

Annual General Meeting 2012

Ladies and gentlemen, shareholders and co-workers.

2011 was a year of change

The year 2011 started on a strong note with demand growing as the recovery of the global economy gathered further momentum. A record high order intake of SEK 8.0 billion was reported in the third quarter, compared with a previous top figure of SEK 7.4 billion in 2008. The increasing macroeconomic uncertainty that characterized both Europe and the US during the summer, however, began to have an impact in the autumn, causing certain customers to adopt a cautious attitude toward new investments. This trend began to impact Sanitary and OEM – Alfa Laval's fastest - moving businesses - during the third quarter and spread to other segments in the fourth. This resulted in adjustments to capacity and the rate of production in certain operations.

All regions displayed strong full-year growth, with Asia, Latin America and Eastern Europe reporting the strongest trends. These regions jointly accounted for 50 percent of Alfa Laval's order intake. U.S, China and the Nordic area were still at the top of the list of our largest markets. At the same time, South Korea advanced to become the Group's fourth largest market, thanks to the world-leading position of the Korean shipbuilding industry and the success of Korean contracting companies. We believe in a continued good development for the world's fast-growing regions. That is why we, in 2011, at an unabated pace continued to boost our presence in the BRIC countries.

Despite an initial decline, 2011 turned out a very good year, with order intake totaling SEK 28.7 billion, up 20 percent compared with 2010. Revenues rose quickly and amounted to SEK 28.6 billion, up 16 percent. The operating income increased significantly in absolute terms and the operating margin was 18.5 percent.

Multi-brand strategy

Over the course of several years, we have acquired various competitors in areas where we hold a leading position. These companies continue to be operated as separate organizations and offer their own products and services under proprietary brands. This enables us to provide the market with alternative offerings through separate market channels. In the past five years, these alternative competing brands have grown from accounting for 1 percent of Group sales to 12 percent. In the long term, this area of the operations is expected to account for approximately 10 percent.

Stronger aftermarket position

The aftermarket business is another key component of Alfa Laval's operations. It has good profitability and is less sensitive to economic trends. The Group currently has a well-established network comprising some 100 service centers worldwide. This number has grown by 50 percent in the past five years through both organic expansion and acquisitions. The aftermarket will remain a high-priority area in the future.

Revised growth target

In light of the long-term conditions and potential we see in our environment, we raised our growth target to an average annual growth rate of at least 8 percent over a business cycle, with acquisitions accounting for 3–4 percentage points. However, organic growth remains the base of Alfa Laval's strategy, supported by technology shifts that are beneficial for the company. To this should be added global structural changes that contribute to increasing demand for Alfa Laval's products.

Major acquisitions carried out during the year

Acquisitions are a key feature of creating value at Alfa Laval and a fast and efficient method of building new positions in the market. The year was successful, with acquisitions adding a total of 12 percent to annual sales, corresponding to an annualized amount of SEK 3.4 billion. The most significant acquisition was Aalborg Industries, which added an annualized SEK 3.2 billion in 2011. The acquisition strengthens Alfa Laval's position in the heat transfer market, as well as the marine, diesel power, and oil and gas industries.

Aalborg is a world leader in marine boilers, while Alfa Laval holds an equivalent position in high-speed separators. The acquisition also strengthens our already extensive aftermarket support thanks to Aalborg's global service network. Consolidation of this acquisition is expected to provide revenue and cost synergies totaling SEK 100 million as of late 2013.

New business division

As a result of investments in both organic growth and acquisitions, Alfa Laval has doubled in size in the past ten years. In order to create a more focused and transparent company, a new structure was implemented and the number of sales divisions was increased from two to three. The new Marine & Diesel division, which accounts for about 25 percent of the Group's sales, was formed by combining Alfa Laval's existing business within marine and diesel, with the newly acquired Aalborg Industries.

Approximately 35 percent of the new division's sales derive from the stable, profitable aftermarket, while 10 percent is attributable to land-based diesel power stations. Slightly more than 50 percent pertains to new sales to the shipbuilding industry comprising traditional products for shipboard installations, while an increasing share of sales is attributable to various

new environmental products. Specialty vessels for offshore oil and gas extraction are also gaining importance.

Globalization and increasing trade are underlying factors driving growth in marine transportation. We are convinced that the positive trend will continue in the long term. At the same time, the division's high aftermarket share and long order backlog will serve as the foundation for favorable, stable profitability over time, despite the cyclical nature of the order intake from new sales.

Changes in group management

The new division will be headed by Peter Leifland, since many years a member of group management, and most recently in charge of regions Western Europe and North America. Peter's extensive experience from Alfa Laval is very important when it comes to integrating Aalborg. Nish Patel, an Alfa Laval employee since 28 years, succeeded Peter as regional head. Nish brings a solid experience from the sales companies and has been managing director for both the UK and India.

The share and shareholders

Alfa Laval's market capitalization at year-end amounted to SEK 55 billion. Late in the year, Alfa Laval's largest shareholder increased its stake from 18.7 percent to 26.1 percent. Interest in the share continues to grow and some 25 analysts now track Alfa Laval on a regular basis, while the number of shareholders has increased to slightly more than 36,000.

Environmental issues and sustainability

Growing environmental awareness is something that generally supports Alfa Laval. An increasing number of laws and regulations aimed at reducing human impact on the environment are being introduced, further boosting demand for our products. As an example it is worth mentioning that Alfa Laval's equipment today treat wastewater in a large number of cities around the world. Additionally we have solutions for cleaning ballast water and exhaust gases from ships as well as a whole range of other products and solutions that can limit the impact on the environment.

One example, is the large order we received in the US during the year. The order encompasses a heat exchanger to be used for energy storage in the world's largest concentrated solar power plant. Solar energy is used to melt salt, which later returns to its solid state, thereby emitting energy. A highly efficient heat exchanger is a necessary prerequisite for this process to function properly.

Our internal work also involves continuous efforts to ensure that our organization promotes the reduction of our own environmental impact. We also endeavor to fulfill our business principles with respect to business ethics, social responsibility and transparency. Our business

principles are based on the UN Global Compact, an initiative we became a participant of at the end of the year.

Diversity

85 nationalities work in Alfa Laval (82), of which 19.2 percent are women (19.5). Among managers who report directly to a member of group management, 27 nationalities are represented (28) and women make up for 19.2 percent in this area as well. When looking at all management levels, however, the female share is lower. We therefore promote our international mentor program for women, to boost the share of women in high management levels. On this slide you can see the participants from our second program, recently completed.

Within a year of completing the first program, nine out of ten participants had been promoted and no one had resigned. This is a confirmation of the participants' loyalty and the program's capability of promoting individual growth. We are convinced that when people develop and grow, the company will develop and grow.

Research and development pays off

With new and efficient products, combined with a strong geographic presence, a foundation is set for continued profitable growth. We see ourselves as an innovation company and our efforts in this area were recognized during the year when Alfa Laval was named among the world's 100 most innovative companies by Thomson Reuters.

Break for product demonstration

I would like to conclude by expressing my warm and sincere thanks to all employees in the Alfa Laval Group for your contribution to our efforts to build a successful company.

A few hours ago we released earnings for the first three months of 2012. The report shows that Alfa Laval has had a continued good development. Order intake in absolute numbers, totaled 7.9 billion kronor, the second best quarter ever, and an increase of about 22 percent compared with the first quarter of last year. Revenues reached 6.8 billion kronor. The operating profit amounted to 1.1 billion kronor, corresponding to an operating margin of 16.5 percent.

Our forecast for the nearest future:

“We expect that demand during the second quarter 2012 will be on about the same level as in the first quarter, excluding larger orders.”

THANK YOU!