Annual Report 2008

Sustainability Report • Corporate Governance Report

A world of performance

Contents

Cover:
Alfa Laval's world is a world of performance. Our equipment, systems and services are hard at work in most types of industrial process. All are based on the three core technologies – heat transfer, separation and fluid handling – in which we lead the field.
Pure Performance: Oil. Water. Chemicals. Beverages. Food. Pharmaceuticals. You name it. Alfa Laval helps most most industries to clean and refine their products. And optimize performance in their processes. Time and time again. We are present in more than 100 countries. Our driving force is to create better living conditions for people.

Alfa Laval in 2 minutes

Three key technologies that play a decisive role

Alfa Laval's operations are based on three key technologies – heat transfer, separation and fluid handling. These technologies, which have been developed by the company over a long time, today play a decisive role in many industrial processes within a number of industries. Alfa Laval holds leading global positions within all of these technology areas.

Close customer relationships – foundation for the organization

Alfa Laval meets customers through business segments that are aimed at various industries. The segments in turn are divided into two sales divisions: the Process Technology Division and the Equipment Division. Both divisions have a joint organization to cultivate the aftermarket, Parts & Service. The third division, the Operations Division, is responsible for production-related procurement, manufacturing and distribution to supply the sales divisions with products at the right time and the right quality.

Global sales channels

Alfa Laval has both global coverage and a strong local presence. The company sells its products in more than 100 countries and in over half of these has its own sales organizations. Approximately 46 percent of sales are in Europe, 32 percent in Asia, Oceania, the Middle East and Africa, and 22 percent in North and South America. There are 27 large production units (15 in Europe, seven in Asia, four in the US and one in Brazil), while about 70 service units are located strategically around the world. Alfa Laval has approximately 12,000 (11,500) employees. The majority are in Sweden (2,355), India (1,360), Denmark (1,225), China (935), the US (1,150) and France (880).

Fruitful growth

Alfa Laval – a 125-

Alfa Laval has developed p
better everyday conditions
highly topical since the wo
and protecting the environ
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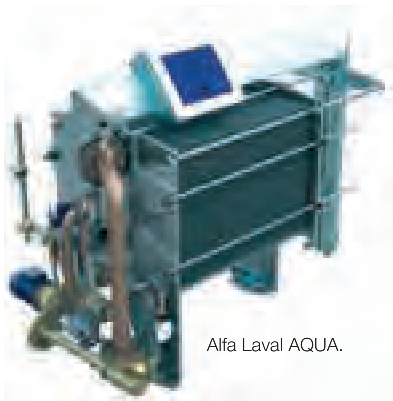

Alfa Laval AQUA.

New products for future growth

To further strengthen competitiveness and retain a leading position, Alfa Laval works continuously on developing products and services. During 2008, approximately 2.6 percent of sales was invested in research and development.

Supplementary acquisitions

Alfa Laval continuously searches for companies to acquire or with which to cooperate, to further strengthen its already leading position in selected markets. The Group has the management capacity and financial strength to achieve this. During 2008, acquisitions were carried out adding about 2.5 percent in growth and also supplemented Alfa Laval's current product range and sales channels.

Focus on profitable growth

The principles for Alfa Laval's growth strategy are that the company should grow more quickly than its competitors and that growth should be achieved with favorable profitability. The goal is an average annual growth rate of at least 5 percent over a business cycle.

Reduced environmental impact

In recent years, Alfa Laval has mapped the company's environmental impact, primarily emissions of carbon-dioxide (CO_2). The internal goal is to reduce CO_2 emissions by 15 percent between 2007 and 2011. During 2008, efforts in several different areas contributed to reducing Alfa Laval's emissions by 5 percent, on a like for like basis. However, the greatest impact occurs externally since Alfa Laval's products and solutions contribute to the global reduction of environmental impact from customers' processes.

4:1 share split

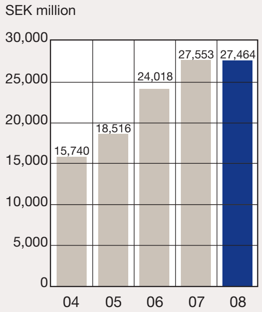
To facilitate trade in Alfa Laval's shares, a split was implemented, with June 10 as the record date, in which each share was divided into four new shares. At year-end, the total number of shares outstanding in Alfa Laval was 429,393,416 and the number of shareholders was 28,078.

Oceans of challenge

A fresh approach to heat recovery

-year young company

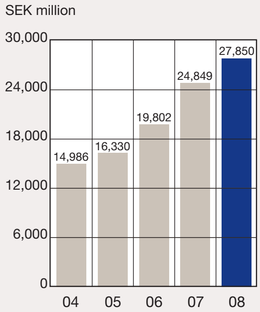
products since 1883, with the aim of creating s for people. Today, Alfa Laval's products are rld is increasingly focusing on saving energy nment. It involves treating water, reducing , reducing water and energy consumption and heating, cooling, ng food. These areas, which impact us all in various ways, represent owledge.



Order intake

Order intake rose to SEK 27,464 million in 2008, compared with SEK 15,740 million in 2004. In 2008, order intake declined 0,4 percent* compared with 2007.

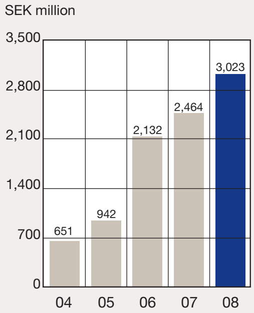
* Excluding exchange rate variations



Sales

During the past five years, sales have risen from SEK 14,986 million to SEK 27,850 million. In 2008, sales rose by 11.5 percent*.

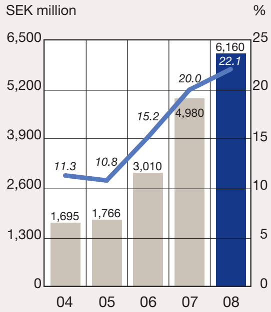
* Excluding exchange rate variations



Free cash flow*

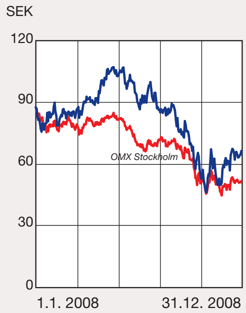
Alfa Laval generated free cash flow of SEK 3,023 million (2,464) in 2008.

* Including cash flow from operating activities, capital expenditure and financial net paid.



Operating margin

The adjusted EBITA margin, operating margin, amounted to 22.1 percent in 2008. This can be compared with 11.3 percent in 2004.



Share performance

During 2008, the price of the Alfa Laval share declined 23 percent, while the Nasdaq OMX Stockholm Exchange declined 41 percent.

Highlights 2008

- Order intake amounted to SEK 27,464 million, a decline of 0.4 percent compared with 2007.
- Favorable growth was noted in the base business, meaning orders valued at less than EUR 0.5 million, which account for some 80 percent of total order intake.
- Operating income rose to SEK 6,160 million (4,980) and the operating margin was 22.1 percent (20.0)
- Acquisition of five companies, which jointly accounted for approximately 2.5 percent of the company's growth. The acquisitions included two US companies: Standard Refrigeration, with annual sales of approximately SEK 220 million, and Hutchison Hayes, with annual sales of about SEK 150 million.
- To facilitate trade in the Alfa Laval share, a 4:1 share split was implemented.
- A total of 1.7 percent of the shares outstanding were repurchased. Alfa Laval was authorized to buy back up to 5 percent of the shares outstanding through to the 2009 Annual General Meeting.
- The Board proposes a dividend of SEK 2.25 (2.25)* per share for 2008.

*Dividend taking into account the share split.

Amount in SEK million unless otherwise stated	+/- %[6]	2008	2007	2006	2005	2004[7]
Order intake	-0.3	27,464	27,553	24,018	18,516	15,740
Net sales	+12	27,850	24,849	19,802	16,330	14,986
Adjusted EBITDA [1]	+23	6,464	5,245	3,273	2,030	1,956
Adjusted EBITA [2]	+24	6,160	4,980	3,010	1,766	1,695
Operating marginal (adjusted EBITA [2]), %		22.1	20.0	15.2	10.8	11.3
Profit after financial items	+17	5,341	4,557	2,375	1,099	1,262
Return on capital employed, %		53.8	54.2	35.9	22.7	23.7
Return on shareholders' equity, %		42.8	44.1	25.3	16.0	15.9
Earnings per share, SEK	+24	8.83	7.12	3.78	1.98	1.78
Dividend per share, SEK	=	2.25[3]	2.25	1.56	1.28	1.19
Equity per share, SEK	+37	24.40	17.80	15.30	13.00	11.80
Free cash flow per share, SEK [4]	+77	6.38	3.60	2.33	2.13	2.78
Equity ratio, %		36.1	34.2	36.4	35.9	37.4
Debt/equity ratio, %		20	30	22	35	36
Number of employees [5]	+6	12,119	11,395	10,115	9,429	9,527

1) Adjusted EBITDA – Operating income before depreciation and amortization of goodwill and impairment 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 for 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 2007 and 2008.
7) Restated to IFRS.

Fifth consecutive year with improved operating income

Alfa Laval's favorable business trend continued during 2008. Revenues rose 11.5 percent to SEK 27,850 million, at the same time as operating income increased, for the fifth consecutive year, to slightly more than SEK 6 billion. The operating margin, which has improved gradually in recent years, was 22.1 percent. The stable earnings trend was attributable to such factors as a favorable product mix and high capacity utilization in most parts of the business.

During the year, China overtook the US as Alfa Laval's largest market, due to strong demand from the shipbuilding industry. Asia, Eastern Europe and Latin America jointly accounted for nearly half of the Group's order intake, which, however, declined slightly to SEK 27,464 million, due to diminishing demand in the wake of the global financial crisis.

Strengthened resistance to economic decline

Alfa Laval's well-diversified business, both geographically and in terms of customers, results in a healthy spread of risks during periods of economic decline. In addition, the following activities, which have been implemented in recent years, have contributed to strengthening our resistance:

Alfa Laval has refined its ability to optimize its customer and product mix in order to improve profitability.

In the past three years, the installed base of aftermarket-intensive applications has increased sharply, providing conditions for a continued favorable trend. During the same period, the number of employees in the aftermarket has risen by 30 percent, which has additionally enhanced our presence and our service offering. In 2008, the aftermarket business grew by 9 percent and accounted for 23 percent of consolidated sales. This portion will continue to increase, in part because of our investments in organic and acquired growth. In January 2009, for example, Alfa Laval completed two acquisitions, which will increase the aftermarket business by an estimated 5 percent annually.

Since 2005, Alfa Laval has increased its investments in research and development by 75 percent. At the same time, we have become faster at taking our products to the market. In total, this means that during 2008 and 2009, significantly more new products will be launched compared with prior years. Notable examples include products in the separation technology area, where we have doubled the number of new products in order to satisfy current and future requirements. Many of Alfa Laval's products reduce the energy or water consumption of customers, which remain prioritized areas even when economic conditions are weak. New and efficient products form the foundation for profitable growth and a favorable price trend.

We are adhering to our strategy of focusing on acquisitions to further strengthen those areas in which we already occupy a leading position.

Continued acquisitions

During 2008, we acquired companies that jointly added 2.5 percent to our sales growth. In January 2009, we completed acquisitions that added a further 2 percent to our growth. Over the past four years, acquired growth has averaged 3-4 percent annually.

Alfa Laval mainly prioritizes acquisitions that complement the company's current business in terms of products, geographically or by adding new sales channels.

The acquisition of Standard Refrigeration in the US, which has annual sales of slightly more than SEK 200 million, complements Alfa Laval's range of heat exchangers in the North American market. Standard Refrigeration is a leading supplier of shell-and-tube heat exchangers for refrigeration and air conditioning. As a result of this acquisition, Alfa Laval strengthened its position as the supplier that offers the most complete range and has the best market presence.

A minority stake was acquired in the Swedish company Ageratec. Sales in 2008 amounted to more than SEK 50 million. Ageratec develops and sells innovative manufacturing processes for producing biodiesel in small-scale plants. Several different types of fats can be used in the process, including used vegetable cooking oil.

The companies Høyer Promix and Pressko jointly added nearly SEK 100 million of supplementary products in the fields of sanitary flow equipment and heat exchangers, respectively.

Alfa Laval also acquired the company Hutchison Hayes Separation, a leading supplier of equipment and services for energy-related industries in the US. As a result of the acquisition, Alfa Laval gained a further channel through which it can reach more customers by offering a differentiated range. The company, which will be operated as a separate organization, had sales of approximately SEK 150 million in 2008.

Sustainability – a natural component in the daily business

Alfa Laval's wide offering includes products, solutions and services that help our customers save energy, produce fresh water and reduce emissions. Ultimately, we hope that our products will help create better conditions for people in their everyday life.

However, the aim of creating better conditions for people is not limited to offering efficient and clean products. It includes all parts of our operations. We want our processes to have as little impact on the environment as possible and we want to ensure that our way of doing business does not add to social injustices or corruption. Accordingly, Alfa Laval's operations are managed in terms of their environmental impact, social responsibility, business ethics and transparency. We continuously work towards integrating our goals for sustainable development into our daily operations, throughout the company.

"In the aftermarket business, the types of initiatives we have taken in recent years will continue and their importance will actually increase."

In 2008 for example, we implemented an environmental impact lifecycle assessment as a standard for new product-development projects. We also continued to carry out social audits, to try to improve employment conditions for our sub-supplier workforces.

Ability to implement changes

Alfa Laval celebrated its 125th anniversary in 2008. The main reason for our success in developing throughout the years has been our ability to rapidly adapt to changed conditions.

We have refined our operations and implemented a series of activities that jointly enhance our resistance during periods of economic decline. However, we are not immune. Even Alfa Laval is affected by a protracted and widespread recession. Given the current economic conditions, it is therefore necessary in the short term to adapt resources and costs to the prevailing demand situation and to implement structural improvements. At the same time, we are continuing to invest in research and development, which remains a prioritized area. In the aftermarket business, the types of initiatives we have taken in recent years will continue and their importance will actually increase. We will adhere to our strategy of strengthening our existing operations through supplementary acquisitions. We have the financial strength and the management resources required to implement this strategy.

In a business environment focusing increasingly on finding various ways of saving energy, protecting the environment and securing hygienic food production, we are convinced that over the long term structural demand for our products and solutions will continue.

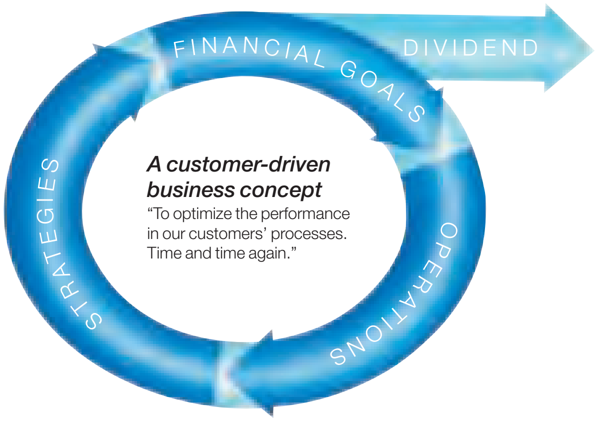
During the year, we implemented a share split to facilitate trade in Alfa Laval shares. Accordingly, I am delighted to be able to state that the number of shareholders rose by 74.5 percent in 2008 and ended the year at 28,078.

Finally, I would like to thank all the employees of the Alfa Laval Group for their excellent performances under challenging conditions.

Lund, March 2009

Lars Renström
President and Chief Executive Officer

Customer-driven approach – a way to achieve the goals



Alfa Laval's business concept is to optimize the performance in customers' processes. Time and time again.

This also applies internally. Each person in the company must contribute with results so that Alfa Laval continuously develops. Alfa Laval's employees are also driven to exceed the established goals, both large and small. The attainment of financial goals is the final confirmation of the company's success.

Foundation for successful operations

The prerequisites for Alfa Laval being able to realize its business model is in the company's three key technologies, engineering expertise and application know-how. The company has additional support from its global organization and the resources invested in the further development of products and markets.

The company is organized into three divisions. The Equipment and Process Technology divisions market the company's products and solutions – based on the key technologies, heat transfer, separation and fluid handling. The Operations division is responsible for procuring, producing and delivering the company's products. To ensure the long-term functioning of the supplied equipment and to nurture and develop customer relations, Alfa Laval has a well-developed global service organization – Parts & Service.

Strategies for continued growth

Alfa Laval's strategies are based on developing and expanding the company's leading positions in well-defined market segments. This can be achieved through systematically working with existing products, developing the aftermarket sector and finding new market concepts and key products.

It can also be achieved through acquisitions and alliances that supplement and strengthen the company.

Alfa Laval has both the expertise and capacity to successfully acquire and integrate operations that strengthen the company's offerings.

Financial goals for development and dividends

Alfa Laval manages operations to achieve financial goals for growth, operating margin and return.

Favorable earnings mean that the company is able to further invest in line with strategies, which include investing in organic and acquired growth. This also contributes to creating shareholder value through an annual dividend to the shareholders and increased value of the company.

Financial goals

Alfa Laval's management manages the operations based on the financial goals and benchmark values established by the Board of Directors. The combination of the three financial goals indicate the company's ambition levels in terms of growth, profits and capital utilization – three fundamental components regarding business. The Board establishes the financial goal levels, based on Alfa Laval operations and the markets in which it conducts business. The overall target is that Alfa Laval shall be among the most successful companies.

Invoicing growth, %

Goal: Minimum average of 5 percent annually over a business cycle.

The goal is to be attained through a combination of organic and acquired growth. The underlying organic growth of Alfa Laval's markets is expected to be on par with global GDP growth. To this is to be added technological substitution that is favorable for Alfa Laval, which increases growth, and the structural changes in the world that contributes to increasing demands for Alfa Laval's products. Globalization, an increasing need for energy, improved standard of living, and more stringent rules and regulations in the area of environment are all driving forces that highlight the demand.

Goal fulfillment in 2008: Growth in invoicing was 11.5 percent. 9 percent was organic and 2.5 percent was acquired growth.

Operating margin*, %

Goal: 15 percent over a business cycle.

Goal fulfillment in 2008: The margin amounted to 22.1 percent. Growth was attributable to a very strong product mix, high productivity and large volumes.

**Adjusted EBITA*

Return on capital employed, %

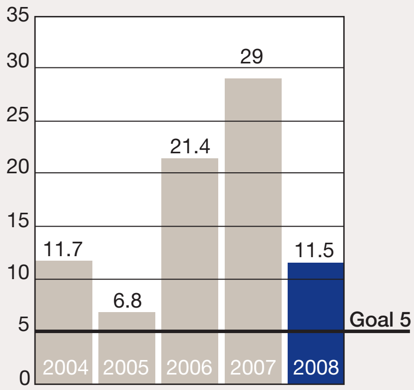
Goal: at least 25 percent.

Despite the substantial goodwill and allocated surplus values, the goal for the return on capital employed is a minimum of 25 percent. The level has been set taking into account the low level of capital tied-up in current operations.

Goal fulfillment in 2008: The return was 53.8 percent. During the past three years, the return goal has been exceeded as a result of continuous improvements in capital employed and higher operating earnings.

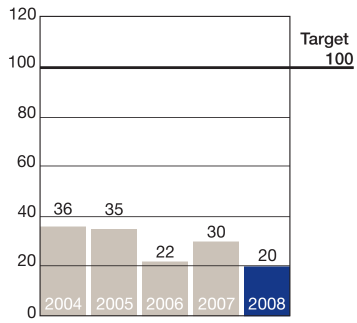
Financial standards

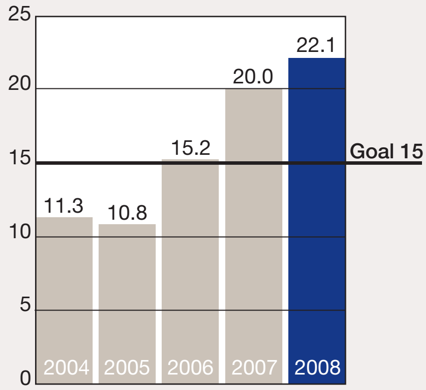
As a supplement to the financial goals, the Board of Directors has established target standards for three key financial ratios. These will provide additional support with regard to Alfa Laval's goals for operating the company.



Debt/equity ratio, %

Target: below 100 percent.
In the long-term, the debt/equity ratio is to be less than 100 percent, which means that borrowed capital may not exceed 100 percent of the carrying amount of shareholders' equity. Although the ratio may increase in connection with major acquisitions, this should be viewed as merely a temporary rise, since cash flow and earnings are expected to offset this effect. At year-end 2008, the debt/equity ratio was 20 percent.

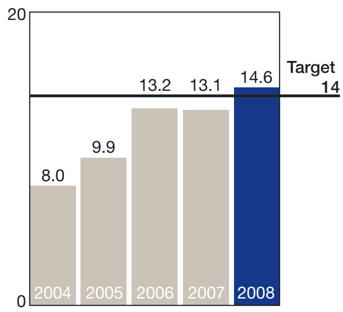


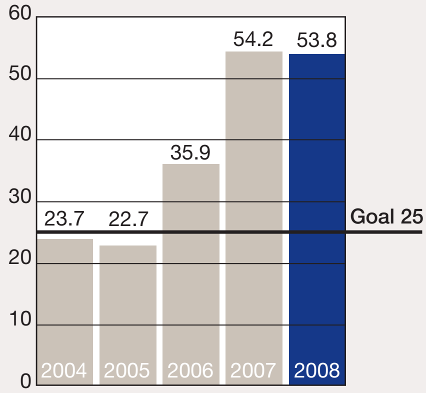


Cash flow from current operations*, %

Target: 14 percent of sales.
The value is just below the goal for operating margin, since organic growth normally requires an increase in working capital. Regardless of the debt/equity ratio, the free cash flow will be considerable but within the framework of the debt/equity ratio standard set by the Group. During 2008, cash flow from current operations was 14.6 percent.

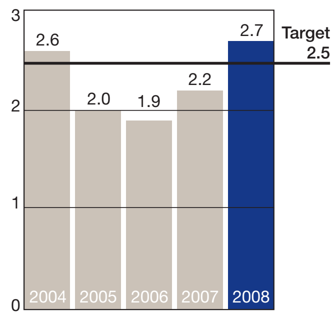
**Excluding taxes paid and including investments in fixed assets.*





Investments, %

Target: 2.5 percent of sales.
This investment level creates scope for replacement investment and an expansion of capacity in line with organic growth for the Group's existing core products. To meet the rising demand for the Group's products more effectively, investments represented 2.7 percent of sales in 2008. The assessment is that investments in 2009 will be in line with or slightly below the long-term target of 2.5 percent.



Three ways for profitable growth

Alfa Laval's goal is to grow at an average of at least 5 percent annually over a business cycle. The basic approach is for growth accompanied by favorable profitability and higher than the market. Overall growth in the underlying markets in which Alfa Laval is active is expected to increase at a rate equal to the average global GDP growth. Alfa Laval has identified three areas which the company will develop to further strengthen its market positions and achieve profitable growth.

1. Current products and services

Alfa Laval's products are energy efficient and of high quality. Combined with the company's strong market positions and its close cooperation with customers – to understand and satisfy their needs – this provides favorable prospects for the current products and technologies to continue to be the key factors for profitable growth.

In addition, the R&D organization is continually improving the product range to boost its competitiveness. The proximity of the company's organization to the market in various segments simplifies and enhances the effectiveness of the customer dialogue.

2. Aftermarket

One of the most important overall strategies for Alfa Laval is to continue to develop and expand the aftermarket, that is, the sales of spare parts and service. This provides customer benefits, enhances closer customer relations, provides favorable profitability and is less sensitive to economic fluctuations. It also provides added support to new sales by creating continuous customer contacts.

Alfa Laval has an extensive and growing base of installed equipment and systems. The age of the installed base differs depending on the region. In general, the products are older in Western Europe and the US and younger in Central and Eastern Europe as well as Latin America and Asia. This means that the aftermarket potential in rapidly developing countries will increase in pace with new sales. A global network of service centers and personnel makes the company well equipped to cope with the growing demand for service. The company's range of products for the aftermarket has also increased while service agreements in particular are playing an increasingly important role.

3. New market concepts and key products

Alfa Laval constantly seeks new ways of assisting customers to optimize their processes. This involves identifying requirements as well as problems from the customer's perspective. Identifying and adding complementary products and new key products are also crucial for growth, which will further broaden Alfa Laval's offering, making the company a more complete and valuable partner. One example is the acquisition of Standard Refrigeration, a leading US supplier of shell-and-tube heat exchangers for various types of cooling, air-conditioning and industrial applications. The acquisition increased Alfa Laval's presence in the US market for commercial cooling.

Geographic expansion

Parallel with the focused product development and the expanded service concept, Alfa Laval develops new geographical markets to continue growth within the specified areas. This is an integral part of the ongoing operations.

Strategy for acquisitions and alliances

Alfa Laval has a special central function – Corporate Development – to facilitate work involving acquisitions and alliances in a systematic and efficient manner.
Alfa Laval has the financial strength and the management resources required to expand via acquisitions.

Acquisitions during 2008

Standard Refrigeration, USA

The leading supplier of shell-and-tube heat exchangers to the North American market for commercial cooling, air-conditioning and industrial applications. Standard

Selected market segments	Comfort & Ref.	Marine & Diesel	OEM	Fluids & Utility	Sanitary	Food	Energy & Envir.	Process Industry	Life Science
Heat transfer	●	●	●	●	●	●	●	●	●
Separation		●	●	●	●	●	●	●	●
Fluid handling	○	○	○	○	●	●	○	○	●

The solid circles show the segment in which Alfa Laval's products are currently sold. The empty circles show the segments in which Alfa Laval's products were previously sold but for which the company made a strategic decision to dispose of operations.

Refrigeration had sales of SEK 220 million in 2007 and 185 employees at two locations in the US. The company was consolidated on June 1.

Ageratec, Sweden

Ageratec is a Swedish company that develops innovative process solutions for the biodiesel industry. Alfa Laval acquired approximately 45 percent of the company.

Pressko, Germany

A German company specializing in developing and manufacturing fully welded heat exchangers. The acquisition supports the Alfa Laval Group's strategy to primarily acquire companies that supplement existing operations in terms of products, geography or new sales channels. Pressko was integrated into Tranter, which is a separate organization within the Alfa Laval Group.

Hutchison Hayes, USA

Leading supplier of separators, accessories and service, primarily to companies in the US energy market. Hutchison Hayes had sales of approximately SEK 150 million in 2007. The acquisition added a supplementary sales channel for both separator equipment and service, primarily to the energy-related industries in the US. Hutchison Hayes, which will remain a separate organization, was consolidated into the Alfa Laval Group from August 15.

Acquisitions and divestments 2004-2008

Between 2004 and 2008, Alfa Laval acquired 13 companies or units with overall sales of about SEK 2,680 million. This represents an average annual growth of SEK 536 million. During the same period, two companies/units with overall sales of SEK 175 million were divested. Divestments have been reduced in recent years and are expected to continue to remain at a very low level, since all units in the Group are currently part of core operations.

Year		Company	Reason*	Sales SEK million**
1999				
	Acquisitions:	Vicarb Group, France	Product	425
		Scandibrew, Denmark	Product	70
		Kvaerner Hetland, US	Product	50
		Dorr Oliver, US	Product	125
	Divestments:	Thermotechnik		50
		Cardinal		40
2000				
	Acquisitions:	Separator division in Wytworna Sprzeta, Poland	Product	20
	Divestments:	Tetra Pak division in an Indian company		50
		Aircoil		50
2001				
	Acquisitions:	An additional 13 percent of share capital in Alfa Laval India	Geography	Did not affect sales
	Divestments:	Rema Control		70
		Industrial Flow		650
2002				
	Acquisitions:	DSS, Denmark	Product	90
	Divestments:	–		
2003				
	Acquisitions:	Toftejorg, Denmark	Product	210
		Biokinetics, US	Product/channel	550
	Divestments:	–		
2004				
	Acquisitions:	–		
	Divestments:	Tri-Lad		75
2005				
	Acquisitions:	Packinox, France	Product	450
	Divestments:	–		
2006				
	Acquisitions:	Tranter, US	Channel	900
		Fruit concentration, Sweden	Channel	45
		Tranter, Kina	Geography	100
	Divestments:	Bioteknik project transaction		100
2007				
	Acquisitions:	Fincoil, Finland	Product	375
		Helpman, the Netherlands	Product	200
		DSO, USA	Geography	50
		AGC Engineering, USA	Geography	70
		Additional 13% of share capital in Alfa Laval India. (Total ownership 77%)	Geography	Did not affect sales
	Divestments:	–		
2008				
	Acquisitions	Standard Refrigeration, US	Product/Geography	220
		Ageratec, Sweden	Product	50
		Høyer Promix, Denmark	Product	20
		Pressko, Germany	Product	50
		Hutchison Hayes, US	Channel/Geography	150
	Divestments:	–		

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

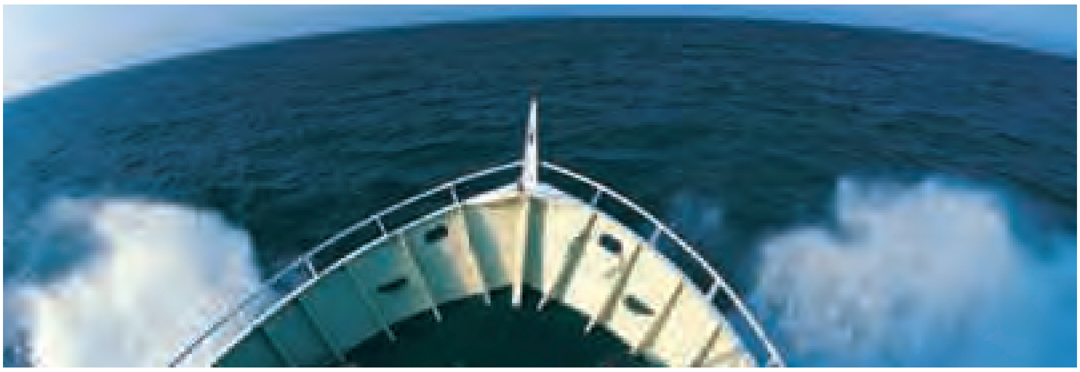
**Refers to annual sales before acquisitions and divestments.

Structural changes drive Alfa Laval's business


High energy prices drive the demand for efficient solutions.


Focus on the environment and clean technologies.


Improved living conditions highlight demand for processed foods.


Globalized trade increases transport requirements.

Alfa Laval has identified four forces that are expected to drive demand for the company's products and solutions – a growing energy need, new and more stringent environmental requirements, the increase in living conditions in developing countries and the ongoing globalization.

ENERGY

The demand for Alfa Laval's products is governed by a rising need for energy-efficient solutions. In pace with the increase in energy costs, companies worldwide are searching for products and solutions that can contribute to optimizing processes, reducing costs and strengthening competitiveness. This has resulted in a technology shift, in which Alfa Laval's technology within heat transfer-plate heat exchangers – is successively becoming a more vital substitute for shell-and-tube heat exchangers.

ENVIRONMENT

New rules and regulations on the environmental front drive demand for products that can reduce emissions, energy consumption and pollution. From a cost perspective, it pays to invest in technologies that not only reduce energy costs but also reduce the impact on the environment, in particular based on the increase in emission rights trading. Alfa Laval's products can enhance the efficiency of energy utilization in industrial processes, which will reduce carbon-dioxide emissions.

IMPROVED LIVING STANDARDS

In recent years, economic growth has improved living conditions for many people. The consumption scope has expanded in pace with living conditions, which has contributed to increasing the demand for processed foods. Growth in the food industry in developing countries has only started. Alfa Laval's focus on food applications has existed since the company's inception in 1883.

GLOBALIZATION

Globalization has been in progress for a long time. During the past century, it has intensified in pace with the simplification of communication and transportation by new technology. Fewer regular obstacles facing trade, investments and capital flow have resulted in an additional boost in development. To a great extent, companies have been able to establish production in various parts of the world to provide a global market with products. This has led to a significant increase in the portion of seaborne transportation. Alfa Laval offers a range of specialized products and solutions for use onboard vessels.

Rising energy needs drives demand for efficient products and solutions

The energy-related industry represents a key area for Alfa Laval and accounts for approximately 40 percent of the company's sales. Based on the continuous increase in demand, the area will also be in focus in future. While fossil fuel is expected to continue to play a vital role, the increase in emission requirements will contribute to a rise in the supply of bio- and renewable fuel, although production costs and capacity still represent a challenge. Alfa Laval continues to allocate resources to become the prioritized partner within oil and gas production, refining, power generation and biofuel and thus further strengthen its market positions.

Oil and gas

Fossil fuel is expected to remain the most important source of fuel. However, extraction is becoming more difficult, more expensive and more risky as the more easily-accessible sources are being depleted and the search is moving to more difficult locations. Therefore, to cope with increasing demand, continued expansion will require further investments. The recent years' high oil prices have facilitated investments since they immediately generated favorable returns. During 2008, oil prices fell drastically, however, historically prices are still at a high level.

For Alfa Laval, the year was strong, due to the trend in the Middle East, but also as a result of the escalation of oil-drilling activities in Canada. Within LNG (liquefied natural gas), market activities remained low although there is an underlying need to expand production in the future.

Alfa Laval's products in the area include separators and plate heat exchangers, which are compact and efficient and can cope with both high pressures and temperatures. This type of performance is becoming increasingly important in the extraction of oil and gas, for example, when drilling at great depths. Another advantage is the company's global coverage, which provides proximity to customers.

Refinery

Within refineries, investments will also be required to cope with the demand, which is expected to increase in coming years. The industry has continuously invested in increasing capacity and efficiency in new and existing plants.

An added factor that drives investment needs is the more stringent environmental requirements in the US and the EU, which encourage the industry to develop lighter fractions (cleaner fuel). As the incoming oil becomes increasingly heavier, these requirements for lighter fractions further add to the need for modernization. A third important factor, which influences the investment level, is the old and neglected refineries worldwide – many in great need of modernization.

The market for heat transfer products for the refinery sector is estimated at approximately SEK 6 billion. Shell-and-tube exchangers currently represent approximately 85 percent of the total installed base, but more companies

Alfa Laval's compact and highly efficient products are playing an increasingly significant role in the extraction of oil and gas, for example drilling to ever-deeper depths.

are gradually discovering the advantages of switching to plate heat exchangers, which is continuously being developed to cope with high pressures. One product that is strong in this area is the Alfa Laval Compabloc. Once installed, Compabloc will generate major savings since it will increase heat recovery by more than 30 percent compared with traditional equipment. This will cause a decrease in fuel consumption, which in turn will reduce carbon-dioxide emissions. There is currently a globally installed base of approximately 15,000 Compablocs, of which slightly less than 6,000 in refineries and the petrochemical sector.

Biofuel

High energy prices and more stringent requirements in the area of environment are making biofuel a more attractive option. In 2008, investments in Brazil continued to increase from an already high level, while development was more subdued in the US and Europe. Bioethanol and biodiesel are currently the leading types of biofuel. Alfa Laval's equipment can be used in both processes.

Bioethanol is based primarily on sugar cane or corn, which is included in the first generation feed stock. It can also be based on cellulose, which is regarded as the second generation and includes such products as pellets and garden refuse to grass. In Brazil, which has produced sugar cane-based bioethanol since the 1970s, the search for solutions is continuing to be able to utilize the cellulose-based parts of the sugar cane within five years. At several global locations, simultaneous intensive research and development is in progress to find commercially sustainable production processes. An adaptation of the world's production to include a larger portion of cellulose-based ethanol would create additional opportunities for Alfa Laval, which is already the leading supplier to the ethanol industry.

Biodiesel is based on various types of oils, for example, rapeseed oil, palm oil or even used vegetable cooking oil. Alfa Laval's offering to the industry includes both components and complete solutions. During the year, Alfa Laval acquired a minority share in Ageratec, a Swedish company that develops and sells complete process solutions for the biodiesel industry. The acquisition places Alfa Laval at the leading edge also with regard to this process development.

Power and heat production

The market for the production of electricity and heat is another prioritized sector for Alfa Laval. In 2008, the market achieved new record levels when it benefitted from upgrading existing power-generating capacity and major investments in new capacity, primarily in China, Russia and the Middle East. A rising need for electricity in more parts of the world is placing demand on continued expansion. Power can be generated in everthing from small diesel- and gas-powered plants to nuclear plants. Alfa Laval's products are used in all plants.

In 2008, development was strong within diesel-generated power. Diesel power plants are the preferred solution for industries that operate in parts of the world where the infrastructure is not fully developed. This is the fastest way to establish new power-generating capacity. The lead time for commissioning a small plant is approximately ten weeks, which can be compared with a nuclear plant which takes at least five to six years to be fully operational.

Heat pumps

In colder climates, the need for heating is great. However, creating a comfortable temperature in the home is both energy-intensive and expensive. Heat pumps are an excellent option since they extract heat from the ground, air or water, which means that most of the heat produced is from nature. If all two million single-family homes in Sweden changed to heat pumps for ventilation and heat recovery, it would save enough energy to generate power for six months for Stockholm, the capital of Sweden. Alfa Laval's heat exchangers are sold to many heat pump manufacturers through the OEM segment.

Alfa Laval's efficient products contribute to environmental gains

The recent years' increasing focus on climate and environmental issues has resulted in the development of more international rules and regulations to protect the environment. Consequently, there is an increase in the demand for technologies that enhance the efficiency of energy utilization and reduce emissions and pollution. Alfa Laval's energy-efficient products and solutions will contribute to cost savings and environmental gains.

Recovery of waste heat will reduce energy consumption

Alfa Laval's products for heat recovery contribute to reducing environmentally hazardous emissions by customers. Through recycling waste heat, which would otherwise have been lost, the customers' energy consumption is reduced, which cuts costs and carbon-dioxide emissions.

This becomes increasingly important based on the continuous rise in demand for energy.

Plate heat exchangers

One of Alfa Laval's many energy-efficient products is the company's compact plate heat exchanger, which can recover 95 percent of heat in a process, compared with traditional technology which can only recover 70 percent.

Alfa Laval's compact, fully welded plate heat exchanger is used within the refining industry, where it contributes to reducing energy needs. There are currently thousands of these heat exchangers installed globally. Combined, they result in significant savings in terms of energy and money, but they also contribute to reducing carbon-dioxide emissions by about 12 million tons annually. This corresponds to emissions from all vehicle traffic in Sweden for one year.

Sugar production is another energy-intense industry. Production of one kilogram of sugar requires 2.4 kilograms of steam, using traditional shell-and-tube heat exchangers in the process. If plate heat exchangers are used instead, only 1.3 kilograms of steam will be required. If all the world's sugar producers switched to plate heat exchangers, energy savings would amount to 42 million MWh, enough to supply Belgium with power for five months.

Separators/decanters

A majority of the world's population generate waste water every day. The amount varies depending on where in the world the person is located. The same applies to handling. In some areas, approximately 70 percent of the waste water is treated, while in other regions only about 10 percent.

Following treatment, there is still a large quantity of water-soaked waste sludge, which must be transported away for destruction. Using Alfa Laval's decanters, up to 90 percent of this water can be recovered and treated, which will reduce transport volumes and consequently fuel requirements and carbon-dioxide emissions.

Currently, Alfa Laval has supplied so many decanters that combined they dewater sewage sludge from the waste water from approximately 250 million people. The dewatering in the decanters occurs using centrifugal force.

Alfa Laval's efficient products can recover up to 95 percent of heat in a process, thus reducing both carbon-dioxide emissions and energy costs.

Alfa Laval's technologies clean distillery waste

The more than 100-year old Urzhumsky distillery is located in the Russian Kirov region. The company is a major producer of various types of alcohol. Its range includes approximately 80 types of vodka.

However, a distillery does not only generate alcohol but also large quantities of residual waste comprising fibers, yeast and protein, which form an aqueous solution of solid and dissolved particles. For each liter of alcohol that is produced, approximately 10 liters of residual waste is also generated. The Urzhumsky distillery has the capacity to produce up to 25,000 liters of alcohol per day, which generates 250,000 liters of residual waste.

Since there have not been any laws in the past in Russia to regulate waste disposal, most distilleries pumped their residues directly into the sea, lakes and watercourses. Although the waste does not contain any chemicals, when it comes in contact with water it decomposes – an aerobic process that can kill plant and animal life. Consequently, a proposal has been submitted, signifying that the Russian government will introduce laws to demand treatment of waste prior to disposal, starting in 2009.

To harmonize the operations with future regulations, Urzhumsky decided to invest in new equipment. They chose a combined solution from Alfa Laval, which includes decanters and evaporators. By leading the waste to a decanter centrifuge, the solid particles are separated from the liquid. The liquid fraction is then fed into the evaporator where it is boiled and dewatered. The concentrate that remains when the liquid has evaporated is mixed with the solid particles from the earlier process and enters the dryer to remove the last residual water. The result is a dry, storable mass, rich in both protein and fiber and that can be used as animal feed. The sale of the animal feed, priced at approximately EUR 110 per ton, will generate extra earnings for Urzhumsky, while emissions into watercourses will disappear. The investment will generate both earnings and environmental benefits.

Distilleries in Poland, the Ukraine and Romania are also facing regulation amendments. In Scotland, where distilleries have historically disposed their waste in the North Sea, regulatory amendments have already been introduced. However, Scottish whisky producers are often small, which means that the cost for solving waste management will be significant for individual distilleries. Consequently, several of them have been exempted, provided that they can show a schedule for the introduction of statutory management. Since they are grouped in inaccessible locations, solutions are being discussed signifying that they merge and lead the waste to a joint location where it will then be treated.

Alfa Laval can supply products and solutions for a number of different waste applications. There are currently thousands of the company's decanters installed globally and demand continues to increase in pace with the introduction of new environment laws.

Improved standard of living drives demand for processed food

The recent years' economic growth has resulted in an improvement in the standard of living in the world's developing countries, an increase in consumption scope and lifestyle changes. Demand for processed food and beverages is increasing in pace with the rise in the number of people with improved standard of living. Growth in the food industry in developing countries has only begun. Alfa Laval's focus on food applications has existed since the company's inception in 1883.

Alfa Laval has been in India since 1937. This means that the first office opened ten years prior to India's independence from Great Britain. Since the start, focus has been on food, whose potential has increased in pace with the economic growth in recent years. Since 2000, Alfa Laval's orders received in India have increased by 347 percent and in 2008 the increase in orders received from the food industry was 20 percent.

Demand in the underlying market is also expected to continue to increase in coming years, in pace with the continued economic growth contributing to more individuals having better economy. A larger consumption scope is followed by increasing demand for processed food and beverages. Of India's population of 1.1 billion, processed food is currently being consumed by approximately 300 million people. An additional 200 million is expected to be included in this group by 2010. In total, it is anticipated that 500 million people in India* – as many as the population of the entire EU – will consume processed food within two years.

In spite of the anticipated demand increase, the fact is that India, which is admittedly the world's second largest food producer, only processes a small portion of its cultivated crops. To cope with demands, investments and a significant expansion in capacity in the food industry will be required.

Consequently, the CCEA (Cabinet Committee on Economic Affairs) has approved a plan implying that grants will be provided for the expansion of the infrastructure of the food industry. During the first phase, ten mega food parks will be established. The plan is that these centers will include modern infrastructures for the production of processed food, laboratories, refrigeration and packaging units.

The private sector is also investing – both local companies and international groups – to meet the country's major demand potential. The food industry in India is expected to be able to achieve an annual growth of more than 10 percent.*

Food processing includes everything from heating and cooling to packaging and refrigerated storage, which will reduce waste problems. For many years, Alfa Laval has been a key supplier to the food industry in India. The company's products and solutions for separation, heating, cooling and fluid handling are used in the production of dairy products and fruit-based products as well as vegetable oils and beer.

Beer

Beer is a beverage that has increased in popularity in the country in recent years. This is due to the increase in the standard of living, but also changes in the social structure. Beer is increasingly being regarded as a socially acceptable drink. Additional factors that propels demand is the younger generation, which, to a larger extent, prefers beer,

*The Federation of Indian Chambers of Commerce and Industry (FICCI).

and the changes in the tax structure and distribution channels. Today, an average of one liter of beer per person and year is consumed in India. This consumption is expected to increase to about five liters per person by 2015, which will give the market an estimated value of approximately EUR* 3 billion.

More national breweries are springing up, while large, international beer producers are planning new investments. The installed capacity is currently growing by between 20 and 25 percent annually. Alfa Laval's share of the market is 20 percent and relates to separators, plate heat exchangers, pumps and valves.

Vegetable oils

Vegetable oil is an important ingredient in food preparation. In a country that consumes about 12.5 million tons of oil in a year, while the domestic production accounts for slightly less than 7 million tons, there is a clear demand surplus. Consequently, India is the world's second largest importer, following China. To cope with demand, which is anticipated to rise further, a significant increase in production is expected in coming years and in 2010 the Indian market for vegetable oil is expected to double, compared with 2004.

Vegetable oil is used in nearly all Indian households, nevertheless, consumption per capita amounts to only 11 kilograms. This can be compared with the average global consumption of 25 kilograms. Due to the economic growth in the country, people can afford to pay more money for good oil and in 2015 the domestic consumption is anticipated to increase to 18 kilograms per person and year and the value of the market is estimated to amount to EUR* 16 billion.

Alfa Laval, which has a market share of 45 percent, supplies the Indian vegetable oils market with plate heat exchangers, high-speed separators and decanters.

Fruit

The fruit-processing industry is another sector in which demand has increased significantly in recent years. The industry comprises beverages that are ready to serve, frozen juices and frozen food. India is the world's second largest producer of fruit and vegetables but less than 2 percent is processed. This figure is expected to increase to 16 percent by 2015, which will require investments.

Alfa Laval, which has a market share of approximately 50 percent, supplies the Indian market with equipment and process lines to be used in the manufacture of fruit juices and soft drinks. The products include heat exchangers, high-speed separators and pumps.

India – one of many

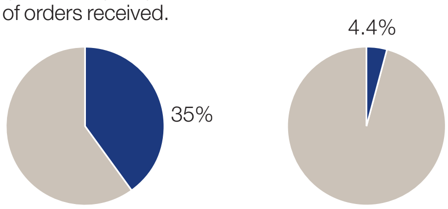
India is one example of an emerging country, where an improved standard of living has contributed to raising demand for a number of different products. Alfa Laval has been on location since 1937 and currently has a broad presence to satisfy demands in the Indian market for products and services.

However, what is happening in India is not unique, the same is happening in several other developing countries where the economic growth has basically only started.

*Rabobank

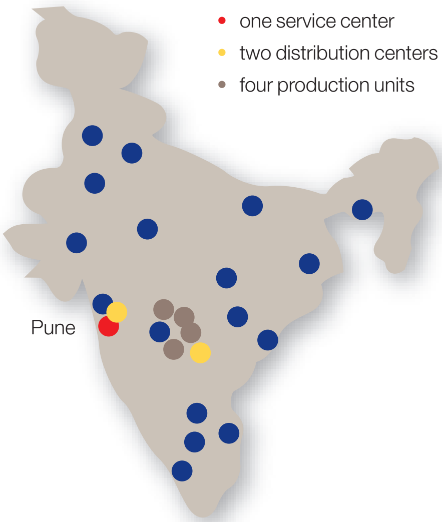
The food industry accounts for approximately 35 percent of orders received.

Alfa Laval India's share of total orders received



Broad presence in India:

- 17 sales offices
- one service center
- two distribution centers
- four production units



Global sea transports require reliable and efficient equipment

Globalization has intensified over the past century, as new technology has simplified both communication and transports. Developments have been further propelled by commerce, investments and an influx of capital encountering ever fewer regulatory obstacles. Since companies are increasingly establishing production in various parts of the world, in order to provide a global market with goods, the number of sea transports has increased along with demand for marine products and solutions.

Alfa Laval has a long and close relationship with the marine industry and the company's products are currently estimated to be onboard three-fourths of the world's oceangoing vessels. Demand for the company's products varies depending on the type of vessel involved; the larger the engines and the more people onboard, the greater the need for various solutions. Cruise ships are the vessels that require the most equipment. At the same time, that sector is relatively small, since the global fleet is limited to approximately 500 vessels. Cruise ships require large engines, a clean environment and, due to the large number of passengers, large supplies of fresh water.

Freshwater generators

The Queen Mary 2, which was the largest cruise ship in the world when it was built in 2003, has an estimated water consumption requirement of 1,100 tons per day. In order to satisfy that demand, freshwater generators are required. Alfa Laval's "Multiple Effect Plate Distillers" produce a majority of the water by using waste heat from the engines. Freshwater needs are a requirement of all vessels, a need that Alfa Laval's products can satisfy without using either fossil fuels or chemicals. By utilizing waste energy, no additional environmentally damaging emissions are generated. The company estimates that such freshwater generators are currently installed on nearly half of the world's oceangoing merchant fleet.

During 2008, Alfa Laval launched AQUA, an entirely new, efficient product that only uses half as much seawater as other products in the field, to generate the same amount of fresh water. Since lesser amounts of water need to be pumped in, energy consumption is lower, reducing operating costs as well as carbon-dioxide emissions.

Oil cleaning and crankcase emissions

There are also other applications required onboard vessels, regardless of whether they are an oil tanker, a bulk carrier or a cruise ship. Ships are propelled by large diesel engines and the fuel used is heavy oil, which is too unclean to be pumped directly into the engines. First the oil must be cleaned, which is accomplished by heating it up and then pumping it into a centrifuge, separating out the impurities and water. After that, the cleaned oil is pumped into the engine, while the impurities are diverted to a separate sludge tank, where it is cleaned further. Alfa Laval offers several products to solve this problem.

In addition, Alfa Laval has products that can take care of the crankcase gases that a diesel engine produces – oil

mist and soot particles that are in the ventilation air emitted from an engine's crankcase. If the gases are not cleaned, they can drift over long distances before settling and contaminating sea and land. It is estimated that 3,500 m^3 of oil ends up in the world's oceans every year through the pollutants from marine engines. Alfa Laval PureVent cleans the gases by filtering out oil mist in a high-speed separator. This oil is then recirculated for use as an engine lubricant.

A focus on the environment

Many of Alfa Laval's shipboard products are true environmental solutions that can be used to minimize various types of emissions. An oceangoing vessel's water emissions, the transport of ballast water across the world's oceans, and direct emissions from a ship's engines have significant effects on marine environments, which are increasingly being addressed through more stringent laws and regulations. The UN's International Maritime Organization (IMO), which has 168 member states and regulates international maritime traffic, has set forth an ambitious action plan for limiting such environmental impacts.

Alfa Laval has combined a number of products for the marine market under a single concept known as "Pure Thinking." The product range includes PureBilge, an environmentally friendly solution for cleaning water that has collected at the bottom of a ship's engine room, contaminated by various types of oil and fuel. Historically, that water has been pumped directly into the ocean, although legislation enacted in recent years requires that it be cleaned to at least 15 ppm (= parts per million). Alfa Laval's solution is based on the company's separator technology, which means that neither chemicals nor filters are required and that even the smallest drop of oil is separated. Moreover, it is highly efficient and exceeds legislated targets by a wide margin.

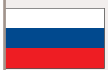
Ship ballast water is another large and growing environmental problem. Such water contains organisms that, in other parts of the world, do not have any natural competitors and can therefore reproduce unchecked, destroying local ecosystems. The IMO has proposed regulations that would require all newly built vessels to meet ballast purification requirements beginning in 2012, and all existing vessels built prior to 2012 beginning in 2016.

Alfa Laval's product in this field, PureBallast, was developed in cooperation with Wallenius Water and is the first chemical-free solution to receive approval by the IMO. PureBallast uses patented technology, based on ultraviolet light, which kills all microorganisms. The first orders were received in 2007 with approximately 15 of these systems being delivered during 2008.

A decline in the shipyard industry was noted during the year, a development that should be seen as a natural reaction to the rapid expansion in recent years. There remains, however, an underlying need for moving goods between countries and continents. At the same time, there are increasing environmental regulations to reduce the impact of that traffic on the surrounding environment. Alfa Laval's offerings for the marine market are extensive and the goal is to further expand those aspects of the product range that exist outside of the engine room.

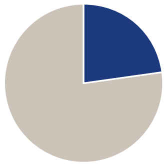
Alfa Laval offers a host of products for the marine market – including many environmental solutions.

Expanded presence in world’s fast-growing markets

COUNTRY	MARKET IN FOCUS
 **BRAZIL** **Presence:** Since 1959. 130 employees in sales, service and manufacturing. Network of agents and distributors to ensure that the company’s products and services reach potential customers. **Order intake 2008:** SEK 972 (825) million. Brazil has considerable natural resources. Consequently, it is only logical to expect the Process Technology Division to account for most of the order intake. There is a substantial installed base, offering major potential for continuing favorable growth in the aftermarket.	**Brazil continues to invest in bioethanol** The ethanol program in Brazil commenced in conjunction with the 1970s oil crisis. Today, Brazil is the world’s second-largest producer of ethanol and the largest exporter. Output has grown to 24 billion liters annually. Currently, there are about 400 distilleries in Brazil, a figure that is expected to increase to almost 500 in the coming few years. Alfa Laval has worked closely with the country’s ethanol industry since its inception in the 1970s and is currently its largest supplier of heat exchangers and separators.
 **RUSSIA** **Presence:** Since 1903. Approximately 300 employees in sales, service and manufacturing. Production is conducted outside Moscow. Alfa Laval has 15 regional sales offices ranging from Murmansk to Vladivostok. **Order intake 2008:** SEK 1,008 (1,010) million. The Process Technology Division accounts for the greatest share.	**Russian refineries in need of modernization** Russia is the world’s second-largest producer of oil. Between 1997 and 2007, the output of the country’s more than 30 refineries increased 60 percent to 491 million tons. Its facilities are outdated, however, and in significant need of both modernization and greater efficiency, in order to meet growing demand. Five oil companies, all customers of Alfa Laval, account for approximately 80 percent of all production. Russia extends across 11 time zones and large portions of the country are in cold weather climates. District heating is therefore an important alternative. Some 70 percent of the population lives in housing connected to district heating – systems that are obsolete and very inefficient. In recent years, Alfa Laval has delivered heat exchangers for upgrading and modernization projects.
 **INDIA** **Presence:** Since 1937. Alfa Laval hold a 77-percent interest in a company listed on the Mumbai Exchange. Alfa Laval also has two wholly owned subsidiaries that manufacture and sell heat exchangers, among other products. Approximately 1,200 employees in sales, service and manufacturing in Pune. Alfa Laval has widespread coverage, with 17 sales offices located throughout the country. **Order intake 2008:** SEK 1,213 (1,050) million. The Process Technology Division accounts for the greater share.	**Indian food industry experiencing high demand** In India, between 60 and 70 percent of the labour force is engaged in agriculture. Every year, large quantities of agricultural products are cultivated, although only 2 percent is processed to create products such as juices, vegetable oils and beer. At the same time, the percentage of the population consuming processed foods is increasing. By 2025, it is estimated that 500 million people in India will be demanding processed foods – just as many as the entire population of the EU. In order to meet this demand, the food processing industry will need to make significant investments in capacity increases. Alfa Laval is currently the largest supplier of technical processing products and solutions to the Indian food processing industry.
 **CHINA** **Presence:** Since 1984. Approximately 860 employees in sales, service and manufacturing. Three wholly owned production plants for the manufacture of products in all three technology areas. **Order intake 2008:** SEK 3,009 (3,225) million.	**China – a growing player in the shipbuilding industry** Several of Alfa Laval’s traditional markets are important in China as well. Energy-related projects, investments in purification facilities and the expansion of infrastructure requiring cooling and heating are all sectors in focus. The marine market is also very important. In 2000, China accounted for 11 percent of global shipbuilding. By 2010, it is estimated that the market share will have increased to 33 percent, which would make the country the world’s largest shipbuilding nation, measured in number of vessels. Alfa Laval has partnered with the shipbuilding industry since the 1960s and all of the country’s largest shipyards are customers.

The “BRIC” countries refer to the fast-growing economies in Brazil, Russia, India and China. The combined populations of these four countries comprises almost half of the world’s population and their economic growth has, in recent years, exceeded the global average.

The BRIC countries account for about 23 percent of Alfa Laval’s sales.



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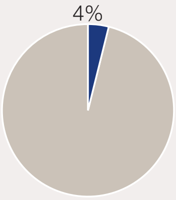
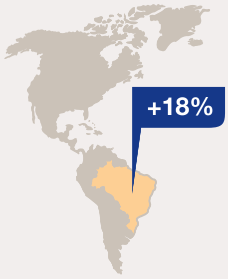
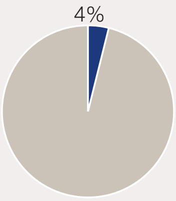
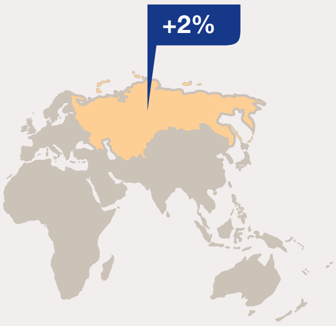
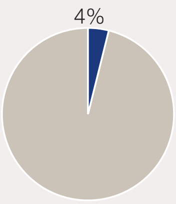
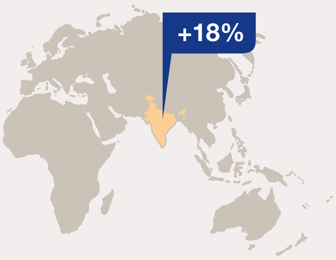
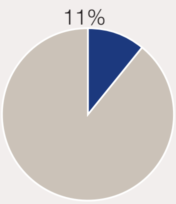
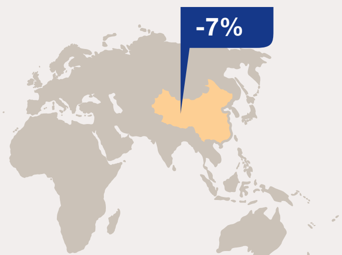
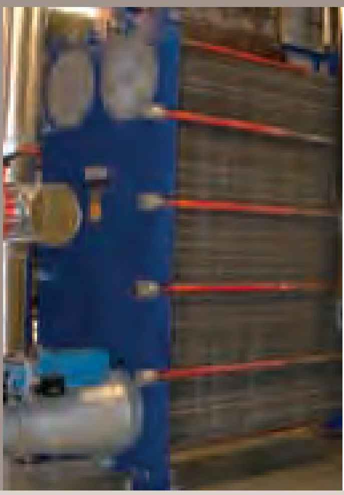
		
		
		
		

Leading positions in three global key technologies

KEY TECHNOLOGIES | SELECTED MARKET SEGMENTS | COMPETITORS

Heat transfer



Selected market segments	
Comfort & Refrigeration	●
Marine & Diesel	●
OEM	●
Fluids & Utility	●
Sanitary	●
Food	●
Energy & Environment	●
Process Industry	●
Life Science	●

Plate heat exchangers

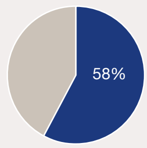
- GEA (Germany)
- Hisaka (Japan)
- SPX/APV (U.S.)
- SWEP (U.S.)

Market position

1

More than 30 percent of the world market

Share of Group's sales in 2008



Separation

Selected market segments	
Comfort & Refrigeration	
Marine & Diesel	●
OEM	●
Fluids & Utility	●
Sanitary	●
Food	●
Energy & Environment	●
Process Industry	●
Life Science	●

High-speed separators

- GEA (Germany)
- Mitsubishi Kakoki Kaisha (Japan)
- Pieralisi (Italy)

Decanters

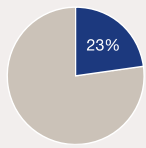
- GEA (Germany)
- Pieralisi (Italy)
- Guinard/Andritz (France, Austria)
- Flottweg (Germany)

Market position

1

25-30% of the world market

Share of Group's sales in 2008



Fluid handling

Selected market segments	
Comfort & Refrigeration	
Marine & Diesel	
OEM	
Fluids & Utility	
Sanitary	●
Food	●
Energy & Environment	
Process Industry	
Life Science	●

Sanitary fluid handling

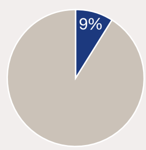
- GEA (Germany)
- SPX/APV/ Waukesha Cherry Burrell (U.S.)
- ITT Industries (U.S.)

Market position

1

10-12% of the world market

Share of Group's sales in 2008



Alfa Laval's operations are based on three key technologies – heat transfer, separation and fluid handling, all of which are of decisive significance for many industrial processes. Heat transfer products accounted for 58 (57) percent of new sales in 2008, separation products for 23 (22) percent, and fluid handling products for 9 (10) percent.

Alfa Laval is the global leader in all three technology areas.

DESCRIPTION

Various technologies for heat transfer are used in most industrial processes for heating, cooling, freezing, ventilation, evaporation and condensation of fluids. As a result of the numerous applications, there are many customers in the chemical, food processing, oil and gas production, power generation and marine industries and for temperature control and ventilation of buildings.

Decisive significance

A heat exchanger transfers heating or cooling, usually from one fluid to another, but this can also occur with the help of air. The products are of decisive significance in ensuring the efficiency of the entire manufacturing process. In many cases, they offer far more efficient energy utilization, with lower costs and minimum environmental impact. The main products in Alfa Laval's product range are compact plate heat exchangers.

Plate heat exchangers

Plate heat exchangers are made up of a series of corrugated plates assembled close to each other. Between the plates there are two channels with a cold and a warm medium. These pass on each side of the plates and in opposite directions to each other. Heating or cooling is transferred via the plates. Gasketed plate heat exchangers are sealed with rubber gaskets. Brazed plate heat exchangers have been developed to cope with higher pressures and temperatures. Welded plate heat exchangers have been developed to handle even higher pressures and temperatures.

Ever since Alfa Laval was established in 1883, separation technology has been a core operation. The technology is currently used to separate liquids from other liquids and solid particles from liquids. More recently, the technology has been used to separate particles from gases.

Wide-ranging application area

Separators play a vital role in a range of industrial processes. Examples include:

- processing of food and beverages and in pharmaceutical, biotech, chemical and petrochemical processes
- extraction and production of crude oil – for the treatment and recovery of drilling fluids
- treatment of lubricating oils and crude oil
- management and treatment of fuel and lubricating oils for vessels and electric power plants
- dewatering of sludge in wastewater plants

High-speed separators and decanter centrifuges

Alfa Laval's products in centrifugal separation are dominated by high-speed separators and decanter centrifuges. Separators with high rotation speeds are used primarily for separating liquids from each other. Decanter centrifuges are normally based on horizontal separation technology and work at slower speeds. They are used, for example, in dewatering sludge in wastewater treatment plants. A third separation product is membrane filtration, which is the established solution for separating very small particles.

Transporting and regulating fluids in an efficient and safe manner are crucial processes in industry. In recent years, Alfa Laval has focused on sanitary fluid handling, in which hygiene requirements are stringent.

Providing exact flows

The company's pumps, valves and installation material are used in fluid handling in such applications as the production of beverages, dairy products, food, pharmaceutical products as well as health and personal care products. Among other applications, the products are used to attain exact pumping of all type of fluids in sanitary applications. Customers often integrate many of Alfa Laval's products for fluid handling into their systems, and thus, continually require product deliveries.

Products for sanitary applications

The main types of pumps used in sanitary environments are centrifugal, rotary lobe and liquid ring pumps. Other products in fluid handling are valves, tank-cleaning products and various types of installation materials.

Good service forms basis for tomorrow's business

Alfa Laval's focus is on continuing to develop sales of spare parts and service and to offer solutions that can increase capacity of customers' existing installations. All of these areas fall under Parts & Service, which generates added value for customers, ensures closer contacts with customers, has favorable profitability and is less vulnerable to economic trends. During periods of economic stagnation – when companies sometimes hold off on making major investments, while at the same time requiring their processes to function efficiently – this segment's offerings become even more interesting.

Good service contributes to new sales

The employees at Parts & Service are important representatives for Alfa Laval. No other segment is as close to customers, with such frequent contact and has such a decisive impact on continued confidence in the company and its products. Good service with a large knowledge base, quick deliveries of spare parts and a deep understanding of customer processes contribute to securing Alfa Laval's positions, which help in securing new sales.

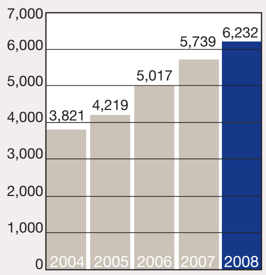
For a company such as Alfa Laval, with sales around the globe, it is essential to have an extensive organization that can handle maintenance and service of the continually expanding installed base. Many of the company's products are found in customer processes where they perform key and, in many cases, critical tasks. In most cases, the customer's processes rely on the products functioning continuously. Rapid service of the products and delivery of spare parts is consequently of the greatest importance.

Development during 2008

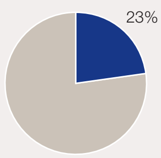
- The order intake rose by 8* (17) percent, accounting for 23 (21) percent of the Group's total sales during the year.
- The segment's development was especially good regarding applications in Energy & Environment in North America and Asia. Demand for Alfa Laval's applications and solutions was good in the marine market, due to the larger number of vessels with Alfa Laval equipment onboard.
- During the year, new service centers were added to expand Alfa Laval's global coverage and to achieve proximity with customers. Increased efforts were also made to offer upgrade solutions to help customers boost capacity on previously installed equipment.

* at fixed rates

Order intake, SEK million



Share of Group's order intake 2008



Extensive expertise, foundation for strong service offerings

Alfa Laval offers a wide range of service contracts that are ranked from 1 (base) to 4 (performance), depending on their scope. The four levels include everything from simple framework agreements for spare parts to more comprehensive offerings with a high service content.

Employees within the service organization should be able to handle all of Alfa Laval's products, within all types of industries, placing extensive requirements on their skills. In order to live up to the commitment to "optimize performance of our customers' processes – time and time again" it is essential to provide ongoing training initiatives aimed at service technicians and field sales representatives. Being able to provide assistance in a critical situation, and to do it well, is one of the factors that determines whether a customer comes back.

Ongoing projects

For Parts & Service, it is important to have a good overview of the installed base to be able to plan operations. In response to recent years' significant sales increases of products and solutions to energy-related sectors, the organization has worked more intensely to follow up and evaluate the size and composition of the installed base, to best ensure that offerings meet demand. Other projects that impacted work during the year included the launch of new products, build-out of the service network and development of spare parts supply.

Product launches

The focus on developing new products and services is something that embodies all of Alfa Laval. All segments cooperate and new products are launched on an ongoing basis. For Parts & Service, this means that specific products are developed that can be included in offerings aimed at customers who need maintenance or to upgrade their existing equipment. This also means that new service products are developed in conjunction with product launches in other segments.

Service network

During 2008, the service network was expanded to ensure proximity to customers. A decision was made to open eight new centers in the US, Russia, Turkey, China (2), Japan, Australia and Saudi Arabia. Four of these were opened during the year, with the others expected to start up during the first part of 2009. In addition, operations were expanded at four existing service centers and six others were relocated.

The service center in Houston, Texas (US) was expanded due to Alfa Laval's extensive sales of welded heat exchangers to the oil, gas, petrochemical and refining industries in the US.

A service center was opened in Des Moines, Iowa (US) to serve the large, installed base of products that exist among American ethanol producers.

The service center that has opened in Istanbul (Turkey) will be able to handle the environmental solutions that have, to a growing degree, been installed in recent years.

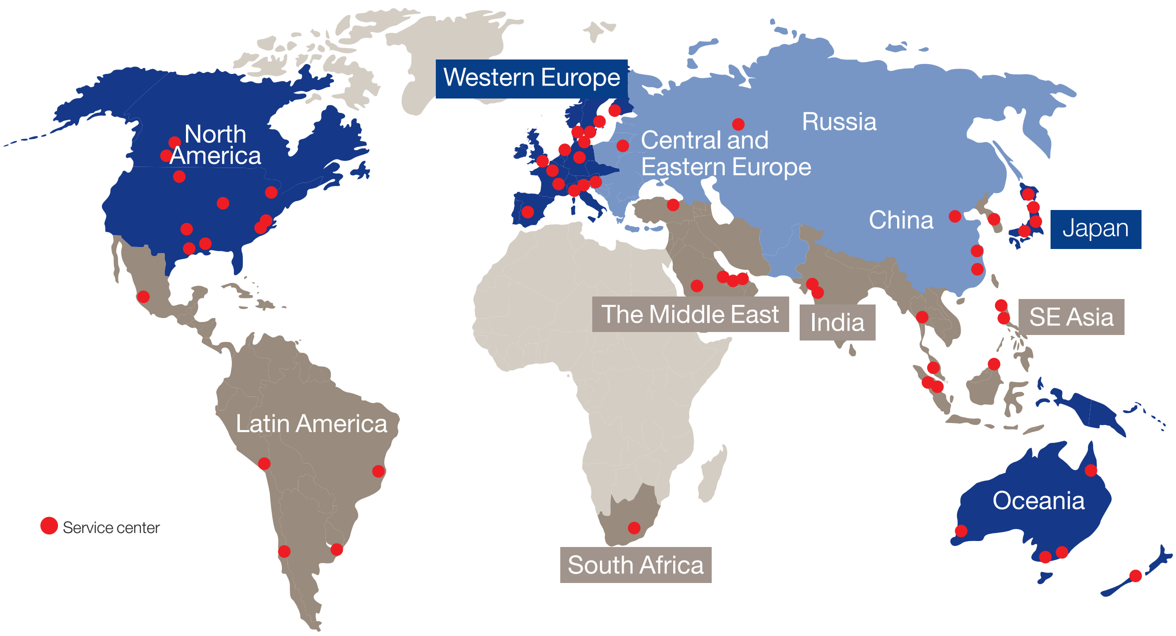
Accessibility

During 2008, resources were also aimed at improving accessibility and delivery reliability. The goal is to be able to meet the needs of customers in every single instance. This is a challenge, not only considering how large the installed base is, but also because some customers have Alfa Laval products that are still in operation after 30 years or more. Even those products shall be offered service and spare parts to the greatest extent possible.

Alfa Laval has three main distribution centers: in Tumba and Lund (Sweden) and Kolding (Denmark). There are also regional distribution centers localized in Indianapolis (US), Singapore (Singapore), Shanghai (China) and Shonan (Japan).

Future potential

The foundation of the Parts & Service operation is linked to the installed base, which has expanded significantly in recent years, in terms of size and geographic spread. This means that the average age of products varies depending on where in the world the product is installed. Generally speaking, products are older in Western Europe and the US and newer in Central and Eastern Europe, Latin America and Asia. As the installed base ages in the fast-growing nations, demand for spare parts and service will also increase.



Geographic potential

The installed products create growth potential for the aftermarket. Today, the aftermarket is largest in Western Europe and the US, where the installed base is older. At the same time, this means that the potential in emerging markets is rising in pace with the increase in new sales and the aging of the installed base.

Installed base

- Large installed base that needs service and renewal.
- A combination of rapidly growing markets and established niche applications.
- Smaller newly installed base that is growing.

New products to fulfill new needs

An innovative 125-year old

Alfa Laval's brand has been associated with innovation for the past 125 years. The first separator was an immediate success, however development continued, resulting in a new, improved version with capacity to handle 130 liters of milk an hour. Thanks to ongoing research and development, today there are separators that can be used for everything from the production of traditional dairy products to dewatering of digested sludge in sewage works.

Continued focus on research and development

Today's research and development continues along that same path by focusing on technical solutions of the future for both the markets of today and tomorrow. An ongoing and consistent focus on research and development has been crucial in building, strengthening and developing the company's global market leadership. Total research and development expenses in 2008 amounted to SEK 718 (643) million, or 2.6 (2.6) percent of the Group's total sales. That is an increase of 78 percent since 2004.

All segments cooperate in the development of new products. The company has more than 200 patents on proprietary products.

Customer-driven product development

The basis for the Group's research and development is a long-term approach to basic research and applied development, focusing on heat transfer, separation and fluid handling. The goal is to be able to meet customers' continually changing demands and requirements with new, updated and improved products. It also involves staying one step ahead and developing products and solutions for the future. In many instances, the changes are relatively small, but they can result in significant improvements for the customer. In other instances, Alfa Laval will partake in a customer's pilot project where new equipment is tested, developed and adapted.

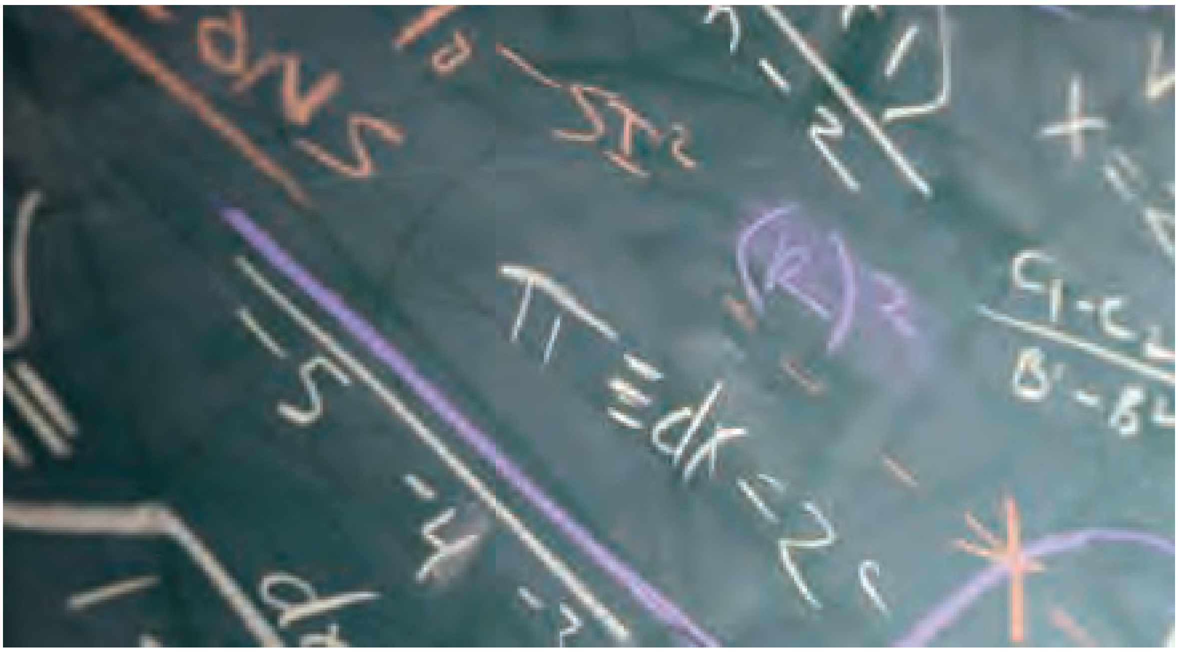
Specialized product centers

Alfa Laval's product centers cooperate with both customer segments and Operations in order to determine customer requirements and desires, transforming those into the development of new products. Cooperation means combining the customer segment's knowledge of customer requirements with expertise regarding their processes and transforming that into obtainable concepts. The end result is products that fulfill new needs and which reach the market within the promised timeframe. The overall goal is to secure Alfa Laval's leading position by being the first to market with innovations and to attain product profitability in the shortest possible time.

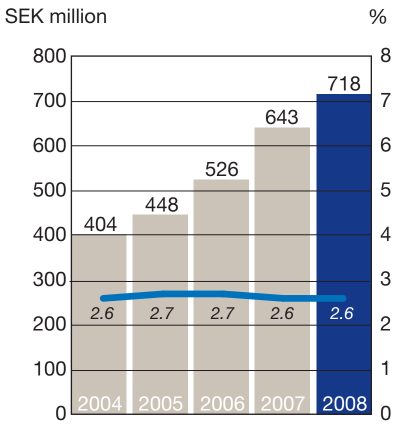
Alfa Laval has specific centers for all main products, including compact heat exchangers, separators, decanters, fluid handling, welded heat exchangers, air heat exchangers, and membranes.

Focus on higher share of new products

During 2007, Alfa Laval established new goals for product development. One goal is to reduce the amount of time from idea to achieving sales targets by 25 percent by 2009,



R&D costs and percentage of net sales SEK million



and the other is to increase the share of sales from new products by 50 percent. For 2008, the plan also called for a 30 percent increase in the number of new products.

These goals capture Alfa Laval's desire to develop the right product, for the right market, at the right time. Internal development of products is the most important way to improve and develop the product range. Nevertheless, rapid access to a market can also be attained through an acquisition or alliance.

During 2008, Alfa Laval acheived the goal of increasing the number of products by 30 percent compared with 2007. The company is also on target for meeting the sales volume goal, by the end of 2009, for new products and the amount of time it takes to achieve commercial targets.

Distinct goals for new products

Examples of products launched in 2008

Heat transfer

New, efficient freshwater generator

Alfa Laval AQUA is a new heat exchanger for freshwater production. It requires only half as much seawater as traditional versions to produce the same amount of fresh water. This greater efficiency means that a vessel's pumps work less, reducing fuel consumption along with carbon-dioxide emissions and costs.

High-capacity evaporator

The product range of evaporators was supplemented during the year with the AlfaVap 650, which provides more plates in several different materials. It has a high capacity and can also be used in a host of different industries including distillery, food, caustic, starch, sugar and more.

Brazed plate heat exchanger

The CB60 is an entirely new brazed cost-efficient plate heat exchanger, with the same compact dimensions as the previous CB52. Despite having the same size, it uses less material in production, while the surface for heat transfer is larger. Ideal for heat pump installations.

AlfaDisc

A portfolio of compact, welded heat exchangers for use in processes that require equipment that can handle high pressure. They do not have gaskets and are aimed at a host of different industries.

Separation

HSS

Module-based platform

A module-based platform for separators was developed during the year. The modules can be combined to create various products. During the initial stage, Alfa Laval completed and delivered separators for the production of biodiesel. The advantage of modularization is that it is possible to quickly modify a product to a new process, optimizing the product to be able to meet future demand.

Hermetic centrifuge

Some new pharmaceuticals for the treatment of cancer and rheumatism are based on a fermentation process that involves mammalian cells. Alfa Laval has developed a customized hermetic centrifuge – Culturefuge 400 – whose gentle treatment of cells contributes to optimized performance.

Decanters

360-mm decanter platform

The introduction of a new decanter that can be used within a broad spectrum of food processing and environmentally related applications. The new decanter offers higher performance along with lower energy consumption than its predecessor. An innovative and maintenance-friendly design ensures both efficient operation and maintenance.

Fluid Handling

Optilobe

A new platform for rotary lobe pumps for general applications in sanitary environments. It has an efficient, standardized design that fulfills the requirements of the US Food and Drug Administration, for example.

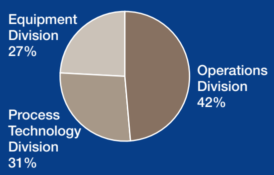
Solid C UltraPure

An efficient centrifugal pump in several different sizes that fulfills the requirements of the biopharmaceutical and pharmaceutical industries. It can withstand the chemical exposure of the processes and can be cleaned and sterilized in place.

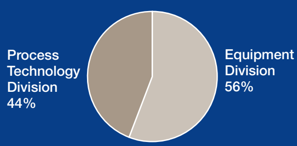
THE GROUP

Alfa Laval is organized on the basis of three divisions. The Operations Division is responsible for purchasing, production and supply of the company's products. The Equipment Division and the Process Technology Division market and sell products through ten market segments. The organization enables working closely with customers in various industries and the sales personnel within each segment are specialized in the customer's processes.

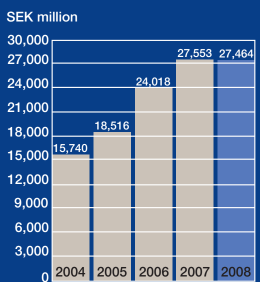
Employees/Division. Total 11,821



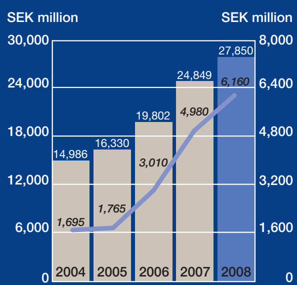
Sales/Division. Total 27,850



ORDER INTAKE



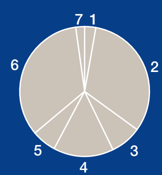
NET SALES AND OPERATING RESULT*



ORDER INTAKE/ CUSTOMER SEGMENT

1	Marine & Diesel	17%
2	Sanitary	8
3	Comfort & Refrigeration	11
4	OEM	6
5	Fluids & Utility	2
6	Process Industry	13
7	Energy & Environment	10
8	Food	7
9	Life Science	3
10	Parts & Service	23

ORDER INTAKE/ GEOGRAPHIC MARKET



1 Sweden
2 Other EU
3 Other Europe
4 North America
5 Latin America
6 Asia
7 Other

*Adjusted EBITA

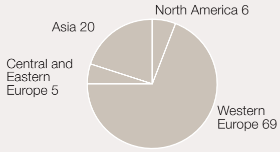
OPERATIONS DIVISION

The Division is responsible for production purchases, manufacturing and logistics. This centralization contributes to creating optimum delivery reliability, increased productivity and reduced energy costs, that is, the utilization of economies of scale. With a global perspective and coordination of these functions, Alfa Laval offers reliable access to the company's products worldwide.

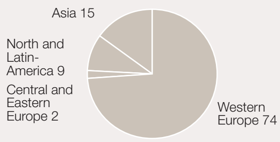
Significant events in 2008

- Resources were balanced and adjusted to handle the volume of orders, which had increased in recent years. At the same time, delivery reliability was improved.
- Continued initiatives to increase certification in accordance with ISO 14001. At year-end 2008, more than 80 percent (69) of the total delivery value derived from certified plants.
- The Distribution unit's goals of improving accessibility and delivery reliability were achieved.
- During the year, the number of units manufactured increased as a result of more acquisitions being integrated in the organization. Fincoil's facility in Helsinki was incorporated at the same time as the integration process commenced for Standard Refrigeration in the US.
- Capacity increases and broadened product range for the units in China and India.

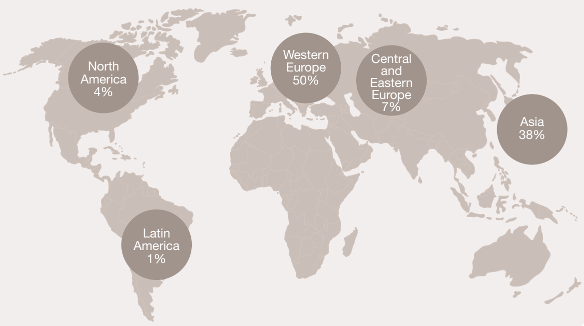
Investments by geographic market, %



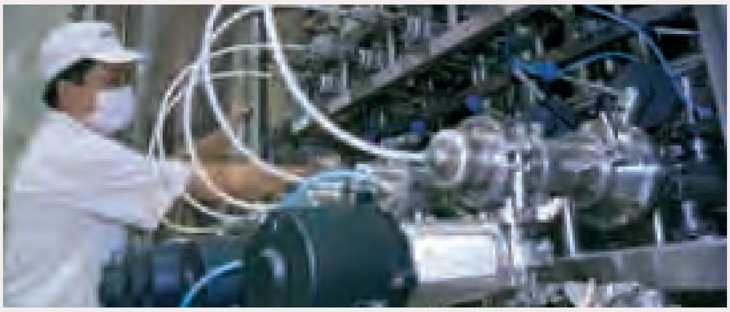
Purchases by geographic market, %



Geographic distribution of direct labour hours in production, %



EQUIPMENT DIVISION

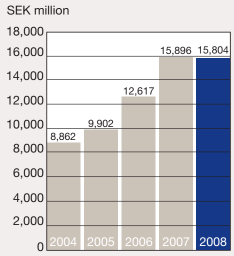


The Division's customers have a well-defined and regularly recurring requirement for Alfa Laval's products. Sales are conducted mainly to customers other than end-users, meaning system builders and contracting companies, as well as to dealers, agents and distributors. Since it is strategically important that products are available worldwide, the Division is continually increasing the number of sales channels. The strategy is to retain and strengthen global market positions, and to identify new applications for products in areas with good growth potential.

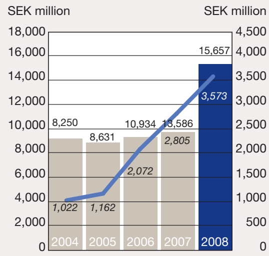
Significant events in 2008

- Sales increased 14.8 percent to SEK 15,657 million.
- Activity within the world's shipbuilding industry, which reached record levels in 2007, showed a significant decline toward year-end.
- Better and more effective market coverage contributed to continued profitable growth for Fluids & Utility.
- Parts & Service experienced a generally favorable trend in 2008.
- Volumes within Sanitary declined due to investments in milk production decreasing.
- In Comfort & Refrigeration, the market was characterized by an increased focus on environmentally friendly cooling solutions.
- Following a weak start, orders received for OEM's heat pumps rose substantially during the second half of the year.

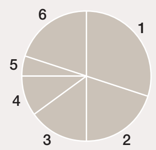
ORDER INTAKE



NET SALES AND OPERATING RESULT*

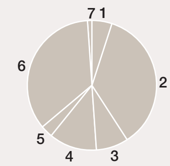


ORDER INTAKE/ CUSTOMER SEGMENT



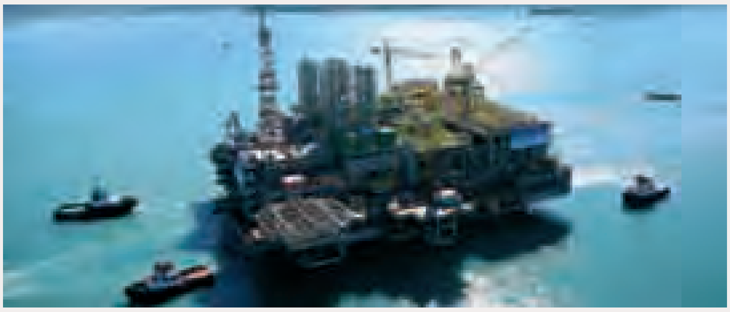
1	Marine & Diesel	30 %
2	Comfort & Refrigeration	20
3	Sanitary	15
4	OEM	10
5	Fluids & Utility	5
6	Parts & Service	20

ORDER INTAKE/ GEOGRAPHIC MARKET



1 Sweden
2 Other EU
3 Other Europe
4 North America
5 Latin America
6 Asia
7 Other

PROCESS TECHNOLOGY DIVISION

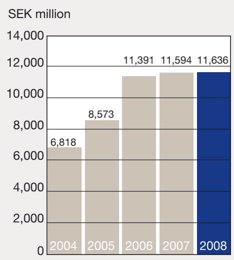


The Division serves customers that require specially adapted solutions to enhance the efficiency of their processes or boost capacity. Sales are conducted mainly through the Group's own sales companies. Alfa Laval combines expertise in its key technologies with solid knowledge about customer processes,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

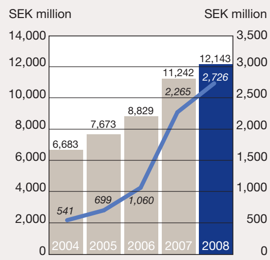
Significant events in 2008

- Sales rose by 7.2 percent to SEK 12,143 million.
- Continued strong growth in the power and inorganic industries and favorable growth in environmental technology.
- Projects related to oil and gas extraction performed well, partially as a result of the acquisition of Hutchinson & Hayes – a company specializing in separators for oil extraction, among other services.
- Decreased capacity utilization in Petrochemicals led to a negative trend during the year, while refineries ended strongly following a relatively weak start.
- The Food Technology segment reported a decline in growth for the year, primarily due to a decline in investments in the brewery sector.
- Parts & Services continued to experience favorable growth.

ORDER INTAKE

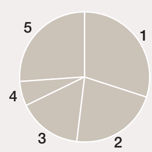


NET SALES AND OPERATING RESULT*



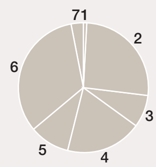
*Adjusted EBITA

ORDER INTAKE/ CUSTOMER SEGMENT



1	Process Industry	30 %
2	Energy & Environment	22
3	Food	16
4	Life Science	6
5	Parts & Service	26

ORDER INTAKE/ GEOGRAPHIC MARKET



1 Sweden
2 Other EU
3 Other Europe
4 North America
5 Latin America
6 Asia
7 Other

*Adjusted EBITA

Equipment Division overview

Market segment | Performance in 2008

Marine & Diesel

Slowdown in the marine industry, favorable growth for diesel power

Orders received by the world's shipbuilders, which reached record levels in 2007, experienced a significant decline in 2008, primarily due to major orders placed with shipbuilders in recent years. An underlying demand for transportation remains, but following the exceptional trend in recent years, order intake will settle at a more normal level from a historical perspective. Alfa Laval's Marine & Diesel segment as a whole performed highly favorably during the year and has built a strong order backlog.

In Marine, a number of initiatives were implemented to increase the offering outside the engine room in the form of products to reduce the environmental impact of ships. In June, PureBallast was certified by Den Norske Veritas, which confirms that it complies entirely with IMO's requirements. During the year, a completely new freshwater generator named AQUA was also launched. Initiatives were also taken to expand in new niche markets, such as among shipbuilders that build smaller boats for coastal and river transportation. These investments will also continue in 2009.

The diesel power part of the segment performed well during the year and accounted for about 15 percent of the segment's order intake at year-end. Alfa Laval's acquisition of Fincoil expanded the product range, which contributed to generating new business.

Comfort & Refrigeration

Energy saving needs fueled demand for district-heating solutions

During the year, increased demand was noted for water-based district-heating solutions outside the Nordic markets, which have traditionally been the most important for this type of product. This was caused by a general increase in demand for energy savings, among other factors. In Eastern Europe, demand remains for increased efficiency of existing installations. The underlying markets' performance declined toward the end of the year in pace with the slowdown in activity in the building industry.

In the cooling area, Alfa Laval's experienced strong demand for air heat exchangers at the same time as the acquisition of Standard Refrigeration was another step in becoming a leading player in the US. The acquisition contributed to expanding Alfa Laval's product portfolio by adding shell-and-tube heat exchangers to the offering in the US market. The market was characterized by an increased focus on environmentally friendly cooling solutions.

Sanitary

Continued investments in the North American dairy industry

Sanitary's base transactions remained at a stable level in most end-markets. However, project business slowed, particularly during the second half of the year.

In dairy, additional investments were made in cheese production at the same time as milk production projects declined compared with 2007. The beverage industry increased investments in juices and other healthy alternatives, while fewer projects for carbonated beverages were launched during the year. Cosmetic industry investments continued while the number of new projects in pharmaceuticals and biotech declined slightly compared with prior years.

The favorable trend continued in several geographic regions. In North America, diary industry investments remained at a high level. In Western Europe and the Nordic Region, base transactions maintained strong levels while investments in major projects decreased. Simultaneously, several projects in Eastern Europe were postponed. In Asia, investments in various beverages continued, while the levels in the dairy industry were lower, mainly due to the trend in China and Japan. The Middle East experienced a very strong and favorable trend.

OEM (Original Equipment Manufacturer)

Call for environmentally friendly solutions strengthened demand for heat pumps

Following a weak start, order intake increased for heat pumps during the second half of 2008. Growth was fueled by increased environmental requirements, primarily in Europe. Alfa Laval observed a clear tendency among several major air conditioning companies and manufacturers of various heating equipment investing in the heat pump market, which in the long-term leads to increased demand for Alfa Laval's plate heat exchangers.

In the air conditioning subsegment, Alfa Laval performed well while orders received for heat exchangers for gas heat modules declined. The "Engine" area continued to grow in pace with an increasing number of companies recognizing the opportunities generated by both Alfa Laval's heat exchangers and cleaning solutions, such as filters and separators.

Fluids & Utility

Favorable growth in the wake of increased presence and broader product range

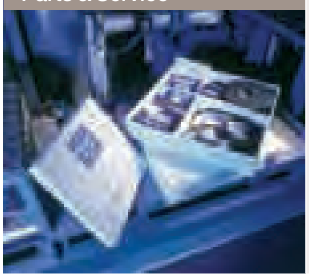
The segment performed well during the year and its prioritization of better and more efficient market coverage resulted in continued profitable growth.

The majority of the end-markets performed well as a result of increased demand for energy-efficient solutions, a need for capacity expansion and an increased focus on environmental solutions.

Alfa Laval's investments in an expanded presence in key markets and strong competitiveness via an increased product program were other factors contributing to the strong performance.

From a geographic perspective, the trend was particularly favorable in China, India and Brazil. The US and Benelux countries also performed well.

Parts & Service

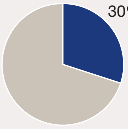
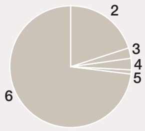
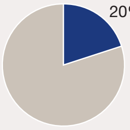
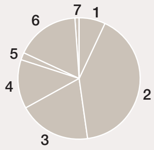
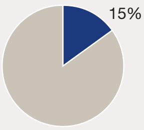
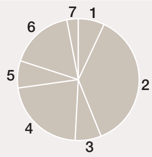
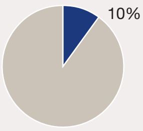
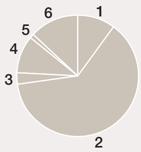
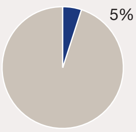
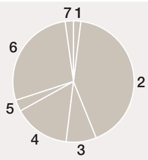
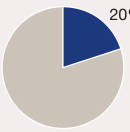
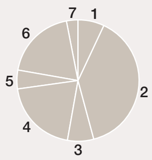


Strong growth in Asia and Latin America

High oil prices, which increased the demand for energy efficient solutions, a greater focus on the environment and high capacity in the food industry and merchant fleet contributed to rising demand during the year. The segment's trend was generally favorable, although certain underlying markets experienced a decline in the second half of the year.

In the marine industry, the demand for Alfa Laval's products was strong due to a greater number of ships currently employing Alfa Laval equipment onboard. There was also an increased demand for environmental marine applications, such as PureBallast and EcoStream.

From a geographic perspective, performance in Asia and Latin America was the best, where several years of growth generated a substantial installed base. Combined with Alfa Laval's investments in expanding both service capacity and the distribution network, this generated strong growth in these regions. New service centers were opened in China during the year.

Share of the Division's order intake	Change in order intake[1]	Geographic distribution (order intake)	Operations
	2008: − 2007: + 2006: +	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other	Alfa Laval's products are used for such applications as the cleaning of tanks, treatment of sludge and oily water, fuel and lube oils, engine cooling and production of fresh water. Customers are shipyards and manufacturers of diesel engines. About three-fourth of the world's vessels carry some Alfa Laval products onboard. The customer list includes Hyundai, Hun Dong, Fincantieri, Wärtsilä and MAN/B&W.
	2008: + 2007: + 2006: +	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other	Heat exchangers are sold primarily for use in systems for district heating and cooling, air conditioning of plants, offices and shopping malls. Other major application areas are maintaining refrigeration and freezing compartments and ice rinks at the correct temperature. Customers range from major multinational companies to small local installation companies. Examples of customers are Climespace, York, Mycom, Bejer Ref and Hurre.
	2008: − 2007: + 2006: +	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other	Alfa Laval's products are used to produce liquid and viscous foods, pharmaceuticals and hygiene products. Customers are active in the beverage, dairy, food, pharmaceutical and biotech industries – all of which have very stringent requirements in terms of hygiene and safety. The largest customer is Tetra Pak, a leading supplier of process and packaging systems for the food industry.
	2008: = 2007: + 2006: +	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other	Customers in the segment include manufacturers of air-conditioning systems, air compressors, air dryers, diesel engines and gas boilers. Customers integrate Alfa Laval's products – frequently brazed plate heat exchangers – into their products. Alfa Laval's strategy is to form partnerships with customers to jointly develop new products. Customers include Baxi, Merloni, Cummins, IVT/Bosch and Carrier.
	2008: + 2007: + 2006: +	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other	Alfa Laval's plate heat exchangers optimize energy utilization and ensure temperature control. Most industries use various types of expensive fluids in their production operations. Separators clean these fluids so that they can be recovered and reused, thereby cutting operating expenses and protecting the environment. Customers include Big Daishowa Seiki, Metso Paper, Bosch Rexroth, Inductotherm and Spirax Sarco.
	2008: + 2007: + 2006: +	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other	Customers are active in the Division's entire segment, in addition to OEMs. The aftermarket is a priority area and the overall strategy is to develop and expand spare parts and service operations. This provides customer value, brings customers closer to Alfa Laval, and is less sensitive to variations in the business cycle. By creating continual customer contacts, it facilitates new sales. Read more on pages 22-23.

[1] ± 3% compared with immediately preceding year

Process Technology Division overview

Market segment	Performance in 2008

Process Industry

Strong demand for efficient solutions for heat transfer

During the year, significant investments in petrochemicals and refineries in Asia and the Middle East continued. High energy prices in the first half of the year combined with an increased focus on environmental solutions contributed to rising demand for compact and efficient products for heat transfer. Alfa Laval's products and solutions also continued to capture market share as a result of an increased market presence and an expansion in the product range for welded heat exchangers. Accordingly, order intake remained at a high level, although a certain decline was experienced compared with the preceding year.

The markets for steel, aluminum and mining performed well but activity is expected to slow due to the industry entering a calmer pace following the capacity expansion in recent years. Increased demand for thermal evaporation systems was observed in the reuse of caustic soda in the aluminum industry.

In biofuels, Europe continued to experience weaker demand. The US market was also characterized by low activity following the substantial investments of recent years. In Brazil, the favorable trend continued and the country's ethanol industry is expected to implement further capacity-increasing investments in the years to come.

Energy & Environment

Increased demand for electricity boosted power market

Alfa Laval's strong development in Energy & Environment continued in 2008, particularly in the markets for Oil & Gas and Power. The latter reached record levels, benefiting from upgrades of existing generating capacity and major investments in new capacity, primarily in China, Russia and the Middle East. Increased demand for electricity in a rising number of areas in the world places a demand for continued expansions in the years to come.

The nuclear power market, in which Alfa Laval has a leading position, continued to perform well, primarily in Asia where several major orders were secured during the year. Continued investments in expanding generating capacity, a goal of decreasing dependence on oil and gas combined with an ambition to reduce carbon-dioxide emissions, make nuclear power an important alternative in many regions.

A rebound occurred in Oil & Gas, primarily due to a strong trend in the Middle East and the oil-drilling activity in Canada. The expansion of new production capacity for liquid natural gas (LNG) remained at a low level. There is still an underlying need to expand production in the future.

Environment operations continued to grow in nearly all regions. The market is expected to expand in pace with an increased focus on preventing the pollution of the world's water resources.

Food Technology

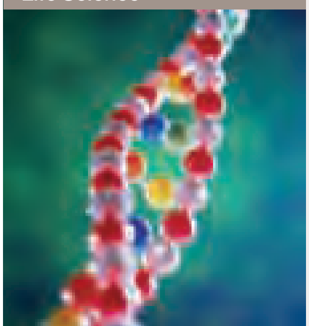
Strong development for vegetable oils, weakening within brewery

The market for vegetable oils continued to grow in 2008, but the pace slackened toward the end of the year. This was due to increasing demand at the beginning of the year, particularly in Asia. Alfa Laval, which already had a strong position, achieved further success partially due to the company's global presence.

Brewery experienced favorable growth during the first half-year. However, a slowdown was observed in the second half of the year, due to ongoing consolidation in the industry, which contributed to lower investments. The market for fish proteins is expected to continue to grow since new regulations regarding waste management and the extraction of fish oil will require new investments.

In fruit processing, Alfa Laval continued to show positive growth, particularly in India and Brazil. The beneficial trend is expected to continue in pace with the demand for healthy food increasing. Wine markets also performed well, since the industry began adopting and accepting other types of technologies. Alfa Laval's decanters for example, are progressively replacing traditional pressing technology.

Life Science



Strong demand for separators and membranes in China

The segment's order intake in 2008 remained at the same level as in 2007, but a slight redistribution of the operation's composition was observed. Traditional vaccine production continued to expand, as did the market for industrial fermentation, an area in which Alfa Laval has a broad product offering, and the trend is expected to continue.

The biotech market lost speed during the year, particularly in the US, as several major projects were postponed, partially due to a certain consolidation in the industry.

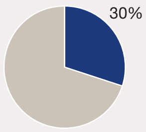
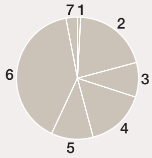
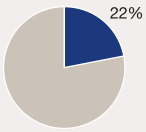
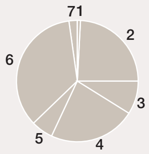
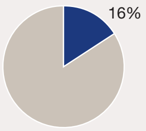
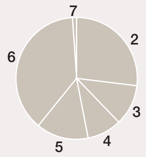
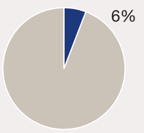
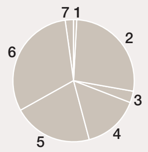
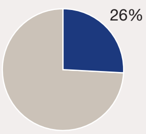
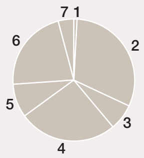
However, the Chinese market continued to grow. The largest increases were observed in industrial fermentation and traditional pharmaceuticals, with strong demand for both separators and membranes. The country's biotech business also showed growth, but from a low level compared with the US and Western Europe.

Parts & Service

More service centers a base for continued expansion

The segment's expansion continued in 2008, as a result of the continuous growth in Alfa Laval's installed base. The trend toward applications in Energy & Environment in North America and Asia was particularly strong.

More new service centers were added during the year to expand Alfa Laval's global coverage and broaden local presence. In addition, the offering was increased to comprise several types of service agreements for Alfa Laval's products. Increased investments in the upgrade offering were also implemented to help customers raise the capacity of machines already installed. In 2008, the network of service centers was expanded in Russia, China, Saudi Arabia and the US, among other countries. During the first quarter of 2009, additional units are expected to be established in Japan, Australia and Turkey.

Share of the Division's order intake	Change in order intake[1]	Geographic distribution (order intake)	Operations
	2008: – 2007: + 2006: +	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other	Alfa Laval's products are used for manufacturing petrochemical products, plastics, polymers, metals, minerals, biofuels, starch, paper and sugar. Alfa Laval has many well-known customers in the process industry including BASF, Bayer, Dow, and Dedini SA Indústrias de Base.
	2008: + 2007: = 2006: +	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other	In the energy sector, Alfa Laval's products, modules and systems play a major role in the extraction of oil and gas and in the production of energy in power plants. In the wastewater treatment segment, Alfa Laval supplies systems that reduce sludge volumes so that they can be managed in a cost-efficient manner. Customers include Shell, Total, Petrobras, Gazprom, CNPC, GE, City of Chicago and Shanghai Drainage.
	2008: – 2007: + 2006: +	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other	Alfa Laval supplies process solutions for the beverage and food industries. Among other applications, solutions are used in the production of beer, wine, fruit concentrates, milk proteins and milk sugars (casein and lactose), liquid foods, vegetable proteins as well as, meat and fish proteins. Customers include global groups such as Cargil, ADM, Nestlé, Heineken and Anheuser-Busch.
	2008: = 2007: – 2006: +	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other	Customers are active in the pharmaceutical, biotechnology, hygiene and health food product industries. Alfa Laval has developed a series of products and solutions that meet the extremely strict safety and hygiene requirements imposed by the industries and supervisory authorities. Customers include many major pharmaceutical groups such as GlaxoSmithKline, Genentech and Lonza.
	2008: + 2007: + 2006: +	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other	Customers are active in all the division's segments. The aftermarket is a priority area and the overall strategy is to develop and expand spare parts and service operations. It offers customer value, brings customers closer to Alfa Laval and is less sensitive to variations in the business cycle. By creating continual customer contacts, it facilitates new sales. Read more on pages 22-23.

[1] ± 3% compared with immediately preceding year

Continued investments in quality and supply reliability

OPERATIONS DIVISION

Purchasing

The purchasing organization is divided into regional and central offices. The four regional offices are located in India, China, Mexico and Poland. The central offices are in Tumba and Lund in Sweden, and Kolding in Denmark. The advantage of this organization is that it facilitates the identification of suppliers that can deliver the right quality at the right price, locally and globally.

The supply network is well established with 90 percent of the total purchasing volume originating from slightly more than 500 suppliers and about 65 percent takes place within the framework for global contracts.

Within the organization, work is carried out continually to optimize purchasing. There is a constant search for new suppliers to create cost-efficient solutions in which local production is matched to local suppliers. In addition, global purchasing has gradually been relocating in recent years from Europe to suppliers in other areas of the world. The focus is on proximity and cost advantages.

Manufacturing

Alfa Laval has about 5,500 (5,200) employees and 27 (26) major manufacturing units. In 2008, the number of production units increased as a result of acquisitions being integrated in the organization. These included Fincoil's facility in Helsinki, while at the same time the integration process started for Standard Refrigeration in the US. This work is expected to continue in 2009.

The manufacturing pace at the company increased significantly during the year through the implementation of capacity increases in several plants. This included China (Kunshan and Jiang Yin), India (Sarole), Sweden (Eskilstuna) and France (Fontanil and Chalon-sur-Saône). An entirely new facility was also opened in Brazil to increase capacity for the assembly of gasketed heat exchangers and other products and to further improve the level of service to Alfa Laval's customers.

Alfa Laval continuously monitors the operation to be able to optimally plan and place production. A gradual relocation of production from Europe to Eastern Europe and Asia has taken place in recent years. This means that the number of work hours in low-cost countries has increased along with the local presence.

During the year, resources were balanced and adapted to handle the increase in order volume. At the same time, delivery reliability improved. Increased investments in Research & Development also contributed to placing new demands on Operations. The manufacturing of new products requires investment resources that may entail anything

Logistics

Alfa Laval has three primary distribution centers: in Tumba and Staffanstorp, Sweden and Kolding, Denmark. There are also regional distribution centers placed in the US (Indianapolis), Singapore (Singapore), China (Shanghai) and Japan (Shonan).

In the Operations distribution unit, focus has been placed on the progressive improvement of the supply of spare parts. In 2008, resources were aimed at improving accessibility and delivery reliability, both of which were achieved. The identification of new supply chains that can provide the organization with new parts and shorten lead-times was also launched. A review is continuously taking place to map demand

The Operations Division is responsible for production-related purchases, manufacturing and logistics. This centralization contributes to increased efficiency and reduced operating costs. Operations is responsible for manufacturing for all segments and thereby contributes to ensuring global availability of the company's products.

Raw materials

Stainless steel is the most important raw material for Alfa Laval. The price consists of two components: base price and metal alloy fees. The base price declined slightly in 2008, while the price of nickel declined by more than 50 percent compared with the record-highs of 2007. Nickel is one of the most important metal alloys, followed by molybdenum and chrome, which also experienced a decline. The trend was the same for copper and aluminum.

Titanium is another key metal for Alfa Laval. It is also an important raw material for the aerospace and power industries. Titanium is not traded in global commodity exchanges, but rather traded directly between buyer and seller. The market had previously been characterized by a substantial shortage. This ended at the beginning of the year due to postponed projects within the aerospace industry and in 2008, supply was satisfactory.

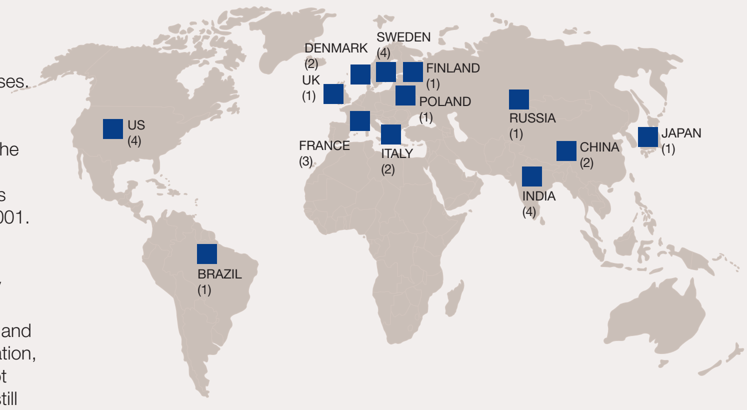
The corporate purchasing organization   Regional purchasing organizations

For several years, Alfa Laval has had regional purchasing offices in strategic markets such as China, India, Mexico and Central Europe.

from the training of employees and new investments to technical adjustments of production machinery.

In 2009, the focus will be on quality. Operation's multi-year investment in SixSigma will contribute to additional quality increases. SixSigma is an improvement program, whose purpose is to alter employees' opinions of the actual change program. In 2008, the project continued and at year-end, more than 80 percent (70) of the production units were certified.

Environmental work is another prioritized area. In 2008, focus remained on expanding certifications in accordance with ISO 14001. At year-end, more than 80 percent (69) of the total delivery value derived from certified facilities. Other environmental projects that influenced work during the year were the efforts to reduce energy consumption, lower carbon emissions and phase out the use of chemicals that are blacklisted by Alfa Laval. This work is ongoing and will thus continue in 2009. Alfa Laval's blacklist is based on legislation, including that of the EU, and comprises chemicals that should not be used in the company's processes. In cases in which they are still used, they are to be part of a plan to phase them out and have a date at which they will be completely removed.

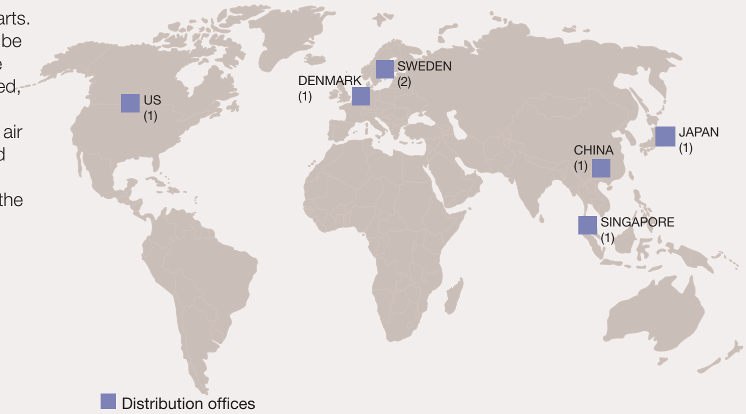


Production units

Alfa Laval has approximately 5,500 (5,200) employees working in production and 27 major manufacturing units, of which 15 are in Europe, seven in Asia, four in the US and one in Brazil.

and improve the supply of various types of products and spare parts. The classification occurs at three levels: parts that should always be in inventory for rapid delivery, those not in inventory but able to be purchased and delivered fairly quickly and those seldom requested, for which price and delivery must be established at each order.

During the year, about 8 percent of distribution took place by air transport, 32 percent by ship and 60 percent by truck. Compared with 2007, the share of volume delivered by ship has increased, which is in line with the efforts to reduce the carbon emissions of the supply chain.



Distribution offices

Increased diversity promotes innovation and develops the company

Alfa Laval's growth in recent years has been a challenge. This applies to the new employees and the HR staff, whose task is to ensure that new employees are integrated into operations in a favorable manner. Accordingly, operations in 2008 focused on a number of prioritized areas.

Training and development

Training programs have been carried out at all levels in the company to capitalize on and develop the skills that have been added in recent years. Several ongoing programs were accelerated while at the same time special initiatives were undertaken to promote new training opportunities for employees in the sales organization. The initiatives included establishment of a global development program for managers in Parts & Service, start of an intensive leadership program in Latin America and specific training programs for the company's finance managers.

Focus was also placed on ensuring that the employees continue to concentrate on the "vital few," the few points that are particularly important to prioritize to achieve success in the company's business. This applies to the veterans in the company as well as the new employees. "The vital few" can change depending on developments and should reflect what is particularly important for the foreseeable future.

Labour market for internal recruitment

During 2007, work began with creating an internal labour market. One tool to achieve this objective was to create a new section on the intranet at which vacant positions were advertised. All vacancies, including manager positions, are announced and internal candidates are encouraged to apply. The goal was to broaden the base of applicants to achieve increased mobility within the company, geographically as well as in terms of positions, to increase diversification and, by extension, promote innovation. This is beneficial for both the individual and the company since knowledge is spread throughout the organization.

The results began to become apparent in 2008. Among other indications, the number of advertised positions quadrupled. Previously, these vacant positions were not visible, since they were filled through suitable persons being identified by managers and HR personnel.

The increased openness regarding vacant positions also contributed to greater mobility. About one third of Alfa Laval's 90 level-3 managers had changed positions at year-end and one third of these had completely changed areas. Level-3 managers report directly to a member of Group Management.

Careers on equal terms

The international career opportunities were also broadened with the help of the internal labour market. Previously, transfers largely went in one direction, from Sweden to other parts of the world. This has changed and movement has now become more diversified.

Capitalizing on the cultural differences is extremely important in a global company. Similarly, it is also important that knowledge is spread internationally. The goal is that all employees within the Group, regardless of country,

At Ashridge Business School in the UK, Alfa Laval conducts leadership training as part of the internal SAM (Sales and Marketing) Managers Programme.

must be able to feel that there are career paths open for them.

Successively, the number of nationalities on international assignments has increased. During 2008, 28 nationalities were represented among those who departed for international assignments. Ten years earlier, only five nationalities were represented.

It is also important to have an international diversity at manager level. At year-end, there were 30 nationalities represented among Alfa Laval's 90 level-3 managers. Within the company as a whole, there are more than 60 nationalities.

Alfa Laval considers it a priority to change the distribution with regards to nationality and gender. It is the difference between people that contributes to promoting creativity, bringing out new perspectives and pursuing innovation. In 2008, the portion of women within Alfa Laval amounted to 20 percent, while at the same time the proportion in management positions was slightly more than 15 percent. The long-term ambition is to recognize women with executive potential at an early stage to reduce the gap between the proportion of women at management level and the number of women in the company as a whole.

Both the internal labour market and the internationalization efforts are part of Alfa Laval's desire to identify, develop and retain talent. Since it is important operationally to retain competence in the company, there are possibilities within Alfa Laval for transfers between staff functions, positions and countries. Knowledge about the company remains, while at the same time the individual gain a chance to develop through trying out totally new tasks.

Controlled recruiting

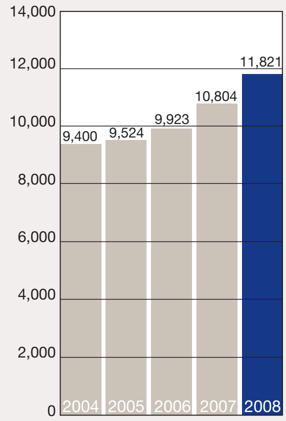
Group Management is involved is all personnel changes. Every vacant position is registered and must be approved by this group before anyone is employed. Statistics regarding recruitment and personnel turnover are closely watched so that the cost trend can be monitored and resources allocated to those segments and countries considered to have the best potential.

Development of HR organization

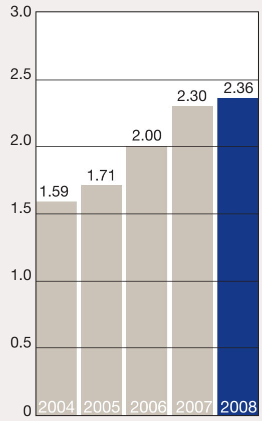
The HR staff function within Alfa Laval has developed into a global, operations-oriented organization from being a local, administrative unit. Successively during the year an overall plan was rolled out to ensure that everyone dealing with personnel issues works from a common process.

HR representatives are positioned at every level to ensure that the right person, with the right qualifications, is in place at the right time so that operations develop optimally.

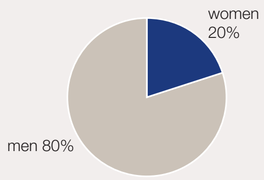
Average number of employees



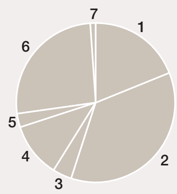
Sales per employee
SEK million



Gender distribution



Employees per region



1 Sweden, 19%
2 Other EU, 36%
3 Other Europe 4%
4 North America, 11%
5 Latin America, 3%
6 Asia, 26%
7 Other, 1%

Sustainability efforts must be a natural feature of daily business

"Alfa Laval's wide offering includes innovative products, solutions and services that help customers save energy, produce fresh water and reduce emissions. Alfa Laval's own operations are also managed in terms of their environmental impact. Within Alfa Laval, we aim to include the goals for sustainable development in our everyday operations."

PHOTO: OLA TORKELSSON

Lars Renström
President and CEO, Alfa Laval

Already in 1883, Alfa Laval's innovative products aimed at improving conditions for people in their everyday life. This is still a main focus and the processes to achieve this are governed by the company's Business Principles, which are based on the UN's Global Compact. This means that Alfa Laval's operations are managed in terms of their environmental impact, social responsibility, business ethics and transparency. There is a strong drive to implement the business principles in all activities.

Principles underlying measurement and governance ensure sustainable development

Alfa Laval has defined two operational principles to secure its business principles and sustainable development:

- The goal for sustainable development must be integrated into, and be a natural component of, daily operations.
- Reliable and consistent measuring methods are essential. Benchmarking and learning from best practices, internally and externally, are the most powerful ways of driving improvement.

This means that Alfa Laval's four business principles apply to all employees. Open dialogue with employees, suppliers, customers, shareholders and other stakeholders is essential to ensure that aspirations become reality. Since all stakeholders need reliable data to indicate whether the actions we take generate tangible benefits, we continuously develop the section of the Alfa Laval website devoted to sustainability, where more detailed information can be found. We welcome a dialogue with those involved in the analysis or use of published data.

Helping to improve everyday conditions for people is a key motivator

Alfa Laval operates globally with products that are used in processes essential to society, including processed food, pharmaceuticals, energy conservation and environmental protection. Improving the everyday conditions of people is an aim that stimulates our employees.

Accelerated work on reducing the environmental impact

The world is facing a huge challenge when trying to ease the human impact on the environment. Reducing emissions is a key element of efforts to achieve this aim. Alfa Laval contributes to alleviating this threat in two ways: firstly, by reducing emissions from the company's plants; and, secondly – by far the greatest contribution – by reducing our customers carbon-dioxide emissions through the use of the company's energy-saving products.

Alfa Laval has stepped up efforts to reduce the environmental impact from its processes – from new product development to disposal. Programs have been implemented aimed at cutting the company's CO_2 emissions by 15 percent from 2007 through 2011. In 2008, total calculated emissions were reduced to 92,000 tons (93,000), including emissions from acquisitions. On a like-for-like basis, however, emissions were reduced by over 5 percent to 88,000 tons, compared with the preceding year. The reduction was mainly due to energy-saving initiatives in several locations, including changing to electricity suppliers with lower carbon emissions.

Continued efforts to improve social conditions

A greater presence in emerging economies offers Alfa Laval the opportunity and potential to assume its social responsibility and improve employment conditions for sub-supplier workforces. For a number of years, Alfa Laval has focused on the social conditions of its suppliers' employees and is now beginning to see definite improvements from these efforts.

Alfa Laval continuously audits compliance with its business principles. The audit covers health and safety, working conditions (compliance with minimum wage, working time, overtime laws, etc.) and housekeeping standards. Over 150 social audits of suppliers were carried out in India, China, Mexico and Eastern Europe in 2008.

Ethical behavior – a prerequisite for sustainable success

Alfa Laval's employment policies include distinct guidelines for ethical behavior, notably in respect of conflicts of interest, political contributions, bribes and corruption. Employees are to report suspected violations to the Group's Human Resources Manager, who will coordinate investigations.

Alfa Laval Business Principles in brief

- Environment

  Optimizing the use of natural resources is our business
  Alfa Laval makes a significant contribution to reducing the environmental impact of industrial processes.

- Social

  Respect for human rights is fundamental
  Alfa Laval respects the human rights of our employees and the communities in which we live and supply.

- Business Integrity

  High ethical standards guide our conduct
  Alfa Laval conducts its business with honesty, integrity and respect for others.

- Transparency

  Our commitment to open dialogue builds trust
  Alfa Laval believes in open communication but is careful not to reveal commercially valuable information.

2008 Highlights

- Alfa Laval has implemented an environmental impact lifecycle assessment – standard for new product development projects. In 2008, 20 new products were assessed using LCAs. Of these 10 were replacements of existing products with an average reduction of environmental impact greater than 20 percent. No new product had an environmental impact worse that the product it replaced.
- Alfa Laval managed to reduce carbon-dioxide emissions excluding acquisitions by 5 percent in 2008. The overall target is to decrease emissions by 15 percent between 2007 and 2011.
- Alfa Laval's 2008 analysis of greenhouse-gases showed total carbon-dioxide emissions of 33,000 tons from production and service facilities. In 2007 emissions totalled 31,000 tons. Excluding acquired companies, which contributed an additional total of 4,000 tons in 2008, emissions declined by more than 6 percent.
- The development of supplier processes has shown considerable progress in terms of employee conditions. A total of over 150 social audits of suppliers were carried out in India, China, Mexico and Eastern Europe in 2008. During the year, 88 percent of those audited in 2007 showed improvement.
- The environmental management data reporting system was implemented in 71 sites (64).
- ISO 14001 certification was completed at an additional 5 plants including two acquisitions. In total, 18 plants were approved, corresponding to approximately 80 percent of the total delivery volume.
- Alfa Laval changed the distribution routing for several product lines from air freight to sea freight in order to reduce environmental impacts.

Accelerated work on reducing the environmental impact

"Optimizing the use of natural resources is our business. Alfa Laval makes a significant contribution to reducing the environmental impact of industrial processes."

Alfa Laval is committed to reducing the environmental impact of its products and processes. The company seeks to ensure that its operations are as clean as possible and include environmental aspects when products are developed, designed, produced, marketed, serviced and finally scrapped.

Environmental management is coordinated by the Environmental Council, which is chaired by the head of Operations. It includes managers from the Process Technology and Equipment Divisions, Human Resources, Research & Development and Parts & Service. The Council harmonizes its objectives with Group Management and progress is regularly reviewed by the Alfa Laval Board. 71 sites (64) report key environmental data to a web-based reporting and management tool to ensure that the total environmental impact can be monitored and changes at site level implemented.

Work starts with a systematic environmental management approach

Alfa Laval's efforts to reduce the environmental impact stem from having a clear understanding of the current impact of the business processes – from new product development to eventual disposal. By following the chain of processes, Alfa Laval can identify projects and activities needed to reduce the major negative environmental impacts in each step of the chain.

Designed for the environment

Since the total environmental impact of a product is strongly influenced by the materials selection and product design, Alfa Laval has implemented an environmental impact lifecycle assessment (LCA) method, which is being implemented in all major product design centers as an integral part of the new product design process. In 2008, 20 new products were assessed using LCAs. Of these 10 were replacements of existing products with an average reduction of environmental impact greater than 20 percent.

Suppliers

In 2008 Alfa Laval focused on understanding how many of its key suppliers had an effective environmental management process. A total of 215 suppliers were surveyed, representing approximately 80 percent of the purchased value in production. By year end, 173 had responded; 53 percent stated they had an environmental management system, including 43 percent with partial or full ISO 14001 certification. 26 percent of suppliers had set targets to reduce their greenhouse-gas emissions. Alfa Laval's goal is to influence suppliers to implement effective environmental management systems and achieve specific GHG reduction targets.

Manufacturing

Manufacturing represents approximately 20 percent of Alfa Laval's calculated greenhouse-gas emissions. However, Alfa Laval has also identified three other significant environmental impact areas, common for all factories: the consumption of water and chemicals and the volume waste produced. Targets are in place at a local level to increase the proportion of waste recycled. Each manufacturing site is required to set improvement goals for environmental performance and initiate projects aimed at reducing the impact.

Logistics and goods transportation

The transportation of products accounts for more than 40 percent of the company's total GHG emissions. During 2008, several projects were up and running to change the way Alfa Laval transports products and semi-finished goods. Shifting from airfreight to surface transportation represents the main opportunity in this area.

The average emissions in 2008 were 114.6 g CO_2 per ton- km (115.8). However in the second two quarters of the year the average was below 110 g CO_2 per ton-km which suggest that we are making noticeable progress to our goal of cutting these emissions by 5 percent per year from 2007 to 2011. The total calculated emissions from goods transportation fell by approximately 2 percent to 39,000 tons (40,000).

Sales

Employee transportation is another significant contributor to Alfa Laval's total emissions. Due to the customers' unique needs, there is often no realistic alternative than

for the sales staff to travel to the customer's site to fully understand the challenge and select the most appropriate solution. However, internal travel should be avoided, with the preferred solutions being telephone, video and internet conferencing. Increased business travel during 2008 caused the calculated GHG emissions from employee transportation to increase by approximately 10 percent compared with 2007.

During 2008, Alfa Laval changed its car-leasing policy to limit the choice of vehicles to those with better environmental performance. The total car fleet had average emissions of 184 g CO_2 per km (186). The aim is to reduce this each year as lease agreements are due for renewal. Most savings will derive from changes in the leased car fleets in the US, Australia and Sweden.

Service

Once delivered, Alfa Laval's products normally last for decades, if properly serviced.

The service technicians are supported by service and repair workshops worldwide. The environmental performance of each workshop is closely monitored. The most significant environmental impact from these workshops results from water and chemicals consumption – both of which are essential for cleaning. Alfa Laval is developing solutions to increase the amount of water recycled and reducing the quantity of hazardous chemicals used.

Recycling

Alfa Laval products usually last for decades. When eventually taken out of service, they have a high residual scrap metal value, due to their content of stainless steel and other metals, creating a high incentive for recycling. Accordingly, Alfa Laval's principal environmental focus is to reduce the impact of waste during production and of secondary products such as packaging.

For more information on Alfa Laval's environmental work, visit www.alfalaval.com

In 2008, Alfa Laval installed 120 solar panels at its factory in Pune, India, to heat water to 80 degrees Celsius for testing decanter centrifuges. This replaced the existing electrical heating system and is expected to generate savings exceeding 100,000 kWh per year.

Over a period of three years, the Alfa Laval factory in Alonte, Italy, has been working to reduce the water, solvent and energy consumption of its product washing facility. Through analysis and experimentation, the processes have been altered to completely eliminate the need to wash the product during production. This resulted in annual savings of approximately 100 m^3, of natural gas, 80 MW of electrical energy and eight tons of solvent per year.

Environment

Optimizing the use of natural resources is our business

Alfa Laval makes a significant contribution to reducing the environmental impact of industrial processes.

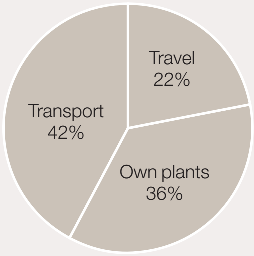
- Green processes

  Alfa Laval's core competences of fluid handling, separation technology and heat transfer are at the heart of many industrial and environmental protection processes. Our products and expertise contribute to the efficient utilization of energy, cleaning of water and fluids, and efficient production of food and pharmaceuticals. We are committed to continuously improving our products and services to provide our customers with an opportunity to reduce their operational costs while improving their environmental performance.

- Green Operations

  Alfa Laval endeavors to perform its own operations as cleanly and efficiently as possible, and to take environmental aspects into consideration when developing, designing, manufacturing, servicing and marketing its products.

Alfa Laval's carbon-dioxide emissions in 2008



92,000 tons

Climate Change

Humanity is facing a huge challenge in the form of minimizing the effects of climate change. A key element of this challenge is reducing emissions of greenhouse-gases.

Alfa Laval's compact heat exchangers are increasingly in demand from energy-intensive industries seeking ways to reduce their energy consumption. Alfa Laval's products often offer considerable GHG savings for these customers, compared with the old technology installed or available in the market. In relative terms, Alfa Laval's own processes are much less energy intensive. Alfa Laval contributes to the Carbon Disclosure Project, which aims to encourage all industries to reduce their GHG emissions.

The target is to reduce comparable annual GHG emissions by 15 percent between 2007 and 2011.

Total carbon-dioxide emissions were 92,000 tons in 2008, down 1 percent on 2007 but excluding acquisitions (4,000 tons) the comparable emissions were reduced by 5 percent.

Continued efforts to improve social conditions

"Alfa Laval respects the human rights of its employees and the communities in which we operate and supply."

Respect for human rights is fundamental

Alfa Laval's Social Business Principle is concerned with the way in which our business impacts the lives of people throughout the entire supply chain. With sales in over 100 countries, we encounter many situations in which adherence to our social business principle poses challenging questions.

Risk-based assessment of suppliers

Alfa Laval's own operations have worked in compliance with our social business principles for many years. Accordingly, the main emphasis for initiatives involving the social business principle is on our immediate suppliers. We assess suppliers to determine the risk of non-compliance based on the inherent risks from the manufacturing process and the risk due to ineffective legal enforcement. Countries with emerging economies naturally have the most difficulty in enforcing all aspects of workplace law.

The risk-assessment process identifies suppliers that will be audited to assess compliance with the business principles. The audit covers health and safety, working conditions (compliance with minimum wage, working time, overtime laws, etc.) and housekeeping standards. Any supplier whose performance is unacceptable is advised of the aspects that need to be improved. Targets and timescales are agreed. A total of over 150 social audits of suppliers in India, China, Mexico and Eastern Europe were conducted in 2008.

Social inspections of suppliers produce improvements in India

Alfa Laval in India has been inspecting suppliers for compliance with the Social Business Principle since 2005. Each supplier is scored on over 50 different aspects of health, safety, working conditions and working environment. The maximum score possible is 250 points.

Alfa Laval has approximately 350 suppliers in India. In 2007, 64 suppliers were inspected, some of them several times. Of these, 35 were found to be below the minimum requirement with an average score of 51 percent. One year later, 34 of the 35 suppliers had improved to above the minimum standard with an average score of 75 percent. In 2008, the program was extended to cover 126 suppliers.

The most obvious improvement in all these suppliers is increased awareness and attention to health and safety precautions. Many more companies now provide their employees with appropriate personal protective equipment, such as ear protection, safety shoes or safety glasses. Even more importantly, understanding of the importance of good health and safety training has improved.


PHOTO: SAGAR GOTKHINDIKAR (SAGAR GRAPHICS)

Alfa Laval supplier audit – Shree Ganesh Engineering works, Bhosari, India.

Social

Respect for human rights is fundamental

Alfa Laval respects the human rights of our employees and the communities in which we live and supply.

- Human Rights
  Alfa Laval supports and respects the protection of internationally proclaimed human rights within our sphere of influence.
- Complicity
  Alfa Laval should make sure it is not complicit in human rights abuses in its course of operations.
- Freedom of Association
  Alfa Laval should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- Forced Labour
  Alfa Laval will not use any form of forced or compulsory labour.
- Child Labour
  Alfa Laval works towards the effective abolition of child labour in the community.
- Discrimination
  Alfa Laval works to eliminate direct and indirect discrimination in respect of employment and occupation.

Ethical behavior – a base for sustainable success

"Alfa Laval pursues its operations in an honest manner, with integrity and respect for others."

Alfa Laval's employment policies include distinct guidelines for ethical behavior, notably in respect of conflicts of interest, political contributions, bribes and corruption.

Application and compliance

It is the responsibility of Alfa Laval Group Management to ensure that the Business Principles are communicated to, understood and observed by all employees. The president of each Alfa Laval company is responsible for implementing these principles through appropriate rules and policies in addition to those necessary for compliance with local legislation. No manager or employee will be criticized for any loss of business resulting from adherence to these principles. Equally, the Alfa Laval Board and Group Management undertake that no employee will suffer as a consequence of bringing to their attention, or that of senior management, a breach or suspected breach of these principles.

Whistle blowing to reveal any breaches of the business principles

Alfa Laval investigates all suspected violations of the company's Business Principles. Employees are to report suspected violations to the Group's Human Resources Manager, who coordinates the investigation. Alfa Laval protects all whistle blowers, meaning employees who report suspected breaches.

The Chairman of the Board is contacted if anyone in Group Management is suspected of being involved in or participating in any violation of the Business Principles.

Open dialog creates confidence in financialmarkets

Alfa Laval's financial accounting and supporting documentation describes and reflects the underlying transactions in a correct manner. No unaccounted or concealed items, funds or other assets are permitted. Alfa Laval's reporting and internal monitoring are conducted so that external, independent parties can verify operations. All share-price-sensitive information is communicated in line with the company's policy, stock exchange agreement and applicable legislation.

Transparency

The company's pledge of open dialog creates confidence. Alfa Laval believes in open communication but is careful not to disclose commercially valuable information.

High ethical standards form the basis for Alfa Laval's performance

During 2007 and 2008, line managers in sales companies and central organizations were involved in training concerning ethics and business integrity. The training included a risk-assessment process aimed at identifying areas where improvements to local policies, communication or compliance monitoring were needed. These exercises identified improvement opportunities. For example, in 2007, employment policies in several sales companies were revised to include more explicit rules and guidance concerning conflict of interest. During 2008, the focus was on improving training and communication of the company's policies regarding anti-competitive behavior.

Business integrity

High ethical requirements comprise the basis for Alfa Laval's performance

- Legal compliance
  Alfa Laval shall not only meet regulations and requirements in countries in which the company is active but also shall continually stay abreast of developments in international legislation, social conditions and voluntary initiatives and accept these when it is relevant to the company's operations.
- Conflicts of interest
  Alfa Laval's employees shall not get into situations in which their personnel or financial interests conflict with those of the company.
- Political contributions
  Contributions are not to be made to political parties or committees, or to individual politicians.
- Bribes and corruption
  Alfa Laval and its employees shall not offer, promise, accept or demand a bribe or other inappropriate benefit to win or retain business; also, suppliers or other business partners shall not demand or expect a bribe or other inappropriate benefit.

Fruitful growth

By the middle of this century, the population of our planet will have increased by 50 percent, from more than 6 billion to nearly 10 billion people. A growing challenge is to provide nutritious food for everyone. Take India, for example – a fertile area larger than the entire Nordic region. Here, fruit and vegetables have traditionally been processed by hand. Now change is taking place on a huge scale. Modern plants are being built that will treat raw materials more efficiently. It's about heating, cooling, sterilising, extracting, transporting, separating and concentrating food products. These processes represent the very heart of Alfa Laval's know-how. Today only 2 percent of India's produce is treated in this way. In less than ten years, this figure will exceed 15 percent. Talk about growth.

125 years of Pure Performance. Alfa Laval was founded in 1883. Its starting point was the separator designed by our founder Gustaf de Laval. From the outset this set the keynote for our business: to create better everyday conditions for people. Today, our efforts are concentrated in three main areas: energy, the environment and food. Can you think of anything more important for a company to work with?

Board of Directors' Report

Contents

The Board of Directors and the President of Alfa Laval AB (publ) hereby submit their annual report for the year of operation January 1, 2008 to December 31, 2008.

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 published by sending the printed annual report to the shareholders in week 13, 2009 starting at March 26, 2009 and by publishing the annual report on Alfa Laval's website on March 26, 2009 at 8.30 CET.

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

Financial statements

The following parts of the annual report are financial statements: the Board of Directors Report, the ten-year overview, the cash-flow statement, income statement, balance sheet, changes in equity capital for both the consolidated Group and the parent company and the notes. All of these have been audited. The rest of the annual report has been reviewed by the auditors.

Ownership and legal structure

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

The company had 28,078 (16,090) shareholders on December 31, 2008. The largest owner is Tetra Laval B.V., the Netherlands who owns 18.4 (17.7) percent. The increase in ownership is due to the cancellation of the shares repurchased by the company. Next to the largest owner there are nine institutional investors with ownership in the range of 5.9 to 1.3 percent. These ten largest shareholders own 45.9 (48.2) percent of the shares.

Operations

The Alfa Laval Group is engaged in the development, production and sales of products and systems based on three main technologies: separation/filtration, heat transfer and fluid handling. Alfa Laval's primary segments are the two divisions "Equipment" and "Process Technology", where the sales and marketing activities are performed. The divisions are based on ten customer segments. The customers to the Equipment division purchase products whereas the customers to the Process Technology division purchase solutions for processing applications. The Group also has a common function "Operations" for procurement, production and logistics. The Group's secondary segments are geographical markets.

Material factors of risk and uncertainty

The main factors of risk and uncertainty facing the Group concern the price development and availability of strategic metals, fluctuations in major currencies, the turmoil in the financial markets and when the business cycle driven downturn in the demand for the company's products comes and how deep the downturn will be. 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.

Public offer to purchase an additional 13 percent of Alfa Laval (India) Ltd

In a press release on October 23, 2008 Alfa Laval announced a public offer to increase its share of Alfa Laval (India) Ltd, which is listed on the stock exchange in Mumbai and has some 11,700 shareholders. Eleven institutional investors hold approximately 9 percent of the total number of shares. Through a public offer of 950 rupees per share Alfa Laval intended to increase its share to 89.99 percent of the company. The offer concerns approximately 2.4 million shares.

The public offer to purchase an additional 13 percent of Alfa Laval (India) Ltd opened on January 14, 2009 and closed on February 2, 2009. The initial offer of 950 rupees per share was raised to 1,000 rupees per share on January 20, 2009. The result of the offer was that owners of about 2.2 million shares corresponding to approximately 12 percent of the total number of shares have accepted to sell their shares. This means that the ownership in the Indian subsidiary will increase from 76.7 percent to about 89 percent. The total cost for the acquisition is estimated to approximately SEK 380 million.

The whole process is estimated to be finalized during the first quarter 2009.

Alfa Laval has been present in India since 1937. During 2008 Alfa Laval (India) Ltd. had an order intake of SEK 1,030 million and an average of 1,190 employees.

Acquisition of businesses

During 2008

On August 15, 2008 Alfa Laval acquired the US company Hutchison Hayes Separation, which is a leading provider of separation equipment, parts and services, mainly to the US energy related industries. Hutchison Hayes will operate as a separate organisation and adds a complementary channel for centrifugal separation equipment and service, primarily to the energy related industries in the US. The purchase price is SEK 227 million, out of which all has been paid in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 3 million. The impact on the cash flow was thus SEK -230 million. Out of the difference between the purchase price paid and the net assets acquired SEK 95 million was allocated to patents and un-patented know-how, SEK 49 million was allocated to the Hutchison Hayes Separation trademark and SEK 1 million to accrued gross margin in work in progress, while the residual SEK 46 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Hutchison Hayes Separation'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 as well as the step up value for the trademark are depreciated over 10 years. The step up for accrued gross margin in work in progress was expensed during 2008. Hutchison Hayes Separation's net sales and adjusted EBITA for 2008 from the date of the acquisition are SEK 66 million and SEK 10 million respectively. If Hutchison Hayes Separation had been acquired at January 1, 2008 the corresponding figures would have been SEK 139 million and SEK 26 million respectively.

On July 31, 2008 Alfa Laval acquired the German company Pressko AG, which is specialized in developing and manufacturing fully welded heat exchangers. Pressko AG will be integrated into Tranter, which is a separate organisation within the Alfa Laval Group. The purchase price is SEK 80 million, out of which SEK 68 million has been paid in cash and the rest is retained for a period of 1-2 years. 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 4 million. The impact on the cash flow was thus SEK -72 million. Out of the difference between the purchase price paid and the net assets acquired SEK 1 million was allocated to accrued gross margin in work in progress, while the residual SEK 69 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The value of the goodwill is still preliminary. The step up for accrued gross margin in work in progress was expensed during 2008. Pressko's net sales and adjusted EBITA for 2008 from the date of the acquisition are SEK 18 million and SEK 5 million respectively. If Pressko had been acquired at January 1, 2008 the corresponding figures would have been SEK 44 million and SEK 7 million respectively.

On June 13, 2008 Alfa Laval acquired about 44 percent of the Swedish company Ageratec that develops innovative process solutions for the biodiesel industry. On December 29 Alfa Laval increased its ownership to about 68 percent and Ageratec became a subsidiary. The purchase price is SEK 50 million 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. After deducting acquired cash and bank the impact on the cash flow was SEK -39 million. Out of the difference between the purchase price paid and the net assets acquired of SEK 44 million all was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Ageratec's ability to over time recreate its intangible assets. The value of the goodwill is still preliminary. Ageratec's net sales and adjusted EBITA for 2008 from the date of the original acquisition when the company became an associated company until it became a subsidiary are SEK 46 million and SEK -8 million respectively. Ageratec's net sales and adjusted EBITA for 2008 from the date when the company became a subsidiary are SEK 0 million and SEK 0 million respectively. If Ageratec had been acquired at January 1, 2008 the corresponding figures would have been SEK 58 million and SEK -18 million respectively.

On June 1, 2008 Alfa Laval acquired the US company Standard Refrigeration, a leading supplier of shell-and-tube heat exchangers for a variety of refrigeration, air-conditioning and industrial applications in the North American market. Standard Refrigeration will be integrated into Alfa Laval in order to capture synergies such as a wider product portfolio combined with an enhanced market presence. The purchase price is SEK 369 million, out of which SEK 351 million has been paid in cash and the rest is retained for a period of 18 months. 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 4 million. After deducting acquired cash and bank the impact on the cash flow was SEK -350 million. Out of the difference between the purchase price paid and the net assets acquired SEK 166 million was allocated to patents and unpatented know-how and SEK 5 million to accrued gross margin in work in progress, while the residual SEK 152 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Standard Refrigeration'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 depreciated over 10 years. The step up for accrued gross margin in work in progress was expensed during 2008. Standard Refrigeration's net sales and adjusted EBITA for 2008 from the date of the acquisition are SEK 140 million and SEK 34 million respectively. If Standard Refrigeration had been acquired at January 1, 2008 the corresponding figures would have been SEK 249 million and SEK 51 million respectively.

On February 11, 2008 Alfa Laval acquired the Danish company Høyer Promix A/S. The company develops, produces and markets agitators mainly for the food and pharma industry. The company has been merged into Alfa Laval Tank Equipment A/S. The purchase price is SEK 19 million 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 0 million. After deducting acquired cash and bank the impact on the cash flow was SEK -19 million. Out of the difference between the purchase price paid and the net assets acquired of SEK 16 million all was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The value of the goodwill is still preliminary. The company's net sales and adjusted EBITA for 2008 from the date of the acquisition are SEK 14 million and SEK 3 million respectively. If the company had been acquired at January 1, 2008 the corresponding figures would have been SEK 16 million and SEK 3 million respectively.

In addition two minor acquisitions have been made during 2008:

On September 1, 2008 Alfa Laval acquired the business in the Swedish company P&D's Plattvärmeväxlarservice AB that performs service on heat exchangers. The purchase price is SEK 10 million, out of which 3 million has been paid in cash and the rest is retained for a period of 1-2 years. 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 0 million. The impact on the cash flow was thus SEK -3 million. Out of the difference between the purchase price paid and the net assets acquired of SEK 10 million all has been allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The value of the goodwill is still preliminary. The company's net sales and adjusted EBITA for 2008 from the date of the acquisition are SEK 3 million and SEK 1 million respectively. If the company had been acquired at January 1, 2008 the corresponding figures would have been SEK 12 million and SEK 4 million respectively.

On April 1, 2008 Alfa Laval acquired 91 percent of the Indian company Nitrile India Pvt Ltd that manufactures rubberized gaskets mainly for the food processing industry. The acquisition is part of Alfa Laval's double branding strategy and the company has thus been renamed to MCD Nitrile India Pvt Ltd. The company has 12 employees and 15-20 temporary employees. The purchase price is SEK 7 million 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 0 million. The impact on the cash flow was SEK -7 million. Out of the difference between the purchase price paid and the net assets acquired of SEK 6 million all was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The company's net sales and adjusted EBITA for 2008 from the date of the acquisition are SEK 1 million and SEK 0 million respectively. If Nitrile India Pvt Ltd had been acquired at January 1, 2008 the corresponding figures would have been SEK 1 million and SEK 0 million respectively.

During 2007

On December 1, 2007 Alfa Laval finalized the acquisition of the Finnish company Fincoil. The acquisition of Fincoil is in line with Alfa Laval's strategy to expand the presence in the European air heat exchanger market. The company has 150 employees. Fincoil has a well-established position in the Nordic countries, the Baltic countries and Russia. Approximately 80 percent of the sales are exported. Fincoil has one manufacturing site outside Helsinki in Finland. The intention is to fully integrate Fincoil into

Alfa Laval. The purchase price was SEK 474 million in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 5 million. After deducting acquired cash and bank the impact on the cash flow was SEK -470 million. Out of the difference between the purchase price paid and the net assets acquired SEK 233 million was allocated to patents and un-patented know-how, while the residual SEK 228 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Fincoil's ability to over time recreate its intangible assets. The value of the goodwill has been finalised in 2008, which meant an increase from SEK 228 million to SEK 241 million. The step up value for patents and un-patented know-how is depreciated over 10 years. Fincoil's net sales and adjusted EBITA for 2007 from the date of the acquisition were SEK 26 million and SEK 2 million respectively. If Fincoil had been acquired at January 1, 2007 the corresponding figures would have been SEK 348 million and SEK 43 million respectively.

On July 2, 2007 Alfa Laval acquired the American company AGC Engineering through an asset deal. The company provides sanitary plate heat exchanger service and equipment to the dairy and food processing industries. AGC has 65 employees. The acquisition adds a complementary channel for sanitary plate heat exchangers to the dairy and food processing industries mainly in the USA. This applies to new units as well as parts and service. AGC will not be integrated into Alfa Laval. The two organizations will go to market independently of each other according to a multi-brand strategy. The purchase price was SEK 42 million 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 0 million. After deducting acquired cash and bank the impact on the cash flow was SEK -42 million. Out of the difference between the purchase price paid and the net assets acquired SEK 12 million was allocated to the AGC trademark, while the residual SEK 9 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and AGC's ability to over time recreate its intangible assets. The value of the goodwill has been finalised in 2008, which meant an increase from SEK 9 million to SEK 20 million. The step up value for the trademark is depreciated over 10 years. AGC's net sales and adjusted EBITA for 2007 from the date of the acquisition were SEK 39 million and SEK 4 million respectively. If AGC had been acquired at January 1, 2007 the corresponding figures would have been SEK 78 million and SEK 8 million respectively.

Through a public offer that closed on May 26, 2007 Alfa Laval increased the ownership in the Indian subsidiary Alfa Laval (India) Ltd with 12.6 percent to 76.7 percent. The total cost for the acquisition was SEK 486 million. The costs directly linked to the acquisition of the shares (fees to bankers, lawyers and assisting counsel) came in addition to this and amounted to SEK 11 million. The impact on the cash flow was SEK -497 million. Out of the difference between the purchase price paid and the net assets acquired of SEK 441 million all was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The acquisition only had an impact on the minority's part of the consolidated net income and equity.

On April 4, 2007 Alfa Laval acquired the Dutch company Helpman. Helpman is a leading company in the European market for air heat exchangers used in the sensitive logistical chain for food, i.e. refrigeration and temperature control to secure the final quality of the products. Helpman has 130 employees within R&D, sales and at two manufacturing units, in Groningen, the Netherlands and in Sofia, Bulgaria. The intention is to fully integrate Helpman into Alfa Laval. The purchase price was SEK 136, out of which SEK 113 million was paid in cash and the rest is retained for a period of 1-2 years. 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. After deducting acquired cash and bank the impact on the cash flow was SEK -111 million. Out of the difference between the purchase price paid and the net assets acquired SEK 5 million was allocated to properties and SEK 36 million was allocated to patents and un-patented know-how, while the residual SEK 11 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Helpman's ability to over time recreate its intangible assets. The purchase price allocation has been finalised in 2008 which means that the step up value for properties increased from SEK 5 million to SEK 9 million, that SEK 8 million was allocated to step up value in land and that the value of the goodwill was decreased from SEK 11 million to SEK 4 million. The step up value for properties is depreciated over 33 years, the step up value for land is not depreciated and the step up value for patents and un-patented know-how is depreciated over 10 years. Helpman's net sales and adjusted EBITA for 2007 from the date of the acquisition were SEK 136 million and SEK 5 million respectively. If Helpman had been acquired at January 1, 2007 the corresponding figures would have been SEK 178 million and SEK 6 million respectively.

On March 16, 2007 Alfa Laval acquired the American company DSO Fluid Handling. The acquisition strengthens Alfa Laval's position within sanitary processing industries in the US. DSO is a supplier of predominantly parts for pumps and valves and adds a complementary channel for replacement parts. In line with Alfa Laval's multi-brand strategy, DSO will continue to sell its products under its own brand. DSO has 20 employees and is based in Irvington (Newark), New Jersey USA. The purchase price was SEK 74 million, out of which 62 million was paid in cash and the rest is retained for a period of 1-2 years. 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. After deducting acquired cash and bank the impact on the cash flow was SEK -62 million. Out of the difference between the purchase price paid and the net assets acquired SEK 39 million was allocated to the DSO trademark, while the residual SEK 29 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and DSO's ability to over time recreate its intangible assets. The value of the goodwill has been finalised in 2008, which meant an increase from SEK 29 million to SEK 42 million. The step up value for the trademark is depreciated over 10 years. DSO's net sales and adjusted EBITA for 2007 from the date of the acquisition were SEK 39 million and SEK 12 million respectively. If DSO had been acquired at January 1, 2007 the corresponding figures would have been SEK 51 million and SEK 16 million respectively.

During the beginning of 2007 a transaction was made as a consequence of the acquisition of Tranter where SEK 17 million was paid to buy out the agent in Taiwan and thereby achieve full control over Tranter's company in China. This transaction is seen as a part of the acquisition of Tranter and has influenced the final purchase price allocation according to the below description.

During 2006

In a press release on September 23, 2005, Alfa Laval announced that the company had signed an agreement to acquire 100 percent of Tranter PHE from the U.S. company, Dover Corporation. In a press release on March 6, 2006 Alfa Laval communicated that the acquisition of Tranter PHE had been approved by the regulatory authorities and thereby been finalised. The purchase price was SEK 1,199 million 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 25 million. After deducting acquired cash and bank the impact on the cash flow was SEK -1,217 million. Out of the difference between the purchase price paid and the net assets acquired SEK 17 million was allocated to properties, SEK 180 million was allocated to patents and un-patented know-how, SEK 265 million to the Tranter trademark and SEK 6 million to accrued gross margin in work in progress, while the residual SEK 530 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The value of the goodwill has been finalised in 2007, which meant a decrease from SEK 551 million to SEK 530 million. The step up value for patents and un-patented know-how is depreciated over 10 years and the step up value for the trademark is depreciated over 20 years. The step up for accrued gross margin in work in progress was expensed during 2006. Tranter is a major competitor in the United States and the acquisition opens for a double branding strategy versus mainly the American market.

The acquisition was financed through a bilateral bank loan of EUR 25 million and a US private placement of USD 110 million. The company had 2005 approximately 450 employees globally in R&D, manufacturing and sales.

Tranter is part of the Alfa Laval Group as of March 1, 2006. The impact of the acquisition on the income statement and the cash flow statement for 2006 was thus only for ten months of operation. Tranter is reported as an integrated part of the Equipment and Process Technology divisions, but is acting as an independent sales channel. Tranter's net sales and adjusted EBITA for the first ten months were SEK 981 million and SEK 148 million respectively. If Tranter had been acquired at January 1, 2006 the corresponding figures would have been SEK 1,141 million and SEK 171 million respectively.

During the first quarter 2006 Alfa Laval acquired the fruit preparation activity from Tetra Pak for SEK 10 million. The operation had less than 10 employees and a turnover of about SEK 45 million per annum.

For all of these acquisitions the acquired assets and liabilities are presented in Note 25 and the step up allocation and resulting goodwill is presented in Note 15.

Divestment of businesses

In a press release on December 13, 2006, Alfa Laval announced that the company had taken the strategic decision to divest its engineering activity for the biopharm industry. The activity was sold to its local Management. The primary reason for divesting the engineering activity for the biopharm industry, which comprises the offering of engineering and validation services, was the limited connection to Alfa Laval's core business of process solutions and heat transfer, separation and fluid handling products. The divestment was not anticipated to have any negative impact on Alfa Laval's Life Science activity. The turnover of the divested activity was slightly more than SEK 100 million and it employed approximately 110 people. The transaction was finalized at December 29, 2006. The divestment caused a non-recurring charge to the profit and loss statement in the fourth quarter 2006 of SEK -126 million. The realised loss created a loss carry forward that only can be used against future capital gains. Since there was no expectation of any future capital gains there was no income tax effect triggered by the sale.

The biopharm engineering activity was fully integrated into the Life Science customer segment in the Process Technology division until it was divested. As such it did not constitute a separate cash-generating unit and due to the integration it did not become one either when the sale approached. One reason for this is that the decision to sell the activity was taken close to the actual sale. This means that the future cash flows from the activity was expected to arise from continuing use rather than from a sale until just before the sale was a fact. In summary this means that no separate specification of the revenues, expenses, pre-tax result or post-tax result of this discontinued operation can be made.

This disposal is reported as a comparison distortion item in Note 6 to the income statement.

Order analysis	Jan 1-Dec 31 2008	Jan 1-Dec 31 2007	Jan 1-Dec 31 2006
Lats year (SEK millions)	27,553	24,018	18,516
Structural change	2.6%	1.4%	8.2%
Currency effects	0.1%	-3.6%	-0.2%
Organic development	-3.0%	16.9%	21.7%
Total	-0.3%	14.7%	29.7%
Current year (SEK millions)	27,464	27,553	24,018

Orders received amounted to SEK 27,464 (27,553) (24,018) million during 2008. Excluding exchange rate variations, the order intake for the Group was 0.4 percent lower than last year. Adjusted for acquisitions of businesses [1)], the corresponding figure is a decrease by 2.9 percent.

Orders received from the aftermarket "Parts & Service" has continued to develop positively during 2008 and increased by 7.7 percent compared to last year excluding exchange rate variations. Its relative share of the Group's total orders received was 22.7 (20.8) percent.

Acquired businesses are:
Ageratec at December 29, 2008
P&D's Plattvärmeväxlarservice at September 1, 2008
Hutchison Hayes Separation at August 15, 2008
Pressko at July 31, 2008
Standard Refrigeration at June 1, 2008
Nitrile India at April 1, 2008
Høyer Promix at February 11, 2008
Fincoil, at December 1, 2007
AGC Engineering at July 2, 2007
Helpman at April 4, 2007
DSO at March 16, 2007

Sale of real estate

During 2008 a property in Brazil has been sold for SEK 113 million with a realised gain of SEK 102 million. One property in France is also planned for sale. The French property is empty, but it has been for sale for several years and is not expected to be sold within the next year. This means that no property has been re-classified as a current assets held for sale. The fair value of the concerned property exceeds the book value by approximately SEK 2 (109) million.

During 2007 the property in Tuusula in Finland was sold for SEK 26 million with a realised gain of SEK 25 million. The property in Argentina was sold for SEK 14 million with a realised gain of SEK 11 million. A property in Brussels in Belgium was sold for SEK 27 million with a realised gain of SEK 15 million. Minor sales of land and buildings were made in India for SEK 3 million with a realised gain of SEK 2 million and in France for SEK 2 million with a realised gain of SEK 1 million. Last year properties in Brazil and France were also planned for sale. Alfa Laval was using the property in Brazil for its operations and the French property was empty, but it had been for sale for several years and was not expected to be sold within the next year. This meant that no one of these properties was re-classified as a current assets held for sale.

During 2006 a piece of land in India was sold for SEK 2 million with a realised gain of SEK 1 million, two minor properties in France were sold for SEK 3 million with a realised gain of SEK 1 million, one flat in Denmark was sold for SEK 4 million with a realised gain of SEK 3 million and a property in Germany was sold for SEK 4 million with a realised gain of SEK 1 million.

These disposals are reported as comparison distortion items in Note 6 to the income statement.

Large orders

Large orders are orders with a value over EUR 5 million. The volume of large orders is an important indicator of the demand situation and is therefore monitored separately within Alfa Laval. A large volume of large orders normally also means a good load in the factories and thereby a good profitability. During 2008 Alfa Laval has received large orders for SEK 1,135 (1,195) million. By quarter it has looked like this:

During the first quarter 2008 Alfa Laval received large orders for SEK 390 (435) million:

- Order for high capacity plate heat exchangers to a central cooling system in a petrochemical plant in the Middle East. The order value is about SEK 100 million. Delivery will take place in 2008.
- Order for crude oil treatment at a gas turbine power plant in Saudi Arabia. The order value is about SEK 100 million. Delivery is scheduled for 2008.
- Two orders for plate heat exchangers to the power industry in China. The total order value is about SEK 140 million. Delivery is planned for 2009 and 2010.
- Order for Alfa Laval Packinox plate heat exchangers for a refinery in Saudi Arabia. The order value is about SEK 50 million. Delivery is scheduled for 2009.

During the second quarter 2008 Alfa Laval received large orders for SEK 210 (240) million:

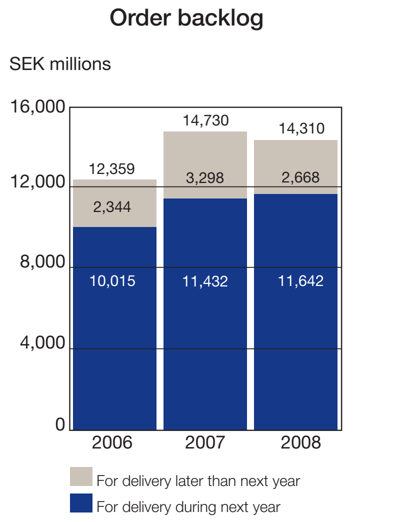
- Order for process equipment including high speed separators and plate heat exchangers to a number of ethanol plants in Brazil. The order value is about SEK 90 million. Delivery is mainly scheduled for 2008.
- Order for air heat exchangers used in cooling systems for diesel power plants in Brazil. The order value is about SEK 60 million. Delivery is mainly scheduled for 2008.
- Order for Alfa Laval Packinox plate heat exchanger from a petrochemical company in China. The order value is about SEK 60 million. Delivery is scheduled for 2009.

During the third quarter 2008 Alfa Laval received large orders for SEK 200 (360) million:

- Order for three thermal evaporation systems from Vedanta Aluminium in India. The order value is about SEK 150 million and delivery is scheduled for 2009.
- Order for plate heat exchangers to the power industry in Russia. The order value is about SEK 50 million. Delivery is scheduled for 2009.

During the fourth quarter 2008 Alfa Laval received large orders for SEK 335 (160) million:

- Order for plate heat exchangers for cooling with seawater to the nuclear power industry in China. The order value is about SEK 50 million and delivery is scheduled for 2010.
- Order for crude oil treatment equipment to a gas turbine power plant in Saudi Arabia. The order value is about SEK 70 million and delivery is scheduled for 2009.
- Order for Alfa Laval Packinox plate heat exchangers to a petrochemical plant in South Korea. The order value is about SEK 120 million and delivery is scheduled for 2010.
- Order for Alfa Laval Packinox plate heat exchangers to an Integrated Gasification Combined Cycle power plant in the US. The order value is about SEK 95 million and delivery is scheduled for 2009.



The order backlog at December 31, 2008 was SEK 14,310 (14,730) (12,359) million. Excluding exchange rate variations and adjusted for acquisitions of businesses the order backlog was 2.3 percent lower than the order backlog at the end of 2007.

Net sales

Net sales amounted to SEK 27,850 (24,849) (19,802) million during 2008. Excluding exchange rate variations, the invoicing was 11.5 percent higher than last year. Adjusted for acquisitions of businesses, the corresponding figure is 9.0 percent.

Segment reporting

Alfa Laval's primary segments are the two divisions Equipment and Process Technology. The divisions are based on a 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. In addition, the Group has a common function "Operations" for procurement, manufacturing and logistics.

EQUIPMENT DIVISION

The Equipment division consists of six customer segments: Comfort & Refrigeration, Fluids & Utility Equipment, Marine & Diesel, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Parts & Service.

Orders received and net sales
(all comments are after adjustment for exchange rate fluctuations)

Orders received decreased by 0.5 percent and net sales increased by 14.8 percent during 2008 compared to last year.

Adjusted for acquisitions of businesses, the corresponding figures are a decrease by 4.3 percent and an increase by 10.9 percent.

Taking a quarterly view the development for Equipment division during 2008 has been as follows:

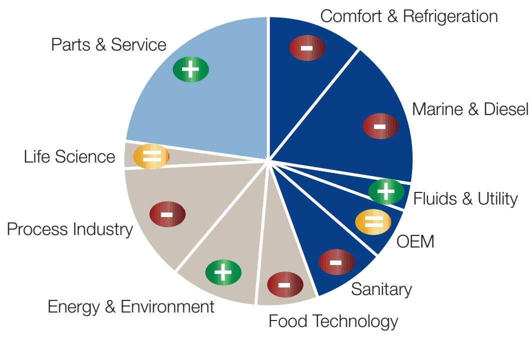
During the first quarter the Marine & Diesel and the Comfort & Refrigeration segments continued to grow in relation to the corresponding quarter last year. The Marine & Diesel segment continues with good order growth as a result of a high backlog in the world's shipyards and continued good development of land based diesel installations. The refrigeration business, in industrial and commercial cooling markets, was well above last year being propelled by the recent acquisition in Finland and a good order intake in the US. The comfort business encompassing both district heating and cooling developed well, particularly in Russia. Parts & Service also continues to develop positively. The OEM business continued to be on a lower level than last year predominately as a result of slow market conditions in the heat pump industry in Europe.

For the Equipment division as a whole, order intake increased compared to the second quarter last year. All segments, except Sanitary and OEM, reported continued growth. For the Marine & Diesel segment, the positive trend from the beginning of the year continued, mainly due to a high order backlog for Asian shipyards as well as good demand for land-based diesel installations. In the markets for industrial cooling and air conditioning, the business also showed an improvement, partly helped by the acquisitions of Fincoil and Standard Refrigeration. At the same time the comfort business, including both district heating and cooling, developed well, especially in Russia and the Middle East. In the Sanitary segment, however, orders declined due to a drop in dairy market investments. For OEM, which was affected by low investments in the European heat pump industry, an improvement was seen towards the end of the quarter. Parts & Service continued to grow.

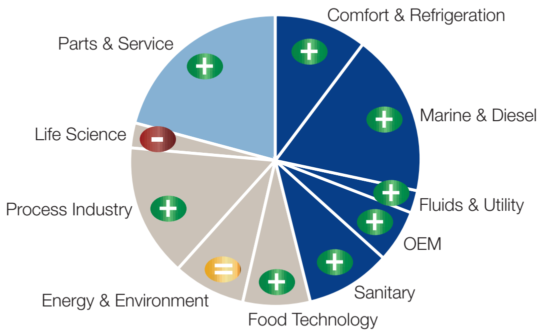
In the Equipment division three out of six segments continued to grow compared to the third quarter last year. In Comfort & Refrigeration the refrigeration business showed continued good development, while the heating market was sluggish as a result of a slowdown in the residential market. For OEM, the air conditioning business grew and the market for heat pumps recovered and presented good growth. The Fluids & Utility segment continued to strengthen, due to technology conversion and better market coverage. Parts & Service also continued to develop

Divisional reporting

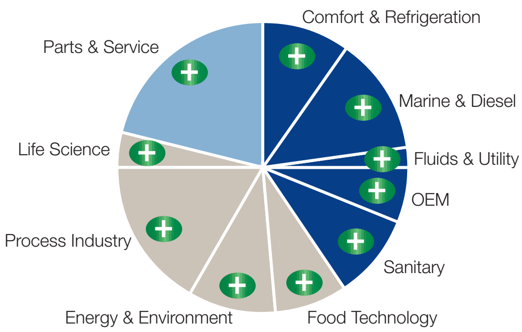
Orders received by segment 2008



Orders received by segment 2007



Orders received by segment 2006



Compared to corresponding period last year, at constant rates adjusted for acquisitions and divestments positively compared with the same period last year. Sanitary was down, due to low investments in the dairy market, as was the Marine & Diesel segment. Within Marine & Diesel the picture was mixed with marine orders slowing, while diesel power orders continued to increase.

The Equipment division showed an overall decline in the fourth quarter, mainly due to the development within Marine which was affected by a slow market activity following the global financial turbulence, as well as cancellations. Within Diesel there were continued strong investments in diesel power plant capacity, but larger projects were delayed. Sanitary was on a lower level than the corresponding quarter last year, mainly as a result of postponed projects for dairy applications mostly in China and Western Europe. For Comfort & Refrigeration order intake fell short of the same quarter last year, primarily due to non-repeat large orders in the Middle East and Russia. The development for Fluids & Utility was somewhat behind due to slower activity in the metal working industry. OEM continued to perform well and orders rose following strong demand from air-conditioning and heat pump manufacturers. A growing installed base of products boosted demand for Parts & Service, which also benefitted from upgrading needs in the marine market. From a geographical perspective Western Europe and Asia were both weak, pressured by the development in Sanitary and Marine. North America on the other hand reported an order intake above last year.

Operating income
(excluding comparison distortion items)

Operating income was SEK 3,573 (2,805) (2,072) million in 2008. The increase in operating income during 2008 compared to last year is mainly explained by a higher gross profit due to volume and increased margins, partially offset by sales and administration costs and adverse foreign exchange effects.

PROCESS TECHNOLOGY DIVISION

The Process Technology division consists of five customer segments: Energy & Environment, Food Technology, Life Science, Process Industry and the aftermarket segment Parts & Service.

Orders received and net sales
(all comments are after adjustment for exchange rate fluctuations)

Orders received increased by 0.1 percent and net sales increased by 7.2 percent during the 2008 compared to last year. Adjusted for acquisitions of businesses, the corresponding figures are a decrease by 0.8 percent and an increase by 6.4 percent.

Taking a quarterly view the development for Process Technology division during 2008 has been as follows:

The first quarter 2008 was the best quarter ever in terms of orders received for the Process Technology division despite a very slow business in bio fuels. The strongest markets in the first quarter are seen in:

- Oil & Gas, where activities are expected to remain strong.
- Power, especially in China and fuel treatment for conventional Power in the Middle-East.
- Petrochemical in Middle-East.
- Inorganic industry that has shown a continued strong growth and where Alfa Laval is developing new applications.
- Brewery on a global basis - a market also expected to have a continuing high investment level.
- Parts & Service continue to reach new record levels.

This means that except biofuel no other slowdown is seen in the quarter.

Order intake in the Process Technology division remained on a high level during the second quarter. The base business* was strong across all segments, with Food Technology standing out. A number of projects related to the vegetable oil industry in India and South East Asia were recorded. Brewery is another business within the same segment showing continued strong activity, especially in emerging countries. The cautious investment levels for bio-fuels continued into the second quarter, a development which is expected to continue for an extended period of time. Within Parts & Service the good growth seen in the first quarter was repeated.

The base business* within the Process Technology Division decreased slightly in the third quarter compared to the same period last year. Among the segments, Energy & Environment showed particularly strong development. The negative trend for Process Industry turned in the third quarter, where capacity investments boosted the refinery industry. Parts & Service showed a continued stable development in the quarter while Food Technology was weaker due to larger non-repeated orders. Still, the vegetable oil business grew significantly, especially in Asia, as high commodity prices contributed to further increase investments in the industry. Geographically, Asia and the Americas performed well, whereas the European markets declined from the same period last year.

The slight decline in the fourth quarter was the result of a contraction for capital sales balanced by continued growth for Parts & Service, driven by a bigger installed base and new product offerings. Food Technology reported a lower project activity in the brewery and vegetable oil industries. Especially the latter experienced a high level of capacity investments in the previous quarters of 2008. Process Industry was also overall lower, due to a continued weak biofuel/ethanol market and lower investments in the inorganics, metals and paper industries. Refinery however, had a very strong growth, with a number of large projects, especially in Asia and the US. Energy & Environment showed growth as the positive development in Power continued, driven by investments in general infrastructure as well as in nuclear power plants, particularly in the developing part of the world. The activity in the oil & gas industry however, declined. Life Science showed good growth, especially in the pharmaceutical industry. The geographical development for the division as a whole showed a contraction in the U.S. and Asia but growth in Western Europe.

Operating income
(excluding comparison distortion items)

Operating income increased to SEK 2,726 (2,265) (1,060) million in 2008. The increase in operating income during 2008 compared to last year is foremost explained by a higher gross profit due to the increased volume and improved margins, to some extent offset by increased sales and administration costs.

OPERATIONS DIVISION AND OTHER

Operations are responsible for procurement, production and logistics. Other is referring to corporate overhead and non-core businesses.

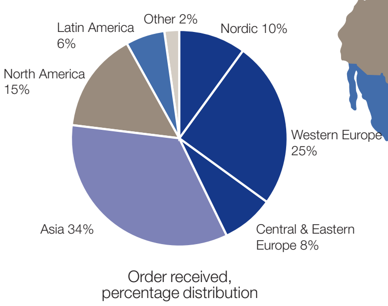
Operating income was SEK -395 (-433) (-460) million in 2008.

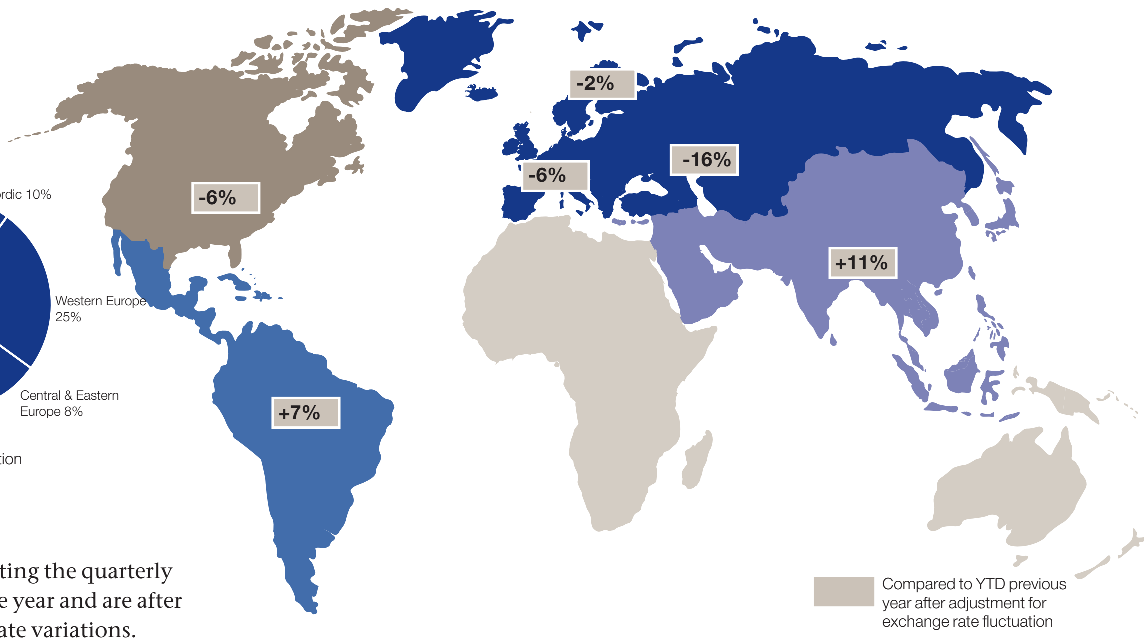
* Base business/orders refers to orders with an order value of less than EUR 0.5 million.

Reporting by geographical markets

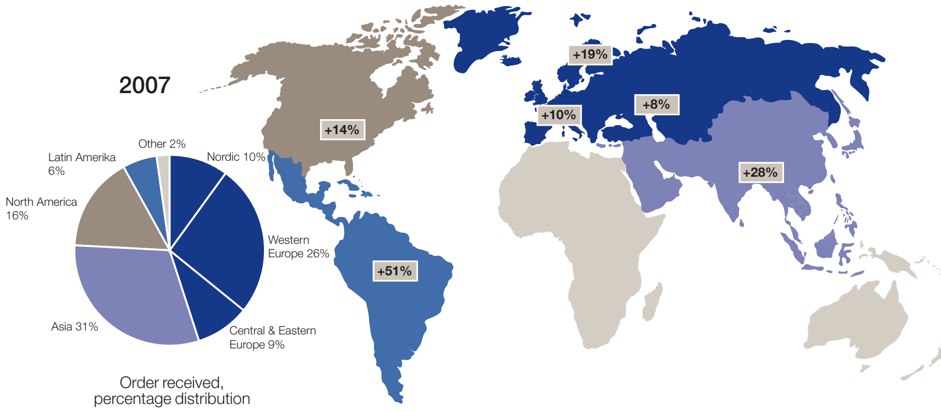
The Group's secondary segments are geographical markets.

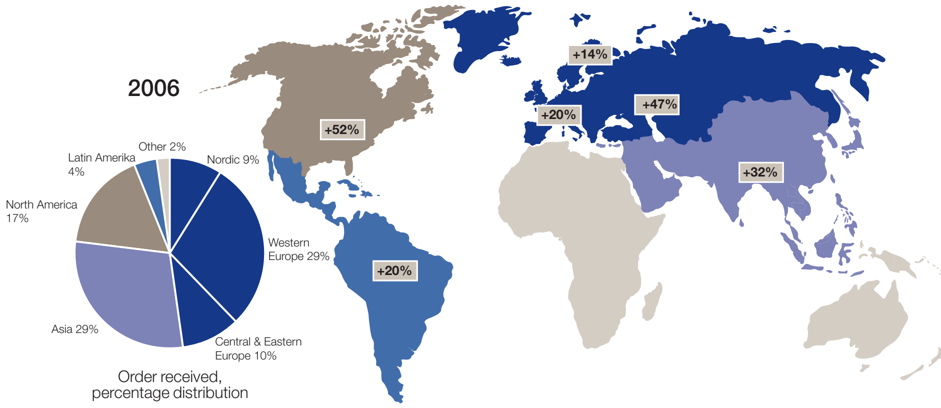
Orders received 2008





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





Western Europe including Nordic

Orders for capital goods in the Equipment division and Parts & Service in the first quarter were above last year. The best development is found in the refrigeration and the marine businesses. Orders for capital goods in the Process Technology division were substantially lower than last year. Base orders (less than EUR 0.5 million) were on the same level as last year. The best development was in the United Kingdom and the Adriatic regions.

Order intake for the base business was unchanged in the second quarter compared to the same period last year. The Equipment division's order intake was also unchanged compared to last year, while the Marine & Diesel segment showed an increase. Order intake for the Process Technology division was substantially lower than last year whereas orders for the Parts & Service segment rose. Best geographic region was the Adriatic region.

Total order intake declined substantially in the third quarter compared to the same period last year, although the Nordic area and the UK grew. The total base business was somewhat lower in the quarter compared to the third quarter last year. The Equipment division's order intake was unchanged compared to last year with a good recovery in the OEM segment. Within the Process Technology division order intake showed a clear decline due to a lack of large orders.

Order intake in Western Europe, including the Nordic area, was flat in the fourth quarter compared to the same period last year. The Equipment Division had a weaker order intake, with the exception of the OEM segment which showed substantial growth. At the same time, orders received for capital goods in the Process Technology Division were flat. Parts & Service reported an increase in orders compared to the corresponding period last year.

Central and Eastern Europe

The region showed good overall growth in the first quarter with the best development in Energy & Environment, Parts & Service and Process Industry. From a country perspective Russia and Turkey stand out. Russia had an excellent increase in orders from all segments within the Process Technology division, as well as from Comfort & Refrigeration where there are significant investments in district heating systems. Parts & Service also developed very well. When it comes to Turkey large orders were received for boron processing within Process Industry, equipment for the Sanitary segment and for Parts & Service. The marine business continues on a high level in Turkey.

The second quarter showed a decline for the region as a whole, mainly due to non-repeated large orders from energy and process industries. Russia as well as Turkey showed a good order intake from both the comfort and marine & diesel industries. Best overall improvement was seen in Ukraine and Central Europe. By segment, Comfort & Refrigeration, Fluids & Utility, Marine & Diesel and Parts & Service all showed particularly good growth.

During the third quarter Eastern European countries such as Russia and Romania continued to perform well, with large orders from the refinery and steelwork industries. For the region as whole, the quarter showed a decline, mainly due to the fact that large orders were not repeated in some of the central European countries. By segment, Refrigeration, Fluids & Utility and Energy & Environment, developed the best.

The region generally had a weak development in the fourth quarter. The development was impacted by cancellations in Marine in Turkey and Poland as well as a lower order intake in Refrigeration. Parts & Service, related to the Equipment Division, had a good development as did Energy & Environment, especially in Russia.

North America

Orders for capital goods in the Equipment division and Parts & Service showed a strong development in the first quarter. Orders for capital goods in the Process Technology division were substantially lower than last year, while base orders were above last year. Excluding the ethanol application orders in the US were on the same level as last year.

Base orders increased during the second quarter compared to the same period last year. At the same time order intake in the Equipment division was higher across all segments. Parts & Service also reported growth in order intake. Meanwhile the Process Technology division showed a decline, mainly due to a drop in orders from the ethanol industry.

The majority of the segments in the Equipment Division and the Process Technology Division reported a clear order increase in the third quarter compared with the corresponding quarter last year. Best performance was seen within Energy & Environment, Comfort & Refrigeration and Parts & Service. Base orders were also increasing. The integration process for the acquired company Standard Refrigeration was running well.

Orders received were slightly down in the fourth quarter compared to the same period last year, mainly as a result of a negative development for the Process Technology Division. Within the Equipment Division, however, order intake was on a good level. Parts & Service continued to benefit from the installed base, which has grown substantially in recent years. Base orders excluding acquisitions were flat compared to the corresponding quarter last year.

Latin America

Latin America showed a very good increase in the first quarter with the best development for the Process Technology division. The segments with the highest growth were Energy & Environment, Process Industry, Food Technology and Comfort & Refrigeration. Brazil and Chile had the strongest development. In Brazil large orders from the ethanol industry contributed to a very good order development in the Process Industry segment.

The region presented another strong period in the second quarter, driven by order growth in Chile, Argentina and Mexico where the Food Technology segment developed well. Brazil was another country to report a positive development, mainly due to orders from the sugarcane-based ethanol industry. Most segments showed an increase - with Comfort & Refrigeration and Marine & Diesel showing the strongest development. Parts & Service also reported a good order intake development during the period.

In the third quarter Latin America continued to make good progress, driven by orders to the Energy & Environment, Life Science and Process Industry segments in Mexico as well as the Process Industry and Life Science segments in Brazil. In Brazil, the volume growth mainly related to the ethanol business. Also the food industry in the country made significant investments during the quarter, leading to good growth in the Food Technology, Sanitary and Comfort & Refrigeration segments.

Latin America reported a decrease in the fourth quarter due to a lower order intake in Argentina and Brazil, mainly within Refrigeration and Process Industry. At the same time countries such as Mexico and Chile had a good development. Large orders in Brazil and Chile boosted the performance of the Food Technology segment. Another segment that did well was Energy & Environment.

Asia

The first quarter was a very strong quarter for the region, with the best growth in the Middle East, China and India. The Energy & Environment, Life Science and Marine & Diesel segments including Parts & Service had the strongest development.

The positive trend reported in the first quarter continued into the second. The strong growth in order intake was reflected by most segments; the frontrunners being Marine & Diesel, Process Industry and Food Technology. Parts & Service showed continued good development. From a geographical perspective, several countries supported the positive development; the strongest contributors being South Korea, the Middle East and China.

The order intake was down in the third quarter compared with the same period last year, mainly due to large orders that were not repeated in the Marine segment. Best overall performance was seen in the Process Technology Division, the main contributors being Process Industry and Food Technology. Parts & Service showed continued good development in the quarter. From a geographical perspective the strongest performance was seen in Korea, the Middle East, South East Asia and India.

The region had a weak fourth quarter, especially compared to the corresponding period last year which was very strong. This is largely due to the decrease in the marine shipyard order intake. Order cancellations within the marine industry also had a negative impact. Energy enjoyed a strong quarter and Comfort showed continued good growth. Another segment to perform well was Parts & Service, which benefitted from the large installed base of products. The best performing countries were found in the Middle East and India, across many market segments.

Personnel

The parent company does not have any employees.

The Group has on average had 11,821 (10,804) (9,923) employees. At the end of December 2008 the Group had 12,119 (11,395) (10,115) employees. The employee turnover rate for 2008 is 11.7 (8.1) (10.2) percent and mainly relates to employees within warehouses and logistical units, the sales organisation and manufacturing units.

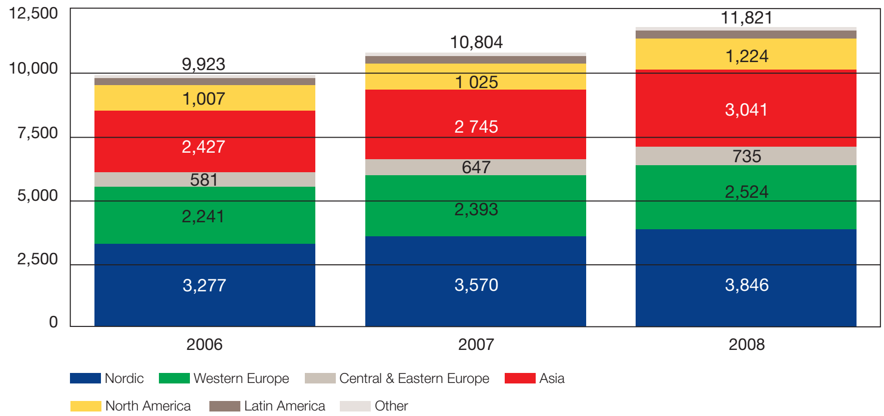
Alfa Laval has several internal training programmes for employees on different levels and in different functions within the Alfa Laval University framework, for instance the Booster programme for top managers reporting to Group Management, the Challenger programme for potential future managers, Adept for employees involved in the sales process and Leading business through Finance @ Alfa Laval – a development program for financial managers and senior controllers. Up till now 100 persons have participated in the Booster programme, 60 in the Challenger programme and 30 in Leading business through Finance @ Alfa Laval.

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.

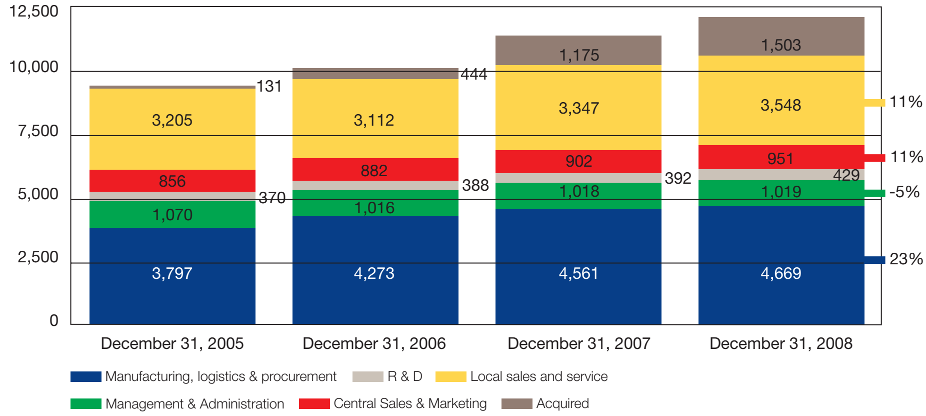
The change in percent from 2005 until 2008 for the largest personnel categories is found to the right of the bar chart Employees by category. Considering that the Group's order intake and net sales have increased by 48 percent and 71 percent respectively since 2005 this means a very substantial productivity improvement. Another way to look upon this is to see how the productivity by employee has developed:

The distribution of employees per country and per municipality in Sweden and between males and females can be found in Note 2 in the notes to the financial statements. The specification of salaries, wages, remunerations, social costs and pension costs are provided in Note 3 in the notes to the financial statements.

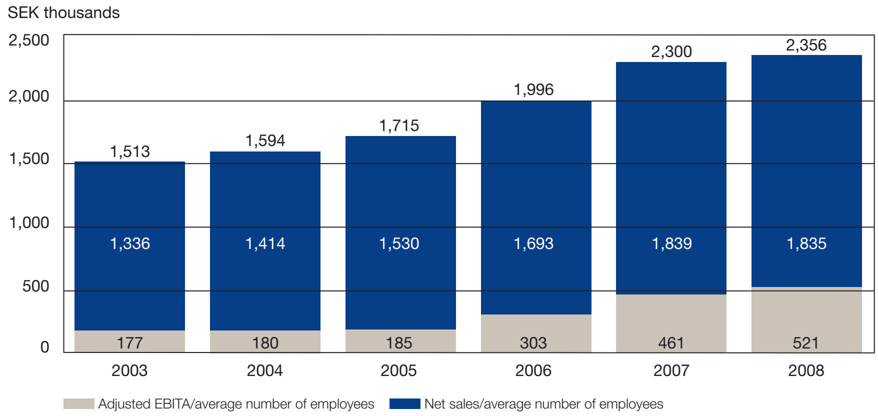
Average number of employees – by region



Employeess – by category



Employees – Productivity development



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 3. The Board of Directors will propose the Annual General Meeting 2009 to implement step two of the cash based long term incentive programme that was introduced for approximately 70 senior managers in the Group in 2008. This programme will also cover the persons defined as executive officers. Any other changes of these principles until the Annual General Meeting 2010 are not 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 718 (643) (526) million, corresponding to 2.6 (2.6) (2.7) percent of net sales. Adjusted for exchange rate variations and acquisitions of businesses, the costs for research and development have increased by 9.3 percent compared to last year.

Ethics and social responsibility

Two of Alfa Laval's four business principles are: "Respect for human rights is fundamental" and "High ethical standards guide our conduct". This means that Alfa Laval respects the human rights of its employees 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 as opposed to what is to be regarded as bribes and corruption.

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. At the end of 2008 18 (11) (6) production sites with ISO 14001 certification accounted for more than 80 (69) (43) percent of the delivery value. The original goal that ISO 14001 certified sites should account for 80 percent of the delivery value is thereby achieved. Another four sites have ongoing certifications. With these certified more than 90 percent of the delivery value will come from certified sites.

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 and 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, 2008, named as a co-defendant in a total of 315 asbestos-related lawsuits with a total of approximately 395 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 2,289 (1,237) (1,993) million, out of which net interests were SEK 36 (40) (7) million, realised and unrealised exchange rate gains and losses SEK 10 (1) (-2) million, dividends from subsidiaries SEK 2,201 (1,208) (2,000) million, consideration from external captive SEK 55 (-) (-), costs related to the listing SEK -3 (-2) (-1) million, fees to the Board SEK -4 (-4) (-4) million, cost for annual report and annual general meeting SEK -3 (-3) (-3) million and other administration costs the remaining SEK -3 (-3) (-4) million. Appropriation to tax allocation reserve has been made with SEK -239 (-378) (-254) million. Income taxes amount to SEK -200 (-318) (-214) million. Tax on received Group contribution was SEK 237 (413) (286) million. Net income for the year was SEK 2,087 (954) (1,811) million.

Unrestricted equity capital for the parent company

The unrestricted equity capital of Alfa Laval AB (publ) was SEK 4,593 (3,628) (3,806) million. The figure for 2008 has been affected by the repurchase of shares by SEK -766 (-1,497) million.

Proposed disposition of earnings

The Board of Directors propose a dividend of SEK 2.25 (2.25) (1.56) per share corresponding to SEK 950 (973) (698) million and that the remaining income available for distribution in Alfa Laval AB (publ) of SEK 3,644 (2,655) (3,109) million be carried forward, see page 108. The figures per share for prior years have been recalculated due do the 4:1 split.

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 capital" and in Note 3.

Repurchase of shares

The Annual General Meeting 2008 and 2007 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 mandates refer to repurchase of up to 5 (10) percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. The repurchases will be made through purchases on OMX Nordic Exchange Stockholm. The outcome of the mandates has been as follows: (see below).

Cancellation of repurchased shares, bonus issue and split

On March 11, 2008 when the notice to the Annual General Meeting was sent the number of repurchased shares was 4,323,639. The Annual General Meeting 2008 decided to cancel these repurchased shares. Cancellation of 4,323,639 shares meant that the share capital decreased with SEK 43 million. At the same time the Annual General Meeting decided to increase the share capital through a bonus issue with the same amount without issuing any shares. In this way the size of the share capital was restored and the company did not have to obtain permission from Bolagsverket or if disputed the local court to cancel the repurchased shares.

The Annual General Meeting 2008 decided to make a share split 4:1 meaning that each share would be split into 4 new shares. The split was implemented with record date June 10, 2008.

At January 1, 2008 the share capital of SEK 1,116,719,930 was divided into 111,671,993 shares. Since then the following changes have taken effect:

Changes in the articles of association concerning the number of shares

As a consequence of the 4:1 split decided by the Annual General Meeting 2008 the meeting also decided to change the number of shares in the articles of association so that the number of shares should be between 298,000,000 (74,500,000) and 1,192,000,000 (298,000,000).

Proposal to cancel repurchased shares and make a bonus issue

The Board will propose to the Annual General Meeting 2009 to cancel the repurchased shares. Currently 7,353,950 shares are held by the company. Cancellation of these shares means that the share capital will decrease with SEK 19 million. At the same time the Board will propose that the share capital is increased by a bonus issue with the same amount decided by the Annual General Meeting. In this way the size of the share capital is restored and the company avoids to have to obtain permission from Bolagsverket or if disputed the local court to cancel the repurchased shares.

Events after the balance sheet date

Four different acquisitions of businesses have been completed in January 2009. For further information reference is made to the issued press releases.

The balance sheets and the income statements will be adopted at the Annual General Meeting of shareholders on April 20, 2009.

Outlook for the first quarter

In the fourth quarter and full year 2008 report issued on February 4, 2009, the President and Chief Executive Officer Lars Renström stated:

"We expect demand during the first quarter to be somewhat lower than the fourth quarter 2008."

Earlier published outlook (October 22, 2008): "We expect demand during the fourth quarter to be in line with, or somewhat lower, compared to the same period 2007."

Date for the next financial reports during 2009

Alfa Laval will publish interim reports during 2009 at the following dates:

Interim report for the first quarter	April 20
Interim report for the second quarter	July 16
Interim report for the third quarter	October 21

Specification of number of shares

	Before split	Corresponding number after 4:1 split
Number of shares at January 1, 2008	111,671,993	446,687,972
Cancellation of re-purchased shares on May 27, 2008	-4,323,639	-17,294,556
Number of shares at May 31, 2008	107,348,354	429,393,416
Increase due to 4:1 split on June 10, 2008	322,045,062	
Number of shares at December 31, 2008	429,393,416	

Specification of repurchase of shares

	2007			2008			
Mandate from Annual General Meeting 2007:	April 1-June 30	July 1-Sept 30	Oct 1-Dec 31	Jan 1-March 31	**Total**	Cancelled May 27	Left to cancel*
Number of repurchased shares	1,011,969	2,246,920	343,650	1,084,200	**4,686,739**	-4,323,639	363,100
Corresponding number after 4:1 split	4,047,876	8,987,680	1,374,600	4,336,800	**18,746,956**	-17,294,556	1,452,400
Percentage of outstanding shares	0.9%	2.0%	0.3%	1.0%	**4.2%**	-3.9%	0.3%
Cash-out and decrease of equity in parent company and consolidated Group (SEK millions)	-426	-939	-132	-367	**-1 864**		

	2008			
Mandate from Annual General Meeting 2007:	April 1-June 30	July 1-Sept 30	Oct 1-Dec 31	**Total**
Number of repurchased shares	0	2,658,900	3,242,650	**5,901,550**
Percentage of outstanding shares*	0.0%	0.6%	0.8%	**1.4%**
Cash-out and decrease of equity in parent company and consolidated Group (SEK millions)	0	-219	-180	**-399**

* In relation to number of outstanding shares remaining after the cancellation.

Consolidated cash-flow statements

Amounts in SEK millions	Note	Jan 1-Dec 31 2008	Jan 1-Dec 31 2007	Jan 1-Dec 31 2006
Cash flow from operating activities				
Operating income		5,736	4,691	2,552
Adjustment for depreciation		560	608	601
Adjustment for other non-cash items		-879	-73	207
		5,417	5,226	3,360
Taxes paid		-1,868	-1,130	-549
		3,549	4,096	2,811
Changes in working capital:				
(Increase)/decrease of current receivables		87	-1,163	-1,308
(Increase)/decrease of inventories		-192	-1,110	-725
Increase/(decrease) of liabilities		264	896	1,418
Increase/(decrease) of provisions		354	545	423
(Increase)/decrease in working capital		513	-832	-192
		4,062	**3,264**	**2,619**
Cash flow from investing activities				
Investments in fixed assets (Capex)		-747	-556	-373
Divestment of fixed assets		140	79	19
Acquisition of businesses	*25*	-726	-1,199	-1,227
Divestment of businesses	*25*	-	0	4
		-1,333	**-1,676**	**-1,577**
Cash flow from financing activities				
Received interests and dividends		219	49	52
Paid interests		-266	-229	- 223
Realised financial exchange differences		-245	-64	56
Repurchase of shares		-766	-1,497	-
Dividends to owners of parent company		-963	-698	-570
Dividends to minority owners in subsidiary		-20	-27	-29
(Increase)/decrease of other financial assets		-380	-13	80
Increase/(decrease) of liabilities to credit institutions		-178	1,188	-302
		-2,599	**-1,291**	**-936**
Net increase (decrease) in cash and bank		**130**	**297**	**106**
Cash and bank at the beginning of the year		856	546	479
Translation difference in cash and bank		97	13	-39
Cash and bank at the end of the period	*24*	**1,083**	**856**	**546**
Free cash flow per share (SEK) *		6.38	3.60	2.33
Capex in relation to sales		2.7	2.2	1.9
Average number of shares **		427,500,307	440,611,504	446,687,972

* Free cash flow is the sum of cash flows from operating and investing activities.
** Average number of shares has been affected by the repurchase of shares and the 4:1 split.

Comments to the consolidated cash-flow statements

For further comments on certain individual lines in the cash-flow statements, reference is made to Notes 24 and 25.

Cash flow

Cash flow from operating and investing activities amounted to SEK 2,729 (1,588) (1,041) million during 2008. Out of this, acquisitions of businesses were SEK -726 (-1,199) (-1,227) million whereas divestments generated cash of SEK 140 (79) (23) million. Cash flow from operations has primarily been influenced by the higher operating income in comparison with last year. As a result of increased volumes and profit the cash flow has been burdened by increased tax payments.

Adjustment for other non-cash items

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

Working capital

Working capital decreased by SEK 513 million during 2008 whereas the corresponding figures for 2007 and 2006 were an increase by SEK 832 and 192 million respectively.

Investments

Investments in property, plant and equipment amounted to SEK 747 (556) (373) million during 2008. The investments made for the individual product groups are as follows:

Heat exchangers

Investments have been made in capacity and productivity enhancing equipment in Ronneby in Sweden and in Alonte in Italy for brazed heat exchangers.

Investments have also been made in China in equipment and factory space to increase capacity for both plate heat exchangers and brazed heat exchangers. Major investments in production capacity for welded heat exchangers have been made in both Fontanil and Chalon in France.

Decanters

Large investments have been finalized for capacity build up for medium sized decanters in Poona in India and large decanters in Söborg in Denmark. The investments have increased the product range flexibility between the two factories.

High speed separators

Large investments in turn/mill capacity for component manufacturing have been made both in Poona, India and in Eskilstuna, Sweden.

Fluid handling products

Investments in capacity for production of fluid handling products have been finalized in China and India for mainly the Asian market but also for exports.

Depreciations

Depreciation, excluding allocated step-up values, amounted to SEK 304 (265) (263) million during the year.

Acquisitions and disposals

For a further analysis of the impact on the cash flow by acquisitions and disposals, see Note 25.

Free cash flow per share

The free cash flow per share is SEK 6.38 (3.60) (2.33) *.

* The figures for prior years have been recalculated due do the 4:1 split.

Consolidated income statement

Amounts in SEK millions	Not	Jan 1-Dec 31 2008	Jan 1-Dec 31 2007	Jan 1-Dec 31 2006
Net sales	*1*	27,850	24,849	19,802
Cost of goods sold	*7*	-16,481	-15,340	-12,598
Gross profit	*1*	11,369	9,509	7,204
Sales costs	*2, 3, 5, 7*	-3,194	-2,751	-2,607
Administration costs	*2, 3, 4, 7*	-1,239	-1,159	-948
Research and development costs	*7*	-718	-643	-526
Other operating income *	*6*	522	362	281
Other operating costs *	*6, 7*	-1 004	-627	-852
Operating income		**5,736**	**4,691**	**2,552**
Dividends	*9*	2	2	2
Interest income and financial exchange gains	*10*	397	271	174
Interest expense and financial exchange losses	*10*	-794	-407	-353
Result after financial items		**5,341**	**4,557**	**2,375**
Taxes on this year's result	*14*	-1,528	-1,350	-613
Other taxes	*14*	-6	-27	-37
Net income for the year		**3,807**	**3,180**	**1,725**
Attributable to:				
Equity holders of the parent		3 774	3,137	1,687
Minority interests		33	43	38
Earnings per share (SEK)		8.83	7.12	3.78
Average number of shares **		427,500,307	440,611,504	446,687,972

* The line has been affected by comparison distortion items, see specification in Note 6.
** Average number of shares has been affected by the repurchase of shares and the 4:1 split

Comments to the consolidated income statement

For comments on the individual lines in the income statement, reference is made to Notes 1 to 11 and Notes 13, 14 and 28. For comments on the segments, see Note 1.

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

Income statement analysis

SEK millions	Jan 1- Dec 31 2008	Jan 1- Dec 31 2007	Jan 1 Dec 31 2006
Net sales	27,850	24,849	19,802
Adjusted gross profit *	11,625	9,852	7,542
- in % of net sales	41.7	39.6	38.1
Expenses **	-5,161	-4,607	-4,269
- in % of net sales	18.5	18.5	21.6
Adjusted EBITDA	**6,464**	**5,245**	**3,273**
- in % of net sales	**23.2**	**21.1**	**16.5**
Depreciation	-304	-265	-263
Adjusted EBITA	**6,160**	**4,980**	**3,010**
- in % of net sales	**22.1**	**20.0**	**15.2**
Amortisation of step up values	-256	-343	-338
Comparison distortion items	-168	54	-120
EBIT	**5,736**	**4,691**	**2,552**

* Excluding comparison distortion items.

Sales and administration expenses amounted to SEK 4,433 (3,910) (3,555) million. Adjusted for exchange rate variations and acquisitions of businesses, sales and administration expenses were 11.0 percent higher than last year. This increase is mainly coming from salary inflation and increase in personnel during the latter part of 2007 and the beginning of 2008.

The costs for research and development have amounted to SEK 718 (643) (526) million, corresponding to 2.6 (2.6) (2.7) percent of net sales. Adjusted for exchange rate variations and acquisitions of businesses, the costs for research and development have increased by 9.3 percent compared to last year.

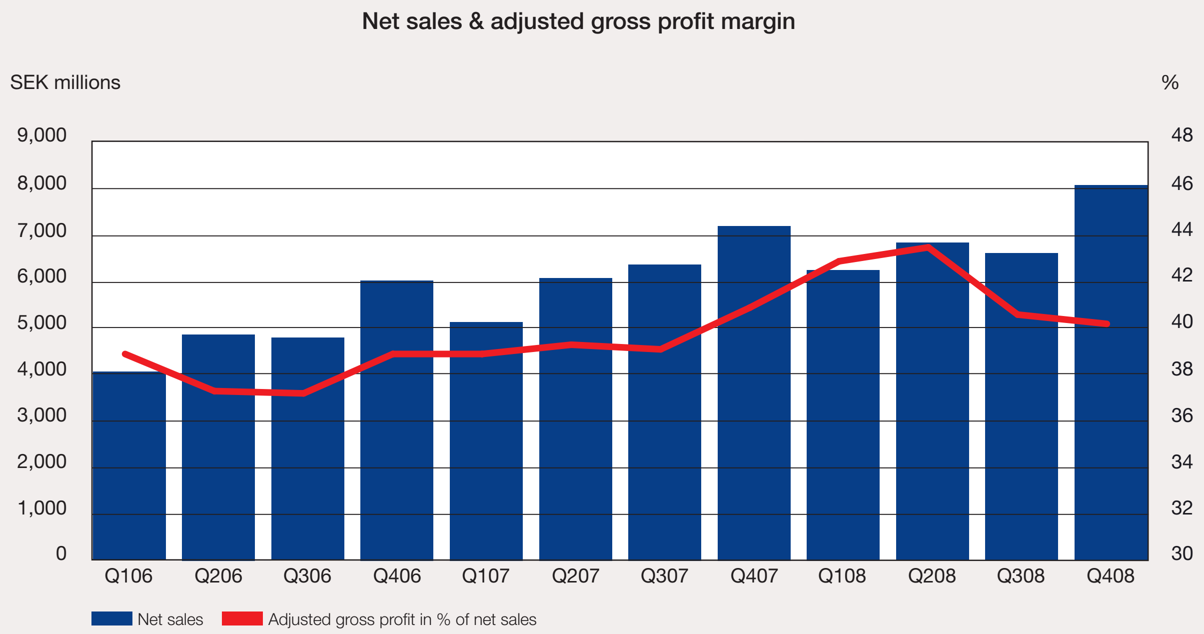
The decrease in amortisation of step up values is due to the fact that some step up values from year 2000 have become fully amortised.

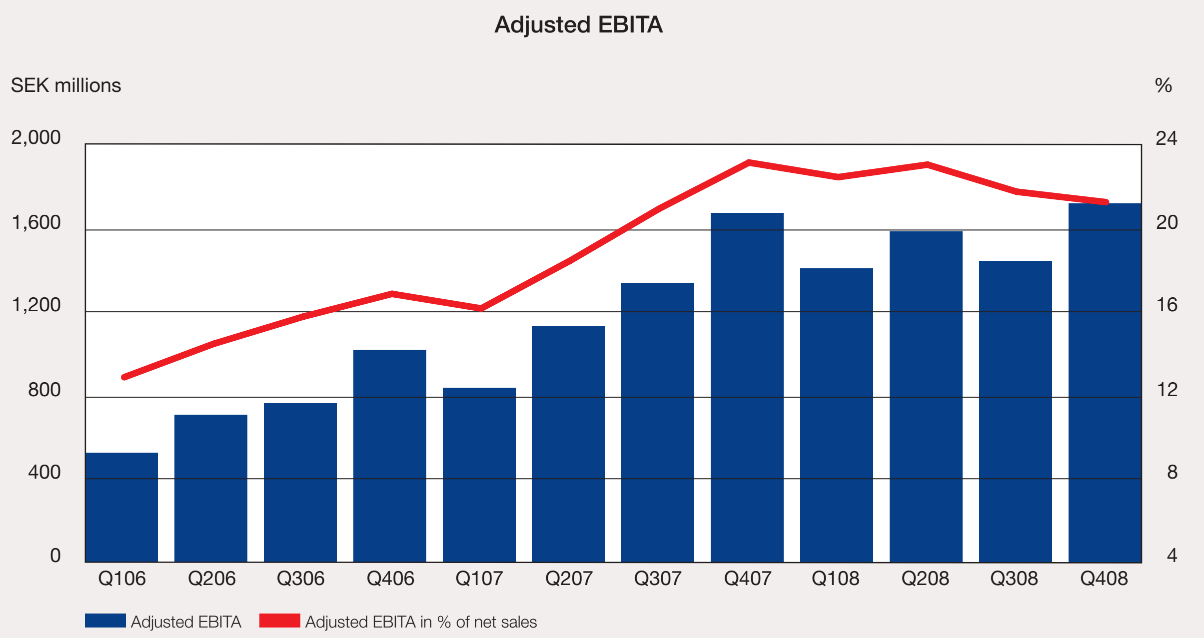
The adjusted result after tax and the minority's share of the result, excluding depreciation of step-up values and the corresponding tax, is SEK 9.26 (7.64) (4.31) per share. The result per share for prior years has been recalculated due to the 4:1 split.

Compared with last year Alfa Laval has been affected during 2008 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 -291 (-254) (61) million for the full year 2008 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.

Net commercial exchange differences have amounted to SEK 906 (604) (353) million. These arise in connection with delivery of goods and other operational activities and have thereby affected the operating result. They are mainly relating to the currency translation made in the subsidiaries of operating receivables and operating payables denominated in foreign currency and the difference between paid amounts and booked receivable or payable.

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





The operating income has been affected by comparison distortion items of SEK -168 (54) (-120) million, which are specified below. In the income statement these are reported gross as a part of other operating income and other operating costs, see summary in Note 6.

In 2008 a property in Brazil has been sold for SEK 113 million with a realised gain of SEK 102. The costs for the ongoing restructuring programme have burdened 2008 with SEK -270 million. The measures are estimated to give an annualized saving of approximately SEK 400 million.

During 2007 the property in Tuusula in Finland was sold for SEK 26 million with a realised gain of SEK 25 million. The property in Argentina was sold for SEK 14 million with a realised gain of SEK 11 million. A property in Brussels in Belgium was sold for SEK 27 million with a realised gain of SEK 15 million. Minor sales of land and buildings were made in India for SEK 3 million with a realised gain of SEK 2 million and in France for SEK 2 million with a realised gain of SEK 1 million.

In December 2006 the biopharm engineering activity was sold for SEK 4 million with a realised loss of SEK -126 million. Out of this SEK 85 million was related to write off of goodwill. This was entirely referring to the goodwill from the acquisition of bioKinetics. During 2006 a piece of land in India was sold for SEK 2 million with a realised gain of SEK 1 million, two minor properties in France were sold for SEK 3 million with a realised gain of SEK 1 million, one flat in Denmark was sold for SEK 4 million with a realised gain of SEK 3 million and a property in Germany was sold for SEK 4 million with a realised gain of SEK 1 million.

The financial net has amounted to SEK -181 (-179) (-180) 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 -94 (-65) (-78) million, interest on the private placement and the bridge loan of SEK -44 (-40) (-33) million and a net of dividends and other interest income and interest costs of SEK -43 (-74) (-69) million. The bridge loan was raised in anticipation of the private placement that financed the acquisition of Tranter.

The net of realised and unrealised exchange rate differences amounts to SEK -214 (45) (3) million, out of which SEK -238 (2) (-3) million in the fourth quarter.

The increase in income taxes over the period 2006 to 2008 is primarily due to the increased result before tax.

Consolidated balance sheet

ASSETS Amounts in SEK millions	Note	2008	2007
Non-current assets			
Intangible assets	*15, 16*		
Concessions, patents, licenses, trademarks and similar rights		1,886	1,271
Renting and similar rights		4	4
Goodwill		5,383	4,459
		7,273	5,734
Property, plant and equipment	*15, 17*		
Real estate		1,228	1,046
Machinery and other technical installations		1,227	906
Equipment, tools and installations		672	559
Construction in progress and advances to suppliers concerning property, plant and equipment		419	313
		3,546	2,824
Other non-current assets			
Other long-term securities	*12, 13, 18*	18	10
Pension assets	*26*	140	106
Deferred tax asset	*14*	1,218	1,012
		1,376	1,128
Total non-current assets		**12,195**	**9,686**
Current assets			
Inventories	*19*	5,972	5,086
Current receivables			
Accounts receivable	*12, 20*	5,706	5,049
Other receivables	*12, 21*	2,777	1,973
Prepaid costs and accrued income	*12, 22*	164	101
Derivative assets	*12, 13*	591	297
		9,238	7,420
Current deposits			
Other current deposits	*12, 23*	544	190
Cash and bank	*12, 24*	1 083	856
Total current assets		**16,837**	**13,552**
TOTAL ASSETS		**29,032**	**23,238**

EQUITY CAPITAL AND LIABILITIES

Amounts in SEK millions	Note	2008	2007
Equity capital			
Attributable to the equity holders of the parent			
Share capital		1,117	1,117
Other contributed capital		2,770	2,770
Other reserves		393	-94
Retained earnings		6,098	4,053
		10,378	7,846
Attributable to minority interest	*11*	115	91
Total equity		**10,493**	**7,937**
Non-current liabilities			
Liabilities to credit institutions	*28*	2,538	2,368
Private placement	*28*	856	700
Provisions for pensions and similar commitments	*26*	990	877
Provision for deferred tax	*14*	1,161	1,090
Other provisions	*27*	403	409
Total non-current liabilities		**5,948**	**5,444**
Current liabilities			
Liabilities to credit institutions	*28*	247	339
Advances from customers		2,444	1 895
Accounts payable		2,449	2,283
Notes payable		251	239
Current tax liabilities		1,692	1,412
Other liabilities	*29*	1,087	982
Other provisions	*27*	1,849	1,401
Accrued costs and prepaid income	*30*	1,363	1,084
Derivative liabilities	*12, 13*	1,209	222
Total current liabilities		**12,591**	**9,857**
Total liabilities		**18,539**	**15,301**
TOTAL EQUITY CAPITAL AND LIABILITIES		**29,032**	**23,238**
PLEDGED ASSETS AND CONTINGENT LIABILITIES			
Pledged assets	*31*	8	8
Contingent liabilities	*31*	3,108	2,209

Comments on the consolidated balance sheet

For comments on the individual lines in the balance sheet, reference is made to Notes 11 to 34. For comments on the segments, see Note 1.

Capital employed
The capital employed including goodwill and step-up values amounted to SEK 11,144 (9,289) million at the end of the year.

Return on capital employed
The return on capital employed including goodwill and step-up values amounted to 53.8 (54.2) percent during 2008.

Capital turnover rate
The capital turnover rate calculated on the average capital employed including goodwill and step-up values amounted to 2.5 (2.7) times for the year.

Return on equity capital
The net income for the year in relation to equity capital was 42.8 (44.1) percent.

Solidity
The solidity, that is the equity capital in relation to total assets, was 36.1 (34.2) percent at the end of the year.

Net debt
The net debt was SEK 2,074 (2,397) million at the end of the year.

Net debt to EBITDA
Net debt in relation to EBITDA was 0.3 (0.5) times at the end of December.

Debt ratio
The debt ratio, that is the net debt in relation to equity capital, was 0.20 (0.30) times at the end of December.

Changes in consolidated equity capital

Attributable to:	Equity holders of the parent					Minority	Total
Amounts in SEK millions	Share capital	Other contributed capital	Other reserves	Retained earnings	Subtotal		
As of December 31, 2005	**1 117**	**2 770**	**-146**	**1 938**	**5 679**	**132**	**5 811**
2006							
Result items booked directly to equity							
Cash flow hedges	-	-	228	-	228	-	228
Translation difference	-	-	-246	-	-246	-23	-269
Deferred tax	-	-	-65	-	-65	-	-65
Net of items booked directly against equity	-	-	-83	-	-83	-23	-106
Net income							
Net income for 2006	-	-	-	1,687	1,687	38	1,725
Sum of income and costs	-	-	-83	1 687	1 604	15	1,619
Transactions with shareholders							
Dividends to owners of parent company	-	-	-	-570	-570	-	-570
Dividends to minority owner in subsidiary	-	-	-	-	-	-29	-29
As of December 31, 2006	**1,117**	**2,770**	**-229**	**3,055**	**6,713**	**118**	**6,831**
2007							
Result items booked directly to equity							
Cash flow hedges	-	-	-26	-	-26	-	-26
Translation difference	-	-	155	-	155	13	168
Deferred tax	-	-	6	-	6	-	6
Net of items booked directly against equity	-	-	135	-	135	13	148
Net income							
Net income for 2007	-	-	-	3,137	3,137	43	3,180
Sum of income and costs	-	-	135	3,137	3,272	56	3,328
Transactions with shareholders							
Repurchase of shares	-	-	-	-1,497	-1,497	-	-1,497
Increase of ownership in Alfa Laval (India) Ltd	-	-	-	56	56	-56	-
Dividends to owners of parent company	-	-	-	-698	-698	-	-698
Dividends to minority owner in subsidiary	-	-	-	-	-	-27	-27
As of December 31, 2007	**1,117**	**2,770**	**-94**	**4,053**	**7,846**	**91**	**7,937**
2008							
Result items booked directly to equity							
Cash flow hedges	-	-	-580	-	-580	-	-580
Translation difference	-	-	839	-	839	11	850
Deferred tax	-	-	228	-	228	-	228
Net of items booked directly against equity	-	-	487	-	487	11	498
Net income							
Net income for 2008	-	-	-	3,774	3,774	33	3,807
Sum of income and costs	-	-	487	3,774	4,261	44	4,305
Transactions with shareholders							
Repurchase of shares	-	-	-	-766	-766	-	-766
Cancellation of repurchased shares	-43	-	-	43	-	-	-
Bonus issue of shares	43	-	-	-43	-	-	-
Dividends to owners of parent company	-	-	-	-963	-963	-	-963
Dividends to minority owner in subsidiary	-	-	-	-	-	-20	-20
As of December 31, 2008	**1,117**	**2,770**	**393**	**6,098**	**10,378**	**115**	**10,493**

Specification of changes in number of shares and share capital

Year	Event	Date	Change in number of shares	Total number of shares	Change in equity capital	Total equity
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	0
	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

Movement schedule for cash flow hedges booked against equity

Consolidated	Fair value adjustment of derivatives	
SEK in millions	2008	2007
Opening balance	70	96
Booked into equity during the year	-471	77
Reversed from equity due to inefficiency:		
booked against gross margin	30	-9
Reversed from equity:		
booked against cost of goods sold	-144	-93
booked against interest income/interest costs	5	-1
Closing balance	-510	70
Change booked in equity during the year	-580	-26

Specification of accumulated translation differences reported against equity capital

Year	Change	Accumulated	Main explanation to change	The change has been affected by hedging measures of
Formation of the Group				
2000	-94	-94	The EUR was appreciated by 6 %, which affected the EUR based acquisition loans	-312
2001	97	3	The USD was appreciated by 10.7 %	-105
2002	-190	-187	The USD was depreciated by 16.7 %	165
2003	-38	-225	The USD was depreciated by 17.5 %	140
2004	-103	-328	The USD was depreciated by 9.0 %	-14
2005	264	-64	The USD was appreciated by 20.3 % and the EUR was appreciated by 4.8 %	-47
2006	-269	-333	The USD was depreciated by 13.5 % and the EUR was depreciated by 4.0 %	40
2007	168	-165	The USD was depreciated by 5.7 % whereas the EUR was appreciated by 4.7 %	9
2008	850	685	The USD was appreciated by 20.5 % and the EUR was appreciated by 16.2 %	-345

Comments on changes in consolidated equity capital

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 (74,500,000) and 1,192,000,000 (298,000,000). The number of shares in the articles of association was changed at the Annual General Meeting 2008 as a consequence of the 4:1 split.

On March 11, 2008 when the notice to the Annual General Meeting was sent the number of repurchased shares was 4,323,639. The Annual General Meeting 2008 decided to cancel these repurchased shares. Cancellation of 4,323,639 shares meant that the share capital decreased with SEK 43 million. At the same time the Annual General Meeting decided to increase the share capital through a bonus issue of the same amount without issuing any shares. In this way the size of the share capital was restored and the company did not have to obtain permission from Bolagsverket or if disputed the local court to cancel the repurchased shares.

The Annual General Meeting 2008 decided to make a share split 4:1 meaning that each share would be split into 4 new shares. The split was implemented with record date June 10, 2008.

At January 1, 2008 the share capital of SEK 1,116,719,930 was divided into 111,671,993 shares. Since then the following changes have taken effect:

Specification of number of shares

	Before split	Corresponding number after 4:1 split
Number of shares at January 1, 2008	111,671,993	446,687,972
Cancellation of re-purchased shares on May 27, 2008	-4,323,639	-17,294,556
Number of shares at May 31, 2008	107,348,354	429,393,416
Increase due to 4:1 split on June 10, 2008	322,045,062	
Number of shares at December 31, 2008	429,393,416	

The Annual General Meeting 2008 gave the Board a mandate to repurchase up to 5 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. At December 31, 2008 Alfa Laval had repurchased 7,353,950 shares, out of which 1,452,400 were repurchased already under the previous mandate but after the notice to the Annual General Meeting 2008 was sent. The Board will propose to the Annual General Meeting 2009 to cancel the repurchased shares. Cancellation of 7,353,950 shares means that the share capital will decrease with SEK 19,125,357. At the same time the Board will propose that the share capital is increased by a bonus issue with the same amount decided by the Annual General Meeting. In this way the size of the share capital is restored and the company avoids to have to obtain permission from Bolagsverket or if disputed the court to cancel the repurchased shares. If the Annual General Meeting decides to cancel the repurchased shares and thereby reduce the share capital and make the bonus issue the share capital will remain at SEK 1,116,719,930 but divided on 422,039,466 shares.

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 18.4 (17.7) percent. The increase in ownership is due to the cancellation of the shares repurchased by the company. 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 Code of Corporate Governance. 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 bilateral term loan with SHB and the private placement 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-flow statement and income statement

PARENT COMPANY CASH-FLOW STATEMENT

Amounts in SEK millions	Jan 1-Dec 31 2008	Jan 1-Dec 31 2007	Jan 1-Dec 31 2006
Cash flow from operating activities			
Operating income	42	-12	-12
Taxes paid	-509	-229	-69
	-467	-241	-81
Changes in working capital:			
(Increase)/decrease of current receivables	-1,716	150	-1,014
Increase/(decrease) of liabilities	199	16	-248
	-1,517	166	-1,262
	-1,984	**-75**	**-1,343**
Cash flow from investing activities			
Investment in subsidiaries	-	-	-208
	-	**-**	**-208**
Cash flow from financing activities			
Financial net, paid	36	39	7
Repurchase of shares	-766	-1,497	-
Received dividends from subsidiaries	2,201	1,208	2,000
Paid dividends	-963	-698	-570
Received group contribution	1,476	1,023	114
	1,984	**75**	**1,551**
Net increase (decrease) in cash and bank	**-**	**-**	**-**
Cash and bank at the beginning of the year	-	-	-
Cash and bank at the end of the period	**-**	**-**	**-**

PARENT COMPANY INCOME STATEMENT

Amounts in SEK millions	*Note*	Jan 1-Dec 31 2008	Jan 1-Dec 31 2007	Jan 1-Dec 31 2006
Administration costs		-13	-10	-11
Other operating income		55	-	-
Other operating costs		0	-2	-1
Operating income/loss		42	-12	-12
Dividends	*10*	2,201	1,208	2,000
Interest income and similar result items	*10*	50	44	15
Interest costs and similar result items		-4	-3	-10
Result after financial items		2,289	1,237	1,993
Appropriation to tax allocation reserve		-239	-378	-254
Income tax		-200	-318	-214
Tax on received Group contribution		237	413	286
Net result for the year		**2,087**	**954**	**1,811**

Parent company balance sheet

Amounts in SEK millions	Note	2008	2007
ASSETS			
Long-term assets			
Financial long-term assets			
Shares in group companies	*18*	4,669	4,669
Current assets			
Current receivables			
Receivables on group companies		3,465	2,385
Current tax assets		248	-
Other receivables		5	1
		3,718	2,386
Cash and bank		**-**	**-**
Total current assets		**3,718**	**2,386**
TOTAL ASSETS		**8,387**	**7,055**
EQUITY CAPITAL AND LIABILITIES			
Equity capital			
Restricted equity capital			
Share capital		1,117	1,117
Statutory reserve		1,270	1,270
		2,387	2,387
Unrestricted equity capital			
Profit brought forward		2,506	2,674
Net income for the year		2,087	954
		4,593	3,628
Total equity capital		**6,980**	**6,015**
Untaxed reserves			
Tax allocation reserve, taxation 2005		81	81
Tax allocation reserve, taxation 2006		25	25
Tax allocation reserve, taxation 2007		254	254
Tax allocation reserve, taxation 2008		378	378
Tax allocation reserve, taxation 2009		239	-
		977	738
Current liabilities			
Liabilities to group companies		236	47
Accounts payable		1	1
Current tax liabilities		193	254
Other liabilities	*28*	0	-
		430	302
TOTAL EQUITY CAPITAL AND LIABILITIES		**8,387**	**7,055**
MEMORANDUM ITEMS			
Pledged assets and contingent liabilities			
PLEDGED ASSETS		None	None
CONTINGENT LIABILITIES (for subsidiaries)			
Performance guarantees		1	14
Other contingent liabilities		40	33

Changes in Parent company's equity capital

Parent company Alfa Laval AB (publ)	Share capital	Statutory reserve	Unrestricted equity	Total
As of December 31, 2005	**1,117**	**1,270**	**1,828**	**4,215**
2006				
Result items booked directly to equity				
Group contribution	-	-	1,023	1,023
Tax on received Group contribution	-	-	-286	-286
Net of items booked directly against equity	-	-	737	737
Net income				
Net result 2006	-	-	1,811	1,811
Sum of income and costs	-	-	2,548	2,548
Transactions with shareholders				
Dividends	-	-	-570	-570
As of December 31, 2006	**1 117**	**1 270**	**3,806**	**6,193**
2007				
Result items booked directly to equity				
Group contribution	-	-	1,476	1,476
Tax on received Group contribution	-	-	-413	-413
Net of items booked directly against equity	-	-	1,063	1,063
Net income				
Net result 2007	-	-	954	954
Sum of income and costs	-	-	2,017	2,017
Transactions with shareholders				
Repurchase of shares	-	-	-1,497	-1,497
Dividends	-	-	-698	-698
As of December 31, 2007	**1,117**	**1,270**	**3,628**	**6,015**
2008				
Result items booked directly to equity				
Group contribution	-	-	844	844
Tax on received Group contribution	-	-	-237	-237
Net of items booked directly against equity	-	-	607	607
Net income				
Net result 2008	-	-	2,087	2,087
Sum of income and costs	-	-	2,694	2,694
Transactions with shareholders				
Repurchase of shares	-	-	-766	-766
Cancellation of repurchased shares	-43	-	43	-
Bonus issue of shares	43	-	-43	-
Dividends	-	-	-963	-963
As of December 31, 2008	**1,117**	**1,270**	**4,593**	**6,980**

The share capital of SEK 1,116,719,930 (1,116,719,930) is divided among 429,393,416 (446,687,972) shares. The Annual General Meeting 2008 gave the Board a mandate to repurchase up to 5 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. At December 31, 2008 Alfa Laval had repurchased 7,353,950 shares, out of which 1,452,400 were repurchased already under the previous mandate but after the notice to the Annual General Meeting 2008 was sent. The Board will propose to the Annual General Meeting 2009 to cancel the repurchased shares. Cancellation of 7,353,950 shares means that the share capital will decrease with SEK 19,125,357. At the same time the Board will propose that the share capital is increased by a bonus issue with the same amount decided by the Annual General Meeting. In this way the size of the share capital is restored and the company avoids to have to obtain permission from Bolagsverket or if disputed the court to cancel the repurchased shares. If the Annual General Meeting decides to cancel the repurchased shares and thereby reduce the share capital and make the bonus issue the share capital will remain at SEK 1,116,719,930 but divided on 422,039,466 shares.

Notes to the financial statements

ACCOUNTING PRINCIPLES

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 1.1 “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 2.1 “Accounting for legal entities” issued by the Council for Financial Reporting in Sweden.

Changed/implemented accounting principles

During 2008 Alfa Laval has implemented IFRIC 14 “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”. It covers the issue of how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset and minimum funding requirements under IAS 19 Employee Benefits. IFRIC stands for International Financial Reporting Interpretations Committee, which issues interpretations on how other standards should be interpreted.

During 2007 Alfa Laval has implemented paragraph 2a in chapter 6 of the Swedish Annual Accounts Act, IAS 1 paragraphs 124 A-C and IFRS 7.

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.

IAS 1 Presentation of Financial Statements has been expanded with paragraphs 124 A-C. These relate to new disclosure requirements on the company’s objectives, policies and processes for managing capital.

IFRS 7 Financial Instruments: Disclosures replaces large parts of IAS 32 Financial Instruments: Disclosure and Presentation. IAS 32 will in the future only contain rules concerning the presentation of financial instruments. 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.

During 2006 the changes in the Swedish Annual Accounts Act 1995:1554 were implemented. These meant that the Board of Directors’ Report was expanded with comments on amounts mentioned elsewhere in the annual report and where a comment is needed in order to understand the meaning of the figures, a description of material factors of risk and uncertainty and disclosures of non-financial nature such as environment and personnel, ethical guidelines and social matters.

The application of the new accounting standards has otherwise in effect not resulted in any change of accounting principles and therefore not resulted in any effect on income or equity capital.

Critical accounting principles

With the implementation of IFRS 3 Business Combinations as of January 1, 2005 goodwill, including previously existing goodwill, and intangible assets with indefinite useful life are not amortised, but 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 the net income and thereby the financial position of the Group. The reported goodwill is SEK 5,383 (4,459) 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 market 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 2,252 (1,810) million is reported as other provisions. This constitutes 7.8 (7.8) 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 equity and may have a substantial effect on the income statement 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.

Advertising costs

Advertising costs are expensed as incurred.

Associates

The Group has only one company that fulfils the definition of an associate in IAS 28 Investments in Associates. That is that the ownership is between 20 and 50 percent, which is the case for Dalian Haven Automation Co Ltd. This company is totally dormant. Since its net assets are not material, it is not consolidated.

Borrowing costs

Borrowing costs are accounted for according to the main principle in IAS 23 Borrowing Costs, which means that the borrowing costs are charged to the profit and loss in the period to which they relate. This means, among other things, that transaction costs that arise in connection with raising a loan are capitalised and amortised over the maturity of the 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.

For the period after August 24, 2000, 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. For the period up to August 24, 2000, the consolidated financial statements include the parent company Alfa Laval Holding AB and the subsidiaries in which it holds more than 50 percent during the period.

The consolidated balance sheet 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 capital 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.

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 activity manages 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 income statement these are reported gross as a part of the most concerned lines in the income statement, but are specified separately in Note 6. A reporting together with other items in the 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.

Employee benefits

Employee benefits are reported according to IAS 19 Employee Benefits. The main difference compared with previous reporting (1999 and earlier) has been the reporting for defined benefit pension plans. 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 market 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 costs for defined contribution plans are reported in Note 3.

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 3. Alecta reported a collective consolidation level at December 31, 2008 of 112 (152) 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 balance sheet date

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

Financial instruments

During 2005 IAS 39 Financial Instruments: Recognition and Measurement was implemented. IAS 39 means that financial derivatives, bonds and non-listed external shares are adjusted to fair value. During 2007 IFRS 7 Financial Instruments: Disclosures was implemented. 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. 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.

During 2007 prepaid costs, prepaid income and advances from customers ceased to be defined as financial instruments since they will not result in future cash flows.

The fair values of bonds and non-listed external shares are arrived at using available market prices or best estimates. The fair value adjustment is equal to the difference between the booked value and the fair value. The effect of the measurement at fair value is reported over the income statement for bonds and non-listed external shares. The market valuation of these instruments is reflected directly on the balance sheet items bonds and non-listed external shares.

The fair values of the Group's currency forward contracts, currency options, interest-rate swaps, metal forward contracts and electricity futures are estimated based on dealer quotes, quoted market prices of comparable contracts, adjusted through interpolation where necessary for maturity differences, or if there are no relevant comparable contracts, on pricing models or formulas using current assumptions. The fair value adjustment is 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.

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 over equity for the derivatives where hedge accounting is made (according to the cash flow hedging method) and over the income statement 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 market adjustment is reported directly in the income statement. For the derivatives where hedge accounting is not made the fair market valuation is reported directly into the income statement. The fair value adjustment of derivatives is reported separately from the underlying instrument as a separate item called derivative assets/derivative liabilities in the balance sheet.

Hedges of net investments in foreign operations

In order to finance acquisitions of foreign operations loans are raised 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 directly to equity.

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 balance sheet 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 and certain other items.

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 balance sheet 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 by increasing the valuation allowance 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. Out of the total inventory for spare parts, the valuation at net realisable value constitutes a considerable part.

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 with Wallenius as partner. These companies 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 balance sheet. 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 balance sheet. 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 balance sheet 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 the income statement 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 balance sheet date. It has nothing to do with the recognised costs in the 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:

\+ costs incurred
\+ recognised profits
\- recognised losses
\- 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 depreciation and amortisation periods 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:

The Successor: Alfa Laval AB (publ), from August 24, 2000

Patents and trademarks	10-20 years
Step-up values, technology	7,5 years
Goodwill,strategic Not amortised after January 1, 2004	20 years
Goodwill,other Not amortised after January 1, 2004	10 years

The Predecessor: Alfa Laval Holding AB, until August 23, 2000

Intangible assets	10 years
Goodwill, harmonisation	5 years
Goodwill, other	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 net realisable value, 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 net realisable value 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.

For the impairment testing of goodwill, Alfa Laval's primary segments, i.e. the two divisions "Equipment" and "Process Technology" 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 balance sheet.

Other operating income and other operating costs

Other operating income in the income statement 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 balance sheet 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 income statement, however, the income related to the reimbursement is netted against the cost for the provision.

Provisions are reviewed at each balance sheet 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.

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 balance sheet date unless the company has, before the balance sheet 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 income statement in the year in which they are incurred. Development costs are charged to the income statement 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. 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. Long-term construction projects are accounted for through the percentage of completion method, see above under "Long-term construction projects".

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

- the stage of completion at the balance sheet date can be measured reliably.

Sick leave in Sweden

The Swedish Annual Accounts Act requires the sick leave among Swedish employees to be reported split on different specifically defined categories. This is a way to get focus on the contemporary problem of high sick leave rates and if certain employers are having a high or a low sick rate within the company. The specification is found in Note 2.

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 equity as foreign currency translation adjustments if the loans act as a hedge to the acquired net assets. In equity they offset the translation adjustments resulting from the consolidation of the foreign subsidiaries. In the parent company, the exchange differences are reported in the income statement.

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 domestic 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 2008 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 charged against equity capital.

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, 2009.

IFRS 8 Operating segments contains disclosure requirements concerning the operating segments of the Group and replaces the requirement to define primary and secondary segments for the Group based on operating divisions and geographical areas. IFRS 8 becomes effective for financial years beginning on or after January 1, 2009.

IAS 1 Presentation of Financial Statements has been revised to increase the value of the information in the financial statements. This includes that transactions with shareholders in equity must be presented in a separate statement while other transactions against equity are presented either as a continuation of the profit and loss statement or in a separate statement. The revised version of IAS 1 becomes effective for financial years beginning on or after January 1, 2009.

IAS 23 Borrowing costs has been revised to require capitalisation of borrowing costs when such costs relate to assets that necessarily take a substantial period of time to get ready for its intended use or sale. The revised version of IAS 1 becomes effective for financial years beginning on or after January 1, 2009.

IFRS 3 Business Combinations has been revised in order to better converge with the rules in US GAAP. The revised version of IFRS 3 becomes effective for financial years beginning on or after July 1, 2009, which means 2010 for Alfa Laval. EU is expected to endorse the changes during the first quarter 2009. The following changes have been made:

- Transaction costs must be reported in the income statement instead of as until now 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 the income statement instead of as until now 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 the income statement at the acquisition date. Until now the goodwill has been calculated and reported at each acquisition date.
- The minority interest can be measured at fair value. This does not exclude that the minority interest still can be measured based on the acquired company's net assets.
- Changes in holdings in subsidiaries must be reported in equity. This has until now been an unregulated area.
- If the minority's share of reported losses is higher than its reported share of the equity, a negative minority share should be reported instead of as until now be charged to the equity attributable to the equity holders of the parent company.

International Accounting Standards Board (IASB) has issued the following financial reporting interpretations developed by the International Financial Reporting Interpretations Committee ((IFRIC), which may be applicable on Alfa Laval and are effective for fiscal years beginning on or after January 1, 2009.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation is expected to be endorsed by EU during the first quarter 2009. IFRIC 16 becomes effective for financial years beginning on or after October 1, 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on how to account for hedges of a net investment in a foreign operation in respect of identification of currency risks that qualify for hedge accounting of net investments, which company within a group that can hold the concerned hedging instrument and how the company is to determine the value of the currency gains or losses in relation to the net investment and the hedging instrument that are to be reversed upon a sale of the foreign operation.

Alfa Laval will evaluate the effects of the application of the new or revised accounting standards or interpretations before each time of application.

Objectives, policies and processes for managing capital

Alfa Laval defines its managed capital as the sum of consolidated net debt and equity including minority interests. At the end of 2008 the managed capital was SEK 12,567 (10,334) million.

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

When managing the capital the Group monitors several measures including:

Measure	Goal	Target standard	Target not set	Outcome 2008	Outcome 2007
Invoicing growth per year *	>= 5%			12.1%	25.5%
Adjusted EBITA margin *	15%			22.1%	20.0%
Return on capital employed	>= 25%			53.8%	54.2%
Debt ratio		< 1		0.20	0.30
Cash flow from operations **		14%		14.6%	13.1%
Investments **		2.5%		2.7%	2.2%
Return on equity capital			X	42.8%	44.1%
Solidity			X	36.1%	34.1%
Net debt to EBITDA			X	0.3	0.5
Interest coverage ratio			X	26.2	23.7
Credit rating			X	BBB+	BBB

* 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 1. As a result of major acquisitions the ratio may temporarily exceed 1, but the ratio is then expected to soon decrease beneath 1 due to positive cash flows and results from the acquired activity.

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

In order to secure access to external financing at a reasonable cost having a competitive credit rating is important. Alfa Laval's rating has been issued by Standard & Poors. A sound and efficient capital structure and a good earnings potential give a good credit rating. An efficient capital structure is characterised by a competitive weighted cost of capital, which makes it possible to fulfil the operating or strategic needs at a reasonable cost.

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

- the senior credit facility with a banking syndicate from 2005 and the private placement in the US and the bilateral term loan with SHB that both happened in 2006.
  the repurchases of shares made during 2007 and 2008.
- 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 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 12 and 13 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 AB, 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 to the right (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' balance sheets from local currency to SEK.

Transaction exposure

During 2008 Alfa Laval's sales to countries outside Sweden amounted to 96.5 (96.0) (95.7) percent of total sales.

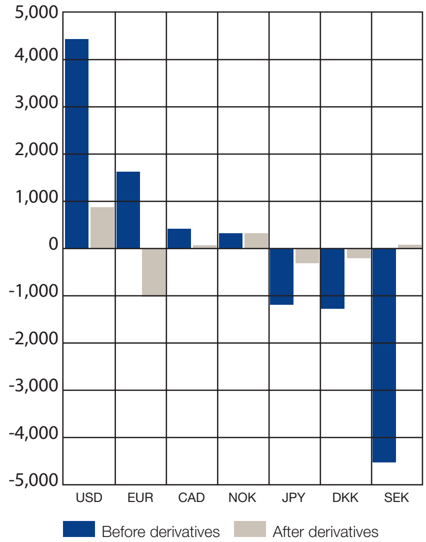
Alfa Laval's local sales companies normally sell in domestic currency to local end customers and have their local cost base in local currency. Exports from production and logistical centres to other Group companies are invoiced in the exporting companies' domestic currencies, except for Sweden, Denmark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

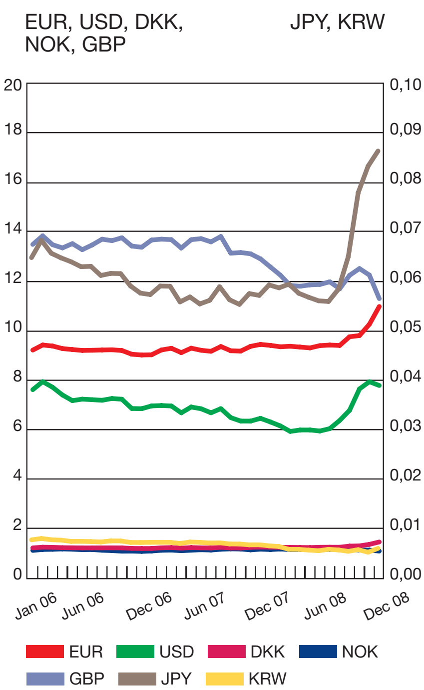
The Group normally has natural risk coverage through the sale as well as costs in local currencies. The financial policy states that the local companies are responsible for identifying and hedging exchange rate exposures on all commercial flows via Alfa Laval Treasury International. Contract based exposures 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 in different currencies before and after derivatives during 2008 has amounted to:

Net transaction exposure per currency during 2008



Exchange rate fluctuations



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

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:

Exchange rate change against SEK	2008		2007		2006	
In SEK millions	+10%	-10%	+10%	-10%	+10%	-10%
Effect on operating income without hedging measure						
USD	443	-443	274	-274	161	-161
EUR	163	-163	87	-87	125	-125
CAD	42	-42	24	-24	27	-27
NOK	33	-33	20	-20	15	-15
DKK	-128	128	-79	79	-136	136
JPY	-119	119	-60	60	20	-20
Total	45	-45	42	-42	39	-39
Total	**479**	**-479**	**308**	**-308**	**251**	**-251**

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

In millions	2008		2007		2006	
Outflows	Original currency	SEK	Original currency	SEK	Original currency	SEK
EUR	-360	-3,965	-242	-2,294	-118	-1,065
USD	-740	-5,775	-656	-4,250	-593	-4,073
DKK	-93	-137	-398	-505	-685	-830
CAD	-32	-205	-29	-194	-7	-41
NOK	-	-	-12	-14	-40	-43
GBP	-2	-23	-3	-41	0	0
Other		-115		-82		-70
Total		**-10,220**		**-7 380**		**-6 122**

In millions	2008		2007		2006	
Inflows	Original currency	SEK	Original currency	SEK	Original currency	SEK
SEK	8,689	8,689	5,937	5,937	5,444	5,444
JPY	11,493	995	18,415	1,056	14,311	827
INR	1,153	186	-	-	-	-
NOK	70	77	-	-	-	-
SGD	7	35	18	80	18	80
GBP	-	-	-	-	2	25
Other		19		106		3
Total		**10,001**		**7,179**		**6,379**

Translation exposure

When the subsidiaries' balance sheets 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 balance sheet is translated at the closing rate at December 31. The translation differences are reported in the equity capital. The translation exposure consists of the risk that the translation difference represents in relation to changes in the equity capital. 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:

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 transferred to equity as foreign currency translation adjustments if the loans act as a hedge to the acquired net assets. In equity they offset the translation adjustments resulting from the consolidation of the foreign subsidiaries. In the Group, net exchange differences of SEK -468 (13) (55) million relating to debts in foreign currencies have been charged to equity 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 balance sheet. 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.

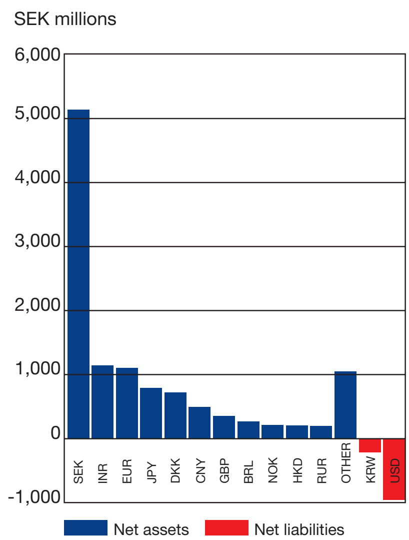
Interest risk

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 loan accrue interest at floating

Net assets and liabilities by currency



rate. The proportion of these loans that the Group has chosen to hedge to fixed interest rate is presented in the graph below. The duration of the hedge is 17 months.

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

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 96 (45) 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 US. The offer was over-subscribed and was closed at USD 110 million with a maturity of 10 years. The loan was raised on April 27, 2006.

In connection with the acquisition of Tranter Alfa Laval signed a bilateral term loan with SHB of EUR 25 million, corresponding to SEK 275 million. The loan matures in December 2013.

Alfa Laval has a senior credit facility with a banking syndicate of EUR 268 million and USD 348 million, corresponding to SEK 5,657 million. At December 31, 2008, SEK 2,196 million of the facility were utilised. The facility matures in April 2012.

In summary the maturity structure of the loans is: (see below)

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.

Counterpart risks

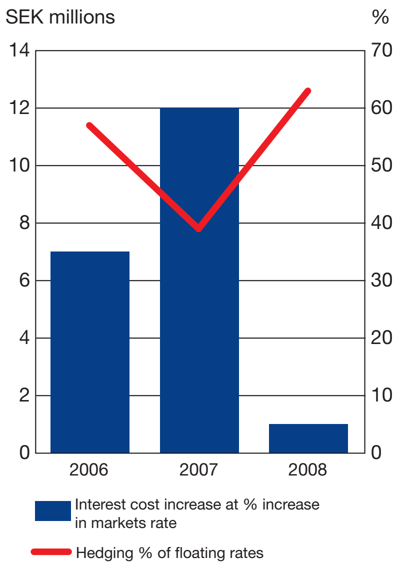
Financial instruments that potentially subject the Group to significant concentrations of credit risk consist principally of cash, deposits and derivatives.

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.

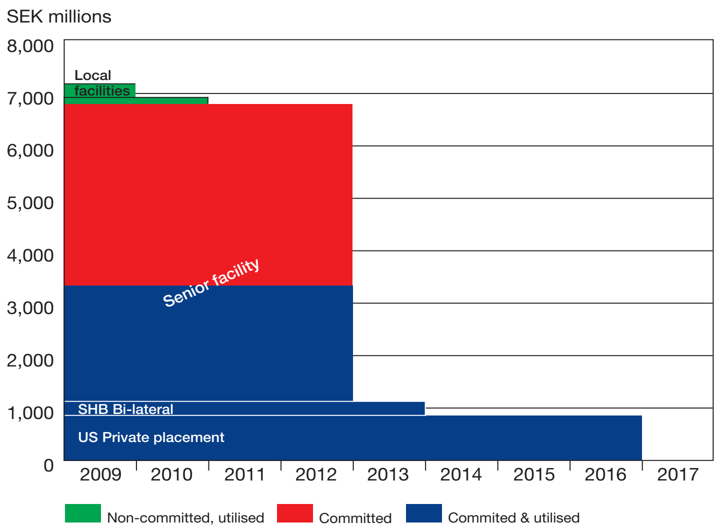
The Group is exposed to credit risk in the event of non-performance by counterparts to derivative instruments. The Group limits this exposure by diversifying among counterparts with high credit ratings and by limiting the volume of transactions with each counter party.

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.

Interest cost sensitivity analysis versus hedging % of floating rates



Maturity structure of Group funding



Operational risks

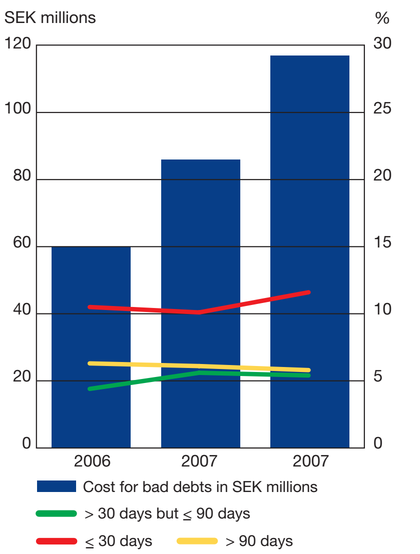
Risk for bad debts

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 12. 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 overdue in per cent of accounts receivable are presented in the following graph.

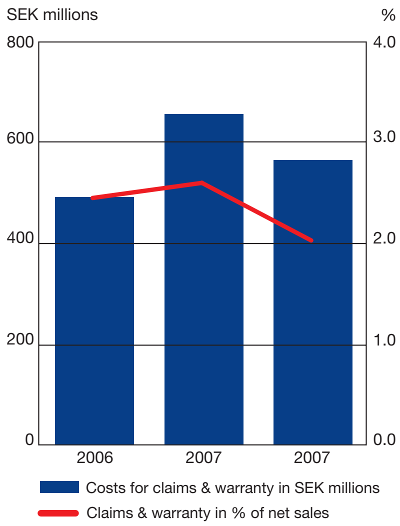
Cost for bad debts / overdues in % of accounts receivable



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:

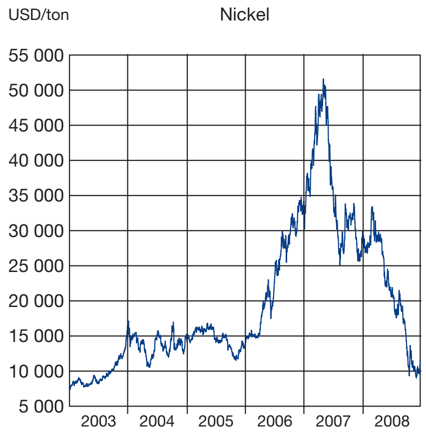
- organized the operations into divisions based on customer segments in order to get a customer focused market penetration,
- a strategy for acquisition of businesses in order to for instance reinforce the presence on certain markets or widen the Group's product offering,
- worked with creating a competitive 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.

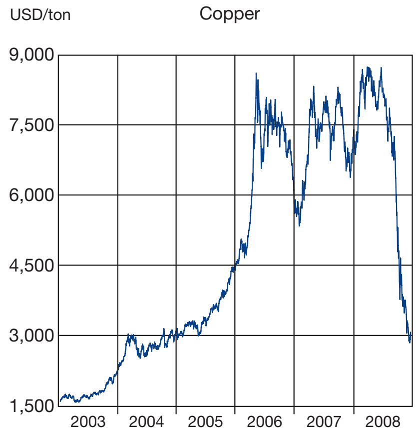
Business climate

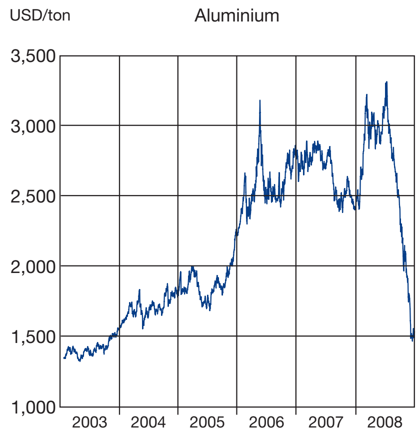
In an overall economic downturn the Group tends to be affected with a delay of 6 to 12 months depending on customer segment. The same applies with an economic upturn. The fact that the Group is operating on a large number of geographical markets and within a wide range of customer segments means a diversification 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.

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 both 2007 and 2006 the Group has experienced higher prices for many raw materials, but in particular for stainless steel, carbon steel, copper and titanium. During 2008 the prices have instead fallen sharply. The price volatility for the most important metals is presented on the next page:



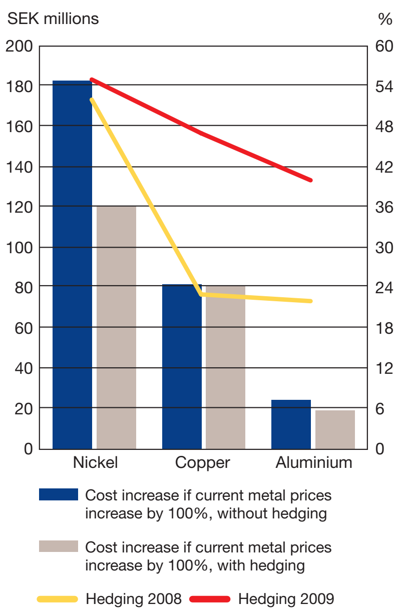




The Group uses metal futures to secure the price on strategic metals. The graph below shows how much of the purchases of nickel, copper and aluminium that have been hedged during 2008 and how much of the expected purchases during 2009 that were hedged at the end of 2008. The graph also presents to what extent the Group's costs for these purchases would be affected if the prices would double from the current low levels.

The reason why the hedges 2009 do not lower the cost more for two of the metals is that the hedges have been entered into during a period where the metal prices have fallen from very high 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 waist 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.

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, 2008, named as a co-defendant in a total of 315 asbestos-related lawsuits with a total of approximately 395 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.

Desert Storm-lawsuits

Some of the subsidiaries of the Alfa Laval Group, along with approximately 70 other defendants, were sued in two lawsuits in the District Court for Brazoria County in Texas, U.S. in 1994. The claims were related to injuries allegedly suffered in the Gulf War 1991, also known as "Desert Storm".

Alfa Laval filed motions to get dismissed and has been awaiting a ruling from the trial court since November 1995.

In August 2006 the District Court for Brazoria County announced its decision to dismiss all Alfa Laval's subsidiaries as defendants in lawsuits regarding the Gulf War. The dismissal enabled Alfa Laval to release SEK 40 million in provisions for expected costs related to the lawsuits, which improved the result 2006 correspondingly.

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
- 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 Operations, 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.

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 step in this process Alfa Laval has started an own captive. Earlier a rent-a-captive solution with an external part was used. 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 new banking syndicate does not contain any such restrictions.

Notes

Note 1. Operating segments

Alfa Laval's primary segments are the two divisions "Equipment" and "Process Technology". The divisions are based on a 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 Equipment division consists of six customer segments: Comfort & Refrigeration, Fluids & Utility Equipment, Marine & Diesel, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Parts & Service. The Process Technology division consists of five customer segments: Energy & Environment, Food Technology, Life Science, Process Industry and the aftermarket segment Parts & Service.

Operations are responsible for procurement, production and logistics. Other is referring to corporate overhead and non-core businesses.

Divisional reporting

Orders received

Consolidated, SEK in millions	2008	2007	2006
Equipment	15,804	15,896	12,617
Process Technology	11,636	11,594	11,391
Operations and other	24	63	10
Total	**27,464**	**27,553**	**24,018**

Order backlog

Consolidated, SEK in millions	2008	2007	2006
Equipment	7,926	7,915	5,721
Process Technology	6,365	6,766	6,630
Operations and other	19	49	8
Total	**14,310**	**14,730**	**12,359**

Net sales

Consolidated, SEK in millions	2008	2007	2006
Equipment	15,657	13,586	10,934
Process Technology	12,143	11,242	8 ,829
Operations and other	50	21	39
Total	**27,850**	**24,849**	**19,802**

Operating income

Consolidated, SEK in millions	2008	2007	2006
Equipment	3,573	2,805	2,072
Process Technology	2,726	2,265	1,060
Operations and other	-395	-433	-460
Subtotal	5,904	4,637	2,672
Comparison distortion items	-168	54	-120
Total	**5,736**	**4,691**	**2,552**

	Assets		**Liabilities**	
Consolidated, SEK in millions	2008	2007	2008	2007
Equipment	8,808	7,252	1,935	1,676
Process Technology	9,129	7,369	4,854	4,085
Operations and other	6,149	5,511	2,980	2,479
Subtotal	24,086	20,132	9,769	8,240
Corporate	4,946	3,106	8,770	7,061
Total	**29,032**	**23,238**	**18,539**	**15,301**

Corporate refers to balance sheet items that are interest bearing or are related to taxes.

	Investments			**Depreciation**		
Consolidated, SEK in millions	2008	2007	2006	2008	2007	2006
Equipment	87	52	34	134	168	157
Process Technology	215	75	74	107	151	156
Operations and othert	445	429	265	319	289	288
Total	**747**	**556**	**373**	**560**	**608**	**601**

The decrease in depreciation for Equipment and Process Technology is due to the fact that some step up values from year 2000 have become fully amortised.

Note 1. continued Operating segments

Reporting by geographical markets

Alfa Laval's secondary segments are geographical markets. Countries with more than 10 percent of net sales, assets or investments are reported separately.

Net sales to customers in:

Consolidatet	2008 SEK in millions	%	2007 SEK in millions	%	2006 SEK in millions	%
Sweden	961	3.5	987	4.0	855	4.3
Other EU	9,339	33.6	9,112	36.7	6,896	34.7
Other Europe	2,402	8.6	2,223	8.9	1,854	9.4
USA	3,680	13.2	3,680	14.8	3,053	15.4
Other North America	711	2.6	420	1.7	610	3.1
Latin America	1,711	6.1	1,258	5,1	844	4.3
Africa	229	0.8	177	0,7	213	1.1
China	2,935	10.5	2,051	8.3	1,319	6.7
Other Asia	5,467	19.6	4,611	18.5	3,862	19.5
Oceania	415	1.5	330	1.3	296	1.5
Total	**27,850**	**100.0**	**24,849**	**100.0**	**19,802**	**100.0**

Assets

Koncernen	2008 SEK in millions	%	2007 SEK in millions	%	2006 SEK in millions	%
Sweden	6,428	22.1	5,046	21.7	4,357	23.2
Other EU	10,717	37.0	9,274	40.0	7,270	38.9
Other Europe	566	1.9	566	2.4	454	2.4
USA	4,235	14.6	2,799	12.0	2,607	13.9
Other North America	354	1.2	236	1.0	234	1.2
Latin America	870	3.0	787	3.4	532	2.8
Africa	59	0.2	40	0.2	27	0.1
Asia	5,585	19.2	4,305	18.5	3,107	16.6
Oceania	218	0.8	185	0.8	162	0.9
Total	**29,032**	**100.0**	**23,238**	**100.0**	**18,750**	**100.0**

Investments

Consolidated	2008 SEK in millions	%	2007 SEK in millions	%	2006 SEK in millions	%
Sweden	134	17.9	198	35.7	136	36.4
Denmark	41	5.5	73	13.1	50	13.3
France	188	25.2	45	8.0	48	12.9
Other EU	127	17.0	86	15.5	53	14.1
Other Europe	14	1.9	17	3.1	4	1.2
North America	46	6.2	35	6.3	29	7.9
Latin America	34	4.5	6	1.0	5	1.4
Africa	0	0.1	0	0.0	0	0.1
China	81	10.8	37	6.6	18	4.7
Other Asia	81	10.8	58	10.6	29	7.8
Oceania	1	0.1	1	0.1	1	0.2
Total	**747**	**100.0**	**556**	**100.0**	**373**	**100.0**

Note 2. Average number of employees

Average number of employees - total

Consolidated	Number of female employees 2008	2007	2006	Total number of employees 2008	2007	2006
Parent company	-	-	-	-	-	-
Subsidiaries in Sweden (7)	485	473	440	2,356	2,273	2,091
Total in Sweden (7)	485	473	440	2,356	2,273	2,091
Total abroad (85)	1,906	1,719	1,616	9,465	8,531	7,832
Total for the group (92)	**2,391**	**2,192**	**2,056**	**11,821**	**10,804**	**9,923**

The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2008.

Average number of employees - in Sweden by municipality

Employees in Sweden	2008	2007	2006
Botkyrka	471	448	433
Eskilstuna	236	218	196
Lund	1,131	1,084	1,001
Ronneby	322	324	287
Stockholm	14	15	11
Vänersborg	141	138	104
Other municipalities with < 10 employees *	41	46	59
Total	**2,356**	**2,273**	**2,091**

* "Other municipalities < 10 employees" includes also employees at branch offices abroad.

Sick leave among Swedish employees

Sick leave in percent of total normal working hours for each category

Consolidated	2008	2007	2006
Sick leave for:			
all employees	3.6	3.9	3.9
all employees during 60 consecutive days or more	1.4	1.6	1.8
female employees	3.6	5.2	4.3
male employees	3.5	3.6	3.7
employees at the age of 29 or younger	2.8	2.7	2.1
employees between 30 and 49 years of age	2.9	3.3	3.5
employees at the age of 50 or more	5.0	4.9	5.3

Average number of employees - by country

Consolidated	Number of female employees 2008	2007	2006	Total number of employees 2008	2007	2006
Argentina	7	12	14	45	45	42
Australia	12	13	14	66	65	61
Austria	7	5	5	36	32	29
Belgium	8	10	11	69	68	74
Brazil	31	28	28	142	130	116
Bulgaria	10	3	3	26	11	12
Canada	22	21	20	74	73	73
Chile	8	5	7	29	28	27
China	228	193	138	935	801	623
Colombia	4	3	2	13	11	10
Czech Republic	15	15	13	75	75	68
Estonia	1	1	1	3	3	2
Finland	45	46	22	220	90	64
France	156	162	153	882	847	749
Germany	76	67	68	261	234	231
Greece	2	-	-	5	0	1
Hong Kong	5	6	7	28	27	25
Hungary	6	7	7	20	19	19
India	59	41	38	1,362	1,265	1,154
Indonesia	16	10	12	66	62	66
Iran	2	2	3	15	15	12
Ireland	-	-	-	-	-	1
Italy	115	102	102	607	598	570
Japan	43	37	36	211	198	194
Korea	25	23	25	102	91	86
Latvia	4	4	3	8	8	8
Lithuania	2	2	2	4	4	4
Malaysia	24	22	22	64	61	60
Mexico	9	8	5	38	36	33
Netherlands	29	26	32	226	177	120
New Zealand	4	4	3	23	24	22
Norway	9	10	11	46	45	46
Peru	9	8	7	30	28	26
Philippines	2	2	3	14	13	17
Poland	29	27	28	195	173	147
Portugal	5	4	4	12	13	13
Romania	8	7	4	17	14	14
Russia	131	108	115	316	285	265
Singapore	20	20	19	53	49	48
Slovakia	2	2	2	11	10	9
South Africa	11	11	10	44	39	37
Spain	32	25	26	98	93	125
Sweden	485	473	440	2,356	2,273	2,091
Switzerland	3	3	3	18	17	16
Taiwan	13	13	12	35	33	30
Thailand	22	20	18	65	55	49
Turkey	8	8	8	39	37	33
UK	53	54	50	310	314	312
Ukraine	6	5	-	21	8	-
United Arab Emirates	15	14	9	91	75	63
USA	210	185	208	1 150	952	934
Venezuela	6	4	4	21	18	16
Total for the Group	**2,391**	**2,192**	**2,056**	**11,821**	**10,804**	**9,923**

Note 2. continued. Average number of employees

Distribution of men/women among managers

	2008			2007			2006		
Consolidated	Number	Male%	Female%	Number	Male%	Female%	Number	Male%	Female%
Board members (excluding deputies)	11	72.7	27.3	11	72.7	27.3	12	75.0	25.0
President and other executive officers	11	100.0	0.0	11	100.0	0.0	11	100.0	0.0
Managers in Sweden	296	82.1	17.9	275	81.5	18.5	255	83.1	16.9
Managers outside Sweden	921	86.1	13.9	912	85.3	14.7	873	86.5	13.5
Managers total	1,217	85.1	14.9	1,187	84.4	15.6	1,128	85.7	14.3
Employees in Sweden	2,356	79.4	20.6	2,273	79.2	20.8	2,091	79.0	21.0
Employees outside Sweden	9,465	79.9	20.1	8,531	79.8	20.2	7,832	79.4	20.6
Employees total	**11,821**	**79.8**	**20.2**	**10,804**	**79.7**	**20.3**	**9,923**	**79.3**	**20.7**

Note 3. Salaries and remunerations

Salaries and remunerations - total

Consolidated, SEK in millions	2008	2007	2006
Board of Directors, Presidents and Vice Presidents	173	156	134
of which, bonus	38	33	26
Other	4,008	3,605	3,362
Total salaries and remunerations	4,181	3,761	3,496
Social security costs	760	699	631
Pension costs, defined benefit plans	141	166	147
Pension costs, defined contribution plans	307	263	242
Total costs of personnel	**5,389**	**4,889**	**4,514**

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 45 (46) (40) million and SEK 304 (289) (289) million respectively. SEK 169 (170) (174) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Equity compensation benefits

During the period 2006 to 2008 no equity related benefits existed within Alfa Laval.

Chief Executive Officer/Managing Director

The Chief Executive Officer and Managing Director Lars Renström receives a remuneration of SEK 10,628,302 (9,497,445) (6,670,445), of which bonus was 3,600,000 (3,000,000) (1,456,000). The bonus refers to bonus 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 currently has a base salary of SEK 6,750,000 (6,000,000) (5,000,000) per annum. He has a bonus opportunity with an un-guaranteed target bonus of 30 (30) (30) percent of the base salary and with a maximum opportunity of 60 (60) (60) percent. 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 60. If Lars Renström continues his work in Alfa Laval after the age of 60 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 59 he will receive two years' remuneration, between 59 and 60 he will receive one year's remuneration and from 60 he will receive 6 months' remuneration. During the year, Alfa Laval has recorded costs for pension premiums of SEK 5 (5) (4) million.

Board of Directors

For 2008, the Board of Directors receive a total fixed remuneration of SEK 3,485,000 (3,050,000) (2,825,000), 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.

Note 3. continued. Salaries and remunerations

Remunerations for Board members elected at Annual General Meeting and not employed by the company

Consolidated, SEK	2008	2007	2006
Fees to:			
Chairman of the Board	900,000	800,000	725,000
Other members of the Board	360,000	325,000	300,000
Supplement to:			
Chairman of the Audit Committee	125,000	100,000	100,000
Other members of the Audit Committee	75,000	50,000	50,000
Chairman of the remuneration committee	50,000	50,000	50,000
Other member of the remuneration committee ersättningsutskottet	50,000	50,000	50,000

Consolidated, SEK		2008	2007	2006
Name:	Function:			
Anders Narvinger	Chairman	1,025,000	900,000	825,000
Gunilla Berg	Member	435,000	375,000	350,000
Björn Hägglund	Member	410,000	325,000	300,000
Ulla Litzén	Member	360,000	325,000	300, 000
Finn Rausing	Member	485,000	425,000	400, 000
Jörn Rausing	Member	410,000	375,000	350,000
Waldemar Schmidt	Member	360,000	325,000	300,000
Total		**3,485,000**	**3,050,000**	**2,825,000**

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.

Other executive officers

Other executive officers are the ten members of Group Management in addition to the Chief Executive Officer. Their remunerations were SEK 28 (27) (22) million, of which bonuses were SEK 6 (5) (3) million. The bonus refers to bonus paid during the year.

For these executive officers, early retirement has in a few cases been committed from the age of 60 or 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 remunerations' 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. The executive officers also have a special family pension that represents a supplement between the old age pension and the family pension according to ITP. In addition, they may exchange salary and bonus 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.

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's remunerations' 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 is mainly based on a fixed monthly salary, with an option for a company car and in addition to that a floating remuneration in the form of a yearly bonus up to 40 percent of the salary (managing director up to 60 percent of the salary). The size of the resulting bonus 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 Meeting 2008 decided to implement a cash based long term incentive programme for approximately 70 senior managers in the Group. The Board of Directors will propose the Annual General Meeting 2009 to implement step two of the incentive programme. This programme also covers the persons defined as executive officers. Any other changes of these principles until the Annual General Meeting 2010 are not proposed by the Board of Directors.

Salaries and remunerations - by country

Consolidated , MSEK	Board of Directors, Presidents and Vice Presidents 2008	2007	2006	Other employees 2008	2007	2006
Argentina	1	1	1	7	5	5
Austria	3	3	2	17	15	13
Australia	4	4	3	27	25	24
Belgium	4	5	5	40	42	39
Brazil	4	4	3	39	31	24
Bulgaria	1	0	0	6	1	1
Canada	2	2	2	39	33	36
Chile	0	0	0	7	6	6
China	4	3	1	92	66	51
Colombia	1	1	1	2	2	2
Czech Replublic	2	2	2	16	13	11
Denmark	9	9	10	726	629	612
Estonia	0	0	0	0	0	0
Finland	4	1	1	91	35	29
France	7	6	0	298	264	241
Germany	11	9	9	113	99	99
Greece	2	0	0	1	0	1
Hong Kong	1	2	1	15	18	19
Hungary	1	1	1	5	5	4
India	3	4	4	98	87	67
Indonesia	1	1	1	7	6	6
Iran	0	0	0	2	2	1
Ireland	-	0	-	-	0	1
Italy	2	2	1	208	196	181
Japan	8	8	10	73	81	81
Korea	1	0	1	32	30	27
Latvia	1	1	0	1	1	1
Lithuania	0	0	0	1	0	0
Malaysia	1	1	1	11	10	9
Mexico	1	1	2	9	9	8
Netherlands	2	1	1	121	100	58
New Zealand	1	1	1	6	6	5
Norway	2	2	1	34	32	30
Peru	0	0	0	5	5	4
Philippines	0	0	0	2	1	1
Poland	3	2	2	29	23	20
Portugal	0	0	0	4	4	4
Romania	2	2	2	2	1	1
Russia	2	2	0	73	56	47
Singapore	1	1	1	15	13	14
Slovakia	0	0	0	2	2	2
Spain	2	3	2	45	39	55
Switzerland	2	2	2	12	11	12
UK	2	2	1	133	140	139
United Arab Emirates	2	6	5	22	12	12
South Africa	3	0	0	9	7	7
Sweden	38	34	27	1,011	994	846
Taiwan	1	1	1	7	7	7
Thailand	1	1	1	10	8	6
Turkey	3	2	2	10	10	8
Ukraine	0	-	-	5	2	-
USA	27	23	23	465	419	483
Venezuela	0	0	0	3	2	2
Total for the Group	**173**	**156**	**134**	**4,008**	**3,605**	**3,362**

Note 4. Information on auditors and auditors' fee

During 2007 quotations were taken in from four of the large international audit firms. After a selection process the Annual General Meeting 2008 decided to re-elect Ernst & Young as the Group's auditors for the coming four years.

Fees and expense compensation

Consolidated, SEK in millions	2008	2007	2006
Audit			
Ernst & Young	21	21	17
Other audit firms	1	1	1
Total	**22**	**22**	**18**
Other projects			
Ernst & Young	9	9	5
Other audit firms	7	9	7
Total	**16**	**18**	**12**

An audit 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. All other assignments are defined as other projects.

Note 5. Advertising costs

Advertising costs have amounted to SEK 93 (86) (59) million. These refer to costs for advertisements in newspapers and technical press, participation in trade fairs and brochures.

Note 6. Comparison distortion items

Consolidated, SEK in millions	2008	2007	2006
Operational			
Other operating income	420	308	275
Comparison distortion income	102	54	6
Total other operating income	522	362	281
Other operating costs	-734	-627	-726
Comparison distortion costs	-270	-	-126
Total other operating costs	-1 004	-627	-852

Specification of operational gains and losses/costs

Consolidated, SEK in millions	2008	2007	2006
Gain on:			
Sale of real estate	102	54	6
Subtotal gains	102	54	6
Loss on:			
Sale of biopharm engineering activity	-	-	-126
Cost for:			
Restructuring programme	-270	-	-
Subtotal losses/costs	-270	-	-126
Net total	**-168**	**54**	**-120**

In 2008 a property in Brazil has been sold for SEK 113 million with a realised gain of SEK 102. The costs for the ongoing restructuring programme have burdened 2008 with SEK -270 million. The measures are estimated to give an annualized saving of approximately SEK 400 million.

During 2007 the property in Tuusula in Finland was sold for SEK 26 million with a realised gain of SEK 25 million. The property in Argentina was sold for SEK 14 million with a realised gain of SEK 11 million. A property in Brussels in Belgium was sold for SEK 27 million with a realised gain of SEK 15 million. Minor sales of land and buildings were made in India for SEK 3 million with a realised gain of SEK 2 million and in France for SEK 2 million with a realised gain of SEK 1 million.

In December 2006 the biopharm engineering activity was sold for SEK 4 million with a realised loss of SEK -126 million. Out of this SEK 85 million was related to write off of goodwill. This was entirely referring to the goodwill from the acquisition of bioKinetics. During 2006 a piece of land in India was sold for SEK 2 million with a realised gain of SEK 1 million, two minor properties in France were sold for SEK 3 million with a realised gain of SEK 1 million, one flat in Denmark was sold for SEK 4 million with a realised gain of SEK 3 million and a property in Germany was sold for SEK 4 million with a realised gain of SEK 1 million.

Note 7. Depreciation by function

Consolidated, SEK in millions	2008	2007	2006
Cost of goods sold	-423	-479	-464
Sales	-5	-11	-62
Administration	-47	-45	-61
Research and development	-64	-53	-6
Other income and costs	-21	-20	-8
Total	**-560**	**-608**	**-601**

Note 8. Depreciation by type of assets

Consolidated, SEK in millions	2008	2007	2006
Patents, trademarks, etc.	-161	-249	-243
Machinery and equipment	-326	-297	-293
Financial leasing machinery and equipment	-2	-3	-3
Buildings and ground installations	-70	-58	-61
Financial leasing buildings	-1	-1	-1
Total	**-560**	**-608**	**-601**

Note 9. Result from other securities and receivables accounted for as non-current assets

Consolidated, SEK in millions	2008	2007	2006
Dividends from other	4	2	3
Fair value adjustment of securities	-2	0	-1
Total	**2**	**2**	**2**

Note 10. Interest income/costs and exchange rate differences

Consolidated, SEK in millions	2008	2007	2006
Interest income			
Financial leasing	0	1	1
Other interest	52	46	39
Exchange gains			
Unrealised	276	190	85
Realised	69	34	49
Totalt	**397**	**271**	**174**
Interest costs			
Financial leasing	0	-2	0
Other interest	-235	-226	-222
Exchange losses			
Unrealised	-94	-58	-113
Realised	-465	-121	-18
Total	**-794**	**-407**	**-353**

In the Group, reported net exchange differences of SEK -468 (13) (55) million relating to debts in foreign currencies have been charged to equity. 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 equity impact of SEK -345 (9) (40) million.

Parent company, SEK in millions	2008	2007	2006
Interest income			
External companies	-	0	0
Subsidiaries	39	40	14
Exchange gains			
Unrealised	11	4	1
Total	**50**	**44**	**15**
Interest costs			
External companies	0	-	0
Subsidiaries	-3	0	-7
Exchange losses			
Unrealised	-1	-2	-3
Realised	0	-1	0
Total	**-4**	**-3**	**-10**

Note 11. Minority interest

The minority share in subsidiaries' result and equity relates to six subsidiaries in Bulgaria, France, India, Russia and Sweden where minority owners exist.

Note 12. Classification of financial assets and liabilities

Financial assets	Financial assets at fair value through profit or loss:						Loans and receivables	
	Designated upon initial recognition		Held for trading		Derivatives used for hedging			
Consolidated, SEK in millions	2008	2007	2008	2007	2008	2007	2008	2007
Non-current assets								
Other non-current assets								
Other long-term securities	18	10	-	-	-	-	-	-
Current assets								
Current receivables								
Accounts receivable	-	-	-	-	-	-	5,706	5,049
Notes receivable	-	-	-	-	-	-	446	387
Other receivables	-	-	-	-	-	-	914	907
Accrued income	-	-	-	-	-	-	17	8
Derivative assets	-	-	215	113	376	184	-	-
Current deposits								
Deposits with banks	-	-	-	-	-	-	452	149
Bonds and other securities	78	35	-	-	-	-	-	-
Other deposits	-	-	-	-	-	-	14	6
Cash and bank	-	-	-	-	-	-	1,083	856
Total financial assets	96	45	215	113	376	184	8,632	7,362

The Group does not have any financial assets that represent held to maturity investments or that are available for sale.

Financial liabilities	Financial liabilities at fair value through profit or loss:				Loans	
	Held for trading		Derivatives used for hedging			
Consolidated, SEK in millions	2008	2007	2008	2007	2008	2007
Non-current liabilities						
Liabilities to credit institutions	-	-	-	-	2,538	2,368
Private placement	-	-	-	-	856	700
Current liabilities						
Liabilities to credit institutions	-	-	-	-	247	339
Accounts payable	-	-	-	-	2,449	2,283
Notes payable	-	-	-	-	251	239
Other liabilities	-	-	-	-	1,029	948
Accrued costs	-	-	-	-	1,353	1,073
Derivative liabilities	323	108	886	114	-	-
Total financial liabilities	323	108	886	114	8,723	7,950

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 balance sheet or to the item specified in the notes referred to in the balance sheet. The risks linked to these financial instruments including any concentrations of risk are presented in the sections on risks on pages 66-75.

Result of financial instruments

The result of the financial assets designated upon recognition is found in Note 9 as dividends from other.

The result of the financial assets held for trading of SEK 14 (24) million has affected cost of goods sold with SEK 2 (-) million, exchange gains in Note 10 with SEK 12 (24) million and interest income in Note 10 with the remaining SEK 0 (-) million.

The result of the assets under loans and receivables is presented in Note 10 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 financial liabilities held for trading of SEK -170 (-54) million has affected cost of goods sold with SEK -85 (-5) million, exchange losses in Note 10 with SEK -84 (-49) million and interest costs in Note 10 with the remaining SEK -1 (-) million.

The result of the liabilities under loans is presented in Note 10 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 booked against equity and is found in the "Changes in consolidated equity capital".

Note 13. Fair value adjustments of financial instruments

Fair value adjustment of securities

Consolidated, SEK in millions	Acquisition value 2008	Acquisition value 2007	Market value 2008	Market value 2007	Adjustment 2008	Adjustment 2007
Other long-term securities						
Shares in external companies	18	9	18	10	0	1
Bonds and other securities						
Marketable securities	78	34	78	35	0	1
Total	**96**	**43**	**96**	**45**	**0**	**2**

The fair value adjustments of securities are made over the income statement and on each concerned line in the balance sheet.

Fair value adjustment of derivatives

Consolidated, SEK in millions	Currency pairs		Difference between contracted rate and current rate 2008	2007
Derivative assets/liabilities				
Foreign exchange forward contracts:	EUR	USD	-22	94
	EUR	SEK	-483	-51
	EUR	AUD	2	1
	EUR	CAD	24	0
	EUR	JPY	20	0
	USD	CAD	15	-9
	USD	DKK	6	17
	USD	GBP	-1	0
	USD	SEK	-258	50
	USD	JPY	128	2
	DKK	SEK	-45	-17
	Other	Other	8	-2
Subtotal			-606	85
Currency options			-52	0
Interest Rate Swaps			120	-5
Metal forward contacts			-77	-4
Electricity futures			-3	-1
Total, corresponding to a net derivative asset (+) or liability (-)			**-618**	**75**

For currency options, metal forward contracts and electricity futures hedge accounting has not been applied. For foreign exchange forward contracts and interest rate swaps hedge accounting has been applied when the conditions for hedge accounting have been fulfilled.

The fair value adjustment of derivatives is made over equity if hedge accounting can be applied and the derivatives are effective. In all other cases the fair value adjustment is made over the income statement. The corresponding entries are made on derivative assets and liabilities and not on the underlying financial instruments in the balance sheet.

Note 14. Taxes on this year's result and other taxes for the Group

Consolidated, SEK in millions	2008	2007	2006
The major components of the Group's tax costs			
Current tax cost	-1,509	-1,559	-911
Adjustment for current taxes on prior periods	-8	29	3
Deferred tax costs/income on changes in temporary differences	-48	148	279
Deferred tax costs/income on changes in tax rates or new taxes	15	16	7
Tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	8	-5	40
Deferred tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	23	20	-
Deferred tax cost from the write down or reversal of a previous write down of a deferred tax asset	-9	1	-31
Other taxes	-6	-27	-37
Total tax cost	**-1,534**	**-1,377**	**-650**

The difference between the tax costs of the group and the tax cost based upon applicable tax rates can be explained as follows:

Consolidated, SEK in millions	2008	2007	2006
Result before minority interests and tax	5,341	4,557	2,375
Tax according to applicable tax rates	-1,650	-1,460	-750
Tax effect of:			
Non-deductible costs	-43	-109	-120
Non-taxable income	135	111	48
Tax losses and tax credits	38	79	206
Other	-6	-27	-37
Adjustment for current tax on prior periods	-8	29	3
Total tax costs	**-1,534**	**-1,377**	**-650**

Other taxes are mainly referring to wealth tax.

Tax losses and tax credits for 2006 are mainly referring to used tax losses in the United States.

Note 14. continued. Taxes on this year's result and other taxes for the Group

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:

Consolidated, SEK in millions	2008 Deferred tax asset	2008 Deferred tax liability	2007 Deferred tax asset	2007 Deferred tax liability
Intangible assets	20	376	27	368
Tangible assets	38	278	44	273
Inventory	145	12	128	21
Other current assets	44	6	33	22
Financial assets	0	0	0	21
Short term liabilities	1,033	149	826	129
Tax losses and tax credits *	21	0	24	0
Other	0	423	1	327
Subtotal	1,301	1,244	1,083	1,161
Possible to net	-83	-83	-71	-71
Total deferred taxes	**1,218**	**1,161**	**1,012**	**1,090**

* The Group has reported a deferred tax asset on unused tax losses and tax grants of SEK 70 (61) 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 777 (773) million that have not resulted in corresponding deferred tax assets, since these are not likely to be used.

The nominal tax rate has changed in the following countries during 2006 to 2008.

Consolidated	Tax rates in percentage 2008	2007	2006
Belgium	34	33	34
Bulgaria	10	15	15
China	18	15	15
Colombia	33	35	38
Czech Republic	21	24	24
Denmark	25	25	28
Greece	25	25	29
Hungary	16	20	16
Italy	31	37	37
Japan	41	41	40
Malaysia	26	28	28
Mexico	28	28	29
Netherlands	26	26	30
New Zealand	30	33	33
Pakistan	35	39	37
Russia	20	24	24
Singapore	18	18	20
South Africa	28	29	29
South Korea	24	25	25
Spain	30	33	35

The Group's normal effective tax rate is approximately 31 (32) (32) 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 15. Goodwill and step-up values

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. It shows each acquisition separately. Any later adjustments to the allocations are referred to the original year of the acquisition. The figures for the allocations, realisations and amortisation are based on the prevailing rates at the time the transactions took place and any change in exchange rates until December 31, 2008 is shown as a translation difference. 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. The corresponding presentation by asset type is found in Notes 16 and 17.

Consolidated, SEK in millions	Opening balance 2008	Acquired	Realised	Planned amortisation	Translation difference	Closing balance 2008
Buildings	383	4	-24	-22	39	380
Land and land improvements	-71	8	28	-	-19	-54
Machinery	149	-	-	-56	10	103
Equipment	198	-	-	-29	16	185
Inventory	-	7	-7	-	0	-
Patent and trademarks	1,168	310	-	-119	225	1,584
Technology	30	-	-	-30	0	-
Subtotal step-up values	1,857	329	-3	-256	271	2,198
Goodwill	4,459	373	-	-	551	5,383
Total	**6,316**	**702**	**-3**	**-256**	**822**	**7,581**

The Group has not recorded any impairment losses related to neither goodwill nor any other step up values in 2008 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 464 (493) million.

Note 15. continued. Goodwill and step-up values

Consolidated, SEK in millions Year	Businesses	Buildings	Land and land improvements	Machinery	Equipment	Construction in progress	Inventory	Patent and trademarks	Technology	Research and development	Capital gain (Industrial Flow)	Total step-up values	Goodwill	Total
2000	Alfa Laval Holding	1 058	-228	548	452	16	340	461	1 280	54	42	4 023	3 683	7 706
2002	Danish Separation Systems	-	-	-	-	-	-	-	-	-	-	-	118	118
2003	Toftejorg	1	-	-	-	-	-	-	-	-	-	1	35	36
	bioKinetics	-	-	-	-	-	-	28	-	-	-	28	84	112
2005	Packinox	-	-	-	-	-	7	296	-	-	-	303	265	568
2006	Tranter	17	-	-	-	-	6	445	-	-	-	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	144	-	-	-	145	46	191
	P&D's Plattvärmeväxlarservice	-	-	-	-	-	-	-	-	-	-	-	10	10
	Ageratec	-	-	-	-	-	-	-	-	-	-	-	44	44
	Accumulated during the period													
	Realised	-524	122	13	-24	-16	-360	-23	-	-54	-42	-908	-85	-993
	Planned amortisation	-209	-	-472	-249	-	-	-405	-1 272	-	-	-2 607	-612	-3 219
	Translation difference	28	44	14	6	-	-	152	-8	-	-	236	274	510
2008	Closing balance	380	-54	103	185	-	-	1 584	-	-	-	2 198	5 383	7 581

For assets sold, net gains or losses are recognised on the costs basis including any related step-up value. Construction in process was transferred to machinery in 2001.

In December 2006 the biopharm engineering activity was sold for SEK 4 million with a realised loss of SEK -126 million. Out of this SEK 85 million was related to write off of goodwill. This was entirely referring to the goodwill from the acquisition of bioKinetics. Also the step up values for patents and trademark were realised at the sale. The sale is reported in the column "Realised".

Acquisition of businesses

During 2008

On August 15, 2008 Alfa Laval acquired the US company Hutchison Hayes Separation, which is a leading provider of separation equipment, parts and services, mainly to the US energy related industries. Hutchison Hayes will operate as a separate organisation and adds a complementary channel for centrifugal separation equipment and service, primarily to the energy related industries in the US. The purchase price is SEK 227 million, out of which all has been paid in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 3 million. The impact on the cash flow was thus SEK -230 million. Out of the difference between the purchase price paid and the net assets acquired SEK 95 million was allocated to patents and un-patented know-how, SEK 49 million was allocated to the Hutchison Hayes Separation trademark and SEK 1 million to accrued gross margin in work in progress, while the residual SEK 46 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Hutchison Hayes Separation'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 as well as the step up value for the trademark are depreciated over 10 years. The step up for accrued gross margin in work in progress was expensed during 2008. Hutchison Hayes Separation's net sales and adjusted EBITA for 2008 from the date of the acquisition are SEK 66 million and SEK 10 million respectively. If Hutchison Hayes Separation had been acquired at January 1, 2008 the corresponding figures would have been SEK 139 million and SEK 26 million respectively.

On July 31, 2008 Alfa Laval acquired the German company Pressko AG, which is specialized in developing and manufacturing fully welded heat exchangers. Pressko AG will be integrated into Tranter, which is a separate organisation within the Alfa Laval Group. The purchase price is SEK 80 million, out of which SEK 68 million has been paid in cash and the rest is retained for a period of 1-2 years. 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 4 million. The impact on the cash flow was thus SEK -72 million. Out of the difference between the purchase price paid and the net assets acquired SEK 1 million was allocated to accrued gross margin in work in progress, while the residual SEK 69 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The value of the goodwill is still preliminary. The step up for accrued gross margin in work in progress was expensed during 2008. Pressko's net sales and adjusted EBITA for 2008 from the date of the acquisition are SEK 18 million and SEK 5 million respectively. If Pressko had been acquired at January 1, 2008 the corresponding figures would have been SEK 44 million and SEK 7 million respectively.

On June 13, 2008 Alfa Laval acquired about 44 percent of the Swedish company Ageratec that develops innovative process solutions for the biodiesel industry. On December 29 Alfa Laval increased its ownership to about 68 percent and Ageratec became a subsidiary. The purchase price is SEK 50 million 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. After deducting acquired cash and bank the impact on the cash flow was SEK -39 million. Out of the difference between the purchase price paid and the net assets acquired of SEK 44 million all was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Ageratec's ability to over time recreate its intangible assets. The value of the goodwill is still preliminary. Ageratec's net sales and adjusted EBITA for 2008 from the date of the original acquisition when the company became an associated company until it became a subsidiary are SEK 46 million and SEK -8 million respectively. Ageratec's net sales and adjusted EBITA for 2008 from the date when the company became a subsidiary are SEK 0 million and SEK 0 million respectively. If Ageratec had been acquired at January 1, 2008 the corresponding figures would have been SEK 58 million and SEK -18 million respectively.

On June 1, 2008 Alfa Laval acquired the US company Standard Refrigeration, a leading supplier of shell-and-tube heat exchangers for a variety of refrigeration, air-conditioning and industrial applications in the North American market. Standard Refrigeration will be integrated into Alfa Laval in order to capture synergies such as a wider product portfolio combined with an enhanced market presence. The purchase price is SEK 369 million, out of which SEK 351 million has been paid in cash and the rest is retained for a period of 18 months. 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 4 million. After deducting acquired cash and bank the impact on the cash flow was SEK -350 million. Out of the difference between the purchase price paid and the net assets acquired SEK 166 million was allocated to patents and un-patented know-how and SEK 5 million to accrued gross margin in work in progress, while the residual SEK 152 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Standard Refrigeration'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 depreciated over 10 years. The step up for accrued gross margin in work in progress was expensed during 2008. Standard Refrigeration's net sales and adjusted EBITA for 2008 from the date of the acquisition are SEK 140 million and SEK 34 million respectively. If Standard Refrigeration had been acquired at January 1, 2008 the corresponding figures would have been SEK 249 million and SEK 51 million respectively.

On February 11, 2008 Alfa Laval acquired the Danish company Høyer Promix A/S. The company develops, produces and markets agitators mainly for the food and pharma industry. The company has been merged into Alfa Laval Tank Equipment A/S. The purchase price is SEK 19 million 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 0 million. After deducting acquired cash and bank the impact on the cash flow was SEK -19 million. Out of the difference between the purchase price paid and the net assets acquired of SEK 16 million all was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The value of the goodwill is still preliminary. The company's net sales and adjusted EBITA for 2008 from the date of the acquisition are SEK 14 million and SEK 3 million respectively. If the company had been acquired at January 1, 2008 the corresponding figures would have been SEK 16 million and SEK 3 million respectively.

In addition two minor acquisitions have been made during 2008:

On September 1, 2008 Alfa Laval acquired the business in the Swedish company P&D's Plattvärmeväxlarservice AB that performs service on heat exchangers. The purchase price is SEK 10 million, out of which 3 million has been paid in cash and the rest is retained for a period of 1-2 years. 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 0 million. The impact on the cash flow was thus SEK -3 million. Out of the difference between the purchase price paid and the net assets acquired of SEK 10 million all has been allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The value of the goodwill is still preliminary. The company's net sales and adjusted EBITA for 2008 from the date of the acquisition are SEK 3 million and SEK 1 million respectively. If the company had been acquired at January 1, 2008 the corresponding figures would have been SEK 12 million and SEK 4 million respectively.

On April 1, 2008 Alfa Laval acquired 91 percent of the Indian company Nitrile India Pvt Ltd that manufactures rubberized gaskets mainly for the food processing industry. The acquisition is part of Alfa Laval's double branding strategy and the company has thus been renamed to MCD Nitrile India Pvt Ltd. The company has 12 employees and 15-20 temporary employees. The purchase price is SEK 7 million 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 0 million. The impact on the cash flow was SEK -7 million. Out of the difference between the purchase price paid and the net assets acquired of SEK 6 million all was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The company's net sales and adjusted EBITA for 2008 from the date of the acquisition are SEK 1 million and SEK 0 million respectively. If Nitrile India Pvt Ltd had been acquired at January 1, 2008 the corresponding figures would have been SEK 1 million and SEK 0 million respectively.

During 2007

On December 1, 2007 Alfa Laval finalized the acquisition of the Finnish company Fincoil. The acquisition of Fincoil is in line with Alfa Laval's strategy to expand the presence in the European air heat exchanger market. The company has 150 employees. Fincoil has a well-established position in the Nordic countries, the Baltic countries and Russia. Approximately 80 percent of the sales are exported. Fincoil has one manufacturing site outside Helsinki in Finland. The intention is to fully integrate Fincoil into Alfa Laval. The purchase price was SEK 474 million in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 5 million. After deducting acquired cash and bank the impact on the cash flow was SEK -470 million. Out of the difference between the purchase price paid and the net assets acquired SEK 233 million was allocated to patents and un-patented know-how, while the residual SEK 228 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Fincoil's ability to over time recreate its intangible assets. The value of the goodwill has been finalised in 2008, which meant an increase from SEK 228 million to SEK 241 million. The step up value for patents and un-patented know-how is depreciated over 10 years. Fincoil's net sales and adjusted EBITA for 2007 from the date of the acquisition were SEK 26 million and SEK 2 million respectively. If Fincoil had been acquired at January 1, 2007 the corresponding figures would have been SEK 348 million and SEK 43 million respectively.

On July 2, 2007 Alfa Laval acquired the American company AGC Engineering through an asset deal. The company provides sanitary plate heat exchanger service and equipment to the dairy and food processing industries. AGC has 65 employees. The acquisition adds a complementary channel for sanitary plate heat exchangers to the dairy and food processing industries mainly in the USA. This applies to new units as well as parts and service. AGC will not be integrated into Alfa Laval. The two organizations will go to market independently of each other according to a multi-brand strategy. The purchase price was SEK 42 million 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 0 million. After deducting acquired cash and bank the impact on the cash flow was SEK -42 million. Out of the difference between the purchase price paid and the net assets acquired SEK 12 million was allocated to the AGC trademark, while the residual SEK 9 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and AGC's ability to over time recreate its intangible assets. The value of the goodwill has been finalised in 2008, which meant an increase from SEK 9 million to SEK 20 million. The step up value for the trademark is depreciated over 10 years. AGC's net sales and adjusted EBITA for 2007 from the date of the acquisition were SEK 39 million and SEK 4 million respectively. If AGC had been acquired at January 1, 2007 the corresponding figures would have been SEK 78 million and SEK 8 million respectively.

Through a public offer that closed on May 26, 2007 Alfa Laval increased the ownership in the Indian subsidiary Alfa Laval (India) Ltd with 12.6 percent to 76.7 percent. The total cost for the acquisition was SEK 486 million. The costs directly linked to the acquisition of the shares (fees to bankers, lawyers and assisting counsel) came in addition to this and amounted to SEK 11 million. The impact on the cash flow was SEK -497 million. Out of the difference between the purchase price paid and the net assets acquired of SEK 441 million all was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The acquisition only had an impact on the minority's part of the consolidated net income and equity.

On April 4, 2007 Alfa Laval acquired the Dutch company Helpman. Helpman is a leading company in the European market for air heat exchangers used in the sensitive logistical chain for food, i.e. refrigeration and temperature control to secure the final quality of the products. Helpman has 130 employees within R&D, sales and at two manufacturing units, in Groningen, the Netherlands and in Sofia, Bulgaria. The intention is to fully integrate Helpman into Alfa Laval. The purchase price was SEK 136, out of which SEK 113 million was paid in cash and the rest is retained for a period of 1-2 years. 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. After deducting acquired cash and bank the impact on the cash flow was SEK -111 million. Out of the difference between the purchase price paid and the net assets acquired SEK 5 million was allocated to properties and SEK 36 million was allocated to patents and un-patented know-how, while the residual SEK 11 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Helpman's ability to over time recreate its intangible assets. The purchase price allocation has been finalised in 2008 which means that the step up value for properties increased from SEK 5 million to SEK 9 million, that SEK 8 million was allocated to step up value in land and that the value of the goodwill was decreased from SEK 11 million to SEK 4 million. The step up value for properties is depreciated over 33 years, the step up value for land is not depreciated and the step up value for patents and un-patented know-how is depreciated over 10 years. Helpman's net sales and adjusted EBITA for 2007 from the date of the acquisition were SEK 136 million and SEK 5 million respectively. If Helpman had been acquired at January 1, 2007 the corresponding figures would have been SEK 178 million and SEK 6 million respectively.

On March 16, 2007 Alfa Laval acquired the American company DSO Fluid Handling. The acquisition strengthens Alfa Laval's position within sanitary processing industries in the US. DSO is a supplier of predominantly parts for pumps and valves and adds a complementary channel for replacement parts. In line with Alfa Laval's multi-brand strategy, DSO will continue to sell its products under its own brand. DSO has 20 employees and is based in Irvington (Newark), New Jersey USA. The purchase price was SEK 74 million, out of which 62 million was paid in cash and the rest is retained for a period of 1-2 years. 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. After deducting acquired cash and bank the impact on the cash flow was SEK -62 million. Out of the difference between the purchase price paid and the net assets acquired SEK 39 million was allocated to the DSO trademark, while the residual SEK 29 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and DSO's ability to over time recreate its intangible assets. The value of the goodwill has been finalised in 2008, which meant an increase from SEK 29 million to SEK 42 million. The step up value for the trademark is depreciated over 10 years. DSO's net sales and adjusted EBITA for 2007 from the date of the acquisition were SEK 39 million and SEK 12 million respectively. If DSO had been acquired at January 1, 2007 the corresponding figures would have been SEK 51 million and SEK 16 million respectively.

During the beginning of 2007 a transaction was made as a consequence of the acquisition of Tranter where SEK 17 million was paid to buy out the agent in Taiwan and thereby achieve full control over Tranter's company in China. This transaction is seen as a part of the acquisition of Tranter and has influenced the final purchase price allocation according to the below description.

During 2006

In a press release on September 23, 2005, Alfa Laval announced that the company had signed an agreement to acquire 100 percent of Tranter PHE from the U.S. company, Dover Corporation. In a press release on March 6, 2006 Alfa Laval communicated that the acquisition of Tranter PHE had been approved by the regulatory authorities and thereby been finalised. The purchase price was SEK 1,199 million 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 25 million. After deducting acquired cash and bank the impact on the cash flow was SEK -1,217 million. Out of the difference between the purchase price paid and the net assets acquired SEK 17 million was allocated to properties, SEK 180 million was allocated to patents and un-patented know-how, SEK 265 million to the Tranter trademark and SEK 6 million to accrued gross margin in work in progress, while the residual SEK 530 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The value of the goodwill has been finalised in 2007, which meant a decrease from SEK 551 million to SEK 530 million. The step up value for patents and un-patented know-how is depreciated over 10 years and the step up value for the trademark is depreciated over 20 years. The step up for accrued gross margin in work in progress was expensed during 2006. Tranter is a major competitor in the United States and the acquisition opens for a double branding strategy versus mainly the American market.

The acquisition was financed through a bilateral bank loan of EUR 25 million and a US private placement of USD 110 million. The company had 2005 approximately 450 employees globally in R&D, manufacturing and sales.

Tranter is part of the Alfa Laval Group as of March 1, 2006. The impact of the acquisition on the income statement and the cash flow statement for 2006 was thus only for ten months of operation. Tranter is reported as an integrated part of the Equipment and Process Technology divisions, but is acting as an independent sales channel. Tranter's net sales and adjusted EBITA for the first ten months were SEK 981 million and SEK 148 million respectively. If Tranter had been acquired at January 1, 2006 the corresponding figures would have been SEK 1,141 million and SEK 171 million respectively.

During the first quarter 2006 Alfa Laval acquired the fruit preparation activity from Tetra Pak for SEK 10 million. The operation had less than 10 employees and a turnover of about SEK 45 million per annum.

Impairment testing

An impairment test has been performed at the end of 2008 indicating that there is not any need to write down the goodwill.

Alfa Laval's primary segments, i.e. the two divisions "Equipment" and "Process Technology" 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 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 2009 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 2010 and 2011 is based on Management's long term planning. This is based on a number of 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 2012 to 2028 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 going concern thinking 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 9.35 (10.74) (10.59) percent.

Alfa Laval does not have any intangible assets with indefinite useful lives other than goodwill.

The two cash-generating units have been allocated the following amounts of goodwill:

Consolidated, SEK in millions	2008	Goodwill 2007	2006
Equipment	2,987	2,426	2,000
Process Technology	2,396	2,033	1,706
Total	**5,383**	**4,459**	**3,706**

Note 16. Intangible non-current assets

Consolidated, SEK in millions	2008	2007
Concessions, patents, licenses, trademarks and similar rights		
Opening balance, accumulated acquisition values	3,125	2,786
Purchases	8	2
Acquisition of businesses	234	-
Sales/disposals	-227	0
Reclassifications	0	6
Step-up values, patents and trademarks	373	320
Translation difference for the year	384	11
Closing balance, accumulated acquisition values	**3,897**	**3,125**
Opening balance, accumulated depreciation	-1,854	-1,592
Acquisition of businesses	0	0
Sales/disposals	227	0
Reclassifications	-	-1
Depreciation of step-up value, patent & trademarks	-119	-78
Depreciation of step-up value, technology	-30	-160
Depreciation for the year	-11	-11
Translation difference for the year	-224	-12
Closing balance, accumulated depreciation	**-2,011**	**-1,854**
Opening balance, accumulated revaluations, net	0	-5
Reclassifications	-	5
Closing balance, accumulated revaluations, net	**0**	**0**
Closing balance, net book value	**1,886**	**1,271**
Goodwill		
Opening balance, accumulated acquisition values	5,008	4,246
Goodwill in connection with acquisition of businesses	373	697
Translation difference for the year	621	65
Closing balance, accumulated acquisition values	**6,002**	**5,008**
Opening balance, accumulated depreciation	-549	-540
Translation difference for the year	-70	-9
Closing balance, accumulated depreciation	**-619**	**-549**
Closing balance, net book value	**5,383**	**4,459**
Renting rights and similar rights		
Opening balance, accumulated acquisition values	6	3
Purchases	0	2
Translation difference for the year	1	1
Closing balance, accumulated acquisition values	**7**	**6**
Opening balance, accumulated depreciation	-2	-1
Depreciation for the year	-1	0
Translation difference for the year	0	-1
Closing balance, accumulated depreciation	**-3**	**-2**
Closing balance, net book value	**4**	**4**

Note 17. Property, plant and equipment

Consolidated, SEK in millions	2008	2007
Real estate		
Opening balance, accumulated acquisition values	1,733	1,674
Purchases	78	69
Acquisition of businesses	25	29
Sales/disposal	-58	-49
Reclassifications	30	-27
Step-up values, real estate	12	5
Realisation of step-up values due to sale	-34	-9
Translation difference for the year	236	41
Closing balance, accumulated acquisition values	**2,022**	**1,733**
Opening balance, accumulated depreciation	-723	-752
Sales/disposals	25	40
Acquisition of businesses	4	0
Reclassifications	-4	61
Realisation of step-up values due to sale	12	3
Depreciation of step-up value	-22	-21
Depreciation for the year	-48	-37
Translation difference for the year	-101	-17
Closing balance, accumulated depreciation	**-857**	**-723**
Opening balance, accumulated revaluations, net	5	9
Sales/disposals	0	-3
Depreciation for the year on revaluations	0	0
Translation difference for the year	0	-1
Closing balance, accumulated revaluations, net	**5**	**5**
Closing balance, net book value	**1,170**	**1 015**

The tax assessment value of the Swedish real estate at December 31, 2008 amounted to SEK 183 (183) million, out of which SEK 46 (46) million referred to land and land improvements and SEK 137 (137) million to buildings. The book values of the Swedish real estate amounted to SEK 154 (156) million, out of which land and land improvements were SEK 31 (31) million and buildings SEK 123 (125) million.

Non-current assets held for sale

Within Alfa Laval these assets are normally relating to real estate. One property in France is planned for sale. The French property is empty, but it has been for sale for several years and is not expected to be sold within the next year. This means that no property has been re-classified as a current assets held for sale. The situation was the same at the end of 2007.

Note 17 continued. Property, plant and equipment

Consolidated, SEK in millions	2008	2007
Machinery and other technical installations		
Opening balance, accumulated acquisition values	3,035	2,800
Purchases	307	165
Acquisition of businesses	66	82
Sales/disposal	-117	-94
Reclassifications	106	31
Translation difference for the year	292	51
Closing balance, accumulated acquisition values	**3,689**	**3,035**
Opening balance, accumulated depreciation	-2,129	-1,925
Sales/disposals	102	80
Acquisition of businesses	-9	-68
Reclassifications	-3	-1
Depreciation of step-up value	-56	-55
Depreciation for the year	-148	-128
Translation difference for the year	-219	-32
Closing balance, accumulated depreciation	**-2,462**	**-2,129**
Closing balance, net book value	**1,227**	**906**
Equipment, tools and installations		
Opening balance, accumulated acquisition valuese	1,969	1,929
Purchases	174	133
Acquisition of businesses	66	15
Sales/disposal	-134	-118
Reclassifications	-7	0
Translation difference for the year	158	10
Closing balance, accumulated acquisition values	**2,226**	**1,969**
Opening balance, accumulated depreciation	-1,416	-1,407
Sales/disposals	130	114
Acquisition of businesses	-1	-4
Reclassifications	4	-1
Depreciation of step-up value	-29	-29
Depreciation for the year	-93	-85
Translation difference for the year	-155	-4
Closing balance, accumulated depreciation	**-1,560**	**-1,416**
Opening balance, accumulated revaluations, net	0	3
Reclassifications	0	-3
Revaluation for the year	-1	0
Closing balance, accumulated revaluations, net	**-1**	**0**
Closing balance, net book value	**665**	**553**
Construction in progress and advances to suppliers concerning property, plant and equipment		
Opening balance, accumulated acquisition values	313	157
Purchases	180	185
Sales/disposal	-1	-
Reclassifications	-131	-32
Translation difference for the year	58	3
Closing balance, accumulated acquisition values	**419**	**313**
Closing balance, net book value	**419**	**313**

Note 17 continued. Property, plant and equipment

Consolidated, SEK in millions	2008	2007
Leased real estate		
Opening balance, accumulated acquisition values	33	22
Purchases	20	10
Translation difference for the year	8	1
Closing balance, accumulated acquisition values	**61**	**33**
Opening balance, accumulated depreciation	-2	-1
Depreciation for the year	-1	-1
Translation difference for the year	0	0
Closing balance, accumulated depreciation	**-3**	**-2**
Closing balance, net book value	**58**	**31**
Leased machinery		
Opening balance, accumulated acquisition values	8	9
Translation difference for the year	2	-1
Closing balance, accumulated acquisition values	**10**	**8**
Opening balance, accumulated depreciation	-8	-8
Depreciation for the year	-	-1
Translation difference for the year	-2	1
Closing balance, accumulated depreciation	**-10**	**-8**
Closing balance, net book value	**0**	**0**
Leased equipment, tools and installations		
Opening balance, accumulated acquisition values	11	11
Purchases	2	4
Acquisition of businesses	1	-
Sales/disposal	-2	-4
Translation difference for the year	0	0
Closing balance, accumulated acquisition values	**12**	**11**
Opening balance, accumulated depreciation	-5	-6
Sales/disposals	2	3
Acquisition of businesses	-1	-
Reclassifications	1	0
Depreciation for the year	-2	-2
Translation difference for the year	0	0
Closing balance, accumulated depreciation	**-5**	**-5**
Closing balance, net book value	**7**	**6**

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 balance sheet.

Note 18. Other non-current assets

	Consolidated		Parent company	
SEK in millions	2008	2007	2008	2007
Shares in subsidiaries	-	-	4,669	4,669
Shares in other companies	18	10	-	-
Total	**18**	**100**	**4,669**	**4,669**

Specification of shares in subsidiaries

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK in millions
Alfa Laval Holding AB	556587-8062	Lund, Sverige	8,191,000	100	4 461
Alfa Laval NV		Maarssen, Netherlands	227,754	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		São Paulo, Brazil	21,129,068	100	-
Roston do Brasil Ltda		São Paulo, Brazil	5,249	100	-
Alfa Laval S.A.C.I.		Santiago, Chile	2,735	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	-
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 Benelux NV/SA		Bryssel, 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.		Prag, Czech Republic		20	-
Alfa Laval HES S.R.O.		Prag, Czech Republic		5	-
Alfa Laval Nordic OY		Esbo, Finland	20,000	100	-
Alfa Laval Vantaa OY		Vanda, Finland	7,000	100	-
Alfa Laval Nederland B.V.		Maarssen, Netherlands	10,000	100	-
Alfa Laval Benelux B.V.		Maarssen, Netherlands	20,000	100	-
Alfa Laval Merco B.V.		Hoofddorp, Netherlands	1,750	100	-
Helpman Capital BV		Breda, Netherlands	35,578	100	-
Helpman Holding BV		Naarden, Netherlands	80	100	-
Alfa Laval Sofia OOD		Sofia, Bulgaria	450	90	-
Alfa Laval Groningen B.V.		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 Indùstria de Máquinas e Equipamentos Ltda		São Paulo, Brazil		100	-
Alfa Laval Korea Ltd		Seoul, South Korea	36,400	10	-
Alfa Laval Korea Holding Company Ltd		Chungnam, South Korea	5,830,000	100	-
Alfa Laval Korea Ltd		Seoul, South Korea	327,600	90	-
Tranter Heat Exchangers Middle East (Cyprus) Ltd		Nicosia, Cyprus	20,000	100	-
Tranter International AB	556559-1764	Vänersborg, Sweden	100,000	100	-
Ageratec AB	556662-3988	Norrköping, Sweden	1,630	68	-
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	-
Alfa Laval (India) Ltd		Poona, India	13,934,014	77	-
Tranter India Pvt Ltd		Poona, India	3,010,000	100	-
PT Alfa Laval Indonesia		Jakarta, Indonesia	1,000	100	-
Alfa Laval (Malaysia) Sdn Bhd		Shah Alam, Malaysia	10,000	100	-
Alfa Laval Kolding A/S		Kolding, Denmark	100,000	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 Nordic A/S		Oslo, Norway	10,000	100	-
Cetetherm AB	556058-3162	Ronneby, Sweden	20,000	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	-

Specification of shares in subsidiaries (continued)

Bolagsnamn	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK in millions
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 Dis 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 Zealand	1,000	100	-
Alfa Laval Holding BV		Maarssen, Netherlands	70,000,000	100	-
Alfa Laval (Pty) Ltd		Isando, Sputh Africa	2,000	100	-
Alfa Laval Slovakia S.R.O.		Bratislava, Slovakia		99	-
Alfa Laval Spol S.R.O.		Prag, Czech Republic		80	-
Alfa Laval HES S.R.O.		Prag, Czech Republic		95	-
Alfa Laval France SAS		Les Clayes, France	2,000,000	100	-
Alfa Laval SAS		Les Clayes, France	560,000	92	-
Alfa Laval Moatti SAS		Les Clayes, France	24,000	100	-
Alfa Laval Spiral SAS		Nevers, France	79,999	100	-
MCD SAS		Guny, France	71,300	100	-
Alfa Laval Vicarb SAS		Grenoble, France	200,000	100	-
Canada Inc		Newmarket, Canada	480,000	100	-
Alfa Laval Inc		Newmarket, Canada	481,600	33	-
SCI du Companil		Grenoble, France	32,165	100	-
Alfa Laval HES SA		Lentilly, France	150,000	100	-
Alfa Laval SAS		Les Clayes, France	46,700	8	-
Packinox SA		Paris, France	178,010	100	-
Ziepack SA		Paris, Frankrike	37,701	51	-
Tranter SAS		Paris, France		100	-
Alfa Laval Holding GmbH		Glinde, Germany	1	100	-
Alfa Laval Mid Europe GmbH		Wiener Neudorf, Austria		100	-
Tranter Warmetauscher GmbH		Guntramsdorf, Austria		100	-
Alfa Laval Mid Europe GmbH		Glinde, Germany	1	100	-
Tranter GmbH		Hildesheim, Germany		100	-
Pressko AG		Artern, Germany	60,000	100	-
Alfa Laval Mid Europe AG		Dietlikon, Switzerland	647	100	-
Alfa Laval AEBE		Holargos, Greece	807,000	100	-
Alfa Laval Kft		Budapest, Hungary	1	100	-
Tranter Kft		Budapest, Hungary		100	-
Alfa Laval SpA		Monza, Italy	1,992,276	99	-
Tranter S.r.l.		Monza, Italy		100	-
Alfa Laval Polska Sp.z.o.o.		Warszawa, Poland	7,600	100	-
Cetetherm Polska Sp.z.o.o.		Warszawa, Poland	5,109	100	-
Wytwornia Separator Krakow Sp.z.o.o.		Krakow, Poland	80,080	100	-
Alfa Laval (Portugal) Ltd		Linda-A-Velha, Portugal		1	-
Alfa Laval SRL		Bukarest, 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 2000		Camberley, UK	28,106	100	-
Alfa Laval Ltd		Camberley, UK	11,700,000	100	-
Alfa Laval Finance Co Ltd		Camberley, UK	856,000	100	-
Alfa Laval Pumps Ltd		Eastbourne, UK	100	100	-
Rolls Laval Heat Exchangers Ltd		Wolverhampton, UK	5,000	50	-
Tranter Ltd		Doncaster, UK	10,000	100	-
Alfa Laval Dis 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 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	100	100	-
Hutchison Hayes Separation Inc		Houston, Texas, USA	1,000	100	-
Alfa Laval Autorad Inc		Melrose Park, Illinois, USA	51	100	-
AO Alfa Laval Potok		Koroljov, Russia	31,077,504	100	-
OÜ Alfa Laval		Tallinn, Estonia	1	100	-
Alfa Laval Försäkrings AB		Lund, Sweden	50,000	100	-
Alfdex AB	556647-7278	Botkyrka, Sweden	500	50	-
Alfa Laval Support Services Pvt Ltd		Poona, India	9,999	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
Alfa Techno Service KK		Kanagawa, Japan	200	100	-
Total					**4,669**

Specification of shares in other companies

Company name	Domicile	Number of shares	Share of capital %	Book value SEK in thousands
Alfa Laval KK				
Chugairo	Japan	5,250		127
Orugano	Japan	769		38
Asahi Denka	Japan	13,114		810
Alfa Laval Philippines Inc				
Philippine Long Distance Telephone	Philippines	820		14
Alfa Laval Nordic OY				
As Oy Koivulantie 7A	Finland	1		341
Suomen Talotekniikka KK	Finland	10		33
Helsinki Halli	Finland	4		154
Alfa Laval Vantaa OY				
Länsi-Vantaan Tenniskeskus	Finland	4		33
Alfa Laval France SAS				
SEMACLA	France	10		11
Alfa Laval HES SA				
Thermothec	France	9,130		1,529
Alfa Laval Benelux BV				
Bordewes	Netherlands	1		165
Helpman Holding BV				
Helpman Sofia OOD	Bulgaria	90	49	13,477
Alfa Laval NV				
Dalian Haven Automation Co Ltd	China	102	42,5	979
Alfa Laval Nordic A/S				
Storebrand	Norway	7,629		142
Alfa Laval Corporate AB				
European Development Capital Corporation (EDCC) N.V.	Curacao	36,129		0
Multiprogress	Hungary	100	3,18	0
Kurose Chemical Equipment Ltd	Japan	180,000	11,25	0
Poljopriveda	former Yugoslavia			0
Tecnica Argo-Industrial S.A.	Mexico	490	49	0
Adela Investment Co S.A. (preference)	Luxembourg	1,911	0,30	0
Adela Investment Co S.A.	Luxembourg	1,911	0,30	0
Mas Dairies Ltd	Pakistan	125,000	5	0
Total				**17,853**

Note 19. Inventories

Consolidated, SEK in millions	2008	2007
Raw materials and consumables	2,358	2,126
Work in progress	1,564	1,297
Finished goods & goods for resale, new sales	1,382	1,015
Finished goods & goods for resale, spare parts	596	566
Advance payments to suppliers	72	82
Total	**5,972**	**5,086**

The provision for obsolescence amounts to and has changed as follows:

Obsolescence
Consolidated, SEK in millions

Year	January 1	Translation difference	Acquired	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	December 31
2007	400	2	2	212	-39	-40	537
2008	537	47	9	339	-66	-45	821

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 2008 amounts to SEK 480 (378) million.

Note 20. Accounts receivable

Accounts receivable with a maturity exceeding one year of SEK 171 (149) 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 in millions

Year	January 1	Translation difference	Acquired	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
2007	223	4	1	123	-31	-37	0	283
2008	283	26	8	139	-141	-22	0	293

Note 20 continued. Accounts receivable

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 in millions	2008	%	2007	%
Overdue:				
Maximum 30 days	663	11.6	530	10.5
More than 30 days but maximum 90 days	309	5.4	280	5.6
More than 90 days	331	5.8	310	6.1
Total	**1,303**	**22.8**	**1,120**	**22.2**

Note 21. Other short-term receivables

Consolidated, SEK in millions	2008	2007
Notes receivable	446	387
Current tax asset	1,351	634
Financial leasing receivables	66	45
Other receivables	914	907
Total	**2,777**	**1,973**
Of which, receivables not due within one year:		
Notes receivable	5	10
Other receivables	47	39
Total	**52**	**49**

Note 22. Prepaid expenses and accrued income

Consolidated, SEK in millions	2008	2007
Prepaid expenses	147	93
Accrued income	17	8
Total	**164**	**101**

Note 23. Other current deposits

Consolidated, SEK in millions	2008	2007
Deposits with banks	452	149
Bonds and other securities	78	35
Other deposits	14	6
Total	**544**	**190**
Of which, deposits not due within one year:		
Deposits with banks	30	34
Other deposits	6	5
Total	**36**	**39**

Note 24. Cash and bank

The item cash and bank in the balance sheet and in the cash-flow statement is mainly relating to bank deposits. Cash and bank includes a bank deposit in the publicly listed subsidiary Alfa Laval (India) Ltd of about SEK 54 (35) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 76.7 percent.

Note 25. Impact on cash-flow due to acquisition and sale of businesses

Acquisitions

For a more detailed description of the acquisitions during the period 2008-2006, please see Note 15 or the section on acquisition of businesses in the Board of Directors' report.

The total value of the acquired assets and liabilities is presented in the below tables, which also shows the cash flow impact of the acquisitions. All acquired assets and liabilities were reported according to IFRS at the time of the acquisition. The many minor acquisitions during 2008 and 2007 are reported together since a split per acquisition would have been too fragmented and rather would have burdened the presentation than increased clarity.

2008 Consolidated, SEK in millions	Book value	Adjustment to fair value	Adjusted fair value
Property, plant and equipment	69	-	69
Intangible assets	12	310	322
Inventory	95	7	102
Accounts receivable	69	-	69
Other receivables	9	-	9
Liquid assets	17	-	17
Other provisions	-19	-	-19
Accounts payable	-24	-	-24
Advance payments and other liabilities	-97	-	-97
Tax liabilities	-11	-	-11
Acquired net assets	120	317	437
Goodwill			343
Purchase price			-768
Costs directly linked to the acquisitions			-12
Retained part of purchase price			37
Liquid assets in the acquired businesses			17
Effect on the Group's liquid assets			**-726**

2007 Consolidated, SEK in millions	Book value	Adjustment to fair value	Adjusted fair value
Property, plant and equipment	61	5	66
Intangible assets	2	320	322
Inventory	99	-	99
Accounts receivable	134	-	134
Other receivables	77	-	77
Liquid assets	16	-	16
Other provisions	-2	-	-2
Accounts payable	-61	-	-61
Advance payments and other liabilities	-23	-	-23
Deferred tax	-	-75	-75
Acquired net assets	303	250	553
Goodwill			697
Purchase price			-1,229
Costs directly linked to the acquisitions			-21
Retained part of purchase price			35
Liquid assets in the acquired businesses			16
Effect on the Group's liquid assets			**-1,199**

2006 Consolidated, SEK in millions	Book value	Adjustment to fair value	Adjusted fair value
Property, plant and equipment	69	17	86
Intangible assets	-	456	456
Inventory	197	6	203
Accounts receivable	215	-	215
Other receivables	8	-	8
Liquid assets	7	-	7
Provisions for pensions and similar commitments	-44	-	-44
Other provisions	-19	-	-19
Accounts payable	-115	-	-115
Advance payments and other liabilities	-31	-	-31
Tax liabilities	-17	-	-17
Deferred tax	-2	-64	-66
Acquired net assets	268	415	683
Goodwill			551
Purchase price			-1,209
Costs directly linked to the acquisitions			-25
Liquid assets in the acquired businesses			7
Effect on the Group's liquid assets			**-1,227**

Divestment of businesses

For a more detailed description of the divestments during the period 2008-2006, please see Note 15 or the section on divestment of businesses in the Board of Directors' report.

The total value of the divested assets and liabilities is presented in the table below, which also shows the cash flow impact of the divestments.

Consolidated, SEK in millions	2008	2007	2006
Property, plant and equipment	-	-	2
Intangible assets	-	-	24
Goodwill	-	-	85
Inventory	-	-	2
Accounts receivable	-	-	21
Other receivables	-	-	10
Accounts payable	-	-	-3
Other liabilities	-	-	-11
Realised result	-	-	-126
Purchase price	-	-	4
Liquid assets in the sold business	-	-	-
Effect on the Group's liquid assets	**-**	**-**	**4**

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.

Consolidated, SEK in millions	2008	2007	2006
Net defined benefit liability			
Present value of the defined benefit obligation, unfunded	-1,141	-889	-1,038
Present value of the defined benefit obligation, funded	-2,429	-2,607	-3,116
Present value of the defined benefit obligation at year end	-3,570	-3,496	-4,154
Unrecognised actuarial losses	745	430	990
Unrecognised past service cost	1	7	1
Fair value of plan assets	1,974	2,288	2,280
Defined benefit liability	-850	-771	-883
Less amount disallowed	0	0	-3
(-) liability/(+) asset	**-850**	**-771**	**-886**

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 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.

Consolidated, SEK in millions	2008	2007	2006
Net plan cost			
Current service cost	-40	-45	-92
Interest cost	-196	-178	-241
Expected return on plan assets	162	141	170
Recognised actuarial losses	-24	-12	-123
Recognised past service cost	0	0	1
Effect of any curtailments or settlements	23	26	8
(-) cost/(+) income	**-75**	**-68**	**-277**

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.

Consolidated, SEK in millions	2008	2007	2006
Present value of defined benefit liability at December 31			
Change in present value of the defined benefit liability:			
Present value of defined benefit liability at January 1	-3,496	-4,154	-4,130
Acquired businesses	-	-	-34
Reclassification / prior year adjustments	-	-	-15
Translation difference	-184	114	287
Current service cost	-40	-45	-92
Interest cost	-196	-178	-241
Employee contributions	-5	-5	-9
Current year change in actuarial losses	129	548	-138
Recognised past service cost	0	0	1
Effect of any curtailments or settlements	23	26	8
Benefit payments	199	198	209
(-) liability/(+) asset	**-3,570**	**-3,496**	**-4,154**

The following table presents how the fair value of the plan assets has developed during the year and lists the components of the change.

Consolidated, SEK in millions	2008	2007	2006
Fair value of plan assets at December 31			
Change in plan assets:			
Fair value of plan assets at January 1	2,288	2,280	2,174
Reclassification / prior year adjustments	-	-	5
Translation difference	47	-62	-140
Employer contributions	152	203	149
Employee contributions	5	5	9
Actual return on plan assets	-319	60	292
Benefit payments	-199	-198	-209
(-) liability/(+) asset	**1,974**	**2,288**	**2,280**

The table below presents how the net defined benefit liability has changed and the factors affecting the change.

Consolidated, SEK in millions	2008	2007	2006
Defined benefit liability/asset at December 31			
Change in defined benefit liability/asset			
Defined benefit liability/asset at January 1	-771	-886	-854
Acquired businesses	-	-	-34
Reclassification / prior year adjustments	-	-32	-13
Translation difference	-128	17	81
Net plan cost	-75	-68	-277
Employer contributions	152	203	149
Change in unrecognised actuarial gains/losses	-4	-24	63
Change in unrecognised past service cost	-24	16	0
Change in disallowed asset amount	0	3	-1
(-) liability/(+) asset	**-850**	**-771**	**-886**

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.

Consolidated, SEK in millions	2008	2007	2006
Assets			
Fair value of plan assets	1,974	2,288	2,280
Less amount disallowed	0	0	-3
	1,974	2,288	2,277
Netting	-1,834	-2,182	-2,222
Assets in balance sheet	**140**	**106**	**55**
Liabilities			
Present value of the defined benefit obligation at year end	-3,570	-3,496	-4,154
Unrecognised actuarial gains (less losses)	745	430	990
Unrecognised past service costs	1	7	1
	-2,824	-3,059	-3,163
Netting	1,834	2,182	2,222
Provision in balance sheet	**-990**	**-877**	**-941**

The more significant average actuarial assumptions that have been used at the year-end are:

Consolidated, SEK in millions	2008	2007	2006
Discount rate	6	5	5
Expected return on investment	9	6	6
Expected wage increase	4	4	4
Change in health care costs	9	9	9
Change of index for future increase of remunerations	4	4	4

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:

Consolidated, SEK in millions	2008		2007	
	1% increase	1% decrease	1% increase	1% decrease
Effect on:				
Current service costs and interest costs	-7	6	-3	4
Present value of the defined benefit obligation	-96	78	-54	46

Note 27. Other provisions

Consolidated, SEK in millions 2007	January 1	Translation difference	Acquired	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	December 31
Claims & warranty	661	4	2	709	-222	-52	1,102
Deferred costs	113	3	-	114	-38	-33	159
Restructuring	95	0	-	19	-15	-1	98
Onerous contracts	99	1	-	76	-24	-12	140
Litigations	125	1	-	23	-11	-2	136
Other	188	-1	-	134	-127	-19	175
Total	**1,281**	**8**	**2**	**1 075**	**-437**	**-119**	**1,810**
Of which:							
current	963						1 401
non-current	318						409
2008							
Claims & warranty	1,102	60	3	640	-468	-74	1,263
Deferred costs	159	21	-	99	-46	-35	198
Restructuring	98	0	-	255	-57	0	296
Onerous contracts	140	2	16	28	-56	-	130
Litigations	136	-1	-	45	-33	0	147
Other	175	19	-	183	-145	-14	218
Total	**1,810**	**101**	**19**	**1,250**	**-805**	**-123**	**2,252**
Of which:							
current	1,401						1,849
non-current	409						403

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 920 (155) 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. Loans and net debt

Consolidated, SEK in millions	2008	2007
Credit institutions	2,785	2,707
Private placement	856	700
Capitalised financial leases	58	34
Interest-bearing pension liabilities	2	2
Total debt	**3,701**	**3,443**
Cash, bank and current deposits	-1,627	-1,046
Net debt	**2,074**	**2,397**

Cash, bank and current deposits include bank and other deposits in the publicly listed subsidiary Alfa Laval (India) Ltd of SEK 111 (69) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 76.7 percent.

The loans from credit institutions and the senior notes are distributed among currencies as follows:

Consolidated,	Current		Non-current	
SEK in millions, Currency	2008	2007	2008	2007
CAD	11	-	-	-
CNY	38	28	-	-
DKK	-	19	8	7
EUR	73	33	1,723	1,782
INR	80	76	8	9
PLN	7	6	-	-
SEK	-	132	310	-
USD	33	45	1,345	1,270
Other	5	-	-	-
Total	**247**	**339**	**3,394**	**3,068**
Of which, not due within five years:			859	938

The maturity structure of the loans is presented in the bar chart in the section "Liquidity risk and refinancing risk" under Financial risks.

Loan from credit institutions

Alfa Laval has a senior credit facility with a banking syndicate of EUR 268 million and USD 348 million, corresponding to SEK 5,657 million. At December 31, 2008, SEK 2,196 million of the facility were utilised. The facility matures in April 2011 with another year's option until April 2012.

The average interest and currency duration including derivatives is 11.4 (9.1) months at the end of 2008. The interest is based on applicable IBOR plus a mark up based on the relation between net debt and EBITDA as described below.

Net debt/EBITDA	Mark-up, %
2.50 - 2.75	0.40
2.00 - 2.50	0.325
<2.00	0.25

At year end the mark up is 25 (25) (25) basis points.

The syndicated loan is linked to three financial covenants that must be fulfilled throughout the life of the loan. These covenants refer to the relationship between net debt and EBITDA, the interest coverage ratio and the debt ratio. If the covenants are not fulfilled, the banking syndicate is 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 in April 2005.

In connection with the acquisition of Tranter Alfa Laval signed a bilateral term loan with SHB of EUR 25 million, corresponding to SEK 275 million. The loan matures in December 2013.

The senior credit facility and the bilateral term loan accrue interest at floating rate. At the end of 2008 the loans are accruing interest in the range of 2.49 % - 4.68 % (4.82 % - 5.33 %) (3.75 % - 5.66 %). The average interest rate at the end of 2008 was 3.92 (4.79) (4.88) percent. The Group has chosen to hedge 63 (39) (57) percent of the loans to fixed interest rate, with a duration of 17 months.

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 3 (11) million. The current year's cost for the fee amortisation is SEK -8 (-7) (-7) million.

Private placement

In 2006 Alfa Laval made a private placement in the US. The offer was over-subscribed and was closed at USD 110 million with a maturity of 10 years. The interest was based on US 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. In anticipation of this a bridge loan of USD 100 million was raised from HSBC on March 1, 2006 in connection with the payment of the purchase price for Tranter.

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 3 (3). The current year's cost for the fee amortisation is SEK -0 (-0) (-0) million.

Note 29. Other current liabilities

Consolidated, SEK in millions	2008	2009
Financial lessee payable	58	34
Other non-interest bearing liabilities	1,029	948
Total	**1,087**	**982**

Note 30. Accrued costs and prepaid income

Consolidated, SEK in millions	2008	2007
Accruals for social security	285	224
Reserve for severance pay	152	139
Accrued interest expenses	19	19
Other accrued expensesr	897	691
Prepaid income	10	11
Total	**1,363**	**1,084**
Of which, not due within one year:		
Accruals for social security	27	26
Reserve for severance pay	92	86
Other accrued expenses	20	10
Total	**139**	**122**

Note 31. Pledged assets and contingent liabilities

Consolidated, SEK in millions	2008	2007
Pledged assets		
Other pledges and similar commitments	8	8
Total	**8**	**8**
Contingent liabilities		
Discounted bills	84	80
Performance guarantees	1,434	1,064
Other contingent liabilities	1,590	1,065
Total	**3,108**	**2,209**

As of December 31, 2008 the Group had sold receivables with recourse totalling SEK 84 (80) 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.

The increase in performance guarantees and other contingent liabilities is generally due to the increased sales, but particularly to the large increase in the number of large projects and that the number of orders with long delivery times has increased. The last two factors tend to increase the volume of issued guarantees. The increased sales to countries that to a larger extent demand guarantees have also contributed to the increase. The shortage in supply of raw materials concerning titanium in 2007 heavily increased the payment guarantees to the suppliers of raw materials.

Note 32. Transactions with related party

Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with 3.7 (4.3) (4.5) 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 sales and 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, 2008. 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 purchases facilities management services relating to the real estate in Lund in Sweden from Tetra Pak Business Support AB for SEK 4 (4) (3) million. Alfa Laval rents premises to Tetra Pak and DeLaval in Russia and DeLaval in Germany for SEK 12 (14) (11) million. During the year DeLaval in Germany and Tetra Pak in Russia have moved to other premises.

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).

Consolidated, SEK in millions	2008	2007
Assets:		
Accounts receivable	43	39
Other receivables	97	55
Liabilities:		
Accounts payable	3	3
Other liabilities	5	5

Alfa Laval has had the following transactions with companies within the Tetra Laval group (Tetra Pak and DeLaval).

Consolidated, SEK in millions	2008	2007	2006
Income statement:			
Net sales	1,017	1,080	895
Other operating income	12	14	11
Other operating costs	-4	-4	-3

Note 33. Work in progress on plant projects

Consolidated, SEK in millions	2008	2007	2006
Income statement items			
Amount of recognised project sales revenue	496	438	562
Work performed on ongoing projects			
Aggregate amount of costs incurred and recognised profits (less recognised losses)	942	880	866
Assets			
Retentions	50	64	56
Gross amount due from customers for work in progress	6	8	19
Liabilities			
Advances received	354	168	140
Gross amount due to customers f or work in progress	34	31	31

Note 34. 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 352 (317) (297) million. During the year, the Group has entered into finance leases with a capitalised value of SEK 22 (13) million. In addition to that acquisitions of businesses during the year have contributed with a capitalised value for finance leases of SEK 0 (-) million. See Note 17 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:

Consolidated, SEK in millions	Operating leases		
Year	2008	2007	2006
2007	N/A	N/A	144
2008	N/A	195	129
2009	228	168	110
2010	200	146	92
2011	176	124	76
2012	140	104	N/A
2013	123	N/A	N/A
Senare	208	216	114
Total	**1,075**	**953**	**665**

The future minimum leasing fees concerning financial leasing agreements and their net present value, distributed on maturity dates, amount to:

Consolidated, SEK in millions	Financial leases			Present value of financial leases		
Year	2008	2007	2006	2008	2007	2006
2007	N/A	N/A	4	N/A	N/A	4
2008	N/A	4	2	N/A	3	2
2009	7	4	2	7	3	1
2010	7	3	1	6	3	1
2011	6	2	1	5	2	1
2012	5	2	N/A	4	2	N/A
2013	5	N/A	N/A	4	N/A	N/A
Senare	29	19	15	20	13	11
Total	**59**	**34**	**25**	**46**	**26**	**20**

Proposed disposition of earnings

The unrestricted equity in Alfa Laval AB (publ) is SEK:	
Unrestricted equity capital	2,665,159,244
Repurchase of shares	-766,132,543
Received Group contribution, net after tax	608,294,917
Net income for 2008	2,086,091,382
	4,593,413,000

The Board of Directors propose a dividend of SEK 2.25 (2.25) * per share corresponding to SEK 949,588,799 (972,625,086) and that the remaining income of SEK 3,643,824,202 (2,655,401,444) 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, den 2 mars 2009

Anders Narvinger
Chairman

Gunilla Berg
Director

Björn Hägglund
Director

Arne Kastö
Employee representative

Ulla Litzén
Director

Jan Nilsson
Employee representative

Susanna Holmqvist Norrby
Employee representative

Finn Rausing
Director

Jörn Rausing
Director

Waldemar Schmidt
Director

Lars Renström
Managing Director

Our Auditors' Report concerning this Annual Report has been issued on March 2, 2009.

Kerstin Mouchard
Authorised Public Accountant

Staffan Landén
Authorised Public Accountant

* The figure for last year has been recalculated due to the 4:1 split.

Audit Report

To the annual meeting of the shareholders of Alfa Laval AB (publ).
Corporate identity number 556587-8054.

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Alfa Laval AB (publ) for the year 2008. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member 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 our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group´s financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the 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 2, 2009

Kerstin Mouchard	Staffan Landén
Authorized/Approved Public Accountant	*Authorized/Approved Public Accountant*

Oceans of challenge

Today, more than one billion people lack access to clean water. If we fail to conserve this life-giving resource sustainably, the numbers suffering from thirst will increase dramatically. At Alfa Laval, most of our customers use water in one way or another, so we are deeply involved in this challenge. We convert seawater to freshwater. We cool and heat water. We clean waste water. Playing a key role on the global stage, our high performance decanters are a good example. Installed in their thousands throughout the world, they clean a volume of waste water from a population equalling that of the entire USA. And each year we install new decanters with sufficient capacity to match the needs of everyone in Sweden!

125 years of Pure Performance. Alfa Laval was founded in 1883. Its starting point was the separator designed by our founder Gustaf de Laval. From the outset this set the keynote for our business: to create better everyday conditions for people. Today, our efforts are concentrated in three main areas: energy, the environment and food. Can you think of anything more important for a company to work with?

Corporate Governance Report 2008

Contents

Trust achieved through openness

The confidence of the market, owners and the general public is of significant importance for a company and its Board of Directors. Trust is achieved by openly demonstrating that governance and control are carried out with the owners' interests in mind.

Alfa Laval was early to present detailed information regarding the governance of the company and also implemented the Swedish Code of Corporate Governance on its inception in 2005. The Code's content regarding openness corresponds with the company's business principles, which endeavor to facilitate shareholders' assessment of the Board and management's handling of the responsibility assigned to it by the owners.

Alfa Laval's goal is to be an attractive long-term investment. Accordingly, the company continuously aims to improve openness – as long as it does not concern commercially valuable information.

Alfa Laval strives for the highest quality and greatest transparency regarding management, governance and control, in daily operations and the work of the Board. Accordingly, information about adhering to the Code and Alfa Laval's own business principles is of the utmost importance since it can favorably impact relations with important stakeholders, which contributes to strengthening confidence in the company.

This year's Corporate Governance Report is the fifth edition and has, in line with prior years, been examined by the company's auditors.

During 2008, the Board's work dealt with Alfa Laval's continued strategic direction to ensure a strong long-term value trend. We are investing in organic and acquisition-based growth, in terms of products and the market. In this respect, it is crucial to ensure that the company retains the highest possible standards of governance and control.

Lund, Sweden, March 2009
Anders Narvinger
Chairman of the Board

Corporate governance in Alfa Laval

The Annual General Meeting is the highest decision-making body and annually appoints, among others, the members and Chairman of the Board of Directors, based on proposals from the Nominating Committee. The Board's responsibilities are regulated by the Swedish Companies Act, the Swedish Code of Corporate Governance and the Board's formal work plan. The Board is responsible for the company's long-term goals and strategy. The President manages the company's operations and draws his closest support from a management group and from the managements of the divisions, to which responsibility and authority have been delegated. Alfa Laval has developed and implemented a number of business principles and fundamental values to support the sound governance of the organization. These principles and values are described on Alfa Laval's website, www.alfalaval.com.

Since 2005, Alfa Laval applies the Swedish Code of Corporate Governance and the revised version since July 1, 2008, with the exception of Board member Jörn Rausing being appointed Chairman of the Nominating Committee. The reason is that the Nominating Committee considers that Jörn Rausing is highly suited to effectively lead the Nominating Committee's work to achieve the best result for the company's shareholders.

The company's external auditors scrutinize the company, including the Annual Report. They also make a statement concerning the discharge of the Board from liability. The internal audit involves examination of a broad range of procedures and issues. The Corporate Governance Report, in accordance with the Swedish Code of Corporate Governance, provides a detailed description of how the different units for corporate governance within Alfa Laval act and interact.

Articles of Association

In accordance with Alfa Laval's Articles of Association, the registered name of the company is Alfa Laval AB. The registered office of the Board of Directors of the company 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, directly or through subsidiaries and joint-venture companies, in and outside Sweden, to develop, manufacture and sell equipment and installations, primarily within the areas of separation, heat transfer and flow technology, and to administer fixed and movable property, and other related operations.

Alfa Laval's Board of Directors shall comprise at least four and not more than ten members, with not more than four deputy members. The number of auditors shall be at least one and not more than two, with not more than two deputies. Auditors are appointed when necessary at the Annual General Meeting for the period until the close of the Annual General Meeting held during the fourth fiscal year after the election of auditors. Authorized public accountants or registered public accounting firms are appointed as auditors and, when applicable, deputy auditors.

In addition to these statutes, the Articles of AssociationAssociation also include provisions regarding routines for the Annual General Meetings. The Articles of Association are provided in their entirety at Alfa Laval's website, www.alfalaval.com.

Alfa Laval's currently prevailing Articles of Association were adopted at the Annual General Meeting on April 22, 2008.

Annual General Meeting

The Annual General Meeting (AGM) is the Alfa Laval Group's highest decision-making body. According to Alfa Laval's Articles of Association, the Annual General Meeting shall be held annually within six months of the close of the fiscal year in either Lund or Stockholm. Normally, the AGM takes place at the end of April or beginning of May each year in Lund. The AGM for fiscal year 2007 was held in Lund on April 22, 2008.

Board Chairman Anders Narvinger was elected as the Meeting Chairman. Following the President's report, the Board Chairman spoke about the Board's activities and the Remuneration Committee's work. Finn Rausing, Chairman of the Board's Audit Committee, reported on the work of the Audit Committee. Finn Rausing, Chairman of the Nominating Committee and representative of Tetra Laval, reported on the work of the Nominating Committee. All the persons nominated to the Alfa Laval Board were present at the Meeting. The company's two auditors were present.

Decisions made at the 2008 Annual General Meeting

The most important decisions made at the 2008 Annual General Meeting were as follows:

- The AGM adopted the income statement and balance sheet and decided in favor of utilizing the company's profits in accordance with the Board's proposal to the effect that a dividend of SEK 9.00 per share be paid for 2007 and that the Board of Directors and President shall be discharged
- The AGM decided in accordance with the Nominating Committee's proposal that the number of Board members shall be eight, that no deputies shall be appointed and that there shall be two auditors and two deputy auditors.
- The AGM decided in accordance with the Nominating Committee's proposal that the fees paid to the Board from the close of the 2008 AGM to the conclusion of the proceeding AGM shall amount to SEK 3,485,000.
- The AGM decided that remuneration of auditors shall be paid in accordance with agreement.
- Reelection of members transpired in accordance with the Nominating Committee's proposal of Anders Narvinger, Gunilla Berg, Björn Hägglund, Ulla Litzén, Finn Rausing, Jörn Rausing, Lars Renström and Waldemar Schmidt. The AGM decided to elect Anders Narvinger as Chairman of the Board.
- The AGM decided to reelect Authorized Public Accountant Kerstin Mouchard and to appoint Authorized Public Accountant Staffan Landén as the company's auditor. The AGM also decided to reelect Authorized Public Accountants Håkan Olsson and Thomas Swensson as the company's deputy auditors.
- The AGM adopted principles for compensation to, and other employment conditions for, company management.
- In accordance with the proposal of the Nominating Committee, the AGM adopted criteria for appointing the Chairman and members of the Nominating Committee for the period until and including the 2009 AGM. This means that the Chairman of the Board shall contact representatives for the largest shareholders at the end of the third quarter. The Nominating Committee shall consist of not more than five members and its composition shall be published not later than six months prior to the AGM.
- The AGM decided to reduce share capital by SEK 43,236,390 through the cancellation of all 4,323,639 shares repurchased by the company. The AGM also decided that the reduction amount shall be reserved in funds to be used in accordance with decisions by the AGM.
- The AGM decided to increase the company's share capital by SEK 43,236,390 through a bonus issue without the issue of new shares, by a transfer from unrestricted equity.
- The AGM decided in accordance with a proposal by the Board to change sections 5 and 9 in the Articles of Association. The changes comprised the adjustment of the limits of share capital due to a share split and the implementation of new guidelines for the remuneration of senior executives.
- The AGM decided to increase the number of shares by splitting each share into four (4) shares and authorizing the Board to establish a date for the implementation of the split.
- The AGM decided to authorize the Board to acquire shares in the company prior to the next AGM and in such a manner that the company's holding of treasury shares shall at any given time not exceed 5 percent of the total number of shares outstanding.

Nominating Committee for the 2008 AGM

The Nominating Committee for the 2008 AGM consisted of Finn Rausing (appointed by Tetra Laval), Lars-Åke Bokenberger (appointed by AMF Pension), Jan Andersson (appointed by Swedbank Robur Funds), Lars Öhrstedt (appointed by AFA Försäkring), Peter Rudman (appointed by Nordea Fonder) and Board Chairman Anders Narvinger. Finn Rausing was the Chairman.

Composition of the Nominating Committee for the 2009 Annual General Meeting

Name	Representing	Shareholding in Alfa Laval[1], %
Jörn Rausing Board Chairman	Tetra Laval	18.39
Jan Andersson	Swedbank Robur Funds	5.02
Bo Selling	Alecta	4.20
Lars-Åke Bokenberger	AMF Pension	3.35
Lars Öhrstedt	AFA Försäkring	2.64
Anders Narvinger	Board Chairman	
Total		**33.60**

1) As per Sep. 30, 2008

Nominations for the 2009 Annual General Meeting

In accordance with a decision made at Alfa Laval AB's AGM on April 22, 2008, the largest shareholders in Alfa Laval appointed the following members to the Nominating Committee prior to the AGM to be held on April 20, 2009: Jörn Rausing (appointed by Tetra Laval), Lars-Åke Bokenberger (appointed by AMF Pension), Jan Andersson (appointed by Swedbank Robur Funds), Lars Öhrstedt (appointed by AFA Försäkring) and Bo Selling (appointed by Alecta).

The Chairman of the Nominating Committee is Jörn Rausing. The Nominating Committee appointed the Board Chairman, Anders Narvinger, to be a member of the Nominating Committee and its secretary. Shareholders wishing to submit proposals to the Nominating Committee prior to the AGM may contact Alfa Laval's Board Chairman Anders Narvinger, or one of the owner representatives. Contact may also take place directly via e-mail at valberedningen@alfalaval.com.

The Board of Directors

The Board consists of eight members elected by the AGM, and no deputy members. The members are elected annually for the period until the conclusion of the next AGM. In addition, each trade union organization appoints three members and three deputies as employee members. Salaried employees within the company are invited to Board meetings as presenters and experts. The company's Chief Financial Officer participates in all meetings. The company's Chief Legal Counsel serves as Board Secretary. The work of the Board is regulated by an annually updated formal work plan that sets the Board's internal division of labour and meeting agenda. There is a special set of instructions for the President that, among other matters, describes the financial reports to be presented to the Board to enable the latter to properly assess the financial situation on an ongoing basis. For further information about the Board's members, see pages 118-119.

The Board's responsibilities

According to the Swedish Companies Act and the Board's formal work plan, the Board is responsible for preparing and evaluating Alfa Laval's overall long-term strategies and objectives, adopting budgets and business plans, checking and approving financial statements, adopting key guidelines, making decisions on issues relating to acquisitions and divestments of operations and deciding on major investments and significant changes in Alfa Laval's organization and operations.

The Board (through its Audit Committee) also procures auditing services and maintains ongoing contact with the company's auditors. The Board appoints the President and defines the instructions the President must follow. The Board (through the Remuneration Committee) also determines salaries and remuneration to the President and members of executive management.

The Board's formal work plan

The Board's formal work plan is determined annually in a statutory meeting following the AGM. The formal work plan describes the Board's work assignments and the division of responsibility between the Board and the President. The formal work plan also prescribes that the Board shall have a Remuneration Committee and an Audit Committee, and defines the role of the Board Chairman. The company's President prepares an agenda for each meeting in consultation with the Board Chairman. Board members who wish to discuss a particular matter must inform the Board Chairman well in advance, so that the requisite information or documentation on which to base decisions can be prepared.

Notices of meetings, with the meeting agenda and the requisite information or documentation on which to base decisions, shall reach Board members no later than one week prior to the date of the meeting. Minutes from Board meetings shall be numbered, and all Board members shall receive copies. The original shall be stored in a safe manner by the company. This is the responsibility of the company President. Matters discussed by the Board are by definition confidential, and every Board member is subject to a duty of confidentiality regarding matters that could harm the company.

Board Chairman

The Board Chairman directs the work in a manner that ensures compliance with the Swedish Companies Act. The Chairman is also responsible for ensuring that the Board's work is well organized and efficiently conducted, so that the Board fulfills its tasks. In dialogue with the company's President, the Chairman monitors operational developments and is responsible for the other members receiving, 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 and participates in evaluation and development matters with respect to the Group's senior executives. The Chairman represents the company in ownership issues.

Independent Board members

All members of the Alfa Laval Board selected by the AGM are considered to be independent of the company, except Lars Renström, who is President and CEO of the company. All other members are considered independent of the company's major shareholders, except Finn Rausing and Jörn Rausing who, due to their relation to Tetra Laval, are not considered to be independent in relation to the company's major shareholders. On December 31, 2008, Tetra Laval owned 18.39 percent of the shares in the company. Board members have a duty to devote the necessary time and attention to their Board work and to possess the knowledge this requires to further the interests of the company and its shareholders in the best possible manner.

Board work during 2008

Twelve Board meetings were held during 2008, of which seven were regularly scheduled meetings. Board members have attended meetings as follows: Anders Narvinger 12 meetings, Gunilla Berg 10 meetings, Björn Hägglund 12 meetings, Ulla Litzén 12 meetings, Finn Rausing 11 meetings, Jörn Rausing 12 meetings, Lars Renström 12 meetings and Waldemar Schmidt 11 meetings. The general duration of meetings was four hours. Board meetings are generally held in Lund or Stockholm. Circular meetings were held on two occasions and four meetings were held by phone. The normal agenda items for Board meetings include earnings results, order trends, investments, acquisitions and shareholder developments. In addition to the normal agenda items, the Board meetings held during 2008 addressed the following matters:

- the company's ongoing strategic direction
- review and revision of the company's financial objectives
- asbestos-related lawsuits
- pension issues concerning senior executives
- audit planning
- overall funding
- share repurchasing
- Alfa Laval's business principles
- environmental considerations
- staffing

Board decisions are made based on open discussion led by the Chairman. During the year, no dissenting opinion on any issue was entered in the minutes.

Audit Committee

Alfa Laval has had a special Audit Committee since 2006. Members of the Audit Committee are appointed annually within the Board. During 2008, the committee comprised Finn Rausing (Chairman), Gunilla Berg and Anders Narvinger. Alfa Laval's General Counsel is the Committee Secretary.

During 2008, the Audit Committee held four meetings averaging approximately three hours in length. Members attended the meetings as follows: Finn Rausing four meetings, Anders Narvinger four meetings and Gunilla Berg three meetings.

Minutes are kept at all meetings of the Audit Committee and are distributed to Board members. The Audit Committee has the right to make decisions regarding the focus of the internal audit and the formulation of guidelines for financial reporting and follow-up. The Audit Committee also makes decisions, in consultation with the external auditors, regarding the focus of the external audit. The Audit Committee's work also includes continually monitoring the effectiveness of internal controls. The Audit Committee's duties also involve evaluation and discussion of significant issues within the areas of accounting and financial reporting.

The Audit Committee examines the procedures for reporting and financial controls, the auditors' work, their qualifications and their independence. Its supervision also encompasses other key matters related to financial reporting. The Audit Committee assists management in identifying and evaluating the primary operational risks and ensures that management directs its efforts to addressing these matters.

Remuneration Committee

Alfa Laval's Remuneration Committee is appointed on an annual basis within the Board. During 2008, it comprised Anders Narvinger (Chairman) and Jörn Rausing and Björn Hägglund from the AGM onward. The Remuneration Committee held five meetings during 2008 where all members were in attendance of which two were held by phone and one by circular. In addition, the committee acts in conjunction with recruitment and is involved when other conditions of employment relating to the President or other members of Group Management require discussion. Minutes are kept at all meetings of the Remuneration Committee and the contents are distributed to Board members.

The Remuneration Committee's assignment is to handle matters relating to salary and employment conditions for the President and senior executives who report directly to the President and to propose principles regarding employment conditions for the executive management to be submitted to the AGM for approval.

Extra committee for repurchasing

A work committee for the repurchasing of shares was established during the year within the Board due to the AGM's decision to authorize the Board to acquire shares in the company.

During 2008, the committee comprised three members: Anders Narvinger (Chairman), Finn Rausing and Ulla Litzén. They held eight meetings during the year, of which seven were by telephone.

Evaluation of the Board's work

The Board Chairman ensures that the work of the Board is evaluated annually. This evaluation occurs on an ongoing basis through open discussions and interviews between the Board Chairman and individual Board members. The evaluation of the Board's work focuses on the forms in which the work is carried out, the work climate and the availability of and the need for special Board expertise. The purposes of the evaluation include assisting the Nominating Committee in its task of nominating Board members and proposing remuneration levels.

Present at Board meetings and committee meetings

Chairman
Member

		Board	Remuneration Committee	Audit Committee
Elected at AGM	Anders Narvinger	12	5	4
	Gunilla Berg	10	-	3
	Björn Hägglund	12	5	-
	Ulla Litzén	12	-	-
	Finn Rausing	11	-	4
	Jörn Rausing	12	5	-
	Lars Renström	12	-	-
	Waldemar Schmidt	11	-	-
Employee representatives	Arne Kastö	12	-	-
	Jan Nilsson	12	-	-
	Susanna Norrby	11	-	-
	Number of meetings	12	5	4

Remuneration to the Board

Remuneration to Board members elected at the AGM is determined by the AGM based on the proposals submitted by the Nominating Committee. Supplements are paid to the chairman of the Audit Committee and to members of the Audit Committee and the Remuneration Committee. No Board member is entitled to pension payments from the company.

The table below summarizes the remuneration received by all Board members from Alfa Laval for the period from the 2008 AGM until the 2009 AGM.

Group Management

Alfa Laval's executive management comprises ten persons led by President Lars Renström, who is also CEO of the Alfa Laval Group. The President directs daily operations and is responsible for the Board receiving information and the necessary decision-making foundation. The President is responsible for ensuring that the company's accounting complies with applicable laws and provisions.

Alfa Laval's management group consists of the CEO and those individuals who, on the CEO's recommendation, have been appointed by the Board. For further information about Group Management, see pages 120-121.

The persons in the management group are responsible both for their own areas of

Remuneration to the Board

Remuneration is fixed. No variable portion exists. No remuneration to elected Board members who are employees of the company is paid.

	Board of Directors	Remuneration Committee	Audit Committee
Anders Narvinger	900,000	50,000	75,000
Gunilla Berg	360,000	0	75,000
Björn Hägglund	360,000	50,000	0
Ulla Litzén	360,000	0	0
Finn Rausing	360,000	0	125,000
Jörn Rausing	360,000	50,000	0
Lars Renström	0	0	0
Waldemar Schmidt	360,000	0	0
Total	3,060,000	150,000	275,000

operation and, collectively, for the Group as a whole. The management group held six minuted meetings during 2008. In addition to minuted meetings of the management group, quarterly reviews of operations are held with the heads of divisions and geographical regions. These deal with the business situation, earnings, earnings projections for the forthcoming 12 months and specific questions for the various components of operations.

Remuneration, pensions and severance pay/termination of employment

The principles of remuneration to the President and other members of senior management are decided by the AGM. For additional information regarding Group management's fixed and variable remuneration, pensions and severance pay, see pages 87 and 88.

GOVERNANCE AND CONTROL

Financial reporting

The Board oversees financial reporting through instructions to the President. The Audit Committee prepares all the financial reports issued by the company, while the Board as a whole addresses the company's quarterly reports and year-end report. The Audit Committee also handles quarterly risk reporting and information about risk assessments, legal disputes and any irregularities that may occur.

Policy documents

As governance instruments, the Board has decided on a number of policy documents, which are to be used in daily work within the company. Examples of such documents include the Board's procedural rules, the President's instructions, reporting instructions, business principles, investment policy, financial policy and communications policy. The Board annually checks that these instructions and policies remain relevant and up to date.

Internal controls

The Board is responsible for the company's internal controls, the overall purpose of which is to protect shareholders' investments and the company's assets. The Board as a whole received reports from the company's external auditors at three Board meetings during 2008. In addition, the Board's Audit Committee received reports from the company's external auditors on four occasions. On one occasion, the Board received a report from the company's external auditors without the President or any other representative of executive management being present.

The internal audit team took part in all meetings with the Audit Committee

For further information about internal controls, see the Board's report on internal controls provided in the Corporate Governance Report (see page 117). It describes the control environment, risk assessment, control activities, information and communication, and the supervision of the internal control system.

Internal audit

The internal audit consists of two auditors supplemented by internal specialist company resources and auditors from the KPMG organization for internal auditing.

During 2008, 19 internal audits were carried out. The audits encompassed a broad spectrum of functions and areas of inquiry. The scope was determined by the Board and involved examining, for example:

- efficiency within the current units
- the processes that ensure that the principles for best practice are applied and that the controls that have been systematically built in are relevant
- the existence of systems to ensure that financial transactions are implemented, archived and reported in an accurate and lawful manner
- the systems and processes established by the management group to ensure that business operations are conducted in accordance with the policies and procedures that management has established.

Opportunities to improve management control, the company's profitability and the organization's image may be identified during audits.

The internal audit team reports to the Audit Committee on the results of the audits performed. On these occasions, the planning parameters for the next six to eight months are also established.

The internal audit team also distributes reports from individual audits to the Group Management members concerned. To ensure that specific effects result from the internal audits, a procedure for continuous follow-up of agreed measures has been established.

Risk management

Alfa Laval's risk management processes are explained in the Risk management section on pages 78-83 of the Annual Report.

Audits and auditors

The AGM decided to reelect Authorized public accountant Kerstin Mouchard and to appoint Authorized Public Accountant Staffan Landén as the company's auditor. The AGM also decided to reelect the Authorized Public Accountants Håkan Olsson and Thomas Swensson as the company's deputy auditors. All are Authorized Public Accountants with Ernst & Young AB.

Kerstin Mouchard, born in 1952, has been an auditor for Alfa Laval since 2004. Staffan Landén, born in 1963, has been an auditor for Alfa Laval since 2008. Håkan Olsson, born in 1961, has been a deputy auditor for Alfa Laval since 2000. Thomas Swensson, born in 1957, has been a deputy auditor for Alfa Laval since 2004.

In Alfa Laval's judgment, none of these auditors has any relationship to Alfa Laval, or a company close 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 as auditors for Alfa Laval.

Remuneration of auditors (see Note 4 on page 88)

An audit assignment involves examining the Annual Report, evaluating the accounting principles employed, making significant judgments concerning corporate management, evaluating the general presentation in the Annual Report and conducting an overall review of the interim report for the third quarter. It also involves a review on which to base a decision on discharging the Board from liability. Any other tasks performed are defined as other assignments.

As an extension of our auditing assignment, which has now been completed as a result of our Audit Report dated March 2, 2009, we have reviewed the Corporate Governance Report (pages 112-116) for Alfa Laval AB for 2008. Based on our review, nothing has come to our attention that causes us to believe that the Corporate Governance Report does not comply with the guidelines contained in the Swedish Code of Corporate Governance.

Lund, March 2, 2009

Kerstin Mouchard	Staffan Landén
Authorized Public Accountant	*Authorized Public Accountant*

Board of Directors' report on internal control for fiscal year 2008

The Board's description of the internal control.

Control environment

Effective work by the Board forms the foundation for good internal control. The Board has established clearly defined processes and priorities for its work and the Board's committees. An important part of the Board's work is to formulate and approve fundamental rules and guidelines. These include finance policy, business principles, rules for investment decisions, financial reporting requirements and communications policy. These rules and guidelines are intended to create the foundation for good internal control. They are revised and updated continuously as the need arises. The Board has also ensured that the organizational structure is logical and transparent, with clearly defined roles, responsibilities and processes that facilitate effective management of operational risks and enable the company to fulfill its goals. The responsibility structure includes evaluations by the Board of business performance and results through a purpose-adapted package of reports that contains results, forecasts and analyses of important key factors. The Audit Committee has meetings with the internal audit team, the external auditors and various specialists in senior management and support functions. The Board receives reports on these meetings. The Audit Committee's work also includes continually monitoring the effectiveness of internal controls. The Audit Committee's duties also involve evaluation and discussion of significant issues within the areas of accounting and financial reporting. Group Management maintains and manages the system of internal controls needed to manage significant risks in ongoing business operations.

This work includes ensuring that there are appropriate rules and guidelines for such areas as HR matters, staffing and skills development.

Management's responsibility also includes a commitment to active efforts to ensure that all employees understand the requirement for, and the individual's role in, maintaining effective internal control.

Risk assessment

The framework for ongoing business operations and follow-up includes procedures for risk assessment and thus also for ensuring the production of accurate financial reporting. These procedures include, for example, the following areas:

- Risk assessments related to strategic planning, forecasts and acquisition activities that are intended to identify events in the market or in business operations that could, for example, lead to changes in valuations of assets and currency exchange-rate effects on earnings.
- Processes to track changes in accounting regulations that ensure that these changes are implemented correctly in the financial reporting.

Control structures

The control structures have been designed to manage risks that the Board and management consider to be significant for business operations, internal control and financial reporting.

The control structures consist, firstly, of an organization with clearly defined roles that support an effective, and from an internal control perspective, appropriate division of responsibility, and secondly, specific control activities that are intended to discover or prevent the risk of errors in the reports.

Examples of control activities include clearly defined decision-making processes and priorities for important decisions (investments, agreements, acquisitions, divestments, etc.) earnings analyses and other forms of analytical follow-up, reconciliations, inventory-taking and automatic controls in the key IT systems related to financial reporting.

Information and communication

The company's main control documents in terms of regulations, guidelines and manuals, to the extent they are related to financial reporting, are updated continuously and communicated via the intranet, memorandums, internal meetings, etc. The effectiveness of this communication is monitored continuously to ensure reception of the information.

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.

A clearly defined policy has been formulated for communication with external interests, including guidelines for modes of communication. The policy is intended to ensure accurate and complete compliance by all persons responsible for the dissemination of information.

Follow-up

The internal control process is monitored mainly by three entities outside the line organization: the Audit Committee, External Audit and Internal Audit.

The Audit Committee established the principles that apply for the company with respect to accounting and financial reporting, and monitors compliance with these regulations.

The Audit Committee meets with the external auditors regularly 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 also 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 at the latter's meetings. Results of the audit reviews are also reported continuously to Group Management so that any necessary measures may be taken.

The extent of the internal audit includes operational efficiency, compliance with regulations and guidelines and the quality of financial reporting from the subsidiaries.

This report comprises only a description of how internal control is organized without expressing an opinion on how well it functions.

Lund, March 2009
Board of Directors

Elected by the Annual General Meeting

Anders Narvinger
Chairman since 2003.
Born: 1948.
President of Teknikföretagen and formerly President and CEO of ABB Sweden.
Education: BSc. Eng and BSc. Econ.
Chairman of Trelleborg AB, V&S Vin & Sprit AB and Coor Service Management AB.
Board member of Volvo Car Corporation.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 40,000* (10,000**).

Gunilla Berg
Board member since 2004.
Born: 1960.
CFO SAS Group, formerly Executive Vice President and CFO of KF Group.
Education: BSc. Econ.
Board member of LE Lundbergföretagen AB.
Independent of company and major shareholders.

Björn Hägglund
Board member since 2005.
Born: 1945.
Former positions include Deputy CEO of Stora Enso.
Education: PhD. (For.)
Board Chairman of Swedish Industrial Institute for Economics and Social Research, SweTree Technologies and World Wildlife Fund, Sweden.
Board member of among others Bergvik Skog AB, the Knut and Alice Wallenberg Foundation, Mistra and AB Karl Hedin.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 12,000* (0**).

Ulla Litzén
Board member since 2006.
Born: 1956.
Previously President of W Capital Management and held various 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, NCC AB, Rezidor Hotel Group AB and SKF AB.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 15,600* (2,400**).

Finn Rausing
Board member since 2000.
Born: 1955.
Education: B.L., MBA (Insead).
Chairman of R.R. Institute of Applied Economics AB.
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.

Lars Renström
Board member since 2005.
Born: 1951.
President and CEO of Alfa Laval.
Education: BSc. Eng., BSc. Econ.
Board member of ASSA ABLOY AB.
Independent of major shareholders.
Number of shares in Alfa Laval: 40,400* (10,100**).

Waldemar Schmidt
Board member since 2000.
Born: 1940.
Former President and CEO of ISS Group.
Education: BSc. Eng.
Chairman of Superfos Industries A/S, Thrane & Thrane A/S and Scan Energy A/S. Vice Chairman of Majid Al Futtaim Group LLC, Dubai.
Board member of Kwintet AB.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 60,000* (15,000**).

*Holdings as at December 31, 2008. **Holdings as at December 31, 2007.

Employee representatives

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).

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* (0**).

Deputy employee representatives

Maria Fröberg
Deputy member since 2005.
Born: 1973.
Employed by Alfa Laval since 2001.
Deputy employee representative for the Swedish Union of Clerical and Technical Employees in Industry (Unionen).

Henrik Nilsson
Deputy member since 2007.
Born: 1971.
Employed by Alfa Laval since 1995.
Deputy employee representative for the Swedish Metal Workers' Union (IF Metall).
Resigned: June 5, 2008

Henrik Nielsen
Deputy member since 2008.
Born: 1968.
Employed by Alfa Laval since 2005.
Deputy employee representative for the Swedish Industrial Workers/Swedish Metal Workers' Union (IF Metall).
Effective: June 5, 2008

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 years of experience in auditing exchange-listed companies and among other assignments is auditor for Lindab International AB and Bure Equity AB.

Kerstin Mouchard
Authorized Public Accountant,
Ernst & Young AB, Malmö.
Born: 1952.
Auditor for Alfa Laval since 2004.
Elected auditor at 2004 Annual General Meeting.
Kerstin Mouchard has years of experience in auditing exchange-listed companies and among other assignments is auditor for Cardo AB and Strålfors AB.

Deputy auditors

Håkan Olsson
Authorized Public Accountant
Ernst & Young AB, Malmö.
Born: 1961.
Deputy auditor for Alfa Laval since 2000.

Thomas Swensson
Authorized Public Accountant,
Ernst & Young AB, Malmö.
Born: 1957.
Deputy auditor for Alfa Laval since 2004.

Lars Renström
President and CEO.
Born: 1951.
CEO since October 1, 2004.
Joined Alfa Laval from Seco Tools AB, where he was President and CEO from 2000 to 2004. Previously served as a division manager at Ericsson AB and Atlas Copco AB.
Board member of ASSA ABLOY AB.
Education: BSc. Eng., BSc. Econ.
Number of shares in Alfa Laval: 40,400* (10,100**).

Thomas Thuresson
Executive Vice President, Chief Financial Officer.
Born: 1957.
Employed by Alfa Laval since 1988.
CFO since 1995.
Previous assignments include Controller of the Flow business area and Group Controller of the Alfa Laval Group.
Board member of PartnerTech AB.
Education: BSc. Econ.
Number of shares in Alfa Laval: 140,800* (35,300**).

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.
Education: BSc. Eng.
Number of shares in Alfa Laval: 6,588* (1,647**).

Ulf Granstrand
President, Process Technology Division.
Born: 1947.
Employed by Alfa Laval since 1975.
President of the Process Technology Division since 2003.
Previously responsible, among other roles, for the Operations Division, parts of the regional sales operations and the Thermal business area.
Education: BSc. Eng.
Number of shares in Alfa Laval: 182,288* (45,672**).

Svante Karlsson
President, Equipment Division.
Born: 1955.
Employed by Alfa Laval since 1984.
President of the Equipment Division since 2001.
Former head of the Thermal business area and President of Marine & Power.
Education: BSc. Econ.
Number of shares in Alfa Laval: 82,744* (20,686**).

*Holdings as at December 31, 2008. **Holdings as at December 31, 2007.

Peter Leifland
Executive Vice President in charge of the Western Europe and North America Region.
Born: 1954.
Employed by Alfa Laval since 1985.
Peter Leifland has been a regional manager since 1999.
Formerly President of Alfa Laval International Engineering AB.
Board member of Cision AB.
Education: B.L., lic.spec. IMD (PED).
Number of shares in Alfa Laval: 480,000* (116,716**).

Lars Henriksson
Executive Vice President in charge of the Central and Eastern Europe and Latin America Region.
Born: 1950.
Employed by Alfa Laval since 1977.
Responsible for the Central and Eastern Europe and Latin America Region since September 1, 2004. Prior to this he was President of Alfa Laval Inc. in Canada and held executive positions for Alfa Laval in Sweden, Spain and Brazil.
Education: BSc. Eng.
Number of shares in Alfa Laval: 24,000* (9,000**).


Peter Leifland


Lars Henriksson

Ray Field
Executive Vice President in charge of the Asia, Oceania and Middle East Region.
Born: 1954.
Employed by Alfa Laval since 1985.
Responsible for the Asia, Oceania and Middle East Region since September 1, 2004. Prior to this, he served as President of Alfa Laval China for slightly more than ten years.
Education: BSc. Eng.
Number of shares in Alfa Laval: 54,588* (13,647**).

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.


Ray Field


Peter Bailliere

Peter Torstensson
Senior Vice President, Corporate Communications.
Born: 1955.
Employed by Alfa Laval since 1999.
Senior Vice President, Corporate Communications since 1999. Formerly President of Borstahusen Informationsdesign.
Number of shares in Alfa Laval: 76,000* (19,000**).


Peter Torstensson

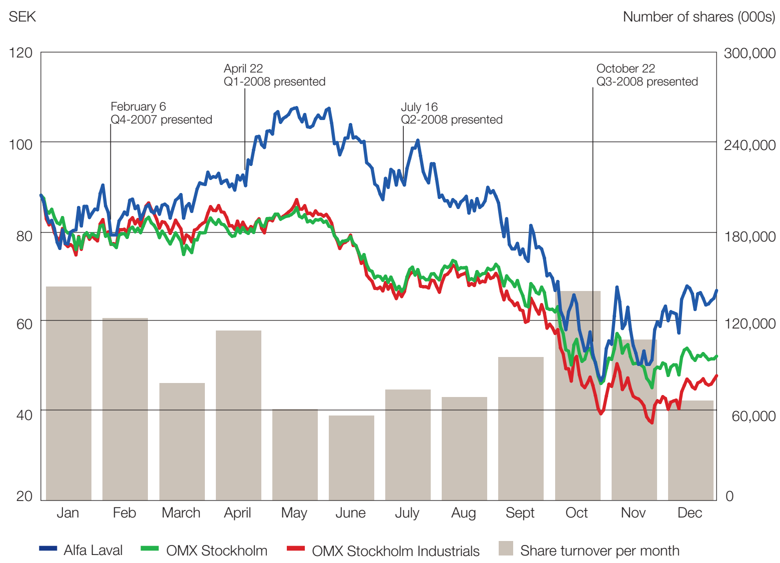
Events after the end of the period.
On January 1, 2009, Svante Karlsson assumed the position as President of the Process Technology Division and Susanne Pahlén Åklundh as President of the Equipment Division.

An eventful 2008

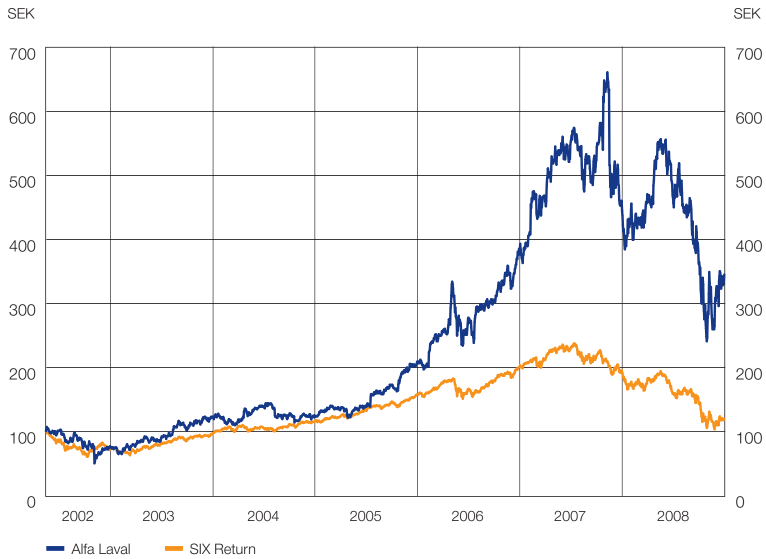
In 2008, there were major fluctuations in Alfa Laval's share price. At the beginning of the year, the share price was SEK 87.75, declining 23 percent during the year to SEK 67.50. The SX Industrials industry index fell more than Alfa Laval, ending the year down 46 percent, while the stock market as a whole (OMX Nordic Exchange Stockholm) declined 41 percent. The company's total market capitalization at year-end 2008 was SEK 28.6 billion (40.6). The highest closing price during the year was SEK 107.25 and the lowest was SEK 46.40.

Shares in Alfa Laval were first listed on the stock exchange as early as 1901. However, the company was purchased and delisted in 1991 and later relisted on May 17, 2002. Since the relisting, yields (including reinvested dividends) have totaled 345 percent. This corresponds to an average annual return of 24.5 percent, which can be compared to the entire annual return from the stock market of 3.1 percent, as measured by the SIX Return Index.

Price trend January 1 – December 31, 2008



Total return, May 17, 2002 – December 31, 2008



Share turnover

During the year, a total of 1,127 million (959) Alfa Laval shares were traded at a value of SEK 89.8 billion (97.8). This means that 258 percent (218) of the total number of shares outstanding in Alfa Laval was traded during the year. The corresponding figure for the OMX Nordic Exchange Stockholm was 152 percent. During the year, an average of more than 1,751 share transactions (1,946) per day were completed in Alfa Laval shares. Each transaction averaged more than 2,554 shares (1,973).

At the end of the year, Alfa Laval had a market capitalization of SEK 28.6 billion and thus belongs to the Large Cap segment of the OMX Nordic Exchange Stockholm. As one of the most traded shares, the share is also included in the OMXS30 index.

Split

The AGM on April 22, 2008, decided to implement a split in which each share was divided into four new shares. The date for the implementation was June 10. Following the split, the total number of shares outstanding and votes in Alfa Laval amounted to 429,393,416. In the interest of comparability, historical share-related key figures in the Annual Report have been adjusted for the split.

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 40–50 percent of net profit over a business cycle, adjusted for surplus value. For 2008, the Board has proposed that the Annual General Meeting approve a dividend of SEK 2.25 (2.25*). The proposed dividend corresponds to 24 percent (29) of net profit, adjusted for surplus value.

*adjusted for 4:1 share split

Repurchase of shares

With an equity/assets ratio of 36 percent (34), Alfa Laval's financial position is strong. In order to permit a more purpose-adapted capital structure and thus improve yield, the 2008 AGM approved a mandate to repurchase up to 5 percent of the total number of shares. The mandate applies until the AGM that is to be held on April 20, 2009. The repurchase shall take place through transactions on the stock exchange, and the intention is that the repurchased shares will be cancelled and the share capital reduced. The AGM also decided on a reduction of share capital of SEK 43 million through the cancellation of 4,323,639 shares that were repurchased on March 11, 2008. Concurrently, the Annual General Meeting resolved to increase share capital by the same amount with a bonus issue without issuing shares. At the beginning of the year, Alfa Laval's holding of own shares (treasury stock) amounted to about 14.4 million shares. During the period until the 2008 Annual General Meeting, an additional 4.3 million shares were repurchased. In conjunction with the Meeting, 17.3 million shares were cancelled. After the Meeting until year-end 2008, 5.9 million shares were repurchased, which resulted in a holding of treasury stock amounting to about 7.3 million shares.

Share capital

The share capital in Alfa Laval totals SEK 1,117 million. This is distributed among 429,393,416 shares with a par value of SEK 2.60 each. 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.

Alfa Laval's shareholders

At year-end 2008, Alfa Laval had 28,078 (16,090) shareholders. The company's largest shareholder is Tetra Laval BV with 18.4 percent, which is an increase compared with the preceding year's holding of 17.7 percent. The ten largest shareholders at year-end 2008 held approximately 45.9 percent of the shares in Alfa Laval.

Data per share, adjusted for 4:1 share split

	2008	2007	2006	2005	2004
Market price at year-end, SEK	67.50	91.00	77.25	42.75	26.75
Highest paid, SEK	107.25	125.25	78.00	43.10	31.40
Lowest paid, SEK	46.40	72.75	39.25	24.60	24.00
Shareholders' equity, SEK	24.40	17.80	15.30	13	11.80
Earnings per share	8.83	7.12	3.78	1.98	1.78
Dividend, SEK	2.25[1]	2.25	1.56	1.28	1.19
Unrestricted cash flow, SEK[2]	6.38	3.60	2.33	2.13	2.78
Price change during the year, %	-23	+18	+80	+ 60	-1.8
Dividend as % of EPS, %	25.5	31.6	41.4	64.4	88.0
Direct return, %[3]	3.3	2.5	2.0	3.0	4.4
Market price/shareholders' equity, times	2.8	5.1	5.0	3.6	2.,4
P/E ratio[4]	8	13	20	22	20
No. of shareholders	28,078	16,090	12,178	10,964	11,758

[1] Board proposal to AGM.
[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 last trading day in relation to earnings per share.

Ten largest owners, as at December 31, 2008

	Number of shares	Capital/ Voting rights, %	Change in 2008, %
Tetra Laval B.V.	78,976,056	18.4	0.7
AMF Pension	25,200,000	5.9	2.3
Swedbank Robur Funds	24,668,992	5.8	2.8
Alecta Pension Insurance	22,505,000	5.2	3.1
AFA Insurance	13,008,840	3.0	0.3
Omnibus Account W FD: OM80	8,266,871	1.9	-
Nordea funds incl. Luxembourg year-end	7,409,608	1.7	0.4
Second AP-Fund	5,830,653	1.4	-0.2
Fourth AP-Fund	5,797,434	1.4	0.1
Clearstream Banking S.A.	5,622,736	1.3	0.4

Alfa Laval AB held 7,353,950 shares - corresponding to 1.71 percent of total outstanding shares – at year end 2008.

Ownership distribution by size, as at December 31, 2008

Holding	No. of shareholders	No. of shareholders, %	Number of shares	Holding (%)
1 – 500	13,642	48.6	3,232,234	0.75
501 – 1 000	5,298	18.9	4,385,952	1.02
1 001 – 5 000	6,641	23.7	15,853,200	3.69
5 001 – 10 000	1,058	3.8	7,795,787	1.82
10 001 – 15 000	340	1.2	4,259,802	0.99
15 001 – 20 000	220	0.8	3,961,266	0.92
20 001 –	879	3.1	389,905,175	90.80
Total	28,078	100	429,393,416	100.00

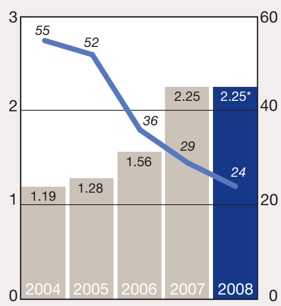
Ownership categories, as at December 31, 2008

Category	No. of shares	Capital/ voting rights, %
Shareholders domiciled abroad	190,892,692	44.5
Financial companies*	156,841,800	36.5
Swedish individuals	27,660,371	6.4
Other Swedish legal entities	20,346,953	4.7
Social insurance funds	16,208,658	3.8
Special-interest organizations	11,088,402	2.6
Uncategorized legal entities	3,275,546	0.8
Government	2,596,596	0.6
Municipalities and county councils	425,945	0.1
Other financial companies*	56,453	0.00
Total	429 393 416	100.0

* Banks, securities companies and stockbrokers, fund companies, insurance companies and pension institutions, pension foundations and financial companies' non-profit organizations.

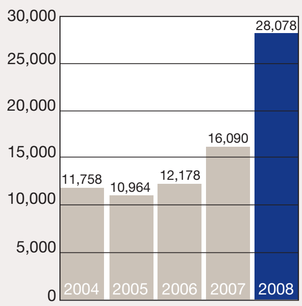
Category	No. of shares	Capital/ voting rights, %
Legal entities	401,026,819	93.39
Individuals	28,366,597	6.61

Dividend

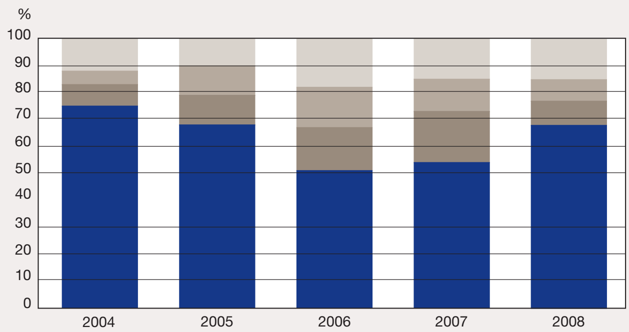


*Board proposal to AGM.
**Adjusted for surplus values.

Total number of shareholders



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



	2004[2]	2005[1]	2006[1]	2007[1]	2008[1]
Sweden	75	68	51	54	68
U.S.	8	11	16	19	9
UK	5	11	15	12	8
Others	12	10	18	15	15

[1] Excluding Tetra Laval (Netherlands) about 18 percent.
[2] Excluding Industri Kapital (United Kingdom) about 9 percent and Tetra Laval (Netherlands) about 18 percent.

Ten-year overview**

SEK millions, unless otherwise stated	2008	2007	2006	2005	2004 *	2003	2002	2001	2000	1999
				Successor Alfa Laval					Predecessor Alfa Laval Holding	
									pro forma	
Profit and loss information										
Net sales	27,850	24,849	19,802	16,330	14,986	13,909	14 595	15,830	15,012	14,405
Comparison distortion items	-168	54	-120	-73	37	6	-29	5	130	30
Operating income	5,736	4,691	2,552	1,377	1,438	1,138	1,220	1,231	810	249
Financial net	-395	-134	-177	-278	-177	-321	-848	-1,189	-1,107	-133
Result after financial items	5,341	4,557	2,375	1,099	1,261	817	372	42	-297	116
Minority share in income						-41	-34	-32	-48	-27
Taxes	-1,534	-1 377	-650	-171	-421	-130	-218	26	-60	-333
NET INCOME FOR THE YEAR	**3,807**	**3,180**	**1,725**	**928**	**840**	**646**	**120**	**36**	**-405**	**-244**
Balance sheet information										
Goodwill	5,383	4,459	3,706	3,531	2,978	3,099	3,369	3,373	3,314	1,692
Other intangible assets	1,890	1,275	1,191	1,067	924	1,101	1,334	1,641	1,805	23
Property, plant and equipment	3,546	2,824	2,514	2,553	2,480	2,756	3,083	3,599	4,112	2,883
Financial long-term assets	1,376	1,128	784	676	601	671	752	1,102	1,094	324
Inventories	5,972	5,086	3,793	3,091	2,453	2,218	2,279	2,624	2,882	2,931
Current receivables	9,238	7,420	5,987	4,467	3,976	3,631	3,590	4,334	4,353	3,891
Current deposits	544	190	229	342	257	659	414	293	596	283
Cash and bank	1,083	856	546	479	415	555	606	666	635	677
TOTAL ASSETS	**29,032**	**23,238**	**18,750**	**16,206**	**14,084**	**14,690**	**15,427**	**17,632**	**18,791**	**12,704**
Equity capital	10,493	7,937	6,831	5,811	5,269	4,897	4,512	1,445	1,312	3,343
Minority interest						104	108	132	170	148
Provisions for pensions etc.	990	877	941	903	789	755	721	775	658	520
Provisions for taxes	1,161	1,090	949	767	760	817	990	1,144	1,413	199
Other provisions	2,252	1,810	1,281	957	948	891	989	1,063	1,179	950
Non-current liabilities	3,394	3,068	2,006	2,702	2,307	3,492	4,234	8,321	8,899	449
Current liabilities	10,742	8,456	6,742	5,066	4,011	3,734	3,873	4,752	5,160	7,095
TOTAL EQUITY CAP. & LIAB.	**29,032**	**23,238**	**18,750**	**16,206**	**14,084**	**14,690**	**15,427**	**17,632**	**18,791**	**12,704**

* Restated to IFRS. ** 2003 and earlier in accordance with Swedish GAAP

SEK millions, unless otherwise stated	2008	2007	2006	2005	2004 *	2003	2002	2001	2000	1999
	Successor Alfa Laval								Predecessor Alfa Laval Holding	
								pro forma		
KEY RATIOS										
Orders received	27,464	27,553	24,018	18,516	15,740	14,145	14,675	15,894	15,374	13,897
Order backlog at year end	14,310	14,730	12,359	7,497	4,763	4,021	4,340	4,314	4,063	3,532
EBITA	5,992	5,034	2,891	1,692	1,732	1,633	1,726	1,743	1,290	964
EBITDA	6,296	5,299	3,153	1,957	1,993	1,926	2,058	2,144	1,756	1,440
EBITA-margin %	21.5	20.3	14.6	10.4	11.6	11.7	11.8	11.0	8.6	6.7
EBITDA-margin %	22.6	21.3	15.9	12.0	13.3	13.8	14.1	13.5	11.7	10.0
Adjusted EBITA	6,160	4,980	3,010	1,765	1,695	1,627	1,755	1,738	1,160	934
Adjusted EBITDA	6,464	5,245	3,273	2,030	1,956	1,920	2,087	2,138	1,626	1,410
Adjusted EBITA-margin %	22.1	20.0	15.2	10.8	11.3	11.7	12.0	11.0	7.7	6.5
Adjusted EBITDA-margin %	23.2	21.1	16.5	12.4	13.1	13.8	14.3	13.5	10.8	9.8
Profit margin %	19.2	18.3	12.0	6.7	8.4	5.9	2.5	0.3	-2.0	0.8
Excl. Goodwill and step-up values										
Capital turnover rate, times	5.6	6.4	6.3	5.5	5.3	5.0	4.4	4.1	3.4	3.2
Capital employed	4,973	3,863	3,137	2,958	2,822	2,807	3,283	3,901	4,385	4,476
Return on capital employed %	120.5	130,3	92.2	57.2	61.4	58.2	52.6	44.7	29.4	21.5
Incl. Goodwill and step-up values										
Capital turnover rate, times	2.5	2.7	2.5	2.2	2.0	1.8	1.7	1.7	1.9	2.3
Capital employed	11,144	9,289	8,062	7,470	7,317	7,667	8,565	9,401	8,011	6,357
Return on capital employed %	53.8	54.2	35.9	22.7	23.7	21.3	20.2	18.5	16.1	15.2
Return on equity capital %	42.8	44.1	25.3	16.0	15.9	13.2	2.7	2.5	-30.8	-7.3
Solidity %	36.1	34.2	36.4	35.9	37.4	33.3	29.2	8.2	7.0	26.3
Net debt	2,074	2,397	1,478	2,013	1,884	2,401	3,499	7,778	8,422	2,855
Net debt to EBITDA, times	0.3	0.5	0.5	1.0	0.9	1.2	1.7	3.6	4.8	2.0
Debt ratio, times	0.20	0.30	0.22	0.35	0.36	0.49	0.78	5.38	6.42	0.85
Interest coverage ratio, times	26.2	23.7	14.4	6.9	7.4	5.0	3.0	1.9	1.6	5.9
Cash flow from:										
operating activities	4,062	3,264	2,619	1,617	1,203	1,654	1,924	1,999	1,630	1,324
investing activities	-1,333	-1,676	-1,578	-665	36	-457	-548	115	-8,284	-600
Investments	-2,599	-1,291	-935	-973	-1,353	-1,167	-1,320	-2,095	6,618	-586
Investments	747	556	373	324	388	259	277	275	312	431
Average number of employees	11,821	10,804	9,923	9,524	9,400	9,194	9,292	9,693	11,001	11,696
Earnings per share, SEK ***	8.83	7.12	3.78	1.98	1.78	1.45	0.35	0.96	-10.79	-19.52
Free cash flow per share, SEK ***	6.38	3.60	2.33	2.13	2.78	2.68	4.03	56.37	-177.45	57.99

* Restated to IFRS. ** 2003 and earlier in accordance with Swedish GAAP *** The figures for prior years until 2002 have been recalculated due do the 4:1 split

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).

Already in 2000 Alfa Laval started to implement the International Accounting Standards (IAS) issued by IASB and translated and adapted to Swedish legislation by the Financial Accounting Standards Council in Sweden. Since there were some minor differences between the Swedish recommendations and IAS, 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, except IAS 39. This statement was implemented as of January 1, 2005.

Due to IFRS 1 the comparison figures for 2004 have been restated according to IFRS. Since there were only some minor differences between the Swedish recommendations and IAS, this has not by itself triggered any changes in accounting policies, equity or comparison periods. IAS 39 means that financial derivatives, bonds and non-listed external shares are adjusted to fair value. IAS 39 represented a change in accounting policies that was reflected in the consolidated equity at January 1, 2005.

Since all IAS rules except IAS 39 were close to prior Swedish GAAP in terms of valuation and accountancy, the transfer to IFRS only affected the following areas. As of January 1, 2005 the goodwill was not amortised any longer but instead tested for impairment. Minority interests were earlier reported under a separate heading next to equity, but are now reported as a separate item within equity. Provisions were split in short term and long term. Since IAS 39 was implemented first in 2005 it only had an effect on the opening balance for 2005 and not in the income statement for 2004. The effect was relating to fair value adjustments of financial derivatives, bonds and non-listed external shares.

Produktion: Alfa Laval AB, Investor Relations / Corporate Communications / RHR Corporate Communication **Repro och Tryck:** 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 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 goodwill and other step-up values. This measure of result is fully comparable over time independent of the financing costs and the amortisation of goodwill and other 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 goodwill and other step-up values. This measure of result is fully comparable over time independent of the financing costs and the amortisation of goodwill and other step-up values that from time to time burden the Group."

EBITA-margin %
Operating income before amortisation of goodwill and other step-up values (EBITA) in relation to net sales, expressed in percent.

EBITDA-margin %
Operating income before depreciation and amortisation of goodwill and other 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 and step-up values and the corresponding deferred tax liability.

Capital employed
Total assets less liquid funds, capitalised financing costs, 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 capital %
Net income for the year in relation to equity capital, expressed in percent.

Solidity %
Equity capital 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 capital, expressed as a multiple of equity capital.

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 and indication of the cost rationalisation that is taking place.

Earnings per share, SEK
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, SEK
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.

Tables and diagrams

Financial information

Alfa Laval uses a number of channels to provide information about the company's operations and financial development. Information published in the form of annual reports, quarterly reports and press releases is presented on an ongoing basis on the company's website at www.alfalaval.com/investors. Presentation material from capital markets days, press conferences and analyst meetings is also available for downloading at the site.

The annual report is sent to those shareholders who have notified the company that they wish to receive a copy. Annual reports and interim reports can be ordered at www.alfalaval.com or by calling +46 (0)40-36 65 00.
Alfa Laval arranges press conferences and analyst meetings following publication of the company's quarterly reports. In addition, representatives of company management meet with analysts, investors and journalists on an ongoing basis to ensure that these parties have correct and current information on which to base their work.

Pursuant to the company's agreement with Nasdaq OMX Nordic, information that could have an effect on the share price that is not yet publicly known is never disclosed at these types of meetings or contacts.

Alfa Laval also arranges a so-called capital markets day each year, at which representatives for financial markets are offered more in-depth information regarding the company's operations.

Alfa Laval employs a so-called silence period of three weeks. This implies that the President and Chief Financial Officer do not meet or speak to representatives from the financial market during the three weeks prior to a quarterly report.

In accordance with the company's Articles of Association, notice of the Annual General Meeting is inserted as an announcement in Dagens Nyheter and the Swedish Official Gazette at the earliest six and at the latest four weeks prior to the meeting. The information below concerning the meeting does not constitute legal notice. As a service to existing shareholders, information about the Annual General Meeting is sent to them by mail.

Financial information during 2009

Alfa Laval will release financial information during 2009 on the following dates:

First-quarter report 2009	April 20
Annual General Meeting in Lund	April 20
Second-quarter report 2009	July 16
Third-quarter report 2009	October 21

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Annual General Meeting 2009

The Annual General Meeting of Alfa Laval AB (publ) will be held on Monday, April 20, 2009 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.

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

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 Sweden AB (formerly VPC AB) not later than Tuesday, April 14, 2009, and register their intention to participate – along with any assistants – not later than Tuesday, April 14, 2009 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 14. The shareholder must inform the trustee about this at least two working days before 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 36 65 00.

Shareholders shall state their name, personal ID number and telephone number on the notice of participation. If participation is by proxy, this power of attorney or authorization shall be submitted to the company prior to the Meeting.

Dividend

The Board of Directors and the President propose to the Annual General Meeting that a dividend of SEK 2.25 per share be paid. The proposed record date for this dividend is Thursday, April 23, 2009. If the meeting approves the proposal, the dividend will be distributed by Euroclear Sweden AB (formerly VPC AB) on Tuesday, April 28, 2009.

However, the record date and dividend payment date may be postponed due to the technical procedures required for executing the payment.

Tour of production facility in Lund

Prior to the Annual General Meeting there will be an opportunity to view the production of plate heat exchangers at the plant in Lund. The tour begins 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 site. Registration for the tour shall be made in conjunction with the notification to participate in the Annual General Meeting. Please note that the number of participants is limited.

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 to 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 them stay ahead.

More information on the Internet

Contact details for all countries are continuously updated on Alfa Laval's website.

read more at www.alfalaval.com

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