



Annual Report 2008

Sustainability Report • Corporate Governance Report

A world of
performance



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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).

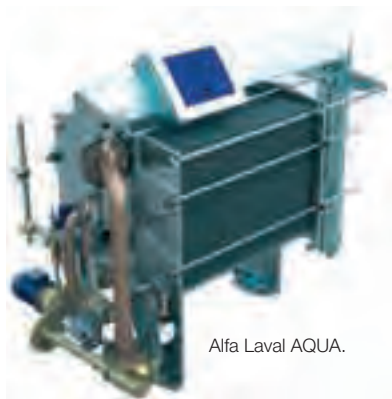


Fruitful growth



Alfa Laval – a 125-

Alfa Laval has developed p
better everyday conditions
highly topical since the wo
and protecting the environ
carbon-dioxide emissions,
separating and transportin
the core of Alfa Laval's kno



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 (CO₂). The internal goal is to reduce CO₂ 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

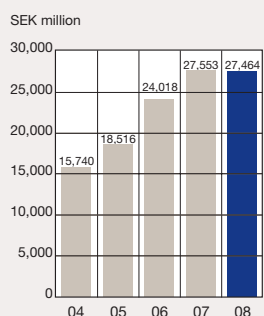


A fresh approach to heat recovery



100-year young company

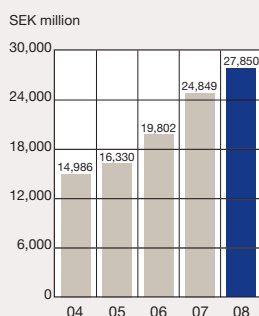
Alfa Laval has been producing products since 1883, with the aim of creating solutions for people. Today, Alfa Laval's products are used in many industries. The world is increasingly focusing on saving energy and reducing environmental impact. It involves treating water, reducing energy consumption and heating, cooling, and producing food. These areas, which impact us all in various ways, represent challenges for the future.



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.

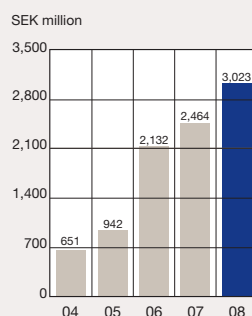
* Excluding exchange rate variations



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*.

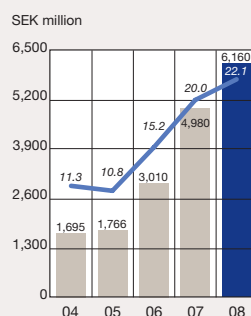
* Excluding exchange rate variations



Free cash flow*

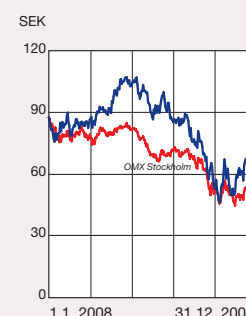
Alfa Laval generated free cash flow of SEK 3,023 million (2,464) in 2008.

* 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.



Report Junction.com

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 sustain-

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



able development into our daily operations, throughout the company.

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, %

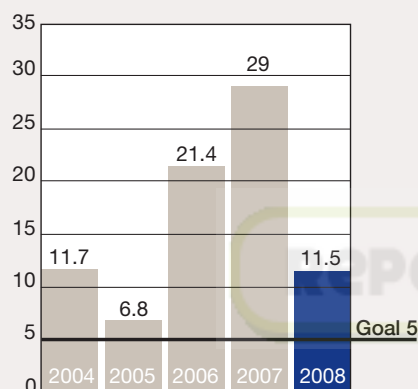
Goal: at least 25 percent.

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

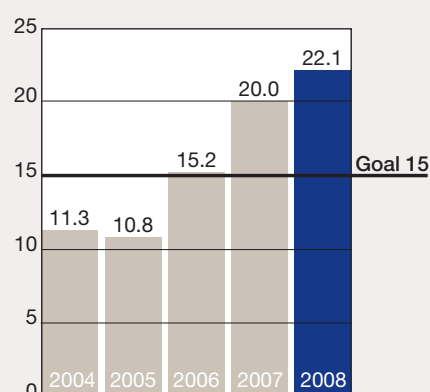
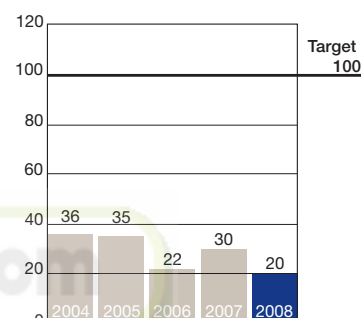
As a supplement to the financial goals, the Board of Directors has established target standards for three key financial ratios. These will provide additional support with regard to Alfa Laval's goals for operating the company.



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.

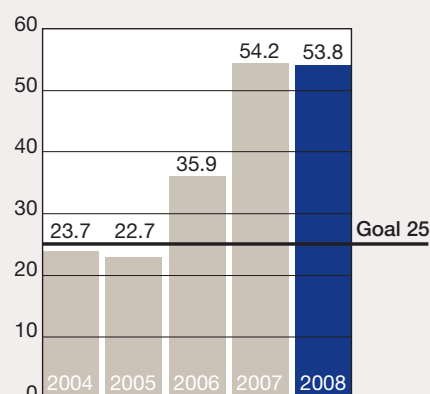
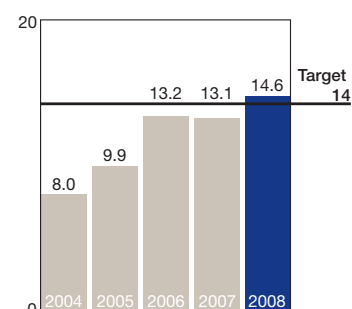


Cash flow from current operations*, %

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.

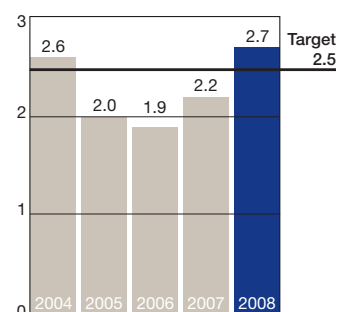
**Excluding taxes paid and including investments in fixed assets.*



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.