable amount on an annual basis or upon indications of declining value. The recoverable amount is determined for each cash-generating unit through means of a calculation of net present value of future cash flows. Future cash flows are based on management's business plans and forecasts and includes various assumptions such as development in earnings, growth, investment needs and discount rates. If a decision is made to wind-up or dispose a business a separate impairment test is performed and a write down is recorded if the recoverable amount is lower than the recorded value for the business.

Changes to the assumptions could have a major impact on the calculation of the recoverable amount and the assumptions applied by the company are thus important to the assessment as to whether an impairment is present. We have thus determined valuation of goodwill to represent a key audit matter for the group.

A description of goodwill and the impairment tests is included in note 17.

How our audit addressed this key audit matter

During our audit we have evaluated and tested the company's process for the impairment test, for example by evaluating historic growth and current forecasts. We have also benchmarked with peer companies in order to evaluate the reasonableness of the valuation and, through support of our valuation specialists, evaluated the chosen discount rate and assumptions on long-term growth. We have also evaluated the company's model and method for executing the impairment test and made sensitivity analyses.

In our audit we have also examined whether the disclosures in the annual report are appropriate and in accordance with the assumptions applied by group management.

Other provisions

Description

Book value of other provisions in the group amounts 2,438 MSEK per 31 December 2020. The provisions amongst other relates to provision for expected expenses for warranties, litigation, restructuring and onerous contracts, as expressed in Note 28 Other provisions.

The provisions include assumptions about future outcome, primarily as it relates to amount, timing and magnitude of the final settlement. Provisions for this type of expenses are uncertain and are based on various assumptions made by the company. Changes to the assumptions upon which the provisions are based could have a major impact on the reported earnings.

How our audit addressed this key audit matter

We have obtained the group's documentation of the provisions. We have evaluated the provisions recorded and discussed the assumptions and risk assessments made by the company for each major provision in order to establish that the provisions are in compliance with applicable accounting standards. We have also followed up the provisions with legal assessments, documented decisions and historic outcome.

In our audit we have also examined whether the disclosures in the annual report are appropriate.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–54. The remuneration report for the financial year 2020 also constitutes other information. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to

cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.

– Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether

any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or related safeguards applied.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Alfa Laval AB (publ) for the year 2020 and the proposed appropriations of the company's profit or loss.

We recommend to the general 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.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the

group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion

about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Staffan Landén, Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of Alfa Laval AB by the general meeting of the shareholders on the 23rd of April 2020 and has been the company's auditor since the 23rd of April 2018.

Karoline Tedevall, Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of Alfa Laval AB by the general meeting of the shareholders on the 23rd of April 2020 and has been the company's auditor since the 23rd of April 2018.

Lund March 9, 2021

Staffan Landén
Authorized Public Accountant

Karoline Tedevall
Authorized Public Accountant

Ten-year overview

Ten-year overview

Consolidated

SEK millions, unless otherwise stated

	2020	2019	2018	2017	2016	2015	2014	2013 *	2012 **	2011
Profit and loss										
Net sales	41,468	46,517	40,666	35,314	35,634	39,746	35,067	29,801	29,813	28,652
Comparison distortion items	-796	189	151	-	-1,500	0	-320	0	-51	-170
Operating income	5,580	7,198	5,831	4,589	2,989	5,717	4,667	4,353	4,396	4,691
Financial net	-603	23	65	-218	336	-273	-550	-181	133	-15
Result after financial items	4,977	7,221	5,896	4,371	3,325	5,444	4,117	4,172	4,529	4,676
Taxes	-1,397	-1,713	-1,359	-1,383	-1,013	-1,583	-1,149	-1,132	-1,306	-1,425
Net income for the year	3,580	5,508	4,537	2,988	2,312	3,861	2,968	3,040	3,223	3,251
Financial position										
Goodwill	19,080	21,112	20,537	19,775	20,436	19,498	20,408	10,061	9,792	9,543
Other intangible assets	2,204	3,134	3,873	4,692	5,946	6,556	7,898	3,582	3,807	3,502
Property, plant and equipment	8,321	8,943	5,732	4,851	4,940	4,773	5,004	3,785	3,823	3,936
Other non-current assets	3,633	2,081	1,958	1,654	2,100	1,804	2,092	1,447	1,509	1,664
Inventories	9,223	10,077	9,253	8,424	7,831	7,405	7,883	6,312	6,176	6,148
Current receivables	10,631	12,582	11,807	8,808	8,431	8,964	9,791	7,671	8,050	7,663
Current deposits	2,618	873	617	1,208	1,075	1,021	697	605	427	483
Cash and cash equivalents	5,150	5,594	4,295	3,137	2,619	1,876	2,013	1,446	1,404	1,564
TOTAL ASSETS	60,860	64,396	58,072	52,549	53,378	51,897	55,786	34,909	34,988	34,503
Equity	29,071	27,747	23,599	20,500	20,276	18,423	17,202	16,162	14,453	15,144
Provisions for pensions etc.	2,494	2,321	2,118	2,297	2,425	1,931	2,221	1,494	1,727	852
Provisions for taxes	1,553	1,662	1,945	2,100	2,722	2,925	3,074	1,758	1,932	1,930
Other non-current liabilities	2,259	2,571	802	677	636	521	660	423	473	520
Non-current loans	8,043	10,600	8,540	11,092	12,169	12,484	16,454	3,529	5,393	5,060
Current liabilities	17,440	19,495	21,068	15,883	15,150	15,613	16,175	11,543	11,010	10,997
TOTAL EQUITY & LIABILITIES	60,860	64,396	58,072	52,549	53,378	51,897	55,786	34,909	34,988	34,503

* Restated to IFRS 11. ** Restated to the new IAS 19.

***Lease liabilities have increased by SEK 2,766 million as per January 1, 2019 due to the initial application of IFRS 16 Leases, which affects the net debt at December 31, 2019.

Changes in accounting standards

A reader of the ten-year overview should observe that accounting standards have changed repeatedly over this period of time. The major changes are the following.

During 2019 IFRS 16 "Leases" was implemented, which meant that right-of use assets and lease liabilities increased by SEK 2,766 million as per January 1, 2019 in connection with the initial application.

In 2014 IFRS 11 "Joint arrangements" was implemented as per January 1, 2013, which meant a restatement of the comparison figures for 2013.

In 2013 the revised IAS 19 "Employee Benefits" was implemented as per January 1, 2012, which meant a restatement of the comparison figures for 2012.

Ten-year overview

Consolidated										
SEK millions, unless otherwise stated	2020	2019	2018	2017	2016	2015	2014	2013 *	2012 **	2011
Key ratios										
Orders received	39,833	44,119	45,005	36,628	32,060	37,098	36,660	30,202	30,339	28,671
Order backlog at year end	18,969	21,551	23,168	18,289	16,870	20,578	22,293	14,568	14,468	13,736
EBITA	6,435	8,178	6,869	5,610	4,680	6,811	5,571	4,914	4,883	5,117
EBITDA	7,569	9,251	7,495	6,239	5,323	7,478	6,136	5,360	5,330	5,566
EBITA-margin %	15.5%	17.6%	16.9%	15.9%	13.1%	17.1%	15.9%	16.5%	16.4%	17.9%
EBITDA-margin %	18.3%	19.9%	18.4%	17.7%	14.9%	18.8%	17.5%	18.0%	17.9%	19.4%
Adjusted EBITA	7,231	7,989	6,718	5,610	5,553	6,811	5,891	4,914	4,934	5,287
Adjusted EBITDA	8,365	9,062	7,344	6,239	6,196	7,478	6,456	5,360	5,381	5,736
Adjusted EBITA-margin %	17.4%	17.2%	16.5%	15.9%	15.6%	17.1%	16.8%	16.5%	16.5%	18.5%
Adjusted EBITDA-margin %	20.2%	19.5%	18.1%	17.7%	17.4%	18.8%	18.4%	18.0%	18.0%	20.0%
Profit margin %	12.0%	15.5%	14.5%	12.4%	9.3%	13.7%	11.7%	14.0%	15.2%	16.3%
<i>Excl. goodwill and step-up values:</i>										
Capital turnover rate, times	3.9	4.4	7.4	5.7	8.6	10.6	7.9	6.4	6.7	6.3
Capital employed	10,751	10,649	5,474	6,201	4,146	3,734	4,447	4,657	4,430	4,560
Return on capital employed %	59.9%	76.8%	125.5%	90.5%	112.9%	182.4%	125.3%	105.5%	110.2%	112.2%
<i>Incl. goodwill and step-up values:</i>										
Capital turnover rate, times	1.2	1.3	1.3	1.1	1.2	1.3	1.3	1.6	1.7	1.8
Capital employed	33,678	35,550	30,729	31,698	30,663	31,512	27,259	18,598	17,833	16,324
Return on capital employed %	19.1%	23.0%	22.4%	17.7%	15.3%	21.6%	20.4%	26.4%	27.4%	31.3%
Return on equity %	12.7%	21.3%	20.3%	13.9%	11.8%	21.7%	17.6%	17.9%	22.9%	22.9%
Solidity %	47.8%	43.1%	40.6%	39.0%	38.0%	35.5%	30.8%	46.3%	41.3%	43.9%
Net debt ***	3,635	8,175	6,985	8,200	9,619	11,688	15,068	2,611	4,270	3,264
Net debt to EBITDA, times ***	0.48	0.88	0.93	1.31	1.81	1.56	2.46	0.49	0.80	0.59
Debt ratio, times ***	0.13	0.29	0.30	0.40	0.47	0.63	0.88	0.16	0.30	0.22
Interest coverage ratio, times	27.3	32.8	39.3	28.4	24.5	22.3	18.2	22.1	23.2	28.6
Cash flow from:										
operating activities	7,723	5,223	4,883	4,463	4,979	5,850	5,123	4,233	3,586	3,429
investing activities	-1,058	-1,027	-1,293	-721	-795	-710	-14,970	-951	-3,260	-5,497
financing activities	-6,917	-2,945	-2,445	-3,159	-3,566	-5,229	10,250	-3,191	-407	2,317
Investments	1,232	1,337	1,490	675	617	674	603	492	531	555
Average number of employees	17,160	17,387	16,785	16,521	17,305	17,486	17,109	16,238	16,060	14,667
Earnings per share, SEK	8.47	13.08	10.77	7.09	5.46	9.15	7.02	7.22	7.64	7.68
Free cash flow per share, SEK	15.89	10.00	8.56	8.92	9.97	12.25	-23.48	7.82	0.78	-4.93

* Restated to IFRS 11. ** Restated to the new IAS 19.

***Lease liabilities have increased by SEK 2,766 million as per January 1, 2019 due to the initial application of IFRS 16 Leases, which affects the net debt at December 31, 2019.

Observe that certain financial measures above constitute alternative performance measures.

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 Box 73
 SE-221 00 Lund
 Corporate Registration Number:
 556587-8054

Visiting address:
 Rudeboksvägen 1
 Tel: + 46 46 36 65 00
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Alternative performance measures and definitions

Alternative performance measures

An alternative performance measure is a financial measure of historical financial performance, financial position or cash flows, other than a financial measure defined or specified in the financial reporting framework.

In the annual report, the following alternative performance measures have been used (all of these alternative performance measures relate to actual historical figures and never to expected performance in future periods):

Measures to achieve full comparability over time.

All of these concern the comparison distorting impact from above all amortisation of step-up values both over time and compared to external companies. For the same reasons adjustments are also made for comparison distortion items. How they are calculated is exhibited in the Income analysis table on page 89, except for the last one.

- **EBITA** or Earnings Before Interests, Taxes and Amortisation is defined as operating income before amortisation of step-up values. This measure of result is fully comparable over time independent of the financing costs and the amortisation of step-up values that from time to time burden the Group.
- **EBITA margin (%)** is defined as EBITA in relation to net sales and expressed in percent.
- **EBITDA** or Earnings Before Interest, Taxes, Depreciation and Amortisation is defined as operating income before depreciation and amortisation of step-up values. This measure of result is fully comparable over time independent of the financing costs, the depreciation and the amortisation of step-up values that from time to time burden the Group.
- **EBITDA margin (%)** is defined as EBITDA in relation to net sales and expressed in percent.
- **Adjusted EBITA** or Adjusted Earnings Before Interests, Taxes and Amortisation is defined as operating income before amortisation of step-up values, adjusted for comparison distortion items. This measure of result is fully comparable over time independent of the comparison distortion items, the financing costs and the amortisation of step-up values that from time to time burden the Group.
- **Adjusted EBITA margin (%)** is defined as Adjusted EBITA in relation to net sales and expressed in percent.
- **Adjusted EBITDA** or Adjusted Earnings Before Interest, Taxes, Depreciation and Amortisation is defined as operating income before depreciation and amortisation of step-up values, adjusted for comparison distortion items. This measure of result is fully comparable over time independent of the comparison distortion items, the financing costs, the depreciation and the amortisation of step-up values that from time to time burden the Group.
- **Adjusted EBITDA margin (%)** is defined as Adjusted EBITDA in relation to net sales and expressed in percent.
- **Adjusted gross profit** is defined as gross profit excluding amortisation of step-up values. This measure of result is fully comparable over time independent of the amortisation of step-up values that from time to time burden the Group.
- **Adjusted gross margin (%)** is defined as Adjusted gross profit in relation to net sales and expressed in percent.
- **Earnings per share, excluding amortisation of step-up values and the corresponding tax** is defined as net income attributable to the owners of the parent, excluding amortisation of step-up values and the corresponding tax divided by the average number of shares. The net income attributable to the

owners of the parent is presented in the consolidated comprehensive income statement and the amortisation of step-up values is exhibited in the Income analysis table on page 89, while the corresponding tax is SEK 191 (235) million. This key figure is fully comparable over time independent of the amortisation of step-up values that from time to time burden the Group.

Measures to show how the Group is funded and manages its capital:

- **Return on capital employed (%)** is defined as EBITA in relation to average capital employed, calculated on 12 months' revolving basis and expressed in percent. Capital employed is defined as total assets less liquid funds, other long-term securities, accrued interest income, operating liabilities and other non-interest-bearing liabilities, including tax and deferred tax, but excluding accrued interest costs. The measure shows how well the capital that is used in the operations is managed.
- **Net debt** is defined as interest-bearing liabilities including interest-bearing pension liabilities and capitalised financial leases less liquid funds. The calculation of net debt is exhibited in the Net debt table in Note 29. The measure shows the net financial indebtedness.
- **Net debt to EBITDA, times** is defined as Net debt in relation to EBITDA, calculated on 12 months' revolving basis and expressed as a multiple of EBITDA. This is one of the covenants of Alfa Laval's loans and an important key figure when reviewing the proposed dividend. EBITDA or Earnings Before Interest, Taxes, Depreciation and Amortisation is defined as operating income before depreciation and amortisation of step-up values.
- **Debt ratio, times** is defined as Net debt in relation to equity at the end of the period and expressed as a multiple of the equity. This is another measure of how the Group is funded.
- **Interest coverage ratio, times** is defined as EBITDA plus financial net increased by interest costs in relation to interest costs. Expressed as a multiple of interest costs. Gives an expression for the Group's ability to pay interest. The reason EBITDA is used as the starting point is that this forms the starting point for a cash flow perspective on the ability to pay interest. Financial items classified as comparison distortion are excluded from the calculation.

Definitions of other performance measures

Net sales

Revenues from goods sold and services performed that are part of the ordinary operations of the Group, after deduction for given discounts, value added tax and other tax directly linked to the sales.

Comparison distortion items

Items that do not have any link to the normal operations of the Group or that are of a non-recurring nature, where a reporting together with other items in the consolidated comprehensive income statement would have given a comparison distortion effect that would have made it difficult to judge the development of the ordinary operations for an outside viewer.

Orders received

Incoming orders during the year, calculated in the same way as net sales. The orders received give an indication of the current demand for the Group's products and services, that with a varying delay appear in net sales.

Order backlog at year-end

Incoming orders that not yet have been invoiced. The

order backlog at the end of the year is equal to the sum of the order backlog at the beginning of the year plus the orders received during the year less the net sales for the year. It gives an indication of how the net sales can be expected to develop in the future.

Profit margin %

Result after financial items in relation to net sales, expressed in percent.

Capital turnover rate, times

Net sales in relation to average capital employed, expressed as a multiple of capital employed. Shown excluding and including goodwill, step-up values and the corresponding deferred tax liability.

Capital employed

Average total assets less liquid funds, other long-term securities, accrued interest income, operating liabilities and other non-interest-bearing liabilities, including tax and deferred tax, but excluding accrued interest costs. Shown excluding and including goodwill and step-up values and the corresponding deferred tax liability. Shows the capital that is used in the operations. The capital employed for the Group differs from the net capital for the operating segments concerning taxes, deferred taxes and pensions.

Return on equity %

Net income for the year in relation to average equity, expressed in percent.

Solidity %

Equity in relation to total assets, expressed in percent.

Cash flow from operating activities

Shows the Group's cash flow from operating activities, that is the cash flow generated in the daily operational activities.

Cash flow from investing activities

Shows the Group's cash flow from investing activities, i.e. the cash flow generated by mainly the Group's investments in fixed assets, divestments and acquisitions of businesses and divestments of real estate.

Cash flow from financing activities

Shows the Group's cash flow from financing activities, that is mainly dividends, increase and amortisation of loans and the cash flow components of the financial net.

Investments

Investments represent an important component in the cash flow for the Group. The level of investments during a couple of years gives a picture of the capacity build up in the Group.

Average number of employees

The costs that are related to the number of employees represent a large part of the total costs for the Group. The development of the average number of employees over time in relation to the development of the net sales therefore gives an indication of the cost rationalisation that is taking place.

Earnings per share

Net income for the year attributable to the equity holders of the parent divided by the average number of shares.

Free cash flow per share

The sum of cash flows from operating and investing activities for the year divided by the average number of shares. This represents the cash flow available for interest payments, amortisation and dividends to investors.

Financial information

Alfa Laval uses a number of channels to provide information about the company's operations and financial development. The website – www.alfalaval.com/investors – is updated continuously with annual reports, quarterly reports, press releases and presentations. Annual reports are also sent to those shareholders who have notified the company that they wish to receive a copy. Conference calls with analysts, investors and the media are arranged by Alfa Laval in conjunction with the publication of the company's quarterly reports. A capital markets day is organized each year, during which representatives from the financial market are offered more in-depth information regarding the company's operations. In addition, representatives of Group management meet with analysts, investors and journalists on an ongoing basis to ensure that they have correct and current information. Pursuant to the company's agreement with Nasdaq Stockholm, information that could have an effect on the share price and that is not yet publicly known is never disclosed in conjunction with these types of meetings or contacts. Alfa Laval employs a so-called silent period of three weeks prior to the publication of a quarterly report. The President and Chief Financial Officer do not meet or speak to representatives from the financial market during this period.

Financial information during 2021

Alfa Laval will publish quarterly reports on the following dates in 2021:

Year-end report 2020	February 3
First-quarter report	April 27
Second-quarter report	July 20
Third-quarter report	October 26

Shareholder information

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Annual General Meeting 2021

The Annual General Meeting of Alfa Laval AB (publ) will be held on Tuesday, April 27, 2021, at 4:00 p.m. In accordance with the company's Articles of Association, notice of the Annual General Meeting will be inserted as an announcement in the Swedish Official Gazette and on the company's website not more than six and not less than four weeks prior to the Meeting. An announcement that notification has been issued will be placed in Dagens Nyheter. As a service to existing shareholders, information about the Annual General Meeting can also be sent to them by mail. The following information concerning the Meeting does not constitute legal notice.

Notification of participation

In light of the extraordinary situation as a result of the COVID-19 pandemic, Alfa Laval AB's Annual General Meeting 2021 will be conducted by advance voting with the support of temporary legislation. A physical meeting with the opportunity to attend in person or through a representative will thus not be held. To be entitled to participate and vote at the meeting, a shareholder must be listed as a shareholder in the share register maintained by Euroclear Sweden AB regarding conditions on 19 April 2021 and register for the meeting no later than 26 April 2021. A shareholder registers at the meeting by submitting an advance vote according to the instructions contained in the summons. To be entitled to participate in the meeting, shareholders whose shares are registered with a nominee must have the shares registered in their own names so that the shareholder is entered in the share register as of April 19, 2021. Such registration may be temporary (so-called voting rights registration) and is requested from the trustee in such time in advance as the trustee determines.

Notification of participation shall be made to:

- Alfa Laval AB, Group Staff Legal,
Box 73, SE-221 00 Lund, Sweden
- E-mail: arsstamma.lund@alfalaval.com
- Website: www.alfalaval.com
- Tel: +46 46 36 74 00 or +46 46 36 65 00.

Shareholders must state their name, personal identity number and telephone number on the notice of participation. If participation is by proxy, a power of attorney or authorization must be submitted to the company prior to the Meeting.

Meeting program

4:00 p.m. Start of Meeting

Dividend

The Board of Directors and the President propose that a dividend of SEK 5.50 per share be distributed to shareholders. The proposed record date for the dividend is Thursday, April 29, 2021. If the Annual General Meeting approves the proposal, the dividend is expected to be distributed by Euroclear Sweden AB on Tuesday, May 4, 2021. The record date and dividend payment date may be postponed due to the technical procedures required for the execution of the payment.



This is Alfa Laval

Alfa Laval is active in the areas of Energy, Marine, and Food & Water, offering its expertise, products, and service to a wide range of industries in some 100 countries. The company is committed to optimizing processes, creating responsible growth, and driving progress – always going the extra mile to support customers in achieving their business goals and sustainability targets.

Alfa Laval's innovative technologies are dedicated to purifying, refining, and reusing materials, promoting more responsible use of natural resources. They contribute to improved energy efficiency and heat recovery, better water treatment, and reduced emissions. Thereby, Alfa Laval is not only accelerating success for its customers, but also for people and the planet. Making the world better, every day. It's all about *Advancing better™*.

How to contact Alfa Laval

Up-to-date Alfa Laval contact details for all countries are always available on our website at www.alfalaval.com