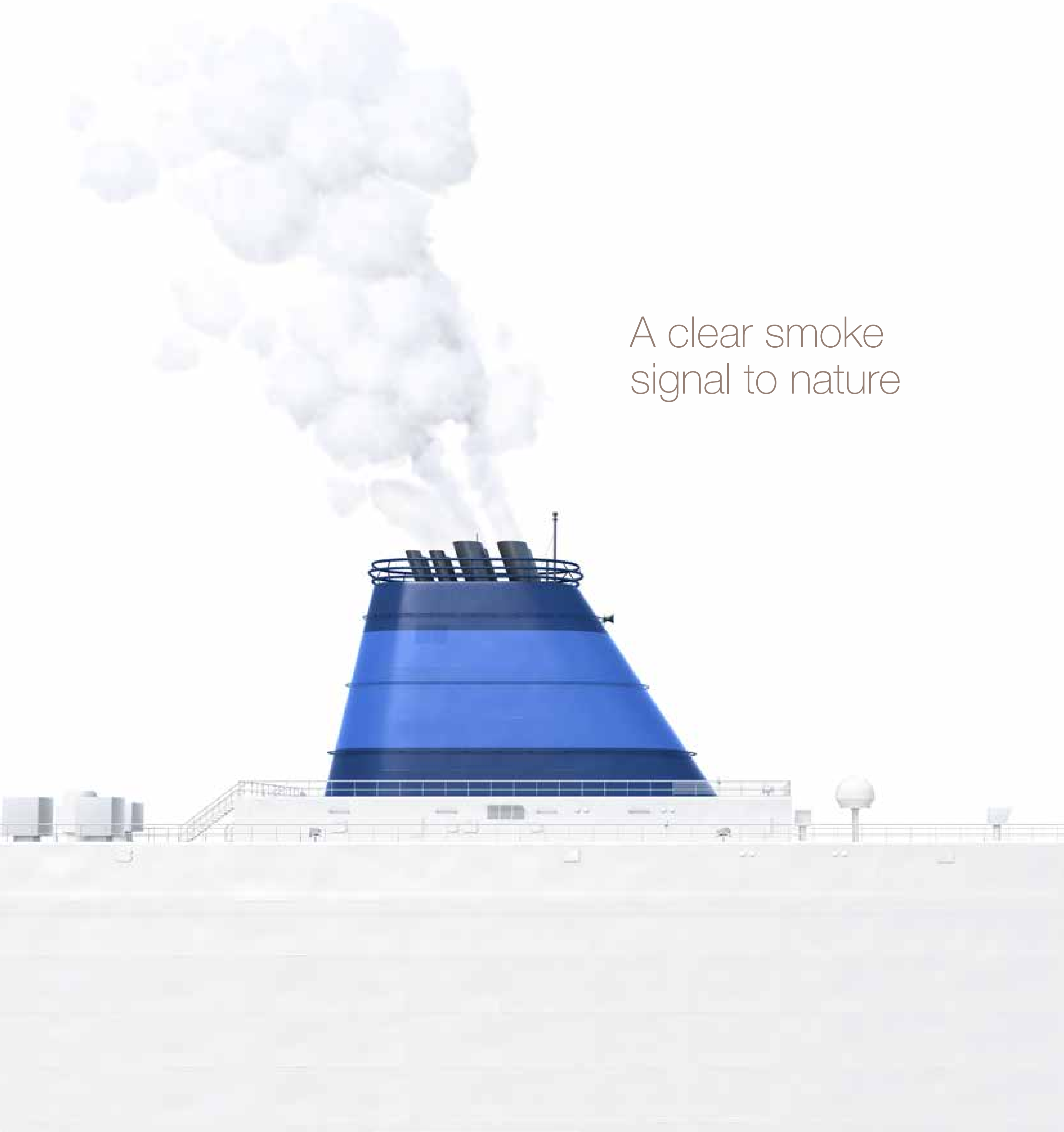
Annual Report 2012

A clear smoke signal to nature



Energy, food and the environment

Alfa Laval has been in operation since the end of the 1800s, with the vision of creating better everyday conditions for people. Alfa Laval's products are particularly topical in today's world, where increasing focus is being placed on identifying ways to save energy and protect the environment. This involves treating water, reducing carbon emissions and minimizing water and energy consumption, as well as heating, cooling, separating and transporting food. With more than 1,900 patents in heat transfer, separation and fluid handling, Alfa Laval offers products and solutions in areas that are, and will remain, crucial for society.

Global leadership in three key technologies

Alfa Laval is a leading global supplier of products and solutions for heat transfer, separation and fluid handling. The company's products can be used in a multitude of ways. Alfa Laval's products are used in the manufacturing of food, chemicals, pharmaceuticals, starch, sugar and ethanol. They are also used in power stations, onboard vessels and in the engineering sector, mining industry and refinery sector, as well as for cleaning wastewater and creating a comfortable indoor climate, to name but a few sectors. They can also reduce the consumption of energy and water and minimize carbon emissions. In addition, Alfa Laval has a range of products and solutions aimed purely at environmental applications including the cleaning of ballast water, exhaust emissions from truck engines and for separating sulfur and nitrogen emissions from boats.

EQUIPMENT | PROCESS TECHNOLOGY | MARINE & DIESEL

OPERATIONS

Market-adapted sales organization

Alfa Laval has three sales divisions: Equipment, Process Technology and Marine & Diesel, as well as one division – Operations – which is responsible for production-related procurement, manufacturing and distribution. The three sales divisions have separate business models: the pace of business in the Equipment Division is fast since it involves the sale of components to customers with recurring requirements and well-defined needs, mainly through various sales channels. Process Technology is characterized by longer lead times and focuses on selling customized solutions, systems and modules directly to the end customer. Business in the Marine & Diesel Division is driven by the need for components, modules, systems and service for the marine and offshore markets and for land-based diesel power.

Research and development – the foundation of profitable growth

A link exists between new products and profitable growth. Accordingly, Alfa Laval works continuously on the research and development of new products and services. Maintaining a high rate of new development boosts competitiveness and enables the company to maintain its leading position. Alfa Laval launches between 35 and 40 new products every year. In 2012, 2.4 percent of the company's sales were invested in research and development initiatives.

90 + 10 = 100 years as a listed company

Alfa Laval was listed for the first time on the Stockholm Stock Exchange in 1901 and remained listed for a period of 90 years, until the company was bought out and went private. The company relisted on May 17, 2002 and, accordingly, celebrated a decade as a listed company in 2012 – or a full century – depending on how you look at it.

Presence in 6 continents

Alfa Laval's worldwide organization helps customers in some 100 countries to optimize their processes. The company has 32 major production units (15 in Europe, 9 in Asia, 6 in the US and 2 in Latin America) in addition to a well-structured aftermarket organization to manage the need for spare parts and service for the installed base of products worldwide. In 2012, the aftermarket accounted for 26.4 percent of the Group's total order intake and Alfa Laval had 102 service centers at year-end.

16,060 employees, the majority of whom are located in Sweden (2,158), Denmark (1,715), India (1,462), China (2,831), the US (1,438) and France (894).

Growth target

Alfa Laval's target is to achieve an average annual growth rate of at least 8 percent over a business cycle, with acquisitions accounting for 3–4 percentage points. The company's growth strategy focuses on organic growth through existing products and services, as well as acquisitions that contribute complementary products, application know-how and sales channels, thereby bolstering the company's leading position in selected markets. In 2012, sales rose by 4 percent to SEK 29,813 million.

Acquisitions in 2012

Four acquisitions were completed and consolidated during the year:

Vortex Systems – a leading US manufacturer of mixing equipment for the oil and gas industry.

Sales in the year prior to acquisition: about SEK 100 million.

Ashbrook Simon-Hartley – a US provider of belt filter presses for dewatering of municipal and industrial wastewater.

Sales in the year prior to acquisition: about SEK 500 million.

Gamajet Cleaning Systems – a leading supplier of tank cleaning machines and cleaning equipment for the industrial and sanitary markets in North America.

Sales in the year prior to acquisition: about SEK 75 million.

Air Cooled Exchangers – a leading US manufacturer of custom-engineered air-cooled heat exchangers for the natural gas market as well as other energy-related end markets.

Sales in 2012: about SEK 350 million.

Contents

3 ABOUT ALFA LAVAL

Alfa Laval in brief	3
Improving lives through innovation	5
2012 in brief	6
President's comments	8
The share	10
Business concept, vision and strategy	12
Financial goals and benchmark values	14
Growth strategy	16
International trade	18
Key technologies	20
Energy	24
Research and development	26
Divisions	
Equipment Division	28
Process Technology Division	30
Marine & Diesel Division	32
Operations Division	34
Improving living standards	36
Parts & Service	38
Environmental focus	40
Employees	42

44 SUSTAINABILITY

Report	44

47 FINANCIAL STATEMENTS

Board of Directors' Report	48
Consolidated cash flows	64
Comments to the consolidated cash-flows	65
Consolidated comprehensive income	66
Comments to the consolidated comprehensive income	67
Consolidated financial position	70
Comments on the consolidated financial position	72
Changes in consolidated equity	73
Comments on changes in consolidated equity	75
Parent company cash flows	76
Parent company income	76
Parent company financial position	77
Changes in parent company equity	78
Notes to the financial statements	79
Accounting principles	79
Objectives, policies and processes for managing capital	87
Financial risks	88
Operational risks	91
Notes	94
Proposed disposition of earnings	126
Audit Report	127
Ten-year overview	140
Definitions	142

128 CORPORATE GOVERNANCE

Introduction by the Chairman of the Board	129
Corporate Governance Report 2012	130
Board of Directors and Auditors	134
Group management	136
Board of Directors' report on internal control	138
Auditor's report on the Corporate Governance Statement	139

Financial information	143
Annual General Meeting 2013	143

The shipping industry.
Facing a number of challenges to meet new legislation. Tackling reduced limits for sulphur emissions is probably the toughest one. The obvious, and expensive, solution is to switch to low-sulphur marine gas oil on a permanent basis. Fortunately, there is a much smarter alternative: continue to run on cheaper heavy fuel oil and install Alfa Laval's pioneering PureSOx scrubber system to clean the exhaust gases effectively. This will reduce the sulphur content in the smoke by over 98 per cent. Giving not only environmental benefits but also substantial economic advantages. The payback time is typically less than two years.

Pure Performance: Marine. Environment. Energy. Food. Engineering. Pharmaceutical. Chemical. You name the industry. Alfa Laval is helping all of them to purify and refine their processes and products. Time and time again. Our equipment, systems and service are hard at work in more than 100 countries. Helping to create better, more comfortable living conditions for all mankind. And – we are proud to say – we can see the light at the end of the funnel.

Improving lives through innovation

Alfa Laval has the vision of creating better everyday conditions for people – everywhere. Our products are used in industrial processes that are crucial for society, helping our customers optimize the performance of their processes to reduce energy use, protect the environment, and make food and pharmaceutical production safer.

Alfa Laval has grown to become a world leader within our key technology areas of heat transfer, separation and fluid handling. We have reached that position thanks to our innovative spirit, our early international expansion, and our ability to meet changing needs and conditions with new solutions.

The company was founded on a single brilliant invention and innovation remains at the heart of everything we do. Today we are recognized as one of the world's most innovative companies and have a truly global presence.

In a world where saving energy, protecting the environment and securing hygienic food processing are becoming ever more important, our expertise and technologies are helping thousands of companies, in dozens of industries, to contribute to creating better everyday conditions for people.

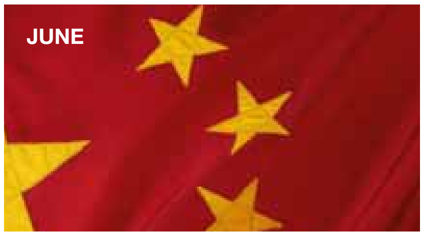
Alfa Laval wins an order to supply newly developed decanters for cleaning of industrial wastewater in Canada. The order value is approximately SEK 110 million and delivery is scheduled for 2012. "This is the second large order for these newly developed Alfa Laval decanters, and it confirms our ability to develop technical solutions that meet new customer demands in water treatment," said Lars Renström, President and CEO of the Alfa Laval Group.

Alfa Laval wins an order from Mitsubishi Heavy Industries Ltd to supply Alfa Laval Aalborg Exhaust Gas Economizers to vessels built for A.P. Møller - Mærsk. The order value is approximately SEK 230 million and delivery is scheduled to start in 2012 and be finalized during 2014. The waste heat recovery systems utilize the exhaust gases from the main engine to produce steam for the turbine which generates electrical power.

Alfa Laval in Tumba, Sweden, is visited by the Swedish ministers for infrastructure and environment. At the meeting, Alfa Laval's solutions for the cleaning and reduction of sulphur and nitrogen oxide emissions were presented: Pure SOx and Pure NOx. The International Maritime Organization (IMO) has signed an agreement to reduce these emissions and even stricter regulations will be introduced pertaining to the, so called, Emission Control Areas (ECAs).

Alfa Laval opens a new heat exchanger factory in Kunshan, China, during the month. The new factory will enable Alfa Laval to meet customers' growing demand for energy-efficient refrigeration products. Local production means shorter delivery times and competitive prices. The investment was driven by increased living standards, with a resulting increase in demand for refrigeration products. The factory will be able to serve customers in China and the rest of Asia as well as Oceania.

Alfa Laval continues its efforts to reduce its environmental impact and, accordingly, launched a new environmental strategy, which runs until 2015. Targets include a 3 percent reduction in annual energy use and carbon emissions as well as a 5 percent cut in annual water consumption. For further information about the new strategy and the new targets, go to the sustainability section on www.alfalaval.com.



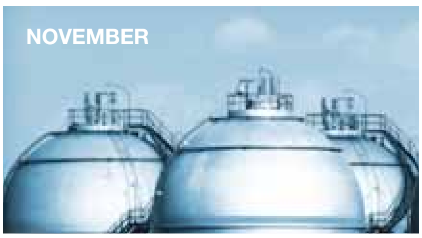
Alfa Laval receives the award of "China's Best Corporate Brand Image 2012" at the 2012 China Finance Summit in Beijing. The awards were given by a group comprising representatives of leading media organizations and experts after several rounds of recommendation, nomination and selection, based on four criteria: green, innovation, integrity and development.

Alfa Laval acquires Vortex Systems, a leading U.S. manufacturer of mixing and blending solutions for the oil and gas industry. The acquisition expands and complements Alfa Laval's existing offering to said industry. Vortex had sales of about SEK 100 million in 2011 and some 20 employees at its location in Houston, Texas.

Alfa Laval acquires Ashbrook Simon-Hartley, a leading U.S. provider of belt filter presses, which is a complement and alternative to Alfa Laval's decanter range in the dewatering of municipal and industrial wastewater. Ashbrook Simon-Hartley was founded more than 100 years ago and has a global base of installed products. It had sales of approximately SEK 500 million in 2011 and was consolidated into the Group as of August 1, 2012.

Alfa Laval celebrates 75 years in India. Celebrations started in August with employees gathering to plant saplings at the company's factory in Dapodi, Pune. Additional saplings were planted at the sites in Satara, Sarole and Shirvar. More than 1,200 saplings were also distributed so that every employee in India could plant a sapling in their own gardens or local neighborhood.

Alfa Laval inaugurates its new manufacturing facility in Kunshan, China, producing decanter centrifuges for sludge dewatering and wastewater treatment. The new facility is an important step in improving and extending Alfa Laval's presence in the country in order to better serve the needs of Chinese customers.

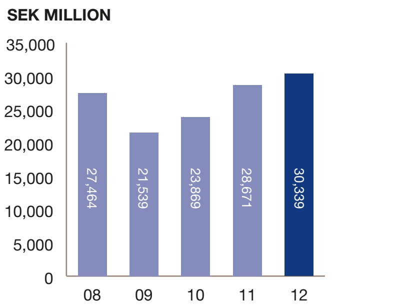


Alfa Laval receives an order to supply Alfa Laval Packinox heat exchangers to one of the world's largest petrochemical complexes in Saudi Arabia. The order value is approximately SEK 120 million and delivery is scheduled to start in 2013 and be finalized in 2014.

Alfa Laval acquires the US-based company Air Cooled Exchangers, a leading manufacturer of custom-engineered air-cooled heat exchangers, used to cool air, natural gas, oil and water in the natural gas market as well as other energy-related end markets. The company had sales of about SEK 350 million in 2012.

2012 in brief

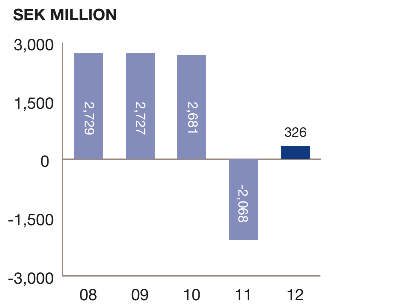
ORDER INTAKE



Order intake totalled SEK 30,339 million in 2012, compared with SEK 27,464 million in 2008. Order intake rose 6 percent* in 2012 compared with 2011.

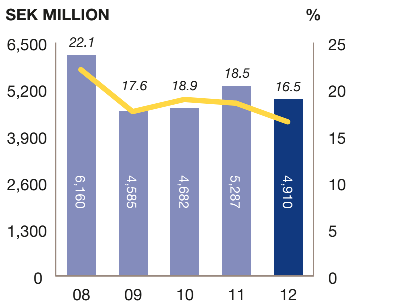
* Excluding exchange-rate variations.

FREE CASHFLOW



Alfa Laval generated free cash flow amounting to SEK 326 million (-2,068) in 2012.

OPERATING MARGIN



The adjusted EBITA margin, or operating margin, amounted to 16.5 percent in 2012, compared with 18.5 percent in 2011.

AMOUNTS IN SEK MILLION UNLESS OTHERWISE STATED	+/- % 6)	2012	2011	2010	2009	2008
Order intake	6	30,339	28,671	23,869	21,539	27,464
Net sales	4	29,813	28,652	24,720	26,039	27,850
Adjusted EBITDA 1)	-7	5,357	5,736	5,107	4,976	6,464
Adjusted EBITA 2)	-7	4,910	5,287	4,682	4,585	6,160
Operating margin (adjusted EBITA 2)), %		16.5	18.5	18.9	17.6	22.1
Profit after financial items	-4	4,505	4,676	4,364	3,760	5,341
Return on capital employed, %		26.1	31.3	37.4	33.6	53.8
Return on shareholders' equity, %		21.6	22.9	24.4	24.5	42.8
Earnings per share, SEK	-1	7.61	7.68	7.34	6.42	8.83
Dividend per share, SEK	8	3.50 3)	3.25	3.00	2.50	2.25
Equity per share, SEK	2	36.68	36.10	32.30	28.98	24.40
Free cash flow per share, SEK 4)		0.78	-4.93	6.38	6.46	6.38
Equity ratio, %		43.9	43.9	50	46.7	36.1
Debt/equity ratio, %		28	22	-4	4	20
Number of employees 5)	2	16 419	16 064	12 618	11 390	12 119

1) Adjusted EBITDA – Operating income before depreciation, amortization of goodwill and amortization of other surplus values, adjusted for items affecting comparability.
2) Adjusted EBITA – Operating income before amortization of goodwill and other surplus values, adjusted for items affecting comparability.
3) Board proposal to the Annual General Meeting.
4) Free cash flow is the sum of cash flow from operating and investing activities.
5) Number of employees at year-end.
6) Percentage change between 2011 and 2012.

A year of continued investment for the future

Demand was healthy in the first six months of 2012, despite the uncertainty prevailing in the global economy, and the value of our large orders reached record levels during the period. However, in the second half of the year, the prevailing economic uncertainty started to influence customers' decision-making and, accordingly, demand for our products. Nevertheless, at the end of the year, our order intake had risen 6 percent compared with 2011, to SEK 30.3 billion and revenues had increased 4 percent to SEK 29.8 billion.

The trend varied from a geographic perspective, the US, which had healthy demand in the energy, environment and food sectors, strengthened its position as Alfa Laval's largest market. In addition, we made four acquisitions that further strengthened our position in the country. In our second largest market, China, the order intake declined slightly due to a significant softening in demand from the shipbuilding industry. In parallel, our investments in boosting our presence in the country paid off and resulted in limited growth, despite the macroeconomic conditions. A positive effect, attributable to our investments, was also posted in South Korea and the country kept its fourth place, driven by its technically advanced shipbuilding and offshore industry as well as successful contracting companies in the process industry and petrochemical segments. Russia posted a solid and widespread increase and advanced to fifth place, while the order intake in India declined somewhat due to a cautious investment climate linked to the political situation.

The Process Technology division posted a strong order intake, healthy profitability and built up a high-quality order book ahead of 2013. Particularly high activity levels were noted in the oil and gas exploration as well as refinery and petrochemicals sectors with new and replacement investments in energy-efficient solutions. In addition, the Equipment division posted a favorable profitability trend and a healthy order intake, in particular, with regard to the food and beverage industries. In parallel, the aftermarket trended favorably due to our increased focus on the area. In Marine & Diesel, new sales declined significantly as a result of a decreasing order intake for the shipbuilding industry. This development was attributable to the underlying imbalance between supply and demand for tonnage, which put pressure on shipowner's profitability.

The aftermarket business, which comprised fully 40 percent, remained unchanged – which is positive in light of the prevailing sentiment in the marine market. A substantial order backlog and the high proportion of aftermarket business contributed to healthy profitability for the division.

For the Group as a whole, the operating margin was 16.5 percent (18.5). The decline was attributable to a lower capacity utilization rate in certain plants, lower margins on new sales in the marine area, a changed product mix and a stronger Swedish krona.

During the year we implemented a cost-savings program, initiated already in 2011. The program applied to capacity adjustments and cost reductions in manufacturing as a consequence of a decline in demand for certain products, as well as cost reductions in the sales companies, primarily in Western Europe. The full impact of the measures came in the second half of the year, when sales and administration costs declined by 8 percent at an annual rate. At year-end, we had realized savings of a couple of hundred million Swedish kronor and we expect to generate additional savings of approximately 100 million kronor in the first half of 2013.

Despite the streamlining program, it is important to be selective and continue to invest in areas where we recognize potential for future growth. Accordingly, we continued our investments in research and development during the year, which is fundamental for achieving profitable growth. A number of exciting products were launched during the year, including PureDry, which enables recovery of oil that is otherwise lost onboard vessels. In total, we invested slightly more than 700 million kronor in research and development, an increase of nearly 8 percent compared with 2011, on a like-for-like basis.

We also continued our investments to boost our presence in the BRIC countries. In China, we opened plants for air heat exchangers and decanters, to enhance our ability to utilize growth opportunities for cooling and refrigeration solutions as well as water treatment. In addition, we continued to expand the country's sales organization. We invested in India and Brazil to increase the range produced for the local markets and in Sweden and France investments were made in increased capacity and productivity at a few highly specialized plants.

STRATEGY AND FOCUS AREA

The transition from two to three selling divisions created a more focused and transparent Alfa Laval. Each of the three divisions has a clear business model and priorities that differ. For Process Technology, the focus areas are energy, the environment and increased presence in the fast-growing markets. In Equipment, the focus is both on increasing market presence in a cost-efficient manner, through more sales channels, as well as on increasing its presence in the aftermarket. In Marine & Diesel, the priorities are environment and energy efficiency.

Alfa Laval has a long tradition of innovation and we have a passion for products. The increased environmental requirements and higher fuel costs in the marine industry mean that Alfa Laval sees major opportunities for the new products we are launching, such as PureDry – our greatest innovation in many years in high-speed separation. In ballast water treatment, we already hold a leading position and we envisage a major market potential in the next few years for the exhaust gas scrubber we launched in the autumn.

In addition, during the year, our new decanter, the largest we have produced thus far, was extremely successful in Canada. We booked a number of major orders for cleaning substantial quantities of oil-contaminated water and the new product offering for brazed plate heat exchangers has been successful, with increased market shares and increased margins.

The aftermarket business comprises another key area. It has healthy profitability, is less sensitive to economic fluctuations and its close customer relations help drive new sales. Without a doubt, Alfa Laval has the industry's best market coverage, with about 100 service centers, which is continuously improving as we add three to four additional workshops per year. We are also expanding existing service centers that serve growth areas, such as oil and gas exploration and extraction in Canada, Brazil and Qatar. Other services where we have strengthened our offering are service of equipment at the customer and rapid and reliable supply of spare parts.

Acquisitions comprise another key element of value creation as it is a rapid and efficient method for building new positions. During the year, four acquisitions were made in the US. The largest was Ashbrook Simon-Hartley, with sales of approximately SEK 500 million. The company is a leading provider of belt filter presses for cleaning municipal and industrial wastewater, an alternative technology to our decanters, where we already occupy a world-leading position. In other words, we can now offer our customers the two leading technologies. The other acquisitions added equipment that is used for drilling for oil, tank cleaning products for the food and beverage industries, as well as air-cooled heat exchangers for the natural gas market and other energy-related markets. The acquisition strategy prioritizes the addition of new products to our range for sale through our global organization. We also want to strengthen our local presence in the US and Eastern Asia in addition to adding alternative sales channels.

SHARE

The share price climbed 4 percent during the year, that is to say, not quite as much as the trend for the NASDAQ OMX Nordic Exchange as a whole and the engineering index. Alfa Laval's market capitalization at year-end amounted to SEK 56.8 billion. Interest in the share continues to be high and some 25 analysts track Alfa Laval on a regular basis, while the number of shareholders was about 34,600 at the end of the year.

EMPLOYEES

Alfa Laval's goal is to be an attractive employer for motivated and committed employees, who form the foundation of our continued success. In the end, the company's and the personnel's development goes hand-in-hand, or expressed slightly differently, when employees grow, the company also grows.

Accordingly, we work continuously to promote a safe, healthy and pleasant work environment, free from discrimination and with space for skills development. We have a number of different training initiatives: the Alfa Laval Academy, with programs aimed at most levels in the organization, as well as a learning portal with a large number of Internet-based and classroom-based programs. In parallel, under diversity, which improves the quality of decision-making, our work includes an open internal job market. More specifically, we have been focusing efforts on group diversity, international mobility at middle-management level and replacement planning during the year.

SUSTAINABILITY AND ENVIRONMENTAL ISSUES

During the year, Alfa Laval's business principles were revised due to the new guidelines from the UN and OECD. Sustainability issues are highly prioritized by Alfa Laval's management and the review gave rise to extensive efforts with internal and external parties to gain their backing. We also created a Commercial Ethics Council with the CEO as Chairman to emphasize the importance of these issues, which are aimed at ensuring that we evaluate any risks and have appropriate guidelines and processes in place.

We also renewed our environmental goals for production. The goals, which apply until 2015, include items such as the reduction of energy and water consumption. We work internally with reducing the environmental impact of our operations, which we are not alone in doing. Other companies are also implementing initiatives to reduce environmental impact. This trend is one that bolsters Alfa Laval since we offer products that clean water and reduce emissions. In parallel, an increasing number of environmental laws and regulations are being passed, which further bolster demand for our products.

In conclusion, I would like to express my warm and sincere gratitude to all employees in the Alfa Laval Group for your valuable contribution to our efforts to build a successful company.

Lund, March 2013

Lars Renström
President and Chief Executive Officer

Stable stock-exchange trend for Alfa Laval

Alfa Laval experienced a stable stock-exchange trend in 2012, the share price rose slightly, though slightly less than the industrial sector as a whole. The Alfa Laval share opened the year at SEK 130.3 and then increased 4 percent to SEK 135.3. The share is listed on the NASDAQ OMX Exchange Stockholm, which rose 12 percent during the year and is included in the index for industrial companies on the OMX Nordic Exchange Stockholm (SX Industrials Index), which rose 18 percent over the year. The highest price listed for the share was SEK 146.5 in February and the lowest price was SEK 110.4 at the beginning of September. The market capitalization for the company at year-end was SEK 56.8 billion (54.7).

Alfa Laval is included in the Large Cap segment of the OMX Nordic Exchange Stockholm. The share is also included in the OMX Nordic 40, an index comprising the 40 largest and most-traded shares on the Nordic exchanges, as well as the OMXS30 Index, which includes the companies with the NASDAQ OMX Exchange Stockholm's 30 most-traded shares.

STRONG LONG-TERM RETURN

Since Alfa Laval was relisted on the OMX Nordic Exchange Stockholm on May 17, 2002, the company's share, including reinvested dividends, has generated a yield of 632 percent. Measured over the 10.5-year period, the average annual yield amounts to 20.9 percent, compared with the SIX Return Index, which has generated an average annual yield of 8.3 percent.

SHARE TURNOVER

Alfa Laval's share is not traded exclusively on the NASDAQ OMX Exchange Stockholm, but also on Bats Chi-X, Burgundy and Turquoise, to name a few of the largest marketplaces. However, the NASDAQ OMX Exchange Stockholm is the largest, accounting for 44 percent of all shares traded in 2012. The liquidity in the total trading of Alfa Laval's shares is favorable and 844 (957) million shares in the company were traded in 2012 at a combined value of SEK 108 billion (127). This corresponds to a turnover rate of 2.01 (2.28) times the company's total number of shares outstanding. During the year, an average of slightly more than 7,006 (6,862) share transactions were completed in Alfa Laval shares per day.

DIVIDEND POLICY

The Board of Directors' goal is to regularly propose a dividend that reflects the Group's performance, financial status and current and expected capital requirements. Taking into account the Group's cash-generating capacity, the goal is to pay a dividend of between 40 and 50 percent of net profit over a business cycle, adjusted for surplus value. For 2012, the Board has proposed that the Annual General Meeting approve a dividend of SEK 3.50 (3.25). The proposed dividend corresponds to 41.7 percent (38.6) of net profit, adjusted for surplus value.

SHARE CAPITAL

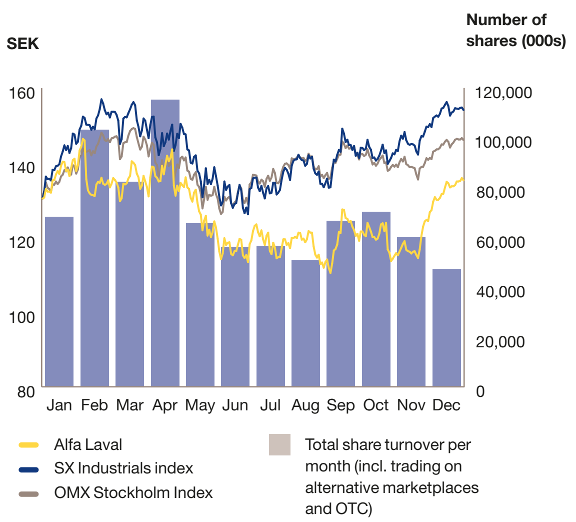
The par value at year-end totaled SEK 2.84 (2.84) per share. All shares carry equal voting rights and equal right to the company's assets. Alfa Laval has no options outstanding that could create a dilution effect for shareholders. At the Annual General Meeting on April 23, 2012, the Board was granted a mandate to repurchase shares in the company, if the Board deems this to be necessary, up to the next Annual General Meeting. The mandate pertained to the repurchase of up to 5 percent of the shares outstanding for the purpose of cancelling the repurchased shares and reducing the share capital. The repurchase would be made through purchases on the NASDAQ OMX Exchange Stockholm.

Alfa Laval made no repurchases during the year or after the Annual General Meeting 2012. As of March 21, 2012, when the notice of the Annual General Meeting was issued, the number of repurchased shares held in treasury was zero. Accordingly, the total number of shares during the year was unchanged at 419,456,315.

SHAREHOLDERS

At year-end 2012, Alfa Laval had about 34,600 (36,600) shareholders. A total of 5,631 new shareholders were added during the year, while 7,569 sold their stakes. The ten largest shareholders at year-end 2012 held 51.3 percent (53.6) of the shares. The single largest shareholder was Tetra Laval B.V., whose holding remained unchanged at 26.1 percent. The new shareholders among the ten largest shareholders are Handelsbanken Funds, the Fourth AP Fund and Nordea Investment Funds.

PRICE TREND, JANUARY 1 – DECEMBER 28, 2012



Source: SIX / Fidessa

TOTAL RETURN, MAY 17, 2002 – DECEMBER 28, 2012

Source: SIX

OWNERSHIP DISTRIBUTION BY SIZE AT DECEMBER 28, 2012

	No. of share-holders	No. of share-holders, %	No. of shares	Holding, %
1 – 500	23,049	66.6	3,845,020	0.9
501 – 1,000	4,895	14.1	4,129,864	1.0
1,001 – 5,000	4,910	14.2	11,662 242	2.8
5,001 – 10,000	739	2.1	5,496,863	1.3
10,001 – 15,000	229	0.7	2,873,186	0.7
15,001 – 20,000	132	0.4	2,390,713	0.6
20,001 –	675	2.0	389,058,427	92.7
Total number of shareholders	**34,629**			

Source: Euroclear

OWNERSHIP CATEGORIES AT DECEMBER 28, 2012

	No. of shares	Holding, %
Financial companies	90,433,161	21.56
Other financial companies	25,394,549	6.05
Social insurance funds	12,343,466	2.94
Government	1,600,135	0.38
Municipal sector	68,667	0.02
Trade organizations	4,695,994	1.12
Other Swedish legal entities	8,696,279	2.07
Shareholders domiciled abroad (legal entities and individuals)	245,576,676	58.55
Swedish individuals	24,040,181	5.73
Uncategorized legal entities	6,607,207	1.58

Source: Euroclear

DATA PER SHARE

	2012	2011	2010	2009	2008
Market price at year-end, SEK	135.30	130.30	141.70	99.00	67.50
Highest paid, SEK	146.50	147.70	142.60	100.20	107.25
Lowest paid, SEK	110.40	101.40	94.95	55.00	46.40
Shareholders' equity, SEK	36.68	36.10	32.40	29.00	24.40
Earnings per share	7.61	7.68	7.34	6.42	8.83
Dividend, SEK	3.50[1]	3.25	3.00	2.50	2.25
Unrestricted cash flow, SEK [2]	0.78	-4.93	6.38	6.46	6.38
Price change during the year, %	4	-8	+43	+47	-23
Dividend as % of EPS, %	46.0	42.3	40.9	38.9	25.5
Direct return, % [3]	2.59	2.5	2.1	2.5	3.3
Market price/shareholders' equity, multiple	3.7	3.6	4.4	3.4	2.8
P/E ratio [4]	18	17	19	15	8
No. of shareholders	34,629	36,567	33,565	33,780	28,078

Source: OMX Nordic Exchange Stockholm

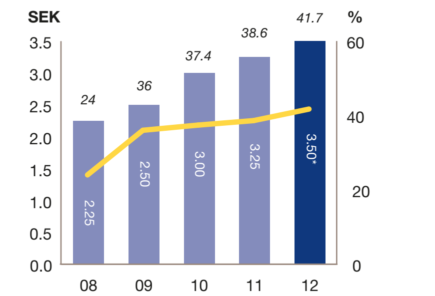
[1] Board proposal to the Annual General Meeting.
[2] Free cash flow is the sum of cash flow from operating and investing activities.
[3] Measured as proposed dividend in relation to closing price on last trading day.
[4] Closing price on last trading day in relation to earnings per share.

TEN LARGEST OWNERS AT DECEMBER 28, 2012

	No. of shares	Capital/Voting rights, %	Change in holding in 2012, percentage points
Tetra Laval BV	109,487,736	26.1%	+/-0
Alecta	28,290,000	6.7%	-0.4
Foundation Asset Management AB	25,100,000	6.0%	+/-0
Swedbank Robur Funds	16,906,377	4.0%	-1.2
AMF Insurance and Funds	14,208,000	3.4%	0.4
First AP Fund	5,711,742	1.4%	0.1
Handelsbanken Funds	4,710,310	1.1%	0.4
Fourth AP Fund	4,533,659	1.1%	0.2
Folksam	3,141,142	0.8%	-0.2
Nordea Investment Funds	2,979,265	0.7%	0.2
Total ten largest shareholders	**215 068 231**	**51.3%**	

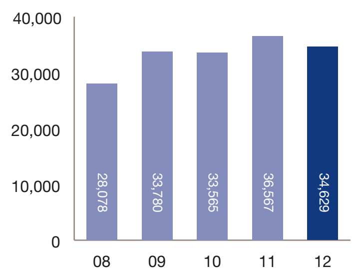
Source: Euroclear

DIVIDEND AND PERCENTAGE OF NET PROFIT**



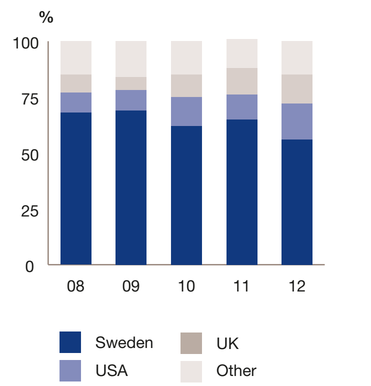
* Board proposal to AGM.
**Adjusted for surplus values.

TOTAL NUMBER OF SHAREHOLDERS



Source: Euroclear

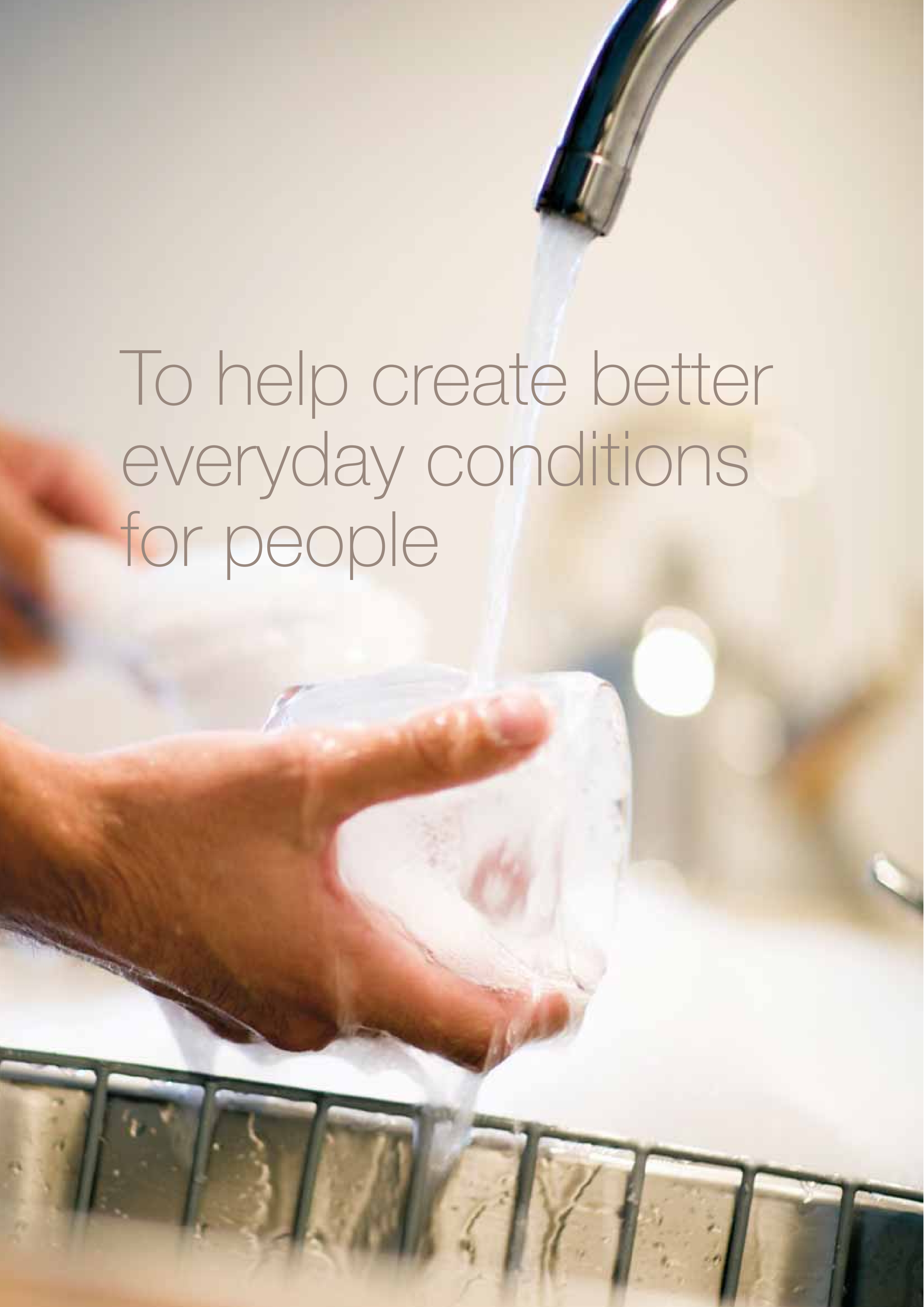
GEOGRAPHIC DISTRIBUTION OF THE FREE FLOAT, % OF CAPITAL AND VOTING RIGHTS



Excluding Tetra Laval (Netherlands) 26.1%.

Source: Euroclear

To help create better everyday conditions for people



DRIVING FORCE/VISION

The core business concept, and the driving force behind daily operations, is to help create better everyday conditions for people. This is effected through the company's products, which meet the basic needs that arise in most operations for heating, cooling, separation and fluid handling. Alfa Laval's products are both efficient and environmentally friendly. They can reduce energy consumption – and thereby carbon emissions – or clean water and other fluids – which helps to limit the negative environmental effects of customers' processes. In addition, Alfa Laval offers a range of safe and hygienic products and solutions for the food and pharmaceutical industries. Accordingly, today, Alfa Laval's products are used in applications in a wide range of industries worldwide.

BUSINESS CONCEPT

Alfa Laval's most crucial task is to offer customers profitable and efficient solutions. This is clearly reflected in the business concept, which is to optimize the performance of customers' processes, time and time again. Essentially, this entails supplying them with products and solutions that can help boost their productivity and competitiveness, while reducing their energy consumption and environmental impact.

STRATEGY

Alfa Laval's reliable products in the areas of heat transfer, separation and fluid handling, in combination with the engineering expertise of its employees and its application know-how comprise key prerequisites for realizing the business concept. This is supported by the company's global production organization and its customer-focused new sales as well as aftermarket organization, which directly and indirectly operate in a total of more than 100 countries. Another key factor is Alfa Laval's continuous investment in the further development of products, markets and sales channels, as well as its aftermarket organization.

STRATEGIES FOR CONTINUED GROWTH

Alfa Laval's strategy is to develop and expand the company's leading positions in defined market segments. This can be achieved through both organic growth and acquisitions in the following key areas:

- existing technologies, products and services
- the aftermarket business
- new market concepts, complementary key products and supplementary sales channels.

For more information on Alfa Laval's growth strategy, see pages 16–17.

Financial goals and benchmark values

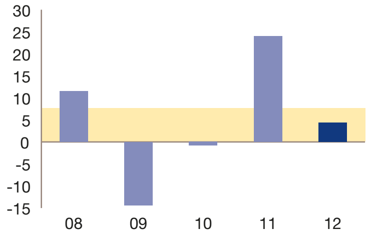
Alfa Laval's operations are conducted according to its financial goals for growth, profitability and return. By achieving or exceeding these goals, Alfa Laval is able to create shareholder value in the form of an annual dividend and by increasing the value of the company. This also enables continuous investments in organic and acquired growth, in line with the company's strategy, as well as investments in research and development.

FINANCIAL GOALS

Alfa Laval's operations are conducted according to the financial goals and benchmark values set by the Board of Directors. These are based on the business Alfa Laval conducts and the markets in which it operates. The combination of the three financial goals indicates the company's ambition levels in terms of growth, profitability and capital utilization.

INVOICING GROWTH, %

GOAL
Minimum average of 8 percent annually measured over a business cycle.



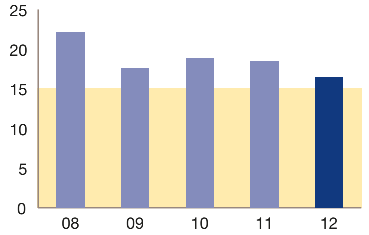
GOAL FULFILLMENT IN 2012
Invoicing rose 4.4 percent*. Organic growth was up 0.9 percent, while acquisitions added 3.5 percent.

* Excluding exchange-rate variations

OPERATING MARGIN*, %

GOAL
15 percent measured over a business cycle.

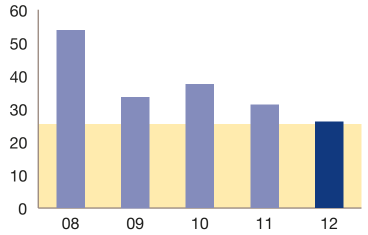
* Adjusted EBITA



GOAL FULFILLMENT IN 2012
16.5%

RETURN ON CAPITAL EMPLOYED, %

GOAL
At least 25 percent. This level was set taking into account the relatively low level of capital tied up in operating activities.



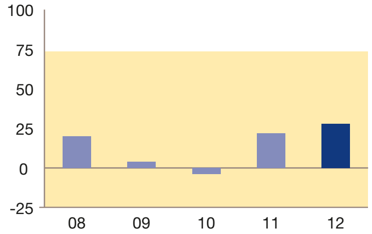
GOAL FULFILLMENT IN 2012
26.1%

FINANCIAL BENCHMARK VALUES

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

DEBT/EQUITY RATIO, %

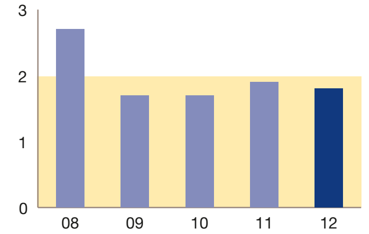
BENCHMARK VALUE
<75%



In the long term, the debt/equity ratio, meaning the capital the company borrows in relation to the carrying amount of shareholders' equity, shall be less than 75 percent. Although the ratio may exceed 100 percent in connection with major acquisitions, this should be viewed as merely temporary, since cash flow and earnings are expected to offset this effect. At year-end 2012, the debt/equity ratio was 28 percent.

INVESTMENTS, %

BENCHMARK VALUE
2.0% of sales

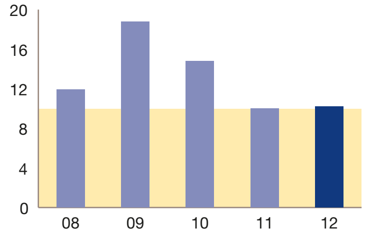


This investment level creates scope for replacement investments and an expansion of capacity in line with organic growth for the Group's existing core products. During the year, the goal was lowered from 2.5 percent, in view of the capacity that had been built up over the past few years. Investments in 2012 amounted to 1.8 percent of sales.

CASH FLOW FROM CURRENT OPERATIONS*, %

BENCHMARK VALUE
10% of sales

*Including investments in fixed assets.



The value is below the goal for the operating margin, since organic growth normally requires an increase in working capital. In addition, taxes are paid in an amount corresponding to approximately 28 percent of earnings before tax. In 2012, cash flow from current operations amounted to 10.2 percent.

NON-FINANCIAL GOALS

In addition to the financial goals, Alfa Laval has a number of non-financial goals, which are addressed in other sections of the Annual Report. For example, refer to the section on sustainability on pages 44–46.

Growth strategy

Alfa Laval's target is to have an average annual growth rate of at least 8 percent measured over a business cycle through a combination of organic growth and complementary acquisitions. Acquisitions are expected to account for 3-4 percentage points. Growth must be profitable and the target should therefore be viewed in combination with the profitability target of an operating margin of 15 percent.

ORGANIC GROWTH

Organic growth is the foundation of Alfa Laval's growth strategy. This means growth of existing operations, for example through the identification of new application areas or new markets for existing products and key technologies, the development of complementary aftermarket services as well as the development of sales channels, new products or new market concepts to meet new needs, all around the world.

Alfa Laval's existing products and key technologies comprise an excellent base for continued profitable growth since the products' high quality and energy efficiency have become increasingly important criteria for customers. Another significant factor is the ongoing research and development work to continuously enhance the existing offering, not to mention, the company's strong market position and its broad geographic coverage for new and aftermarket sales.

ACQUISITIONS

Alfa Laval's goal is to add 3–4 percent in sales growth annually through complementary acquisitions. The acquisition strategy closely reflects the strategy for organic growth since acquisitions must be made with the aim of strengthening existing key technologies, developing the aftermarket business, adding new products to application areas where Alfa Laval is already active, as well as adding complementary sales and distribution channels. Acquisitions are a core component since they enable the company to rapidly meet changing needs with new offerings or to rapidly expand and strengthen its local presence.

Work on acquisitions is led by a special unit, which is also responsible for supporting the growth objectives of the various segments and developing new market concepts. The unit also includes the Group's patent division.

During the period from 2008 to 2012, Alfa Laval acquired 23 companies with combined sales of SEK 7,565 million, corresponding to average annual growth of SEK 1,513 million.

2008

ACQUISITION	REASON*	SALES, SEK MILLION**
Standard Refrigeration, USA	Product/geography	220
Ageratec, Sweden	Product	50
Høyer Promix, Denmark	Product	20
Pressko, Germany	Product	50
Hutchison Hayes, USA	Channel/geography	150

DIVESTMENTS	REASON*	SALES, SEK MILLION**
–	–	–

2009

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

DIVESTMENTS	REASON*	SALES, SEK MILLION**
–	–	–

2010

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

DIVESTMENTS	REASON*	SALES, SEK MILLION**
–	–	–

2011

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

DIVESTMENTS	REASON*	SALES, SEK MILLION**
–	–	–

2012

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

DIVESTMENTS	REASON*	SALES, SEK MILLION**
–	–	–

* The reason for divestment is either an assessment that the unit will not achieve the Group's financial goals or that it is no longer part of the Group's core operations.

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

*** Sales in 2012.

Solutions at sea

Growing international trade is driving demand for transport. Shipping, which carries 90 percent of the goods that are moved around the planet, has environmental benefits over airfreight, but tough legislation is still putting new demands on the industry. Alfa Laval offers a range of specialized products to reduce pollution and increase energy efficiency at sea.

Maritime transportation has quadrupled in the last four decades. The trend with increasing sea freight will continue, creating new challenges in many areas, not least for the environment. Alfa Laval's solutions for reducing emissions, cleaning ballast water and generating heat are today found on the majority of ocean-going vessels.

The zebra mussel, with its pretty patterned shell, is no bigger than a fingernail and relatively harmless in its native waters in Eastern Europe. But this tiny mollusc has been devastating – and extremely expensive – for its adopted home, the North American Great Lakes, where it was carried in the ballast water of a ship in the late 1980s. Since then zebra mussels have upset ecosystems, threatened native wildlife, damaged structures, and caused other serious problems, costing in excess of USD 1 billion to date.

Alfa Laval's PureBallast system, developed in cooperation with Wallenius Water, offers chemical-free water treatment that protects against the threat of invasive species such as the zebra mussel. It is one technology out of many in our Marine & Diesel Division's environmental product range, which helps shipyards and shipowners tackle ecological challenges and meet current and future legislation. But Alfa Laval's offer to the marine industry goes far beyond the environmental sphere, totalling 15 major product groups including waste heat recovery systems, boilers, high speed separators and freshwater generators.

Some Alfa Laval solutions used at sea are also trusted by customers in the onshore diesel power market, which uses similar engines. Diesel power plants bring electricity to remote areas or communities where the grid is unreliable. On land and at sea, such products help us fulfil our vision of creating better conditions for people.

75%

The percentage of the global ocean-going fleet equipped with Alfa Laval's range of specialized products for ships.

The Alfa Laval Aalborg scrubber removes harmful sulphur oxide and particulate matter from ships' exhaust gases.

Three technologies for optimized processes

Alfa Laval's operations are based on three key technologies for heat transfer, separation and fluid handling, which are of decisive importance for many industrial processes. In 2012, heat transfer products accounted for 54 percent (54) of sales, separation products for 22 percent (22) and fluid handling products for 10 percent (10). Alfa Laval is the global leader in all three technology areas.

Global leader in heat transfer

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

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

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

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

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

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

MARKET SEGMENTS

- INDUSTRIAL EQUIPMENT
- MARINE & DIESEL EQUIPMENT
- MARINE & OFFSHORE SYSTEMS
- OEM
- SANITARY
- FOOD
- ENERGY & ENVIRONMENT
- PROCESS INDUSTRY

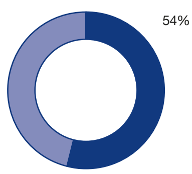
COMPETITORS

- GEA (GERMANY)
- HISAKA (JAPAN)
- SPX/APV (USA)
- SWEP (USA)
- KANGRIM (KOREA)
- SAACKE (GERMANY)
- MUIRA (JAPAN)
- HEATMASTER (NETHERLANDS)
- OSAKA (JAPAN)

MARKET POSITION

MORE THAN 30 PERCENT OF THE WORLD MARKET

SALES



SHARE OF GROUP SALES

Separation expertise since 1883

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

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

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

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

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

MARKET SEGMENTS

- INDUSTRIAL EQUIPMENT
- MARINE & DIESEL EQUIPMENT
- MARINE & OFFSHORE SYSTEMS
- OEM
- SANITARY
- FOOD
- ENERGY & ENVIRONMENT
- PROCESS INDUSTRY

COMPETITORS

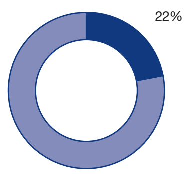
SEPARATORS
- GEA (GERMANY)
- MITSUBISHI KAKOKI KAISHA (JAPAN)
- PIERALISI (ITALY)

DECANTERS
- GEA (GERMAY)
- GUINARD/ANDRITZ (FRANCE, AUSTRIA)
- FLOTTWEG (GERMANY)
- PIERALISI (ITALY)

MARKET POSITION

25 TO 30 PERCENT OF THE WORLD MARKET

SALES



SHARE OF GROUP SALES

Precise and hygienic fluid handling

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

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

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

MARKET SEGMENTS

- [ ] INDUSTRIAL EQUIPMENT
- [x] MARINE & DIESEL EQUIPMENT
- [ ] MARINE & OFFSHORE SYSTEMS
- [ ] OEM
- [x] SANITARY
- [x] FOOD
- [ ] ENERGY & ENVIRONMENT
- [x] PROCESS INDUSTRY

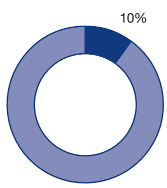
COMPETITORS

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

MARKET POSITION

10 TO 12 PERCENT
OF THE WORLD MARKET

SALES



SHARE OF
GROUP SALES

Energy efficient

Greater focus on the bottom line and high energy prices are driving companies to search for new ways to optimize their processes. At the same time, increased demand for energy is making new sources of energy, such as biofuels or deepwater oil fields, more attractive. Combined with more stringent environmental regulations, these trends will drive demand for Alfa Laval's solutions.

The world's growing energy needs can be addressed in two ways: by increased production and improved energy efficiency. Alfa Laval has an extensive range of energy-related products for both approaches to this global challenge.

A large steel works consumes roughly the same amount of energy per year as a major European city. If such a plant could achieve just one percent reduction in energy consumption the savings in terms of cost and emissions would be huge. With the world's energy needs expected to rise by more than 30 percent between 2010 and 2030, demand for efficient solutions will become ever more important.

Combining the process know-how of Alfa Laval's engineers with the knowledge of plant operators may be one way to improve energy use in a plant's processes. Waste heat produced in one part of the process can often be used in another part of the plant by applying one of Alfa Laval's highly efficient heat exchangers, thereby lowering the overall energy use of the plant.

Energy accounts for a large part of Alfa Laval's business, from the extraction and refinement of oil and gas to power production. Our highly efficient heat exchangers and separators are crucial to these applications, making an important contribution to global energy production. They are also used in a large number of other processes where they help lower energy consumption and emissions.

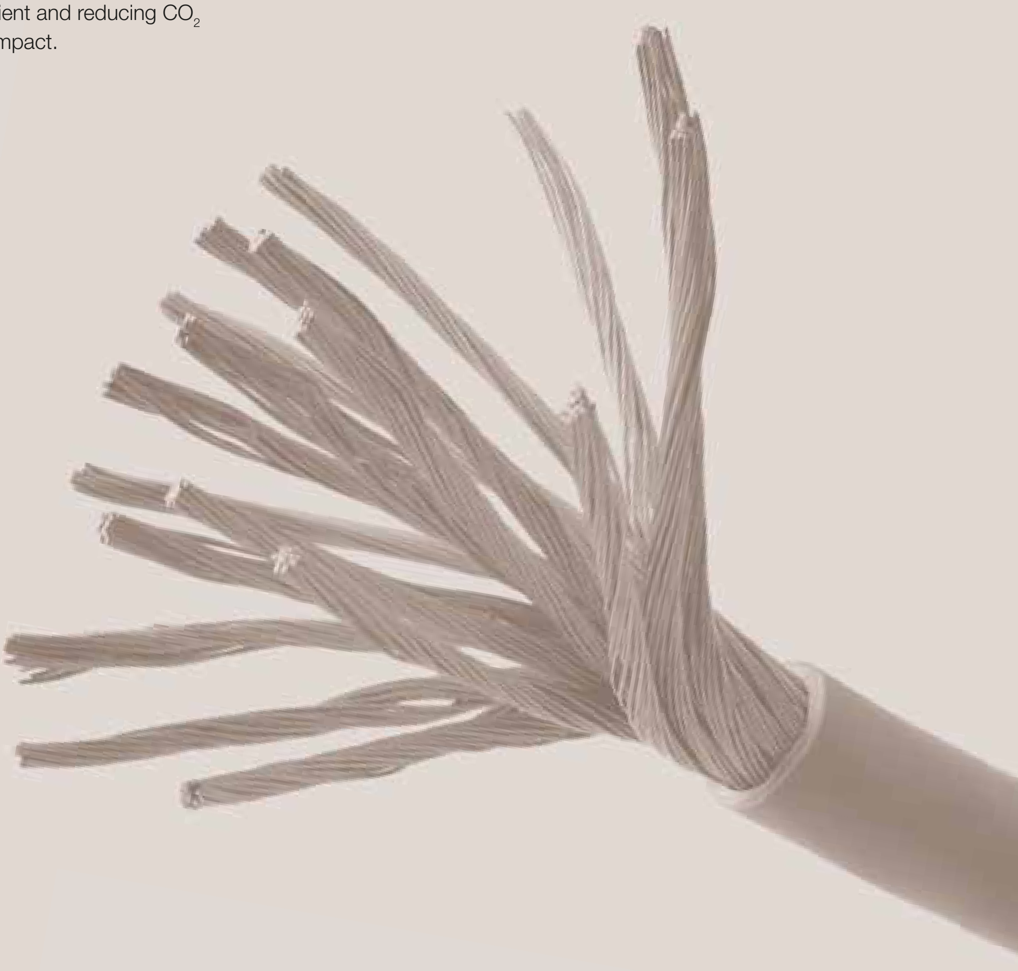
The world's growing demand for energy is also encouraging the growth of alternative energy sources, such as making biofuel from waste. Alfa Laval's products are involved throughout the biofuel production process, from heating and cooling to mixing and separation.

We are proud to be playing our part in securing future energy supplies, making processes more energy efficient and reducing CO_2 emissions, which reduces the environmental impact.

25%

The energy use reduction made possible for an oil refinery replacing shell-and-tube technology with Alfa Laval's compact plate heat exchangers.

Our Packinox design is the largest type of plate heat exchanger in the world, reducing both emissions and energy use.



New innovative products – the key to profitable growth

At Alfa Laval, investment in innovation has been around from the start. Producing new products and solutions that meet customers' needs is decisive in maintaining and strengthening a company's competitiveness and, thereby, its positions, which enhance its opportunities of achieving profitable growth.

Alfa Laval focuses on the research and development of products and solutions in the fields of heat transfer, separation and fluid handling. This applies to the development of new products to meet indications of new market needs and to innovation as part of developing existing products to be manufactured in new materials and with higher capacities. It can also apply to changes in the actual production process. Every component is important and intended to ensure that Alfa Laval develops products and solutions that solve existing and future problems and needs. The identification of market needs and the rapid and efficient transformation of that knowledge into innovative products generate an advantage over the competition.

Research and development work has internal frameworks, requirements and target parameters. These include continuous measurement to ensure that the products reach the market and become profitable in the shortest time possible. In addition, launches are followed up by measurements to ascertain the proportion of new sales comprised by products younger than five years.

In 2012, Alfa Laval invested SEK 707 (648) million, corresponding to 2.4 (2.3) percent of sales, in research and development. The number of projects is kept limited and results in 35 to 40 new products each year. The reasons behind these focused investments are that the company does not wish to split research and development resources between too many parallel projects and wants to ensure that the sales organization can manage all of the product launches in a professional manner.

Extensive work is carried out with securing patent protection to ensure that Alfa Laval derives the benefit of its investments. Currently, Alfa Laval holds in excess of 1,900 patents - protected and defended by the company's patent division.

Collaboration across boundaries is the foundation of successful innovation efforts. Accordingly, the new sales and aftermarket segments collaborate with the organizations managing manufacturing and procurement. Alfa Laval's product centers are at the core of the process and focus on the research and development of all main products, for example, gasketed and welded heat exchangers, air heat exchangers, boilers, separators, decanters, membranes and fluid handling equipment. These centers combine development and technological know-how with expertise in various applications.

A few of the products launched in 2012:

Alfa Laval Aalborg XS-TC7A
In the coming years, the marine industry and shipowners are faced with challenges as a result of new environmental legislations with special focus on reducing emissions from fossil fuels. Alfa Laval Aalborg has therefore developed a compact and efficient exhaust gas economizer utilizing the heat in the exhaust gas from the auxiliary engines during voyage and port stays, which will significantly help reducing the oil consumption on the oil-fired boiler.

Unique Sampling Valve
A new range of sampling valves for use in the dairy, food and beverage, personal care and biopharm industries. The Unique single and double-seat sampling valves offer high operational reliability, enhanced cleanability and ease of operation and maintenance.

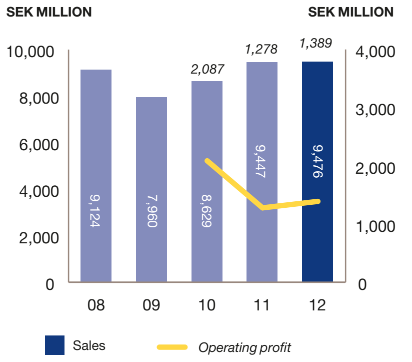
PureDry
In the course of fuel handling and fuel treatment, up to two percent of the fuel is lost. PureDry from Alfa Laval is a compact separation system offering efficient recovery of the fuel oil lost onboard ships and in diesel power plants, which enables substantial savings and a reduced carbon dioxide footprint.

Alfa Laval Optigo
A new range of simple, efficient and reliable air heat exchangers meeting the market's demand for better energy efficiency. Optimized for environmentally-friendly refrigerants, the range is specifically designed for small to medium-sized commercial applications such as supermarkets, restaurants and chilled food distribution depots. There are currently three models within the Optigo platform – all with the same DNA but varying in their air handling and scope of applications.

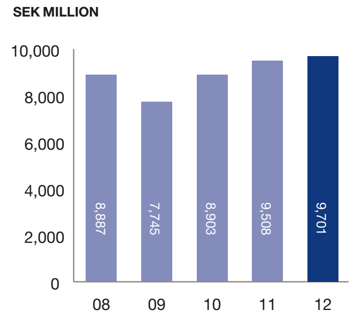
Equipment Division

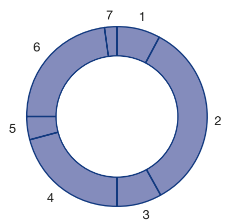
The Division's customers are characterized by a well-defined and regularly recurring requirement for Alfa Laval's products. In most cases, sales are conducted through system builders and contracting companies, as well as dealers, agents and distributors – direct sales to end-users are limited. The Equipment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

SALES AND OPERATING PROFIT



ORDER INTAKE





1	Sweden	8%
2	Other EU	34%
3	Other Europe	8%
4	North America	21%
5	Latin America	4%
6	Asia	23%
7	Other	2%

"During the year, we continued the development of our distributor network and other channels in parallel with the launch of a new e-commerce platform. These comprise two key factors for the division's continued success."

Susanne Pahlén Åklundh

President, Equipment Division.

SIGNIFICANT EVENTS IN 2012

– The division's total order intake remained unchanged compared with 2011. Sanitary and Parts & Service showed growth, OEM experienced a decline while Industrial Equipment was stable.

– The Sanitary segment reported growth with a strong trend seen for applications for the dairy, brewery and pharmaceutical industries. Geographically the development was good in North America and the Nordic countries. Demand for fluid handling products, which makes up a majority of the volume, reached record-high levels.

– A strong trend in the engine industry had a positive impact on Industrial Equipment, as Alfa Laval benefited from recent acquisitions dealing with this industry. At the same time, a major district heating order in the U.S. helped boost comfort heating and cooling (HVAC), an end market that otherwise posted a fairly flat trend. A certain slowdown was noted for refrigeration, which was impacted by low investments in cooling applications in Western Europe.

– Order intake for OEM was down as a consequence of the general slowdown in several of the major end markets, such as the ones for heat pumps and air-conditioning units. This was attributable to trends in the construction industry as well as general consumption, areas negatively affected by the business climate.

– Parts & Service grew, especially for sanitary applications reflecting increased utilization of the installed base in this industry.

INDUSTRIAL EQUIPMENT

OPERATIONS

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

FORCES DRIVING DEMAND

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

ORDER INTAKE Share of Division's order intake 40% Change in order intake − 2012 + 2011 + 2010

SANITARY

OPERATIONS

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

FORCES DRIVING DEMAND

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

ORDER INTAKE Share of Division's order intake 32% Change in order intake + 2012 + 2011 + 2010

OEM

OPERATIONS

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

FORCES DRIVING DEMAND

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

ORDER INTAKE Share of Division's order intake 10% Change in order intake − 2012 = 2011 + 2010

PARTS & SERVICE

OPERATIONS

Customers are active in all of the Division's segments, with the exception of OEM. The aftermarket is a priority area and the overall strategy is to further develop and expand the spare parts and service operations.

FORCES DRIVING DEMAND

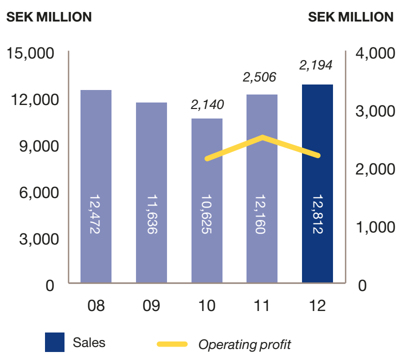
The industrial capacity utilization rate and growth in the installed base.

ORDER INTAKE Share of Division's order intake 17% Change in order intake + 2012 + 2011 + 2010

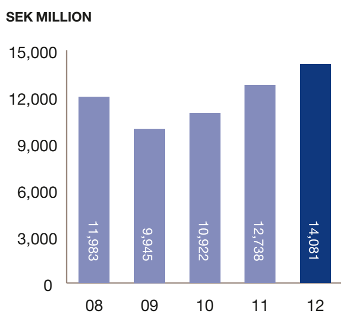
Process Technology Division

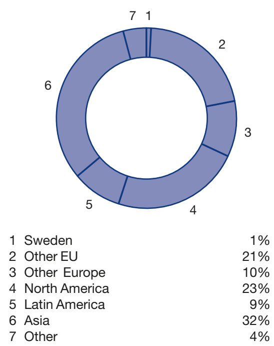
This Division serves customers that require customized solutions to enhance the efficiency of their processes or boost their capacity. Sales are mainly conducted through the Group's own sales companies and contractors, and are made directly to customers. Alfa Laval combines expertise in its key technologies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

SALES AND OPERATING PROFIT



ORDER INTAKE





"The positive trend was partly attributable to the investment climate, but also to the product launches we performed as well as the successful introductions of existing products in new areas."

Svante Karlsson
President, Process Technology Division.

SIGNIFICANT EVENTS IN 2012

– The division enjoyed a strong year, driven by energy and environment-related areas. Growth was positively impacted by the high oil price, which led to demand for capacity and energy-efficient process solutions as well as heat-recovery solutions.

– The successful launch in 2011 of a large decanter for industrial water treatment in the oil industry led to a number of large orders in North America, confirming our leadership in providing innovative decanter solutions for environmental applications. Environment also expanded its offering through the acquisition of Ashbrook Simon-Hartley, a supplier of belt filter presses for wastewater treatment.

– Trends previously identified in the gas sector were confirmed, and several heat exchanger solutions were sold to gas applications. Gas as a future energy source also led to new opportunities, including FLNG, where we delivered equipment to the world's first FLNG facility.

– An increased focus among customers on making their processes more energy efficient contributed to a continued very positive development for Refinery.

– Within power, investments in conventional areas continued to grow and they gradually returned in nuclear. Within solar, we won yet another large order for a Packinox heat exchanger, which enables thermal storage of solar heat for later conversion to electricity, an example of our involvement in alternative energy solutions.

PROCESS INDUSTRY

OPERATIONS

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

FORCES DRIVING DEMAND

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

ORDER INTAKE | Share of Division's order intake 29% | Change in order intake + 2012 + 2011 − 2010

ENERGY & ENVIRONMENT

OPERATIONS

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

FORCES DRIVING DEMAND

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

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

ORDER INTAKE | Share of Division's order intake 27% | Change in order intake + 2012 + 2011 + 2010

FOOD TECHNOLOGY

OPERATIONS

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

FORCES DRIVING DEMAND

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

ORDER INTAKE | Share of Division's order intake 16% | Change in order intake − 2012 + 2011 + 2010

PARTS & SERVICE

OPERATIONS

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

FORCES DRIVING DEMAND

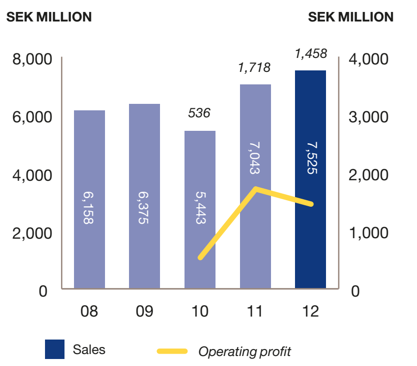
The general activity level in various industries, the need to upgrade older equipment, an increased need for efficiency and the need for service and spare parts to prevent unplanned stoppages and minimize the time necessary for planned stoppages.

ORDER INTAKE | Share of Division's order intake 28% | Change in order intake = 2012 + 2011 + 2010

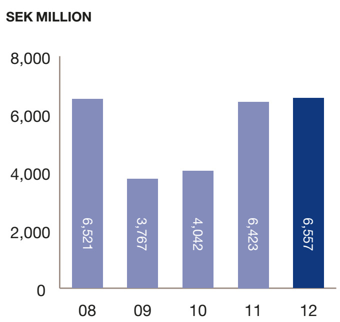
Marine & Diesel Division

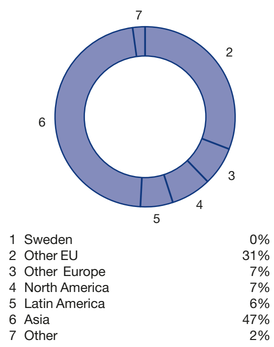
The division has a wide and varied range of products in the energy, environmental and safety areas, for customers in the marine industry, manufacturers of diesel engines and offshore customers. Sales are conducted through the Group's own sales organization directly to customers. The offering, which includes sales of 15 different main product groups, comprises components, modules and adapted systems, such as boilers, separators, heat exchangers, inert gas systems, freshwater generators, exhaust gas cleaning systems, heat recycling systems and ballast water treatment systems. In addition, the division has a well-developed aftermarket organization.

SALES AND OPERATING PROFIT



ORDER INTAKE





"We are very pleased with the environmental and energy-saving products launched during the year. Due to existing and expected regulation, we envisage quite a substantial market potential for them in the coming years."

Peter Leifland

Direktör, Marine & Dieseldivisionen.

SIGNIFICANT EVENTS IN 2012

- The division was negatively affected by the significant drop in contracting at the shipyards during the year. However, offshore projects bucked the trend as a result of the positive sentiment seen in the markets for oil and gas exploration.
- The environmental part, where business is driven by legislation, reported growth, albeit at a slower pace than the preceding year, mainly due to the lack of ratification of the international convention for ballast water treatment. Several new environmental products were launched, among them the exhaust gas cleaning system Pure SOx. Although the regulation controlling air pollution from ships will only come into force in 2015, we noted quite substantial interest from the market and in December we booked our first order.
- Products aimed at energy savings reported growth, mainly as a result of the order from Mitsubishi Heavy Industries to deliver Alfa Laval Aalborg Exhaust Gas Economizers to vessels built for A.P. Møller – Mærsk.
- Another energy-saving product was PureDry – a revolutionary new technology for waste oil recovery – which was introduced during the autumn. The product recovers re-usable fuel from waste fuel oil, thereby enabling savings of up to 2 percent. It received very positive attention at the fair where it was introduced and we expect to sell about 100 units during 2013.
- While Diesel power showed a slight decrease, from the high level seen in 2011, Parts & Service continued to grow.

MARINE & DIESEL EQUIPMENT

OPERATIONS

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

FORCES DRIVING DEMAND

Marine / Global transport requirements, consolidation in the shipbuilding industry, government initiatives to support local shipyards and environmental legislation.

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

ORDER INTAKE | Share of Division's order intake 37% | Change in order intake − 2012 + 2011

MARINE & OFFSHORE SYSTEMS

OPERATIONS

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

FORCES DRIVING DEMAND

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

ORDER INTAKE | Share of Division's order intake 22% | New customer segment, no corresponding data exists for previous years.

PARTS & SERVICE

OPERATIONS

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

FORCES DRIVING DEMAND

Increased trade and capacity utilization in the global ship fleet.

ORDER INTAKE | Share of Division's order intake 41% | Change in order intake = 2012 + 2011

One shared division for procurement, production and distribution

At Alfa Laval, the Operations Division is responsible for the Group's production-related procurement, as well as its manufacturing, logistics and distribution. In other words, Alfa Laval has a centralized supply chain that should deliver the right product, with the correct documentation at the desired moment, all over the world. Through a global and consolidated perspective on the coordination of procurement, production and logistics, reliable access is created to the company's products worldwide. Furthermore, the chosen structure enables procurement to be conducted at the best possible price, lower operating costs and a high level of efficiency.

Procurement → Manufacturing → Distribution/Logistics

GLOBAL PROCUREMENT

Alfa Laval's need for raw materials and other material, necessary for production, is managed by a shared procurement organization. This unit is organized in groups that focus on different material needs, such as metals, electronics, gaskets and castings. The shared organization consolidates the company's total needs for material and makes Alfa Laval a customer with real purchasing power.

With a presence in nearly 60 countries, production on several continents and customers all over the world, Alfa Laval also has a global network of suppliers. Irrespective of geographic location, these suppliers must be able to meet the company's needs for material in terms of quality and price, as well as volume requirements and delivery precision. The existing suppliers are reviewed on a continuous basis in parallel with efforts to identify and evaluate new suppliers. In addition, other suppliers are added in conjunction with acquisitions. These are also subject to evaluation to see whether they can live up to requirements on quality, price and volumes. An active evaluation and development process also exists in fast-growing economies aimed at ascertaining how well suppliers in these economies meet Alfa Laval's business principles with respect to health, safety, the environment and ethics. This comprises part of the sustainability work, which has been the responsibility of the line organizations for a number of years. Read more about Alfa Laval's sustainability work on pages 44–46.

Metals

Alfa Laval's production needs metals including steel, aluminum, copper and titanium. Since direct material comprises about 70 percent of the cost of goods sold, changes in the price and availability of these metals impacts the company. As part of reducing the effects of fluctuations in price and/or supply, Alfa Laval implements the following measures: customer price adjustments, price clauses in customer contracts and fixed-price agreements with suppliers. Another alternative is to enter long-term delivery commitments with the company's suppliers at fixed prices. Alfa Laval largely produces to order, which entails that the advance payments received from customers in large projects are used to purchase materials. This means that Alfa Laval generally does not maintain large inventories of raw materials and other materials.

MANUFACTURING

Alfa Laval's production is distributed between 32 major manufacturing units, spread over four continents, and involves approximately 7,700 employees. Production is centralized and based on manufacturing technology, product group and size, not on the end-customer's application for the product. More than 50 percent of direct labor hours related to production now occur in so-called low-cost countries. From a historical perspective, however, the gradual establishment in the world's fast-growing economies was largely the result of the demand that Alfa Laval noted at an early stage in these areas. Local demand is best met through local production rather than by shipping products at the global level, which is costly, time consuming and less environmentally beneficial. The overall production structure is reviewed on a continuous basis to ensure optimal planning and distribution. Furthermore, a raft of different environmental targets comprising electricity and water consumption, the use of various chemicals, etc., apply to production. These targets are presented in more detail in the sustainability section at www. alfalaval.com.

LOGISTICS

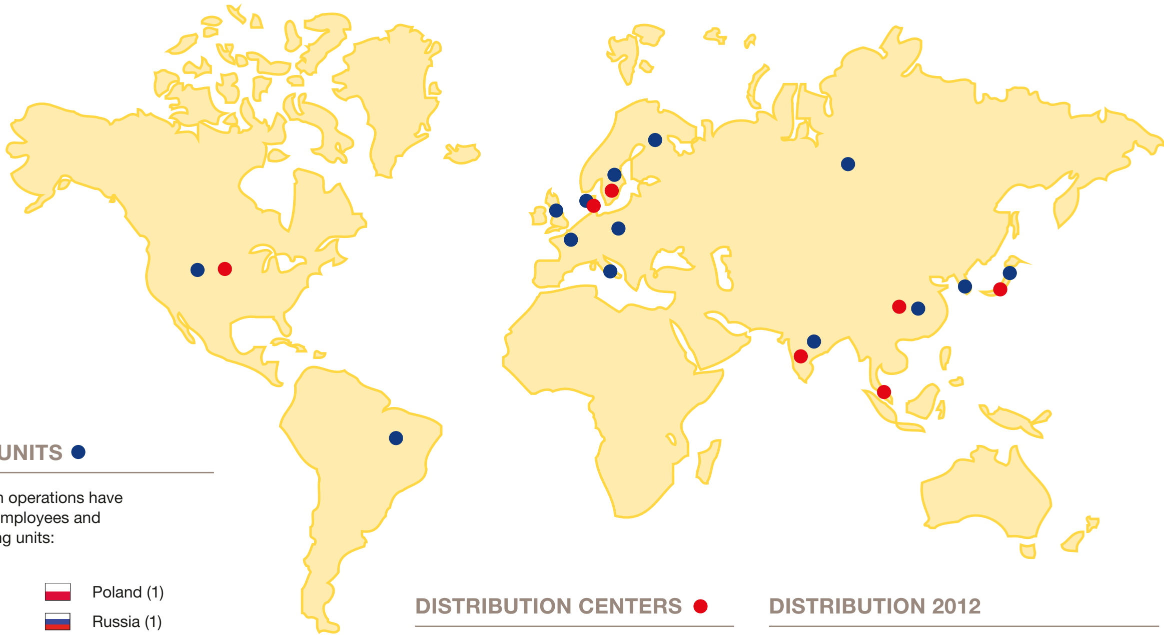
Distribution and logistics is the unit that helps all segments in the sales divisions with their specific transport needs on a global basis. Focusing responsibility to a single unit enables the total transport need to be identified, thereby generating cost advantages with respect to procurement and simplifying the company's effort to limit the environmental impact of transportation. Transportation alone accounts for more than 40 percent of Alfa Laval's total carbon emissions. The efforts to reduce this focus on shipping more goods by sea, rather than by air. In 2012, new environmental targets were set using 2011 as the base year. One of these targets is to reduce carbon emissions by 3 percent per year by 2015. However, it is sometimes difficult for Alfa Laval to control the method of transportation. A customer needing spares is often in acute need, in which case, airfreight is the only alternative. During the year, about 7 (7) percent of distribution was by airfreight, 28 percent (29) by sea 65 (64) percent by road.

PROCUREMENT OFFICES

There are three regional and three central procurement offices. Approximately 80 percent (80) of the value of the total purchasing volume derives from some 497 suppliers (340) and about 68 percent (67) occurs within the framework of global contracts.

ENVIRONMENTAL MANAGEMENT SYSTEM

At the end of the year over 86 percent (92) of the total delivery value came from production sites certified under the ISO 14001 environmental management system. The reason for the decline compared to 2011, is that production sites have been added through acquisitions.



PRODUCTION UNITS ●

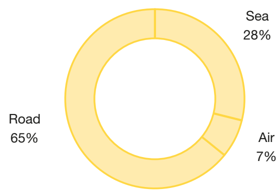
Alfa Laval's production operations have approximately 7,700 employees and 32 major manufacturing units:

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

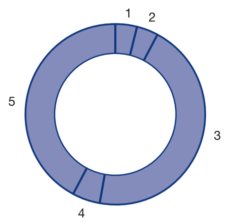
DISTRIBUTION CENTERS ●

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

DISTRIBUTION 2012

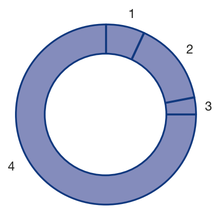


INVESTMENTS BY GEOGRAPHIC MARKET, %



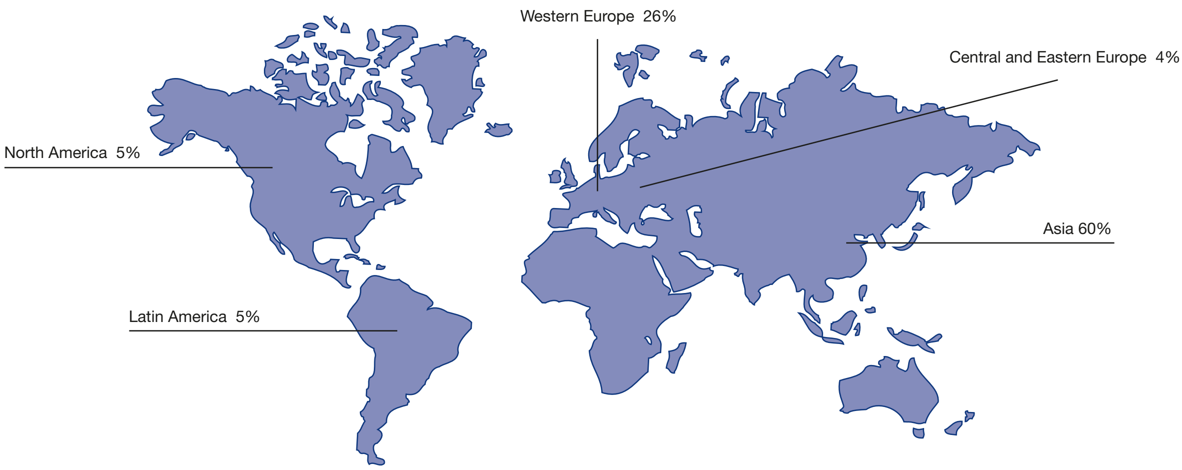
1	North America	4%
2	Latin America	4%
3	Western Europe	45%
4	Central and Eastern Europe	5%
5	Asia	42%

PURCHASES BY GEOGRAPHIC MARKET, %



1	North and Latin America	7%
2	Asia	15%
3	Central and Eastern Europe	3%
4	Western Europe	75%

GEOGRAPHIC DISTRIBUTION OF DIRECT LABOR HOURS IN PRODUCTION, %



Living better

A higher standard of living for many people around the world is leading to lifestyle changes and more consumption. It is boosting demand for processed and prepared foods, healthcare products and pharmaceuticals. These trends mean more demand for Alfa Laval's products and solutions that improve shelf life, reduce waste and make pharmaceutical production hygienic and safe.

The average global life expectancy has risen to nearly 70 years. People are becoming healthier and enjoying a higher standard of living, which increases demand for processed foods, pharmaceuticals and healthcare. Alfa Laval supplies energy-efficient solutions that meet the highest hygiene and safety standards.

Grocery shopping in India is not what it used to be. Traditional markets selling fresh meat, vegetables and fruit are rapidly being replaced by supermarkets with shelves stocked with ready-made baby food, canned fruit and frozen meals. These new consumption patterns, driven by improved living standards and a growing middle class, are being repeated in fast-growing economies around the world.

Shifts in shopping and consumption patterns are proving to be an important growth factor for Alfa Laval. Our pumps, valves, separators and heat exchangers are important components in food production, while our refrigeration solutions help keep food fresh during storage and distribution. This growth is not only being driven by increased demand, but higher safety standards being imposed on production processes. Alfa Laval has the technology and expertise to meet these needs while reducing costs and environmental impact; tank cleaning machines that use 30 percent less water than other solutions; decanter centrifuges used in winemaking that reduce operating costs by 20 percent; solutions for olive oil producers that save energy and water and improve flavour.

Longer lifespans and higher incomes are also creating demand in the pharmaceutical industry, which Alfa Laval has served for more than 125 years. Our key technologies are designed and documented for biotech and pharmaceutical use and meet or exceed requirements on cleanliness, reliability and performance. Our magnetic mixers increase yield and minimize product contamination; our coolers eliminate contamination and reduce water use.

50%

The energy use reduction made possible for food and fruit processing plants using pumps from Alfa Laval.

Aftermarket business in focus

A key component of Alfa Laval's operations is offering service and spare parts for the company's continuously expanding base of equipment and systems installed globally. Alfa Laval's products are of high quality and have a long service life. Performance can be maintained and service life extended even further, through regular maintenance. Accordingly, the aftermarket business is an extremely important factor in enabling Alfa Laval to realize its business concept. "to optimize the performance of customers' processes, time and time again."

However, the aftermarket business not only provides customer value, but also ties in the customers more closely to Alfa Laval. It generates a healthy profitability, supports new sales and involves frequent customer contact, thereby providing opportunities to identify new requirements and indications of future needs, which can be forwarded to the units for research and development. Furthermore, it is less sensitive to the business cycle and thus has a stabilizing effect on invoicing in periods of economic downturn. Alfa Laval prioritizes the continued development of the operations from a geographical perspective and in terms of products and service, both organically and through acquisitions. Alfa Laval's target is for aftermarket to display consistent growth in absolute terms. At present, Alfa Laval has slightly more than 100 service centers, allocated over six continents, which accounted for 26.4 percent of the total order intake in 2012.

THE RIGHT OFFERING OF THE RIGHT QUALITY, AT THE RIGHT TIME AND IN THE RIGHT PLACE

The offering of spare parts and service is extensive and the company's service centres have a wide geographical coverage. It is important to offer what the customer wants, in terms of content, time and location. In other words, the right product and service offering, at the right time and in the right place. Since many of Alfa Laval's products are found at the heart of various customer processes, performing critical tasks, rapid delivery is a necessity and is enabled by the company's global coverage. In addition, Alfa Laval's original parts contribute to low costs over product lifecycles and provide peace-of-mind, since they have undergone extensive testing to ensure they match the task. Sales of service and spare parts over the total lifetime of a product can be several times higher than the initial investment, which makes Alfa Laval's installed base of products highly valuable.

CUSTOMIZED OFFERINGS TO MEET CUSTOMERS' NEEDS

The aftermarket business is governed by the customers' needs. A demand for spare parts and service may arise just a few months after installation and can just as well arise after several years – this all depends on which key technology is involved – heat transfer products, separation or fluid equipment. Furthermore, needs are strongly linked to how demanding customer processes are, as well as the tasks the product performs and how intensively it is run. Since each customer has unique needs, Alfa Laval's offering is extensive. It includes spare parts, available worldwide, as well as service agreements customized to meet each customer's specific situation. This means that they are flexible and can include everything from basic maintenance to upgrades, online monitoring, round-the-clock technical support seven days a week and complete maintenance plans. Upgrades in particular, pertain to making changes in the installed product to meet customer needs and wishes to, for example, lower energy consumption or enhance the quality of their end product. Upgrades are an efficient method of accomplishing the above through a moderate investment, which often has an extremely short payback time.

BASIC REQUIREMENTS, PARTS & SERVICE

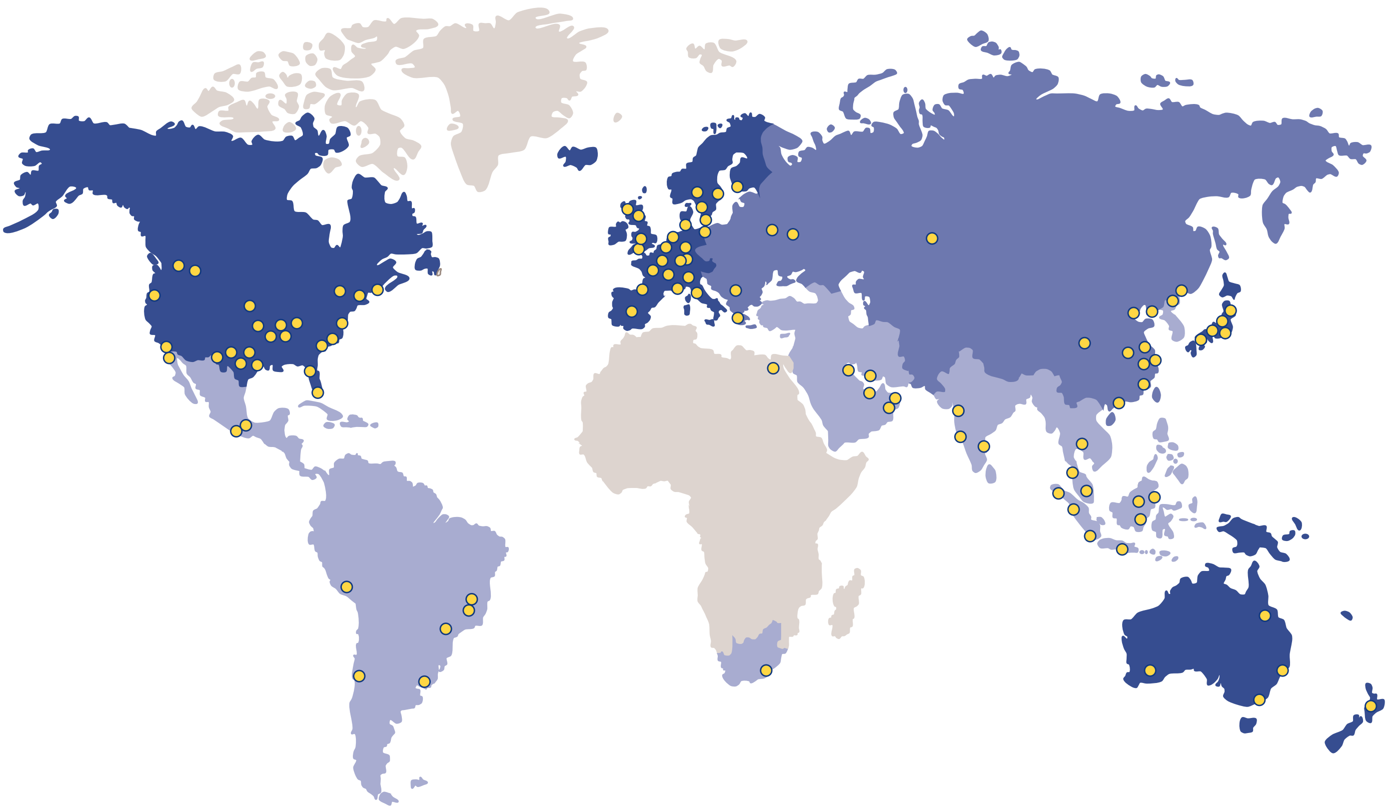
Even if in the final analysis many variables determine the customer's needs, certain minimum requirements must be met to maximize the service life of the product. Accordingly, regular preventive maintenance is always recommended.

REGULAR MAINTENANCE

Plate heat exchangers
Regular cleaning of a plate heat exchanger maximizes its energy efficiency and service life. However, the extent of this need is also determined by the environment in question. Products used in demanding environments, such as chemical processes with high pressures and temperatures, require more frequent service and cleaning than those used in "gentler" environments, that is an environment with lower pressures and temperatures. In addition, the adaptation of plate heat exchangers to changes in the operating conditions of customers' processes is easily performed and can be very profitable for the customer.

Separators
Since separators comprise rotating equipment, they require minor servicing after about 1,500 hours in operation. The first major servicing normally occurs once the product has been in operation for 12 months.

Decanters
The recommendation for decanters is to have them serviced once they have been in operation for one year. A major overhaul should be carried out after two years.



SERVICE CENTERS

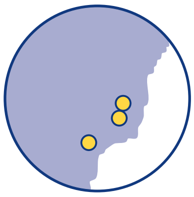
102

Towards the end of 2012, Alfa Laval had established 102 service centers to meet customer demand, around the globe.

INSTALLED BASE

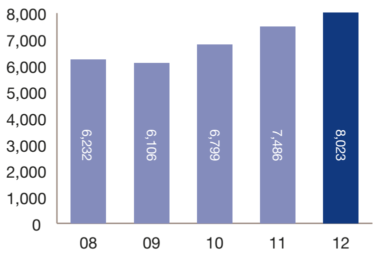
Large and mature installed base that needs to be maintained and renewed.

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

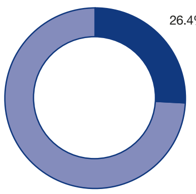


Installed base that is growing rapidly.

ORDER INTAKE, SEK MILLION

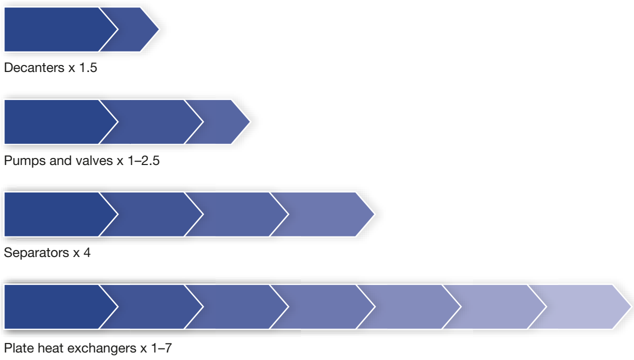


Share of Group's order intake, %



LONG-TERM POTENTIAL

Value of the aftermarket relative to new sales



A tall order

More intense focus on environmental issues is driving tougher regulations, leading to increased demand for products that reduce energy and water consumption, as well as emissions to air and water. Alfa Laval's heat exchangers are renowned for their energy-saving performance, while our decanters play a role in treating the wastewater of millions of people. And our environment-related offer does not stop there.

Mankind's negative impact on the environment is becoming ever clearer and individuals, businesses and governments are taking determined steps to green their activities. Alfa Laval supplies technologies to help them clean up their act.

Buildings account for between a quarter and a half of global CO_2 emissions, so you don't need to go far from home to find opportunities to tackle climate change. With new studies published almost daily on the effects of global warming on our planet and its inhabitants, action is needed in all areas of human activity, from making buildings more energy efficient to increasing use of alternative fuels. Alongside voluntary steps taken by individuals and businesses, more legislation and regulations are being introduced which are driving demand for environmentally friendly technologies.

Alfa Laval is committed to the goals of saving energy and protecting the environment. Our products are involved in treating water, reducing carbon emissions and minimizing water and energy consumption. Over the past 60 years Alfa Laval has performed more than half a million heating installations and over 10,000 cooling installations. We provide energy-efficient district heating and cooling – often using waste heat from other processes, thermal storage solutions that save energy and money, and heat exchangers for zero-carbon geothermal heating systems.

Another pressing environmental challenge is access to fresh water. This crucial resource needs to be used more sparingly and reused where possible. Water treatment is another important process for which Alfa Laval has products and solutions. We supply complete systems, specially designed modules and individual components for use in wastewater processing. Our systems make a real difference. Alfa Laval has installed a total freshwater capacity of more than one million cubic metres per day.

98%+

The Alfa Laval PureVent compact centrifugal separator removes 98–99.9 percent of the oil in crankcase gases of diesel engines.

>One million m^3 per day

The total freshwater capacity installed by Alfa Laval.

Employees provide the foundation for continued success

Alfa Laval's goal is to be an attractive employer with a positive work environment for motivated and committed employees, the foundation of the company's continued success. Accordingly, continuous efforts are made to ensure that the work environment is attractive, safe and healthy, free from discrimination and with space for competence development. In the end, the development of the company goes hand-in-hand with the development of the employees, or expressed another way, when employees grow, so does the company.

ATTRACTING, RECRUITING AND INDUCTING

To enable the perception of Alfa Laval as an attractive, potential employer, it is important that we highlight and showcase the company, our offering, what we do and what we stand for. Quite simply, this is about marketing to ensure that we continue to attract excellent and talented employees also in the future. During the year, a platform was launched to ensure a shared approach to the presentation of Alfa Laval to potential new employees. It focuses on showcasing some of the company's distinguishing features, including its focus on innovation and development of new products – which can contribute to reducing human impact on the environment – and, in addition, the opportunities for personal development. Recruitment is primarily associated with engaging new employees, but it is equally important that existing employees are aware of the opportunities that exist for career development and career change. Accordingly, at Alfa Laval, there is an open job market for internal recruitment. All available positions are published on the intranet, including managerial positions, and internal candidates are encouraged to apply. The goal is to broaden the base of applicants to thereby increase mobility and diversity and, by extension, promote development and innovation.

To get new employees off to a good start, a shared induction program has been developed for new employees and for personnel that join Alfa Laval through acquisitions. While induction programs already exist at a local level, the new program is intended to provide an overall image of Alfa Laval to demonstrate how the various parts fit together to make the whole – or in other words, how the work performed at a local level fits into the company's overriding goals. The program is Internet-based and includes seven self-tutorial modules.

RETAIN AND DEVELOP

Working actively with skills development is a key prerequisite for being an attractive employer. Through offering training and an organization that enables transfers between positions and countries, Alfa Laval tries to ensure that competence stays within the company. Over the past few years, the training program has been reviewed to optimally adapt it to the organization's needs. Alfa Laval Academy, with four different faculties, provides training at most levels within the organization. In 2012, the majority of Alfa Laval's employees underwent some form of training or course. The structure includes a learning portal, available via the intranet, which offers a substantial number of programs, both Internet-based and classroom-based, in areas including finance, project management, languages and leadership, as well as further training in various application areas for Alfa Laval's products and marketing.

DIVERSITY

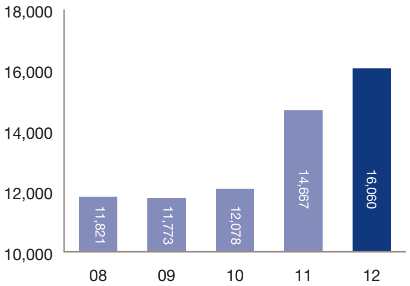
Alfa Laval conducts international operations aimed at a diverse number of end markets. Therefore, diversity must characterize the company's recruitment, personnel development and managerial appointments. Diversity means that a spread of nationalities, ages, experience, knowledge, religious beliefs and genders is promoted. While the management of all the above is a challenge, if it is performed correctly it constitutes an invaluable asset. The interface between people of various genders, nationalities or with different experience can contribute to increased creativity and innovation, which comprise decisive elements for a company built on innovation like Alfa Laval. Today, more than 80 nationalities are represented at Alfa Laval. The proportion of female employees is 19 percent. The long-term ambition is to broaden the recruitment base for female managers by increasing the proportion of female graduates recruited.

HEALTH, SAFETY AND WELL-BEING

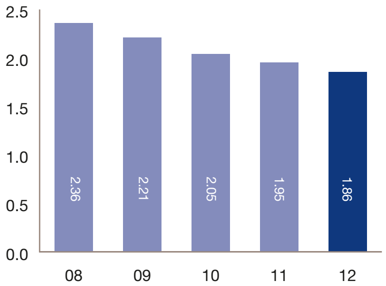
A basic prerequisite is that laws and regulations are met and complied with. In addition, Alfa Laval supplements the above with its own, more far-reaching policies in a number of different areas. As regards health and safety, the Health & Safety organization develops rules, sets targets and performs measurements to be able to follow trends. They prepare specific tools and offer training to support health and safety efforts in the various parts of the organization. A number of different targets are in place, which are followed up and reported on. For more information, please read our GRI report, which is published in the sustainability section at www.alfalaval.com.

However, there are also soft issues that are equally as important when it comes to creating a positive work environment. One factor is the atmosphere conveyed by management through the organization. Meeting each other with respect and kindness is decisive in creating a sense of well-being. This also includes continuously challenging personnel and offering them opportunities for development and further education as well as ensuring that nationality, religion, ethnic origin and gender do not comprise any barrier for the individual's career development. Experience, knowledge and commitment must be the most important factors.

AVERAGE NUMBER OF EMPLOYEES

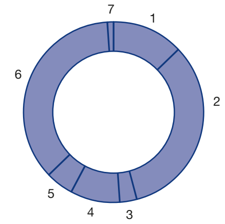


SALES PER EMPLOYEE, SEK MILLION



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

EMPLOYEES PER REGION



1	Sweden	13%
2	Other EU	33%
3	Other Europe	3%
4	North America	9%
5	Latin America	5%
6	Asia	36%
7	Other	1%

"I would like all our managers to look in the mirror and ask themselves how they can manage our business in a more sustainable manner. Our review of the Business Principles in 2012 comprised a key component of this reflection.

I am very pleased with the resulting document, but even more pleased by the positive engagement of everyone in this work. The review generated many helpful suggestions, comments and, at times, lively discussions. I am therefore confident that the revised Business Principles have a strong ownership in the company's management.

But the real challenge of such a document is not in its production but in its implementation. Some of the Principles are simple instructions and unequivocal in their meaning. But, like some parts of the United Nations and OECD documents on which they are based, some of the Principles are more aspirational.

Whether an instruction or an aspiration, I am certain that by persistent implementation our revised Business Principles will help us find new opportunities to provide better everyday conditions for people."

Lars Renström

Alfa Laval's four Business Principles

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

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

This Sustainability Report focuses on the revision of the Business Principles and the environmental targets that were developed in 2012. We also outline some of the expected implications from the changes in our Business Principles.

More detailed sustainability information can be found on www.alfalaval.com with the complete text of the Business Principles, the 2012 Progress Report and the data rich Global Reporting Initiative (GRI).

WHY WE UPDATED OUR BUSINESS PRINCIPLES:

Alfa Laval's Business Principles were published in 2003. In the Annual Report for 2011, we gave a summary on the development since then – key goals, achievements and, in some cases, our underperformance.

The impetus to review our Business Principles came from the 2011 publication of the United Nations Guiding Principles on Business and Human Rights, the latest revision of the OECD Guidelines for Multi-National Enterprises, as well as our continued support for the United Nations Global Compact.

HOW WE WENT ABOUT IT:

We believe it is critical to make the Principles come alive in our day-to-day business. Therefore, ever since the inception of the original Business Principles, our philosophy has been to incorporate management systems, goal setting and monitoring into normal line-management functions. Thus, input from line managers and employees has been an essential part of our consultation process.

Alfa Laval has a pragmatic "tell it as it is" culture, and, accordingly, we have tried to follow the wording of the source documents as closely as possible. With these considerations in mind, comments to the various drafts were invited from employee representatives and management as well as SRI analysts and shareholders. Finally, the document was reviewed, improved and approved by the Group Management and Board of Alfa Laval.

WHAT'S NEW IN THE 2012 BUSINESS PRINCIPLES

Social

Respect for human rights is fundamental

In the past years, our social business principle has led to improved health and safety for our own employees, and has also focused on the labor conditions of workers at suppliers in low labor-cost countries. The revised OECD Guidelines encourage us to broaden this risk-based approach towards all business relationships. In response, we have added the "Protect, Respect and Remedy" concept of the United Nations Guiding Principles on Business and Human Rights, with the new clauses:

– Alfa Laval should carry out human-rights due diligence processes as appropriate to the size, nature and context of operations and the severity of the risks of adverse human rights impacts.

– Provide for, or co-operate through legitimate processes, in the remediation of adverse human rights impacts if Alfa Laval has caused or contributed to these impacts.

We expect these additional clauses to add new ethical and moral dilemmas to normal business decision making. At the moment, these paragraphs are aspirations and so we will proceed cautiously and gradually to introduce a broader human-rights risk assessment process into our operations.

Alfa Laval engages in many local community initiatives. However, inspired by the 2012 launch of the United Nation's Global Compact Children's Rights and Business Principles, we will be guiding group companies to focus initiatives on the development of human rights, education and health for children.

– Wherever it operates, Alfa Laval wants to make a positive contribution to local community activities commensurate with its relative size as an employer in the community. Contributions could be targeted at projects committed to the care and development of human rights, education and health for children.

Social responsibility is an important consideration when talented people are seeking employment. Our new community engagement focus does not mean we will immediately pull out of other existing community activities but we believe a unified focus will encourage more employees and management teams to engage in community activities with a consequent benefit to society as well as an enhancement of our attractiveness as an employer.

Business Integrity:

High ethical standards guide our conduct

Eliminating bribery and corruption is essential for the continued development of international fair trade. Alfa Laval has conducted intensive training, internal auditing and reporting on this issue during the past years. This amended paragraph in the Business Principles includes quotes about agents and third parties which previously were to be found in training material and internal policies.

– Alfa Laval works against corruption in all its forms, including extortion and bribery. Alfa Laval companies or employees must not give, promise or offer anything of value to any customer, government employee or any person for the purpose of improperly securing a decision, securing an advantage, avoiding a disadvantage or obtaining or retaining business. Furthermore, Alfa Laval does not permit agents, suppliers, contractors, consultants or other third parties working on its behalf to engage in this kind of behavior.

To further strengthen the implementation of our Anti-Bribery and Corruption Policy we have created a “Commercial Ethics Council” which is chaired by the CEO. The Council has the responsibility of ensuring that there are adequate anti-bribery and corruption policies and processes in the company as well as of reviewing risk assessments.

Transparency:

The company’s commitment to open dialog builds trust

The foundation on which our Transparency Principles stand is accurate factual information. Since 2003, we have implemented reporting systems to track essential non-financial indicators linked to the Business Principles. The inclusion of the following paragraph gives recognition to the importance of these systems as a part of “business-as-usual”.

– All entities in Alfa Laval strive to measure and record relevant non-financial information relating to the implementation of the Business Principles. This helps to maintain a focus on the issues as well as provide key data by which targets can be set and progress can be tracked. Progress reports are published externally in the sustainability report section of www. alfalaval.com. and internally via the intranet and through meetings of the European Employee Council and other employee representative groups.

Whilst the initial reporting focus has been on employee and shareholder information, in recent years, sustainability information has become an important element of market communication. In 2012 we published a special sustainability issue of our customer magazine, Here.

Environment:

Optimizing the use of natural resources is our business.

During 2012, a new environmental improvement strategy was developed and announced together with new key targets.

KEY ENVIRONMENTAL TARGETS FOR MANUFACTURING UNITS (BASELINE 2011, TARGET 2015)

- *Improve energy efficiency by 12 percent*
- *Reduce water consumption by 20 percent*
- *Reduce restricted “grey” chemicals usage by 50 percent*
- *Reduce Greenhouse gas from freight transportation by 12 percent*

During the past years, the Alfa Laval Environmental Management System (EMS) has been implemented in 34 sites. In 2006, when the last environmental targets were set, there were only 20 sites in the EMS. Each year, additional sites have also been added through organic growth and acquisitions. These changes make year-on-year comparisons of environmental data very difficult. Our new targets apply to all sites but, to facilitate tracking of progress, we will provide comparative data for the 23 sites that together accounted for over 85 percent of our manufacturing energy consumption in 2011.

In 2012, 3 energy-savings projects were completed and 19 started in the manufacturing sites that consume 85 percent of total energy. At the end of 2012, we recognized that we have not yet initiated enough projects in the year to achieve our challenging targets. We are taking actions to increase the number of projects in all areas. More details can be found in the 2012 Business Principles Progress Report.

ALFA LAVAL’S ENVIRONMENTAL WORK

Financial statements

Board of Directors' Report	48
Consolidated cash flows	64
Comments to the consolidated cash-flows	65
Consolidated comprehensive income	66
Comments to the consolidated comprehensive income	67
Consolidated financial position	70
Comments on the consolidated financial position	72
Changes in consolidated equity	73
Comments on changes in consolidated equity	75
Parent company cash flows	76
Parent company income	76
Parent company financial position	77
Changes in parent company equity	78
Notes to the financial statements	79
Accounting principles	79
Objectives, policies and processes for managing capital	87
Financial risks	88
Operational risks	91
Notes	94
Proposed disposition of earnings	126
Audit Report	127
Ten-year overview	140
Definitions	142

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, 2012 to December 31, 2012.

The information in this annual report is such information that Alfa Laval AB (publ) must publish in accordance with the Securities Market Act and/or the Financial Instruments Trading Act. The information was made public by publishing the annual report on Alfa Laval's website on March 28, 2013 at 9.00 CET and by sending the printed annual report to the shareholders in week 14, 2013 starting at April 2, 2013.

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.

The Corporate Governance Report, which also has been audited, is to be found on page 128.

Ownership and legal structure

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

The company had 34,629 (36,567) shareholders on December 31, 2012. The largest owner is Tetra Laval B.V., the Netherlands who owns 26.1 (26.1) percent. Next to the largest owner there are nine institutional investors with ownership in the range of 6.7 to 0.7 percent. These ten largest shareholders own 51.4 (53.5) 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.

Starting at January 1, 2012 a new business division Marine & Diesel has been added to Alfa Laval's two business divisions Equipment and Process Technology. It consists of the absolutely greater part of the acquired Aalborg Industries that is engaged in marine applications and the former business segment Marine & Diesel and the marine part of Parts & Service from the Equipment division. The residual part of Aalborg Industries is included in Process Technology.

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

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

Material factors of risk and uncertainty

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

Acquisition of businesses

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

During 2012

Alfa Laval has acquired the US-based company Air Cooled Exchangers, LLC (ACE), a leading manufacturer of custom-engineered air-cooled heat exchangers, used to cool air, natural gas, oil and water in the natural gas market as well as other energy-related end markets. Lars Renström, President and CEO of the Alfa Laval Group, comments: "The acquisition of ACE brings a new product range into our heat transfer offering, at a time when demand for air-cooled heat exchangers is accelerating – especially in the natural gas industry. Together, Alfa Laval's overall position is further strengthened and we are even better positioned to serve the energy-related industries." The intention is to integrate Air Cooled Exchangers, LLC into Alfa Laval's Energy & Environment segment, within the Process Technology division. The company was acquired on December 31, 2012. The company is located in Broken Arrow, Oklahoma, the U.S. and has 230 employees.

On November 27, 2012 Alfa Laval acquired the remaining 10 percent of the shares in the subsidiary LHE Co Ltd in South Korea from the minority shareholder.

Alfa Laval has acquired Gamajet Cleaning Systems, Inc., a leading provider of tank cleaning machines as well as self-contained and portable cleaning systems for the industrial and sanitary markets in North America. Gamajet is headquartered in Exton, Pennsylvania. Lars Renström, President and CEO of the Alfa Laval Group, comments on the acquisition: "We have built the leading position within tank cleaning equipment over the past 10 years. Gamajet fits very well with our ambitions and it expands our product portfolio. It will especially extend our offer to the industrial market and also strengthen our position in North America." Gamajet Cleaning Systems will be integrated into Alfa Laval. The company is consolidated from August 23, 2012.

Alfa Laval has acquired Ashbrook Simon-Hartley, a leading provider of belt filter presses, which is a complement and alternative to Alfa Laval's decanter range in the dewatering of municipal and industrial wastewater. Ashbrook Simon-Hartley is headquartered in Houston, Texas, USA, with offices in the UK, Chile and Brazil, and has an installed base in many countries around the world. Lars Renström, President and CEO of the Alfa Laval Group, comments on the acquisition: "I'm very pleased that we have been able to acquire Ashbrook Simon-Hartley. With this acquisition we are adding a complementary and expanded range of products and solutions further strengthening our offer for municipal and industrial wastewater treatment applications." Ashbrook Simon-Hartley was founded more than 100 years ago. The intention is to integrate Ashbrook Simon-Hartley into Alfa Laval. The company is consolidated into Alfa Laval from August 1, 2012.

Alfa Laval has acquired the U.S. based company Vortex Systems, a leading manufacturer of innovative mixing and blending solutions for the oil and gas industry. Lars Renström, President and CEO of the Alfa Laval Group, comments on the acquisition: "The acquisition of Vortex Systems will further strengthen our offering to the interesting oil and gas industry, both for onshore and offshore applications." Vortex Systems is located in Houston, Texas, the U.S. The intention is to integrate Vortex Systems into Alfa Laval. The company is consolidated into Alfa Laval from June 30, 2012.

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

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

During 2011

On May 1, 2011 Alfa Laval acquired a well established service company in the U.S. The company is a leading provider on the North American market specialized in serving equipment for centrifugal separation. "The acquisition is another step in the ambition to serve the market with alternative offerings", says Lars Renström, President and CEO of the Alfa Laval Group. The company will remain a separate organization as they will continue to offer their own products and services to the industry, under their own brand.

In a press release on December 21, 2010, Alfa Laval announced that an agreement had been signed to acquire Aalborg Industries Holding A/S from Altor 2003 Fund, LD Equity and the Company's management. Aalborg Industries had some 2,750 employees and generated sales of about SEK 3.3 billion in 2010. Clearances from all concerned regulatory authorities were received at the beginning of May 2011. Aalborg Industries are consolidated into the Alfa Laval Group as of May 1, 2011. Aalborg will be fully integrated into Alfa Laval. Non-recurring costs for the integration are estimated at SEK 80 million. During the latter part of 2013 the annual synergy is estimated at SEK 100 million. The acquisition, which adds complementary energy-efficient and environmental solutions, represents a significant business opportunity as it supports Alfa Laval's existing offer to the marine and offshore markets. Another opportunity lies in the introduction of Aalborg's products to customers in completely new end markets, through Alfa Laval's sales network.

"Aalborg Industries is an excellent fit and I'm very pleased to welcome a strong and well-run company into Alfa Laval", says Lars Renström, President and CEO of the Alfa Laval Group. The acquisition further strengthens Alfa Laval's product offering in heat transfer. It adds market-leading positions with products such as boilers and thermal fluid systems, as well as inert gas systems, with significant barriers to entry. These include extensive certification processes, a strong innovation track record and a global service network. The company's strong manufacturing and engineering presence in fast-growing markets such as China, Vietnam and Brazil, as well as the aftermarket potential generated by a large installed base, are also highly attractive attributes.

During 2010

On December 6, 2010 Alfa Laval acquired the Italian company Olmi S.p.A., a leading company specialized in the design and manufacture of shell & tube heat exchangers and air coolers for niche applications in the petrochemical, power and oil & gas industries. The acquisition expands Alfa Laval's product portfolio. Lars Renström, President and CEO of the Alfa Laval Group, commented: "The acquisition of Olmi will substantially strengthen our platform to expand into the high pressure, high temperature heat exchanger market. At the same time, Alfa Laval's strong global presence allows us to take the offering to new geographical markets and customers." The intention is to integrate Olmi into Alfa Laval as a competence centre based on their unique know-how. Olmi's turnover for 2010 amounted to SEK 971 million.

On November 1, 2010 Alfa Laval acquired the Definox activities from Defontaine. Definox designs and manufactures stainless steel valves and equipment for the food processing, pharmaceutical and cosmetic industries. Definox will continue to offer its own product range, under its own brand and through its own sales network. Lars Renström, President and CEO of the Alfa Laval Group commented: "The acquisition of Definox fits our strategy to capture growth opportunities, in this case driven by quality and safety demands from the food and pharmaceutical industries. We will drive profitable growth by adding an independent channel to the very interesting food and pharma market." Definox has offices and manufacturing in Gétigné close to Nantes in France and subsidiaries in the U.S. and China. Definox had a turnover in 2010 of SEK 239 million.

On April 1, 2010 Alfa Laval acquired Astepo S.r.l. in Italy. The company is recognized for its solid know-how in aseptic technology, with key products such as bag-in-box fillers and heat exchangers targeting the global fruit juice concentrate industry. Lars Renström, President and CEO of the Alfa Laval Group commented: "The acquisition of Astepo is in line with our strategy to continue to strengthen our position within the food business. The enhanced offering in combination with our strong local presence will create new opportunities." During 2010 Astepo's turnover was SEK 62 million.

On April 1, 2010 Alfa Laval acquired 65 percent of the shares in Si Fang Stainless Steel Products Co. Ltd in China, which is a leading fluid handling company in China. The company targets the food and beverage market in China with its sanitary product portfolio, including pumps, valves and fittings. Si Fang will continue to offer its own product range, under its own brand and through its own sales network. Lars Renström, President and CEO of the Alfa Laval Group commented: "Si Fang fits our strategy to capture structural growth opportunities, i.e. structural changes in demand. We will drive profitable growth by adding an independent channel to the expanding food and beverage market in China." Si Fang had a turnover in 2010 of SEK 167 million.

On January 6, 2010 Alfa Laval acquired a well established service company in the U.S., that is a leading service provider on the North American market specialized in plate heat exchangers. The company will remain a separate organisation as they will continue to offer their own products and services to the industry under their own brand. Lars Renström, President and CEO of the Alfa Laval Group commented: "The acquisition is another step in the ambition to serve the market with alternative offerings. The Parts and Service business is of high priority and we have during 2009 seen its resilience." The company's net sales for 2010 were SEK 163 million.

On January 5, 2010 Alfa Laval acquired Champ Products Inc., based in Sarasota, Florida, the U.S. The company is recognized for its deep knowledge of engine cooling and is today perceived as a leading company in the North American market. Lars Renström, President and CEO of the Alfa Laval Group commented: "By the acquisition of Champ Products we strengthen our position through an extended product range, reinforced application knowledge and further market penetration amongst engine and vehicle manufacturers in North America. In addition, we expect Champ's product range and application knowledge to create opportunities in Europe and Asia as well." Champ's turnover for 2010 amounted to SEK 111 million.

In addition one minor acquisition has been made during 2010:

On February 10, 2010 Alfa Laval acquired the German company G.S Anderson GmbH. The company had a turnover in 2010 of SEK 10 million.

Sale of real estate

During 2012 a property in Korea that has been used by Onnuri was sold for SEK 21 million with a realised loss of SEK -3 million.

In addition to the property that was sold during 2012 Onnuri has an additional property in South Korea that is empty and will be sold during the beginning of 2013. Due to this it has been re-classified as a current asset held for sale with SEK 9 (-) million.

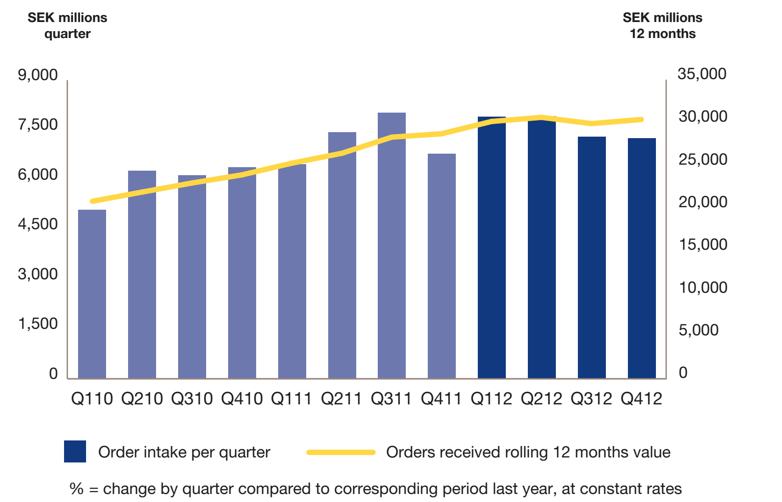
Alfa Laval Aalborg BV in Spijkenisse in the Netherlands will leave its current premises during the first half of 2013 and move to Alfa Laval's office in Breda in the Netherlands. The vacated property is to be sold, but it is not expected to be sold within the next year. One small property in France is planned for sale. It is empty and has been for sale for several years. It is not expected to be sold within the next year. This means that none of these properties have been re-classified as current assets held for sale. The fair value of the concerned properties exceeds the book value by approximately SEK 4 (2) million.

During 2011 no major sale of properties took place. No property was re-classified as current assets held for sale.

During 2010 a property in France was sold for SEK 6 million with a realised gain of SEK 6 million and a property in India was sold for SEK 7 million with a realised gain of SEK 4 million. The French property was for sale already at the end of last year, but it was not expected to be sold in 2010. No property was re-classified as current assets held for sale.

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

ORDERS RECEIVED



Orders received amounted to SEK 30,339 (28,671) (23,869) million during 2012.

ORDER BRIDGE

Consolidated			
SEK millions, unless otherwise stated	2012	2011	2010
Order intake last year	28,671	23,869	21,539
Structural change [1]	1.6%	10.5%	4.1%
Organic development [2]	4.7%	17.8%	11.8%
Currency effects	-0.5%	-8.2%	-5.1%
Total	5.8%	20.1%	10.8%
Order intake current year	30,339	28,671	23,869

Orders received from the aftermarket Parts & Service constituted 26.4 (26.1) percent of the Group's total orders received for 2012. Excluding exchange rate variations, the order intake for Parts & Service increased by 7.2 percent during 2012 compared to last year.

1) Acquired businesses are:
Air Cooled Exchangers, LLC (ACE) at December 31, 2012, Gamajet Cleaning Systems Inc at August 23, 2012, Ashbrook Simon-Hartley at August 1, 2012, Vortex Systems at June 30, 2012, Aalborg Industries at May 1, 2011, a service company in the U.S. at May 1, 2011, Olmi at December 6, 2010, Definox at November 1, 2010, Si Fang Stainless Steel Products Co. Ltd at April 1, 2010, Astepo S.r.l. at April 1, 2010, a leading service provider on the North American market at January 6, 2010 and Champ Products Inc., at January 5, 2010.

2) Change excluding acquisition of businesses.

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 2012 Alfa Laval has received large orders for SEK 2,475 (1,430) million. By quarter it has looked like the following:

During the first quarter 2012 Alfa Laval received large orders for SEK 950 (185) million:

- An order to supply newly developed decanters for cleaning of industrial wastewater in Canada. The order value is approximately SEK 110 million and delivery is scheduled for 2012.
- An order from Mitsubishi Heavy Industries Ltd to supply Alfa Laval Aalborg Exhaust Gas Economizers to vessels built for A.P. Møller-Mærsk. The order value is approximately SEK 230 million and delivery is scheduled to start in 2012 and be finalized during 2014.
- An order to supply Alfa Laval plate heat exchangers to a nuclear power plant in Russia. The order value is approximately SEK 120 million and delivery is scheduled to start in 2013 and be completed during 2015.
- An order from Wärtsilä Corporation to supply heat exchangers, boilers and separators for a combined cycle power plant to be built in Central America. The order value is approximately SEK 60 million and delivery is scheduled for 2012.
- An order to supply a variety of Alfa Laval products to a brewery in Indonesia. The order value is approximately SEK 50 million and delivery is scheduled for 2012.
- A plate heat exchanger order from a big oil company in Brazil. The order value is approximately SEK 130 million and delivery is scheduled for 2012.
- An order to supply newly developed decanters for cleaning of industrial waste water in Canada. The order value is approximately SEK 250 million, with delivery scheduled for 2013.

During the second quarter 2012 Alfa Laval received large orders for more than SEK 600 (500) million:

- An order to supply fresh water generators to an oil platform in the North Sea. The order is worth approximately SEK 50 million. Delivery is scheduled for 2012.
- An order to supply Alfa Laval plate heat exchangers to a fertilizer producer in Morocco. The order value is approximately SEK 75 million. Delivery is scheduled to start during 2012 and be finalized in 2014.
- An order from a Korean engineering company to supply heat exchangers for a natural gas project in Saudi Arabia. The order value is approximately SEK 80 million and delivery is scheduled for 2013.
- An order from a Technip Samsung Consortium (TSC) to supply Alfa Laval equipment to Shell's Prelude FLNG (floating liquefied natural gas) facility. Alfa Laval is unable to disclose the exact value of the order due to a confidentiality agreement.
- An order to supply a complete Dried Distillers Grains with Solubles (DDGS) process line to one of the biggest distilleries in Russia. The order value is approximately SEK 60 million and delivery is scheduled for 2013.
- An order to supply of Alfa Laval Packinox heat exchangers from a refinery in South Korea. The order value is about SEK 120 million and delivery is scheduled for 2013.
- An order for Alfa Laval Packinox heat exchangers from a refinery in South Korea. The order value is about SEK 60 million and delivery is scheduled for 2013.
- An order to supply a unique evaporation system to an AkzoNobel chemical plant in Germany. The order is worth approximately SEK 60 million and delivery is scheduled for 2013.

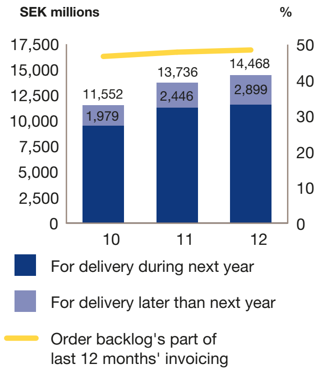
During the third quarter 2012 Alfa Laval received large orders for SEK 475 (525) million:

- An order to supply fresh water generators and diesel oil purifiers to major offshore platforms in Brazil. The order is worth approximately SEK 85 million and delivery is scheduled to start 2013 and be finalized in 2015.
- An order for heat exchanger systems to be used for district heating at a university in the US. The order is worth approximately SEK 70 million and delivery is scheduled to start in 2012 and be finalized in 2014.
- An order to supply Alfa Laval compact heat exchangers to a petrochemical company in Western Europe. The order value is approximately SEK 70 million and delivery is scheduled to start in 2013 and be finalized during 2014.
- An order to supply Alfa Laval Aalborg boilers to an offshore oil production vessel in Vietnam. The order value is approximately SEK 50 million and delivery is scheduled for 2013.
- An order to supply process equipment to two infrastructure projects in Russia. The order value is approximately SEK 130 million and delivery is scheduled for 2013.
- An order for compact heat exchangers from a refinery in Russia. The order value is approximately SEK 70 million and delivery is scheduled for 2013.

During the fourth quarter 2012 Alfa Laval received large orders for more than SEK 450 (220) million:

- An order to supply Alfa Laval Packinox heat exchangers to one of the world's largest petrochemical complexes in Saudi Arabia. The order value is approximately SEK 120 million and delivery is scheduled to start in 2013 and be finalized in 2014.
- An order from a major pharmaceutical company in India to supply a processing line for a new insulin plant in Malaysia. The order is worth approximately SEK 90 million and delivery is scheduled for 2014.
- An order from Abengoa to supply Alfa Laval Packinox heat exchangers to a concentrated solar power plant in South Africa. Delivery is scheduled to be finalized in 2014. Due to a confidentiality agreement Alfa Laval is unable to disclose the exact value of the order.
- An order to supply compact heat exchangers to an LNG plant (Liquefied Natural Gas) in Australia. The order is worth approximately SEK 50 million and delivery is scheduled to take place in 2013 and 2014.
- An order from Wärtsilä to supply Alfa Laval Aalborg waste heat recovery system to a gas-fired power plant in South Africa. The order has a value of approximately SEK 50 million. Delivery is scheduled for 2013.
- The first order to supply Alfa Laval PureSOx exhaust gas cleaning systems. The order has a value of approximately SEK 60 million. Delivery is scheduled for 2013. Due to a confidentiality agreement Alfa Laval is unable to disclose the name of the customer or other details about the order.

ORDER BACKLOG DECEMBER 31



The order backlog at December 31, 2012 was SEK 14,468 (13,736) (11,552) million. Excluding exchange rate variations and adjusted for acquisitions of businesses the order backlog was 3.8 percent higher than the order backlog at the end of 2011.

Net sales

Net sales amounted to SEK 29,813 (28,652) (24,720) million during 2012.

SALES BRIDGE

Consolidated

SEK millions, unless otherwise stated	2012	2011	2010
Net sales last year	28,652	24,720	26,039
Structural change	3.5%	11.0%	4.4%
Organic development	0.9%	12.7%	-5.2%
Currency effects	-0.3%	-7.8%	-4.3%
Total	4.1%	15.9%	-5.1%
Net sales current year	29,813	28,652	24,720

Net invoicing relating to Parts & Service constituted 26.6 (25.9) percent of the Group's total net invoicing for 2012. Excluding exchange rate variations, the net invoicing for Parts & Service increased by 7.2 percent during 2012 compared to last year.

Operating segments

EQUIPMENT DIVISION

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

EQUIPMENT DIVISION

Consolidated

SEK millions	2012	2011	2010
Orders received	9,701	9,508	8,903
Order backlog*	1,583	1,385	1,447
Net sales	9,476	9,447	8,629
Operating income**	1,389	1,278	2,087
Depreciation and amortisation	162	156	164
Investments	46	67	43
Assets*	5,804	6,018	6,431
Liabilities*	986	1,063	1,414
Number of employees*	2,813	2,799	3,257

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

CHANGE EXCLUDING CURRENCY EFFECTS

Consolidated

%	Order intake: Structural change	Order intake: Organic development	Order intake: Total	Net sales: Structural change	Net sales: Organic development	Net sales: Total
2012/2011	0.5	1.6	2.1	0.6	-0.1	0.5
2011/2010	2.9	10.4	13.3	3.0	13.3	16.3
2010/2009	5.6	15.5	21.1	5.2	9.1	14.3

Orders received and net sales

(all comments are after adjustment for exchange rate fluctuations)

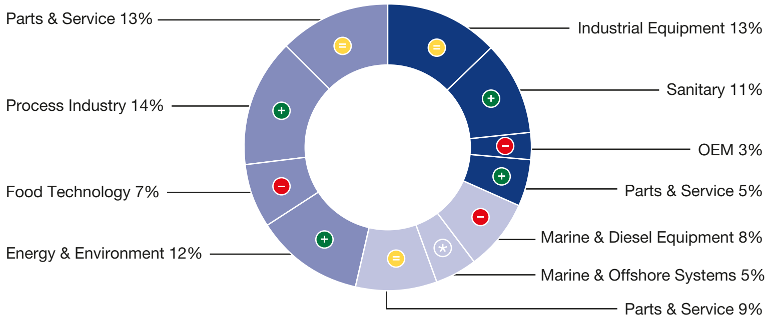
Taking a quarterly view the development for Equipment division during 2012 has been as follows:

Order intake for the division was flat in the first quarter compared to both the corresponding period 2011 and the previous quarter. Industrial Equipment was down somewhat from the fourth quarter, mainly due to the seasonality in the comfort business. On the other hand, the market unit OEM engine grew significantly, boosted by increased demand in end markets such as the US, the UK and China and also as a result of new products getting a positive reception from customers, primarily in the US. The customer segment OEM was slightly up from the fourth quarter. Industries like boilers and HVAC were down due to seasonality, whereas demand from air conditioning and industrial refrigeration customers was good. Sanitary continued to grow compared to the previous quarter, mainly driven by increased demand for prepared food. The traditional markets in Western Europe and North America were the main contributors to the growth, while the BRIC countries were flat. Order intake in Parts & Service grew significantly in the quarter to an all-time high level, mainly driven by developments in Western Europe and North America. Most applications contributed to the positive development.

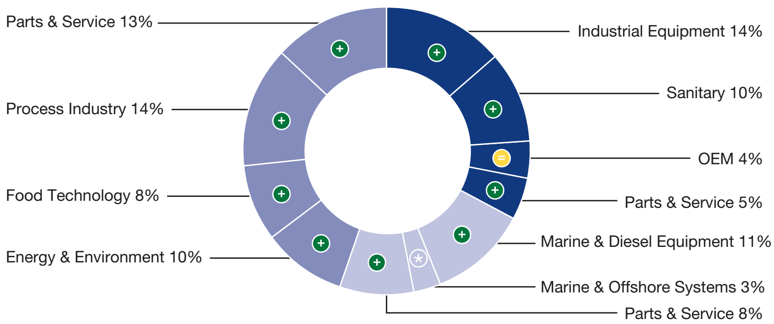
Order intake for the division was up notably in the second quarter, compared to the first, driven by a positive development for both Sanitary and Industrial Equipment. Sanitary showed continued growth com-

ORDERS RECEIVED BY CUSTOMER SEGMENT

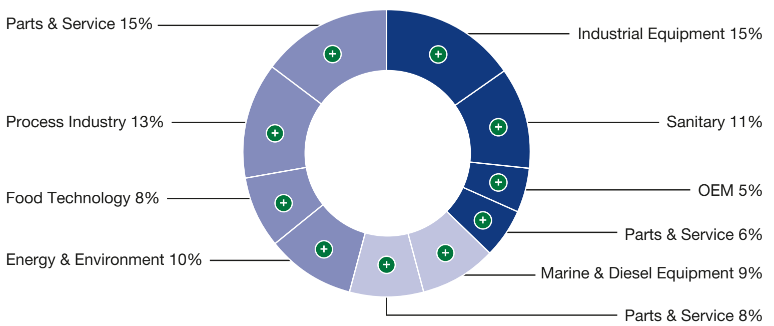
Orders received by customer segment 2012



Orders received by customer segment 2011



Orders received by customer segment 2010



Equipment
Process Technology
Marine & Diesel

increase
decrease
unchanged (+/- 3%)

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

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

pared to the previous quarter, due to a strong development for food & beverage, combined with a good recovery for pharmaceuticals and personal care. The base business* showed continued strength. Healthy volumes were maintained in Western Europe, North America and Latin America. In North America demand was driven by investments in increased capacities for yoghurt manufacturing while the Chinese dairy industry remained without large projects. Industrial Equipment increased significantly compared to the first quarter, mainly due to the seasonality of the HVAC business and a number of projects that were booked in the quarter. The refrigeration market unit also reported some continued growth, even as demand was on the weak side in the Nordic and Benelux countries, which limited the upside. OEM was unchanged compared to the first quarter. Demand from boiler and HVAC manufacturers grew, in spite of a slow start to the season. Demand from heat pump manufacturers was good and up compared to the first quarter, whereas the order intake from markets for air conditioning and industrial refrigeration decreased. The best performance was seen in China and Western Europe. In Parts & Service order intake was unchanged compared to the first quarter. The BRIC markets reported good growth, as did the markets in Western and Central Europe.

Order intake declined somewhat in the third quarter compared to the second. OEM faced lower demand, whereas all other segments were unchanged. From a geographical perspective China, India and South Korea all did well and the U.S. market had a continued stable development, whereas the overall European market declined. Sanitary was flat compared to the second quarter, as a result of the mixed picture seen in the different end markets. The food & beverage market unit had a strong quarter, while products targeting the personal care market saw lower demand. US, China and Western Europe were all up, but the Nordic market reported a decline in orders. Industrial Equipment was unchanged from the second quarter, mainly due to a major HVAC project landed in the third quarter in North America. In general, products for the HVAC markets developed well whereas order intake for products targeting refrigeration applications was below the previous quarter. U.S. and China were both developing well while the

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

European market, with a few exceptions, was slow. OEM faced lower demand in the third quarter than in the second, to a very large extent driven by lower order intake for air conditioning and heat pump applications. The demand in the European market was overall lower, while volumes were up in markets such as Japan and China. The demand for parts and services was flat from the second quarter, reflecting the capital sales activity of the different end markets. Demand for parts and services for dairy, ice cream and HVAC applications was up, while volumes connected to refrigeration and general manufacturing applications declined.

Order intake was stable in the fourth quarter compared to the third as Industrial Equipment declined due to seasonality, while both Sanitary and OEM reported growth. From a geographical perspective Benelux, Japan, the UK and India all did well. There was a decline in the U.S. as the large district heating order, booked in the third quarter, was not repeated. Still, the base business in the country remained unchanged. Sanitary saw an increase in the quarter and demand was strong for products targeting all applications, with products for brewery, health care and "other food" doing particularly well. Most major markets grew and most significant were the U.S., Benelux and India. Industrial Equipment declined compared to the third quarter, the main reason being seasonality in HVAC. Another factor was the non-repeat of a large district heating order in the U.S., something which also explained the decline in the U.S. The development for the market unit refrigeration was flat while demand was higher for both fluids & utility and engine. Geographically, Mid Europe, Benelux and the UK all had a positive development and significant growth was also reported from previous low activity levels in India, Japan and the Middle East. OEM came out well above the level seen in the third quarter, mainly through orders from customers producing air conditioning and air dryer products. Growth was reported in Japan, Benelux and China. Parts & Services declined somewhat compared to the third quarter reflecting a lower demand for parts and services for HVAC applications.

Operating income
(excluding comparison distortion items)
The increase in operating income during 2012 compared to last year is mainly explained by lower costs and a positive price/mix variation. The Equipment division has also benefitted from the higher utilization in the Group's factories.

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

Orders received and net sales
(all comments are after adjustment for exchange rate fluctuations)
Taking a quarterly view the development for Process Technology division during 2012 has been as follows:

Order intake in the first quarter was very strong and well above the previous quarter driven by a significant increase for large orders, especially related to applications for energy and environment. Parts & Service reported continued growth and the base business was stable and in line with the previous quarter. Geographically, all regions recorded growth, with North America and Asia doing particularly well. Energy and Environment had a very strong quarter, securing two large orders for a newly developed decanter for cleaning of industrial waste water. Order intake within the oil & gas market unit was also at a high level, as the high energy prices continued to boost investment activity. The power market unit saw a very strong order activity, with a good mix between different power solutions. Process Industry was down somewhat from the fourth quarter, mainly due to non-repeats of contract orders in the market units refinery and life science. The market units inorganics, metals and paper as well as petrochemicals, however, showed good growth, largely due to a sustained strong base business. Food Technology was up somewhat from the previous quarter, particularly supported by the brewery sector, where investments were returning and vegetable oil, which was supported by continued capacity investments in Asia and Latin America. Parts & Service recorded further growth, supported by an above average activity level in the energy & environ-

PROCESS TECHNOLOGY DIVISION

Consolidated

SEK millions	2012	2011	2010
Orders received	14,081	12,738	10,922
Order backlog*	8,358	6,889	6,568
Net sales	12,812	12,160	10,625
Operating income**	2,194	2,506	2,140
Depreciation and amortisation	230	208	197
Investments	110	127	85
Assets*	10,608	9,500	8,332
Liabilities*	4,304	4,167	4,152
Number of employees*	5,085	4,531	4,105

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

CHANGE EXCLUDING CURRENCY EFFECTS

Consolidated

	Order intake			Net sales		
%	Structural change	Organic development	Total	Structural change	Organic development	Total
2012/2011	2.2	9.2	11.4	2.0	4.2	6.2
2011/2010	5.3	19.7	25.0	4.2	18.5	22.7
2010/2009	3.8	12.5	16.3	5.6	-8.1	-2.5

ment related industries. In general, most industry applications served with parts and services showed a positive development. Geographically, the strongest growth was recorded in the BRIC countries.

Order intake in the second quarter was in line with the strong level of the previous quarter as demand from energy-related applications continued to support the development. Geographically, Western Europe and Asia recorded significant growth while North America showed a decline compared to the previous quarter as large wastewater treatment orders taken in the first quarter were not repeated. The base business was stable and unchanged from the previous quarter. Energy and Environment was below the previous quarter, which included several very large orders of a non-repeat nature. The market unit oil & gas was affected by challenging comparison numbers, still the overall investment sentiment in the sector is continuously favourable. Process Industry noted strong growth compared to the first quarter, for all areas of activity, but predominantly in the refinery sector in Asia and the Middle East. The market units natural resources and inorganics, metals and paper also showed good growth, to a large extent deriving from several larger orders taken primarily in Eastern and Western Europe. Food Technology showed an increase compared to the first quarter, particularly driven by the development in the beverage and viscous food markets. The market units for brewery and vegetable oil remained in line with the previous quarter. Parts & Service was somewhat lower, since several very large orders of a non-repeat nature were booked in the first quarter. However, the underlying base business remained stable, not least in the energy and oil & gas related sectors.

Order intake in the third quarter was on a continued high level and in line with the second quarter, supported by a continued good development for the Energy & Environment segment. Geographically, North as well as Latin America recorded significant growth while Asia showed a decline compared to the previous quarter. The decline is due to large orders, taken primarily in Korea in the second quarter, were not repeated. Overall it was large orders that supported the development, while the base business declined somewhat. Energy & Environment rose, lifted by the environmental business, which continued to grow. The market unit power also developed favourably and noted a strong upturn due to increased demand for both conventional power applications and nuclear. Some of the uncertainty which has been affecting the nuclear industry seems to be easing. The oil & gas sector showed a continued positive development, albeit not as strong as the very high levels noted earlier in the year. In the Process Industry segment, the petrochemicals market unit benefitted from several large capacity-related projects in the U.S., Middle East and Asia. The market unit refinery did not repeat the very large orders taken in the previous quarter, but overall the refinery sector remains positive, not least in Asia and the Middle East. The market unit for metals and paper noted a decline. The segment as a total was down compared to the second quarter. In Food Technology there were fewer large projects contracted for vegetable oil in Asia and Eastern Europe. The brewery sector, however, continued to develop favourably. Parts & Service reported a continued stable development and grew slightly from the second quarter. The most significant development was noted in the energy and oil & gas related sectors followed by Food. Applications for the Process Industry, however, declined.

Demand was unchanged in the fourth quarter compared to the previous quarter. Large orders were slightly lower than in the third quarter, although still at a high level, while the base business reported growth. Geographically, North America was stable, Latin America was down somewhat and Asia, in particular India and the Middle East, showed strong growth. Energy & Environment declined as the level of large contracts booked for the market unit oil & gas was lower. Still, the strong demand seen throughout the year remained and the sector had a continued high activity level. At the same time, the environmental business recorded a strong increase in orders, in particular from the base business. Noteworthy within the power market unit, was the large order to supply a Packinox heat exchanger solution to a concentrated solar power plant in South Africa. Process Industry rose from the third quarter, with a positive development in most areas and the base business developed favourably across all market units. The refinery market unit saw a continued good development, driven by the Middle East and Asia. The market unit petrochemicals on the other hand declined somewhat due to a large non-repeat order in the third quarter, but the underlying sentiment remained positive. Market unit life science developed very well as the favourable development in Asia continued, to a large extent driven by demand from the biotech industry. Food Technology showed strong growth compared to the third quarter, caused by both the base business and an even stronger recovery in large orders, primarily for vegetable oil in Asia. The brewery sector remained stable, and within beverage & viscous food, a continued beneficial development for food solutions, including fruit processing, contributed to growth. Parts & Service grew in the quarter, with the most significant development seen in the Process Industry applications.

Operating income
(excluding comparison distortion items)
The decrease in operating income during 2012 compared to last year is mainly explained by a changed mix in capital sales towards delivery of lower margin contract orders and negative foreign exchange effects, mitigated by a higher sales volume.

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

Orders received and net sales
(all comments are after adjustment for exchange rate fluctuations)
Taking a quarterly view the development for Marine & Diesel division during 2012 has been as follows:

Order intake in the first quarter for the Marine & Diesel division was strong and well above the previous quarter, driven mainly by an increased demand for boiler systems. In Marine & Diesel Equipment order intake was down somewhat compared to the previous quarter. While increased awareness in the industry continued to drive up demand for environmental solutions, order intake for other marine capital equipment was on the same pace as in the fourth quarter. The financial turmoil in the industry among charterers, ship owners and shipyards continued in the first quarter, leading to very low contracting levels for new vessels at the shipyards. For diesel capital equipment, order intake was somewhat lower than the previous quarter due to non-repeats. The activity level is, however, still good and the general market outlook for diesel power plants is positive. Marine & Offshore Systems showed significantly higher order intake than the previous quarter, driven by higher demand for boiler systems. A major contribution was the large order to supply waste heat recovery boilers for A.P. Möller-Maersk vessels. In Parts & Service order intake grew compared to the previous quarter.

Order intake in the second quarter for the Marine & Diesel division was down compared to the previous quarter, mainly due to the non-repeat of a large order for boiler systems taken in the previous quarter. In the Marine & Diesel Equipment segment, orders were up, supported by a significantly higher demand for land-based diesel power solutions. Demand for environmental solutions also grew while demand for marine capital equipment was on about the same level as in the first quarter. The financial stress in the industry among charterers, ship owners and shipyards continued and contracting of new vessels at the shipyards continued at a very low level during the quarter. Order intake for Marine & Offshore Systems was significantly lower in the second quarter than in the first as the large waste heat recovery order taken in the previous quarter was not repeated. Order intake for Parts & Service showed a positive development compared to the previous quarter due to larger upgrading and repair orders.

Order intake for the Marine & Diesel Division was down in the third quarter compared with the second quarter, reflecting the low contracting levels seen at the yards earlier in the year. At the same time demand for land-based diesel power solutions declined, as large orders taken in the second quarter were not repeated in the third. Order intake for the Marine & Diesel Equipment segment was hence below the previous quarter, even as demand for environmental solutions showed growth. The Marine & Offshore Systems segment reported unchanged order intake compared to the second quarter. Demand for parts and services declined as large orders taken in the second quarter, were not repeated in the third. Orders for Parts & Service still grew compared to the corresponding quarter last year.

Order intake for the division was down somewhat in the fourth quarter compared with the third, due to lower capital sales to marine as well as diesel power customers. The Marine & Diesel Equipment segment was below the previous quarter mainly driven by weaker demand for land-based diesel power solutions. Order intake for marine environmental solutions declined as well, as large orders booked in the third quarter were not repeated in the fourth. However, the base business recovered and showed a slight increase from the previous quarter. Marine & Offshore Systems reported lower order intake compared to the third quarter, reflecting the low contracting levels seen at the yards earlier in the year. The first commercial order for exhaust gas cleaning – the Alfa Laval PureSOx - was booked in the quarter at a value of SEK 60 million. Demand for parts and services showed growth compared to both the previous quarter and the fourth quarter last year, mainly due to a good repair activity.

MARINE & DIESEL DIVISION

Consolidated

SEK millions	2012	2011	2010
Orders received	6,557	6,423	4,042
Order backlog*	4,527	5,462	3,537
Net sales	7,525	7,043	5,443
Operating income**	1,458	1,718	536
Depreciation and amortisation	224	196	93
Investments	38	44	32
Assets*	8,309	8,874	2,877
Liabilities*	2,043	2,256	766
Number of employees*	3,346	3,563	422

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

CHANGE EXCLUDING CURRENCY EFFECTS

Consolidated

	Order intake			Net sales		
%	Structural change	Organic development	Total	Structural change	Organic development	Total
2012/2011	3.3	-0.8	2.5	11.8	-5.1	6.7
2011/2010	33.9	36.6	70.5	27.6	10.1	37.7
2010/2009	2.6	8.6	11.2	2.5	-14.2	-11.7

Operating income

(excluding comparison distortion items)

The decrease in operating income during 2012 compared to last year is mainly explained by lower margins due to a normalization of the price level against the ship building industry and negative foreign exchange effects, mitigated by increased volume and lower costs for sales and administration.

OTHER

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

OTHER

Consolidated			
SEK millions	2012	2011	2010
Orders received	0	2	2
Order backlog*	0	0	0
Net sales	0	2	23
Operating income**	-541	-568	-405
Depreciation and amortisation	318	315	342
Investments	337	317	269
Assets*	5,395	5,178	4,581
Liabilities*	2,188	2,284	2,247
Number of employees*	5,175	5,171	4,834

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

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

Western Europe including Nordic
Order intake grew in the first quarter compared with the fourth quarter last year, with the best development reported in France, Nordic and the United Kingdom. Among the segments Sanitary and Energy & Environment had a particularly good development and Parts & Service remained on a stable level. Growth was mainly driven by large projects with the base business* slightly up compared with the previous quarter.

Order intake increased in the second quarter compared to the first quarter, mainly due to the development for large projects. The base business as well as Parts & Service was unchanged. The best development was reported in France, Iberica, Nordic and the Benelux countries. Industrial Equipment and Process Industry both had a good development and the demand from the diesel power market was also strong.

Order intake decreased in the third quarter compared with the second quarter impacted by the development in France, Benelux and the mid Europe sales region. The first two were down due to non-repeat large orders. There was an overall decline for both large orders and the base business, while demand for Parts & Service was flat. The decline from a segment perspective was wide with only Industrial Equipment and Sanitary reporting a positive development.

Order intake increased in the fourth quarter compared to the third quarter, as both the base business and large projects developed favourably. Sanitary, Food Technology, Energy & Environment and Process Industry all reported increases, as did Parts & Service, which saw a good development across the region. From a geographical view, most areas reported growth, Benelux being the only one declining.

Central and Eastern Europe
In the first quarter Central & Eastern Europe repeated a strong quarter, boosted by a strong development for large orders in the Process Technology Division. Energy & Environment, which landed a large order from the nuclear industry, did particularly well as did Parts & Service. The Equipment Division showed a small decline. Russia and the Baltics reported good growth.

Central and Eastern Europe reported an increase in order intake in the second quarter compared to the first. All segments in the Equipment Division developed well, with a good development for the base business, and Parts & Service also showed a good performance. The Marine & Diesel Division was also up, while the Process Technology Division decreased compared to the previous quarter due to non-repeat large orders. Many countries in Central and South East Europe saw a good development. Russia had growth in the base business, but still reported an overall decline due to large contracts in the first quarter, which were not repeated in the second.

Order intake was down somewhat in the third quarter compared to the second as the base business recorded a decline. Still, the overall drop was from a very strong level and large orders continued to grow in the quarter. The Process Technology Division did particularly well with good demand recorded in power as well as infrastructure applications. Russia in particular showed good growth in large orders.

Central and Eastern Europe had a weak fourth quarter compared to the third quarter, mainly due to fewer large orders. The base business, however, increased compared to the previous quarter. Looking at geographies, Russia declined, explained by the drop in large orders. The base business in the country was still unchanged as the general activity trend in the country was continued beneficial.

North America
Order intake grew in the first quarter compared with the previous quarter. Sanitary was one of the segments to record the strongest growth, as was Energy & Environment, which was boosted by the large industrial waste water orders won in Canada during the period. Demand for Parts & Service was up across the region and a continued good development was also seen in the base business.

Order intake declined in the region in the second quarter compared with the first quarter, mainly due to fewer large projects. The base business however, showed a continued good development, particularly in the US, while the demand for Parts & Service was flat across the region. Industrial Equipment, Food and Process Industry were the segments reporting the largest growth, while Energy & Environment declined as the large industrial waste water order won in Canada during the first quarter was not repeated.

Order intake grew in the region in the third quarter compared to the second quarter, mainly due to a continued high inflow of larger projects. The base business also reported continued growth. Industrial Equipment was one of the segments with the largest growth, boosted by a large order for heat exchanger systems to be used for district heating at a university in the U.S. Sanitary was another segment to do well and demand for parts and services grew.

Order intake was virtually unchanged in the region in the fourth quarter compared to the previous quarter, with an increase in the U.S., while Canada declined due to fewer large projects being booked. The base business continued to grow. Growth was recorded in the Sanitary and Food Technology segments and Parts & Service also continued to develop favourably.

Latin America
Latin America showed growth across the line in the first quarter with increased demand reported for both the Equipment and the Process Technology Divisions. Energy & Environment booked large orders from the oil & gas sector and did particularly well, as did Industrial Equipment. Parts & Service benefited from a high activity level in the end markets of the Process Technology Division. Brazil did particularly well.

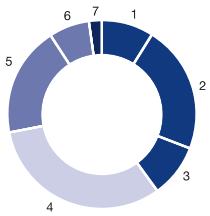
Order intake in Latin America was unchanged in the second quarter compared to the first quarter, with a good development for the base business while large orders declined. Both the Equipment and Marine & Diesel Divisions reported growth whereas the Process Technology Division showed a decline due to the non-repeat of large orders. Brazil reported a decline in the second quarter compared to the previous quarter due to large orders which were not repeated, but reported growth for the base business. Argentina and Chile reported good growth.

Order intake was on a continued strong level in Latin America in the third quarter compared to the second, benefitting from a positive development for large orders. The base business, however, showed a decline. The Process Technology Division

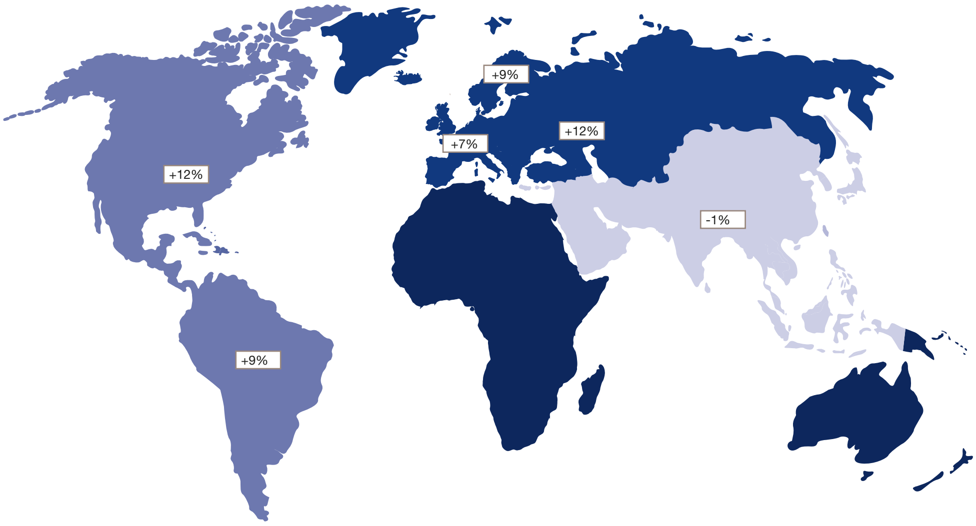
* Base business and base orders refer to orders with an order value of less than EUR 0.5 million.

Information about geographical areas

Orders received 2012

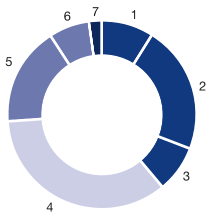


1	Nordic	9%
2	Western Europe	22%
3	Central & Eastern Europe	9%
4	Asia	32%
5	North America	19%
6	Latin America	7%
7	Other	2%

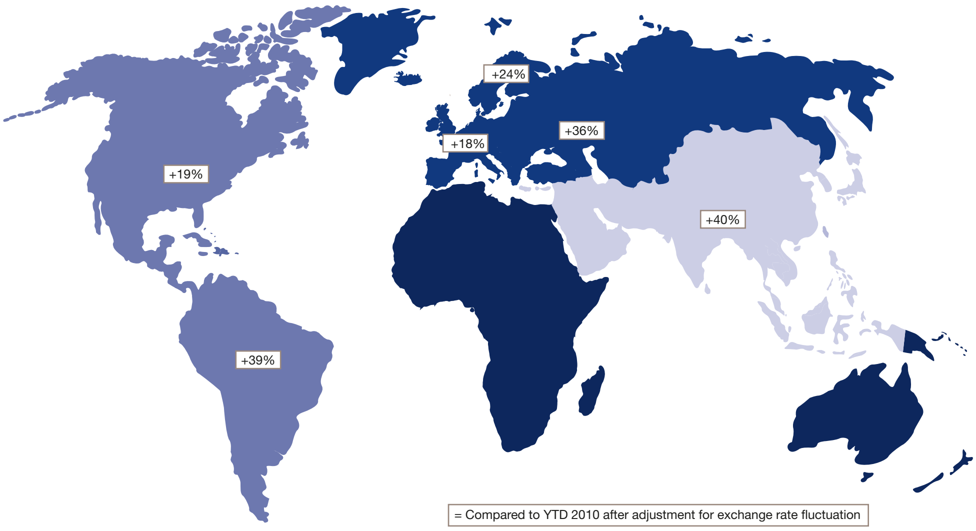


= Compared to YTD 2011 after adjustment for exchange rate fluctuation

Orders received 2011

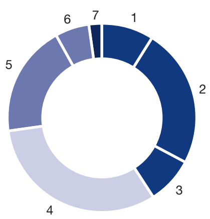


1	Nordic	9%
2	Western Europe	22%
3	Central & Eastern Europe	8%
4	Asia	35%
5	North America	17%
6	Latin America	7%
7	Other	2%

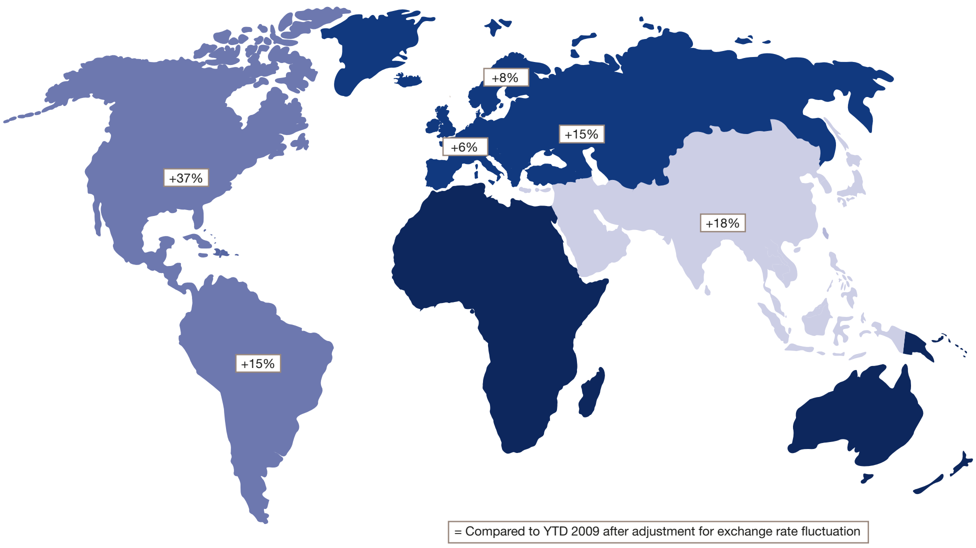


= Compared to YTD 2010 after adjustment for exchange rate fluctuation

Orders received 2010



1	Nordic	9%
2	Western Europe	24%
3	Central & Eastern Europe	8%
4	Asia	32%
5	North America	19%
6	Latin America	6%
7	Other	2%



= Compared to YTD 2009 after adjustment for exchange rate fluctuation reported very good growth, particularly in the Energy and Environment segment. Within the Equipment Division, Industrial Equipment developed very well. In the region Brazil showed a good development, supported by strong demand within the oil & gas market unit as well as Parts & Service. The North Andean countries also had very good order development.

Order volumes dropped in the fourth quarter compared to the previous quarter as fewer large orders were booked in the Process Technology division. The base business still developed well, with strong growth reported both in the Marine & Diesel and the Process Technology divisions. Brazil was affected by non-repeats, while the base business' development was good. Mexico, Chile and Peru all developed well in the quarter.

Asia
Order intake showed a substantial increase in the first quarter compared to the fourth quarter last year, mainly due to a strong performance for the project business in the Process Technology Division as well as in the Marine & Diesel Division. The best performance was seen in the segment Marine & Offshore Systems, which experienced an increased demand for boiler systems and within Food Technology, which recorded a large contract from a brewery in Indonesia. Process Industry also reported a good development. Parts & Service showed a slight increase in the quarter. The Equipment Division was unchanged with Sanitary performing the best. The strongest performance from a geographical perspective was seen in South Korea, China, India and Malaysia.

Order intake showed a decline in the second quarter compared to the previous quarter as a very large marine order booked in the first quarter was not repeated. However, both the Equipment and the Process Technology Divisions reported growth. In the Process Technology Division there was growth both in the base business and for the project business compared to the first quarter, with Process Industry and Food Technology as the best performing segments. In the Equipment Division Sanitary was the best segment. Korea and India were both developing well and China showed a good development when excluding Marine.

Order intake showed a decline in the third quarter compared to the second quarter as large orders booked in the second quarter for segments Process Industry and Food Technology were not repeated. The base business, however, held up on the same level as in the previous quarter. The best performing segments were Marine & Offshore Systems, boosted by a large order for boilers to an offshore oil production vessel in Vietnam, and Industrial Equipment. The best geographical development was reported for India and China.

Order intake showed an increase in the fourth quarter compared to the previous quarter, with Process Industry, Food Technology and OEM performing the best. The market units refinery, life science, vegetable oil and oil & gas were the end markets doing particularly well. Marine & Diesel Equipment also showed growth, but from a low level. From a geographical perspective, the sentiment among customers in China was in a wait-and-see mode, due to the general political and macro economic development in the country, which was reflected by a lower level of investments. India, however, delivered a good quarter, through a large order for a new insulin plant in Malaysia, but also by the Equipment division's nationwide development of distributors, which started to take effect. South East Asia also developed well, especially in Thailand, Indonesia and Malaysia, where the two latter saw good demand within vegetable oil applications among others. The Middle East reported substantial growth during the quarter. The development was partly explained by a good development for the base business, but also by a large order from a petrochemical plant in Saudi Arabia.

Personnel
The parent company does not have any employees.

The Group has on average had 16,060 (14,667) (12,078) employees. At the end of December 2012 the Group had 16,419 (16,064) (12,618) employees. The employee turnover rate for 2012 is 10.3 (8.6) (9.5) percent and mainly relates to employees within manufacturing units and the sales organisation.

Alfa Laval has several internal training programmes for employees on different levels and in different functions within the Alfa Laval University framework, for instance the Booster programme for top managers reporting to Group Management, the Challenger programme for potential future managers, Adept for employees engaged in the sales process and Leading business through Finance @ Alfa Laval – a development program for financial managers and senior controllers.

Alfa Laval is working to achieve equal career opportunities independent of for instance gender or ethnic origin. The latter is not the least important in an international company. Likewise the number of female managers shall increase in order to better reflect the females' part of the total number of employees. To facilitate this, a mentor programme has started for women with capacity to become future leaders.

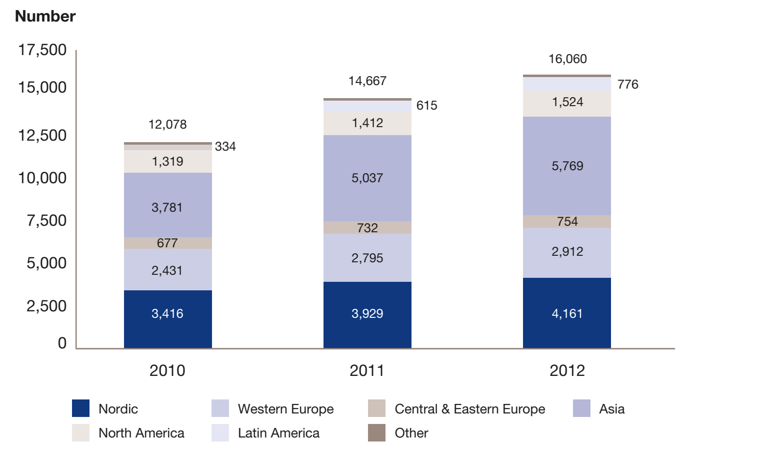
The distribution of employees per country and per municipality in Sweden and between males and females can be found in Note 5 in the notes to the financial statements. The specification of salaries, wages, remunerations, social costs and pension costs are provided in Note 6 in the notes to the financial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

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

EMPLOYEES

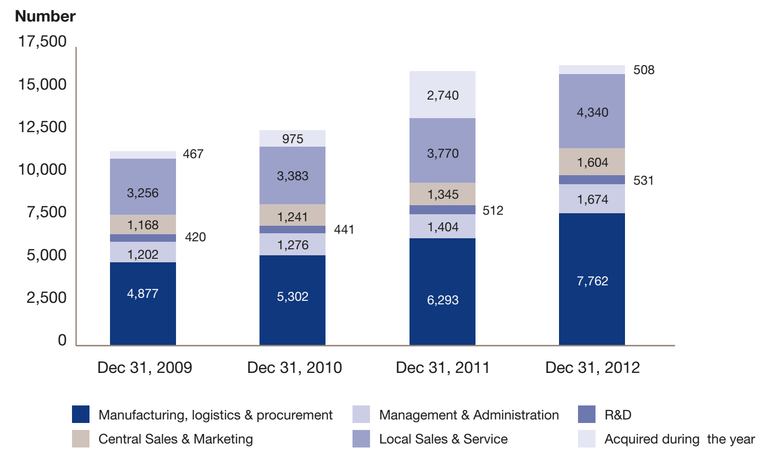
The distribution of the number of employees by region is:

Average number of employees – by region



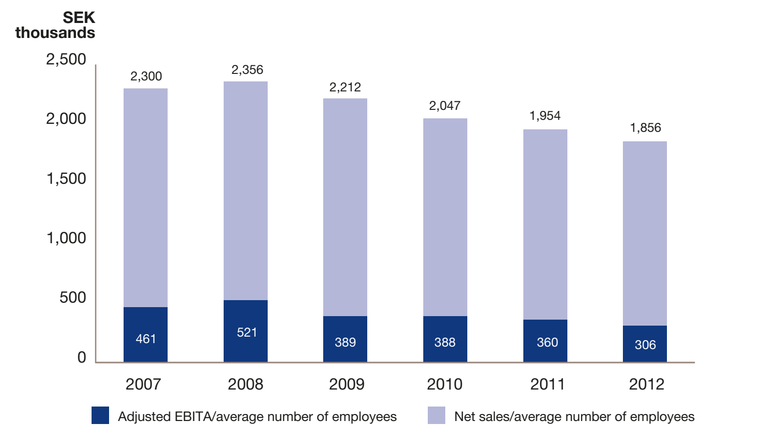
The distribution of the number of employees by personnel category is:

Employees - by category



The productivity by employee has developed as follows:

Employees – Productivity development



The figures for 2007 and 2008 were inflated by the high metal prices. The outcome for 2009 and 2010 has been affected by the financial crisis and the outcome for 2011 and 2012 by the acquisition of Aalborg Industries and the Euro crisis. Aalborg Industries has a lower turnover per employee than Alfa Laval.

Guidelines for remunerations to executive officers

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

The Annual General Meeting 2012 decided to implement step two of a modified cash based long term incentive programme for maximum 85 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The Board of Directors will propose the Annual General Meeting 2013 to implement step three of this modified cash-based long term incentive programme for the period January 1, 2013 – December 31, 2015. No other changes of these guidelines are proposed by the Board of Directors.

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 707 (648) (625) million, corresponding to 2.4 (2.3) (2.5) percent of net sales. Excluding currency effects and acquisition of businesses, the costs for research and development have increased by 7.6 percent compared to last year. The increase is entirely in line with the established plan for product development.

Ethics and social responsibility

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

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

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

Environment

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

Since 2004 the Group runs a project to improve the internal environmental management systems. Today all sites (except recent acquisitions) have an environmental management system in place. At the end of 2012 26 (25) (25) production sites with ISO 14001 certification accounted for about 86 (92) (95) percent of the delivery value. The decrease is due to the sites that have been added in connection with the acquisitions and that are not yet certified. Another two sites have ongoing certifications. The goal is to have a certification level of at least 95 percent.

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

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

Asbestos-related lawsuits

The Alfa Laval Group was as of December 31, 2012, named as a co-defendant in a total of 716 asbestos-related lawsuits with a total of approximately 802 plaintiffs. Alfa Laval strongly believes the claims against the Group are without merit and intends to vigorously contest each lawsuit.

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

Result for the parent company

The parent company's result after financial items was SEK 697 (2,187) (3,431) million, out of which dividends from subsidiaries were SEK - (1,679) (2,288) million, group contributions SEK 596 (405) (1,154) million, net interests SEK 115 (113) (16) million, realised and unrealised exchange rate gains and losses SEK -1 (-0) (-3) million, costs related to the listing SEK -3 (-3) (-2) million, fees to the Board SEK -6 (-5) (-5) million, costs for annual report and annual general meeting SEK -4 (-3) (-5) million and other operating costs the remaining SEK -0 (1) (-12) million. Change of tax allocation reserve has been made with SEK 283 (-115) (-232) million. Tax on this year's result amount to SEK -1 (-110) (-248) million while tax on paid Group contribution amount to SEK -262 (-) (-) million. Net income for the year was SEK 717 (1,962) (2,951) million.

Unrestricted equity for the parent company

The unrestricted equity of Alfa Laval AB (publ) was SEK 8,285 (9,668) (8,964) million. The figures have been affected by repurchase of shares by SEK - (-) (-253) million.

Proposed disposition of earnings
The Board of Directors propose a dividend of SEK 3.50 (3.25) (3.00) per share corresponding to SEK 1,468 (1,363) (1,258) million and that the remaining income available for distribution in Alfa Laval AB (publ) of SEK 6,817 (8,305) (7,706) million be carried forward, see page 126.

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

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

Repurchase of shares
The Annual General Meeting 2012 gave the Board a mandate to decide on repurchase of the company's shares – if the Board deems this appropriate – until the next Annual General Meeting. The mandate referred to repurchase of up to 5 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. The repurchase would be made through purchases on OMX Stockholm Stock Exchange. Until December 31, 2012 Alfa Laval has not made any repurchases.

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

Events after the closing date
The statements on financial position and the comprehensive income statements will be adopted at the Annual General Meeting of shareholders on April 23, 2013.

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

"We expect that demand during the first quarter 2013 will be on about the same level as in the fourth quarter."

Earlier published outlook (October 23, 2012): "We expect that demand during the fourth quarter 2012 will be in line with or somewhat lower than in the third quarter."

Date for the next financial reports during 2013
Alfa Laval will publish interim reports during 2013 at the following dates:

Interim report for the first quarter	April 23
Interim report for the second quarter	July 18
Interim report for the third quarter	October 29

Consolidated cash flows

CONSOLIDATED CASH FLOWS

SEK millions	Note	2012	2011	2010
Operating activities				
Operating income		4,372	4,691	4,401
Adjustment for depreciation		934	875	796
Adjustment for other non-cash items		265	167	145
		5,571	5,733	5,342
Taxes paid		-1,569	-1,446	-1,215
		4,002	4,287	4,127
Changes in working capital:				
Increase(-)/decrease(+) of receivables		-158	-157	360
Increase(-)/decrease(+) of inventories		-214	-1,172	-536
Increase(+)/decrease(-) of liabilities		-25	611	332
Increase(+)/decrease(-) of provisions		-19	-140	-185
Increase(-)/decrease(+) in working capital		**-416**	**-858**	**-29**
		3,586	**3,429**	**4,098**
Investing activities				
Investments in fixed assets (Capex)		-531	-555	-429
Divestment of fixed assets		49	14	31
Acquisition of businesses	*16*	-2,778	-4,956	-1,019
		-3,260	**-5,497**	**-1,417**
Financing activities				
Received interests and dividends		97	91	52
Paid interests		-252	-271	-139
Realised financial exchange differences		104	285	3
Repurchase of shares		–	–	-253
Dividends to owners of the parent		-1,363	-1,258	-1,055
Dividends to non-controlling interests		-7	-10	-9
Increase(-)/decrease(+) of financial assets		5	-17	-389
Increase(+)/decrease(-) of borrowings		1,009	3,497	-641
		-407	**2,317**	**-2,431**
Cash flow for the period		**-81**	**249**	**250**
Cash and bank at the beginning of the period		1,564	1,328	1,112
Translation difference in cash and bank		-79	-13	-34
Cash and bank at the end of the period	*25*	**1,404**	**1,564**	**1,328**
Free cash flow per share (SEK) *		0.78	-4.93	6.38
Capex in relation to sales		1.8%	1.9%	1.7%
Average number of shares **		419,456,315	419,456,315	420,494,001

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

** Average number of shares has been affected by repurchase of shares.

Comments to the consolidated cash-flows

For further comments on certain individual lines in the cash-flow statement, reference is made to Notes 16 and 25.

Cash flows from operating activities
The increase in cash flows from operating activities in 2012 is explained by the lower increase in working capital.

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

Cash flow
Cash flow from operating and investing activities amounted to SEK 326 (-2,068) (2,681) million during 2012. Out of this, acquisitions of businesses were SEK -2,778 (-4,956) (-1,019) million whereas divestments generated cash of SEK 49 (14) (31) million.

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

Working capital
Working capital increased by SEK 416 (858) (29) million during 2012.

Investments
Investments in property, plant and equipment amounted to SEK 531 (555) (429) million during 2012. The investments made for the individual product groups are as follows:

Heat exchangers
Investments have been made in machines for manufacturing of new products and in productivity enhancing equipment in Ronneby in Sweden and in Jiang Yin in China for brazed heat exchangers. Investments have been made in Jiang Yin in China, in Pune in India and in Lund in Sweden in equipment to increase capacity and widen the product range for gasketted heat exchangers. Investments in air heat exchanger manufacturing equipment have been completed in Sao Paulo in Brazil and in Kunshan in China.

Decanters
During 2012 a new factory for decanters has been built in Kunshan in China.

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

Fluid handling products
During 2012 no major investments have been made relating to fluid handling products.

Depreciations
Depreciation, excluding allocated step-up values, amounted to SEK 447 (449) (425) million during the year.

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

Free cash flow per share
The free cash flow per share is SEK 0.78 (-4.93) (6.38).

Consolidated comprehensive income

CONSOLIDATED COMPREHENSIVE INCOME

SEK millions	Note	2012	2011	2010
Net sales	1, 2, 3, 4	29,813	28,652	24,720
Cost of goods sold	9	-19,169	-17,829	-15,029
Gross profit		10,644	10,823	9,691
Sales costs	5, 6, 9	-3,345	-3,410	-3,156
Administration costs	5, 6, 7, 9	-1,656	-1,601	-1,224
Research and development costs	9	-707	-648	-625
Other operating income *	8	384	403	494
Other operating costs *	8, 9	-948	-876	-779
Operating income		4,372	4,691	4,401
Dividends and changes in fair value	10	8	0	2
Interest income and financial exchange rate gains	11	501	436	327
Interest expense and financial exchange rate losses	11	-376	-451	-366
Result after financial items		4,505	4,676	4,364
Tax on this year's result	15	-1,271	-1,403	-1,240
Other taxes	15	-27	-22	-8
Net income for the year		**3,207**	**3,251**	**3,116**
Other comprehensive income:				
Cash flow hedges		168	-335	122
Translation difference		-858	-206	-554
Deferred tax on other comprehensive income	15	-50	120	-36
Comprehensive income for the year		**2,467**	**2,830**	**2,648**
Net income attributable to:				
Owners of the parent		3,190	3,223	3,088
Non-controlling interests		17	28	28
Earnings per share (SEK)		7.61	7.68	7.34
Average number of shares **		419,456,315	419,456,315	420,494,001
Comprehensive income attributable to:				
Owners of the parent		2,454	2,812	2,625
Non-controlling interests		13	18	23

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

** Average number of shares has been affected by repurchase of shares.

Comments to the consolidated comprehensive income

For comments on the individual lines in the consolidated comprehensive income statement, reference is made to Notes 1 to 15 and Note 28. For comments on the operating segments, see Note 1.

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

INCOME ANALYSIS

Consolidated

SEK millions	2012	2011	2010
Net sales	29,813	28,652	24,720
Adjusted gross profit *	11,131	11,249	10,062
- in % of net sales	***37.3***	***39.3***	***40.7***
Expenses **	-5,774	-5,513	-4,955
- in % of net sales	*19.4*	*19.2*	*20.0*
Adjusted EBITDA	***5,357***	***5,736***	***5,107***
- in % of net sales	*18.0*	*20.0*	*20.7*
Depreciation	-447	-449	-425
Adjusted EBITA	**4,910**	**5,287**	**4,682**
- in % of net sales	***16.5***	***18.5***	***18.9***
Amortisation of step up values	-487	-426	-371
Comparison distortion items	-51	-170	90
Operating income	4,372	4,691	4,401

* Excluding amortisation of step up values. ** Excluding comparison distortion items.

The gross margin has been affected by negative exchange rate effects and a changed mix in capital sales towards delivery of lower margin contract orders. The gross margin has also been negatively affected by a normalization of the price level within the marine part of the Marine & Diesel division. A higher utilisation in certain factories based on the demand has influenced the margin positively.

Sales and administration expenses amounted to SEK 5,001 (5,011) (4,380) million. Excluding currency effects and acquisition of businesses, sales and administration expenses were 3.1 percent lower than last year. The decrease is a result of the measures initiated at the end of 2011.

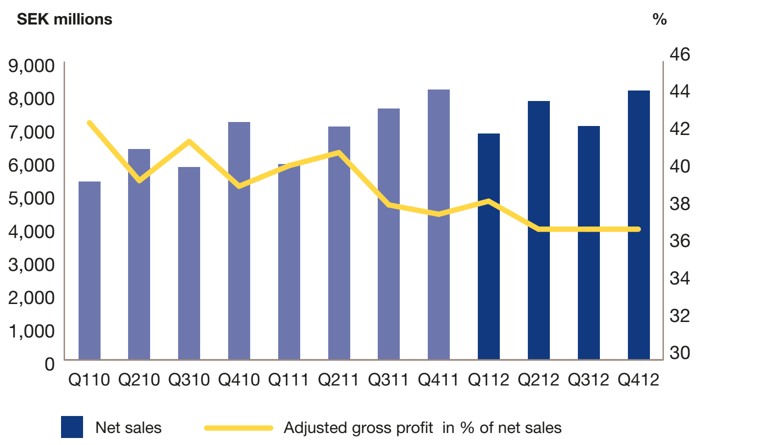
The costs for research and development have amounted to SEK 707 (648) (625) million, corresponding to 2.4 (2.3) (2.5) percent of net sales. Excluding currency effects and acquisition of businesses, the costs for research and development have increased by 7.6 percent compared to last year. The increase is entirely in line with the established plan for product development.

The net income attributable to the owners of the parent, excluding depreciation of step-up values and the corresponding tax, is SEK 8.39 (8.42) (8.02) per share.

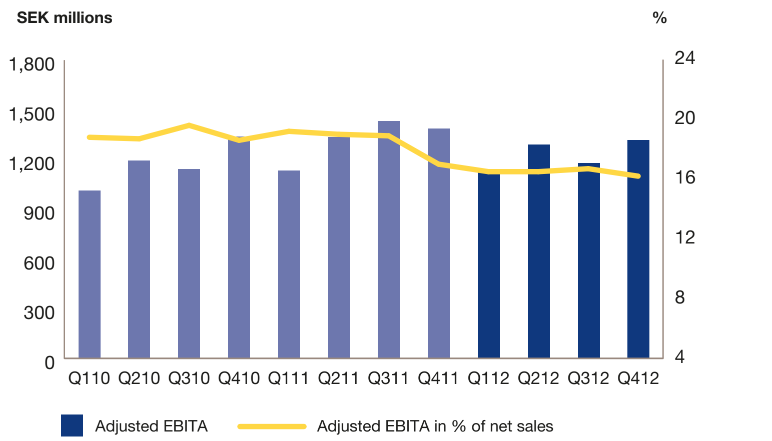
Compared with last year Alfa Laval has been affected during 2012 by exchange rate differences, both through translation differences and through the net exposure when trading in foreign currencies. The effect on adjusted EBITA has been calculated to totally about SEK -139 (-468) (356) million for 2012 compared with last year. The effect of the exchange rate variations has been limited through exchange rate hedging and through the distribution of the company's financial debts in relation to its net assets in different currencies.

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

NET SALES & ADJUSTED GROSS PROFIT MARGIN



ADJUSTED EBITA



The operating income has been affected by comparison distortion items of SEK -51 (-170) (90) million, which are specified below. In the consolidated comprehensive income statement these are reported gross as a part of other operating income and other operating costs, see summary in Note 8.

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

The comparison distortion costs during 2011 of SEK -170 million related to structural costs for saving measures of SEK -90 million and non-recurring integration costs of SEK -80 million in connection with the acquisition of Aalborg Industries respectively. The saving measures were mainly relating to capacity adjustments and cost reductions in the manufacturing due to the demand for certain products as well as cost reductions in the sales companies primarily in Western Europe. The measures were expected to affect approximately 250 employees.

SEK 80 million of the comparison distortion income during 2010 related to reversal of unused parts of the provisions made in connection with the savings' measures that were initiated during 2009. Since the actual costs for the measures became SEK 80 million lower this amount was reversed. The remaining SEK 10 million related to realised gains on sale of properties in France and India.

The financial net has amounted to SEK -126 (-130) (-111) million, excluding realised and unrealised exchange rate losses and gains. The main elements of costs were interest on debt to the banking syndicate of SEK -25 (-34) (-1) million, interest on the bilateral term loans SEK -83 (-62) (-7) million, interest on the private placement of SEK -16 (-17) (-21) million and a net of dividends, other interest income and interest costs of SEK -2 (-17) (-82) million.

The net of realised and unrealised exchange rate differences amounts to SEK 259 (115) (74) million.

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

FAIR VALUE CHANGES IN CASH FLOW HEDGES

Consolidated

SEK millions	2012	2011	2010
Opening balance	-106	229	107
Booked into other comprehensive income during the year	124	-326	123
Reversed from other comprehensive income due to inefficiency:			
booked against cost of goods sold	-40	-4	-57
Reversed from other comprehensive income:			
booked against cost of goods sold	90	-19	55
booked against interest income/interest costs	-6	14	1
Closing balance	**62**	**-106**	**229**
Change reported against other comprehensive income	168	-335	122

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

In the item cash flow hedges in other comprehensive income the fair value changes in shares in external companies is also included with SEK 0 (0) (0) million for 2012. They are not material enough to render a separate line in the comprehensive income statement.

ACCUMULATED TRANSLATION DIFFERENCES *

Consolidated

SEK millions

Year	Main explanation to translation differences	Change	Accumulated	Pre-tax effect on change by hedging measures
Formation of the Group				
2000	The EUR was appreciated by 6 %, which affected the EUR based acquisition loans	-94	-94	-312
2001	The USD was appreciated by 10.7 %	97	3	-105
2002	The USD was depreciated by 16.7 %	-190	-187	165
2003	The USD was depreciated by 17.5 %	-38	-225	195
2004	The USD was depreciated by 9.0 %	-103	-328	-19
2005	The USD was appreciated by 20.3 % and the EUR was appreciated by 4.8 %	264	-64	-65
2006	The USD was depreciated by 13.5 % and the EUR was depreciated by 4.0 %	-269	-333	56
2007	The USD was depreciated by 5.7 % whereas the EUR was appreciated by 4.7 %	224	-109	13
2008	The USD was appreciated by 20.5 % and the EUR was appreciated by 16.2 %	850	744	-468
2009	The USD was depreciated by 7.5 % and the EUR was depreciated by 6.0 %	-392	352	220
2010	The USD was depreciated by 5.7 %% and the EUR was depreciated by 12.9 %	-554	-202	99
2011	The USD was appreciated by 1.4 % whereas the EUR was depreciated by 0.8 %	-206	-408	34
2012	The USD was depreciated by 5.8 % and the EUR was depreciated by 3.6 %	-858	-1,266	214

* 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*	2012	2011
Non-current assets			
Intangible assets	*16, 17*		
Patents and unpatented know-how		1,943	1,327
Trademarks		1,819	2,130
Licenses, renting rights and similar rights		45	45
Goodwill		9,792	9,543
		13,599	13,045
Property, plant and equipment	*16, 18*		
Real estate		1,702	1,734
Machinery and other technical installations		1,430	1,439
Equipment, tools and installations		541	555
Construction in progress and advances to suppliers concerning property, plant and equipment		150	208
		3,823	3,936
Other non-current assets			
Other long-term securities	*13, 14, 19*	9	25
Pension assets	*26*	383	346
Deferred tax assets	*15*	1,208	1,293
		1,600	1,664
Total non-current assets		**19,022**	**18,645**
Current assets			
Inventories	*20*	6,176	6,148
Assets held for sale			
Real estate		9	–
Current receivables			
Accounts receivable	*13, 21*	5,211	5,080
Current tax assets		1,207	918
Other receivables	*13, 22*	1,098	1,188
Prepaid costs and accrued income	*13, 23*	200	174
Derivative assets	*13, 14*	325	303
		8,041	7,663
Current deposits			
Other current deposits	*13, 24*	427	483
Cash and bank	*13, 25*	1,404	1,564
Total current assets		**16,057**	**15,858**
TOTAL ASSETS		**35,079**	**34,503**

CONSOLIDATED FINANCIAL POSITION, CONTINUED

EQUITY AND LIABILITIES			
SEK millions	*Note*	2012	2011
Equity			
Attributable to owners of the parent			
Share capital		1,117	1,117
Other contributed capital		2,770	2,770
Other reserves		-1,184	-448
Retained earnings		12,623	11,543
		15,326	14,982
Attributable to non-controlling interests	*12*	61	162
Total equity		**15,387**	**15,144**
Non-current liabilities			
Liabilities to credit institutions	*28*	2,051	1,353
Swedish Export Credit	*28*	1,723	1,787
European Investment Bank	*28*	1,120	1,162
Private placement	*28*	714	758
Provisions for pensions and similar commitments	*26*	829	852
Provision for deferred tax	*15*	1,939	1,930
Other provisions	*27*	473	520
Total non-current liabilities		**8,849**	**8,362**
Current liabilities			
Liabilities to credit institutions	*28*	395	132
Advances from customers		2,121	2,020
Accounts payable		2,198	2,529
Notes payable		135	139
Current tax liabilities		1,104	1,050
Other liabilities	*29*	1,381	1,356
Other provisions	*27*	1,603	1,612
Accrued costs and prepaid income	*30*	1,719	1,731
Derivative liabilities	*13, 14*	187	428
Total current liabilities		**10,843**	**10,997**
Total liabilities		**19,692**	**19,359**
TOTAL EQUITY AND LIABILITIES		**35,079**	**34,503**
PLEDGED ASSETS AND CONTINGENT LIABILITIES			
Pledged assets	*31*	10	51
Contingent liabilities	*31*	2,015	1,722

Comments on the consolidated financial position

For comments on the individual lines in the statement on financial position, reference is made to Notes 12 to 34. For comments on the operating segments, see Note 1.

Capital employed
The average capital employed including goodwill and step-up values amounted to SEK 18,636 (16,324) million during the year.

Return on capital employed
The return on average capital employed including goodwill and step-up values amounted to 26.1 (31.3) percent during the year.

Capital turnover rate
The capital turnover rate calculated on the average capital employed including goodwill and step-up values amounted to 1.6 (1.8) times for the year.

Return on equity
Net income in relation to the average equity was 21.6 (22.9) percent during the year.

Solidity
The solidity, that is the equity in relation to total assets, was 43.9 (43.9) percent at the end of the year.

Net debt
The net debt was SEK 4,270 (3,264) million at the end of the year.

Net debt to EBITDA
Net debt in relation to EBITDA was 0.8 (0.6) times at the end of December.

Debt ratio
The debt ratio, that is the net debt in relation to equity, was 0.28 (0.22) times at the end of December.

Changes in consolidated equity

CHANGES IN CONSOLIDATED EQUITY

Attributable to:	Owners of the parent							Non-controlling interests			Total
			Other reserves								
SEK millions	Share capital	Other contributed capital	Cash flow hedges	Translation differences	Deferred tax	Retained earnings	Subtotal	Translation differences	Retained earnings	Subtotal	
As of December 31, 2009	**1,117**	**2,770**	**107**	**352**	**-33**	**7,800**	**12,113**	**0**	**116**	**116**	**12,229**
2010											
Comprehensive income											
Net income	–	–	–	–	–	3,088	3,088	–	28	28	3,116
Other comprehensive income	–	–	122	-549	-36	–	-463	-5	–	-5	-468
Comprehensive income	–	–	122	-549	-36	3,088	2,625	-5	28	23	2,648
Transactions with shareholders											
Repurchase of shares	–	–	–	–	–	-253	-253	–	–	–	-253
Decrease of non-controlling interests	–	–	–	–	–	-3	-3	–	-2	-2	-5
Non-controlling interests in acquired companies	–	–	–	–	–	–	–	–	27	27	27
Dividends to owners of the parent	–	–	–	–	–	-1,055	-1,055	–	–	–	-1,055
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	-9	-9	-9
As of December 31, 2010	**1,117**	**2,770**	**229**	**-197**	**-69**	**9,577**	**13,427**	**-5**	**160**	**155**	**13,582**
2011											
Comprehensive income											
Net income	–	–	–	–	–	3,223	3,223	–	28	28	3,251
Other comprehensive income	–	–	-335	-196	120	–	-411	-10	–	-10	-421
Comprehensive income	–	–	-335	-196	120	3,223	2,812	-10	28	18	2,830
Transactions with shareholders											
Cancellation of repurchased shares	-7	–	–	–	–	–	-7	–	–	–	-7
Bonus issue of shares	7	–	–	–	–	–	7	–	–	–	7
Decrease of non-controlling interests	–	–	–	–	–	1	1	–	-1	-1	0
Non-controlling interests in acquired companies	–	–	–	–	–	–	–	–	0	0	0
Dividends to owners of the parent	–	–	–	–	–	-1,258	-1,258	–	–	–	-1,258
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	-10	-10	-10
As of December 31, 2011	**1,117**	**2,770**	**-106**	**-393**	**51**	**11,543**	**14,982**	**-15**	**177**	**162**	**15,144**
2012											
Comprehensive income											
Net income	–	–	–	–	–	3,190	3,190	–	17	17	3,207
Other comprehensive income	–	–	168	-854	-50	–	-736	-4	–	-4	-740
Comprehensive income	–	–	168	-854	-50	3,190	2,454	-4	17	13	2,467
Transactions with shareholders											
Decrease of non-controlling interests	–	–	–	–	–	-747	-747	–	-107	-107	-854
Dividends to owners of the parent	–	–	–	–	–	-1,363	-1,363	–	–	–	-1,363
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	-7	-7	-7
As of December 31, 2012	**1,117**	**2,770**	**62**	**-1,247**	**1**	**12,623**	**15,326**	**-19**	**80**	**61**	**15,387**

SPECIFICATION OF CHANGES IN NUMBER OF SHARES AND SHARE CAPITAL

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

Comments on changes in consolidated equity

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

At January 1, 2012 the share capital of SEK 1,116,719,930 was divided into 419,456,315 shares. Since then no changes have been made.

The Annual General Meeting 2012 gave the Board a mandate to decide on repurchase of the company's shares – if the Board deems this appropriate – until the next Annual General Meeting. The mandate referred to repurchase of up to 5 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. The repurchase would be made through purchases on OMX Stockholm Stock Exchange. Until December 31, 2012 Alfa Laval has not made any repurchases.

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

The only shareholder holding more than 10 percent of the shares is Tetra Laval B.V., the Netherlands who owns 26.1 (26.1) percent. The employees of the company do not own any shares in the company through company pension trusts.

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

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

The senior credit facility with the banking syndicate, the private placement and the bilateral term loans with SHB, Swedish Export Credit and the European Investment Bank contain conditions that give the lenders the opportunity to terminate the loans and declare them due and payable if there is a change of control of the company through a public offering or otherwise.

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

Parent company cash flows

PARENT COMPANY CASH FLOWS

SEK millions	2012	2011	2010
Cash flow from operating activities			
Operating income	-13	-10	-24
Taxes paid	-214	-198	-202
	-227	-208	-226
Changes in working capital:			
Increase(-)/decrease(+) of receivables	1,444	-1,772	-1,691
Increase(+)/decrease(-) of liabilities	-374	292	43
Increase(-)/decrease(+) in working capital	**1,070**	**-1,480**	**-1,648**
	843	**-1,688**	**-1,874**
Cash flow from investing activities			
Investment in subsidiaries	–	–	–
	–	**–**	**–**
Cash flow from financing activities			
Financial net, paid	115	113	16
Repurchase of shares	–	–	-253
Received dividends from subsidiaries	–	1,679	2,288
Paid dividends	-1,363	-1,258	-1,055
Received group contribution	405	1,154	878
	-843	**1,688**	**1,874**
Cash flow for the year	**–**	**–**	**–**
Cash and bank at the beginning of the year	–	–	–
Cash and bank at the end of the year	**–**	**–**	**–**

PARENT COMPANY INCOME *

SEK millions	*Note*	2012	2011	2010
Administration costs		-13	-11	-12
Other operating income		3	6	–
Other operating costs		-3	-5	-12
Operating income		-13	-10	-24
Revenues from interests in group companies	*36*	596	2,084	3,442
Interest income and similar result items	*11*	118	115	17
Interest expenses and similar result items	*11*	-4	-2	-4
Result after financial items		697	2,187	3,431
Change of tax allocation reserve		283	-115	-232
Tax on this year's result		-1	-110	-248
Tax on paid Group contribution		-262	–	–
Net income for the year		**717**	**1,962**	**2,951**

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

Parent company financial position

PARENT COMPANY FINANCIAL POSITION

SEK millions	Note	2012	2011
ASSETS			
Non-current assets			
Financial non-current assets			
Shares in group companies	*19*	4,669	4,669
Current assets			
Current receivables			
Receivables on group companies		8,035	9,287
Current tax assets		249	37
Other receivables		4	5
		8,288	9,329
Cash and bank		**–**	**–**
Total current assets		**8,288**	**9,329**
TOTAL ASSETS		**12,957**	**13,998**
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		7,568	7,706
Net income for the year		717	1,962
		8,285	9,668
Total equity		**10,672**	**12,055**
Untaxed reserves			
Tax allocation reserve, taxation 2007		–	254
Tax allocation reserve, taxation 2008		350	379
Tax allocation reserve, taxation 2009		239	239
Tax allocation reserve, taxation 2010		224	224
Tax allocation reserve, taxation 2011		313	313
Tax allocation reserve, taxation 2012		140	140
		1,266	1,549
Current liabilities			
Liabilities to group companies		1,018	393
Accounts payable		1	0
Current tax liabilities		–	1
Other liabilities		–	0
		1,019	394
TOTAL EQUITY AND LIABILITIES		**12,957**	**13,998**
MEMORANDUM ITEMS			
Pledged assets and contingent liabilities			
PLEDGED ASSETS		None	None
CONTINGENT LIABILITIES (for subsidiaries):			
Performance guarantees		None	None
Other contingent liabilities		None	None

Changes in parent company equity

CHANGES IN PARENT COMPANY EQUITY

SEK millions	Share capital	Statutory reserve	Unrestricted equity	Total
As of December 31, 2009	**1,117**	**1,270**	**7,321**	**9,708**
2010				
Comprehensive income				
Net income	–	–	2,951	2,951
	–	–	2,951	2,951
Transactions with shareholders				
Repurchase of shares	–	–	-253	-253
Dividends	–	–	-1,055	-1,055
As of December 31, 2010	**1,117**	**1,270**	**8,964**	**11,351**
2011				
Comprehensive income				
Net income	–	–	1,962	1,962
	–	–	1,962	1,962
Transactions with shareholders				
Cancellation of repurchased shares	-7	–	–	-7
Bonus issue of shares	7	–	–	7
Dividends	–	–	-1,258	-1,258
As of December 31, 2011	**1,117**	**1,270**	**9,668**	**12,055**
2012				
Comprehensive income				
Net income	–	–	717	717
	–	–	717	717
Transactions with shareholders				
Dividends	–	–	-1,363	-1,363
Paid group contributions	–	–	-999	-999
Tax on paid group contributions	–	–	262	262
As of December 31, 2012	**1,117**	**1,270**	**8,285**	**10,672**

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
As from January 1, 2005 Alfa Laval applies International Financial Reporting Standards (IFRS) as adopted by the European Union. Furthermore recommendation RFR 1 "Supplementary accounting principles for consolidated groups" from the Council for Financial Reporting in Sweden is applied.

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

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

During 2012 the amendment to IFRS 7 "Financial Instruments: Disclosures" has been implemented. The amendment means that additional quantitative and qualitative disclosures that must be made when removing financial instruments from the statement of financial position. The amendment to IFRS 7 becomes effective for financial years beginning on or after July 1, 2011.

During 2011 the changes in the Swedish Annual Accounts Act were implemented. The changes meant that disclosures on sick leave among Swedish employees, tax assessment values for Swedish real estate and salaries, remunerations and social security costs per country no longer were required.

The change in IFRIC 14 "Prepayments of a Minimum Funding Requirement" was implemented during 2011. The change gave guidance when assessing the recoverable amount of a net pension asset. The change allowed a prepayment of a minimum funding requirement to be reported as an asset. The change did not have any consequence for Alfa Laval.

The changed IAS 24 "Related Party Disclosures" was implemented in 2011. The change clarified the definition of a related party and did not have any consequence for Alfa Laval.

During 2010 the changes in IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" were implemented. IASB had revised these in order to better converge with the rules in US GAAP. The changes meant that:

- Transaction costs must be reported in consolidated comprehensive income instead of as previously be added to the acquisition value, which affects the reported goodwill.
- If the value of an additional purchase price is changed the difference must be reported in consolidated comprehensive income instead of as previously adjust the acquisition price, which affects the reported goodwill.
- In business combinations achieved in stages the goodwill must be 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 to be recognised in consolidated comprehensive income at the acquisition date. Until now the goodwill has been calculated and reported at each acquisition date.
- Minority interests have been renamed to non-controlling interests.
- Non-controlling interests can be measured at fair value. This does not exclude that the non-controlling interest still can be measured based on the acquired company's net assets.
- Changes in holdings in subsidiaries, where the majority owner does not lose its decisive influence, must be reported in equity. This has previously been an unregulated area. This means that these transactions no longer will generate goodwill or lead to any gains or losses.
- If the non-controlling interest's share of reported losses is higher than its reported share of the equity, a negative non-controlling interest should be reported instead of as previously be charged to the equity attributable to the owners of the parent.

During 2010 the changes in the Annual Accounts Act concerning increased disclosures on the fees to the company's auditors were implemented. The fees must be presented divided on audit engagements, audit related services, tax services and other services.

During 2010 IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" were implemented. The interpretation gives guidance on how foreign currency risks that qualify for hedge accounting of net investments in a foreign subsidiary is to be identified and which company within a group that can hold the hedging instrument.

Critical accounting principles
IFRS 3 "Business Combinations" means that goodwill and intangible assets with indefinite useful life are not amortised. They are instead tested for impairment both annually and when there is an indication. The effect of IFRS 3 can be considerable for the Group if the profitability within the Group or parts of the Group goes down in the future, since this could trigger a substantial impairment write down of the goodwill. Such a write down will affect net income and thereby the financial position of the Group. The reported goodwill is SEK 9,792 (9,543) million at the end of the year. No intangible assets with indefinite useful life other than goodwill exist.

The Group has defined benefit plans, which are reported according to IAS 19 "Employee Benefits". This means that the plan assets are valued at fair value and that the present value of the benefit obligations in the defined benefit plans is decided through yearly actuarial calculations made by independent actuaries. If the value of the plan assets start to decrease at the same time as the actuarial assumptions increase the benefit obligations the combined effect could result in a substantial deficit. The monetary magnitude comes from the fact that the deficit is the difference between two large numbers. The risk for this happening is however decreased by Alfa Laval applying the 10 percent corridor approach described under "Employee benefits" below and the fact that 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 2,076 (2,132) million is reported as other provisions. This constitutes 5.9 (6.2) percent of the Group's assets and is important for the assessment of the Group's financial position, not the least since provisions normally are based on judgements of probability and estimates of costs and risks. If the accounting principles for provision would be changed sometime in the future, this could have a substantial impact on the Group's financial position.

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

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

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

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

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

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

Transaction costs that arise in connection with raising a loan are capitalised and amortised over the maturity of the loan according to IAS 39 "Financial Instruments: Recognition and Measurement". The capitalised amount is reported net against the raised loan.

Business combinations – consolidation principles
The consolidated financial statements have been prepared according to IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements".

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

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

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

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

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

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

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

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

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

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

Other comprehensive income is referring to items that are not transactions with shareholders, but that before 2009 were reported directly against equity. Now they are instead reported in comprehensive income as a part of other comprehensive income. Other comprehensive income relates to for instance cash flow hedges and translation differences and deferred tax related to these.

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

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

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

+	the present value of the defined benefit obligation at December 31
+	any actuarial gains not recognised
-	any actuarial losses not recognised
-	any past service costs not yet recognised
-	the fair value of the plan assets at December 31
=	a net liability if positive / a net asset if negative

If the calculation gives a net asset, the lower of this asset and the sum of any cumulative unrecognised net actuarial losses and past service costs and the present value of refunds or reductions in future contributions is reported as the net plan asset.

If the net cumulative unrecognised actuarial gains and losses at the end of the previous year are outside a 10 percent corridor calculated on the greater of the present value of the defined benefit obligation or the fair value of the plan assets, then the excess is recognised over the remaining service period of the employees participating in the plan. This means that any deficits are amortised over time instead of being recognised at once.

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, 2012 of 129 (113) percent. The collective consolidation level is defined as the fair value of Alecta's plan assets in percent of the insured pension commitments calculated according to Alecta's actuarial assumptions, which are not in accordance with IAS 19. Such a surplus can be distributed among the employers or the beneficiaries, but there is no agreement concerning this that enables the company to report a receivable on Alecta.

Events after the closing date

Events after the closing date are reported according to IAS 10 under a separate heading in the Board of Directors' report.

Financial instruments

The reporting of financial instruments is governed by three accounting and financial reporting standards:

– IAS 39 Financial Instruments: Recognition and Measurement,
– IAS 32 Financial Instruments: Presentation and
– IFRS 7 Financial Instruments: Disclosures.

IAS 39 means that financial derivatives, bonds and external shares are adjusted to fair value. IFRS 7 contains expanded disclosure requirements related to the significance of financial instruments for the company's financial position and performance and the nature and extent of risks arising from financial instruments.

Both IAS 39 and IFRS 7 formally contain a considerable amount of information that should be presented. According to IFRS 7.B3 the company however should decide how much detail it provides in order not to overburden the financial statements with excessive details.

Financial assets are classified into four different portfolios:

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

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

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

Financial liabilities are classified into two portfolios:

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

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

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

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

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

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

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

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

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

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

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

For each class of financial instruments disclosures shall be made on credit risk and an analysis of financial assets that are past due or impaired. Within Alfa Laval credit risk is in reality only related to accounts receivable. The disclosures just mentioned are therefore to be found in Note 22. The factors to be taken into account when providing for bad debts are:

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

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

Only at a final loss the receivable is written off.

Group contributions to parent company

Group contributions to the parent company are the equivalent to dividends and are reported as financial revenue in the income statement in accordance with UFR 2 issued by the Council for Financial Reporting in Sweden.

Hedge accounting

Cash flow hedges

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

The effect of the fair value adjustment of derivatives is reported as a part of other comprehensive income for the derivatives where hedge accounting is made (according to the cash flow hedging method) and above net income only when the underlying transaction has been realised. Hedge accounting requires the derivative to be effective within an 80 – 125 percent range. For the part of an effective derivative that exceeds 100 percent effectiveness the fair value adjustment is reported above net income. For the derivatives where hedge accounting is not made the fair value valuation is reported above net income. The fair value adjustment of derivatives is reported separately from the underlying instrument as a separate item called derivative assets/derivative liabilities in the statement of financial position.

Hedges of net investments in foreign operations

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

Income Taxes

Income taxes are reported in accordance with IAS 12 “Income Taxes”.

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

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

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

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

If it is not any longer probable that sufficient taxable profits will be available against which a deferred tax asset can be utilised, then the deferred tax asset is reduced accordingly.

Inventories

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

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

Joint ventures

Joint ventures are consolidated according to the proportional consolidation method in IAS 31 “Interests in Joint Ventures”.

Leasing

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

When Alfa Laval is the lessor, leased assets that are regarded as financial leases are accounted for as a financial receivable from the lessee in the statement on financial position. The leasing fee received from the lessee is accounted for as financial income calculated as interest on the outstanding receivable and as amortisation of the receivable.

When Alfa Laval is the lessee, leased assets that are regarded as financial leases are accounted for as capitalised assets and a corresponding financial payable to the lessor in the statement on financial position. The leasing fee to the lessor is accounted for as financial cost calculated as interest on the outstanding payable and as amortisation of the payable. Depreciation according to plan is done in the same manner as purchased assets.

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

Long-term construction projects

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

Disclosures shall be made for:

– the amount of recognised project sales revenue,

– the aggregated amount of costs incurred and recognised profits less recognised losses,

– retentions,

– the gross amount due from customers for work in progress,

– advances and

– the gross amount due to customers for work in progress.

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

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

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

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

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

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

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

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

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

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

Non-current assets (tangible and intangible)

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

THE FOLLOWING USEFUL LIVES HAVE BEEN USED:

Tangible:	
Computer programs, computers	3.3 years
Office equipment	4 years
Vehicles	5 years
Machinery and equipment	7–14 years
Land improvements	20 years
Buildings	25–33 years
Intangible:	
Patents and unpatented know-how	10–20 years
Trademarks	10–20 years
Licenses, renting rights and similar rights	10–20 years
Goodwill, strategic Not amortised after January 1, 2004	20 years
Goodwill, other Not amortised after January 1, 2004	10 years

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

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

Impairment of assets

When there are indications that the value of a tangible asset or an intangible asset with a definite useful life has decreased, there is a valuation made if it must be written down according to IAS 36 "Impairment of Assets". If the reported value is higher than the recoverable amount, a write down is made that burdens net income. When assets are up for sale, for instance items of real estate, a clear indication of the recoverable amount is received that can trigger a write down.

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

The recoverable amount for goodwill and intangible assets with indefinite useful life is determined from the value in use based on discounted future cash flows. For other assets the recoverable amount is determined from the fair value less costs to sell based on an observable market price.

For the impairment testing of goodwill, three of Alfa Laval's operating segments, the divisions "Equipment", "Process Technology" and "Marine & Diesel" have been identified as the cash-generating units within Alfa Laval. Technically a recently acquired business activity could be followed independently during an initial period, but acquired businesses tend to be integrated into the divisions at a fast rate. This means that the independent traceability is lost fairly soon and then any independent measurement and testing becomes impracticable. The net present value is based on the projected EBITDA figures for the next twenty years, less projected investments and changes in operating capital during the same period. The used discount rate is the pre-tax weighted average cost of capital (WACC). The growth rate for the divisions during the period is the perceived expected average industry growth rate. No terminal value has been calculated since this would render a very large and uncertain value, which could give an erroneous impression that no impairment exists.

Non-current Assets Held for Sale and Discontinued Operations

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

Assets held for sale are to be measured at the lower of the carrying amount and fair value, less sales costs. No depreciation of such assets is made. An asset held for sale is an asset whose carrying amount will be recovered basically through a sale rather than through continuing use. It must be available for immediate sale in its current condition. The sale must be highly probable, that is a decision must have been made and an active sales effort must have been initiated. The sale must be expected to be finalised within one year. Non-current assets are reclassified to current assets and presented separately in the statement on financial position.

Objectives, policies and processes for managing capital

IAS 1 "Presentation of Financial Statements" paragraphs 124 A-C contain disclosure requirements on the company's objectives, policies and processes for managing capital. This information is disclosed in a separate section after the description of the accounting principles.

Other operating income and other operating costs

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

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

Provisions

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

A provision is recognised when and only when:

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

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

In measuring the provision:

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

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

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

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

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

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

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

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

– started to implement the restructuring plan; or
– communicated the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the restructuring will happen.

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

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

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

Research and development

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

Revenue recognition

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

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

Sale of goods

Revenue from sale of goods is recognised when all of the following conditions have been fulfilled:

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

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

Sale of services

To the extent that Alfa Laval also delivers services the three last conditions above apply together with:

– the stage of completion at the closing date can be measured reliably.

Project sales

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

Operating segments

IFRS 8 means that the reporting of operating segments must be made according to how the chief operating decision maker monitors the operations, which may deviate from IFRS. Furthermore information according to IFRS for the company as a whole must be given about products and services as well as geographical areas and information about major customers.

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

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

Transactions in foreign currencies

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

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

IAS 21 “The Effects of Changes in Foreign Exchange Rates” covers among other things the existence of functional currencies. Almost all of Alfa Laval’s subsidiaries are affected by changes in foreign exchange rates for their procurement within the Group. They do however usually sell in their local currency and they have more or less all of their non-product related costs and their personnel related costs in their local currency. This means that none of Alfa Laval’s subsidiaries qualify for the use of another functional currency than the local currency, with the following exception. Subsidiaries in highly inflationary countries report their closings in the functional hard currency that is valid in each country, which in all cases is USD. During 2012 Turkey and Venezuela are regarded as highly inflationary countries.

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

Recently issued accounting pronouncements

International Accounting Standards Board (IASB) has issued the following new or revised accounting pronouncements, which may be applicable on Alfa Laval and are effective for fiscal years beginning on or after January 1, 2013. Alfa Laval has chosen not to make any early adoption of any of these pronouncements.

IFRS 7

IFRS 7 “Financial Instruments: Disclosures” has been amended. Disclosures must be made of financial assets and financial liabilities that have been netted in the report of financial position or that can be netted according to an agreement. The amendment to IFRS 7 has been adopted by the European Union and becomes effective for financial years beginning on or after January 1, 2013. The revised standard must be applied retroactively in accordance with IAS 8.

Alfa Laval's assessment is that the amendments to IFRS 7 will have limited impact on the financial statements of Alfa Laval and the disclosures in them.

IFRS 9

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

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

IFRS 10

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

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

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

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

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

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

IFRS 11

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

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

- a joint operation or
- a joint venture.

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

Joint ventures are no longer allowed to be consolidated according to the proportional consolidation method, but instead the equity method must be used. This means that the interest is accounted for on one line in the consolidated statement of financial position and that the share of the result is accounted for on one line in the consolidated statement of comprehensive income.

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

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

IFRS 12

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

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

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

- Financial information regarding subsidiaries with a considerable part of non-controlling interests.
- Disclosures on the judgments and estimation that have been made in judging whether an entity shall be consolidated or not and if an associate shall be accounted for or whether a joint arrangement is considered to be joint operation or a joint venture.
- Financial disclosures on interests in material associates and joint arrangements.
- Disclosures on the risks and rewards that are associated with unconsolidated structured entities and what the effect would be if the risks changed.

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

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

IFRS 13

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.

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

IFRS 13 has been adopted by the European Union and becomes effective for financial years beginning on or after January 1, 2013. The standard must be applied prospectively. Early application is allowed.

Alfa Laval's assessment is that IFRS 13 will result in a substantial increase of the amount of disclosures in the financial statements of Alfa Laval, which will further burden the presentation without corresponding benefit for the reader.

IAS 1

IAS 1 "Presentation of Financial Statements" has been changed. The change means that the grouping of transaction reported in other comprehensive income is changed. The items that are recycled over the income statement are to be reported separately from the items that are not recycled over the income statement. The proposal does not change the actual content of other comprehensive income but only the format.

IAS 1 has been adopted by the European Union and becomes effective for financial years beginning on or after July 1, 2012. The changes must be applied retroactively in accordance with IAS 8. Early application is allowed.

Apart from the regrouping in other comprehensive income Alfa Laval's assessment is that the amendments to IAS 1 will have limited impact on the financial statements of Alfa Laval and the disclosures in them.

IAS 19

IAS 19 "Employee Benefits" has been changed. The changes mean substantial changes concerning the accounting for defined benefit pension schemes, for example:

- The possibility to phase actuarial gains and losses as a part of the corridor cannot be used, but these are to be accounted for currently in other comprehensive income. The items that relate to the vesting of defined benefit pensions and gains and losses that arise when settling a pension liability and the financial net concerning the defined benefit plan are reported in the income statement above net income.
- Changes in the obligations that relate to changes in actuarial assumptions are accounted for in other comprehensive income.
- The return on plan assets is calculated with the same interest rate as the discount rate. The expected return cannot be used any longer.
- The difference between the actual return on plan assets and the interest income in the previous bullet point is reported in other comprehensive income.
- Past service costs must be recognised in the income statement already when the plan is amended or curtailed.
- The plan assets must be specified on different types of assets.
- Sensitivity analysis must be made concerning reasonable changes in all assumptions made when calculating the pension liability.
- The difference between short and long term remunerations focuses on when the commitment is expected to be settled rather than the link to the employee's vesting of the commitment.
- The changes include further changes that do not focus on accounting for pensions but other forms of employee benefits. Termination benefits shall be accounted for at the earliest of the following - the time when the benefit offer cannot be withdrawn, alternatively in accordance with IAS 37 as a part of for instance restructuring the operations.
- For Swedish entities the actuarial calculations will also include future payments of special salary tax.

IAS 19 has been adopted by the European Union and becomes effective for financial years beginning on or after January 1, 2013. The revised standard must be applied retroactively in accordance with IAS 8. Early application is allowed.

The consequences of the changes to IAS 19 are complex to calculate without new actuarial calculations, which are not present yet. Alfa Laval's assessment is though that the changes primarily will result in:

- The present value of the defined benefit obligations will be fully booked in the statement of financial position, with a magnitude approximately corresponding to the unrecognised actuarial losses of SEK 1,038 million as per the end of 2011.
- A corresponding amount will be booked as a reduction of equity as a change in accounting principles per January 1, 2012.
- As a consequence of this the comparison figures for 2012 will be changed.
- From January 1, 2012 the actuarial gains and losses will be reported currently in other comprehensive income.
- None of these actuarial items will ever be reported in operating income, but will instead remain in other comprehensive income.
- The impact on other comprehensive income can as a result become substantial between the years.
- The amount of disclosures will increase.

IAS 32

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

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

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

UFR 9

The Swedish Financial Reporting Board has issued an opinion UFR 9 "Redovisning av avkastningsskatt" on how the Swedish tax on returns from pension funds is to be treated in light of the changes to IAS 19. The tax on returns from pension funds is to be reported currently as a cost in the profit and loss and must not be included in the actuarial calculation for defined benefit pension plans.

UFR 9 is to be applied at the same time as the changes in IAS 19, that is for financial years beginning on or after January 1, 2013.

Alfa Laval's assessment is that UFR 9 does not mean any change compared to how the Swedish tax on returns from pension funds is accounted for today. It is rather a clarification in order to establish that the tax should not be included in the actuarial calculations.

Otherwise Alfa Laval will further evaluate the effects of the application of the new or revised accounting standards 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 2012 the managed capital was SEK 19,657 (18,408) 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

				Outcome		Average over last		
	Goal	Target standard	Target not set	2012	2011	3 years	5 years	8 years
Invoicing growth per year *	≥8%			4.1%	15.9%	4.8%	4.0%	12.4%
Adjusted EBITA margin *	15%			16.5%	18.5%	18.0%	18.7%	17.5%
Return on capital employed	≥25%			26.1%	31.3%	31.6%	36.4%	36.9%
Debt ratio		<0.75		0.28	0.22	0.15	0.14	0.20
Cash flow from operating activities including investments in fixed assets **		10%		10.2%	10.0%	11.7%	13.1%	12.0%
Investments **		2.0%		1.8%	1.9%	1.8%	2.0%	2.0%
Return on equity			X	21.6%	22.9%	23.0%	27.2%	27.7%
Solidity			X	43.9%	43.9%	45.9%	44.1%	40.9%
Net debt to EBITDA			X	0.8	0.6	0.4	0.3	0.5
Interest coverage ratio			X	23.1	28.6	29.2	25.8	21.8

* average over a business cycle ** in % of sales

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

In the longer term the debt ratio should be less than 0.75. As a result of major acquisitions the ratio may temporarily exceed 0.75, but the ratio is then expected to soon decrease beneath 0.75 due to positive cash flows and results from the acquired activity.

During 2012 Alfa Laval has changed the target standard for investments from 2.5 percent of sales to 2.0 percent.

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:

- The bilateral term loan with Swedish Export Credit from June 2011.
- The senior credit facility with a new banking syndicate from April 2011.
- The finance contract with the European Investment Bank from September 2009, where a bilateral term loan was called for on March 2011.
- The private placement in the U.S. and the bilateral term loan with SHB that both happened in 2006.
- The repurchases of shares made during 2007, 2008 and 2010 and the proposal for a new mandate to repurchase shares during 2013.

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

Financial risks

Financial instruments
Financial risks are referring to financial instruments. Alfa Laval has the following instruments: cash and bank, deposits, trade receivables, bank loans, trade payables and a limited number of derivative instruments to hedge primarily currency rates or interests, but also the price of metals and electricity. These include currency forward contracts, currency options, interest-rate swaps, metal forward contracts and electricity futures. See Notes 13 and 14 for more information on these financial instruments.

Financial policy
In order to control and limit the financial risks, the Board of the Group has established a financial policy. The Group has an aversive attitude toward financial risks. This is expressed in the policy. It establishes the distribution of responsibility between the local companies and the central finance function in Alfa Laval Treasury International, what financial risks the Group can accept and how the risks should be limited.

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

Currency risk
Due to the Alfa Laval Group's international business activities and geographical spread the Group is exposed to currency risks. The exchange rate movements in the major currencies for the Group during the last years are presented below (SEK/foreign currency):

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

Transaction exposure
During 2012 Alfa Laval's sales to countries outside Sweden amounted to 97.1 (96.7) (96.6) percent of total sales.

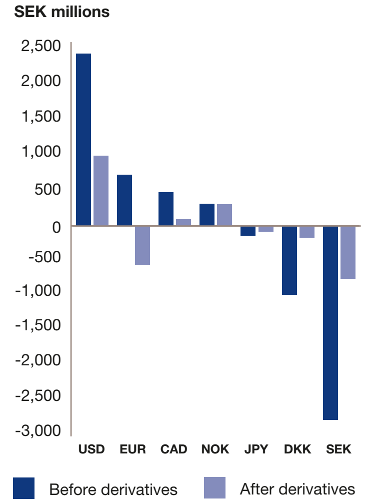
Alfa Laval's local sales companies normally sell in domestic currency to local end customers and have their local cost base in local currency. Exports from production and logistical centres to other Group companies are invoiced in the exporting companies' domestic currencies, except for Sweden, Denmark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

The Group is principally exposed to currency risk from potential changes in contracted and projected flows of payments and receipts. The objective of foreign exchange risk management is to reduce the impact of foreign exchange movements on the Group's income and financial position.

The Group normally has natural risk coverage through sales as well as costs in local currencies. The financial policy states that the local companies are responsible for identifying and hedging exchange rate exposures on all commercial flows via Alfa Laval Treasury International. Contract based exposures must be fully hedged. In addition, the balance of projected flows the next 12 months must be hedged to at least 50 percent. The remaining part of the projected flows can be partially hedged after conferring with the Group's central finance function. Alfa Laval Treasury International can add to or reduce the total hedging initiated by the local companies in the currencies that Alfa Laval has commercial exposure up to but not exceeding 100 percent of one year's commercial exposure for each currency.

The Group's net transaction exposure at December 31, 2012 in different currencies before and after derivatives for the coming 12 months amounts to:

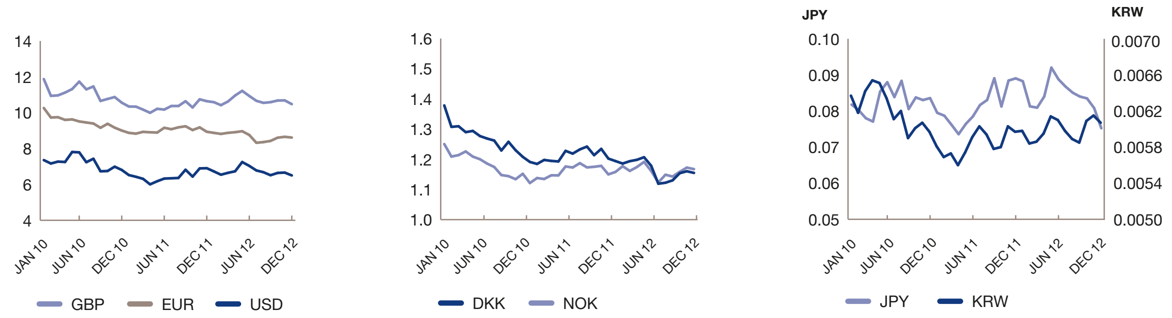
NET TRANSACTION EXPOSURE PER CURRENCY AT DECEMBER 31, 2012 FOR THE COMING 12 MONTHS



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

Currency contracts for projected flows are entered into continuously during the year with 12 months maximum duration. For contract based exposures the derivatives follow the duration of the underlying contract. This means that the company experiences the effects from the market currency rate movements with a varying degree of delay.

EXCHANGE RATE FLUCTUATIONS



If the currency rates between SEK and the most important foreign currencies are changed by +/- 10 % it has the following effect on operating income, if no hedging measures are taken:

EFFECT ON OPERATING INCOME BY EXCHANGE RATE FLUCTUATIONS EXCLUDING HEDGING MEASURES

Consolidated						
SEK millions	2012		2011		2010	
Exchange rate change against SEK	+ 10%	- 10%	+ 10%	- 10%	+ 10%	- 10%
USD	245	-245	225	-225	167	-167
EUR	72	-72	99	-99	165	-165
CAD	47	-47	30	-30	24	-24
NOK	31	-31	28	-28	24	-24
DKK	-98	98	-102	102	-101	101
JPY	-14	14	-15	15	-22	22
Other	41	-41	34	-34	29	-29
Total	**324**	**-324**	**299**	**-299**	**286**	**-286**

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

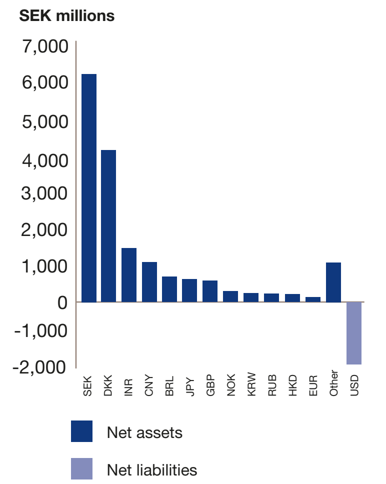
OUTSTANDING CURRENCY FORWARD CONTRACTS AND CURRENCY OPTIONS

Consolidated						
Millions	2012		2011		2010	
	Original currency	SEK	Original currency	SEK	Original currency	SEK
Outflows:						
USD	-577	-3,750	-593	-4,093	-405	-2,754
EUR	-134	-1,157	-175	-1,566	-257	-2,316
KRW	-93,436	-567	-80,469	-480	-73,831	-441
AUD	–	–	-13	-91	-29	-203
CAD	-50	-329	-19	-128	-26	-176
JPY	–	–	–	–	-596	-50
BRL	-2	-6	-3	-12	-11	-43
RUB	-117	-25	–	–	–	–
Other		-19		-46		-79
Total		**-5,853**		**-6,416**		**-6,062**
Inflows:						
SEK	5,480	5,480	5,751	5,751	6,243	6,243
DKK	84	96	328	394	284	343
NOK	104	121	38	44	32	37
SGD	4	24	5	27	3	16
GBP	14	148	16	164	1	13
JPY	1,892	142	1,263	113	0	0
AUD	8	53	–	–	–	–
Other		5		7		8
Total		**6,069**		**6,500**		**6,660**

Translation exposure

When the subsidiaries' statements of financial position in local currency are translated into SEK a translation difference arises that is due to the current year being translated at a different closing rate than last year and that the income statement is translated at the average rate during the year whereas the statement of financial position is translated at the closing rate at December 31. The translation differences are reported against other comprehensive income. The translation exposure consists of the risk that the translation difference represents in terms of impact on comprehensive income. The risk is largest for the currencies where the Group has the largest net assets and where the exchange rate movements against SEK are largest. The Group's net assets or liabilities for the major currencies are distributed as follows:

NET ASSETS AND LIABILITIES BY CURRENCY



The translation differences are a central responsibility and are managed by distributing the loans on different currencies based on the net assets in each currency and through currency forward contracts. Loans taken in the same currency as there are net assets in the Group, decrease these net assets and thereby decrease the translation exposure.

These hedges of net investments in foreign operations work in the following way. Exchange gains and losses on loans denominated in foreign currencies that finance acquisitions of foreign subsidiaries are reported as a part of other comprehensive income if the loans act as a hedge to the acquired net assets. In other comprehensive income they offset the translation adjustments resulting from the consolidation of the foreign subsidiaries. In the Group, net exchange differences of SEK 214 (34) (99) 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.

Interest risk

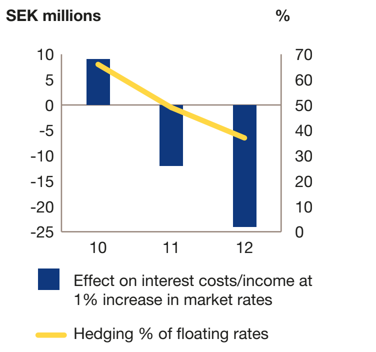
By interest risk is meant how changes in the interest level affect the financial net of the Group and how the value of financial instruments vary due to changes in market interest rates. The Group attempts to manage interest-rate risk by matching fixed interest periods of financial assets and liabilities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

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

The senior credit facility and the bilateral term loans accrue interest at floating rate. The Group has chosen to hedge 36 (45) (60) percent of the loans to fixed interest rate, with a duration of 26.3 months. The average interest and currency duration including derivatives is 12.8 (19.2) months at the end of 2012.

Calculated on an overall increase of market rates by 100 basis points (1 percentage unit), the interest net of the Group would change according to the bar chart below.

INTEREST SENSITIVITY ANALYSIS VERSUS HEDGING % OF FLOATING RATES



The reason for the positive effect during 2010 is the size of cash, bank and current deposits relative to the un-hedged part of total debt. Due to the increased loans in 2011 and 2012 the effect becomes negative.

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

Market risk

Market risk is defined as the risk for changes in the value of a financial instrument due to changed market prices. This applies only to financial instruments that are listed or otherwise traded, which for Alfa Laval concern bonds and other securities and other long-term securities totalling SEK 140 (118) million. The market risk for these is perceived as low. For other financial instruments, the price risk only consists of currency risk and interest risk.

Liquidity risk and refinancing risk

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

Refinancing risk is defined as the risk that the refinancing of maturing loans becomes difficult or costly. The loans of the Group are mainly long term and only mature when the agreed loan period expires. This means that the Group during the foreseeable future does not need to refinance maturing loans. Since the maturity of the loans is distributed over time the refinancing risk is reduced.

In 2006 Alfa Laval made a private placement in the U.S. The offer was over-subscribed and was closed at USD 110 million, corresponding to SEK 714 million. The loan matures in April 2016.

In connection with the acquisition of Tranter Alfa Laval signed a bilateral term loan with SHB of EUR 25 million, corresponding to SEK 215 million. The loan matures in December 2013.

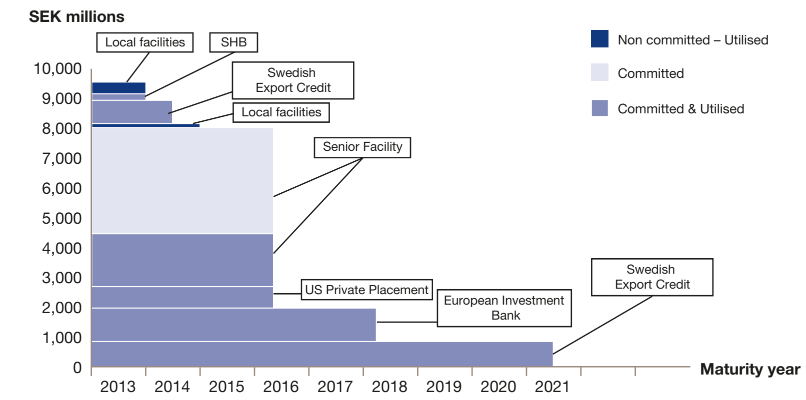
Alfa Laval has a senior credit facility of EUR 301 million and USD 420 million, corresponding to SEK 5,324 million with a banking syndicate. At December 31, 2012 SEK 1,784 million of the facility was utilised. The facility matures in April 2016, with a one-year extension option.

Alfa Laval has a bilateral term loan from Swedish Export Credit split on one loan of EUR 100 million that matures in 2014 and one loan of EUR 100 million that matures in 2021, corresponding to SEK 1,723 million in total.

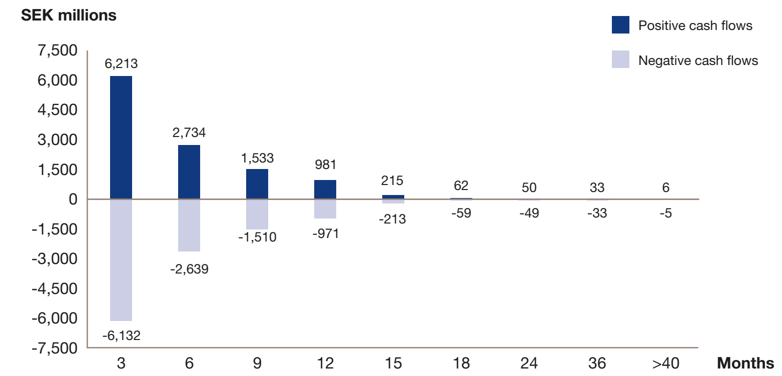
Alfa Laval also has a bilateral term loan from the European Investment Bank of EUR 130 million, corresponding to SEK 1,120 million. The loan matures in 2018.

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

MATURITY STRUCTURE OF GROUP FUNDING



MATURITY STRUCTURE OF FINANCIAL DERIVATIVES



Cash flow risk

Cash flow risk is defined as the risk that the size of future cash flows linked to financial instruments is fluctuating. This risk is mostly linked to changed interest and currency rates. To the extent that this is perceived as a problem, different derivative instruments are used to fix rates. See description of exposure and hedging measures under interest risk. See the maturity structure of financial derivatives above.

Counterpart risks

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

The Group maintains cash and bank and short and long-term investments with various financial institutions approved by the Group. These financial institutions are located in major countries throughout the world and the Group's policy is designed to limit exposures to any one institution. The risk for a counterpart not fulfilling its commitments is limited through the selection of financially solid counterparts and by limiting the engagement per counterpart. The Group performs periodic evaluations of the relative credit standing of those financial institutions that are considered in its investment strategy. The Group does not require collateral on these financial instruments.

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

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

Operational risks

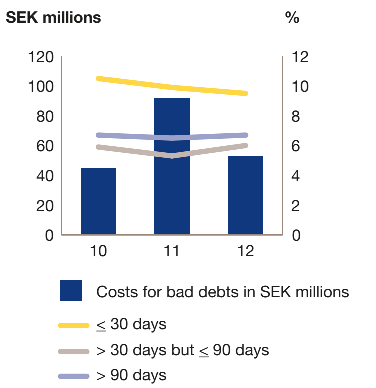
Risk for bad debts

The risk for bad debts is referring to the risk that the customer cannot pay for delivered goods due to financial difficulties. The Group sells to a large number of customers in countries all over the world. That some of these customers from time to time face payment problems or go bankrupt is unfortunately part of reality in an operation of Alfa Laval's magnitude. All customers except Tetra Laval represent less than 1 percent of net sales and thereby represent a limited risk. Alfa Laval regularly collects credit information on new customers and, if needed, on old customers. Earlier payment habits have an impact on the acceptance of new orders. On markets with political or financial risks, the Group strives to attain credit insurance solutions. Accounts receivable constitutes the single largest financial asset according to Note 13. With reference to the above description it is management's opinion that there is no material concentration of risk in this financial asset.

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

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

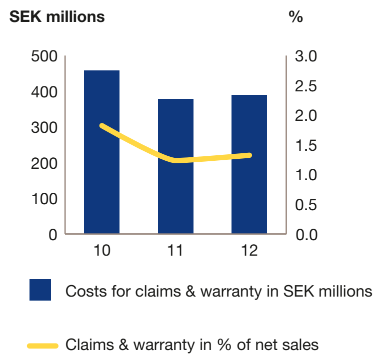
COSTS FOR BAD DEBTS / OVERDUES IN % OF ACCOUNTS RECEIVABLE



Risk for claims

The risk for claims refers to the costs Alfa Laval would incur to rectify faults in products or systems and possible costs for penalties. Alfa Laval strives to minimize these costs through an ISO certified quality assurance. The major risks for claim costs appear in connection with new technical solutions and new applications. The risks are limited through extensive tests at the manufacturing site and at the customer site. The Group's net claim costs and their relation to net sales are found in the following graph:

CLAIM COSTS IN SEK MILLIONS AND IN % OF SALES



Risk connected to technical development

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

Economic risk

Competition

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

– organized the operations into divisions based on customer segments in order to get a customer focused market penetration,

– a strategy for acquisition of businesses in order to for instance reinforce the presence on certain markets or widen the Group's product offering,

– worked with creating a competitive cost level based on its international presence and

– worked with securing the availability of strategic metals and components in order to maintain the ability to deliver.

Business climate

In an overall economic downturn the Group tends to be affected with a delay of six to twelve months depending on customer segment. The same applies with an economic upturn. The fact that the Group is operating on a large number of geographical markets and within a wide range of customer segments means a diversification that limits the effects of fluctuations in the business climate. Historically, fluctuations in the business climate have not generated decreases in orders received by more than 10 percent. The downturn in the business climate in 2009 and 2010 however meant a considerably larger decline in order intake. This was partly due to the fact that the decline happened abruptly from a very high level of demand that was the culmination of a long-lasting boom and that the price level in connection with this peak was inflated by substantial increases in raw material prices.

Prices of raw material

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

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

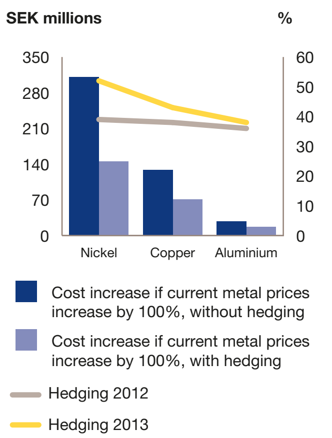
NICKEL

COPPER

ALUMINIUM

The Group uses metal futures to secure the price on strategic metals. The graph below shows how much of the purchases of nickel, copper and aluminium that have been hedged during 2012 and how much of the expected purchases during 2013 that were hedged at the end of 2012. The graph also presents to what extent the Group's costs for these purchases would be affected if the prices would double from the current levels.

SENSITIVITY ANALYSIS AND METAL PRICE HEDGING



Environmental risks
This risk relates to the costs that the Group may incur to reduce emissions according to new or stricter environmental legislation, to restore land at previously or currently owned industrial sites, to arrange more effective waste disposal, to obtain prolonged or new concessions etc. The Group has an ambition to be well within the boundaries that local legislation sets, which should reduce the risks. The operations of the Group are not considered to have a significant environmental impact. For more information on Alfa Laval's environmental impact, see the section on "Sustainability" on page 44.

Political risk
Political risk is the risk that the authorities, in the countries where the Group is operating, by political decisions or administration make continued operations difficult, expensive or impossible for the Group. The Group is mainly operating in countries where the political risk is considered to be negligible or minor. The operations that are performed in countries where the political risk is deemed to be higher are not material.

Risk for and in connection with litigations
This risk pertains to the costs the Group may incur in managing litigations, costs in connection with settlements and costs for imposed penalties. The Group is involved in a few litigations, mainly with customers. Any estimated loss risks are provided for.

Asbestos-related lawsuits
The Alfa Laval Group was as of December 31, 2012, named as a co-defendant in a total of 716 asbestos-related lawsuits with a total of approximately 802 plaintiffs. Alfa Laval strongly believes the claims against the Group are without merit and intends to vigorously contest each lawsuit.

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

Risk for technically related damages
This risk refers to the costs Alfa Laval may incur in connection with a product delivered by the Group breaking down and causing damages to life and property. The main risk in this context concerns high-speed separators, due to the large forces that are involved when the bowl in the separator spins with a very high number of revolutions. In a breakdown the damages can be extensive. Alfa Laval addresses these risks through extensive testing and an ISO certified quality assurance. The Group has product liability insurance. The number of damages is low and few damages have occurred historically.

Business interruption risks

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

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

Alfa Laval has a well developed dialog with the local unions, which reduces the risk for conflicts and strikes where Alfa Laval is directly involved. It is however more difficult to protect the company against conflicts in other parts of the labour market, for instance within transportation.

Alfa Laval is minimizing the following two risks through an active preventive work at each site in line with the developed global policies in each area under supervision of manufacturing management, the Group's Risk Management function, Real Estate Management, IT and HR.

Problems at major sub-suppliers are minimized by Alfa Laval trying to use several suppliers of input goods that when needed can cover up for a drop in production somewhere else. The wish for long term and competitive delivery agreements however puts restrictions on the level of flexibility that can be achieved. When there is a shortage the total supply may be too limited to allow exchangeability.

HPR stands for "Highly Protected Risk" and is the insurance industry's highest rating for risk quality. This rating is reserved for those commercial properties where the exposure for physical damages is reduced to a minimum considering building construction, operations and local conditions. HPR means that all physical risks in and around the facility are documented and that these are kept within certain limits. Alfa Laval's production facility in Lund in Sweden, which is the Group's largest and most important facility is HPR classified, as well as the production facilities in Richmond and Newburyport in the U.S. A number of other key production facilities are being evaluated and may eventually become HPR classified.

A HPR classification means that the facility has state of the art fire and machinery protection systems and that the responsible personnel has adequate security routines to make sure that these protection systems are maintained and in function. In addition, known possible sources of ignition are under strict control to prevent a fire from starting. For an HPR facility the risk for a physical damage is brought to a minimum, which minimises the risk for business interruption that could have extensive consequences for Alfa Laval and its customers. For other production facilities, not HPR-classified, the aim is also to reduce the risk for damage and business interruption to a minimum by keeping, among other things, ignition sources under strict control. Loss prevention visits are conducted according to a schedule based on size and importance for Alfa Laval.

Insurance risks

These risks refer to the costs that Alfa Laval may incur due to an inadequate insurance coverage for property, business interruption, liability, transport, life and pensions. The Group strives to maintain an insurance coverage that keeps the risk level at an acceptable level for a Group of Alfa Laval's size and is still cost efficient. As a part in this Alfa Laval has an own captive. At the same time a continuous work is going on to minimise the risks in the operations through proactive measures.

Risks connected to credit terms

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

Notes

Note 1. Operating segments

Starting at January 1, 2012 a new business division Marine & Diesel has been added to Alfa Laval's two business divisions Equipment and Process Technology. It consists of the absolutely greater part of the acquired Aalborg Industries that is engaged in marine applications and the former business segment Marine & Diesel and the marine part of Parts & Service from the Equipment division. The residual part of Aalborg Industries is included in Process Technology.

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

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

The operating segments are only responsible for the result down to and including operating income excluding comparison distortion items and for the operating capital they are managing. This means that financial assets and liabilities, pension assets, provisions for pensions and similar commitments and current and deferred tax assets and liabilities are a Corporate responsibility and not an operating segment responsibility. This also means that the financial net and income taxes are a Corporate responsibility and not an operating segment responsibility.

The operating segments are only measured based on their transactions with external parties.

ORDERS RECEIVED

Consolidated			
SEK millions	2012	2011	2010
Equipment	9,701	9,508	8,903
Process Technology	14,081	12,738	10,922
Marine & Diesel	6,557	6,423	4,042
Other	0	2	2
Total	**30,339**	**28,671**	**23,869**

ORDER BACKLOG

Consolidated			
SEK millions	2012	2011	2010
Equipment	1,583	1,385	1,447
Process Technology	8,358	6,889	6,568
Marine & Diesel	4,527	5,462	3,537
Other	0	0	0
Total	**14,468**	**13,736**	**11,552**

NET SALES

Consolidated			
SEK millions	2012	2011	2010
Equipment	9,476	9,447	8,629
Process Technology	12,812	12,160	10,625
Marine & Diesel	7,525	7,043	5,443
Other	0	2	23
Total	**29,813**	**28,652**	**24,720**

OPERATING INCOME IN MANAGEMENT ACCOUNTS

Consolidated			
SEK millions	2012	2011	2010
Equipment	1,389	1,278	2,087
Process Technology	2,194	2,506	2,140
Marine & Diesel	1,458	1,718	536
Other	-541	-568	-405
Total	4,500	4,934	4,358
Reconciliation with Group total:			
Comparison distortion items	-51	-170	90
Consolidation adjustments	-77	-73	-47
Total operating income	4,372	4,691	4,401
Financial net	133	-15	-37
Result after financial items	**4,505**	**4,676**	**4,364**

Operating income in management accounts is very close to operating income under IFRS. There are only two differences. Operating income in management accounts does not include comparison distortion items nor all the consolidation adjustments that are made in the official accounts.

ASSETS / LIABILITIES

Consolidated	Assets		Liabilities	
SEK millions	2012	2011	2012	2011
Equipment	5,804	6,018	986	1,063
Process Technology	10,608	9,500	4,304	4,167
Marine & Diesel	8,309	8,874	2,043	2,256
Other	5,395	5,178	2,188	2,284
Subtotal	30,116	29,570	9,521	9,770
Corporate	4,963	4,933	10,171	9,589
Total	**35,079**	**34,503**	**19,692**	**19,359**

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

INVESTMENTS

Consolidated			
SEK millions	2012	2011	2010
Equipment	46	67	43
Process Technology	110	127	85
Marine & Diesel	38	44	32
Other	337	317	269
Total	**531**	**555**	**429**

DEPRECIATION

Consolidated			
SEK millions	2012	2011	2010
Equipment	162	156	164
Process Technology	230	208	197
Marine & Diesel	224	196	93
Other	318	315	342
Total	**934**	**875**	**796**

Note 2. Information about geographical areas

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

NET SALES

Consolidated

	2012 SEK millions	2012 %	2011 SEK millions	2011 %	2010 SEK millions	2010 %
To customers in:						
Sweden	856	2.9	942	3.3	849	3.4
Other EU	7,911	26.5	7,634	26.5	6,879	27.8
Other Europe	2,521	8.5	2,313	8.1	1,953	7.9
USA	4,626	15.5	3,832	13.4	3,354	13.6
Other North America	921	3.1	788	2.8	757	3.1
Latin America	1,950	6.5	1,981	6.9	1,531	6.2
Africa	330	1.1	216	0.8	242	1.0
China	3,298	11.1	3,772	13.2	3,144	12.7
Other Asia	6,969	23.4	6,774	23.6	5,648	22.8
Oceania	431	1.4	400	1.4	363	1.5
Total	**29,813**	**100.0**	**28,652**	**100.0**	**24,720**	**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

	2012 SEK millions	2012 %	2011 SEK millions	2011 %
Sweden	1,504	7.9	1,553	8.3
Denmark	4,385	23.1	4,672	25.1
Other EU	4,057	21.3	4,361	23.4
Other Europe	312	1.6	329	1.8
USA	3,631	19.1	2,251	12.1
Other North America	120	0.6	121	0.6
Latin America	429	2.3	500	2.7
Africa	1	0.0	1	0.0
Asia	2,890	15.2	3,096	16.6
Oceania	93	0.5	97	0.5
Subtotal	17,422	91.6	16,981	91.1
Other long-term securities	9	0.0	25	0.1
Pension assets	383	2.0	346	1.9
Deferred tax asset	1,208	6.4	1,293	6.9
Total	**19,022**	**100.0**	**18,645**	**100.0**

INVESTMENTS

Consolidated

	2012 SEK millions	2012 %	2011 SEK millions	2011 %	2010 SEK millions	2010 %
Sweden	66	12.4	99	17.8	54	12.6
Denmark	41	7.7	21	3.7	53	12.4
Italy	27	5.1	54	9.8	68	15.9
Other EU	72	13.5	84	15.2	73	16.9
Other Europe	13	2.5	10	1.8	25	5.8
North America	38	7.1	46	8.3	39	9.0
Latin America	22	4.1	18	3.2	7	1.6
Africa	0	0.1	1	0.1	0	0.0
China	113	21.3	98	17.6	37	8.6
India	103	19.4	82	14.8	36	8.3
Other Asia	33	6.3	40	7.4	34	8.2
Oceania	3	0.5	2	0.3	3	0.7
Total	**531**	**100.0**	**555**	**100.0**	**429**	**100.0**

Note 3. Information about products and services

NET SALES BY PRODUCT/SERVICE

Consolidated

SEK millions	2012	2011	2010
Own products within:			
Separation	6,646	6,345	6,043
Heat transfer	16,010	15,480	13,092
Fluid handling	3,046	3,006	2,700
Other	919	670	550
Associated products	1,828	1,881	1,144
Services	1,364	1,270	1,191
Total	**29,813**	**28,652**	**24,720**

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

Note 4. Information about major customers

Alfa Laval does not have any customer that accounts for 10 percent or more of net sales. Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with about 3 percent of net sales. See Note 32 for more information.

Note 5. Employees

AVERAGE NUMBER OF EMPLOYEES – TOTAL

Consolidated

	Number of female employees			Total number of employees		
	2012	2011	2010	2012	2011	2010
Parent company	–	–	–	–	–	–
Subsidiaries in Sweden (9)	497	466	439	2,158	2,138	2,042
Total in Sweden (9)	497	466	439	2,158	2,138	2,042
Total abroad (144)	2,511	2,344	1,913	13,902	12,529	10,036
Total (153)	**3,008**	**2,810**	**2,352**	**16,060**	**14,667**	**12,078**

The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2012.

AVERAGE NUMBER OF EMPLOYEES – IN SWEDEN BY MUNICIPALITY

Consolidated

	2012	2011	2010
Botkyrka	440	427	428
Eskilstuna	212	203	199
Lund	1,006	1,002	958
Ronneby	261	264	245
Stockholm	9	12	12
Vänersborg	139	137	129
Other *	91	93	71
Total	**2,158**	**2,138**	**2,042**

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

AVERAGE NUMBER OF EMPLOYEES – BY COUNTRY

Consolidated	Number of female employees			Total number of employees		
	2012	2011	2010	2012	2011	2010
Argentina	10	9	7	38	35	33
Australia	17	14	12	110	93	64
Belgium	2	2	3	28	35	43
Brazil	52	42	25	579	430	162
Bulgaria	11	10	9	40	41	40
Chile	8	8	8	38	32	29
Colombia	8	6	4	19	17	16
Denmark	412	377	301	1,715	1,515	1,127
Philippines	3	3	2	11	11	11
Finland	43	41	35	250	236	205
France	159	157	144	894	876	787
United Arab Emirates	19	16	12	175	146	98
Greece	6	8	8	20	22	23
Hong Kong	8	8	6	22	27	27
India	71	64	56	1,462	1,420	1,402
Indonesia	17	15	11	73	66	60
Iran	2	3	3	9	14	14
Italy	142	137	113	843	843	644
Japan	57	55	38	282	262	211
Canada	17	17	18	86	83	81
Kazakhstan	2	2	-	6	8	-
China	548	521	367	2,831	2,353	1,435
Korea	66	52	42	355	328	299
Latvia	6	7	7	14	14	13
Malaysia	27	23	22	87	74	65
Mexico	15	16	12	60	58	55
Netherlands	51	48	36	297	247	187
Norway	7	7	8	38	40	42
New Zeeland	5	3	4	18	18	18
Panama	3	3	–	7	8	1
Peru	7	7	6	28	27	25
Poland	46	44	36	229	231	195
Portugal	4	4	5	12	12	12
Qatar	–	–	–	8	4	–
Romania	5	5	5	13	14	15
Russia	116	112	101	333	315	279
Switzerland	4	5	5	15	17	18
Singapore	43	36	28	154	121	70
Slovakia	2	2	2	10	10	11
Spain	20	22	21	81	85	82
UK	48	41	38	312	281	281
Sweden	497	466	439	2,158	2,138	2,042
South Africa	4	6	8	36	36	38
Taiwan	13	12	10	39	37	32
Thailand	11	17	20	67	64	57
Czech Republic	8	8	12	39	37	56
Turkey	7	7	7	41	37	36
Germany	75	75	66	385	351	328
Ukraine	9	7	6	20	18	18
Hungary	4	5	5	15	15	14
USA	247	220	207	1,438	1,329	1,238
Venezuela	3	3	6	7	8	13
Vietnam	36	25	–	188	102	–
Austria	5	7	6	25	26	26
Total	**3,008**	**2,810**	**2,352**	**16,060**	**14,667**	**12,078**

GENDER DISTRIBUTION AMONG MANAGERS

Consolidated

	2012			2011			2010		
	Total number	Male %	Female %	Total number	Male %	Female %	Total number	Male %	Female %
Board members (excluding deputies)	11	72.7	27.3	11	72.7	27.3	11	72.7	27.3
President and other executive officers	11	90.9	9.1	11	90.9	9.1	10	90.0	10.0
Managers in Sweden	241	82.2	17.8	244	82.8	17.2	241	83.4	16.6
Managers outside Sweden	1,664	84.7	15.3	1,534	84.7	15.3	1,394	84.8	15.2
Managers total	1,905	84.4	15.6	1,778	84.4	15.6	1,635	84.6	15.4
Employees in Sweden	2,158	77.0	23.0	2,138	78.2	21.8	2,042	78.5	21.5
Employees outside Sweden	13,902	81.9	18.1	12,529	81.3	18.7	10,036	80.9	19.1
Employees total	16,060	81.3	18.7	14,667	80.8	19.2	12,078	80.5	19.5

Note 6. Salaries and remunerations

SALARIES AND REMUNERATIONS – TOTAL

Consolidated

SEK millions	2012	2011	2010
Board of Directors, Presidents and Vice Presidents	220	218	180
- out of which, variable	32	34	20
Other	5,186	4,874	4,232
Total salaries and remunerations	5,406	5,092	4,412
Social security costs	953	878	775
Pension costs, defined benefit plans	178	160	188
Pension costs, defined contribution plans	340	345	305
Total costs of personnel	**6,877**	**6,475**	**5,680**

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 34 (38) (34) million and SEK 274 (270) (277) million respectively. SEK 134 (139) (147) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Equity compensation benefits
During the period 2010 to 2012 no equity related benefits existed within Alfa Laval.

Variable remunerations
All employees have either a fixed salary or a fixed base salary. For certain personnel categories the remuneration package also includes a variable element. This relates to personnel categorises where it is customary or part of a market offer to pay a variable part. Variable remunerations are most common in sales related jobs and on higher managerial positions. Normally the variable part constitutes a minor part of the total remuneration package.

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

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

Each of the steps stretches over three years and the awards under each step are divided into three tranches (one for each year). The award under each tranche is set independently from the other two tranches. Since each step stretches over three years, three steps of the programmes will always run in parallel. In 2012 step three of the original programme and step one and two of the modified programme are running in parallel.

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

MAXIMUM LONG TERM INCENTIVE

	Maximum long term incentive in percent of base salary	
	Original programme	Modified programme
Maximum variable remuneration per year in percent of base salary	In total over the three year period	In total over the three year period
60%	30%	45%
40%	20%	30%
30%	15%	25%
25%	12.5%	20%
15%	7.5%	12%

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

For the original programme the award is calculated in the following way. For each percent up to maximum 20 percent that the EPS exceeds the target EPS, the employee gets 5 percent of one third of the maximum outcome per year.

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

To be eligible for payout the employees must be in service on the award date and the vesting date (except in case of termination of employment due to retirement, death or disability). If the employee resigns or is dismissed before the end of the three year period, the awards will lapse and the employee will not be entitled to any payout. If the employee moves to a position that is not eligible for this programme the tranches that already have been earned are paid out upon the change of position. Paid remunerations from the long term incentive programme do not affect the pensionable income or the holiday pay.

Based on the reported EPS during the period 2008 to 2012, the different steps have resulted in the following awards:

CASH BASED LONG TERM INCENTIVE PLAN

Consolidated

SEK millions, unless otherwise stated						Per year						Accumulated		
			Covering period			Actual outcome in % of maximum outcome						Payable in percent of base salary based on 15% in variable remuneration	Awards	
Plan	Step	Decided by Annual General Meeting	January 1 –	December 31	Payable in	2012	2011	2010	2009	2008	To date		Paid	Estimated
Original plan														
	One	2008	2008	2010	April 2011	N/A	N/A	11.00%	0.00%	100.00%	37.00%	2.78%	5	N/A
	Two	2009	2009	2011	April 2012	N/A	51.92%	80.25%	58.50%	N/A	63.56%	4.77%	9	N/A
	Three	2010	2010	2012	April 2013	100.00%	100.00%	100.00%	N/A	N/A	100.00%	7.50%	N/A	16
Modified plan														
	One	2011	2011	2013	April 2014	100.00%	100.00%	N/A	N/A	N/A	100.00%	8.00%	N/A	19
	Two	2012	2012	2014	April 2015	99.83%	N/A	N/A	N/A	N/A	99.83%	3.99%	N/A	10
Awards per year						25	17	9	3	5		Total	14	45

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

Guidelines for remunerations to executive officers

The remunerations to the Chief Executive Officer/Managing Director and other members of Group Management 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 principle used when deciding the remunerations to executive officers is that the remuneration package is mainly based on a fixed monthly salary, with an option for a company car and in addition to that a variable remuneration of up to 40 percent of the salary (managing director up to 60 percent of the salary). The size of the variable remuneration depends on the outcome of a number of financial measurements and the result of special projects, all compared with the objectives that have been established for the year.

The Annual General Meetings 2008 to 2010 decided to implement step one to three of a cash-based long term incentive programme for maximum 85 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The Annual General Meetings 2011 and 2012 decided to implement step one and two of a modified cash-based long term incentive programme. The Board of Directors will propose the Annual General Meeting 2013 to implement step three of this modified cash-based long term incentive programme for the period January 1, 2013 – December 31, 2015. No other changes of these guidelines are proposed by the Board of Directors.

Chief Executive Officer/Managing Director

The Chief Executive Officer and Managing Director Lars Renström receives a remuneration of SEK 16,007,287 (14,304,290) (10,070,445), out of which SEK 5,100,000 (4,477,500) (2,139,750) represent the variable part and SEK 1,632,002 (832,500) (-) the payment from the cash-based long term incentive programme. The variable part refers to what was paid during the year. The remuneration contains the value of company car, taxable daily allowances, holiday pay and payment for vacation taken in cash.

Lars Renström has a base salary of SEK 8,840,000 (8,500,000) (7,500,000) per annum. In his remuneration package there is a variable element with an un-guaranteed target of 30 (30) (30) percent of the base salary and with a maximum opportunity of 60 (60) (60) percent. He is covered by both the original and the modified cash based long term incentive programme and based on the estimated base salary at the future time of payment the award for 2012 was SEK 3,656,535 (2,669,300) (1,498,106). The vested unpaid awards at December 31, 2012 amounted to SEK 6,790,316. He does not have an agreement on early retirement. The ordinary ITP up to a salary of 30 base amounts is funded in order to achieve full ITP benefits at the age of 64. If Lars Renström continues his work in Alfa Laval after the age of 64 he will not receive any pension during the time he receives salary. On top of the ordinary ITP he has a defined contribution benefit comprising 50 percent of the base salary. If Alfa Laval terminates his employment before the age of 62 he will receive twenty four months' remuneration, between 62 and 63.5 he will receive twenty four months' remuneration reduced with the number of months that has passed since this 62nd birthday and from 63.5 he will receive 6 months' remuneration. If the employment contract is prolonged beyond the age of 64, the termination remuneration will never exceed the salary and benefits between the date of termination and his 65th birthday.

During the year, Alfa Laval has recorded costs for pension premiums for retirement and survivors' pension of SEK 5,681,143 (4,263,124) (4,787,174). In addition the company has incurred costs for life insurance, disability insurance and health care insurance of SEK 174,286 (430,559) (449,775).

The employment contract for Lars Renström is valid until 2015.

Other executive officers

Other executive officers are the ten members of Group Management in addition to the Chief Executive Officer. Their remunerations were SEK 38 (32) (25) million, out of which the variable part was SEK 9 (7) (3) million and SEK 3 (1) (-) million the payment from the cash based long term incentive programme. The variable part refers to what was paid during the year. They are covered by both the original and the modified cash based long term incentive programme and based on estimated base salaries at the future time of payment the award for 2012 was SEK 6 (4) (2) million. The vested unpaid awards at December 31, 2012 amounted to SEK 12 million. During 2012, Alfa Laval has recorded costs for pension premiums for retirement and survivors' pension of SEK 16 (18) (18) million for them. In addition the company has incurred costs for life insurance, disability insurance and health care insurance of SEK 1 (1) (1) million.

For these executive officers, early retirement has in some cases been committed from the age of 62. From 2006 a defined contribution solution for early retirement is offered with a premium of 15 percent of the pensionable salary. Early retirement is offered selectively and only after a specific decision in the Remuneration Committee. For salaries above 30 base amounts a defined contribution pension solution with a premium of 30 percent of the pensionable salary above 30 base amounts is offered since 2006. Until May 1, 2012 the executive officers also had a special family pension that represented a supplement between the old age pension and the family pension according to ITP. For the persons that were executive officers on May 1, 2012 the special family pension has been converted to a premium based supplementary retirement pension based on the premium level in December 2011. In addition, they may exchange salary and variable remunerations for a temporary old age and family pension.

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

Board of Directors

For 2012, the Board of Directors receive a total fixed remuneration of SEK 4,275,000 (4,075,000) (3,485,000), which is distributed among the members elected at the Annual General Meeting that are not employed by the company. These Directors do not receive any variable remuneration.

REMUNERATIONS TO BOARD MEMBERS *

Consolidated

SEK		2012	2011	2010
Fees by function:				
Chairman of the Board		1,150,000	1,100,000	900,000
Other members of the Board		450,000	425,000	360,000
Supplement to:				
Chairman of the Audit Committee		125,000	125,000	125,000
Other members of the Audit Committee		75,000	75,000	75,000
Chairman of the remuneration committee		50,000	50,000	50,000
Other members of the remuneration committee		50,000	50,000	50,000
Fees by name:				
Anders Narvinger	Chairman	1,200,000	1,150,000	1,025,000
Gunilla Berg	Member	525,000	500,000	435,000
Arne Frank	Member	450,000	425,000	360,000
Björn Hägglund	Member	500,000	475,000	410,000
Ulla Litzén	Member	525,000	500,000	360,000
Finn Rausing	Member	575,000	550,000	485,000
Jörn Rausing	Member	500,000	475,000	410,000
Total		**4,275,000**	**4,075,000**	**3,485,000**

* Elected at the Annual General Meeting and not employed by the company

The reported remunerations refer to the period between two Annual General Meetings.

The Chairman of the Board does not have any agreement on future retirement or severance pay with Alfa Laval.

The audit committee and the remuneration committee have had the following members during the last three years:

	2012	2011	2010
Audit Committee:			
Chairman	Finn Rausing	Finn Rausing	Finn Rausing
Other member	Gunilla Berg	Gunilla Berg	Gunilla Berg
Other member	Ulla Litzén	Ulla Litzén	Anders Narvinger
Remuneration committee:			
Chairman	Anders Narvinger	Anders Narvinger	Anders Narvinger
Other member	Björn Hägglund	Björn Hägglund	Björn Hägglund
Other member	Jörn Rausing	Jörn Rausing	Jörn Rausing

The members of the committees are appointed at the constituent meeting of the Board of Directors directly after the Annual General Meeting.

Note 7. Information on auditors and auditors' fee

The Annual General Meeting 2012 decided to re-elect Ernst & Young as the Group's auditors for the coming year.

FEES AND EXPENSE COMPENSATION

Consolidated

SEK millions	2012	2011	2010
Audit engagements			
Ernst & Young	29	29	30
Other audit firms	1	1	1
Total	**30**	**30**	**31**
Audit related services			
Ernst & Young	16	4	5
Other audit firms	3	5	2
Total	**19**	**9**	**7**
Tax services			
Ernst & Young	3	4	3
Other audit firms	4	4	3
Total	**7**	**8**	**6**
Other services			
Ernst & Young	1	1	2
Other audit firms	3	2	2
Total	**4**	**3**	**4**
Expenses			
Ernst & Young	1	1	1
Other audit firms	0	0	0
Total	**1**	**1**	**1**
Total			
Ernst & Young	50	39	41
Other audit firms	11	12	8
Total	**61**	**51**	**49**

An audit engagement includes examining the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an examination in order to give an opinion on the Board's discharge from liability. Audit related services are audit services that are outside the audit engagement. Tax services refer to advices given in connection with various tax matters. All other assignments are defined as other services. Expenses refer to reimbursements of travel costs, secretarial services etc.

Note 8. Comparison distortion items

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

COMPARISON DISTORTION ITEMS

Consolidated

SEK millions	2012	2011	2010
Operational			
Other operating income	384	403	404
Comparison distortion items	–	–	90
Total other operating income	**384**	**403**	**494**
Other operating costs	-897	-706	-779
Comparison distortion items	-51	-170	–
Total other operating costs	**-948**	**-876**	**-779**

SPECIFICATION OF COMPARISON DISTORTION ITEMS

Consolidated

SEK millions	2012	2011	2010
Gain on:			
Sale of real estate	–	–	10
Loss on:			
Write down of goodwill in Onnuri	-48	–	–
Sale of real estate	-3	–	–
Cost for:			
Restructuring programme	–	-90	80
Aalborg integration	–	-80	–
Subtotal losses/costs	-51	-170	80
Net total	**-51**	**-170**	**90**

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

The comparison distortion costs during 2011 of SEK -170 million was related to structural costs for saving measures of SEK -90 million and non-recurring integration costs of SEK -80 million in connection with the acquisition of Aalborg Industries respectively. The saving measures were mainly relating to capacity adjustments and cost reductions in the manufacturing due to the demand for certain products as well as cost reductions in the sales companies primarily in Western Europe. The measures were expected to affect approximately 250 employees.

SEK 80 million of the comparison distortion income during 2010 related to reversal of unused parts of the provisions made in connection with the savings' measures that were initiated during 2009. Since the actual costs for the measures became SEK 80 million lower this amount was reversed. The remaining SEK 10 million related to realised gains on sale of properties in France and India.

Note 9. Depreciation and amortisation

SPLIT BY FUNCTION

Consolidated

SEK millions	2012	2011	2010
Cost of goods sold	-782	-709	-623
Sales	-37	-38	-46
Administration	-68	-72	-72
Research and development	-7	-7	-10
Other income and costs	-40	-49	-45
Total	**-934**	**-875**	**-796**

SPLIT BY TYPE OF ASSET

Consolidated

SEK millions	2012	2011	2010
Patents and unpatented know-how, trademarks, etc.	-439	-392	-303
Machinery and equipment	-384	-379	-405
Financial leasing machinery and equipment	-4	-4	-4
Buildings and ground installations	-100	-93	-78
Financial leasing buildings	-7	-7	-6
Total	**-934**	**-875**	**-796**

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

SPLIT BY TYPE

Consolidated

SEK millions	2012	2011	2010
Dividends from other	2	1	2
Fair value changes in securities	6	-1	0
Total	**8**	**0**	**2**

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

SPLIT ON TYPE OF INCOME/EXPENSE OR GAIN/LOSS

Consolidated

SEK millions	2012	2011	2010
Interest income			
Financial leasing	0	0	–
Other interest	112	71	35
Exchange rate gains			
Unrealised	122	37	168
Realised	267	328	124
Total	**501**	**436**	**327**
Interest expenses			
Financial leasing	0	0	-1
Other interest	-246	-201	-146
Exchange rate losses			
Unrealised	-72	-196	-141
Realised	-58	-54	-78
Total	**-376**	**-451**	**-366**

SPLIT ON TYPE OF INCOME/EXPENSE OR GAIN/LOSS

Parent company

SEK millions	2012	2011	2010
Interest income			
External companies	0	0	0
Subsidiaries	115	113	16
Exchange rate gains			
Unrealised	3	2	1
Total	**118**	**115**	**17**
Interest costs			
External companies	0	–	–
Exchange rate losses			
Unrealised	-4	-2	-4
Realised	–	0	0
Total	**-4**	**-2**	**-4**

In the Group, reported net exchange differences of SEK 214 (34) (99) 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 158 (25) (73) million.

Note 12. Non-controlling interests

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

Note 13. Classification of financial assets and liabilities

FINANCIAL ASSETS

Consolidated

	Financial assets at fair value through profit or loss:						Loans and receivables		Available for sale financial assets	
	Designated upon initial recognition		Held for trading		Derivatives used for hedging					
SEK millions	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Non-current assets										
Other non-current assets										
Other long-term securities	–	–	–	–	–	–	–	–	9	25
Current assets										
Current receivables										
Accounts receivable	–	–	–	–	–	–	5,211	5,080	–	–
Notes receivable	–	–	–	–	–	–	304	286	–	–
Other receivables	–	–	–	–	–	–	783	900	–	–
Accrued income	–	–	–	–	–	–	39	33	–	–
Derivative assets	–	–	88	120	237	183	–	–	–	–
Current deposits										
Deposits with banks	–	–	–	–	–	–	283	304	–	–
Bonds and other securities	131	93	–	–	–	–	–	–	–	–
Other deposits	–	–	–	–	–	–	13	86	–	–
Cash and bank	–	–	–	–	–	–	1,404	1,564	–	–
Total financial assets	**131**	**93**	**88**	**120**	**237**	**183**	**8,037**	**8,253**	**9**	**25**

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

FINANCIAL LIABILITIES

Consolidated

	Financial liabilities at fair value through profit or loss:				Loans	
	Held for trading		Derivatives used for hedging			
SEK millions	2012	2011	2012	2011	2012	2011
Non-current liabilities						
Liabilities to credit institutions	–	–	–	–	4,894	4,302
Private placement	–	–	–	–	714	758
Current liabilities						
Liabilities to credit institutions	–	–	–	–	395	132
Accounts payable	–	–	–	–	2,198	2,529
Notes payable	–	–	–	–	135	139
Other liabilities	–	–	–	–	1,284	1,238
Accrued costs	–	–	–	–	1,700	1,702
Derivative liabilities	60	187	127	241	–	–
Total financial liabilities	**60**	**187**	**127**	**241**	**11,320**	**10,800**

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

All of the financial instruments above sum up either to the corresponding item in the statement on financial position or to the item specified in the notes referred to in the statement on financial position. The risks linked to these financial instruments including any concentrations of risk are presented in the sections on risks on pages 88–93.

Result of financial instruments

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

The result of the financial assets held for trading of SEK 45 (4) (275) million has affected cost of goods sold with SEK 2 (1) (47) million and exchange gains in Note 11 with SEK 43 (3) (228) million.

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

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

The result of the financial liabilities held for trading of SEK -13 (-95) (-23) million has affected cost of goods sold with SEK -1 (-48) (-10) million, exchange losses in Note 11 with SEK -12 (-46) (-11) million and interest costs in Note 11 with the remaining SEK - (-1) (-2) million.

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

The result of the derivative assets and liabilities used for hedging is reported as part of other comprehensive income in the consolidated comprehensive income statement.

Note 14. Fair value of financial instruments

The fair value changes in shares in external companies are made under other comprehensive income and amounts to SEK -0 (0) (0) million, see the comments to the consolidated comprehensive income statement.

The fair value changes in marketable securities are made on the line dividends and changes in fair value in the consolidated comprehensive income statement and amounts to SEK 6 (-1) (0) million, see Note 10.

FAIR VALUE OF DERIVATIVES

Consolidated

			Difference between contracted rate and current rate	
SEK millions	Currency pairs		2012	2011
Derivative assets/liabilities				
Foreign exchange forward contracts:	EUR	USD	40	-85
	EUR	SEK	62	45
	EUR	AUD	0	-6
	EUR	CAD	0	-5
	EUR	DKK	-2	2
	EUR	JPY	1	-4
	USD	CAD	-2	3
	USD	DKK	3	-39
	USD	GBP	-1	-1
	USD	SEK	36	-67
	USD	JPY	-12	2
	DKK	SEK	6	14
	USD	KRW	-17	26
	Other	Other	1	-5
Subtotal			115	-120
Currency options			3	3
Interest Rate Swaps			15	38
Metal forward contacts			5	-47
Electricity futures			0	1
Total, corresponding to a net derivative asset (+) or liability (-)			**138**	**-125**

For currency options and electricity futures hedge accounting has not been applied. For foreign exchange forward contracts, interest rate swaps and metal forward contracts hedge accounting has been applied when the conditions for hedge accounting have been fulfilled.

The fair value adjustment of derivatives is made through other comprehensive income if hedge accounting can be applied and the derivatives are effective. In all other cases the fair value adjustment is made above net income. The corresponding entries are made on derivative assets and liabilities and not on the underlying financial instruments in the statement on financial position.

Note 15. Current and deferred taxes

TAX ON THIS YEAR'S RESULT AND OTHER TAXES

Consolidated

SEK millions	2012	2011	2010
Major components of the Group's tax costs			
Current tax cost	-1,418	-1,404	-1,356
Adjustment for current taxes on prior periods	4	22	110
Deferred tax costs/income on changes in temporary differences	44	-40	9
Deferred tax costs/income on changes in tax rates or new taxes	99	-1	-5
Tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	0	0	0
Deferred tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	0	21	5
Deferred tax cost from the write down or reversal of a previous write down of a deferred tax asset	0	-1	-3
Other taxes	-27	-22	-8
Total tax cost	**-1,298**	**-1,425**	**-1,248**

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	2012	2011	2010
Result after financial items	4,505	4,676	4,364
Tax according to applicable tax rates	-1,349	-1,315	-1,279
Tax effect of:			
Non-deductible costs	-129	-144	-116
Non-taxable income	79	38	26
Differences between reported official depreciation and depreciation according to tax rules	-8	3	-2
Differences between reported other official appropriations and other appropriations according to tax rules	130	4	-18
Tax losses and tax credits	2	-11	39
Other	-27	-22	-8
Adjustment for current tax on prior periods	4	22	110
Total tax costs	**-1,298**	**-1,425**	**-1,248**

Other taxes are mainly referring to wealth tax.

Temporary differences exist when there is a difference between the book value and the tax base of assets and liabilities. The Group's temporary differences have resulted in a deferred tax asset or a deferred tax liability relating to the following assets and liabilities:

DEFERRED TAX ASSETS AND LIABILITIES

Consolidated

	2012		2011	
SEK millions	assets	liabilities	assets	liabilities
Relating to:				
Intangible non-current assets	33	927	2	1,069
Tangible non-current assets	67	257	82	217
Inventory	187	19	168	10
Other current assets	4	6	18	4
Financial assets	15	5	1	0
Short term liabilities	944	119	1,073	51
Tax losses and tax credits *	39	–	22	0
Other	3	690	5	657
Subtotal	1,292	2,023	1,371	2,008
Possible to net	-84	-84	-78	-78
Total deferred taxes	**1,208**	**1,939**	**1,293**	**1,930**

* The Group has reported a deferred tax asset on unused tax losses and tax grants of SEK 92 (89) 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 849 (895) million that have not resulted in corresponding deferred tax assets, since these are not likely to be used. The temporary differences are mainly relating to pensions, where the date of payment is so far into the future that considering discounting and uncertainty concerning future tax rules and profit levels no asset is deemed to exist. The unused tax losses and tax grants are essentially not restricted in time, but the tax losses that can be utilised per year can be restricted to a certain proportion of the taxable result or be limited by up-coming structural changes.

The nominal tax rate has changed in the following countries during 2010 to 2012.

TAX RATES BY COUNTRY

Consolidated

Percent	2012	2011	2010
Chile	20	17	17
Finland	25	26	26
Greece	20	20	24
India	32	32	33
Japan	38	40	41
Canada	26	28	31
Netherlands	25	25	26
UK	24	26	28
South Korea	22	22	24
Thailand	23	30	30
Ukraine	21	23	25
Hungary	10	19	19
USA	39	39	41
Venezuela	28	28	34

The Group's normal effective tax rate is approximately 29 (30) (30) percent based on taxable result, and it is calculated as a weighted average based on each subsidiary's part of the result before tax.

Note 16. Goodwill and step-up values – acquisition of businesses

The allocation of step up values to tangible and intangible assets and the residual goodwill in effect means that all acquisitions are valued at market. In order to separate out this valuation effect Alfa Laval focuses on EBITA, where any amortisation of step up values is excluded. The development of these step up values and any goodwill is shown in the table below.

MOVEMENT SCHEDULE

Consolidated

SEK millions	Opening balance 2012	Adjustment of last year's purchase price allocation	Acquired	Write down	Planned depreciation/ amortisation	Translation difference	Closing balance 2012
Buildings	532	–	–	–	-32	-30	470
Land and land improvements	-78	–	–	–	–	19	-59
Equipment	86	–	–	–	-29	-3	54
Patents and unpatented know-how	1,301	–	866	–	-193	-52	1,922
Trademarks	2,130	–	–	–	-233	-78	1,819
Subtotal step-up values	3,971	–	866	–	-487	-144	4,206
Goodwill	9,543	9	725	-48	–	-437	9,792
Total	**13,514**	**9**	**1,591**	**-48**	**-487**	**-581**	**13,998**

The Group has not recorded any impairment losses related to neither goodwill nor any other step up values in 2012 or prior years.

There is no deferred tax liability calculated on the goodwill. The deferred tax liability on the other step-up values is SEK 830 (963) million.

For assets sold, net gains or losses are recognised on the costs basis including any related step-up value.

The next table shows each acquisition separately. Any later adjustments to the allocations are referred to the original year of the acquisition. The figures for the allocations are based on the prevailing rates at the time the transactions took place and any change in exchange rates until December 31, 2012 is shown as a translation difference. The corresponding presentation by asset type is found in Notes 17 and 18.

ACQUISITION OF BUSINESSES SINCE 2000

Consolidated

SEK millions Year/Businesses	Buildings	Land and land improvements	Equipment	Inventory	Patents and unpatented know-how	Trademarks	Other	Total step-up values	Goodwill	Total
2000										
Alfa Laval Holding	1,058	-228	452	340	1,280	461	660	4,023	3,683	7,706
2002										
Danish Separation Systems	–	–	–	–	–	–	–	–	118	118
2003										
Toftejorg	1	–	–	–	–	–	–	1	35	36
bioKinetics	–	–	–	–	–	–	–	–	–	–
2005										
Packinox	–	–	–	6	99	183	–	288	253	541
2006										
Tranter	17	–	–	6	180	265	–	468	530	998
2007										
AGC Engineering	–	–	–	–	–	12	–	12	20	32
Helpman	9	8	–	–	36	–	–	53	4	57
Public offer Alfa Laval (India)	–	–	–	–	–	–	–	–	441	441
DSO Fluid Handling	–	–	–	–	–	39	–	39	42	81
Fincoil	–	–	–	–	233	–	–	233	241	474
2008										
Høyer Promix A/S	–	–	–	–	–	–	–	–	16	16
Nitrile India Pvt Ltd	–	–	–	–	–	–	–	–	6	6
Standard Refrigeration	–	–	–	5	166	–	–	171	152	323
Pressko AG	–	–	–	1	–	–	–	1	69	70
Hutchison Hayes Separation	–	–	–	1	95	49	–	145	46	191
P&D's Plattvärmeväxlarservice	–	–	–	–	–	–	–	–	10	10
Ageratec	–	–	–	–	–	–	–	–	44	44
2009										
Two providers of parts & service	–	–	–	–	–	291	–	291	210	501
Onnuri Industrial Machinery	–	–	–	–	40	39	–	79	48	127
HES Heat Exchanger Systems	–	–	–	–	83	–	–	83	59	142
Public offer Alfa Laval (India)	–	–	–	–	–	–	–	–	311	311
Termatrans	–	–	–	–	–	7	–	7	6	13
Tranter acquisitions in Latin America	–	–	–	–	–	20	–	20	16	36
ISO Mix	–	–	–	–	22	–	–	22	–	22
LHE	–	–	–	–	298	297	–	595	344	939
2010										
Champ Products	–	–	–	–	15	14	–	29	2	31
A leading U.S. service provider	–	–	–	–	–	134	–	134	82	216
G.S Anderson	–	–	–	–	35	–	–	35	23	58
Astepo	–	–	–	–	24	15	–	39	8	47
Si Fang Stainless Steel Products	–	–	–	–	27	16	–	43	42	85
Definox	–	–	–	–	4	5	–	9	2	11
Olmi	–	–	–	37	58	32	–	127	–	127
2011										
Service company in the U.S.	–	–	–	–	–	150	–	150	126	276
Aalborg Industries	248	–	–	–	430	860	–	1 538	3 630	5 168
2012										
Vortex Systems	–	–	–	–	148	–	–	148	219	367
Ashbrook Simon-Hartley	–	–	–	–	86	–	–	86	112	198
Gamajet Cleaning Systems	–	–	–	–	47	–	–	47	37	84
Air Cooled Exchangers (ACE)	–	–	–	–	585	–	–	585	357	942
Accumulated during the period										
Realised	-524	122	-24	-397	–	–	-99	-922	–	-922
Write down	–	–	–	–	–	–	–	–	-48	-48
Planned depreciation/amortisation	-313	–	-368	–	-2,012	-948	-571	-4,212	-612	-4,824
Translation difference	-26	39	-6	1	-57	-122	10	-161	-892	-1,053
Closing balance	**470**	**-59**	**54**	**–**	**1,922**	**1,819**	**–**	**4,206**	**9,792**	**13,998**

The acquisition of the Alfa Laval Holding AB group in connection with the acquisition by Industri Kapital of the Alfa Laval Group from Tetra Laval on August 24, 2000 is shown on the first row.

"Other" relates to step up values from 2000 for "Machinery" of SEK 548 million that has been fully depreciated or realised, for "Research and development" of SEK 54 million and "Capital gain (Industrial Flow)" of SEK 42 million that have been fully realised and for "Construction in process" of SEK 16 million that has been transferred to "Machinery".

Acquisition of businesses

During 2012

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

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

Alfa Laval has acquired Gamajet Cleaning Systems, Inc., a leading provider of tank cleaning machines as well as self-contained and portable cleaning systems for the industrial and sanitary markets in North America. Gamajet is headquartered in Exton, Pennsylvania. Lars Renström, President and CEO of the Alfa Laval Group, comments on the acquisition: "We have built the leading position within tank cleaning equipment over the past 10 years. Gamajet fits very well with our ambitions and it expands our product portfolio. It will especially extend our offer to the industrial market and also strengthen our position in North America." Gamajet Cleaning Systems will be integrated into Alfa Laval. The company is consolidated from August 23, 2012. The purchase price is SEK 116 million, out of which SEK 82 million has been paid in cash and SEK 34 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 34 million, but the probable outcome is SEK 34 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 -83 million. Out of the difference between the purchase price paid and the net assets acquired SEK 47 million is allocated to patents and un-patented know-how, while the residual SEK 37 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 23 million in orders received, SEK 24 million in invoicing and SEK 4 million in adjusted EBITA to Alfa Laval. If the company had been acquired at January 1, 2012 the corresponding figures would have been SEK 61 million, SEK 59 million and SEK 7 million respectively. At the end of December 2012 the number of employees was 31.

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

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

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

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

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

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

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

The acquisitions during 2012 can be summarized as follows:

ACQUISITIONS 2012

Consolidated

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

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

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

During 2011

On May 1, 2011 Alfa Laval acquired a well established service company in the U.S. The company is a leading provider on the North American market specialized in serving equipment for centrifugal separation. "The acquisition is another step in the ambition to serve the market with alternative offerings", says Lars Renström, President and CEO of the Alfa Laval Group. The company will remain a separate organization as they will continue to offer their own products and services to the industry, under their own brand. The purchase price was SEK 235 million, out of which SEK 175 million was paid in cash and SEK 60 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 60 million, but the probable outcome was SEK 60 million, which was also the fair value since the contingent consideration is to be paid in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 2 million, which was reported as other operating costs. The impact on the cash flow was thus SEK -177 million. Out of the difference between the purchase price paid and the net assets acquired SEK 150 million was allocated to the company's trademark, while the residual SEK 117 million was allocated to goodwill. The goodwill was relating to estimated synergies in procurement, logistics and corporate overheads and the company's ability to over time recreate its intangible assets. In connection with the finalisation of the purchase price allocation in 2012 the value of the goodwill has been increased by SEK 9 million to SEK 126 million. The step up value for the trademark is amortised over 10 years. From the date of the acquisition the company has added SEK 68 million in orders received, SEK 74 million in invoicing and SEK 20 million in adjusted EBITA to Alfa Laval during 2011. If the company had been acquired at January 1, 2011 the corresponding figures would have been SEK 102 million, SEK 110 million and SEK 30 million respectively. At the end of December 2011 the number of employees was 48.

In a press release on December 21, 2010, Alfa Laval announced that an agreement had been signed to acquire Aalborg Industries Holding A/S from Altor 2003 Fund, LD Equity and the Company's management. Aalborg Industries had some 2,750 employees and generated sales of about SEK 3.3 billion in 2010. Clearances from all concerned regulatory authorities were received at the beginning of May 2011. Aalborg Industries were consolidated into the Alfa Laval Group as of May 1, 2011. Aalborg will be fully integrated into Alfa Laval. Non-recurring costs for the integration were estimated at SEK 80 million. During the latter part of 2013 the annual synergy is estimated at SEK 100 million. The acquisition, which adds complementary energy-efficient and environmental solutions, represents a significant business opportunity as it supports Alfa Laval's existing offer to the marine and off-shore markets. Another opportunity lies in the introduction of Aalborg's products to customers in completely new end markets, through Alfa Laval's sales network.

"Aalborg Industries is an excellent fit and I'm very pleased to welcome a strong and well-run company into Alfa Laval", says Lars Renström, President and CEO of the Alfa Laval Group. The acquisition further strengthens Alfa Laval's product offering in heat transfer. It adds market-leading positions with products such as boilers and thermal fluid systems, as well as inert gas systems, with significant barriers to entry. These include extensive certification processes, a strong innovation track record and a global service network. The company's strong manufacturing and engineering presence in fast-growing markets such as China, Vietnam and Brazil, as well as the after-market potential generated by a large installed base, are also highly attractive attributes.

The purchase price was SEK 5,003 million, out of which all was paid in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 22 million, which was reported as other operating costs. Liquid assets of SEK 421 million in the acquired businesses were taken over. The impact on the cash flow was thus SEK -4,604 million. Out of the difference between the purchase price paid and the net assets acquired SEK 248 million was allocated to properties, SEK 430 million was allocated to patents and un-patented know-how and SEK 860 million was allocated to the Aalborg trademark, while the residual SEK 3,630 million was allocated to goodwill. The goodwill was relating to estimated synergies in procurement, logistics and corporate overheads and the Aalborg's ability to over time recreate its intangible assets. The value of the goodwill has been finalised in 2012. The step up value for properties is depreciated over 20 years. The step up value for patents and un-patented know-how as well as the step up value for the trademark are amortised over 10 years. From the date of the acquisition Aalborg has added SEK 1,765 million in orders received, SEK 2,143 million in invoicing and SEK 532 million in adjusted EBITA to Alfa Laval during 2011. If Aalborg had been acquired at January 1, 2011 the corresponding figures would have been SEK 2,915 million, SEK 3,242 million and SEK 776 million respectively. At the end of December 2011 the number of employees was 2,692. Four business segments are concerned by the integration: Marine & Diesel, Process Industry and Parts & Service for both Equipment and Process Technology. For the period May to December 2011 the orders received for Aalborg is referring to Marine & Diesel to 61%, to Process Industry to 7 %, to Equipment Parts & Service to 28 % and to Process Technology Parts & Service to 4 %.

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

The acquisitions during 2011 can be summarized as follows:

ACQUISITIONS 2011

Consolidated

SEK millions	Aalborg Industries Book value	Aalborg Industries Adjustment to fair value	Aalborg Industries Fair value	Others Book value	Others Adjustment to fair value	Others Fair value	Total Fair value
Property, plant and equipment [1]	160	248	408	–	–	–	408
Patents and unpatented know-how [2]	–	430	430	–	–	–	430
Trademarks [2]	–	860	860	–	150	150	1,010
Licenses, renting rights and similar rights	1	–	1	–	–	–	1
Inventory	253	–	253	29	–	29	282
Accounts receivable	596	–	596	9	–	9	605
Other receivables	306	–	306	–	–	–	306
Current deposits	22	–	22	–	–	–	22
Liquid assets	421	–	421	–	–	–	421
Provisions for pensions and similar commitments	–	–	–	–	–	–	–
Other provisions	-194	–	-194	-1	–	-1	-195
Loans	-421	–	-421	–	–	–	-421
Accounts payable	-325	–	-325	-4	–	-4	-329
Advance payments and other liabilities	-304	–	-304	–	–	–	-304
Other liabilities	-286	–	-286	-4	–	-4	-290
Tax liabilities	-46	–	-46	–	–	–	-46
Deferred tax	51	-399	-348	–	-61	-61	-409
Acquired net assets	**234**	**1,139**	**1,373**	**29**	**89**	**118**	**1,491**
Goodwill [3]			3,630			117	3,747
Purchase price			-5,003			-235	-5,238
Costs directly linked to the acquisitions [4]			-22			-2	-24
Retained part of purchase price [5]			–			60	60
Liquid assets in the acquired businesses			421			–	421
Payment of amounts retained in prior years			–			-175	-175
Effect on the Group's liquid assets			**-4,604**			**-352**	**-4,956**

[1] The step up value for property in Aalborg is amortised over 20 years.
[2] The step up values for patents and unpatented know-how as well for trademarks are amortised over 10 years.
[3] The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and the companies' ability to over time recreate its intangible assets. The value of the goodwill is still preliminary.
[4] Refers to fees to lawyers, due diligence and assisting counsel. Has been expensed as other operating costs.
[5] Contingent on certain warranties in the contract not being triggered or that certain profitability goals are fulfilled. The probable outcome has been calculated.

All acquired assets and liabilities were reported according to IFRS at the time of the acquisition.

During 2010

On December 6, 2010 Alfa Laval acquired the Italian company Olmi S.p.A., a leading company specialized in the design and manufacture of shell & tube heat exchangers and air coolers for niche applications in the petrochemical, power and oil & gas industries. The acquisition expands Alfa Laval's product portfolio. The intention is to integrate Olmi into Alfa Laval as a competence centre based on their unique know-how. The purchase price was SEK 714 million, out of which SEK 546 million was paid in cash and SEK 168 million is retained for a period of 1-6 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 168 million, but the probable outcome was SEK 168 million, which was also the fair value since the contingent consideration is to be paid in cash. The probable outcome was during 2011 revised to SEK 15 million. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 2 million, which was reported as other operating costs. The impact on the cash flow was thus SEK -548 million. Initially, out of the difference between the purchase price paid and the net assets acquired SEK 171 million was allocated to patents and un-patented know-how, SEK 85 million was allocated to the Olmi trademark and SEK 37 million to accrued gross margin in work in progress, while the residual SEK 14 million was allocated to goodwill. The goodwill was relating to estimated synergies in procurement, logistics and corporate overheads and Olmi's ability to over time recreate its intangible assets. In connection with the finalisation of the purchase price allocation in 2011 the step up value for patents and un-patented know-how has been decreased by SEK 113 million to SEK 58 million, the step up value for the Olmi trademark has been decreased by SEK 53 million to SEK 32 million and value of the goodwill has been decreased by SEK 14 million to SEK - million. The step up value for patents and un-patented know-how as well as the step up value for the trademark are amortised over 10 years. The step up for accrued gross margin in work in progress is expensed when the inventory is turned over. Olmi's net sales and adjusted EBITA for 2010 from the date of the acquisition are SEK 302 million and SEK 24 million respectively. If Olmi had been acquired at January 1, 2010 the corresponding figures would have been SEK 971 million and SEK 164 million respectively. At the end of 2010 the number of employees was 247.

On November 1, 2010 Alfa Laval acquired the Definox activities from Defontaine. Definox designs and manufactures stainless steel valves and equipment for the food processing, pharmaceutical and cosmetic industries. Definox will continue to offer its own product range, under its own brand and through its own sales network. Definox has offices and manufacturing in Gétigné close to Nantes in France and subsidiaries in the U.S. and China. The purchase price was SEK 49 million, out of which all was paid in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 4 million, which was reported as other operating costs. The impact on the cash flow was thus SEK -53 million. Out of the difference between the purchase price paid and the net assets acquired SEK 4 million was allocated to patents and un-patented know-how and SEK 5 million was allocated to the Definox trademark, while the residual SEK 3 million was allocated to goodwill. The goodwill is relating to Definox's ability to over time recreate its intangible assets. In connection with the finalisation of the value of the goodwill in 2011 it has been decreased by SEK 1 million. The step up value for patents and un-patented know-how as well as the step up value for the trademark are amortised over 10 years. Definox's net sales and adjusted EBITA for 2010 from the date of the acquisition are SEK 33 million and SEK 1 million respectively. If Definox had been acquired at January 1, 2010 the corresponding figures would have been SEK 239 million and SEK 12 million respectively. At the end of 2010 the number of employees was 111.

On April 1, 2010 Alfa Laval acquired Astepo S.r.l. in Italy. The company is recognized for its solid know-how in aseptic technology, with key products such as bag-in-box fillers and heat exchangers targeting the global fruit juice concentrate industry. The purchase price was SEK 61 million, out of which SEK 34 million was paid in cash and SEK 27 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 could be anything between SEK 0 million and SEK 27 million, but the probable outcome was SEK 27 million, which was also the fair value since the contingent consideration is to be paid in cash. The probable outcome was during 2011 revised to SEK 10 million.

The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 3 million, which was reported as other operating costs. The impact on the cash flow was thus SEK -37 million. Out of the difference between the purchase price paid and the net assets acquired SEK 24 million was allocated to patents and un-patented know-how and SEK 15 million was allocated to the Astepo trademark, while the residual SEK 26 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Astepo's ability to over time recreate its intangible assets. In connection with the finalisation of the value of the goodwill in 2011 it has been decreased by SEK 18 million. The step up value for patents and un-patented know-how as well as the step up value for the trademark are amortised over 10 years. Astepo's net sales and adjusted EBITA for 2010 from the date of the acquisition are SEK 49 million and SEK 1 million respectively. If Astepo had been acquired at January 1, 2010 the corresponding figures would have been SEK 62 million and SEK -1 million respectively. At the end of 2010 the number of employees was 23. During 2010 the company has been renamed to Alfa Laval Parma S.r.l.

On April 1, 2010 Alfa Laval acquired 65 percent of the shares in Si Fang Stainless Steel Products Co. Ltd in China, which is a leading fluid handling company in China. The company targets the food and beverage market in China with its sanitary product portfolio, including pumps, valves and fittings. Si Fang will continue to offer its own product range, under its own brand and through its own sales network. The purchase price was SEK 121 million, out of which SEK 82 million was paid in cash and SEK 39 million was retained for a period of 1 year. The retained part of the purchase price was contingent on certain warranties in the contract not being triggered. The outcome could be anything between SEK 0 million and SEK 39 million. The probable outcome was SEK 39 million, which was also the fair value since the contingent consideration is to be paid in cash. The amount was paid in cash in 2011. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 13 million, which was reported as other operating costs. The impact on the cash flow was thus SEK -95 million. Out of the difference between the purchase price paid and the net assets acquired SEK 27 million was allocated to patents and un-patented know-how and SEK 16 million was allocated to the Si Fang trademark, while the residual SEK 37 million was allocated to goodwill. The goodwill is relating to Si Fang's ability to over time recreate its intangible assets. In connection with the finalisation of the value of the goodwill in 2011 it has been increased by SEK 5 million. The step up value for patents and un-patented know-how as well as the step up value for the trademark are amortised over 10 years. Si Fang's net sales and adjusted EBITA for 2010 from the date of the acquisition are SEK 138 million and SEK 19 million respectively. If Si Fang had been acquired at January 1, 2010 the corresponding figures would have been SEK 167 million and SEK 23 million respectively. At the end of 2010 the number of employees was 420.

On January 6, 2010 Alfa Laval acquired a well established service company in the U.S., that is a leading service provider on the North American market specialized in plate heat exchangers. The company will remain a separate organisation as they will continue to offer their own products and services to the industry under their own brand. The purchase price was SEK 226 million, out of which SEK 145 million was paid in cash and SEK 81 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 81 million, but the probable outcome is SEK 81 million, which was also the fair value since the contingent consideration is to be paid in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 3 million, which was reported as other operating costs. The impact on the cash flow was thus SEK -148 million. Out of the difference between the purchase price paid and the net assets acquired SEK 134 million was allocated to the company's trademark, while the residual SEK 82 million was allocated to goodwill. The goodwill is relating to the company's ability to over time recreate its intangible assets. The value of the goodwill has been finalised in 2011. The step up value for the trademark is amortised over 10 years. The company's net sales and adjusted EBITA for 2010 from the date of the acquisition are SEK 163 million and SEK 40 million respectively. If the company had been acquired at January 1, 2010 the corresponding figures would have been SEK 163 million and SEK 40 million respectively. At the end of 2010 the number of employees was 76.

On January 5, 2010 Alfa Laval acquired Champ Products Inc., based in Sarasota, Florida, the U.S. The company is recognized for its deep knowledge of engine cooling and is today perceived as a leading company in the North American market. The purchase price was SEK 70 million, out of which SEK 35 million was paid in cash and SEK 35 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 could be anything between SEK 0 million and SEK 35 million, but the probable outcome was SEK 35 million, which was also the fair value since the contingent consideration is to be paid in cash. The probable outcome was during 2011 revised to SEK 22 million. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 2 million, which was reported as other operating costs. The impact on the cash flow was thus SEK -37 million. Out of the difference between the purchase price paid and the net assets acquired SEK 15 million was allocated to patents and un-patented know-how and SEK 14 million was allocated to the Champ trademark, while the residual SEK 15 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Champ's ability to over time recreate its intangible assets. In connection with the finalisation of the value of the goodwill in 2011 it has been decreased by SEK 13 million. The step up value for patents and un-patented know-how as well as the step up value for the trademark are amortised over 10 years. Champ's net sales and adjusted EBITA for 2010 from the date of the acquisition are SEK 111 million and SEK 11 million respectively. If Champ had been acquired at January 1, 2010 the corresponding figures would have been SEK 111 million and SEK 11 million respectively. At the end of 2010 the number of employees was 88. During 2010 the company has been renamed to Alfa Laval Champ Inc.

In addition yet one minor acquisition has been made during 2010:

On February 10, 2010 Alfa Laval acquired the German company G.S. Anderson GmbH. The purchase price was SEK 49 million, out of which SEK 26 million was paid in cash and SEK 23 million is retained for a period of 1-5 years. The retained part of the purchase price is contingent on that certain profitability goals are fulfilled. The outcome can be anything between SEK 0 million and SEK 45 million, but the probable outcome is SEK 23 million, which was also the fair value since the contingent consideration is to be paid in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 1 million, which was reported as other operating costs. The impact on the cash flow was thus SEK -27 million. Out of the difference between the purchase price paid and the net assets acquired SEK 35 million was allocated to patents and un-patented know-how, while the residual SEK 23 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and G.S. Anderson's ability to over time recreate its intangible assets. The value of the goodwill has been finalised in 2011. The step up value for patents and un-patented know-how is amortised over 10 years. G.S. Anderson's net sales and adjusted EBITA for 2010 from the date of the acquisition are SEK 10 million and SEK -8 million respectively. If G.S. Anderson had been acquired at January 1, 2010 the corresponding figures would have been SEK 10 million and SEK -8 million respectively. At the end of 2010 the number of employees was 10. During 2010 the company has been renamed to Alfa Laval Dortmund GmbH.

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

The acquisitions during 2010 can be summarized as follows:

ACQUISITIONS 2010

Consolidated

	Olmi			Others			Total
SEK millions	Book value	Adjustment to fair value	Fair value	Book value	Adjustment to fair value	Fair value	Fair value
Property, plant and equipment	247	–	247	53	–	53	300
Patents and unpatented know-how	–	171	171	–	105	105	276
Trademarks	–	85	85	–	184	184	269
Licenses, renting rights and similar rights	–	–	–	1	–	1	1
Inventory	285	37	322	158	–	158	480
Accounts receivable	160	–	160	70	–	70	230
Other receivables	56	–	56	31	–	31	87
Current deposits	116	–	116	–	–	–	116
Liquid assets	–	–	–	10	–	10	10
Other provisions	–	–	–	–	–	–	–
Accounts payable	-105	–	-105	-38	–	-38	-143
Advance payments and other liabilities	-261	–	-261	-90	–	-90	-351
Tax liabilities	–	–	–	-3	–	-3	-3
Deferred tax	–	-91	-91	-1	-87	-88	-179
Acquired net assets	**498**	**202**	**700**	**191**	**202**	**393**	**1,093**
Goodwill			14			204	218
Purchase price			-714			-597	-1,311
Costs directly linked to the acquisitions			-2			-26	-28
Retained part of purchase price			168			212	380
Liquid assets in the acquired businesses			–			10	10
Payment of amounts retained in prior years			–			-70	-70
Effect on the Group's liquid assets			**-548**			**-471**	**-1,019**

All acquired assets and liabilities were reported according to IFRS at the time of the acquisition. With the exception of the acquisition of Olmi the many minor acquisitions during 2010 are reported together since a split per acquisition would have been too fragmented and rather would have burdened the presentation than increased clarity.

Impairment testing

An impairment test has been performed at the end of 2012 indicating that there is not any need to write down the goodwill.

Three of Alfa Laval's operating segments, the three divisions "Equipment", "Process Technology" and "Marine & Diesel" have been identified as the cash-generating units within Alfa Laval. Technically a recently acquired business activity could be followed independently during an initial period, but acquired businesses are normally integrated into the divisions at a fast rate. This means that the independent traceability is lost fairly soon and then any independent measurement and testing becomes impracticable. Although Tranter is operating as a separate sales channel it is subject to a considerable co-ordination related to purchasing and some support functions.

The recoverable amount of the cash-generating units is based on their value in use, which is established by calculating the net present value of future cash flows. The net present value is based on the projected EBITDA figures for the next twenty years, less projected investments and changes in operating capital during the same period. This projection for the coming 20 years is based on the following components:

- The projection for 2013 is based on the Groups normal 12 month revolving "Forecast" reporting. This is based on a very large number of rather detailed assumptions throughout the organisation concerning the business cycle, volume growth, market initiatives, product mix, currency rates, cost development, cost structure, R&D etc.
- The projection for the years 2014 and 2015 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 2016 to 2032 is based on the perceived expected average industry growth rate.

The reason why a longer period than 5 years has been used for the calculation of the net present value is that Management considers 5 years to be a too short period for an operation where applying the going concern concept can be justified.

The assumptions used for the projections reflect past experiences or information from external sources.

The used discount rate is the pre-tax weighted average cost of capital (WACC) of 7.36 (7.92) (11.23) percent.

There exists no reasonably possible change in a key assumption in the impairment test that would cause the carrying amount to exceed the recoverable amount. The reason is that the recoverable amounts with a very good margin exceed the carrying amounts. Due to this a sensitivity analysis is not presented.

Alfa Laval does not have any intangible assets with indefinite useful lives other than goodwill.

The three cash-generating units have been allocated the following amounts of goodwill:

GOODWILL

Consolidated

SEK millions	2012	2011
Equipment	2,271	2,396
Process Technology	4,175	2,790
Marine & Diesel	3,346	4,357
Total	**9,792**	**9,543**

Note 17. Intangible non-current assets

PATENTS AND UNPATENTED KNOW-HOW

Consolidated

SEK millions	2012	2011
Accumulated acquisition values		
Opening balance	3,129	2,803
Purchases	0	1
Sales/disposals	-3	–
Reclassifications	–	-1
Step-up values	866	317
Translation difference	-116	9
Closing balance	**3,876**	**3,129**
Accumulated amortisation		
Opening balance	-1,802	-1,623
Sales/disposals	2	–
Reclassifications	0	–
Amortisation of step-up value	-193	-168
Amortisation for the year	-3	-5
Translation difference	63	-6
Closing balance	**-1,933**	**-1,802**
Closing balance, net book value	**1,943**	**1,327**

TRADEMARKS

Consolidated

SEK millions	2012	2011
Accumulated acquisition values		
Opening balance	2,858	1,881
Step-up values	–	957
Translation difference	-108	20
Closing balance	**2,750**	**2,858**
Accumulated amortisation		
Opening balance	-728	-524
Amortisation of step-up values	-233	-201
Translation difference	30	-3
Closing balance	**-931**	**-728**
Closing balance, net book value	**1,819**	**2,130**

LICENSES, RENTING RIGHTS AND SIMILAR RIGHTS

Consolidated

SEK millions	2012	2011
Accumulated acquisition values		
Opening balance	223	185
Purchases	11	18
Acquisition of businesses	–	44
Sales/disposals	-6	-20
Reclassifications	3	1
Translation difference	-7	-5
Closing balance	**224**	**223**
Accumulated amortisation		
Opening balance	-178	-141
Acquisition of businesses	–	-41
Sales/disposals	4	20
Reclassifications	-23	-1
Amortisation for the year	-10	-18
Translation difference	28	3
Closing balance	**-179**	**-178**
Closing balance, net book value	**45**	**45**

Alfa Laval does not have any internally generated intangible assets.

GOODWILL

Consolidated

SEK millions	2012	2011
Accumulated acquisition values		
Opening balance	10,095	6,505
Goodwill in connection with acquisition of businesses	734	3,706
Write down of goodwill	-48	–
Translation difference	-463	-116
Closing balance	**10,318**	**10,095**
Accumulated amortisation		
Opening balance	-552	-553
Translation difference	26	1
Closing balance	**-526**	**-552**
Closing balance, net book value	**9,792**	**9,543**

Note 18. Property, plant and equipment

REAL ESTATE

Consolidated

SEK millions	2012	2011
Accumulated acquisition values		
Opening balance	2,755	2,243
Purchases	106	67
Acquisition of businesses	41	208
Sales/disposal	-37	-15
Reclassifications	69	4
Step-up values	–	247
Translation difference	-132	1
Closing balance	**2,802**	**2,755**
Accumulated depreciation		
Opening balance	-1,152	-969
Sales/disposals	7	7
Acquisition of businesses	–	-90
Reclassifications	-38	-1
Depreciation of step-up value	-32	-29
Depreciation for the year	-68	-64
Translation difference	61	-6
Closing balance	**-1,222**	**-1,152**
Closing balance, net book value	**1,580**	**1,603**

Non-current assets held for sale
Within Alfa Laval these assets are normally relating to real estate.

In addition to the property that was sold during 2012 Onnuri has an additional property in South Korea that is empty and will be sold during the beginning of 2013. Due to this it has been re-classified as a current asset held for sale with SEK 9 (-) million.

Alfa Laval Aalborg BV in Spijkenisse in the Netherlands will leave its current premises during the first half of 2013 and move to Alfa Laval's office in Breda in the Netherlands. The vacated property is to be sold, but it is not expected to be sold within the next year. One small property in France is planned for sale. It is empty and has been for sale for several years. It is not expected to be sold within the next year. This means that none of these properties have been re-classified as current assets held for sale.

MACHINERY AND OTHER TECHNICAL INSTALLATIONS

Consolidated

SEK millions	2012	2011
Accumulated acquisition values		
Opening balance	4,494	4,305
Purchases	192	224
Acquisition of businesses	37	177
Sales/disposal	-108	-262
Reclassifications	227	83
Translation difference	-228	-33
Closing balance	**4,614**	**4,494**
Accumulated depreciation		
Opening balance	-3,073	-2,963
Sales/disposals	88	214
Acquisition of businesses	-33	-98
Reclassifications	-80	-6
Depreciation for the year	-249	-253
Translation difference	149	33
Closing balance	**-3,198**	**-3,073**
Closing balance, net book value	**1,416**	**1,421**

EQUIPMENT, TOOLS AND INSTALLATIONS

Consolidated

SEK millions	2012	2011
Accumulated acquisition values		
Opening balance	2,033	1,951
Purchases	122	112
Acquisition of businesses	9	58
Sales/disposal	-71	-107
Reclassifications	20	16
Translation difference	-81	3
Closing balance	**2,032**	**2,033**
Accumulated depreciation		
Opening balance	-1,480	-1,382
Sales/disposals	58	95
Acquisition of businesses	-5	-49
Reclassifications	8	-14
Depreciation of step-up value	-29	-28
Depreciation for the year	-106	-98
Translation difference	61	-4
Closing balance	**-1,493**	**-1,480**
Closing balance, net book value	**539**	**553**

CONSTRUCTION IN PROGRESS AND ADVANCES TO SUPPLIERS CONCERNING PROPERTY, PLANT AND EQUIPMENT

Consolidated

SEK millions	2012	2011
Accumulated acquisition values		
Opening balance	208	166
Purchases	100	133
Acquisition of businesses	–	1
Sales/disposal	–	-1
Reclassifications	-150	-92
Translation difference	-8	1
Closing balance	**150**	**208**
Closing balance, net book value	**150**	**208**

LEASED REAL ESTATE

Consolidated

SEK millions	2012	2011
Accumulated acquisition values		
Opening balance	150	151
Reclassifications	2	–
Translation difference	-5	-1
Closing balance	**147**	**150**
Accumulated depreciation		
Opening balance	-19	-13
Depreciation for the year	-7	-7
Translation difference	1	1
Closing balance	**-25**	**-19**
Closing balance, net book value	**122**	**131**

LEASED MACHINERY

Consolidated		
SEK millions	2012	2011
Accumulated acquisition values		
Opening balance	34	34
Reclassifications	0	1
Translation difference	-1	-1
Closing balance	**33**	**34**
Accumulated depreciation		
Opening balance	-16	-13
Depreciation for the year	-3	-3
Translation difference	0	0
Closing balance	**-19**	**-16**
Closing balance, net book value	**14**	**18**

LEASED EQUIPMENT, TOOLS AND INSTALLATIONS

Consolidated		
SEK millions	2012	2011
Accumulated acquisition values		
Opening balance	6	6
Purchases	–	1
Acquisition of businesses	–	1
Sales/disposal	-4	-1
Reclassifications	0	-1
Translation difference	1	0
Closing balance	**3**	**6**
Accumulated depreciation		
Opening balance	-4	-4
Sales/disposals	3	1
Acquisition of businesses	–	-1
Reclassifications	1	1
Depreciation for the year	-1	-1
Translation difference	0	0
Closing balance	**-1**	**-4**
Closing balance, net book value	**2**	**2**

Leased real estate, machinery and equipment relate to fixed assets which are leased and where the leasing agreement has been considered to be a financial lease. These financial leases are capitalised in the statement on financial position.

Note 19. Other non-current assets

SHARES IN SUBSIDIARIES AND OTHER COMPANIES

	Consolidated		Parent company	
SEK millions	2012	2011	2012	2011
Shares in subsidiaries	–	–	4,669	4,669
Shares in other companies	9	25	–	–
Total	**9**	**25**	**4,669**	**4,669**

The below specification of shares contains some simplifications, for instance in connection with ownership in multiple layers or when the ownership is split on several owners or at cross-holdings. This is in order not to unnecessarily burden the presentation. A complete specification of shares can be ordered by contacting Alfa Laval's head office in Lund or via the Swedish Companies Registration Office (Bolagsverket).

SPECIFICATION OF SHARES IN SUBSIDIARIES

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Alfa Laval Holding AB	556587-8062	Lund, Sweden	8,191,000	100	4,461
Alfa Laval NV		Maarssen, Netherlands	887,753	100	–
Alfa Laval Inc.		Newmarket, Canada	1,000,000	67	–
Alfa Laval S.A. DE C.V.		Tlalnepantla, Mexico	45,057,057	100	–
Alfa Laval S.A.		San Isidro, Argentina	1,223,967	95	–
Alfa Laval Ltda		Sao Paulo, Brazil	21,129,068	100	–
Alfa Laval S.A.C.I.		Santiago, Chile	2,735	100	–
Ashbrook Chile S.A.		Santiago, Chile	579,999	100	–
Ashbrook Do Brasil Ltda		Pinhais, Brazil	1,000	100	–
Alfa Laval S.A.		Bogota, Colombia	12,195	100	–
Alfa Laval S.A.		Lima, Peru	4,346,832	100	–
Alfa Laval Venezolana S.A.		Caracas, Venezuela	10,000	100	–
Alfa Laval Oilfield C.A.		Caracas, Venezuela	203	81	–
Alfa Laval Taiwan Ltd		Taipei, Taiwan	1,499,994	100	–
Alfa Laval (China) Ltd		Hong Kong, China	79,999	100	–
Alfa Laval (Jiangyin) Manufacturing Co Ltd		Jiang Yin, China		100	–
Alfa Laval Flow Equipment (Kunshan) Co Ltd		Jiangsu, China		75	–
Alfa Laval Flow Equipment (Kunshan) Co Ltd		Jiangsu, China		25	–
Alfa Laval (Shanghai) Technologies Co Ltd		Shanghai, China		100	–
Wuxi MCD Gasket Co Ltd		Jiang Yin, China		100	–
Tranter Heat Exchangers (Beijing) Co Ltd		Beijing, China		100	–
Liyang Sifang Stainless Steel Products Co., Ltd		Liyang City, China		65	–
Changzhou Henghao Packaging Machinery Co., Ltd		Liyang City, China		65	–
Jiangsu Fu Li Stainless Steel Precision Welded Pipe Co., Ltd		Liyang City, China		65	–
Jiangsu Wintech Stainless Steel Products Co., Ltd		Liyang City, China		65	–
Alfa Laval Iran Ltd		Teheran, Iran	2,199	100	–
Alfa Laval Industry (PVT) Ltd		Lahore, Pakistan	119,110	100	–
Alfa Laval Philippines Inc.		Makati, Philippines	72,000	100	–
Alfa Laval Singapore Pte Ltd		Singapore	5,000,000	100	–
Alfa Laval (Thailand) Ltd		Bangkok, Thailand	792,000	100	–
Alfa Laval Middle East Ltd		Nicosia, Cyprus	40,000	100	–
Alfa Laval Service Operations Qatar LLC		Doha, Qatar	9,800	49	–
Alfa Laval Benelux NV/SA		Brussels, Belgium	98,284	100	–
Alfa Laval Ltd		Sofia, Bulgaria	100	100	–
Alfa Laval Slovakia S.R.O.		Bratislava, Slovakia		1	–
Alfa Laval Spol S.R.O.		Prague, Czech Republic		20	–
Alfa Laval Nordic OY		Espoo, Finland	20,000	100	–
Alfa Laval Vantaa OY		Vantaa, Finland	7,000	100	–
Alfa Laval Nederland BV		Maarssen, Netherlands	10,000	100	–
Alfa Laval Benelux BV		Maarssen, Netherlands	20,000	100	–
Helpman Capital BV		Breda, Netherlands	35,578	100	–
Helpman Holding BV		Naarden, Netherlands	80	100	–
Alfa Laval Groningen BV		Groningen, Netherlands	15,885	100	–
Alfa Laval Holding A/S		Oslo, Norway	520,000	100	–
PHE Holding AB	556306-2404	Lund, Sweden	2,500	100	–
Tranter Heat Exchangers Canada Inc.		Edmonton, Canada	100	100	–
Tranter Latin America S.A. de C.V.		Queretaro, Mexico	49,999	100	–
Tranter Indùstria de Máquinas e Equipamentos Ltda		Sao Paulo, Brazil		100	–
MCD Nitrile India Pvt Ltd		Falta, India	2,432	9	–
Tranter India Pvt Ltd		Poona, India	3,009,999	100	–
Alfa Laval Korea Ltd		Seoul, South Korea	36,400	10	–
Alfa Laval Korea Holding Company Ltd		Chungnam, South Korea	13,318,600	100	–
Alfa Laval Korea Ltd		Seoul, South Korea	327,600	90	–
Alfa Laval Aalborg Ltd		Pusan, South Korea	550	100	–
Onnuri Industrial Machinery Co. Ltd		Masan, South Korea	100,000	100	–
LHE Co. Ltd		Gim Hae, South Korea	4,560,000	100	–
LHE (Qingdao) Heat Exchanger Co. Ltd		Jiaozhou City, China		100	–
Kenus LLP		Almaty, Kazakhstan		90	–
Tranter Heat Exchangers Middle East (Cyprus) Ltd		Nicosia, Cyprus	20,000	100	–
MCD SAS		Guny, France	7,130	10	–
Tranter International AB	556559-1764	Vänersborg, Sweden	100,000	100	–
Ageratec AB	556662-3988	Norrköping, Sweden	2,723	100	–
Breezewind AB	556773-6532	Lund, Sweden	1,000	100	–
OOO Tranter CIS		Moscow, Russia		100	–
Alfa Laval Nordic AB	556243-2061	Tumba, Sweden	1,000	100	–
Alfa Laval Corporate AB	556007-7785	Lund, Sweden	13,920,000	100	–
Alfa Laval S.A.		San Isidro, Argentina	64,419	5	–
Definox (Beijing) Stainless Steel Equipment Ltd		Beijing, China		100	–

SPECIFICATION OF SHARES IN SUBSIDIARIES, CONTINUED

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Alfa Laval (Kunshan) Manufacturing Co Ltd		Kunshan, China		100	–
Alfa Laval (India) Ltd		Poona, India	17,703,076	97.5	–
Alfa Laval Support Services Pvt Ltd		Poona, India	10	0	–
Tranter India Pvt Ltd		Poona, India	1	0	–
PT Alfa Laval Indonesia		Jakarta, Indonesia	1,249	100	–
Alfa Laval (Malaysia) Sdn Bhd		Shah Alam, Malaysia	10,000	100	–
Alfa Laval Kolding A/S		Kolding, Denmark	40	100	–
Alfa Laval Nordic A/S		Rödovre, Denmark	1	100	–
Alfa Laval Copenhagen A/S		Söborg, Denmark	1	100	–
Alfa Laval Nakskov A/S		Nakskov, Denmark	242,713	100	–
Alfa Laval Tank Equipment A/S		Ishoej, Denmark	61	100	–
Alfa Laval Aalborg A/S		Aalborg, Denmark	2,560,972	100	–
Alfa Laval Aalborg Ltda		Petrópolis, Brazil	5,969,400	99.5	–
Aalborg Industries Ltda		Itu, Brazil	4,644,373	100	–
Alfa Laval Aalborg Ltd		Shanghai, China		100	–
Alfa Laval Qingdao Ltd		Jiaozhou City, China		100	–
Alfa Laval Aalborg Ltd		Hong Kong, China	99	100	–
Alfa Laval Aalborg KK		Osaka, Japan	4,000	100	–
Aalborg Industries Engineering Bhd		Kuala Lumpur, Malaysia		100	–
Alfa Laval Aalborg Pte Ltd		Singapore	500,000	100	–
Aalborg Industries Water Treatment Pte Ltd		Singapore	4,800,000	60	–
Alfa Laval Aalborg (FPS) Pte Ltd		Singapore	2,250,000	100	–
Alfa Laval HaiPhong Co. Ltd		HaiPhong, Vietnam		100	–
Alfa Laval Aalborg Oy		Rauma, Finland	3,000	100	–
Alfa Laval Aalborg BV		Spijkenisse, Netherlands	7,500	100	–
Alfa Laval Aalborg Nijmegen BV		Nijmegen, Netherlands	182	100	–
Alfa Laval Aalborg Nijmegen2 BV		Nijmegen, Netherlands	200	100	–
Alfa Laval Aalborg Holding Pty Ltd		North Wyong, Australia	11,500,000	100	–
Alfa Laval Aalborg Pty Ltd		North Wyong, Australia	225,000	100	–
Alfa Laval SAS		Saint-Priest, France	46,700	7.7	–
Alfa Laval Olmi SpA		Suisio, Italy	500,000	100	–
Alfa Laval Italy Srl		Milano, Italy		100	–
Alfa Laval Nordic A/S		Oslo, Norway	100	100	–
Tranter Poland Sp.z.o.o.		Pruszków, Poland	2,000	100	–
AlfaWall AB	556723-6715	Botkyrka, Sweden	500	50	–
Alfa Laval Oilfield C.A.		Caracas, Venezuela	47	19	–
Alfa Laval Treasury International AB	556432-2484	Lund, Sweden	50,000	100	–
Alfa Laval Europe AB	556128-7847	Lund, Sweden	500	100	–
Alfa Laval Lund AB	556016-8642	Lund, Sweden	100	100	–
Alfa Laval International Engineering AB	556039-8934	Lund, Sweden	4,500	100	–
Alfa Laval Tumba AB	556021-3893	Tumba, Sweden	1,000	100	–
Alfa Laval Makine Sanayii ve Ticaret Ltd Sti		Istanbul, Turkey	27,001,755	99	–
Alfa Laval SIA		Riga, Latvia	125	100	–
Alfa Laval UAB Ltd		Vilnius, Lithuania	2,009	100	–
Alfa Laval Australia Pty Ltd		Homebush, Australia	2,088,076	100	–
Tranter Heat Exchanger Pty Ltd		Sydney, Australia	600,000	100	–
Alfa Laval New Zeeland Pty Ltd		Hamilton, New Zeeland	1,000	100	–
Alfa Laval Holding BV		Maarssen, Netherlands	60,035,631	100	–
Alfa Laval (Pty) Ltd		Isando, South Africa	2,000	100	–
Alfa Laval Slovakia S.R.O.		Bratislava, Slovakia		99	–
Alfa Laval Spol S.R.O.		Prague, Czech Republic		80	–
Alfa Laval France SAS		Saint-Priest, France	2,000,000	100	–
Alfa Laval SAS		Saint-Priest, France	560,000	92.3	–
Alfa Laval Moatti SAS		Elancourt, France	24,000	100	–
Alfa Laval Spiral SAS		Nevers, France	79,999	100	–
MCD SAS		Guny, France	64,170	90	–
Alfa Laval Vicarb SAS		Grenoble, France	200,000	100	–
Canada Inc.		Newmarket, Canada	480,000	100	–
Alfa Laval Inc.		Newmarket, Canada	481,600	33	–
SCI du Companil		Grenoble, France	32,165	100	–
Alfa Laval HES SA		Lentilly, France	150,000	100	–
Packinox SA		Paris, France	348,115	100	–
Ziepack SA		Paris, France	37,701	51	–
Tranter SAS		Nanterre, France		100	–
Definox SAS		Lyon, France	10,000	100	–
Alfa Laval Holding GmbH		Glinde, Germany	1	100	–
Alfa Laval Mid Europe GmbH		Wiener Neudorf, Austria	1	100	–
Tranter Warmetauscher GmbH		Guntramsdorf, Austria		100	–
Alfa Laval Mid Europe GmbH		Glinde, Germany	1	100	–
Alfa Laval Dortmund GmbH		Artern, Germany	1	100	–
Tranter GmbH		Artern, Germany	1	100	–
Tranter Solarice GmbH		Artern, Germany		67	–

SPECIFICATION OF SHARES IN SUBSIDIARIES, CONTINUED

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Alfa Laval Mid Europe AG		Dietlikon, Switzerland	647	100	–
Alfa Laval AEBE		Holargos, Greece	807,000	100	–
Alfa Laval Kft		Budapest, Hungary	1	100	–
Tranter Kft		Budapest, Hungary		100	–
Alfa Laval SpA		Monza, Italy	1,992,276	99	–
Tranter Srl		Monza, Italy		100	–
Alfa Laval Parma Srl		Parma, Italy	114,000	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	100	–
Alfa Laval (Portugal) Ltd		Linda-A-Velha, Portugal	1	99	–
Alfa Laval Holdings Ltd		Camberley, UK	14,053,262	100	–
Alfa Laval Eastbourne Ltd		Eastbourne, UK	10,000	100	–
Alfa Laval 2000		Camberley, UK	28,106	100	–
Alfa Laval Ltd		Camberley, UK	11,700,000	100	–
Rolls Laval Heat Exchangers Ltd		Wolverhampton, UK	5,000	50	–
Tranter Ltd		Doncaster, UK	10,000	100	–
Ashbrook Simon-Hartley Ltd		Newcastle-under-Lyme, UK	2	100	–
Alfa Laval Makine Sanayii ve Ticaret Ltd Sti		Istanbul, Turkey	1	1	–
Alfa Laval USA Inc.		Richmond, Virginia, USA	1,000	100	–
Alfa Laval US Holding Inc.		Richmond, Virginia, USA	180	100	–
Alfa Laval Inc.		Richmond, Virginia, USA	44,000	100	–
Alfa Laval Air Cooled Exchangers Inc		Broken Arrow, Oklahoma, USA	1,000	100	–
Clearview ACE Acquisition Company LLC		Broken Arrow, Oklahoma, USA	948,306	96	–
Clearview ACE Holdings Inc		Broken Arrow, Oklahoma, USA	1,000	100	–
Clearview ACE Acquisition Company LLC		Broken Arrow, Oklahoma, USA	36,694	4	–
Alfa Laval US Treasury Inc.		Richmond, Virginia, USA	1,000	100	–
DSO Fluid Handling Inc.		Irvington, New Jersey, USA	100	100	–
AGC Heat Transfer Inc.		Bristow, Virginia, USA	1,000	100	–
Tranter Inc.		Wichita Falls, Texas, USA	1,000	100	–
MCD Gaskets Inc.		Richmond, Virginia, USA	1,000	100	–
Hutchison Hayes Separation Inc.		Houston, Texas, USA	1,000	100	–
Alfa Laval Champ Inc.		Sarasota, Florida, USA	1,000	100	–
Definox Inc.		New Berlin, Wisconsin, USA	1,000	100	–
Alfa Laval Aalborg Inc.		Miramar, Florida, USA	200	100	–
Vortex Ventures Inc		Houston, Texas, USA	1,000	100	–
Ashbrook Simon-Hartley Operations LP		Houston, Texas, USA	1	100	–
Alfa Laval Tank Equipment Inc		Exton, Pennsylvania, USA	1,000	100	–
AO Alfa Laval Potok		Koroljov, Russia	31,077,504	100	–
Alfa Laval Försäkrings AB	516406-0682	Lund, Sweden	50,000	100	–
Alfdex AB	556647-7278	Botkyrka, Sweden	1,000	50	–
Alfa Laval Support Services Pvt Ltd		Poona, India	99,990	100	–
MCD Nitrile India Pvt Ltd		Falta, India	24,593	91	–
Alfa Laval Ukraine		Kiev, Ukraine		100	–
Alfa Laval SpA		Monza, Italy	20,124	1	–
Alfa Laval KK		Tokyo, Japan	1,200,000	100	208
Total					**4,669**

SPECIFICATION OF SHARES IN OTHER COMPANIES

Company name	Domicile	Number of shares	Share of capital %	Book value SEK thousands
Alfa Laval Aalborg Ltda				
Tractebel	Brazil	1,268		121
Elektrobras	Brazil	3,981		337
Alfa Laval KK				
Chugairo	Japan	5,000		84
Orugano	Japan	769		28
ADEKA	Japan	18,992		1,060
LHE Co. Ltd				
KME	South Korea	10,700	30	0
Alfa Laval Philippines Inc.				
Philippine Long Distance Telephone	Philippines	820		13
Alfa Laval Nordic OY				
As Oy Koivulantie 7A	Finland	1		267
Suomen Talotekniikka KK	Finland	10		26
Helsinki Halli	Finland	4		121
Alfa Laval Vantaa OY				
Länsi-Vantaan Tenniskeskus	Finland	4		0
Mikkelin Puhelin Oyj	Finland	5		34
Alfa Laval Aalborg OY				
Lännen Puhelin	Finland	1		52
Alfa Laval France SAS				
SEMACLA	France	10		0
Alfa Laval HES SA				
Thermothec	France	9,130		0
Alfa Laval Parma Srl				
Parmalat	Italy	4,413		84
Alfa Laval Benelux BV				
Bordewes	Netherlands	1		146
Helpman Holding BV				
Helpman Sofia OOD	Bulgaria	500	49	5,763
Alfa Laval NV				
Dalian Haven Automation Co Ltd	China	102	43	767
Alfa Laval Nordic A/S				
Storebrand ASA	Norway	7,629		0
Alfa Laval Corporate AB				
European Development Capital Corporation (EDCC) NV	Curacao	36,129		0
Multiprogress	Hungary	100	3	0
Kurose Chemical Equipment Ltd	Japan	180,000	11	0
Poljopriveda	former Yugoslavia			0
Tecnica Argo-Industrial S.A.	Mexico	490	49	0
Adela Investment Co S.A. (preference)	Luxembourg	1,911	0	0
Adela Investment Co S.A.	Luxembourg	1,911	0	0
Mas Dairies Ltd	Pakistan	125,000	5	0
Total				**8,903**

Note 20. Inventories

TYPE OF INVENTORY

Consolidated		
SEK millions	2012	2011
Raw materials and consumables	2,113	2,371
Work in progress	2,137	1,955
Finished goods & goods for resale, new sales	1,112	1,090
Finished goods & goods for resale, spare parts	690	579
Advance payments to suppliers	124	153
Total	**6,176**	**6,148**

A considerable part of the inventory for spare parts is carried at fair value.

Obsolescence related to inventories amounts to and has changed as follows:

OBSOLESCENCE

Consolidated						
SEK millions	January 1	Translation difference	Acquired	Write-down	Reversal of previous write-down	December 31
Year:						
2011	957	-6	26	212	-330	859
2012	859	-26	2	203	-185	853

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 2012 amounts to SEK 419 (420) million.

Note 21. Accounts receivable

Accounts receivable with a maturity exceeding one year of SEK 230 (214) million have not been accounted for as non-current assets as they are not intended for permanent use.

Accounts receivable are reported net of provisions for bad debts. The provision for bad debts amounts to and has changed as follows:

BAD DEBTS

Consolidated								
SEK millions	January 1	Translation difference	Acquired	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
Year:								
2011	280	-4	25	151	-41	-59	0	352
2012	352	-12	1	106	-54	-53	0	340

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	2012	%	2011	%
Overdue:				
Maximum 30 days	494	9.5	504	9.9
More than 30 days but maximum 90 days	315	6.0	269	5.3
More than 90 days	350	6.7	330	6.5
Total	**1,159**	**22.2**	**1,103**	**21.7**

Note 22. Other short-term receivables

SPLIT ON TYPE AND MATURITY

Consolidated		
SEK millions	2012	2011
Notes receivable	304	286
Financial leasing receivables	11	2
Other receivables	783	900
Total	**1,098**	**1,188**
Of which, not due within one year:		
Notes receivable	4	2
Other receivables	21	23
Total	**25**	**25**

Note 23. Prepaid expenses and accrued income

SPLIT ON TYPE

Consolidated		
SEK millions	2012	2011
Prepaid expenses	161	141
Accrued income	39	33
Total	**200**	**174**

Note 24. Other current deposits

SPLIT ON TYPE AND MATURITY

Consolidated		
SEK millions	2012	2011
Deposits with banks	283	304
Bonds and other securities	131	93
Other deposits	13	86
Total	**427**	**483**
Of which, not due within one year:		
Deposits with banks	94	42
Other deposits	5	10
Total	**99**	**52**

Note 25. Cash and bank

The item cash and bank in the statement on financial position and in the cash-flow statement is mainly relating to bank deposits. Cash and bank includes a bank deposit in the previously publicly listed subsidiary Alfa Laval (India) Ltd of about SEK 59 (68) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 97.5 (88.8) percent.

Note 26. Defined benefit obligations

The Group has defined benefit commitments to employees and former employees and their survivors. The benefits are referring to old age pension, survivor's pension, disability pension, health care and severance pay.

The defined benefit plans are in place in Austria, Belgium, Canada, France, Germany, India, Indonesia, Italy, Japan, Mexico, the Netherlands, Norway, Philippines, South Africa, Sweden, Taiwan, the United Kingdom and the United States. Most plans have been closed for new participants and replaced by defined contribution plans for new employees. The amounts reported as reclassified are referring to plans that have been reclassified between defined benefit plans and defined contribution plans under IAS 19.

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 unrecognised actuarial losses, the unrecognised past service costs and the fair value of the plan assets.

If the net cumulative unrecognised actuarial gains and losses at the end of the previous year are outside a 10 percent corridor calculated on the greater of the present value of the defined benefit obligation or the fair value of the plan assets, then the excess is recognised over the remaining service period of the employees participating in the plan.

NET DEFINED BENEFIT LIABILITY

Consolidated

SEK millions	2012	2011	2010	2009	2008
Present value of defined benefit obligation, unfunded	-1,005	-928	-873	-934	-1,141
Present value of defined benefit obligation, funded	-3,171	-2,976	-2,702	-2,838	-2,429
Present value of defined benefit obligation at year end	-4,176	-3,904	-3,575	-3,772	-3,570
Unrecognised actuarial losses	1,223	1,038	727	814	745
Unrecognised past service cost	3	3	3	8	1
Fair value of plan assets	2,504	2,357	2,233	2,166	1,974
Defined benefit liability	-446	-506	-612	-784	-850
Less amount disallowed	–	0	0	0	0
(-) liability/(+) asset at December 31	**-446**	**-506**	**-612**	**-784**	**-850**

Alfa Laval does not have any material experience adjustments relating to the defined benefit obligations or the plan assets.

The net plan cost for the defined benefit plans describes the different cost elements of the plans and the expected return on the plan assets. The net plan cost is reported in the consolidated comprehensive income statement on the lines where personnel costs are reported. The interest cost and the expected return are not part of the financial net, but instead just a way to categorize the components of the net plan cost.

NET PLAN COST

Consolidated

SEK millions	2012	2011	2010
Current service cost	-54	-43	-33
Interest cost	-158	-170	-176
Expected return on plan assets	120	129	126
Actuarial losses	-94	-57	-67
Past service cost	0	0	0
Effect of any curtailments or settlements	10	11	3
(-) cost/(+) income	**-176**	**-130**	**-147**

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	2012	2011	2010
Present value of defined benefit liability at January 1	-3,904	-3,575	-3,772
Translation difference	144	-27	271
Current service cost	-54	-43	-33
Interest cost	-158	-170	-176
Employee contributions	-3	-4	-4
Current year change in actuarial losses	-383	-277	-61
Past service cost	0	0	0
Effect of any curtailments or settlements	10	11	3
Benefit payments	172	181	197
(-) liability at December 31	**-4,176**	**-3,904**	**-3,575**

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	2012	2011	2010
Fair value of plan assets at January 1	2,357	2,233	2,166
Translation difference	-75	14	-162
Employer contributions	183	230	201
Employee contributions	3	4	4
Actual return on plan assets	208	57	221
Benefit payments	-172	-181	-197
(+) asset at December 31	**2,504**	**2,357**	**2,233**

The expected employer contributions to the plans for 2013 amount to SEK 117 million.

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	2012	2011	2010
Defined benefit liability/asset at January 1	-506	-612	-784
Translation difference	29	-6	115
Net plan cost	-176	-130	-147
Employer contributions	183	230	201
Change in unrecognised actuarial gains/losses	24	12	3
Change in unrecognised past service cost	–	0	0
Change in disallowed asset amount	–	0	0
(-) liability/(+) asset at December 31	**-446**	**-506**	**-612**

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	2012	2011	2010
Assets			
Fair value of plan assets	2,504	2,357	2,233
Less amount disallowed	–	0	0
	2,504	2,357	2,233
Netting	-2,121	-2,011	-1,998
Assets in statement on financial position	**383**	**346**	**235**
Liabilities			
Present value of defined benefit obligation at year end	-4,176	-3,904	-3,575
Unrecognised actuarial losses	1,223	1,038	727
Unrecognised past service costs	3	3	3
	-2,950	-2,863	-2,845
Netting	2,121	2,011	1,998
Provision in statement on financial position	**-829**	**-852**	**-847**

The weighted averages for the more significant actuarial assumptions that have been used at the year-end are:

ACTUARIAL ASSUMPTIONS

Consolidated

Percent	2012	2011	2010
Discount rate	4	4	5
Expected return on investment	6	6	6
Expected wage increase	3	3	3
Change in health care costs	8	8	8
Change of index for future increase of remunerations	3	3	3

Changes in the health care costs have a significant impact on the costs and the level of the obligations for defined benefit obligations. If the health care costs change by one percent, it gives the following profit and loss effect calculated on the conditions as of the end of the year:

EFFECTS OF CHANGE IN HEALTH CARE COSTS

Consolidated				
SEK millions	2012		2011	
Change	1% increase	1% decrease	1% increase	1% decrease
Effect on:				
Current service costs and interest costs	-2	2	-2	2
Present value of the defined benefit obligation	-48	37	-46	39

The following table presents how the defined benefit pension schemes are distributed on different countries.

REGIONAL SPLIT

Consolidated

SEK millions, unless otherwise stated	United States	United Kingdom	Nether-lands	Germany	Norway	Italy	Belgium	Other	**Total**
Net defined benefit liability									
Present value of the defined benefit obligation, unfunded	-589	–	–	-169	–	-35	–	-212	**-1,005**
Present value of the defined benefit obligation, funded	-939	-1,638	-290	–	-116	–	-72	-116	**-3,171**
Present value of the defined benefit obligation at year end	-1,528	-1,638	-290	-169	-116	-35	-72	-328	**-4,176**
Unrecognised actuarial losses	594	483	54	41	38	–	15	-2	**1,223**
Unrecognised past service cost	–	–	–	–	–	–	0	3	**3**
Fair value of plan assets	704	1,284	264	–	90	–	56	106	**2,504**
Defined benefit liability	-230	129	28	-128	12	-35	-1	-221	**-446**
Less amount disallowed	0	0	0	0	0	0	0	0	**0**
(-) liability/(+) asset	-230	129	28	-128	12	-35	-1	-221	**-446**
Net plan cost	**-61**	**-44**	**-10**	**-29**	**-5**	**-1**	**-4**	**-22**	**-176**
Sensitivity analysis									
Increase in the present value of the defined obligations at Dec 31 at a decrease by 1 percent of the discount rate	-73	-292	-63	-20	-20	–	-6	-32	**-506**
Increase in the plan cost due to this *	-19	-23	-6	-5	-2	–	-1	-12	**-68**
Increase in the present value of the defined obligations at Dec 31 at an increase by 1 percent in medical costs	-48	–	–	–	–	–	–	–	**-48**
Increase in the plan cost due to this *	-2	–	–	–	–	–	–	–	**-2**
Increase in plan cost in 2013 if the plan assets decrease in value by 10 percent in 2012 *	-12	-11	-3	–	-1	–	-1	-5	**-33**
Cost for actuarial services	**-2**	**0**	**0**	**0**	**0**	**0**	**0**	**-3**	**-5**
Number of participants in the plans at December 31									
Current employees (active members)	564	0	122	12	26	–	34	2,723	**3,481**
Current employees (only vested value for closed plans)	155	148	–	–	–	478	–	14	**795**
Former employees that are yet not pensioners	298	568	190	21	–	–	43	4	**1,124**
Pensioners	2,037	578	65	333	34	–	–	125	**3,172**
Total	**3,054**	**1,294**	**377**	**366**	**60**	**478**	**77**	**2,866**	**8,572**
Remaining service period									
Average remaining service period for active members (years)	13	11	22	4	10	–	18	14	**14**

* all other things being equal

Note 27. Other provisions

MOVEMENT SCHEDULE

Consolidated

SEK millions	January 1	Translation difference	Acquired	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	December 31
2011							
Claims & warranty	1,233	0	146	543	-581	-165	1,176
Deferred costs	195	-1	2	52	-37	-19	192
Restructuring	166	0	–	154	-77	-23	220
Onerous contracts	90	0	–	31	-54	-1	66
Litigations	212	-2	5	10	-57	-1	167
Other	232	-1	51	212	-123	-60	311
Total	**2,128**	**-4**	**204**	**1,002**	**-929**	**-269**	**2,132**
Of which:							
current	1,496						1,612
non-current	632						520
2012							
Claims & warranty	1,176	-28	1	503	-382	-114	1,156
Deferred costs	192	-6	–	50	-35	-34	167
Restructuring	220	-2	–	100	-106	-21	191
Onerous contracts	66	-2	–	27	-15	-10	66
Litigations	167	-3	–	45	-21	-1	187
Other	311	-9	–	151	-130	-14	309
Total	**2,132**	**-50**	**1**	**876**	**-689**	**-194**	**2,076**
Of which:							
current	1,612						1,603
non-current	520						473

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 320 (550) employees.

The provision for onerous contracts is relating to orders where a negative gross margin is expected. Provisions are made as soon as a final loss on the order can be expected. This can in exceptional cases happen already at the time when the order is taken. Normally this provision is relating to larger and complex orders where the final margin is more uncertain.

The provision for litigations refers to ongoing or expected legal disputes. The provision covers expected legal costs and expected amounts for damages or settlements.

Other refers to miscellaneous provisions that do not fall within any of the above categories.

Note 28. Borrowings and net debt

NET DEBT

Consolidated

SEK millions	2012	2011
Credit institutions	2,446	1,485
Swedish Export Credit	1,723	1,787
European Investment Bank	1,120	1,162
Private placement	714	758
Capitalised financial leases	97	118
Interest-bearing pension liabilities	1	1
Total debt	6,101	5,311
Cash, bank and current deposits	-1,831	-2,047
Net debt	**4,270**	**3,264**

Cash, bank and current deposits include bank and other deposits in the previously publicly listed subsidiary Alfa Laval (India) Ltd of SEK 174 (139) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 97.5 (88.8) percent.

The loans from credit institutions and the private placement are distributed among currencies as follows:

MATURITY OF LOANS BY CURRENCY

Consolidated

	Current		Non-current	
SEK millions	2012	2011	2012	2011
Currency:				
BRL	12	11	–	–
CNY	4	38	–	–
DKK	1	2	11	12
EUR	178	34	3,257	4,443
INR	11	8	–	14
SEK	95	–	–	–
USD	94	38	2,340	591
Other	0	1	–	–
Total	**395**	**132**	**5,608**	**5,060**
Of which, not due within five years:			1,981	2,055

The maturity structure of the loans is presented in the bar chart in the section “Liquidity risk and refinancing risk” under Financial risks.

Loans with floating interest rate

Loan from credit institutions

Alfa Laval has a senior credit facility of EUR 301 million and USD 420 million, corresponding to SEK 5,324 million with a banking syndicate. At December 31, 2012 SEK 1,784 million of the facility was utilised. The facility matures in April 2016, with a one-year extension option.

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 as described below.

	Mark up at		
Net debt/EBITDA	0-33% utilisation	>33-66% utilisation	>66% utilisation
>2.50 - ≤2.75	1.00%	1.15%	1.30%
>2.00 - ≤2.50	0.75%	0.90%	1.05%
≤2.00	0.55%	0.70%	0.85%

At year end the mark up is 55 basis points. The corresponding mark up at year end in 2011 and 2010 was 55 and 25 basis points respectively.

In connection with the acquisition of Tranter Alfa Laval signed a bilateral term loan with SHB of EUR 25 million, corresponding to SEK 215 million. The loan matures in December 2013. The interest is based on IBOR plus a mark up based on the relation between net debt and EBITDA as described below.

Net debt/EBITDA	Mark up at
>2.50 - ≤2.75	0.525%
>2.00 - ≤2.50	0.450%
≤2.00	0.375%

At year end the mark up is 37.5 (37.5) (37.5) basis points.

The transaction costs in connection with raising the loans have been capitalised and are being amortised over the maturity of the loans. At the end of the year the capitalised amount was SEK 17 (21) million. The current year's cost for the fee amortisation is SEK -4 (-3) (-0) million.

Bilateral term loans with other lenders

Alfa Laval has a bilateral term loan from Swedish Export Credit split on one loan of EUR 100 million that matures in 2014 and one loan of EUR 100 million that matures in 2021, corresponding to SEK 1,723 million in total. The loans accrue interest at floating rate based on IBOR plus a mark up of 55 basis points and 95 basis points respectively.

Alfa Laval also has a bilateral term loan from the European Investment Bank of EUR 130 million, corresponding to SEK 1,120 million. The loan matures in 2018. The loan accrues interest at floating rate based on IBOR plus a mark up of 70 basis points.

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 2012 and 2011 the loans were accruing interest in the range of 0.74 % - 1.27 % and 1.71 % - 2.63 % respectively. At the end of 2010 the interest for the bilateral term loan was 1.65 percent. The average interest rate at the end of 2012 was 1.74 (2.74) (2.50) percent. The Group has chosen to hedge 36 (45) (60) percent of the loans to fixed interest rate, with a duration of 26.3 months. The average interest and currency duration including derivatives is 12.8 (19.2) months at the end of 2012.

Loans with fixed rate

Private placement

In 2006 Alfa Laval made a private placement in the U.S. The offer was over-subscribed and was closed at USD 110 million, corresponding to SEK 714 million. The loan matures in April 2016. The interest was based on U.S. Treasury bills plus a mark-up of 95 basis points, which gave a fixed interest of 5.75 percent. The loan was raised on April 27, 2006.

The transaction costs in connection with raising the loan have been capitalised and are being amortised over the maturity of the loan. At the end of the year the capitalised amount was SEK 1 (2) million. The current year's cost for the fee amortisation is SEK -0 (-0) (-0) million.

Financial covenants

The syndicated loan and the bilateral term loans are linked to three financial covenants that must be fulfilled throughout the life of the loans. These covenants refer to the relationship between net debt and EBITDA and between EBITDA and total interest expense as well as the debt ratio, see table below.

The private placement is linked to two financial covenants that must be fulfilled throughout the life of the loan. These covenants refer to the relationship between net debt and EBITDA and between EBITDA and total interest expense, see table below.

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.

FINANCIAL COVENANTS AND OUTCOME

Consolidated	Financial covenants		Outcome		
Times	Syndicated loan & bilateral term loans	Private place-ment	2012	2011	2010
Net debt / EBITDA	<2.75	< 3.00	0.8	0.6	-0.1
EBITDA / total interest expense	>3.00	>3.00	21.6	27.7	35.4
Debt ratio	<1.70	N/A	0.28	0.22	-0.04

Note 29. Other current liabilities

SPLIT BY TYPE

Consolidated		
SEK millions	2012	2011
Financial lessee payable	97	118
Other non-interest bearing liabilities	1,284	1,238
Total	**1,381**	**1,356**

Note 30. Accrued costs and prepaid income

SPLIT BY TYPE AND MATURITY

Consolidated		
SEK millions	2012	2011
Accruals for social security	272	286
Reserve for severance pay	139	141
Accrued interest expenses	13	19
Other accrued expenses	1,276	1,256
Prepaid income	19	29
Total	**1,719**	**1,731**
Of which, not due within one year:		
Accruals for social security	29	28
Reserve for severance pay	97	98
Other accrued expenses	2	34
Total	**128**	**160**

Note 31. Pledged assets and contingent liabilities

SPLIT BY TYPE

Consolidated		
SEK millions	2012	2011
Pledged assets		
Other pledges and similar commitments	10	51
Total	**10**	**51**
Contingent liabilities		
Discounted bills	38	42
Performance guarantees	1,338	1,305
For joint ventures	33	33
Other contingent liabilities	606	342
Total	**2,015**	**1,722**

As of December 31, 2012 the Group had sold receivables with recourse totalling SEK 38 (42) million. These are disclosed as discounted bills above.

Other contingent liabilities are among other items referring to bid guarantees, payment guarantees to suppliers and retention money guarantees.

Note 32. Transactions with related party

Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with 3.3 (3.9) (4.0) percent of net sales. In June 1999, Tetra Pak entered into a purchasing agreement with Alfa Laval that governs the distribution, research and development, market and sales information, use of trademarks and intellectual property. The following areas shall be agreed upon from time to time between representatives of the parties: products that are subject to the agreement, prices and discounts of such products, geographical markets and product areas where Tetra Pak is Alfa Laval's preferred distributor, the right of Tetra Pak to affix its trademarks to Alfa Laval products, sales goals for Tetra Pak in defined geographical markets, products and technologies that are the focus of joint research and development and the ownership rights of the research and development result and use of market and sales information. The agreement aims at the applications within liquid food where Tetra Pak has a natural market presence through the deliveries of packaging equipment and packaging material.

The agreement was prolonged by two years from December 31, 2012. It has a 12 month period of notice. The prices Tetra Pak receives are not lower than the prices Alfa Laval would obtain when selling to a comparable third party. The prices are fixed on a calendar year basis.

Alfa Laval rents premises to DeLaval in Russia. The total rent income for this amounts to SEK 2 (2) (4) million.

The Board of Directors for Alfa Laval AB has two representatives from Tetra Laval - Jörn Rausing and Finn Rausing.

At year-end, Alfa Laval has the following balance items against companies within the Tetra Laval group (Tetra Pak and DeLaval).

RECEIVABLES ON/PAYABLES TO RELATED PARTIES

Consolidated

SEK millions	2012	2011
Receivables:		
Accounts receivable	140	64
Other receivables	3	74
Liabilities:		
Accounts payable	0	1
Other liabilities	16	24

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	2012	2011	2010
Net sales	974	1,121	985
Other operating income	2	2	4

Note 33. Interests in joint ventures

Alfa Laval owns 50 percent in three different joint ventures: Rolls Laval Heat Exchangers Ltd with Rolls Royce as partner, Alfdex AB with Haldex as partner and AlfaWall AB with Wallenius as partner.

These joint ventures are part of the consolidated financial position with the following assets and liabilities and of the consolidated comprehensive income with the following revenues and expenses:

ASSETS/LIABILITIES

Consolidated

SEK millions	2012	2011
Current assets	54	51
Non-current assets	11	6
Current liabilities	30	32
Non-current liabilities	8	6

REVENUES/EXPENSES

Consolidated

SEK millions	2012	2011	2010
Net sales	131	119	1
Other operating income	29	16	26
Other operating costs	-57	-44	-25

Note 34. Work in progress on plant projects

IMPACT OF PERCENTAGE OF COMPLETION METHOD

Consolidated

SEK millions	2012	2011	2010
Result items			
Amount of recognised project sales revenue	2,024	1,827	641
Work performed on ongoing projects			
Aggregate amount of costs incurred and recognised profits (less recognised losses)	2,364	1,958	926
Assets			
Retentions	72	71	46
Gross amount due from customers for work in progress	392	404	301
Liabilities			
Advances received	705	484	353
Gross amount due to customers for work in progress	175	241	45

Note 35. Leasing

Alfa Laval has entered into non-cancellable operating leases mainly relating to premises and finance lease agreements regarding machinery and equipment with leasing periods of 1-20 years. The leasing fees for non-cancellable operating leases for premises were SEK 326 (304) (284) million. During the year, the Group has entered into finance leases with a capitalised value of SEK - (1) million. See Note 18 for information on the capitalised value of finance leases.

The future minimum leasing fees concerning non-cancellable operating leases, distributed on maturity dates, amount to:

FUTURE MINIMUM LEASING FEES FOR OPERATING LEASES

Consolidated

SEK millions	2012	2011	2010
Maturity in year:			
2011	N/A	N/A	256
2012	N/A	321	217
2013	312	274	176
2014	250	205	140
2015	209	169	125
2016	139	117	N/A
2017	114	N/A	N/A
Later	157	195	187
Total	**1,181**	**1,281**	**1,101**

The future minimum leasing fees concerning financial leasing agreements and their net present value, distributed on maturity dates, amount to:

FINANCIAL LEASES

Consolidated

	Future minimum leasing fees for financial leases			Present value of financial leases		
SEK millions	2012	2011	2010	2012	2011	2010
Maturity in year:						
2011	N/A	N/A	21	N/A	N/A	21
2012	N/A	18	18	N/A	18	17
2013	17	17	17	16	16	16
2014	15	16	16	15	14	14
2015	14	15	15	13	13	13
2016	13	13	N/A	12	11	N/A
2017	10	N/A	N/A	10	N/A	N/A
Later	28	39	51	24	31	44
Total	**97**	**118**	**138**	**90**	**103**	**125**

Note 36. Parent company revenues from interests in group companies

SPLIT BY TYPE

Parent company

SEK millions	2012	2011	2010
Dividends from subsidiaries	–	1,679	2,288
Received group contributions	596	405	1,154
Total	**596**	**2,084**	**3,442**

Proposed disposition of earnings

THE UNRESTRICTED EQUITY IN ALFA LAVAL AB (PUBL) IS SEK:	
Profit brought forward	8,304,831,976
Paid group contribution, net after tax	-736,367,418
Net income 2012	717,006,897
	8,285,471,455

The Board of Directors propose a dividend of SEK 3.50 (3.25) per share corresponding to SEK 1,468,097,102 (1,363,233,024) and that the remaining income of SEK 6,817,374,353 (8,304,831,976) be carried forward.

True and fair view

The undersigned certify that the annual report for the Group and the Parent company has been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union, and generally accepted accounting principles respectively, and gives a true and fair view of the financial positions and results of the Group and the Parent company, and that the Board of Directors' report gives a fair review of the development of the operations, financial positions and results of the Group and the Parent company and describes substantial risks and uncertainties that the Group companies face.

Lund, February 28, 2013

Anders Narvinger
Chairman

Gunilla Berg
Director

Arne Frank
Director

Björn Hägglund
Director

Bror García Lantz
Employee representative

Ulla Litzén
Director

Jan Nilsson
Employee representative

Susanna Holmqvist Norrby
Employee representative

Finn Rausing
Director

Jörn Rausing
Director

Lars Renström
President and CEO

Our Auditors' Report concerning this Annual Report has been issued on March 4, 2013.

Staffan Landén
Authorised Public Accountant

Håkan Olsson Reising
Authorised Public Accountant

Auditor's report

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

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Alfa Laval AB (publ) for the year 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 47–127.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the statement of income and statement of financial position for the parent company and statement of comprehensive income and statement of financial position for the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Alfa Laval AB (publ) for the year 2012.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Lund March 4, 2013

Staffan Landén
Authorized Public Accountant

Håkan Olsson Reising
Authorized Public Accountant

Contents – Corporate Governance Report

Introduction by the Chairman of the Board	129
Corporate Governance Report 2012	130
Regulations	130
Share and ownership structure	130
Annual General Meeting	130
Annual General Meeting for the 2011 fiscal year	130
Nominating Committee	131
Board of Directors	131
Committees	133
The company's auditors	133
Remuneration to auditors	133
Board of Directors and Auditors	134
President and Group management	136
Areas of responsibility	136
Group management meetings in 2012	136
Remuneration of senior executives	137
Board of Directors' report on internal control	138
Control environment	138
Risk assessment	138
Control structures	138
Information and communication	139
Follow-up	139
Auditor's report on the Corporate Governance Statement	139

Introduction by the Chairman of the Board

2012 was a year of continued turbulence in the financial markets as well as of macroeconomic issues in various parts of the world and, accordingly, a challenging operating environment. For Alfa Laval, this meant a year of management with one foot on the accelerator and one on the brake. The cost-cutting program announced at the end of 2011 was implemented in parallel with our continued investment in markets we expect to post long-term growth. This was all as part of our efforts and ambitions of securing a profitable growth trend for the company. The structural driving forces in the world at large, in the form of an increased standard of living in fast-growing regions, continued world trade, an increased need for energy and increased environmental regulation, all comprise driving forces that will benefit Alfa Laval moving forward. Accordingly, we are investing in various initiatives to ensure that we optimally utilize the opportunities that arise in these areas, both organic and acquired, in parallel with investing in creating our own opportunities through continued focus on research and development. During the year, Board work has been characterized by these considerations.

Sustainability issues are of the highest priority at Alfa Laval and, during the year, we revised our business principles and created a Commercial Ethics Council with the CEO as Chairman to ensure its implementation. The review of the business principles was performed against the background of the new UN and OECD guidelines. We carried out a consultation process, both internally and externally, as part of establishing ownership, which included union representatives, shareholders, the management and sustainability analysts before the new guidelines were finally approved. In addition, the environmental targets were renewed for manufacturing.

In a changing operating environment that is characterized by uncertainty, transparency is particularly important. It is crucial for companies to show that they act ethically, in compliance with the law and with the owners' interests in mind. Our corporate governance report aims to highlight how governance is applied at Alfa Laval, clarify the structure, explain the division of responsibility and explain which control measures are in place to protect the company's assets and thus the owners' investments. In other words, we hope to convey the information the owners need to determine how we manage the responsibility entrusted to us.

Lund, March 2013

Anders Narvinger
Chairman of the Board

Corporate Governance Report 2012

Alfa Laval's Corporate Governance Report for 2012 is presented below, and has been reviewed by the company's auditors. The report provides a detailed description of the division of responsibility in Alfa Laval and also how the company's three decision-making bodies – the Annual General Meeting, the Board of Directors and the President – act and interact.

REGULATIONS

Alfa Laval is a public company listed on the NASDAQ OMX Exchange Stockholm and as such, its governance is subject to a number of laws and regulations. The most important of these are the Swedish Companies Act, the Swedish Annual Accounts Act, the rules of the exchange and the Swedish Corporate Governance Code ("the Code"). Alfa Laval's corporate governance complies with the Code, with only one exception. The exception and its explanation can be found in the Nominating Committee section, on page 131.

The external regulations are supplemented by internal ones, which include the company's Business Principles, governing documents, such as guidelines and instructions as well as procedures for control and risk management. In addition, the work of the Board and the president is governed by formal work plans.

SHARE AND OWNERSHIP STRUCTURE

At December 31, 2012, Alfa Laval had 419,456,315 shares outstanding, allocated among 34,629 shareholders according to Euroclear Sweden's shareholders' register. Each share corresponds to one vote. Tetra Laval was the largest owner with 26.1 percent and the only owner with a stake larger than 10 percent. The second largest owner was Alecta Pensionsförsäkring with 6.7 percent, followed by Foundation Asset Management with 6.0 percent. Legal entities accounted for about 94 percent of holdings, while individuals accounted for the remainder. From a geographic perspective, the following countries were represented by the five largest shareholders: Sweden, the Netherlands, the US, the UK and Luxembourg. For more information about Alfa Laval's share and ownership structure, refer to the Share section on pages 10 and 11.

ANNUAL GENERAL MEETING

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

To be entitled to participate in the general meeting and vote, shareholders must be registered in the shareholders' register maintained by Euroclear Sweden AB. Any shareholder who is unable to attend in person, may participate through a proxy with a power of attorney. Shareholders with nominee-registered shares must have the shares temporarily registered under their own name.

The Annual General Meeting is held in Swedish and all documentation is available in Swedish and English. Alfa Laval endeavors to ensure that all Board members participate, as well as, in so far as it is possible, all members of the Group management. The company's auditors are always present.

ANNUAL GENERAL MEETING FOR THE 2011 FISCAL YEAR

The Annual General Meeting for the 2011 fiscal year was held at Färs och Frosta Sparbank Arena in Lund on April 23, 2012. The Annual General Meeting was attended by 466 share-holders, including owners, proxies, assistants,

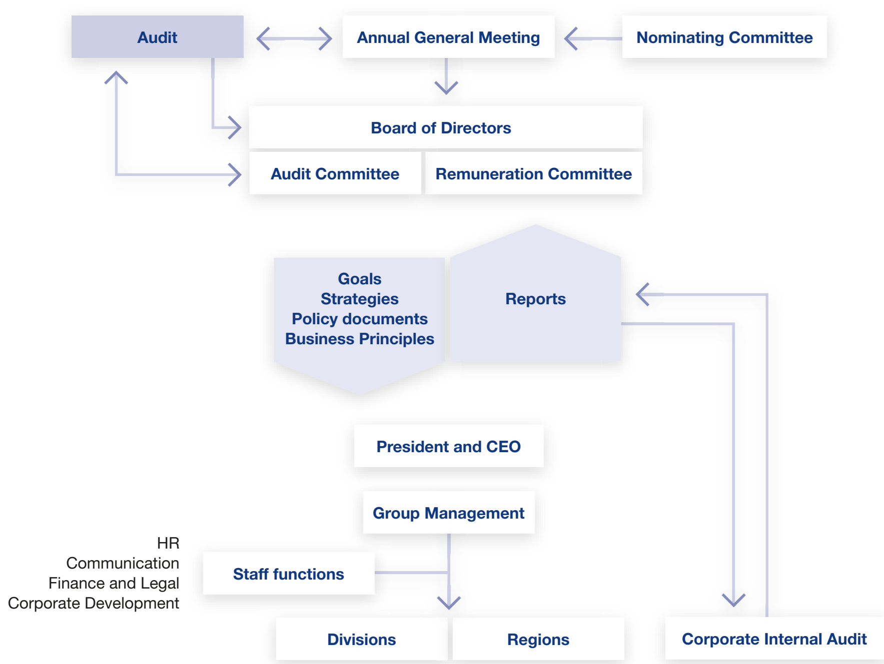
ALFA LAVAL — THE COMPANY

The registered name of the company is Alfa Laval AB (publ) and the registered office of the Board of Directors shall be in Lund Municipality in Sweden. The company's share capital shall amount to not less than SEK 745,000,000 and not more than SEK 2,980,000,000. The number of shares shall be not less than 298,000,000 and not more than 1,192,000,000. The fiscal year is the calendar year. The objective of the company's operations is to, directly or through subsidiaries and joint venture companies in and outside Sweden, develop, manufacture and sell equipment and installations, primarily in the areas of separation, heat transfer and fluid handling, and to administer fixed and movable property, and other related operations. The Articles of Association do not include any limitations regarding the number of votes a shareholder can cast at an Annual General Meeting. Nor does it include any specific rules regarding the appointment and dismissal of Board members or changes in the Articles of Association. The currently prevailing Articles of Association were adopted on the Annual General Meeting on April 20, 2009 and are available in their entirety on Alfa Laval's website: www.alfalaval.com.

MORE INFORMATION

Alfa Laval's corporate governance report and business principles are published on www.alfalaval.com.

CORPORATE GOVERNANCE



guests and officials – representing 61.6 percent of the total number of shares and votes.

Both of the company's external auditors attended, as did all Board members elected by the Annual General Meeting. Chairman of the Board Anders Narvinger was elected as the Meeting Chairman. The resolutions passed at the Annual General Meeting included the following:

- The Annual General Meeting adopted the income statement and balance sheet and resolved that the Board of Directors and President be discharged from liability.
- The Annual General Meeting resolved in accordance with the Board's motion that a dividend of SEK 3.25 per share be paid for the 2011 fiscal year.
- A resolution was passed to authorize the Board, on one or more occasions before the next Annual General Meeting, to repurchase a maximum of 5 percent of the company's shares outstanding to enable the Board to adjust the capital structure of the company during the period leading up to the next Annual General Meeting. The Board intends to propose that the next Annual General Meeting resolve to cancel those shares bought back under this authorization.
- A resolution was passed to re-elect Board members Gunilla Berg, Arne Frank, Björn Hägglund, Anders Narvinger, Finn Rausing, Jörn Rausing, Lars Renström and Ulla Litzén. In addition, a resolution was passed in favor of the Nominating Committee's proposal for auditors. The Authorized Public Accountants Staffan Landén and Håkan Olsson Reising were reelected and newly elected respectively for the coming year. In addition, the auditors Johan Thuresson and Karoline Tedevall were elected as deputy auditors for the company.
- A resolution was passed that fees paid to non-executive directors on the Board shall amount to SEK 3,850,000 (3,650,000). In addition, fees are payable for work on the Board's committees.
- A resolution was passed accepting the Board's motion for remuneration principles for company management. These principles comprise fixed remuneration and short-term and long-term programs for variable remuneration.

NOMINATING COMMITTEE

The work of the Nominating Committee

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

Composition of the Nominating Committee

The Nominating Committee shall not comprise more than five members, of which the majority may not be Board members. In addition, the Nominating Committee can decide to include the Chairman of the Board and other Board members. According to the Code, a majority of the members of the Nominating Committee are to be independent of the company and management. At least one member must be independent of the company's largest shareholders in terms of votes or the group of shareholders that jointly administer the company. The Chairman of the Nominating Committee may not be the Chairman of the Board or a Board member.

Ahead of the 2013 Annual General Meeting

In accordance with a resolution passed by the Annual General Meeting, the Chairman of the Board contacted representatives of the company's largest shareholders at the end of the third quarter and requested that they each appoint one member of the Nominating Committee. The composition of the Nominating Committee was communicated by a press release and on Alfa Laval's website on October 15, 2012.

The following individuals are members of the Nominating Committee:
Jörn Rausing (appointed by Tetra Laval,) Bo Selling (appointed by Alecta), Claes Dahlbäck (appointed by Foundation Asset Management), Jan Andersson (appointed by Swedbank Robur Fonder) and Lars-Åke Bokenberger (appointed by AMF Pension).

The holdings of the Nominating Committee represented 44.89 percent of the number of shares outstanding at September 30, 2012. The Chairman of the Board Anders Narvinger was elected a member and secretary and Jörn Rausing was elected Chairman of the Nominating Committee. The position of the latter as Board member is a direct deviation from the Code and is explained as Jörn Rausing was viewed as particularly well-suited to lead the work of the committee in an effective manner and obtain the best possible results for the company's owners.

Work of the Nominating Committee ahead of the 2013 Annual General Meeting

The Nominating Committee had three meetings, which continued for an average of two hours. The focus of these meetings included discussions and evaluation relating to the composition of the Board and the type of competence that is necessary and may be required in the future on the basis of the company's strategy.

BOARD OF DIRECTORS

The Board's work and responsibilities

The Board bears the ultimate responsibility for the organization and administration of the company. Its work and responsibilities are governed by the Swedish Companies Act, the Swedish Board Representation (Private Sector Employees) Act, the Articles of Association, the Board's own formal work plan, NASDAQ's Rule Book for Issuers and the Swedish Corporate Governance Code.

The Board prepares and evaluates Alfa Laval's overall long-term objectives and strategies. This includes establishing business and financial plans, checking and approving financial statements, adopting guidelines, making decisions on issues relating to acquisitions and divestments, and deciding on major investments and

COMPOSITION OF THE NOMINATING COMMITTEE FOR THE 2013 ANNUAL GENERAL MEETING

Name	Representing	Shareholding in Alfa Laval, %*
Jörn Rausing	Tetra Laval	26.10
Bo Selling	Alecta	6.98
Claes Dahlbäck	Foundation Asset Management	5.98
Jan Andersson	Swedbank Robur Funds	3.22
Lars-Åke Bokenberger	AMF Pension	2.61

* As of September 30, 2012

PROPOSALS TO THE NOMINATING COMMITTEE

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

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

significant changes in Alfa Laval's organization and operations. The Board (through its Audit Committee) procures auditing services and maintains ongoing contact with the company's auditors. In addition, the Board works to ensure that the company has a sound internal control function and formalized procedures. The Board also appoints the President and defines the instructions that the President must follow. Through the Remuneration Committee, the Board determines salaries and remuneration to the President and members of the executive management.

The composition of the Board of Directors

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

Independence of Board members

All members of the Alfa Laval Board elected by the Annual General Meeting are considered independent of the company, except Lars Renström, who is President and CEO of the company. All members are also considered independent of the company's major shareholders, except Finn Rausing and Jörn Rausing, who cannot be considered independent due to their relation to Tetra Laval, which, on December 31, 2012, owned 26.1 percent of the shares in the company.

The Board's formal work plan

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

The Board's work in 2012

In 2012, 11 Board meetings were held, of which eight were scheduled and lasted an average of approximately three hours. Four meetings were held by phone and the other meetings were held in Lund, Stockholm and Söborg (Denmark). The normal agenda items for Board meetings include earnings results, order trends, investments and acquisitions. The company's President prepares an agenda for each meeting in consultation with the Chairman of the Board. Board members who wish to discuss a particular matter must inform the Chairman of the Board well in advance, so that the requisite material on which to base decisions can be prepared. Notices of meetings, including the meeting agenda and the requisite information or documentation on which to base decisions, must reach the Board members not later than one week prior to the date of the meeting. Board decisions are made based on open discussions led by the Chairman.

Board training

All new Board members receive an extensive induction program. In addition, each year, a combined training course and field trip is made to one of Alfa Laval's facilities. In 2012, the trip went to Alfa Laval's facility in Söborg, Denmark.

Evaluation of the Board's work

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

Chairman of the Board and the responsibilities of the Chairman

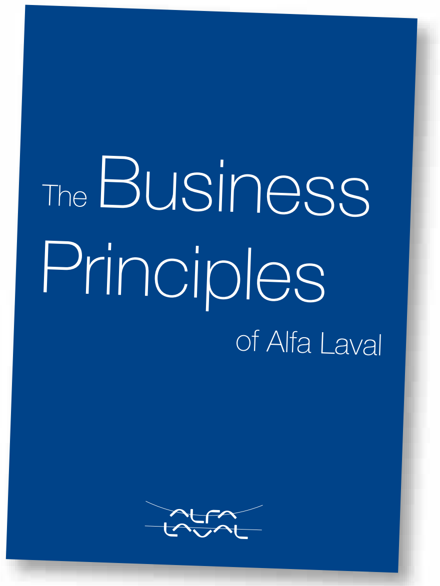
The Chairman of the Board directs the work of the Board in a manner that ensures it complies with the Swedish Companies Act, the Articles of Association, the formal work plan of the Board and the Code. In addition, the Chairman

REMUNERATION OF BOARD MEMBERS AND ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

		Board		Remuneration Committee		Audit Committee	
	Name	Present	Remuneration	Present	Remuneration	Present	Remuneration
Appointed by the Annual General Meeting	Anders Narvinger	● 11	1 150 000	● 3	50 000		
	Gunilla Berg	10	450 000			5	75 000
	Arne Frank	10	450 000				
	Björn Hägglund	8	450 000	3	50 000		
	Ulla Litzén	10	450 000			5	75 000
	Finn Rausing	11	450 000			● 5	125 000
	Jörn Rausing	10	450 000	3	50 000		
	Lars Renström	11					
	Total		**3 850 000**		**150 000**		**275 000**
Employee representatives	Arne Kastö*	6					
	Jan Nilsson	11					
	Susanna Norrby	10					
	Bror Garcia Lantz**	4					
	Number of meetings	**11**		**3**		**5**	

* Stepped down on May 31 ● Chairman

**Joined on June 26



Alfa Laval's business principles were published in 2003. Since which time, both the UN and OECD have published and revised guidelines pertaining to human rights and business principles for multinational companies. Against this background, in 2012, Alfa Laval reviewed its business principles and carried out a consultation process with union representatives, shareholders, management and sustainability analysts. The new business principles were adopted by the Board and are available at www.alfalaval.com.

must ensure that the work is well organized and is conducted efficiently, so that the Board fulfills its tasks. In dialog with the company's President, the Chairman monitors operational developments and is responsible for ensuring that the other members receive, on an ongoing basis, information necessary for Board work to be performed in the most effective manner. The Chairman is responsible for evaluating the Board's work, participates in evaluation and development matters with respect to the Group's senior executives and ensures that the Board's decisions are executed. The Chairman represents the company in ownership issues.

Remuneration to the Board

Remuneration to the Board members 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, except Lars Renström, who is President and CEO.

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 drawn from Board members for a period of one year.

Audit Committee

Areas of responsibility

The Audit Committee is tasked with ensuring compliance with the principles for financial reporting and internal control among other items. The Committee formulates guidelines for the company's financial reporting and follow-up, and has the right to determine the focus of the internal audit. The Committee also examines the procedures for reporting and financial controls, the work of the external auditors, their qualifications and independence. For additional information on the tasks of the Audit Committee, see "the Board of Directors' report on internal control" on page 138.

Members and meetings in 2012

Members are appointed annually at the Board's statutory meeting. In 2012, the Committee comprised Finn Rausing (Chairman), Gunilla Berg and Ulla Litzén. Alfa Laval's Chief Legal Counsel, Mikael Wahlgren, served as the Committee's secretary. In 2012, five meetings were held, of which two by phone, and lasted an average of approximately two hours. The company's Chief Financial Officer, the Head of the Internal Audit Function and the company's auditors were also present at the meetings. During the year, the following items were dealt with at the Committee meetings: review of the procedures for corporate governance, review and follow up of the results of the annual feedback from, at present, about 288 managers regarding controls (see page 139), updates of developments in IFRS, amendments to the Code as well as the review of Group provisions and allocations.

Remuneration Committee

Areas of responsibility

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

Members and meetings in 2012

The Remuneration Committee is appointed annually at the Board's statutory meeting. In 2012, the Committee comprised Anders Narvinger (Chairman), Jörn Rausing and Björn Hägglund. The Remuneration Committee held three meetings, at which all members were in attendance. A number of phone meetings were also held to address ongoing issues. Minutes are taken at all meetings and the contents are distributed to the Board members. Items dealt with at the Committee meetings included conditions of employment for senior executives, along with remuneration terms, and proposals for conditions for the Group's incentive program.

THE COMPANY'S AUDITORS

The auditors comprise a supervisory body appointed by the Annual General Meeting. Their assignment includes the examination of the accounting and financial statements of individual companies, evaluation of the accounting policies applied, assessment of the administration of the company management, the review of interim reports for the third quarter and evaluation of the overall presentation in the Annual Report. The result of the audit – the Audit Report – is communicated to shareholders in the Annual Report and at the Annual General Meeting. Additionally, the auditors present a statement regarding the discharge of 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 number of auditors must be a minimum of one and maximum of two, with not more than two deputies. An authorized public accountant or registered auditing firm is appointed as the company's auditor and, where applicable, as deputy auditor.

At the Annual General Meeting on April 23, 2012, the following were elected or reelected respectively as the company's auditors, Authorized Public Accountants Staffan Landén and Håkan Olsson Reising. In addition, the auditors Johan Thuresson and Karoline Tedevall were appointed the company's 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 relation to the company. All of the auditors also possess the requisite competence to be able to execute their assignment. In 2012, the entire Board received reports from the company's external auditors on three occasions. On one occasion, this was conducted without the presence of the President or other members of Group management. The Board's Audit Committee received separate reports from the company's external auditors on five occasions.

REMUNERATION TO AUDITORS

(see Note 7, on page 99)

Board of Directors and Auditors

Elected by the Annual General Meeting

Anders Narvinger
Chairman since 2003.

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

Gunilla Berg
Board member since 2004.

Born: 1960.
Executive Vice President and CFO of the Teracom Group. Former positions include Executive Vice President and CFO of the SAS Group and Executive Vice President and CFO of the KF Group.
Education: BSc. Econ from the Stockholm School of Economics.
Board member of L E Lundbergföretagen AB and Vattenfall AB.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 3,400* (1,000**).

Björn Hägglund
Board member since 2005.

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

Finn Rausing
Board member since 2000.

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

Jörn Rausing
Board member since 2000.

Born: 1960.
Head of Mergers and Acquisitions (M&A) in the Tetra Laval Group.
Education: BSc. Econ.
Board member of the Tetra Laval Group, Ocado Ltd. and De Laval Holding AB.
Independent of company.

Ulla Litzén
Board member since 2006.

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

Lars Renström
Board member since 2005.

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

Arne Frank
Board member since 2010.

Born: 1958
President and CEO of AarhusKarlshamn AB.
Education: BSc. Eng in industrial economics from Linköping Institute of Technology.
Chairman of the Board of Contex Holding A/S
Independent of the company and major shareholders.
Number of shares in Alfa Laval: 16,000* (8,000**).

* Holdings as of December 31, 2012.
** Holdings as of December 31, 2011.

Employee representatives

Jan Nilsson
Employee representative since 2000.

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

Susanna Norrby
Employee representative since 2003.

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

Arne Kastö*
Employee representative since 2000.

Born: 1948.
Employed by Alfa Laval since 1980.
Employee representative for the Swedish Union of Clerical and Technical Employees in Industry (Unionen).

* Stepped down on May 31.

Bror Garcia Lantz*
Employee representative since 2012.

Born: 1965.
Employed by Alfa Laval since 1990.
Employee representative for the Swedish Union of Clerical and Technical Employees in Industry (Unionen).

* Joined on June 26.

Deputy employee representatives

Henrik Nielsen
Deputy member since 2008.

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

Leif Norkvist
Deputy member since 2009.

Born: 1961.
Employed by Alfa Laval since 1993.
Deputy employee representative for the Swedish Metal Workers' Union (IF Metall).

Stefan Sandell
Deputy member since 2005.

Born: 1971.
Employed by Alfa Laval since 1989.
Deputy employee representative for the Swedish Organization for Managers (Ledarna).

Auditors

Staffan Landén
Authorized Public Accountant, Ernst & Young AB, Gothenburg.

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

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

Born: 1961.
Deputy auditor at Alfa Laval from 2000–2011. Elected auditor at 2012 Annual General Meeting. Håkan Olsson Reising has extensive experience in auditing exchange-listed and internationally active companies. Among other assignments, he is auditor for Hexpol AB, Höganäs-Bjuf AB, Fiat Automobiles Sweden AB and Pilkington Sverige AB.

Deputy auditors

Johan Thuresson
Authorized Public Accountant, Ernst & Young AB, Malmö.

Born: 1964
Deputy auditor for Alfa Laval since 2012.

Karoline Tedevall
Approved Public Accountant, Ernst & Young AB, Helsingborg

Born: 1978
Deputy auditor for Alfa Laval since 2012.

* Holdings as of December 31, 2012.
** Holdings as of December 31, 2011.

President and Group management

Lars Renström
President and CEO.

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

Thomas Thuresson
Chief Financial Officer.

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

Göran Mathiasson
President, Operations Division.

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

Svante Karlsson
President, Process Technology Division.

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

Susanne Pahlén Åklundh
President, Equipment Division.

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

Peter Leifland
President of the Marine & Diesel Division.

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

AREAS OF RESPONSIBILITY
The President directs the daily operations and is responsible for ensuring that the Board receives information and the necessary supporting documentation for its decision-making purposes. The President is also responsible for ensuring that the company's accounting complies with applicable laws and provisions. In support of sound corporate governance and to ensure that the company's actions follow the requisite ethical guidelines, Alfa Laval has a number of Business Principles. These affect how the company and its employees act with respect to the Group's environmental impact, social responsibility, business ethics and transparency. The principles are described in full on Alfa Laval's website, www.alfalaval.com.

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

GROUP MANAGEMENT MEETINGS IN 2012
The Group management held six meetings in 2012, during which minutes were taken. In addition, quarterly reviews are held of all business developments in the company's divisions and geographic regions, which address such items as the business climate, earnings, earnings projections for the next 12 months and other specific issues affecting the respective business areas. In addition,

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

Born: 1950.
Employed by Alfa Laval since 1977.
Regional manager since September 1, 2004. Prior to this, he was President of Alfa Laval Inc. in Canada and held executive positions in Alfa Laval in Sweden, Spain and Brazil.
Education: BSc. Eng.
Number of shares in Alfa Laval: 16,500* (24,000**).

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

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

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

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

Peter Torstensson
Senior Vice President, Corporate Communications.

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

Peter Bailliere
Senior Vice President, Human Resources.

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

Events after the end of the period:
Lars Henriksson retired on January 1, 2013. From that date, Joakim Vilson took up the position as Executive Vice President in charge of the Central and Eastern Europe, Latin America, Middle East and Africa Region.

separate strategy meetings were held that addressed the following areas: the management's proposals concerning future direction with regard to organic growth and growth through acquisition. The review focused on risks and opportunities in individual segments, application areas and geographic regions, in addition, it contained a review of the consequences of the above on the company's supply chain. Furthermore, a review was performed of the direction for acquisitions with regard to product, technology, channel and location.

REMUNERATION OF SENIOR EXECUTIVES, PENSIONS AND SEVERANCE PAY/TERMINATION OF EMPLOYMENT

The remuneration principles for the President and other members of Group management are determined by the Annual General Meeting. For additional information, see pages 97 and 98.

* Holdings as of December 31, 2012.
** Holdings as of December 31, 2011.

Board of Directors' report on internal control

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

CONTROL ENVIRONMENT

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

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

The Board has overriding responsibility for financial reporting and, accordingly, must assess the performance and earnings of the operations through a package of reports including results, forecasts and analyses of key indicators. The Board also reviews the company's interim reports and year-end report.

The Board's Audit Committee is tasked with ensuring compliance with the principles for financial reporting and internal control. It follows up the effectiveness of the internal control system, evaluates and discusses significant issues in the areas of accounting and financial reporting, as well as reviews the financial procedures to ensure that the financial information can be traced back to underlying financial systems and that it is in line with legislation and the relevant standards. It also examines procedures for reporting and financial controls as well as processes the company's financial reports.

The Committee monitors, evaluates and discusses significant issues in the areas of accounting and financial reporting. It evaluates and manages information pertaining to disputes and potential improprieties as well as assists the management with identifying and evaluating the primary risks that are relevant for operations to ensure that the management focuses work to manage these risks.

The Audit Committee has the right to determine the focus of the internal audit and also examines the procedures for reporting and financial controls, the work of the external auditors, their qualifications and independence. Reports are provided to the Board on these internal committee meetings and meetings with the internal auditors, the external auditors and various specialists in the Group management and its support functions.

The President is subject to instructions issued by the Board and is responsible for ensuring the existence of an efficient control environment. The President is also responsible for regular work on the internal control and that the company's accounting complies with legislation and that the management of assets is adequately performed. **Group management** is responsible for managing and maintaining the internal control systems required to manage significant risks in the company's operating activities. Management is also responsible for clearly ensuring that all employees understand the requirements for, and the individual's role in, maintaining sound internal control.

The internal auditors report to the CFO and comprise the function that reviews and implements improvements to the internal control function, reports these results to the Audit Committee and proposes plans for the coming six to eight months. The internal auditors also issue reports from individual audits to the members of Group management concerned. Procedures are in place for performing regular reviews of the agreed actions to ensure that specific actions are taken following the internal audit. These are based on a schedule agreed on with the party responsible for the individual activities. The internal audit function comprises two internal auditors, supplemented by internal specialist resources and auditors from the auditing company KPMG. In 2012, 31 internal audits were performed. These encompassed a broad spectrum of functions and areas of inquiry. The scope was determined by the Board and involved examining such aspects as:

- Compliance with the systems, guidelines, policies and processes established for the Group's business operations.
- The existence of systems to ensure that financial transactions are carried out, archived and reported in an accurate and lawful manner.
- Opportunities to improve management control, the company's profitability and the organization, which may be identified during audits.

RISK ASSESSMENT

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

CONTROL STRUCTURES

The control structures are designed to manage those risks that the Board and management consider to be significant to the business operations, internal control and financial reporting. The control structures comprise (i) an organization with clearly defined roles that enable an effective, and from an internal control perspective, appropriate division of responsibility, and (ii) specific control activities that enable the identification and timely prevention of risks becoming reality. Examples of control activities include clearly defined decision-making processes and the policy for decision-making in relation to, for example, investments, agreements, acquisitions and divestments, earnings analyses and other forms of analytical reviews, reconciliations, inventory-taking and automatic controls in the IT systems.

INFORMATION AND COMMUNICATION

The company's regulations, guidelines and manuals are communicated through several internal channels to ensure sound control. The effectiveness of this communication is monitored continuously to ensure that the information is sufficiently accessible. There are also formal and informal information channels that enable employees to communicate important information to relevant recipients and ultimately, if necessary, to the Board of Directors. For communication with external parties, a clearly defined policy has been formulated. The aim is to ensure that all obligations with regard to information are met in a correct and complete manner.

FOLLOW-UP

The internal control process is mainly followed up by two entities: the Audit Committee and the internal audit function. The Audit Committee establishes the principles that apply for the company with respect to accounting and financial reporting, and monitors compliance with these regulations. The Audit Committee also meets with the external auditors to secure information about the focus and scope of the audit and to discuss results and coordination of the external and internal audits. The Audit Committee establishes the direction, extent and time schedules for the internal audit team's work. The internal audit team reports the results of its audits to the Audit Committee and continuously to Group management so that any necessary measures may be taken. The scope of the internal audit includes operational efficiency, compliance with regulations and guidelines, and the quality of financial reporting from the subsidiaries.

An annual feedback function is also in place, which is geared toward the company's senior executives. This feedback function is designed to ensure that Alfa Laval's internal instructions and rules are fully implemented. All managers who report directly to Group management are expected to review the guidelines and rules that apply to their respective areas. They must sign and submit a document confirming their understanding of the significance of these guidelines and compliance with these guidelines in their area of responsibility. If there are any deviations compared with the instructions, they must specify what actions they intend to take to ensure compliance. This process also aims to increase transparency and thus facilitate assessments by external and internal auditors.

Lund, March 2013
The Board of Directors

Auditor's report on the Corporate Governance Statement

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

ENGAGEMENT AND RESPONSIBILITY

We have audited the corporate governance statement for the year 2012 on pages 129–139. It is the board of directors who is responsible for the corporate governance statement and that it has been prepared in accordance with the Annual Accounts Act. Our responsibility is to express an opinion on the corporate governance statement based on our audit.

THE SCOPE OF THE AUDIT

We conducted our audit in accordance with Fars auditing standard RevU 16, The auditor's examination of the corporate governance statement. That standard require that we have planned and performed the audit to obtain reasonable assurance that the corporate governance statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the information included in the corporate governance statement. We believe that our audit procedures provide a reasonable basis for our opinion set out below.

OPINION

In our opinion, the corporate governance statement has been prepared and is consistent with the annual accounts and the consolidated accounts.

Lund, March 4, 2013

Staffan Landén
Authorized Public Accountant

Håkan Olsson Reising
Authorized Public Accountant

Ten-year overview

TEN-YEAR OVERVIEW

Consolidated SEK millions, unless otherwise stated	2012	2011	2010	2009	2008	2007	2006	2005	2004 *	2003 **
Profit and loss										
Net sales	29,813	28,652	24,720	26,039	27,850	24,849	19,802	16,330	14,986	13,909
Comparison distortion items	-51	-170	90	-225	-168	54	-120	-73	37	6
Operating income	4,372	4,691	4,401	4,030	5,736	4,691	2,552	1,377	1,438	1,138
Financial net	133	-15	-37	-270	-395	-134	-177	-278	-177	-321
Result after financial items	4,505	4,676	4,364	3,760	5,341	4,557	2,375	1,099	1,261	817
Non-controlling interests										-41
Taxes	-1,298	-1,425	-1,248	-1,023	-1,534	-1,377	-650	-171	-421	-130
Net income for the year	**3,207**	**3,251**	**3,116**	**2,737**	**3,807**	**3,180**	**1,725**	**928**	**840**	**646**
Financial position										
Goodwill	9,792	9,543	5,952	6,143	5,383	4,459	3,706	3,531	2,978	3,099
Other intangible assets	3,807	3,502	2,581	2,490	1,890	1,275	1,191	1,067	924	1,101
Property, plant and equipment	3,823	3,936	3,512	3,548	3,546	2,824	2,514	2,553	2,480	2,756
Financial long-term assets	1,600	1,664	1,568	1,542	1,376	1,128	784	676	601	671
Inventories	6,176	6,148	4,769	4,485	5,972	5,086	3,793	3,091	2,453	2,218
Current receivables	8,050	7,663	6,884	6,584	9,238	7,420	5,987	4,467	3,976	3,631
Current deposits	427	483	575	302	544	190	229	342	257	659
Cash and bank	1,404	1,564	1,328	1,112	1,083	856	546	479	415	555
TOTAL ASSETS	**35,079**	**34,503**	**27,169**	**26,206**	**29,032**	**23,238**	**18,750**	**16,206**	**14,084**	**14,690**
Equity	15,387	15,144	13,582	12,229	10,493	7,937	6,831	5,811	5,269	4,897
Non-controlling interests										104
Provisions for pensions etc.	829	852	847	920	990	877	941	903	789	755
Provisions for taxes	1,939	1,930	1,617	1,390	1,161	1,090	949	767	760	817
Other provisions	2,076	2,132	2,128	2,365	2,252	1,810	1,281	957	948	891
Non-current liabilities	5,608	5,060	1,041	1,626	3,394	3,068	2,006	2,702	2,307	3,492
Current liabilities	9,240	9,385	7,954	7,676	10,742	8,456	6,742	5,066	4,011	3,734
TOTAL EQUITY & LIABILITIES	**35,079**	**34,503**	**27,169**	**26,206**	**29,032**	**23,238**	**18,750**	**16,206**	**14,084**	**14,690**

* Restated to IFRS. ** 2003 in accordance with Swedish GAAP.

Changes in accounting standards

A reader of the ten-year overview should observe that accounting standards have changed repeatedly over this period of time.

All listed companies within the European Union were obliged to change to IFRS as of January 1, 2005. International Financial Reporting Standards (IFRS) are issued by the International Accounting Standards Board (IASB).

Alfa Laval was a first time applicant under IFRS 1 in 2005. IFRS 1 covered the transitional provisions for the implementation of IFRS. The adoption to IFRS was however already in place since Alfa Laval had implemented all relevant IAS standards since year 2000, except IAS 39 that was implemented as of January 1, 2005.

TEN-YEAR OVERVIEW

Koncernen SEK millions, unless otherwise stated	2012	2011	2010	2009	2008	2007	2006	2005	2004 *	2003 **
Key ratios										
Orders received	30,339	28,671	23,869	21,539	27,464	27,553	24,018	18,516	15,740	14,145
Order backlog at year end	14,468	13,736	11,552	11,906	14,310	14,730	12,359	7,497	4,763	4,021
EBITA	4,859	5,117	4,772	4,360	5,992	5,034	2,891	1,692	1,732	1,633
EBITDA	5,306	5,566	5,197	4,751	6,296	5,299	3,153	1,957	1,993	1,926
EBITA-margin %	16.3%	17.9%	19.3%	16.7%	21.5%	20.3%	14.6%	10.4%	11.6%	11.7%
EBITDA-margin %	17.8%	19.4%	21.0%	18.2%	22.6%	21.3%	15.9%	12.0%	13.3%	13.8%
Adjusted EBITA	4,910	5,287	4,682	4,585	6,160	4,980	3,010	1,765	1,695	1,627
Adjusted EBITDA	5,357	5,736	5,107	4,976	6,464	5,245	3,273	2,030	1,956	1,920
Adjusted EBITA-margin %	16.5%	18.5%	18.9%	17.6%	22.1%	20.0%	15.2%	10.8%	11.3%	11.7%
Adjusted EBITDA-margin %	18.0%	20.0%	20.7%	19.1%	23.2%	21.1%	16.5%	12.4%	13.1%	13.8%
Profit margin %	15.1%	16.3%	17.7%	14.4%	19.2%	18.3%	12.0%	6.7%	8.4%	5.9%
Excl. goodwill and step-up values:										
Capital turnover rate, times	5.7	6.3	5.6	5.2	5.6	6.4	6.3	5.5	5.3	5.0
Capital employed	5,233	4,560	4,399	5,052	4,973	3,863	3,137	2,958	2,822	2,807
Return on capital employed %	92.9%	112.2%	108.5%	86.3%	120.5%	130.3%	92.2%	57.2%	61.4%	58.2%
Incl. goodwill and step-up values:										
Capital turnover rate, times	1.6	1.8	1.9	2.0	2.5	2.7	2.5	2.2	2.0	1.8
Capital employed	18,636	16,324	12,752	12,976	11,144	9,289	8,062	7,470	7,317	7,667
Return on capital employed %	26.1%	31.3%	37.4%	33.6%	53.8%	54.2%	35.9%	22.7%	23.7%	21.3%
Return on equity %	21.6%	22.9%	24.4%	24.5%	42.8%	44.1%	25.3%	16.0%	15.9%	13.2%
Solidity %	43.9%	43.9%	50.0%	46.7%	36.1%	34.2%	36.4%	35.9%	37.4%	33.3%
Net debt	4,270	3,264	-551	533	2,074	2,397	1,478	2,013	1,884	2,401
Net debt to EBITDA, times	0.8	0.6	-0.1	0.1	0.3	0.5	0.5	1.0	0.9	1.2
Debt ratio, times	0.28	0.22	-0.04	0.04	0.20	0.30	0.22	0.35	0.36	0.49
Interest coverage ratio, times	23.1	28.6	35.9	15.2	26.2	23.7	14.4	6.9	7.4	5.0
Cash flow from:										
operating activities	3,586	3,429	4,098	5,347	4,062	3,264	2,619	1,617	1,203	1,654
investing activities	-3,260	-5,497	-1,417	-2,620	-1,333	-1,676	-1,578	-665	36	-457
financing activities	-407	2,317	-2,431	-2,667	-2,599	-1,291	-935	-973	-1,353	-1,167
Investments	531	555	429	451	747	556	373	324	388	259
Average number of employees	16,060	14,667	12,078	11,773	11,821	10,804	9,923	9,524	9,400	9,194
Earnings per share, SEK ***	7.61	7.68	7.34	6.42	8.83	7.12	3.78	1.98	1.78	1.45
Free cash flow per share, SEK ***	0.78	-4.93	6.38	6.46	6.38	3.60	2.33	2.13	2.78	2.68

* Restated to IFRS. ** 2003 in accordance with Swedish GAAP. *** The figures for 2008 until 2003 have been recalculated due do the 4:1 split.

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Photo: Kennet Ruona, Shutterstock, Ingemar Lindewall /Johnér
Prepress and printing: JMS Mediasystem

Definitions

Net sales
Revenues from goods sold and services performed that are part of the ordinary operations of the Group, after deduction for given discounts, value added tax and other tax directly linked to the sales.

Comparison distortion items
Items that do not have any link to the normal operations of the Group or that are of a non-recurring nature, where a reporting together with other items in the consolidated comprehensive income statement would have given a comparison distortion effect that would have made it difficult to judge the development of the ordinary operations for an outside viewer.

Orders received
Incoming orders during the year, calculated in the same way as net sales. The orders received give an indication of the current demand for the Group's products and services, that with a varying delay appear in net sales.

Order backlog at year-end
Incoming orders that not yet have been invoiced. The order backlog at the end of the year is equal to the sum of the order backlog at the beginning of the year plus the orders received during the year less the net sales for the year. It gives an indication of how the net sales can be expected to develop in the future.

EBITA
"Earnings Before Interest, Taxes and Amortisation" or operating income before amortisation of step-up values. This measure of result is fully comparable over time independent of the financing costs and the amortisation of step-up values that from time to time burden the Group.

EBITDA
"Earnings Before Interest, Taxes, Depreciation and Amortisation" or operating income before depreciation and amortisation of step-up values. This measure of result is fully comparable over time independent of the financing costs and the depreciation and amortisation of step-up values that from time to time burden the Group.

EBITA-margin %
Operating income before amortisation of step-up values (EBITA) in relation to net sales, expressed in percent.

EBITDA-margin %
Operating income before depreciation and amortisation of step-up values (EBITDA) in relation to net sales, expressed in percent.

Adjusted EBITA
Same as EBITA, but adjusted for comparison distortion items.

Adjusted EBITDA
Same as EBITDA, but adjusted for comparison distortion items.

Adjusted EBITA-margin %
Same as EBITA-margin, but adjusted for comparison distortion items.

Adjusted EBITDA-margin %
Same as EBITDA-margin, but adjusted for comparison distortion items.

Profit margin %
Result after financial items in relation to net sales, expressed in percent.

Capital turnover rate, times
Net sales in relation to average capital employed, expressed as a multiple of capital employed. Shown excluding and including goodwill, step-up values and the corresponding deferred tax liability.

Capital employed
Average total assets less liquid funds, other long-term securities, accrued interest income, operating liabilities and other non-interest bearing liabilities, including tax and deferred tax, but excluding accrued interest costs. Shown excluding and including goodwill and step-up values and the corresponding deferred tax liability. Shows the capital that is used in the operations. The capital employed for the Group differs from the net capital for the segments concerning taxes, deferred taxes and pensions.

Return on capital employed %
EBITA in relation to average capital employed, expressed in percent. Shown excluding and including goodwill and step-up values and the corresponding deferred tax liability.

Return on equity %
Net income for the year in relation to average equity, expressed in percent.

Solidity %
Equity in relation to total assets, expressed in percent.

Net debt
Interest-bearing liabilities including interest-bearing pension liabilities and capitalised finance leases less liquid funds.

Net debt to EBITDA, times
Net debt in relation to EBITDA is one of the covenants of Alfa Laval's syndicated loan and an important key figure when reviewing the proposed dividend.

Debt ratio, times
Net debt in relation to equity, expressed as a multiple of the equity.

Interest coverage ratio, times
EBITDA plus financial net increased by interest costs in relation to interest costs. Expressed as a multiple of interest costs. Gives an expression for the Group's ability to pay interest. The reason EBITDA is used as the starting point is that this forms the starting point for a cash flow perspective on the ability to pay interest. Financial items classified as comparison distorting are excluded from the calculation.

Cash flow from operating activities
Shows the Group's cash flow from operating activities, that is the cash flow generated in the daily operational activities.

Cash flow from investing activities
Shows the Group's cash flow from investing activities, i.e. the cash flow generated by mainly the Group's divestments and acquisitions of businesses and divestments of real estate.

Cash flow from financing activities
Shows the Group's cash flow from financing activities, that is mainly the cash flow impact of the Group's loans in terms of interest payments and amortisation.

Investments
Investments represent an important component in the cash flow for the Group. The level of investments during a couple of years gives a picture of the capacity build up in the Group.

Average number of employees
The costs that are related to the number of employees represent a large part of the total costs for the Group. The development of the average number of employees over time in relation to the development of the net sales therefore gives an indication of the cost rationalisation that is taking place.

Earnings per share
Net income for the year attributable to the equity holders of the parent divided by the average number of shares.

Free cash flow per share
The sum of cash flows from operating and investing activities for the year divided by the average number of shares. This represents the cash flow available for interest payments, amortisation and dividends to investors.

Financial information

Alfa Laval uses a number of channels to provide information about the company's operations and financial development. The website – www.alfalaval.com/investors – is updated continuously with annual reports, quarterly reports, press releases and presentations. Annual reports are also sent to those shareholders who have notified the company that they wish to receive a copy.

Press conferences, analyst meetings and/or conference calls are arranged by Alfa Laval in conjunction with the publication of the company's quarterly reports and 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 these parties have correct and current information. Pursuant to the company's agreement with NASDAQ OMX Stockholm, information that could have an effect on the share price and that is not yet publicly known is never disclosed in conjunction with these types of meetings or contacts. Alfa Laval employs a so-called silent period of three weeks prior to 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 2013

Alfa Laval will publish quarterly reports on the following dates in 2013:

Year-end report 2012	February 5
First-quarter report	April 23
Second-quarter report	July 18
Third-quarter report	October 29

Shareholder information

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Annual General Meeting 2013

The Annual General Meeting of Alfa Laval AB (publ) will be held on Tuesday, April 23, 2013 at 4:00 p.m. at Färs & Frosta Sparbank Arena, Klostergården's sports area, Stattenavägen, in Lund. Light refreshments will be served after the Meeting. In accordance with the company's Articles of Association, notice of the Annual General Meeting will be inserted as an announcement in the Swedish Official Gazette and on the company's website not more than six and not less than four weeks prior to the Meeting. An announcement that notification has been issued will be placed in Dagens Nyheter. As a service to existing shareholders, information about the Annual General Meeting will be sent to them by mail. The following information concerning the Meeting does not constitute legal notice.

Notification of participation

Shareholders who wish to participate in the Meeting and be entitled to vote must be entered in the share register maintained by Euroclear AB not later than Wednesday, April 17, 2013, and register their intention to participate, along with any assistants, not later than Wednesday, April 17, 2013 at 12:00 noon. Shareholders whose shares are held in trust must temporarily re-register their shares in their own names not later than April 17. Shareholders must request such registration a few working days prior to the deadline.

Notification of participation shall be made to:

– Alfa Laval AB, Group Staff Legal, Box 73, SE-221 00 Lund, Sweden
– E-mail: arsstamma.lund@alfalaval.com
– Fax: +46 (0)46 36 71 87
– Website: www.alfalaval.com
– Telephone: +46 (0)46 36 74 00 or +46 (0)46 36 65 00.

Shareholders must state their name, personal ID number and telephone number on the notice of participation. If participation is by proxy, a power of attorney or authorization must be submitted to the company prior to the Meeting.

Meeting program

1:30 p.m.	Bus departs from Färs & Frosta Sparbank Arena for Alfa Laval's production unit for heat exchangers in Lund
3:30 p.m.	Registration starts
4:00 p.m.	Start of Meeting

Tour of production facility in Lund

Prior to the Annual General Meeting, participants will have an opportunity to view the production of plate heat exchangers at the plant in Lund. The tour will begin with assembly at Färs & Frosta Sparbank Arena, Klostergården's sports area, Stattenavägen in Lund not later than 1:30 p.m. Buses will be provided for transportation to the plant and back to the Meeting venue. Registration for the tour must be made in conjunction with registration for participation in the Annual General Meeting. Please note that the number of participants is limited.

Dividend

The Board of Directors and the President propose to the Annual General Meeting that a dividend of SEK 3.50 per share be paid. The proposed record date for this dividend is Friday, April 26, 2013. If the Meeting approves the proposal, the dividend is expected to be distributed on Thursday, May 2, 2013. However, the record date and dividend payment date may be postponed due to the technical procedures required for executing the payment.

Alfa Laval in brief

Alfa Laval is a leading global provider of specialized products and engineered solutions.

The company's equipment, systems and services are dedicated to helping customers optimize the performance of their processes. Time and time again.

Alfa Laval helps customers to heat, cool, separate and transport products such as oil, water, chemicals, beverages, foodstuffs, starch and pharmaceuticals.

Alfa Laval's worldwide organization works closely with customers in 100 countries to help optimize their processes.

More information on the Internet

Alfa Laval's website is continuously updated with new information, including contact details for all countries.

Read more at www.alfalaval.com and www.alfalaval.com/investors

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