

# 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 shareholders, including owners, proxies, assistants,

## ALFA LAVAL – THE COMPANY

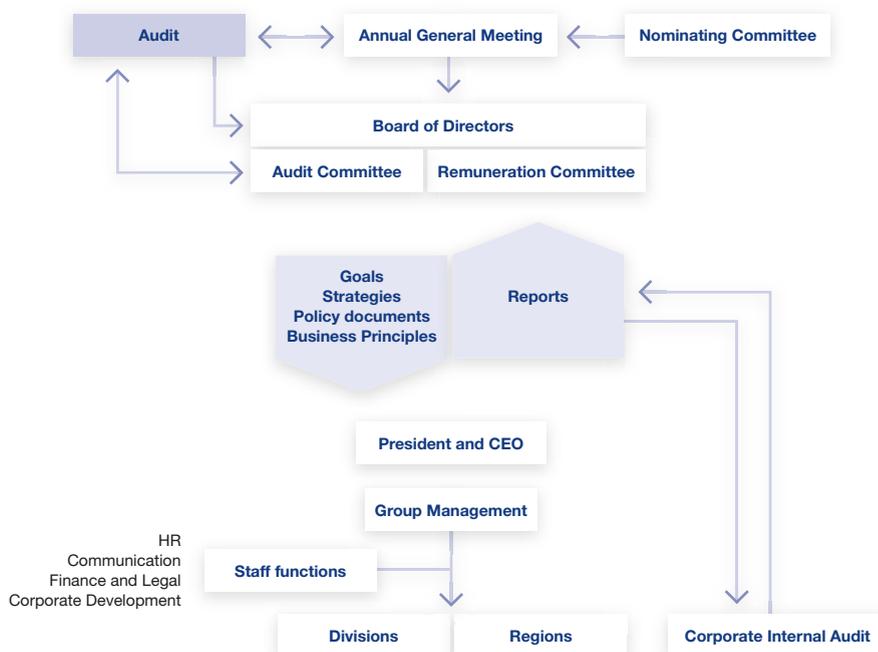
The registered name of the company is Alfa Laval AB (publ) and the registered office of the Board of Directors shall be in Lund Municipality in Sweden. The company's share capital shall amount to not less than SEK 745,000,000 and not more than SEK 2,980,000,000. The number of shares shall be not less 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](http://www.alfalaval.com).

## MORE INFORMATION



Alfa Laval's corporate governance report and business principles are published on [www.alfalaval.com](http://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 Tedeval 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](mailto: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 consid-

ered 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

Name	Board		Remuneration Committee		Audit Committee	
	Present	Remuneration	Present	Remuneration	Present	Remuneration
Appointed by the Annual General Meeting	● 11	1 150 000	● 3	50 000		
Anders Narvinger						
Gunilla Berg	10	450 000			5	75 000
Arne Frank	10	450 000				
Björn Häggglund	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					
<b>Total</b>		<b>3 850 000</b>		<b>150 000</b>		<b>275 000</b>
Employee representatives						
Arne Kastö*	6					
Jan Nilsson	11					
Susanna Norrby	10					
Bror Garcia Lantz**	4					
<b>Number of meetings</b>	<b>11</b>		<b>3</b>		<b>5</b>	

\* Stepped down on May 31

● Chairman

\*\* Joined on June 26

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

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](http://www.alfalaval.com).

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

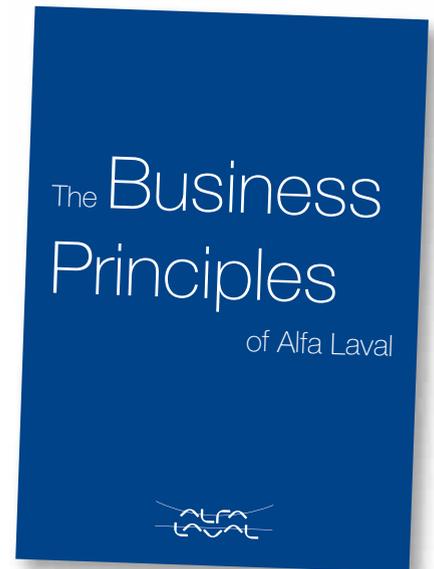
The Remuneration Committee acts in conjunction with recruitment and appointments, and is involved when other conditions of employment relating to the President or members of Group Management require discussion. The Committee's assignment is to prepare the guidelines for remuneration to senior executives 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 TeliaSonera 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](http://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 Wilson 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*